

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE

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AGENCY DEFICIENCIES FOR THE
FISCAL YEAR ENDING JUNE 30, 2013

Good afternoon Senator Harp, Representative Walker and distinguished members of the Appropriations Committee, and thank you for the opportunity to offer testimony regarding projected agency deficiencies for the fiscal year ending June 30, 2013.

Before addressing our projections for agency deficiencies, an update on the overall status of the state budget for FY 2013 is in order. The Office of Policy and Management issued its latest forecast on October 19th, with a projected year-end operating deficit on a budgetary basis of \$60 million, due largely to a shortfall in the Medicaid program. This past Friday, my office, in conjunction with the Office of Fiscal Analysis, issued a consensus revenue forecast. The changes in that consensus forecast reflect a decline of \$53 million from the April consensus revenue forecast, and a worsening of projected revenues by almost \$145 million from OPM's October estimate. Additionally, OPM's latest outlook for Medicaid expenditures reflects an increase in the shortfall to \$260 million, although it should be noted that the federal reimbursement from those expenditures is embedded in the consensus revenue figure. All told, these changes result in a projected deficit of about \$365 million. My office will be releasing updated budget projections on November 20th which, assuming they are certified by the Comptroller on December 1st, will require that the Governor submit a deficit mitigation plan to the General Assembly before the end of the calendar year. Please know that my office has already begun work on this plan, and while I'm not prepared today to address any elements that might or might not be included in that plan, you can expect that we will announce specifics as soon as possible.

Returning to the focus of today's hearing, we are currently projecting additional requirements totaling \$260 million in the General Fund, offset by anticipated

lapses of \$20 million beyond budgeted levels. We are not forecasting any deficiencies in the Special Transportation Fund.

As noted previously, the shortfall is attributable to the Department of Social Services' Medicaid program. After accounting for various offsetting lapses, a net deficiency of \$260 million is forecast in the Medicaid program, largely due to increased utilization of medical services and increasing caseloads in the Low-Income Adults (LIA) program. Hospital expenditures, in particular, are much higher than appropriated levels. DSS is working closely with its administrative services organization for medical services to review cost and utilization factors that are contributing to the increases in both inpatient and outpatient hospital services. Nursing home expenditures are also higher than anticipated in the enacted budget, which had assumed a greater number of transitions to the community under the Money Follows the Person program. In addition, caseload growth in the LIA program is again exceeding earlier projections. The enacted budget did not assume the current caseload level of 83,827 would be reached until August 2013. With the latest caseload figures from October 5.4% above those projected less than a year ago, LIA continues to be a major cost driver in the Medicaid program.

In addition to the Medicaid shortfall, there are some areas we continue to watch. In particular, we are closely monitoring Personal Services and Other Expenses cost trends in the departments of Correction and Emergency Services and Public Protection which are currently running above the levels that can be supported by available appropriations. Offsetting these, however, are anticipated lapses in the Department of Children and Families. In aggregate, these issues are not expected to impact budgetary balance, but they are likely to require legislative action to realign funds between these agencies before the year is over.

In conclusion, please note that the estimates presented here today are based on the best information available at this time and will no doubt be updated as the year progresses.

I would like to again thank the committee for the opportunity to present this testimony. I know that you have invited Commissioner Bremby of the Department of Social Services to provide more in-depth information regarding his agency's projected shortfalls, but I am happy to answer any questions you may have.