

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE

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Testimony Supporting House Bill No. 5015

AN ACT MAKING DEFICIENCY APPROPRIATIONS FOR THE
FISCAL YEAR ENDING JUNE 30, 2012

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, 2012.

Before addressing our projections for agency deficiencies, a brief recap of the overall status of the state budget for FY 2012 may be helpful. The Office of Policy and Management issued its latest forecast on March 20th, with a projected year-end operating deficit on a GAAP basis of \$62.6 million, and a positive balance from operations on a budgetary basis of \$12.4 million. The projected GAAP deficit represents about three-tenths of one percent of General Fund appropriations, an extraordinarily small margin. It should be noted, however, that the final GAAP balance will not be known until audited financial statements are available after the end of the calendar year. In the meantime, we are closely watching both expenditures and revenues to ensure that the state ends the year in balance. The shortfall we are projecting is entirely a result of components of state revenues that have not met targeted collection levels to date; expenditures are running below appropriated levels and have been relatively stable over the course of the year. The most significant factor that will affect year-end results is performance of income tax collections during the April filing period: any variance from the \$1.3 billion projection will determine whether the state ends the year in surplus or in deficit.

Returning to the focus of today's hearing, we are currently projecting additional requirements totaling \$109.3 million in the General Fund, offset by anticipated lapses of \$159.0 million beyond those budgeted, for a net expenditure level that is \$49.7 million below appropriated levels. We are not forecasting any deficiencies in the Special Transportation Fund. Following is a brief explanation of projected agency deficiencies:

Public Defenders Services Commission - A \$1.6 million shortfall is projected in this agency across a variety of accounts. Personal Services is expected to have a deficiency of \$275,000, the accounts that fund Special Public Defenders will be short a total of \$1.1 million, and the Expert

Witness account is deficient by \$225,000. Attorney Storey is here and I'm sure will be able to discuss the reasons for these shortfalls in greater detail.

Teachers' Retirement Board – A deficiency of \$2.2 million is forecast in the Retirees Health Service Cost account due to higher than anticipated membership in the plan. The appropriation for this account assumed 17,048 members would be enrolled in the health plan, but enrollment is currently at 19,049 members.

Comptroller – Fringe Benefits – Net deficiencies totaling \$100.0 million are projected in the Office of the State Comptroller's fringe benefits accounts. Our projections are based on an updated actuarial estimate of the State's required contribution to the State Employees Retirement Fund and revised estimates for retiree healthcare services based on actual claims experience. Regarding the latter item, the holdback that was applied by OPM to the Retired Employee Health Service Cost account is not attainable, as the agreement reached with SEBAC last year did not impact retirees in any significant way. These shortfalls are mitigated to an extent by an anticipated lapse in the Employer Social Security Tax account as a result of limited hiring and the extraordinarily high level of retirements through October 2011.

Comptroller – Miscellaneous – A \$3.5 million shortfall is forecast in the Adjudicated Claims account. An appropriation for this purpose is new for the 2012-2013 biennium, and the one-time nature of expenditures and volatility in the amounts of any adjudicated settlements are complicating factors in forecasting and budgeting for this account.

Department of Emergency Services and Public Protection – This agency is expected to have an Other Expenses shortfall of \$1.8 million largely as a result of rising fuel costs.

Office of the Chief Medical Examiner - A \$200,000 shortfall in Other Expenses is forecast due to increases in costs for laboratory testing services and body transport services. The former is a result of vacant laboratory positions, requiring use of external laboratory services at a higher cost. Body transportation costs have increased as a result of a new contract for this service with increased transport fees.

In conclusion, please note that the estimates presented here today are based on the best information available at this time. The deficiency bill that is before you today represents shortfalls as we projected them back in January; as is the case each session, the bill will require amendment to reflect updated deficiency projections. The Office of Policy and Management stands ready to work with this committee and the Office of Fiscal Analysis in crafting a bill that addresses any projected deficiencies.

I would like to again thank the committee for the opportunity to present this testimony. I know that you have invited agencies to provide more in-depth information regarding their projected shortfalls, but I am happy to answer any questions you may have.