



**STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT**

**TESTIMONY PRESENTED TO THE APPROPRIATIONS, HUMAN SERVICES, AND
PUBLIC HEALTH COMMITTEES**

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Office of Policy and Management

Testimony Supporting Governor Malloy's FFY 13 Federal Block Grant Allocation Plans

Senators Harp, Musto, and Gerratana, Representatives Walker, Tercyak, and Ritter and distinguished members of the Appropriations, Human Services, and Public Health Committees, thank you for the opportunity to offer testimony in support of Governor Malloy's federal block grant allocation plans for federal fiscal year (FFY) 2013.

You have before you this morning six block grant allocation plans totaling over \$60 million in expected federal funds for the state of Connecticut. These block grants provide the state with critical funding for Social Services, Community Services, Community Mental Health Services, Substance Abuse Prevention and Treatment, Preventive Health and Health Services, and Maternal and Child Health. Each of the allocation plans before you was prepared assuming level block grant funding from last year, as we were directed to do by the federal government. As usual, a contingency plan is included for each block grant in case of increased or reduced federal funding.

As you know, the federal budget situation is unsettled at the current time. No appropriations bills have yet been enacted for FFY13. Instead, a six month Continuing Resolution (CR) that would maintain federal government operations through March

2013 was approved by both the U.S. House of Representative and the U.S. Senate as of September 23 and President Obama is signed the CR into law on Friday.

Under the Continuing Resolution, discretionary spending levels are set at an annualized level of \$1.047 trillion, which is about \$8 billion more than FFY 2012 appropriations and which provides a 0.612% across-the-board increase for most programs. The Continuing Resolution allows mandatory and entitlement programs whose budget authority is provided in an appropriations bill to operate at their FFY 2013 current-law level and includes short term extensions through March 2013 for several programs that were set to expire yesterday, including Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP).

Without further congressional action, the Budget Control Act of 2011 (BCA, P.L. 112-25) requires an across-the-board sequester of FFY 2013 spending beginning in January 2013 of about \$109 billion per year split equally between defense and non-defense spending. Some social programs - such as Medicaid, TANF, and foster care - are fully exempt from sequester; others, such as the block grants before you today, are not exempt.

Although the exact percentages of the across-the-board reductions will not be known until January, the federal Office of Management and Budget (OMB) currently estimates an 8.2% cut for nondefense discretionary programs such as the block grants. OMB may apportion the sequester reductions at any point during the federal fiscal year and could spend at the full CR-appropriated level until later in the fiscal year. But, of course, the longer the delay in imposing the reductions, the more drastic the reductions become if ultimately implemented. On Friday, OMB issued guidance urging contractors not to issue layoff notices in anticipation of sequestration. Today, OMB is expected to apportion the CR funding to the federal agencies. They may divide by quarters and allow federal agencies to spend in the first quarter as if they had a full year of funding at CR levels and without sequester or they may vary the spending authorizations.

While not the subject of this hearing, it is important for you to know that sequestration would have a significantly negative impact on the state beyond these six block grants. Federal programs that Connecticut relies upon in agriculture, education, energy, health and human services, community development, justice, labor, and transportation are all subject to sequestration. In addition, defense reductions resulting from sequestration would have a significant economic impact on Connecticut. Defense-related contract awards to Connecticut businesses represent 4.6% of the state's Gross State Product. It is estimated that approximately 25% of Connecticut's total manufacturing employment of 166,000 is tied to defense related production.

Beyond sequestration, there are several other federal actions collectively referred to as the "fiscal cliff" which are looming and would have an impact on Connecticut, including: the expiration of the 2001/03 tax cuts; a 30% reduction in Medicare physician reimbursement rates; extension of the federal debt limit; expiration of the Alternative Minimum Tax; and expiration of supplemental unemployment insurance benefits.

While Congress and the President could enact legislation that modifies the exemptions associated with sequestration or they could modify the Budget Control Act altogether, the conventional wisdom is that Congress will not act during the lame duck session. If Congress and the President cannot agree on a replacement for the sequester by the January deadline, they could delay implementation to buy more time. However, the Obama administration has indicated that it will veto any legislation that simply pushes back the sequester implementation date. In addition, it is possible that a replacement for the sequester which achieves the same budget goals would reduce social service programs to a greater degree than sequester, in order to preserve other programs such as defense.

While we currently do not have a clear picture regarding the federal budget outlook, all indications at the federal level suggest that we ought to proceed optimistically, but cautiously. These six federal block grants have been prepared assuming level funding, as we were directed to do by the federal agencies, and which is provided for under the Continuing Resolution. As in past years, each plan provides a contingency in case of increased or decreased federal funding. Most of these plans involve consultation with advisory bodies, providers or other stakeholders as appropriate prior to implementation. We are hopeful that the reductions from sequestration will not take place, but we are prepared to act quickly if that happens to avoid compounding the reduction by delay.

Thank you for the opportunity to present this testimony in support of Governor Malloy's FFY13 block grant allocation plans. Commissioners Bremby, Rehmer, and Mullen will follow me with detailed information regarding each of the plans for your consideration and I am happy to answer any questions you may have for me.