

Testimony Presented to the Program Review and Investigations Committee

June 29th, 2012

Benjamin Barnes

Secretary

Office of Policy and Management

Connecticut's Efforts at Maximizing Federal Revenues

Good afternoon, Senator Fonfara, Representative Rowe and members of the Program Review and Investigations Committee. My name is Ben Barnes, Secretary of the Office of Policy and Management. Thank you for the opportunity to be here today to talk about an issue very important to this administration: revenue maximization.

Before getting into the substance of my testimony, I'd like to compliment the Program Review staff for putting together a very good overview of the state's efforts at maximizing federal revenues. While the topic may seem relatively simple, in reality there are many complexities, and the overview does a good job of focusing our attention on the most important areas. Rather than repeat the information presented by Program Review staff, I'd like to focus my comments on a few key issues.

First, I want to acknowledge that a lot of hard work and diligent efforts have been directed toward garnering federal revenue whenever practicable, and I believe the state has done a relatively good job at maximizing opportunities to increase the amount of federal funds coming to the state. Each November, as part of the fiscal accountability report my office is required to present to the legislature, we provide an overview of revenue maximization efforts that are planned or are underway. I encourage you to review this material for some concrete examples of the administration's efforts. That said, while we are proud of the efforts the administration and the agencies have put forth in generating revenue, we acknowledge that there is still work to be done. It is for that reason that the budget for fiscal year 2013 includes \$787,500 for OPM to engage in revenue maximization efforts over the coming year.

Second, I think it is important for all to understand that while much effort goes into obtaining new sources of federal revenue, equal or greater effort goes into preserving existing revenue sources. The federal government has strengthened its compliance activities, resulting in significantly greater scrutiny of all state claims for federal reimbursement. As a result, state agencies have experienced significantly increased time and effort explaining and justifying revenue items worth hundreds of millions of dollars that had once been considered "routine." Before undertaking efforts to increase federal reimbursement, we need to ensure that all existing revenues, especially those included in the budget's revenue schedule, are sustained.

Third, we have to be realistic about the fiscal and political climate at the federal level. The federal budget process has been, to be quite frank, dysfunctional of late. Budgets are often not passed until late in the federal fiscal year, leaving funding levels for many of the state's federally funded

discretionary programs in limbo for extended periods of time. Recent federal budget reductions have affected programs critical to the state, such as the Low Income Home Energy Assistance Program (LIHEAP), and anticipated across-the-board sequestration given the failure to reach political agreement on deficit reduction efforts will ultimately affect the state's discretionary grants and other programs that are supported with federal dollars. Perhaps of greater significance is the potential impact of federal budget reductions on the state's economy, particularly in areas such as defense spending. Additionally, there has been much attention paid to reducing the number of earmarks in the federal budget, which could affect the amount of funds directed to the state, particularly its municipalities and universities. As a result of all these factors, we should not anticipate that there will be lots of new federal money for the state to capture.

Lastly, we should all acknowledge that there may be times where it does not make sense to go after federal funding; for instance, where the state would be required to adopt policies or adhere to requirements that are objectionable. It is an inherent characteristic of our system of fiscal federalism that the federal government will try to bring about policy and behavioral changes on the part of the states through the "carrot" of federal funding. As a result, we should be careful not to adopt a mindset that every federal dollar is necessarily a "good" federal dollar. We should only go after those federal funds that support the policy directions of the state.

With that, let me get into some specifics. There are several ways the state receives federal revenue and each comes with different responsibilities and requirements. The goal is to get money that furthers the objectives of the state without unintended fiscal and programmatic consequences. Some of the ways the state obtains federal funds are: (1) formula grants (e.g., block grants); (2) competitive grants; (3) direct grants for state agency activities; and (4) reimbursement for services the state has provided. As I mentioned, there are often restrictions and requirements attached to federal funding:

- Required match / maintenance of effort requirement – Oftentimes, when agencies apply for federal dollars, they must point to state resources as a match for the federal funding or as is the case with many block grants, the state must show a maintenance of effort which means that state funding in specific areas cannot be reduced below certain levels to avoid federal penalties or loss of funding. In difficult fiscal times, this significantly restricts what programs can be reduced because so many of the dollars are used for match or in maintenance of effort calculations.
- Duration of the funding – Because of incidents in the past that have obligated the state to the pickup of federal funding, OPM reviews agencies' Notice of Intent (NOIs) to apply for federal dollars. These are reviewed with an eye toward assuring that agencies are not starting programs with federal funding that is short in duration and which would obligate the state to continue the program when federal funding ends.
- Supplantation – Federal money can only be used to expand what the state is doing in an area and cannot be used to replace state efforts.

Most often, when you hear concerns about *leaving money on the table*, it is in reference to potential Medicaid dollars. The state receives over \$3.5 billion in reimbursement from federal matching funds for services we pay for. People always have ideas about how the state could be

bringing in more Medicaid money. I will tell you that a big focus of mine has been on revenue maximization. OPM coordinates an interagency workgroup comprised of the human service agencies that focuses on revenue preservation and maximization initiatives. Getting or keeping Medicaid money is not an easy task. Federal rules are very restrictive about what individual states can and cannot do and just because one state is approved for something, does not mean Connecticut would be. Many of the proposals require system and programmatic changes that have staff and funding implications; Medicaid expenditures are under the spending cap so any service (and resulting revenue expansions) count towards the cap.

Because it does not generally make sense to spend a new dollar to receive 50 cents, our goal with revenue maximization is to find ways to receive additional federal match for things we are already doing at 100% state expense or with very limited new cost. Some of the initiatives completed in fiscal year 2012 include:

- Shifting funding for certain DDS case management services off of the Social Services Block Grant in order to gain Medicaid reimbursement for those services, and utilizing the SSBG funds within DSS instead. This will bring in additional annualized revenue of \$1.2 million.
- Developing a waiver that will allow the state to claim federal reimbursement for services rendered in a private institutional setting that are currently provided at 100% state cost. This is expected to bring in approximately \$900,000 per year.

Areas we are actively working on for fiscal year 2013 include:

- An autism waiver that will serve existing clients of the Departments of Developmental Services (DDS), Mental Health and Addiction Services (DMHAS) and Children and Families (DCF) under waivers, allowing the state to receive federal reimbursement for services currently being provided at 100% state cost.
- A revised, more tightly-controlled waiver for individuals with acquired brain injury to allow Medicaid reimbursement for services supported by DMHAS' state-funded TBI Community Services account.
- Providing nursing home care for individuals currently being cared for in DOC's infirmaries and at Connecticut Valley Hospital. Providing these services in a less intensive setting will permit federal reimbursement for care that is currently at 100% state cost and will bring in annually over \$5.5 million.
- Billing for costs in several state agencies associated with the administration of Medicaid services.

With that, let me conclude my remarks. Again, my compliments to the Program Review staff for their excellent work on this topic. Thank you again for the opportunity to testify on this important topic, and I would be happy to respond to any questions you may have.

