

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
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Testimony On House Bill No. 6351

AN ACT MAKING DEFICIENCY APPROPRIATIONS FOR
THE FISCAL YEAR ENDING JUNE 30, 2013

Senator Harp, Representative Walker and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony on House Bill No. 6351, An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2013.

Before addressing our projections for agency deficiencies, I believe it is useful to discuss the overall status of the state budget for fiscal year 2013. The Office of Policy and Management issued its latest forecast on March 20th, with a projected year-end operating deficit on a budgetary basis of \$33.6 million. On the revenue side, only about sixty percent of this year's projected income tax receipts have been collected to date, and April remains the most significant month for income tax collections. In addition, changes in taxpayer behavior due to federal tax changes could result in potential one-time gains in those April collections, although that remains to be seen. On the expenditure side of the budget, aggregate spending is projected to fall below budgeted appropriations by a total of \$133.5 million, including the impact of revisions adopted as part of the December deficit mitigation plan. Note that our projections do not anticipate a significant direct state budgetary impact for the current fiscal year as a result of federal budget reductions, including sequestration and continuing resolution that will fund federal operations through the end of September. We will continue to monitor federal budgetary issues and will reflect any impact in future forecasts as necessary.

My office's current forecast represents a significant improvement in balance compared to projections made earlier this year. This improvement has largely been accomplished through management actions—including rescissions as well as hiring and contract restrictions—and the bipartisan passage of substantial deficit mitigation measures in December.

Returning to the focus of today's hearing, we are currently projecting additional requirements totaling \$314.4 million in the General Fund across six agencies, as detailed below. These deficiencies are more than offset by lapses (including rescissions) which are anticipated to exceed budgeted levels by \$447.9 million. We are not forecasting any deficiencies in the Special Transportation Fund. Note that the figures below represent our most current estimates and may differ from the amounts in House Bill 6351.

Office of the State Comptroller. The Office of the State Comptroller is expected to incur deficiencies of \$900,000 in Personal Services and \$600,000 in Other Expenses, largely due to holdbacks imposed as a result of December's deficit mitigation plan. The shortfall in Personal Services has been reduced from the levels anticipated in deficiency bill through delayed hiring. In addition, in the miscellaneous accounts administered by the Comptroller, we anticipate a shortfall of \$3.3 million in the Adjudicated Claims account as a result of several recent settlements. Even with this increase, the projected level of claims expenditures is in line with historical amounts.

Department of Emergency Services and Public Protection. The Department of Emergency Services and Public Protection is expected to experience shortfalls of \$11.3 million in Personal Services and \$2.5 million in Other Expenses due largely to aggressive budget assumptions, as well as the tragedy in Newtown and the extraordinary weather this fiscal year.

Department of Consumer Protection. The Department of Consumer Protection will experience a shortfall of \$300,000 in its Personal Services account as a result of a restructuring of casino staffing reimbursements.

Department of Mental Health and Addiction Services. The Department of Mental Health and Addiction Services is projected to have a shortfall of \$12.5 million in its General Assistance Managed Care account. The FY 2013 budget included savings of \$12.5 million in anticipation of a Medicaid waiver for the Low-Income Adults program that would have allowed the state to restructure the program's eligibility; however, the state's waiver request was recently denied by the federal government.

Department of Social Services. The Department of Social Services is projected to have a shortfall of \$261 million. After accounting for various offsetting lapses, a net deficiency of \$255 million is forecast in the Medicaid program. Increased utilization of medical services, particularly inpatient and outpatient hospital services, has driven expenditures to much higher levels than budgeted. DSS continues to work closely with its administrative services organization for medical services to review cost and utilization factors that are contributing to the increases in hospital expenditures. In addition, caseload growth in the LIA program has greatly exceeded budgeted levels. With the latest caseload figures from February more than 7% above the level assumed in the appropriation

(87,621 vs. 81,590), LIA continues to be a major cost driver. Also contributing to the deficiency is the federal government's recent denial of the LIA waiver; the budget had assumed savings of \$50 million (\$37.5 million in DSS and \$12.5 million in DMHAS, as discussed above). Nursing home expenditures are also higher than anticipated in the budget, due to slippage in the number of persons the department has been able to transition to the community under the Money Follows the Person program. In addition to the Medicaid deficiency, a \$6 million shortfall in Personal Services is projected as a result of hiring staff to process increased applications and eligibility redeterminations for the department's programs.

Department of Correction. The Department of Correction is anticipated to incur deficiencies of \$20 million in Personal Services and \$2 million in Other Expenses as a result of overly optimistic savings assumptions in the enacted budget.

If passed, the proposed deficiency bill would result in a net increase in appropriations of \$192 million. The adopted budget for fiscal year 2013 is \$142.2 million below the spending cap. We interpret the federal government's recent denial of the state's request for a Medicaid Low-Income Adults program waiver as a mandate which will require the state to spend \$50 million beyond the amount budgeted for this program. As a result, the proposed deficiency bill assumes a revised cap calculation which would result in an adjusted budget for fiscal year 2013 that is \$0.2 million below the cap, and with a corresponding adjustment to the allowable level of expenditures for the next biennium.

In conclusion, please note that the estimates presented here today are based on the best information available at this time. The proposed deficiency bill represents shortfalls as we projected them back in January. As is the case each session, this 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 any necessary revisions to the bill.

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.

