

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
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PROJECTED AGENCY DEFICIENCIES FOR THE
FISCAL YEAR ENDING JUNE 30, 2014

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, 2014.

Before addressing the Office of Policy and Management's projections for agency deficiencies, it may be helpful to provide an update on the overall status of the state budget for FY 2014. OPM issued its latest monthly forecast on October 21st, and projected at that time that the fiscal year would end with an operating surplus of \$11.2 million. 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 revenue increase of \$56.4 million from the budget adopted last spring, primarily as a result of greater than anticipated collections from the tax amnesty program and increased estimates of federal grant revenue. It should be noted, however, that neither our October estimates nor the November consensus revenue forecast reflect any impact on state revenue collections from the two week shutdown of the federal government at the beginning of October. While the mid-October agreement to finance federal government operations through January 15th and to raise the government's statutory borrowing authority through mid-February was welcome news, we won't know whether the shutdown had any lasting effect on the state's economy and budget for several months. Moreover, there is a likelihood that the political brinksmanship that characterized the past month could play out again in January and February, when the federal budget and debt ceiling issues must be revisited. The uncertainty created in the national and state economies by the lack of a long-term federal fiscal plan could impact Connecticut's recovery from the recession and have a material effect on state revenues, and also creates an unsettled

budgetary environment this winter and spring in which to develop and discuss any adjustments to the enacted FY 2015 state budget.

Returning to the focus of today's hearing, OPM is currently projecting additional requirements totaling \$20 million in the General Fund, which are more than offset by anticipated lapses of \$26.8 million beyond budgeted levels. We are not forecasting any deficiencies in the Special Transportation Fund.

These additional requirements are in three agencies:

1. The Department of Administrative Services is projecting a shortfall of \$8.0 million in its State Insurance and Risk Operations account as a result of the settlement of two large claims against the state this fiscal year. On November 7th, the Finance Advisory Committee approved a transfer of funds from Personal Services to enable DAS to make timely settlement payments, and as a result a deficiency appropriation or transfer is needed to restore funds to Personal Services in order to support payroll costs in the last quarter of the fiscal year.
2. The Department of Emergency Services and Public Protection is expected to experience a shortfall of \$3.0 million in its Personal Services account as a result of a reduction in casino reimbursements negotiated with the Pequot and Mohegan tribal governments.
3. The Department of Education is anticipated to experience a shortfall of \$9.0 million in its Magnet Schools account as a result of unbudgeted legislation requiring the state to pick up preschool tuition costs as well as supplemental transportation costs for the *Sheff* settlement.

In addition to these deficiencies, there are some areas we continue to watch in the General Fund. We are closely monitoring Adjudicated Claims costs in the Office of the State Comptroller which could be as much as \$6.0 million over budget due to a pending large settlement as well as several smaller award amounts. Assigned counsel costs in the Public Defender Services Commission also appear to be on pace to exceed budgeted levels, with a projected shortfall of \$3.5 million due to capital case costs, efforts to retire the *habeas corpus* case backlog, and one-time costs to catch up on bills from the prior year. In addition, while the most recently available data on the Medicaid program suggest that the current state appropriation is sufficient, both the size of the program as well as the volatility of entitlement spending warrant our continued attention as the year progresses. In aggregate, these "watch area" issues are not expected to significantly impact budgetary balance, but they are likely to require legislative action to realign funds among agencies before the year is over. In the Special Transportation

Fund, the September power failure on the New Haven line as well as the May 17, 2013 derailment have the potential to impact funding requirements for the Department of Transportation this fiscal year, although the exact timing and amounts of any state exposure are not fully known at this time.

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.

Again, my thanks to the committee for the opportunity to present this testimony. I know that you have invited agency commissioners to provide more in-depth information regarding their projected shortfalls, but I am happy to answer any questions you may have.