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## Governor's Bill 5034

### An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2014

#### Appropriations Committee

March 25, 2014

Good morning Senator Bye, Representative Walker, Senator Kane, Representative Miner, and members of the Appropriations Committee. My name is Don DeFronzo, and I am the Commissioner of the Department of Administrative Services.

I am here today to ask for your support of Governor's Bill 5034 and the deficiency appropriations for DAS. Specifically, to make it through the remainder of this fiscal year, DAS is in need of additional monies for Personal Services and for Workers' Compensation claims.

#### Personal Services Deficiency

When the Appropriations Committee met in November to discuss deficiencies, DAS testified about our deficiency in our Personal Services line item. This deficiency is the result of a shortfall that occurred in our State Insurance & Risk Management Account, as a result of 2 large claims brought against the state that were settled and required payment this fall.

As you may know, the State Insurance & Risk Management Board (SIRMB) was consolidated into DAS in 2009, but by statute, the Board retains its own independent decision making authority.

DAS's appropriated budget includes both General Fund and Special Transportation Fund line items for SIRMB Operations. These monies pay for premiums associated with policies purchased by the State to insure against losses; for claims and judgments issued against the State for losses that occur within our self-insured deductible amounts; and for payment of our insurance broker and Third Party Administrator, responsible for managing the state's liability claims. SIRMB is a pay-as-you-go operation that is not permitted to maintain reserves.

This fiscal year, two large claim settlements that fell outside of the Board's standard projections resulted in a deficiency in the SIRMB account of \$8 million. Because there are strict deadlines for paying insurance premiums and court judgments, last November, the Finance Advisory Committee approved a transfer of \$8 million from DAS's Personal Services account to the SIRMB account. This was not, however, because DAS had an extra \$8 million of Personal Services monies; only that we needed the \$8 million at the time in the SIRMB account to pay the required judgments. As a result, and as anticipated, DAS now has a deficiency in our PS line item.

We have paid close attention to our position refills and their timing, and as a result have been able to manage our Personal Services monies well in recent months - and we will continue to do so. Through careful management, we are confident that we will not need the full \$8 million for our Personal Services line item. However, we are also monitoring the potential for additional fleet liability claims that SIRMB may be responsible for paying this fiscal year, and will work with the Office of Policy and Management to ensure that you have the best estimate of any deficiency needs before the bill is finalized in the coming weeks.

#### Workers' Compensation Deficiency

As you know, DAS is the central administrator of the State's Workers' Compensation program with budgeting for claims segregated into 6 primary agencies - the Departments of Children and Families, Developmental Services, Mental Health and Addiction Services, Emergency Services and Public Protection, Correction and Administrative Services. DAS's workers' compensation claims funds are divided into the General Government (GG) account, and the Special Transportation Fund (STF) account. The Special Transportation Fund account pays workers' comp claim expenses for the Departments of Transportation and Motor Vehicles, and for the Connecticut Airport Authority; while the GG account pays for claim expenses associated with all other state agencies and entities outlined by statute to be covered, including the Legislative and Judicial branches.

Based on our analysis of paid losses through the second quarter of this fiscal year, we have projected that workers' compensation costs will exceed the established budgetary levels. We expect a shortfall in the GG account to be \$2.8 million, and in the STF account to be \$800,000 this fiscal year.

General Government Account. Workers' compensation expenditures statewide -- across all 6 budgeted accounts - have been very stable over fiscal years 11, 12, and 13. The General Government budget has seen similar stability:

FY 11	FY 12	FY 13
\$26,248,383	\$26,460,482	\$26,729,684

DAS has concentrated on containing growth within the medical expenditure category, primarily by instituting initiatives within the medical delivery system. And in fact, an analysis of expenditures in FY 14 indicates that medical costs are stable. However, we are experiencing growth in the indemnity category - the amounts that employers are required to pay to employees directly (for lost time, scarring awards, and other statutory benefits within the workers' comp system). In the past year, the monthly average per claim indemnity value has increased from \$2,419.96 to \$2,649.42 -- a 9.48% increase. Additionally, there has been a 4.45% increase in the number of indemnity recipients per month this year over last.

Expenditure performance has improved through two months of the third quarter, and we will continue to monitor these costs and our deficiency position as we move through the fiscal year.

Special Transportation Fund. Unlike the workers' compensation General Government budget, the Special Transportation Fund budget deficit projection is being driven by a singular issue. There are three catastrophic claims with FY 14 paid medical costs of \$666,354.35, which represent 20% of the overall medical expense year to date.

I appreciate the Committee's support, and thank you for the opportunity to testify this morning. I would be happy to answer any questions that members may have.