# FY 14 Projected Deficiencies

## Prepared for Appropriations Committee Hearing

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HB 5034, An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2014, results in no net impact to the General Fund (GF) or Transportation Fund (TF). The GF increases of $44.3 million and TF $0.6 million are offset by reductions in appropriations to various agencies and accounts. The table below reflects the deficiency bill.

The bill also reduces, by $9 million, the amount by which the FY 14 budget is under the spending cap. This is due to a $9 million reduction of appropriations in Debt Service, which is exempt from the spending cap, and a commensurate increase in areas that are subject to the spending cap. The FY 14 budget is currently under the spending cap by $9.4 million; with passage of the bill, the FY 14 budget will be under the spending cap by $400,000.

**HB 5034, the FY 14 Deficiency Bill (in millions)**

| Agency | FY 14 $ |
|---|---|
| **Section 1 General Fund Increases:** | |
| Department of Administrative Services | 8.0 |
| Department of Emergency Services and Public Protection | 4.5 |
| Department of Education | 18.8 |
| Public Defenders | 4.0 |
| OSC - Adjudicated Claims | 6.2 |
| DAS - Workers' Compensation | 2.8 |
| **Total - General Fund Increases** | **44.3** |
| **Section 2 General Fund Reductions:** | |
| Legislative Management | (3.0) |
| Department of Social Services | (3.0) |
| Teachers' Retirement Board | (2.0) |
| Department of Children and Families | (10.0) |
| Debt Service - State Treasurer | (9.0) |
| OSC - Fringe Benefits | (17.3) |
| **Total - General Fund Reductions** | **(44.3)** |
| **NET GF Impact** | - |
| **Section 3 Transportation Fund Increases:** | |
| DAS - Workers' Compensation | **0.6** |
| **Section 4 Transportation Fund Reductions:** | |
| Department of Motor Vehicles | (0.6) |
| **NET TF Impact** | - |

The bill is based on the Governor's February projections. OFA is currently projecting $45.9 million in GF and $10.9 million in TF state agency funding shortfalls. This differs from the Office of Policy and Management's (OPM's) March 20, 2014 projection of $44.1 million in GF and $13.3 million in TF by a total of $0.6 million in GF and TF. The following table displays the level of funding needed by agencies as projected by OFA and OPM.

**FY 14 State Agency Estimated Deficiency Needs Comparison**
**(in millions)**

| Agency | HB 5034 $ | OFA $ | OPM $ (3/20/14) | Diff. OFA/OPM $ |
|---|---|---|---|---|
| Department of Correction | - | 13.0 | - | 13.0 |
| Department of Education | 18.8 | 8.0 | 17.7 | (9.7) |
| OSC - Adjudicated Claims | 6.2 | 6.8 | 6.2 | 0.6 |
| Department of Administrative Services | 8.0 | 6.1 | 8.0 | (1.9) |
| Department of Emergency Services and Public Protection | 4.5 | 4.8 | 4.4 | 0.4 |
| Public Defenders | 4.0 | 4.5 | 4.9 | (0.4) |
| DAS - Workers' Compensation | 2.8 | 2.6 | 2.8 | (0.2) |
| Office of the Chief Medical Examiner | - | 0.1 | 0.1 | - |
| **Total - General Fund** | **44.3** | **45.9** | **44.1** | **1.8** |
| Department of Transportation | - | 8.6 | 10.0 | (1.4) |
| State Comptroller - Fringe Benefits | - | 1.3 | 2.5 | (1.2) |
| DAS - Workers' Compensation | 0.6 | 1.0 | 0.8 | 0.2 |
| **Total - Transportation Fund** | **0.6** | **10.9** | **13.3** | **(2.4)** |
| **TOTAL - All Appropriated Funds** | **44.9** | **56.8** | **57.4** | **(0.6)** |

OFA's deficiency projections are based on a comparison between the agency's available funding and estimated annual spending. Available funding is generally lower than the original appropriation level due to OPM holdbacks of funding to meet budgeted lapse targets.

Given the reduction in available funding that occurs due to budgeted lapses (holdbacks), we currently identify 10 agencies that require $56.8 million in deficiency funding. However, if available holdback funding was released, this will reduce the amount required to $49.5 million.

The following table includes the agency's FY 14 appropriation, total level of available funding (less holdbacks and plus any transfers for collective bargaining costs from the Reserve for Salary Adjustments account), estimated expenditures, and projected deficiency amount.

**FY 14 Estimated Agency Deficiency Needs**

| Agency | Budgeted Appropriation $ | Available[1] Appropriation $ | Estimated Exp. $ | Deficiency without release of holdbacks $ | Deficiency with release of holdbacks $ |
|---|---|---|---|---|---|
| Department of Correction | 670,461,667 | 668,776,128 | 681,782,353 | (13,006,225) | (9,014,825) |
| Department of Education | 2,917,583,769 | 2,917,748,019 | 2,925,778,019 | (8,030,000) | (7,095,927) |
| State Comptroller – Adjudicated Claims | 4,100,000 | 4,100,000 | 10,850,099 | (6,750,099) | (6,750,099) |
| Department of Administrative Services | 138,621,319 | 138,223,274 | 144,312,828 | (6,089,554) | (5,298,244) |
| Department of Emergency Services and Public Protection | 173,324,812 | 173,919,376 | 178,719,376 | (4,800,000) | (3,495,883) |
| Public Defender Services Commission | 61,371,589 | 61,384,748 | 65,835,896 | (4,451,148) | (4,230,123) |
| DAS - Workers' Compensation Claims | 27,187,707 | 27,187,707 | 29,808,472 | (2,620,765) | (2,620,765) |
| Office of the Chief Medical Examiner | 5,399,803 | 5,431,023 | 5,521,789 | (90,766) | (48,203) |
| | | | **General Fund Total** | **(45,838,557)** | **(38,554,069)** |
| Department of Transportation | 550,060,719 | 551,365,121 | 560,020,125 | (8,655,004) | (8,655,004) |
| State Comptroller - Fringe Benefits | 163,661,354 | 163,661,354 | 164,990,438 | (1,329,084) | (1,329,084) |
| DAS - Workers' Compensation Claims | 6,544,481 | 6,544,481 | 7,539,953 | (995,472) | (995,472) |
| | | | **Special Transportation Fund Total** | **(10,979,560)** | **(10,979,560)** |
| **TOTAL** | | | | **(56,818,118)** | **(49,533,630)** |

[1] Appropriation less budgeted lapses

Details are provided on the following pages for: (1) each agency's deficiency needs and (2) explanations as to why the funding is available for those agencies in sections 2 and 4 of the bill where their appropriations are being reduced.

## Detail on the Total Net Deficiencies $56.8 million

(The following assumes that holdbacks will not be released by OPM.)

### Department of Correction - $13 million

The agency's projected FY 14 budget shortfall is composed of:

- $12.7 million in Personal Services and
- $1.1 million in Other Expenses.

This shortfall is partially offset by lapsing funds of:

- $900,000 in Workers' Compensation Claims.

The $12.7 million projected shortfall in the Personal Services account is primarily due to higher than expected utilization of overtime due to retirements and unachieved budgeted savings. As of February 1, 2014, hazardous duty retirements have increased 62% over the same period in FY 13. In addition, the FY 14 budget included a Personal Services reduction of $2.8 million associated with reduced overtime spending due to better management of sick time usage. So far this fiscal year, sick time usage has increased by 2.5%. Both the usage of sick time and retirements have a direct impact on overtime utilization, which has increased 26.6% over last fiscal year.

The $1.1 million projected shortfall in Other Expenses is related to maintenance and utility costs. Many of the agency's buildings are 20 years old and require emergency maintenance to maintain the safety of staff, inmates and the public. In addition, utility costs for heating are higher due to lower than average temperatures in December and January.

The shortfall in Personal Services and Other Expenses are partially offset by a projected lapse of $900,000 in Workers' Compensation Claims due to lower stipulations and administrative expenses. Administrative expenses are $54,000 lower than last year. Additionally, stipulations are down approximately $420,000. Total expenditures for this account, including all claim activity, is projected to lapse 3.5% of the original appropriation.

### State Department of Education - $8 million

The agency's projected FY 14 budget shortfall is composed of:

- $16.5 million in Magnet Schools.

This shortfall is partially offset by $8.5 million lapsing funds from the following accounts:

- $6 million in OPEN Choice,
- $2 million in Development of Mastery Exams,
- $300,000 in New or Replicated Schools, and
- $170,000 in other various accounts.

The $16.5 million shortfall represents 6.2% of the FY 14 appropriation of $265.5 million. The Magnet School account appropriation has increased by approximately $23 million from FY 13 to FY 14, this represents a growth of approximately 8.6%. The projected shortfall in the Magnet School account is due to the following three factors: (1) Sections 123-126 of PA 13-247, which shifts the responsibility of magnet school tuition for preschoolers to SDE (approximately $5 million); (2) magnet school transportation costs (approximately $4 million); and (3) increased enrollment (approximately $7.5 million). The shortfall represents 0.2% of agency's total FY 14 appropriations.

Funding of $8.5 million is available in various accounts to offset the shortfall due to, delays in implementation, fewer students participating, and renegotiated contracts.

**Office of the State Comptroller - Adjudicated Claims - $6.8 million**

The agency's projected FY 14 budget shortfall is composed of:

- $6.8 million in Adjudicated Claims.

The projected shortfall in the Adjudicated Claims account is due to higher than anticipated claims costs and the recent settlement between the state and Capital Properties for $6.2 million. The projected shortfall represents 62% of total FY 14 projected expenditures. It should be noted FY 12 was the first year the Adjudicated Claims account received an appropriation. Claims were previously funded out of the resources of the General Fund. Since FY 03, annual claims range from $3.9 million to $15.7 million, with a median annual claims cost of $7.6 million.

**Department of Administrative Services - $6.1 million**

The agency's projected FY 14 budget shortfall is composed of:

- $7.2 million in Personal Services.

This shortfall is partially offset by $1.1 million lapsing funds from the following accounts:

- $783,700 in IT Services,
- $183,000 in Rents and Moving, and
- $153,500 in other various accounts.

The projected shortfall of $7.2 million in the Personal Services account (14.7% of appropriation) is due to the November 7, 2013 FAC approval of transferring $8 million from Personal Services to the State Insurance and Risk Management Operations account. Funding was needed in the State Insurance and Risk Management Operations account as the state settled and paid two large automobile claims earlier this fiscal year. One claim involved a State Trooper who hit a pedestrian in Shelton on May 29, 2010. This claimant was awarded $9 million. In the second claim, there was a fatal traffic accident involving a UConn student and a student operated campus shuttle bus on March 22, 2011. This claim settled for $6 million. The state is responsible for paying a $4 million deductible on each claim. The $7 million balance on these two claims will be covered by the state's insurance carrier.

Funding is available in various accounts to partially offset the PS shortfall. Current expenditure trends reflect DAS lapsing $1.1 million in these accounts.

**Department of Emergency Services and Public Protection - $4.8 million**

The agency's projected FY 14 budget shortfall is composed of:

- $4.6 million in Personal Services and
- $551,750 in Other Expenses.

This shortfall is partially offset by lapsing funds of $0.4 million in the following accounts:

- $375,000 in Gun Law Enforcement Task Force and
- $23,400 in Stress Reduction.

The $4.6 million projected shortfall in Personal Services arises, in part, from lower assessments on each casino for law enforcement services. PA 13-170 enabled the transition of law enforcement duties at each casino from DESPP to tribal police forces. The state negotiated assessments with each tribe setting law enforcement reimbursements at $1.2 million ($600,000 per tribe) for FY 14. Tribal reimbursements totaled $4.2 million in FY 13, $4.7 million in FY 12, and $7.2 million in FY 11. Given that DESPP staffing levels were not correspondingly reduced, the lower assessment created a shortfall in Personal Services of approximately $3 million. The remainder of the overall Personal Services shortfall ($1.2 million) is attributable to unbudgeted overtime.

The $551,750 projected shortfall in Other Expenses is driven primarily by payments made to several state National Guards under the Emergency Management Assistance Compact for work during the February 2013 snow storm. DESPP has paid approximately $390,000 in FY 14 for such services.

Funding is available in the Gun Law Enforcement Task Force account due to delays in planning and implementing operations in FY 14.

**Public Defenders - $4.5 million**

The agency's projected FY 14 budget shortfall is composed of:

- $4.5 million in Personal Services.

The projected shortfall of $4.5 million in the Personal Services account (11.2% of the appropriation) is due to the March 6, 2014 FAC approval of transferring $5.2 million from the Personal Services to the Assigned Counsel – Child Protection and Assigned Counsel – Criminal account.

The original shortfall in the Assigned Counsel – Criminal account (as referenced in the deficiency bill) is due to: (1) eliminating the backlog of approximately 400 habeas cases by hiring law firms with expertise in addressing these cases, which has resulted in approximately $1.8 million of the projected shortfall in this account, and (2) a new payment and billing system that has accelerated payments made to attorneys by up to four months, which has resulted in approximately $2.4 million of the projected shortfall in this account.

In addition, approximately $300,000 of the early released allotment was used to transfer funds to the Assigned Counsel – Child Protection account. These funds were necessary due to two main factors: (1) this account carried over $698,000 in child protection attorney bills from FY 13 to FY 14, and (2) the number of child protection cases is anticipated to grow from 8,320 in FY 13 to more than 10,000 cases in FY 14. In addition, this account was reduced by approximately $150,000 in FY 14 in the budget.

**DAS - Workers' Compensation Claims - General Fund - $2.6 million**

The agency's projected FY 14 budget shortfall is composed of:

- $2.6 million in Workers' Compensation Claims.

The projected shortfall in the Workers' Compensation Claims account within the General Fund (this account supports General Fund agencies without a separate workers' compensation appropriation), is primarily due to the following factors: (1) increased utilization of services, (2) employees remaining on workers' compensation longer, and (3) increasing medical expenditures. The following table reflects average monthly expenditure and claims trends for the General Fund account for the period July through January for FY 13 and FY 14.

**Average Monthly Workers' Compensation Claims – GF**

| | FY 13 | FY 14 | Change |
|---|---|---|---|
| Number of Claims | 371 | 401 | 8.0% |
| Cost Per Claim | $2,371 | $2,669 | 12.6% |
| Total Indemnity Costs | $993,167 | $1,204,892 | 21.3% |
| Total Medical Costs | $1,099,725 | $1,108,690 | 0.8% |

The estimated shortfall in this account is approximately 8.8% of total FY 14 estimated expenditures.

**Office of the Chief Medical Examiner - $0.1 million**

The agency's projected FY 14 budget shortfall is composed of:

- $490,000 in Other Expenses.

This shortfall is partially offset by $400,000 lapsing funds from the following accounts:

- $352,400 in Personal Services (PS) and
- $46,300 in Medicolegal Investigations and Equipment.

The projected shortfall in Other Expenses (OE) is primarily a result of increased cost associated with body transport (a contracted service). Also, contributing to the shortfall are the costs for laboratory services, the fleet pool, gas and medical laboratory supplies. FY 14 OE expenditures are estimated at $1.4 million. This is $560,000 more than the five—year OE expenditure average (from FY 09 - FY 13). The funding is available in PS to partially offset the shortfall due to six unfilled vacancies.

**Department of Transportation (DOT) - $8.6 million**

The agency's projected FY 14 budget shortfall is composed of:

- $6 million in Personal Services and
- $2.6 million in Rail Operations.

The $6 million projected shortfall in the Personal Services account is driven by the March 6, 2014 Finance Advisory Committee (FAC) transfer of $7 million from Personal Services to Other Expenses. This transfer was to cover a shortfall in the Other Expenses account due to higher than budgeted storm related costs for snow and ice removal. DOT's snow and ice removal budget is based on an average of 12 storms per year, and to date there have been approximately 15 storms. Due to winter storm costs, funding was needed for the following reasons: (1) higher than average storm costs for material and contractual services, (2) increased fuel usage to supply the 84 fuel facilities used by all state agencies and (3) equipment maintenance and repair of the department's fleet. Currently, 248 of DOT's 632 truck fleet, or 39% are past the 12 year useful lifecycle.

The $2.6 million projected shortfall in the Rail Operations account is driven by the costs associated with the New Haven Line (NHL) power outage and the May 2013 derailment in Fairfield. The cost to DOT for the NHL power outage is estimated to be approximately $7.5 million and the cost of the derailment is estimated to be approximately $2.9 million for infrastructure improvements. The projected shortfall of $2.6 million is the net cost which is offset by savings achieved related to (1) the anticipation of purchase assets such as hand held ticket issuing machines and vehicle

replacements being received later than expected and (2) Metro North budget information regarding reduced expenditure trends for the remainder of this fiscal year.

**Rail Costs (in millions)**

| Description | Amount $ |
|---|---|
| NHL power outage | 7.5 |
| May 2013 derailment | 2.9 |
| FY 14 expenditure trends | (7.8) |
| **TOTAL** | **2.6** |

**Office of the State Comptroller - Fringe Benefits - Special Transportation - $1.3 million**

The agency's projected FY 14 budget shortfall is composed of:

- $1.3 million in State Employees' Health Service Costs.

The projected shortfall in the State Employees' Health Service Costs account within the Special Transportation Fund is due to medical claims costs (including pharmacy) being 3.4% higher than anticipated for employees of the Departments of Transportation and Motor Vehicles. Average monthly expenditures are 16.2% higher than the period July through April in FY 13.

**DAS - Workers' Compensation Claims - Special Transportation - $1 million**

The agency's projected FY 14 budget shortfall is composed of:

- $1 million in Workers' Compensation Claims.

The projected shortfall in the Workers' Compensation Claims account within the Special Transportation Fund (this account supports the Departments of Motor Vehicles and Transportation), is primarily due to the following factors: (1) increased utilization of services, (2) employees remaining on workers' compensation longer, and (3) increasing medical expenditures. The following table reflects average monthly expenditure and claims trends for the Special Transportation Fund for the period July through January for FY 13 and FY 14.

**Average Monthly Workers' Compensation Claims – TF**

| | FY 13 | FY 14 | Change |
|---|---|---|---|
| Number of Claims | 48 | 51 | 5.8% |
| Cost Per Claim | $2,423 | $2,412 | (0.5%) |
| Total Indemnity Costs | $263,110 | $308,234 | 17.2% |
| Total Medical Costs | $336,243 | $401,367 | 19.4% |

The estimated shortfall in this account is approximately 13.2% of total FY 14 estimated expenditures.

## Detail on Availability of Funds Reduced in Section 2 and 4 of the Bill

### Legislative Management - $3 million

Funding is reduced in the following accounts:

- $2 million in Personal Services and
- $1 million in Other Expenses.

The FY 14 legislative lapse targets included in the budget total $3.4 million. Current projections reflect the legislative branch lapsing $5.4 million. The appropriation reductions included in the bill will impede the ability to attain the lapse targets included in the budget by $1 million.

Funding is available in the Personal Services account due to holding nonpartisan positions vacant during part of the fiscal year, savings from employee turnover and continuing the practice of releasing most of the sessional assistant clerks two weeks after the Joint Favorable deadline while maintaining caucus savings. Historical lapse patterns in Personal Services over the last 5 fiscal years average $5.4 million.

Funding is available in the Other Expenses account due to current spending levels being below the budgeted appropriation. Some expenses such as postage, catering, and printing are reduced in a shorter session. Historical lapse patterns in Other Expenses over the last 5 fiscal years average $2.8 million.

### Department of Social Services - $3 million

Funding is reduced in the following account:

- $3 million in Medicaid.

Funding is available due to a one time transfer of $67 million between the Disproportionate Share-Medical Emergency Assistance (DSH) account and the Medicaid account. The transfer was the result of the reconciliation of the net appropriation of the Medicaid account which took place in the biennial budget.

### Teachers' Retirement Board - $2 million

Funding is reduced in the following account:

- $2 million in Retiree Health Service Cost account.

Funding is available in this account because the actual 2014 premium for the TRB basic health plan was lower than the budgeted premium. Effective, January 1, 2014, the monthly premium equivalent rate for the TRB health plan decreased from $350 to $291. The TRB health plan benefit

and the cost sharing arrangement remain the same. OFA is projecting a $2.5 million lapse in FY 14 in this account.

**Department of Children and Families - $10 million**

Funding is reduced in the following accounts:

- $3 million in Personal Services (PS),
- $1 million in No Nexus Special Education and
- $6 million in Board and Care for Children – Residential.

While the available funding in two of these accounts (PS and Board and Care for Children – Residential) is less than the amount to be reduced in the deficiency bill, OFA is projecting an overall Department lapse of $18 million in FY 14. The PS reduction of $3 million will affect the Department's ability to meet a holdback of $1.9 million.

Funding of $7 million was approved for transfer from the Board and Care for Children – Residential account to other accounts by the Finance Advisory Committee on January 9, 2014. After this transfer, the projected lapse for this account is $4.8 million. This lapse is associated with reduced placements in the Board and Care for Children - Residential account from a monthly average of 1,007 placements in FY 13 to 921 placements in FY 14 through February.

OFA is projecting a No Nexus Special Education lapse of $2 million in FY 14. No Nexus expenditures support the education of children and youth in congregate care settings that provide education on-site. As congregate care placements under the Board and Care for Children - Residential account trend downward, so do the associated expenditures in this account.

**Debt Service - State Treasurer - $9 million**

Funding is reduced in the following account:

- $9 million in General Fund Debt Service.

OFA's estimated FY 14 lapse for the General Fund debt service account as of March 21, 2014 is $45.9 million. As shown in the table below, the lapse estimate includes debt service adjustments for: (1) the difference between issuance assumptions and actual issuance of GO bonds, (2) bond premiums[1], (3) anticipated future savings for the remainder of the fiscal year, (4) the GAAP Conversion bonds issued in October 2014 to finance a portion of the cost for the transition of the state to Generally Accepted Accounted Principles (GAAP) and (5) the FY 14 refinancing of Economic Recovery Notes (ERNs) that were originally issued to fund the 2009 General Fund operating budget deficit.

[1]Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold. Between FY 02 and FY 13, the General Fund debt service account lapsed between $28 million and $80 million each year due to bond premiums. The money that the state receives from premiums on GO bonds must be used to pay debt service on outstanding GO bonds under the provisions of CGS Sec. 3-20(f) and federal Internal Revenue Service regulations for tax exempt bond issuance.

**OFA FY 14 Debt Service Lapse Estimate (in millions)**

| Description | Amount $ |
|---|---|
| Differences in issuance assumptions | (50.0) |
| Premiums | (12.8)[1] |
| Anticipated future savings | (3.0) |
| GAAP bond issuance | 12.5 |
| Economic Recovery Note refinancing | 7.4 |
| **TOTAL** | **(45.9)** |

[1]The total year-to-date reduction for premiums is $47.8 million. Since the FY 14 General Fund debt service budget reflects a $35 million reduction due to premiums, the lapse reduction for premiums is $12.8 million.

**Office of the State Comptroller- Fringe Benefits - $17.3 million**

Funding is reduced in the following accounts:

- $10 million in Higher Education Alternative Retirement System and
- $7.3 million in Employers Social Security Tax.

Funding is available in the Higher Education Alternative Retirement (ARP) account due to a decrease in the number of ARP positions being charged to the General Fund, partially due to a transfer of ARP members to the State Employees' Retirement System (SERS). Between FY 12 and February of FY 14, 1,004 people have switched from ARP to SERS. The Office of the State Comptroller's General Fund ARP account supports those employees' whose salaries are also supported by the General Fund as opposed to Operating Funds, Federal Funds and in the case of the Health Center, the Clinical Fund. The ARP account lapsed $16.7 million in FY 13, including $2.5 million in FY 13 carry forward funding; reflecting over 53% of available funding in the account. The FY 14 budget reflected a $2.6 million or 8.6% reduction over the FY 13 budgeted.

Funding is available in the Employers Social Security Tax account due to expenditures being less than budgeted by 3.9%. This is primarily due to hiring delays across state agencies.

**Department of Motor Vehicles - $0.6 million**

Funding is reduced in the following account:

- $600,000 in Personal Services.

Funding is available in the Personal Services account due to delays in hiring 41 positions which has resulted in lower than anticipated expenditures. This represents 1.4% of the total Personal Services appropriation.