STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT
06106-1775

Kevin Lembo
State Comptroller

Martha Carlson
Deputy Comptroller

TESTIMONY
Comptroller Kevin Lembo
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Concerning

SB 22 AAC the Prevention of Fraud in Government Programs; HB 5031 AAC the Budget Reserve Fund; HB 5109 AAC the Budget Reserve Fund; HB 5032 AAC the Expenditure Cap and Reducing Long-Term Liabilities

Senator Bye, Representative Walker, Senator Kane and Representative Miner, and Members of the Appropriations Committee:

Thank you for the opportunity to provide testimony on a number of bills being heard today.

SB 22 AAC the Prevention of Fraud in Government Programs

This bill will expand the state's False Claims Act to cover all health and human services agencies and programs as well as the State Employee Health Plan. Currently, the Act only applies to medical assistance programs administered by the Department of Social Services.

The Act imposes civil liability on any person or entity that submits a false or fraudulent claim for payment under a covered program. It authorizes the Office of the Attorney General (OAG) to initiate investigations and prosecute false claims. It also allows a private party to initiate a False Claims Act case and gives the OAG the ability to intervene.

Currently, 31 states have some form of a False Claims Act, but only 10 states, including Connecticut, limit recovery to claims of fraud related to the Medicaid program.

While the actual amount of health care fraud committed annually in the U.S. is not known, estimates range from $68 to $226 billion a year.[1] States across the country

[1] US Health and Human Services, CMS; The National Health Care Anti-Fraud Association

have been investing through data analytics and other health care investigation units to target fraud in recent years, recovering millions annually for tax payers.

Connecticut is already making these investments to pursue fraud in the Medicaid program and last year, the state recovered $65 million in that program alone. By expanding the False Claims Act to cover other public programs as well as the State Employee Health Plan, the state could save an additional tens of millions of dollars.

Should the act be expanded to cover the state employee health plan, my office is ready and willing to work with the Attorney General to identify and recover fraudulent payments under the plan.

Finally, I am certain the committee recognizes that a coordinated and effective effort to root out fraud and enhance recoveries is labor intensive and will likely require a small additional staff resource to the budget of the Office of State Comptroller.

HB 5031 AAC the Budget Reserve Fund/ HB 5109 AAC the Budget Reserve Fund

These bills would help build a stronger Budget Reserve Fund, which would help build a stronger and more stable Connecticut. I would like to highlight HB 5031 *An Act Concerning the Budget Reserve Fund,* which would increase the limit of the Budget Reserve Fund (aka the Rainy Day Fund) from the current 10% of general fund appropriations to 15%.

Since 1990, the general fund has realized more than $5 billion in revenue windfalls. Much of that excess revenue was not deposited into the Budget Reserve Fund, which would have helped the state weather the last two economic downturns without depending on borrowing, service cuts and temporary tax increases. For example, at the peak of the recession in fiscal year 2009, the state's actual revenue collections missed projections by approximately $1.2 billion. If the Budget Reserve Fund had a balance of 15% of general fund appropriations at that time, an additional $1.18 billion would have been available to fill the gap. Instead, the state was forced to issue bonds to cover the deficit, increasing state expenses in the out years as the principal and interest on the bonds are paid.

Building a reserve fund larger than 10% is particularly important for a state like Connecticut, which relies heavily on the volatile income produced from capital gains and bonus payments in the financial industry. A larger reserve fund will allow the state to better manage the inherent volatility in its revenue streams, limiting the need for tax increases and service cuts at a time when our state can least afford them.

I would like to note that while increasing the reserve cap is important, it is only meaningful if the state has the discipline to make significant deposits into the Budget Reserve Fund when surpluses are realized. In recent years, deposits into the fund have

been a high priority and I am hopeful this trend will continue so the state will have adequate reserves when the next economic downturn occurs.

HB 5032 AAC the Expenditure Cap and Reducing Long-Term Liabilities

This bill exempts payments above the annual required contribution to the State Employee Pension System (SERS) or the Teachers' Retirement System from the state's spending cap calculation. The bill also appropriates $100 million of the projected fiscal year 2014 surplus toward paying down unfunded accrued liabilities in SERS.

The intent of the spending cap was clearly to limit the growth in annual budgeted spending and not to impair the state's ability to pay off long-term obligations.

Currently, the State Employees Retirement System has unfunded obligations of $13.3 billion, or a funded ratio of 42%. The Teachers' Retirement System is carrying unfunded obligations of $11.1 billion and is only 55% funded.

These sizeable liabilities have been cited by bond rating agencies as a concern, and indeed influenced the last rating downgrade. Lower bond ratings translate into higher taxpayer debt service costs. Moreover, every payment made to reduce unfunded accrued liability now, reduces the future annual required contributions of the state.

Currently any effort by the legislature to pay down the state's sizable unfunded liabilities would have to come at the expense of other funding priorities, even if surplus funds are available because such a payment would count against the state spending cap. Such a requirement is an unnecessary impediment and will invariably reduce the likelihood of the legislature acting to accelerate paying down unfunded liabilities despite the clear long-term benefits of such action.

This legislation will remove the spending cap as an obstacle to hastening the reduction in unfunded accrued liability, which serves two important fiscal objectives: it reduces the burden on taxpayers to pay down unfunded liabilities and signals to rating agencies and investors that Connecticut is serious about reducing its long-term obligations.

The Governor's plan to appropriate $100 million to pay down unfunded accrued liability in SERS is a wise investment that will reduce state expenditures over the long-term. I support the payment and applaud the Governor for using this portion of the surplus to responsibly pay down previous obligations.

I strongly support these pieces of legislation and urge the committee's passage. Thank you for your consideration.