

FY 15 Deficiency Funding

Sections 52 and 53 of PA 15-244, the FY 16 and FY 17 budget, result in no net impact to the General Fund as appropriation increases of \$121.7 million are offset by reductions of \$121.7 million to various agencies and accounts. Section 54 results in Transportation Fund increases of \$20.4 million, with no reduction offsets.

The table below shows the various General Fund appropriation increases in Section 52 of PA 15-244.

Increased General Fund Appropriations

Agency	FY 15 \$
General Fund Increases:	
Department of Emergency Services and Public Protection	3,680,000
Department of Agriculture	341,000
Department of Social Services	82,000,000
Department of Correction	3,830,000
Public Defenders	4,600,000
State Comptroller - Adjudicated Claims	10,200,000
State Comptroller - Fringe Benefits	17,000,000
Total - General Fund Increases	121,651,000

Detailed descriptions of agency deficiency needs are described below:

Department of Emergency Services and Public Protection - \$3.7 million

The agency's projected FY 15 budget shortfall is composed of:

- \$4.5 million in Personal Services.

This shortfall is partially offset by lapsing funds of \$0.8 million in the following accounts:

- \$443,000 in Fleet Purchase and
- \$333,000 in Other Expenses.

The \$4.5 million projected shortfall in Personal Services arises, in part, from higher than budgeted overtime expenses in the Division of State Police. The Revised FY 15 budget included a \$4 million reduction in Personal Services to reflect the implementation of overtime savings in the Division of State Police. While DESPP has recently implemented overtime reduction measures, a delay in doing so has made the target savings unachievable in FY 15. This shortfall is further exacerbated by an FAC transfer of \$2.3 million from Personal Services to Other Expenses during April, 2015.

Funding of approximately \$443,000 is available in the Fleet Purchase account due to delays in vehicle delivery from the vendor. Similarly, funding of approximately \$333,000 is available in Other Expenses to offset the deficiency.

Department of Agriculture - \$341,000

The agency's projected FY 15 budget shortfall is composed of:

- \$350,000 in Personal Services.

This shortfall is partially offset by a \$9,000 release of holdbacks in the following account:

- \$9,000 in Personal Services.

The projected shortfall in the Personal Services (PS) account is driven by a transfer from the PS account to the Other Expenses (OE) account associated with unanticipated costs related to neglected animal seizures. The May 7, 2015 Finance Advisory Committee (FAC) transferred \$300,000 from PS to OE, and a prior transfer of \$50,000 was also made from PS to OE (totaling \$350,000) during FY 15. On January 16, 2015 the Department of Agriculture (DAG) seized 74 goats and currently there are approximately 90 goats under the care and control of the agency. FY 15 costs to care for the goat herd (including veterinary and laboratory services, waste and maintenance costs, prescription medicine costs, equipment, and feed) at the agency's "Second Chance" Large Animal Rehabilitation Facility, total approximately \$344,600 as of April 28, 2015.

Department of Social Services - \$82 million

The agency's projected FY 15 budget shortfall is composed of:

- \$82 million in Medicaid.

The \$82 million projected short fall in the Medicaid account is due to the following factors: 1) Enrollment growth in the Medicaid program continues to be strong. There were 21.6% more cases in March, 2015 than in March, 2014. This caseload growth has led to expenditures in excess of budgeted assumptions in many categories of service. Of particular note, pharmacy expenditures continue to track 12.5% above the budgeted assumptions through the first half of the fiscal year; 2) DSS made a \$42.9 million retroactive hospital payment in November (with additional obligations anticipated prior to the end of the fiscal year); 3) Re-estimates for the federal cost share for the Affordable Care Act expansion population has resulted in anticipated state expenditures of approximately \$13 million; and 4) FAC 2014-32 transferred \$10 million out of the Medicaid account to the Connecticut Children' Medical Center account.

Department of Correction - \$3.8 million

The agency's projected FY 15 budget shortfall is composed of:

- \$6.9 million in Personal Services.

The deficiency bill addresses \$4.9 million of the projected shortfall and the remaining \$2 million will be addressed by an expected transfer from the Reserve for Salary Adjustment account.

The \$6.9 million projected shortfall in Personal Services account is due to 1) the FY 14 deficiency remaining unfunded, 2) an increase in hazardous duty retirement of approximately 150% over FY 13, 3) the April 2, 2015 FAC transfer of \$4.9 million from the Personal Services account to the Other Expenses account and the Workers' Compensation Claims account to offset deficiencies in those accounts.

The FY 14 deficiency was mostly a result of higher than budgeted use of overtime due to an 80% increase in hazardous duty retirements from the previous year. In addition, retirements in FY 15 have increased approximately 65% over FY 14. The total growth in Correction Officer hazardous duty retirement since FY 13 is approximately 150%.

Public Defenders - \$4.6 million

The agency's projected FY 15 budget shortfall is composed of:

- \$6 million in Personal Services.

This shortfall is partially offset by:

- \$1.2 million release of rescissions and
- \$173,746 release of holdbacks.

The projected shortfall of \$6 million in the Personal Services account (11.% of the appropriation) is due to: 1) the March 5, 2015 FAC approval of transferring \$5 million from the Personal Services to the Assigned Counsel - Criminal and Expert Witnesses account, 2) rescissions to this account totaling \$1.2 million, and 3) greater than anticipated accumulated leave payments.

The March 2015 FAC transferred \$4.7 million to the Assigned Counsel - Criminal account. The original shortfall in the Assigned Counsel - Criminal account is due to PA 12-115, An Act Concerning Habeas Reform, which reduced the time in which a habeas petition can be filed, which in turn has resulted in an influx of habeas petitions received by the agency. Habeas petitions have almost doubled since the legislation passed. Previous to the legislation, the agency averaged 25 petitions per month, or 300 per year. Since the legislation passed, the agency has averaged 50 petitions per month, or 600 per

year. The cost per case can vary significantly depending on the complexity of the appeal but is usually between \$3,000 and \$10,000 per case.

The March 2015 FAC transferred \$310,000 to the Expert Witnesses account. Funds in this account are used, in part, to support habeas cases, which have increased significantly, as explained above.

The agency is anticipating greater accumulated leave payments than budgeted. In FY 14, accumulated leave payments totaled \$308,086. In FY 15, it is anticipated that accumulated leave payments will total approximately \$537,000.

Office of the State Comptroller - Adjudicated Claims - \$10.2 million

The agency's projected FY 15 budget shortfall is composed of:

- \$10.2 million in Adjudicated Claims.

The projected shortfall in the Adjudicated Claims account is due to (1) higher than anticipated claims costs and (2) two settlements for wrongfully convicted individuals in the amount of \$6 million and \$900,000, payable in FY 15. The projected shortfall represents 71% of total FY 15 projected expenditures.

Office of the State Comptroller - Fringe Benefits - \$17 million

The agency's projected FY 15 budget shortfall is composed of:

- \$29.7 million in Retired State Employees' Health Service Costs.

This shortfall is partially offset by lapsing funds of \$12.9 million in the following accounts:

- \$9.2 million in Higher Education Alternative Retirement System,
- \$2.8 million in Unemployment Compensation,
- \$609,000 in Group Life Insurance and
- \$93,000 in Pensions and Retirement – Other Statutory.

The projected shortfall in the Retired State Employees' Health Service Costs account is due to various factors. First, an increase of 9.8% for retirees under 65 and 5% for Medicare eligible retirees in prescription drug costs over what was assumed in the FY 15 budget, including coverage for a new Hepatitis C treatment approved by the FDA this year (estimated cost per 12-week regimen is approximately \$94,500). In addition to the new Hepatitis C treatment, compound drugs and costly brand name specialty drugs (for which there is not a generic alternative) are also driving the increase in prescription costs. Secondly, the shortfall in the Retired Employees' Health Services account is also being driven by an increase of approximately 3,000 retirees over what was assumed in

the FY 14 and FY 15 biennial budget. The Revised FY 15 budget was not adjusted for the increase in the retiree population experienced in FY 14. Lastly, a reduction in the federal subsidy rates for participating in the Employer Group Waiver Program (which offset Medicare retiree state health costs) resulted in a reduction in FY 15 of approximately \$6.9 million over what was assumed in the budget.

Funding is available in the Higher Education Alternative Retirement System (ARP) account, predominately due to the distribution of General Fund funded employees and expenditures being less than was anticipated, due to a shift to funding SERS higher education employees versus ARP employees out of the General Fund. In addition, funding is available in the Unemployment Compensation account, Group Life account and the Pensions - Other Statutory account (which predominately funds pensions for retired Governors) due to personnel and claims expenditures (for unemployment compensation) being less than anticipated for FY 15.

Section 53 of PA 15-244 reduces appropriations to General Fund agencies by \$121.7 million. The table below reflects the impact of the appropriation reductions.

General Fund Appropriation Reductions

Agency	FY 15 \$
General Fund Reductions:	
Department of Developmental Services	(7,548,000)
Department of Social Services	(2,000,000)
University of Connecticut	(7,388,000)
University of Connecticut Health Center	(4,183,000)
Board of Regents for Higher Education	(7,321,000)
Debt Service - State Treasurer	(88,141,000)
State Comptroller - Fringe Benefits	(4,270,000)
Department of Administrative Services - Workers' Compensation Claims	(800,000)
Total - General Fund Reductions	(121,651,000)

Department of Developmental Services - \$7.5 million

Funding is reduced in the following account:

- \$7.5 million in Personal Services.

The Personal Services funding requirements reflect that the budgeted lapses (holdbacks) and Governor's November, January and April rescissions totaling \$7.5 million are released. The Personal Services lapse is due to a combination of separations of staff, retirements and delays in refilling vacant positions.

Debt Service - State Treasurer - \$88.1 million

Funding is reduced in the following account:

- \$88.1 million in General Fund Debt Service.

OFA's estimated FY 15 lapse for the General Fund debt service account as of May 26, 2015 is \$88.1 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 premiums³, (3) anticipated future savings for the remainder of the fiscal year, and (4) the FY 15 refinancing of Economic Recovery Notes (ERNs) that were originally issued to fund the 2009 General Fund operating budget deficit.

OFA FY 15 Debt Service Lapse Estimate (in millions)

Description	Amount \$
Differences in issuance assumptions	(44.4)
Premiums	(79.9)
Refunding Savings	(9.7)
Savings on fees, arbitrage rebate and other sources	(9.6)
Economic Recovery Note refinancing and retirement	55.5
TOTAL	(88.1)

Department of Social Services - \$2 million

Funding is reduced in the following accounts:

- \$2 million in Personal Services.

The \$2 million in Personal Services is available due to rescissions.

³Bond 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 14, 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.

Office of the State Comptroller - Fringe Benefits - \$4.3 million

Funding is reduced in the following accounts:

- \$2.5 million in Employers' Social Security Tax,
- \$906,000 in Higher Education Alternative Retirement System,
- \$432,000 in Unemployment Compensation and
- \$432,000 in Group Life Insurance.

Funding is available in the Employers' Social Security Tax account, Higher Education Alternative Retirement System account, Unemployment Compensation account and the Group Life Insurance account due to rescissions.

University of Connecticut Health Center - \$4.2 million

Funding is reduced in the following account:

- \$4.2 million in Operating Expenses.

Funding is available in the Operating Expenses account due to the initial budget holdback of \$486,252 and rescissions in November, January and April totaling 3,697,730.

University of Connecticut - \$7.4 million

Funding is reduced in the following account:

- \$7.4 million in Operating Expenses.

Funding is available in the Operating Expenses account due to the initial budget holdback of \$822,896 and rescissions in November, January and April totaling \$6,565,434.

Board of Regents for Higher Education - \$7.3 million

Funding is reduced in the following account:

- \$7.3 million in Operating Expenses and Transform CSCU.

Funding is available in the Operating Expenses account due to the initial budget holdback of \$560,868 and rescissions in November, January and April totaling \$6,761,292.

Department of Administrative Services - Workers' Compensation Claims - \$800,000

Funding is reduced in the following account:

- \$800,000 in Workers' Compensation Claims.

Funding is available in the Workers' Compensation Claims account due to rescissions.

Section 54 of PA 15-244 results in Transportation Fund increases of \$20.4 million, with no reduction offsets. The increased appropriations in the Transportation Fund are described in detail below.

Increased Transportation Fund Appropriations (in millions)

Agency	FY 15 \$
Transportation Fund Increases:	
Department of Transportation	18,000,000
State Comptroller - Fringe Benefits	2,400,000
Total - Transportation Fund Increases	20,400,000

Department of Transportation - Transportation Fund - \$18 million

The agency's projected FY 15 budget shortfall is composed of:

- \$13.6 million in Personal Services and
- \$4.4 million in Rail Operations.

The \$13.6 million projected shortfall in the Personal Services account is driven by higher than budget overtime costs for storms and the March 5, 2015 FAC transfer of \$10.7 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 18 storms. The price of road salt has increased by 24%, and due to the severity of the storms, DOT has been using more contractor trucks. Also, per union contract, employees that work certain hours beyond the regularly scheduled day must have meals provided which has exceeded budgeted amounts. Due to winter storm costs funding is needed for the following reasons: 1) \$8.8 million from higher than average storm costs for road salt, material and contractual services and 2) \$1.9 million for equipment maintenance and repair of the department's fleet. Currently, 280 of DOT's 632 truck fleet, or 45% are past the 12 year useful lifecycle.

The \$4.4 million projected shortfall in the Rail Operations account is driven by the costs associated with the Metro North Rail line. DOT received an unanticipated notification from Metro North of a pending settlement between the Metropolitan Transit Authority (MTA) and the Long Island Railroad workers regarding back wages to 2010. This settlement, and also the costs of ongoing safety initiatives to be implemented in accordance with regulatory authorities have resulted in a projected shortfall in this account.

Office of the State Comptroller - Fringe Benefits - Transportation Fund - \$2.4 million

The agency's projected FY 15 budget shortfall is composed of:

- \$2.9 million in State Employees' Health Service Costs.

This shortfall is partially offset by lapsing funds of \$0.5 million in the following accounts:

- \$490,300 in Employers' Social Security Tax,
- \$37,000 in Unemployment Compensation and
- \$22,000 in Group Life Insurance.

The projected shortfall in the State Employees' Health Service Costs account within the Special Transportation Fund is due to expenditures being 9.4% higher than anticipated for employees of the Departments of Transportation (DOT) and Motor Vehicles (DMV), partially driven by higher than anticipated payroll fringe benefit transactions. Average monthly expenditures are 4.7% higher than the period July through April in FY 14.

Funding is available in the Employers' Social Security Tax account, the Unemployment Compensation account and the Group Life account due to DOT and DMV personnel and claims expenditures (for unemployment compensation) being less than anticipated for FY 15.