Review of the Governor's FY 09 Deficit Mitigation Plan

Office of Fiscal Analysis

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The Governor submitted a Deficit Mitigation Plan for FY 09 on October 21, 2008 to respond to the $302.4 million deficit that has bee projected by the Office of Policy and Management (OPM). The table below summarizes the General Fund changes included in the Governor's Deficit Mitigation Plan. The Governor's plan includes five distinct parts: 1) revenue impact items; 2) carry forward reductions; 3) appropriation reductions; 4) delays in new initiatives; and 5) other budgeted changes. This analysis addresses each of these aspects of the Governor's plan.

Summary of Governor's FY 09 Deficit Mitigation Plan (in millions)	
Governor's Projected FY 09 Deficit (Sept 2008)	**($302.4)**
Governor's Mitigation Plan (10/21/08)	
Revenue Impact	$212.8
Carry Forward Reductions	$22.2
Appropriation Reductions	$4.8
Delay New Initiative - Appropriation Reductions	$3.2
Other Budgeted Changes	$25.05
Total Mitigation Plan Impact	**$268.05**
Governor's September Recisions	**$34.4**
Total General Fund Impact	**$302.4**

Projected $302.4 million General Fund Deficit - OPM projected a General Fund deficit of $302.4 million in their September 22, 2008 letter to the Comptroller. This includes the Governor's July General Fund recisions of $115.8 million. OPM has projected a General Fund deficit to $107.9 million in their October 20, 2008 letter to the Comptroller. This reduction in the deficit is achieved by including $34.4 million recisions authorized by Governor in September and an anticipated $314 million retro-payment in Medicaid billing that will result in the receipt of $157 million in federal funds. Both of these items are included in the Governor's Mitigation Plan to eliminate the $302.4 million General Fund deficit.

REVENUE IMPACT

The Governor's deficit mitigation plan includes $212.8 million in revenue that was not anticipated or planned when the FY 09 budget was adopted during the June 2007 Special Session. The Governor's plan includes: (1) one-time revenue enhancements of $197.0 million and (2) reoccurring revenue enhancements that

are expected to yield $15.8 million in FY 09 and $26.4 million annually beginning in FY 10. The following is a detailed analysis of the revenue components of the Governor's plan.

$13.8 million in Unclaimed Beverage Container Deposits – The Governor is proposing that money from unreturned beverage containers will escheat to the State of Connecticut. The state is anticipated to collect $13.8 million in FY 09 (partial year) and $24.4 million per year beginning in FY 10. The estimates were developed using historical data from Massachusetts on revenue collected from unclaimed deposits, which were adjusted for population and personal income differences between the two states. The Governor's plan does not specify costs to administer the program. However, it is anticipated that there will be one-time and ongoing costs to administer this program.

$40.0 million in Tax Amnesty Program - The Governor is proposing to establish a tax amnesty program between 5/1/09 and 6/25/09. The state would forgive penalties and reduce interest owed on delinquent taxes for taxpayers that qualify for the program. The state is anticipated to realize a one-time net revenue gain, after DRS administrative expenses, of $40 million in FY 09.

The table below shows a breakdown of anticipated revenue from each tax type:

Anticipated Revenue from Proposed Tax Amnesty

	$ million
Personal Income Tax	10.0
Sales Tax	16.0
Corporation Business Tax	10.0
All other Taxes	4.0
Total	**40.0**

$157.0 million in Federal Reimbursement under Medicaid - This one-time revenue anticipated by the Governor is due to the Department of Developmental Services' cost settlement of state facility rates for 2002-2009. The cost settlement that the state is seeking from the federal government amounts to $314 million in claims for state services. If approved these claims would result in $157 million in federal revenue.

As the state Medicaid agency, the Department of Social Services establishes rates in conjunction with DDS. During the period of 2002-2009 the state used interim rates to bill the federal government and claim 50% reimbursement for state costs for public intermediate care facilities for the mentally retarded (ICF/MR), such as Southbury Training School and the Regional Centers; and public group homes referred to as Community Living Arrangements (CLA's). Due to the lack of cost settlements each year and not establishing new rates (adjusting the interim rates to reflect actual cost based rates) a significant delay

has occurred in the receipt of federal reimbursement. The rates are established for Medicaid billing purposes. The rate components include: personnel, fringe benefits, operating expenses, and state wide allocation costs, and other allowable costs. As the Department of Developmental Services' budget includes appropriations (such as Personal Services and Other Expenses) to support state operated ICF/MR and public CLA's, these costs are included in the claims submitted for reimbursement.

The table below reflects the difference between the interim rates and the new rates (cost based) as calculated by total claims (the interim rates were billed each fiscal year and revenue was received according to those rates/claims).

Cost Settlement (in millions)		
	Public ICF/MR Claims	Public CLA Claims
2002	($6.98)	($1.93)
2003	$7.94	($2.99)
2004	$9.35	($7.97)
2005	$28.28	$10.91
2006	$33.42	$21.37
2007	$53.59	$22.80
2008	$60.48	$22.80
2009	$46.01	$17.10
Total Claims	**$232.01**	**$82.11**
50% FFP - Total Revenue	**$116.04**	**$41.01**
TOTAL $157.09		

The state receives 50% reimbursement for these claims. Therefore, total claims of $314.2 million would result in $157 million in federal reimbursement (General Fund revenue). This is one-time revenue to catch-up to the current rates. Although this will have an impact on ongoing revenue (as future billable rates are higher than the interim rates), the FY 10 - FY 11 revenue projections for federal reimbursement under Medicaid are currently being reviewed.

The claims are anticipated to be submitted with the quarterly billing in the beginning of February 2009. The Governor's Mitigation Plan anticipates that the claims will be approved and reimbursed by the Center for Medicaid and Medicare Services (CMS) prior to the end of the fiscal year.

It should be noted however, that the CMS review process may ultimately result in a different revenue number if some of the cost attributed to the new rates is not allowable. This would also delay the receipt of some or all of this revenue into subsequent fiscal years.

For purposes of comparison, prior to receiving these additional funds, the state was anticipating drawing down in FY 09 over $370 million in federal revenue for claims against services appropriated to other state agencies (including DDS).

$2.0 million in Increased Disproportionate Share Hospital (DSH) Revenue - The federal government recently notified the state that its DSH allocation would be increased by 4%, as authorized under the Medicare Modernization Act of 2003. This change increases internal DSH limits and allows the state to use current expenditures for state inpatient psychiatric hospitals to draw down an additional $2 million annually. No additional state expenditures are necessary to draw down these funds.

CARRY FORWARD REDUCTIONS

$22.2 million Reduction in Carry Forwards - The Governor proposes the reduction of $22.2 million in carry forwards. The carry forwards are historically intended for one-time use, therefore it is anticipated that this will not have an impact in FY 10. It should be noted that $1.4 million out of the $22.2 million was carried forward from FY 08 into FY 09 within the Secretary of OPM's authority under CGS 4-89c (identified below).

> *(c) All unexpended balances of special appropriations made by the General Assembly for special programs, projects or studies shall lapse at the end of the period for which they have been made, except that if satisfied that the work of any such program, project or study is not completed and will continue during the following fiscal year, the Secretary of the Office of Policy and Management shall order any unexpended balance remaining in the special appropriation to be continued to the ensuing fiscal year.*

The balances of the reductions were applied to carry forwards originally established as part of the FY 09 funding in the biennial budget (PA 07-1 June Special Session) or within existing statutory language.

Office of State Ethics Information Technology Initiatives ($383,879) - This reduction will prevent the roll-out of the Statement of Financial Interest new filing system. It is anticipated that the agency would require $150,000 of the total reduction to complete the project.

Department of Public Utility Control; Statewide Energy Efficiency and Outreach ($3 million) - Section 21 (a) of PA 07-1 JSS provided $5 million from FY 07 surplus appropriation. These funds were provided to carry out the provisions in PA 07-242 "AAC Electricity and Energy Efficiency" including a marketing campaign on increasing energy efficiency to target various sectors of energy consumers (residential, commercial, industrial). The Mitigation Plan reduces this by $3 million. In FY 08, $131,859 was expended. Through

September 2008, $385,964 has been expended on the summer campaign and plans have been made to continue with the fall campaign.

Department of Environmental Protection ($4 million) Clean Diesel Buses - PA 07-1 JSS provided for $5.0 million of FY 07 surplus appropriation to be carried forward in each year of the biennium for clean diesel buses initiatives (for a total of $10 million). DEP did not expend the $5.0 million appropriated for FY 08, with the remaining $5.0 million available in FY 09. The Governor proposes a $4 million reduction to the carry forward resulting in an available $1.0 million. It is anticipated that the remaining $1.0 million would be spent in the current fiscal year.

To date, $56,160 has been committed to retrofit 64 school buses in the town of Hamden and $253,800 has been committed to retrofit 32 city of Hartford buses. DEP is using $414,000 to receive a two-year federal match grant of $620,000.

In FY 07, DEP and the Department of Administrative Services (DAS) issued a request for proposal (RFP) for the purchase and installation of diesel emission control technology for state diesel vehicles and equipment, and school buses. School districts and municipalities used this RFP to purchase diesel emission reducing technologies at certain pricing levels. The legislation required school buses with engine model year (MY) 1994 through 2006 to be retrofitted with diesel emission reducing control technology, and it was originally anticipated that about 3,000 school buses would be eligible for retrofit under this legislation. This legislation was created under Sections 16-19 of PA 07-4 JSS.

Department of Transportation ($5 million) Bus Operations - PA 07-1 JSS provided funding in FY 09 ($5 million General Fund FY 07 surplus appropriation) to enhance bus operations by increasing coordinated marketing of bus transit, including enhanced web-based trip planning, improved technology delivery for users, and one-stop website access to transit district and CT transit information. Also included were initiatives increasing the frequency of bus service, expanding weekend and weekday hours of service, improving commuter shuttle services, and providing for any complimentary paratransit service pursuant to federal requirements. The elimination of this funding will defer the proposed expansion identified above.

Department of Economic and Community Development ($2.5 million) Biofuels - DECD contracts with the Connecticut Center for Advanced Technology (CCAT) to administer the Biofuels program. CCAT will provide grants for the purpose of fostering growth in the biodiesel industry. Funds will be used for the production of biodiesel, purchasing equipment or constructing, modifying or retrofitting facilities, including but not limited to, the actual costs of creating storage and distribution of biodiesel. The contract is currently set to run through June 2010. DECD has spent approximately $340,000 of the total $4.68 million carry forward funding. The Governor is proposing reducing the available

funding by $2.5 million. This would reduce the available biodiesel grants and require an amendment to the CCAT contract.

Department of Education ($1.5 million) Longitudinal Data Systems - PA 07 - 1 JSS provided $3.65 million in FY 08 and $2.75 million in FY 09 of FY 07 surplus appropriation for the Longitudinal Data Systems. The Governor proposes reducing this by $1.5 million which leaves a balance of $1.25 million in FY 09 to address the Longitudinal Data Systems requirements. It is unclear at this time which portions of the project would be delayed and how long such a delay would be.

Department of Education and Department of Emergency Management and Homeland Security ($2 million) School Safety - PA 07-1 JSS provided $5 million in each year of the biennial of FY 07 surplus appropriation for school safety. Section 2(b) of PA 07-208 transferred funding to the Department of Emergency Management and Homeland Security to carry out the provisions of this public act.

APPROPRIATIONS REDUCTIONS - GENERAL

$4.8 million Reductions in Appropriations - The Governor is proposing to de-appropriate $4.8 million from various accounts across agencies due to anticipated lapses. It is unclear to what extent agencies would in fact lapse these dollars in the absence of legislative action.

APPROPRIATION REDUCTIONS - DELAY NEW INITIATIVES

$3.2 million Delay in New Initiatives - The Governor is proposing delaying new initiatives resulting in $3.2 million in savings. To the extent that these programs continue to be delayed or are eliminated, savings would be ongoing and realized in FY 10. It is unclear to what extent agencies would in fact lapse these dollars in the absence of legislative action.

Department of Economic and Community Development ($950,000) Fund CCAT CT Manufacturing Supply Chain - The Department of Economic and Community Development will delay their contract with the Connecticut Center for Advanced Technology (CCAT) to administer the CT Manufacturing Supply Chain. The program works with state, federal, academic and private manufacturing programs on skills needs; create awareness of new aerospace and defense capabilities and technologies; acts as a referral service to other assistance programs; and provides lean assessment and implementation services.

Department of Public Health ($1.0 million) Information Technology Infrastructure - $1.31 million was appropriated in FY 09 to allow the Department

of Public Health to upgrade its information technology infrastructure. These funds were to have supported six positions, software license fees and consultant services needed to modernize the agency's desktop software and in-house database applications. Due to the state hiring freeze, none of the new positions have been filled (budgeted at $447,100). The remaining proposed de-appropriation of $576,650 in Other Expenses (for a total of $1,023,750) is expected to be achieved by delaying most components of the budgeted initiative. Given budget concerns, it is anticipated that these dollars will lapse should no de-appropriation be made.

Department of Social Services ($1.175 million) Medical Interpreters - The Governor's plan recommends not amending the state Medicaid plan to include medical interpreters. Although authorized to do so, the Department of Social Services has not yet implemented this program. This program was originally expected to cost $4.7 million annually, with a cost of $1.175 million in its first, partial year of operation.

OTHER BUDGETED CHANGES

$25.05 million in Other Items - The Governor has identified $25.05 million in savings from various items. Below is an explanation of some the Governor's proposed savings.

Eliminating Governor's Contingency Fund ($2 million) and Arena Study ($250,000) would result in one-time savings as they are both funded with FY 07 surplus appropriation. The Reserve for Salary Adjustment Leave Accrual Payments ($3.1 million) also is anticipated to be one-time savings.

DAS Delay Purchase of Replacement Fleet Vehicles ($1.2 million) - DAS had intended to purchase 700 vehicles in FY 09. DAS now plans on purchasing 50 vehicles in FY 09. This means that agencies will now keep their current vehicles longer, while being charged the same monthly vehicle rental rate (which includes a vehicle depreciation charge). The depreciation savings realized on the older vehicles will be deposited into the DAS Revolving Fund. The Governor's plan assumes that the $1.2 million in vehicle depreciation savings would be transferred from the DAS Revolving Fund to the General Fund.

The Other Post Employment Benefits (OPEB) - Retired Employee Health Service Costs ($14.5 million). As stated in the Governor's Mitigation Plan, this proposal can be accomplished only with the consent of the state employees unions. On March 20, 2008 a Memorandum of Understanding (MOU) between the State and SEBAC (State Employees Bargaining Agent Coalition) was submitted to the General Assembly for approval. The MOU allows the State to change the funding for pharmacy benefits for state employees and retirees from a fully insured basis to a self insured basis. It is anticipated that this change will

result in a savings of $14.5 million in FY 09. The MOU stipulates that the State will pay the $14.5 million into the OPEB trust fund. House Resolution 14 and Senate Resolution 14 were the legislative actions approving the agreement. The Governor's plan calls for the anticipated savings of $14.5 million to lapse rather than be transferred to the OPEB trust fund.

Other Expenses - Across the Board Reduction ($1.5 million) - The Governor proposes a .5% cut across the board in Other Expenses, excluding agencies that provide direct care. To illustrate the application of this reduction the Office of Fiscal Analysis has categorized the following as exempted agencies: Departments of Children and Families, Developmental Disabilities, Mental Health and Addiction Services, Public Safety and Corrections. The FY 09 Other Expenses appropriation impacted by this reduction is $317.7 million. However, the Governor's recisions and budgeted holdbacks for OE for these impacted agencies reduce this further by $13 million. Therefore, .5% of the balance of $304.7 million results in $1.5 million.

Reduce Outside Consultant Contracts Statewide ($2 million) - It is unclear which outside consultant services categories would be included in order to achieve a $2 million in savings (3-4% reduction in outside consultant contracts). However, based on FY 08 expenditures, a 4% reduction to the Management Consultant Services and IT Consultant Services categories across General Fund agencies would result in a $2.22 million savings.