

# PRELIMINARY FISCAL NOTES

## Appropriations Committee Meeting

March 25, 2010

### **OFFICE OF FISCAL ANALYSIS**

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The following contains preliminary fiscal impacts for the bills on today's agenda. These estimates were prepared under a short time frame and could be revised after further analysis.

## A. Committee and Raised Bills

### 1. sHB 5018 - An Act Making Adjustments to State Expenditures and Revenues for the Fiscal Year Ending June 30, 2011

The Appropriations Committee Budget makes adjustments to the FY 11 Original Appropriation. The table below identifies the appropriated funds with a comparison of the original appropriation to the revised appropriation. A comparison to the Governor's Revised FY 11 Recommended levels can be found in the accompanying binder detail.

<b>FUND SUMMARY</b>			
<b>GROSS APPROPRIATIONS</b>	<b>Original FY 11</b>	<b>Committee FY 11</b>	<b>Committee - Original</b>
General Fund	18,125,035,854	18,199,539,207	74,503,353
Special Transportation Fund	1,201,979,612	1,186,120,945	(15,858,667)
Banking Fund	20,573,086	26,023,183	5,450,097
Insurance Fund	26,617,652	47,927,118	21,309,466
Consumer Counsel and Public Utility Control Fund	23,957,386	33,454,291	9,496,905
Workers' Compensation Fund	23,072,391	22,227,678	(844,713)
Mashantucket Pequot and Mohegan Fund	61,779,907	61,779,907	-
Soldiers, Sailors and Marines' Fund	2,997,543	2,993,404	(4,139)
Regional Market Operation Fund	957,073	950,974	(6,099)
Criminal Injuries Compensation Fund	<u>3,408,598</u>	<u>3,408,598</u>	<u>-</u>
<b>GROSS TOTALS</b>	<b>19,490,379,102</b>	<b>19,584,425,305</b>	<b>94,046,203</b>
<b>LAPSES</b>			
DoIT Lapse	(31,718,598)	-	31,718,598
DOIT Lapse - Legislative Agencies	-	(25,175)	(25,175)
Enhance Agency Outcomes	(50,000,000)	(50,000,000)	-
Estimated Unallocated Lapses	(87,780,000)	(87,780,000)	-
General Other Expenses Reductions	(11,000,000)	(11,000,000)	-
General Personal Services Reduction	(14,000,000)	(14,000,000)	-
Legislative Unallocated Lapses	(2,700,000)	(2,700,000)	-
Management Reduction	(12,500,000)	-	12,500,000
Management Reduction - Legislative Agencies	-	(903,521)	(903,521)
Personal Services Reductions	(193,664,492)	-	193,664,492
Personal Svcs Rdctns - Legislative Agencies	-	(1,205,311)	(1,205,311)

<b>LAPSES</b>	<b>Original FY 11</b>	<b>Committee FY 11</b>	<b>Committee - Original</b>
Reduce Other Expenses to FY 07 Levels	(32,000,000)	(26,500,000)	5,500,000
Reduce Outside Consultant Contracts	<u>(95,000,000)</u>	<u>(95,000,000)</u>	<u>-</u>
<b>GENERAL FUND LAPSES</b>	<b>(530,363,090)</b>	<b>(289,114,007)</b>	<b>241,249,083</b>
Estimated Unallocated Lapses	(11,000,000)	(11,000,000)	-
Personal Services Reductions	<u>(10,413,528)</u>	<u>-</u>	<u>10,413,528</u>
<b>TRANSPORTATION FUND LAPSES</b>	<b>(21,413,528)</b>	<b>(11,000,000)</b>	<b>10,413,528</b>
<b>NET APPROPRIATIONS</b>			
General Fund	17,594,672,764	17,910,425,200	315,752,436
Special Transportation Fund	1,180,566,084	1,175,120,945	(5,445,139)
Banking Fund	20,573,086	26,023,183	5,450,097
Insurance Fund	26,617,652	47,927,118	21,309,466
Consumer Counsel and Public Utility Control Fund	23,957,386	33,454,291	9,496,905
Workers' Compensation Fund	23,072,391	22,227,678	(844,713)
Mashantucket Pequot and Mohegan Fund	61,779,907	61,779,907	-
Soldiers, Sailors and Marines' Fund	2,997,543	2,993,404	(4,139)
Regional Market Operation Fund	957,073	950,974	(6,099)
Criminal Injuries Compensation Fund	<u>3,408,598</u>	<u>3,408,598</u>	<u>-</u>
<b>NET TOTAL (ALL FUNDS)</b>	<b>18,938,602,484</b>	<b>19,284,311,298</b>	<b>345,708,814</b>

### Spending Cap

The adopted FY 11 budget was under the spending cap by \$589.9 million on an all funds basis; HB 5018, the FY 11 revised budget bill, is under the spending cap by \$107.9 million on an all funds basis.

### Growth Rate

The growth rate for all appropriated funds is 2.4% over FY 10 estimated expenditures in FY 11. See the table below for details.

<b>FY 11 Budget Growth Rates</b>				
	<b>FY 10 Est. Expend.</b>	<b>FY 11 Committee</b>	<b>\$ Change</b>	<b>% Change</b>
General Fund	17,565.0	17,910.4	345.4	2.0%
Transportation Fund	1,113.8	1,175.1	61.3	5.5%
Other Approp. Funds	156.0	198.8	42.8	27.4%
Total Approp. Funds	18,834.8	19,284.3	449.5	2.4%
Note that the budget growth rates reflect the shift of \$37.5 million from the General Fund to Other Appropriated Funds.				

## **Back of Budget**

**Section 1** carries forward the unexpended balance of funds, anticipated to be \$1.7 million, for the Criminal Justice Information System into FY 11.

**Section 2** transfers funds from the DSS Disproportionate Share - Medical Emergency Assistance, DSH - Urban Hospitals in Distressed Municipalities and Connecticut Children's Medical Center accounts to the Medicaid account. The section further requires DSS to increase Medicaid hospital rates by a proportionate amount. FY 11 funding for these three accounts totals \$94,295,000.

Currently, the state is reimbursed by the federal government at a 50% level for expenditures under these accounts. However, through December 31, 2010 the state is receiving an enhanced match of 61.5% on Medicaid expenditures. Therefore, should the federal government approve the enhanced match on these new Medicaid rates, the state would realize a revenue gain in FY 11 of \$5.4 million. There have been several proposals at the federal level to extend the enhanced federal Medicaid match until June 30, 2011. Should this extension happen, the state would realize a total revenue gain in FY 11 of \$10.8 million.

**Section 3** requires the Governor to submit recommendations to the Appropriations Committee for approval, prior to applying her rescission authority on any dues, fees or other payments to organizations that provide educational, research, professional development or networking services to which the state/agency is a member. It is unknown to what extent this new process would prevent any additional savings that results from the Governor's rescission authority.

**Section 4** reduces from \$32.0 million to \$26.5 million the FY 11 statewide lapse savings under, "Reduce Other Expenses to FY 07 Levels," by requiring the Office of Policy and Management to distribute the FY 11 lapse among state agencies in the same or less amounts provided for in FY 10. This change increases the total General Fund appropriation (net lapses) by \$5.5 million.

## **2. sHB 5016 - An Act Making Deficiency Appropriations For The Fiscal Year Ending June 30, 2010**

The bill results in no net fiscal impact. It reduces appropriations in the General Fund and Special Transportation Fund and increases appropriations by the same amounts in each fund and is intended to deal with a portion of agency shortfalls in funding. See table below for the account changes contained in the bill.

<b>General Fund</b>	
State Employees Retirement Contributions	(57,405,000)
Employers Social Security Tax	(1,679,730)
Office of the Victim Advocate/Personal Services	34,000
Medicaid	56,550,730
DAS - Workers' Compensation Claims	<u>2,500,000</u>
<b>Net Total</b>	<b>-</b>
<b>Special Transportation Fund</b>	
Debt Service	(3,627,845)
DOT/Other Expenses	1,627,845
DAS - Workers' Compensation Claims	<u>2,000,000</u>
<b>Net Total</b>	<b>-</b>

These changes in appropriations reflect the Governor's method of addressing her estimated deficiency levels of \$149.6 million. The remaining deficiencies would be dealt with through the release of holdbacks and FAC transfers.

OFA is currently projecting \$285.1 million in state agency deficiency requirements. Although the difference between the two projections is significant (\$135.5 million), OFA's projections assume that no holdbacks would be released by OPM. The release of holdbacks is a discretionary decision of OPM. Holdbacks for these agencies total \$329.4 million which is higher than OFA's or OPM's deficiency estimates.

The following table illustrates the differences by agency including the original appropriation and total level of holdbacks. An additional description of the factors in each agency's deficiency (as projected by OFA) is available at the Appropriations Clerk's desk if desired.

FY 10 State Agency Estimated Deficiency Needs (\$ - millions)					
Agency	Orig. Approp.	Holdbacks	OFA 3/23 Defic. Amount	OPM 3/22 Defic. Amount	OFA-OPM Difference
Public Works	\$ 54.7	\$ 9.3	\$ 5.9	\$ 5.9	\$ -
Public Safety	170.4	26.1	6.8	10.4	(3.6)
Public Health	88.0	6.7	5.4	4.7	0.7
Developmental Services	1,002.2	31.8	3.7	3.8	(0.1)
Mental Health & Addiction Services <sup>1</sup>	609.0	31.1	7.6	6.7	0.900
Social Services	5,066.5	35.6	176.5	98.8	77.7
Correction	694.1	37.2	14.2	8.9	5.3
Comptroller - Fringes Benefits	1,966.8	128.3	56.0	-	56.0
Revenue Services	72.9	12.2	1.5	0.325	1.2
Administrative Services	43.2	3.9	1.3	0.383	0.920
Administrative Services - Workers Comp	24.7	0.0	2.5	2.5	-
Commission on Culture and Tourism	18.1	1.1	0.478	-	0.478
Chief Medical Examiner	6.0	0.7	0.136	-	0.136
Human Rights and Opportunities	6.8	1.0	0.250	0.22	0.030
Protection and Advocacy for Persons with Disabilities	2.7	0.15	0.063	0.063	-
Veterans Affairs	7.0	1.8	0.457	0.600	(0.140)
Office of the Victim Advocate	0.3	0.021	0.034	0.034	-
Department of Agriculture	14.9	0.0	0.240	0.240	-
<b>Sub-Total General Fund</b>	<b>\$ 9,833.6</b>	<b>\$ 327.0</b>	<b>\$ 283.1</b>	<b>\$ 143.6</b>	<b>\$ 139.5</b>
Administrative Services- Workers Comp (Transportation Fund)	5.2	-	2.0	2.0	-
Department of Transportation	492.6	2.4	-	4.0	(4.0)
<b>Total All Funds</b>	<b>\$ 10,331.4</b>	<b>\$ 329.4</b>	<b>\$ 285.1</b>	<b>\$ 149.6</b>	<b>\$ 135.5</b>

### 3. SB 357 - An Act Concerning Reductions to State Contracts

The bill allows private providers of state services to adjust their budgets without prior approval of the contracting state agency when contract reductions are imposed by the state agency. As this change does not affect the level of funding that is distributed to these providers, but only affects the internal allocation of these funds within the operations of these private providers, there is not anticipated to be a direct fiscal impact to the state.

<sup>1</sup> FY 10 appropriation includes Disproportionate Share expenditures budgeted in DSS

#### 4. sSB 359 - An Act Concerning Reporting by State Agencies

Section 1 of the bill requires the development of a plan to enhance the capacity of the CORE-CT system to track and report on expenditures, contracts, projects and employees according to budgeted programs. This does not have a fiscal impact.

Section 2 requires DECD to retain people to study the revenue generated by economic development projects and requires the distribution of the studies to the Finance Committee. Since these studies are routinely undertaken, the retention requirement is not anticipated to result in a fiscal impact.

Sections 3 and 5 require that monthly vacancy reports and ARRA application information be provided to OFA. This does not result in a fiscal impact.

Section 4 requires DRS to include in its monthly reports, cash flows for each budgeted agency. This does not have a fiscal impact.

#### 5. sSB 360 - An Act Concerning Flexible Spending Accounts

The bill is anticipated to result in a minimal net savings to the state. The bill provides a mechanism for the Comptroller to implement medical flexible spending accounts (FSA) for state employees. The funds put into an FSA are not subject to Federal and State income taxes, and FICA taxes. Reducing taxable income will result in lower FICA tax (7.65%) contributions for the state as an employer. These social security "savings" would then be transferred to an account in a restrictive grant fund to cover administrative costs of the program. In addition, however, the bill will result in a loss in state income tax revenue. The amount of the revenue loss cannot be estimated as the number of participants and the FSA minimum and maximum contributions are not known at this time. Although the bill is effective as of July 1, 2010 it is assumed enrollment in the FSA program would not begin until January 1, 2011 as payroll deductions must be made annually on a calendar year basis.

For illustrative purposes, an employee with an annual salary of \$60,000 and a \$1,500 FSA account would result in the following impact to the State and the individual employee:

State FICA Savings	\$114.75
State Administrative Cost	(\$46.00)
<u>State Revenue Loss</u>	<u>(\$37.50)</u>
<b>Overall State Savings</b>	<b>\$31.25*</b>
<i>*This does not assume potential forfeiture of up to \$30</i>	

Individual Employee FICA Savings	\$114.75
Employee Federal Tax Savings	\$387.00
<u>Employee State Tax Savings</u>	<u>\$37.50</u>
<b>Annual Employee Savings</b>	<b>\$539.25</b>

#### **6. HB 5070 – An Act Concerning the Debt Service Line Item in the State Budget**

The bill requires that debt service be itemized by state agency in the state budget. It is unclear to what extent the Treasurer will be able to provide this information. However, estimates by the Treasurer or OFA can be provided without fiscal impact.

#### **7. HB 5163 – An Act Requiring the Establishment of a Searchable Database for State Expenditures**

The bill requires OFA to maintain an on-line searchable database of state expenditures. OFA is currently undertaking efforts to establish an integrated budget database system that if established as envisioned, should be able to meet the requirements of the bill without additional cost.

#### **8. HB 5392 – An Act Concerning NonAppropriated funds and Personnel Status Reports by Quasi-Public Agencies**

The bill requires quasi-public agencies to report expenditures, revenue and position information to OFA. This does not result in a fiscal impact.

#### **9. HB 5393 – An Act Concerning the Establishment of an Account to Fund the Twenty-Seventh State Payroll Period**

The bill has no fiscal impact on the current FY 10 – FY 11 biennium. Beginning in FY 13 this bill would annually appropriate one-tenth of the projected payroll amount required to fund the additional twenty-seventh payroll until disbursement in FY 23. Assuming annual wage increases of four percent, the annual appropriation payments are estimated at \$14.5 million.

#### **10. HB 5394 – An Act Increasing the Amount of Unappropriated Surplus Deposited in the Budget Reserve Fund**

The bill increases from ten to fifteen percent, the maximum amount that may be deposited in the Budget Reserve Fund. This could increase the amount of funding deposited in this fund in future years but has no direct fiscal impact.

#### **11. sHB 5400 – An Act Concerning Reemployment of Retired Teachers**

No fiscal impact. The bill allows a local school district to place a retiree into a position for the entire school year. Current law allows a local school district to place a retiree into a position for less than the school year.

## **12. HB 5401 - An Act Concerning Technical Changes to the Teachers' Retirement System Statutes**

No fiscal impact. The bill makes clarifying, technical changes and removes obsolete language.

## **13. HB 5402 - An Act Concerning Expenses for Health Benefit Plans Under the Teachers' Retirement Fund**

The bill allows the Teachers' Retirement Board's (TRB) health care consultant costs, up to \$150,000 annually, to be paid directly from the retired teachers' health insurance premium fund instead of from the General Fund. Historically, this expense has been paid through the agency's General Fund appropriation for Other Expenses. In FY 10, funding of \$93,788 was eliminated for TRB contract costs as part of the \$95 million reduction in outside consultant contracts in the biennial budget.

The balance of the retired teachers' health insurance fund was \$60.4 million on 12/31/09. The fund receives money from the following sources: state contributions, retiree contributions, federal Part D subsidy and active teacher contributions. However, the state budget for the Biennium FY 10 - FY 11 suspended the state contributions for retiree health insurance for the first time in the fund's history. The anticipated state contributions for retiree health insurance of \$28.9 million in FY 10 and \$31.3 million in FY 11 were not made. This results in a reduction in the fund balance over the two year period. The retired and active teacher contributions are not impacted by the change in state funding and neither are retiree health benefits. Additionally, CGS 10-183t(d) specifies that if the money in the fund is insufficient for all such required payments, the General Assembly shall appropriate sufficient funds.

The TRB health care consultant provides the agency with services such as calculating the premium equivalent, preparing cost analysis on health plan changes, writing the RFP's for health care vendor services, maintaining the health fund model used for forecasting financial needs for benefits and providing HIPAA training for TRB staff.

The average annual expenditure for health care consultant services over the past four years was \$86,000. There are approximately 16,000 TRB health plan members. Based on these figures, the average health care consultant services fees would be less than 50 cents per member per month.

## **B. Change of Reference**

### **14. sHB 5148 - An Act Concerning Funding For The Judicial Branch**

This bill makes procedural changes that do not result in a fiscal impact.

The bill revises the process for which the Judicial Branch submits their budget to the Legislature by 1) prohibiting the Office of Policy and Management from revising the Judicial Branch's budget recommendations before they are transmitted to the Legislature, and 2) requiring any proposed reduction by the Governor to the Judicial Branch's budget to be submitted to and approved by the Appropriations Committee.