

Connecticut General Assembly
OFFICE OF FISCAL ANALYSIS

**Synopsis of the
Governor's FY 2004-2005
Midterm Budget Adjustments**

February 5, 2004



Synopsis of the Governor's FY 2004-2005 Midterm Budget Adjustments

The governor introduced his midterm budget adjustments on February 4, 2004 at a joint meeting of the legislature. To facilitate the discussion with the Secretary of the Office of Policy and Management on February 5th at the Appropriations Committee, the Office of Fiscal Analysis has prepared the following brief summary of major budget policy changes.

The Governor's 2004-2005 Budget Adjustments recommends \$13,153.7 million for FY05 for the General Fund, \$592 million over the FY04 appropriation. The governor's recommended adjustments to the FY05 appropriation amount to an increase of \$186.8 million for the General Fund.

Based upon General Fund revenue estimates, the governor is projecting a slight surplus for FY05. In addition, the governor has calculated that based upon his recommended all funds appropriations, the budget will be under the spending cap by \$58.6 million in FY05. The governor estimates a 4.4 percent expenditure growth for all funds from FY04 to FY05. The **significant program and revenue changes** are outlined as follows.

Significant Program Expenditure Changes

Human Services and Health

Department of Social Services

Medicaid

- Restructure hospital inpatient rates to create a floor for cost-per-discharge of \$3,750 (\$2.27 million).
- 2% rate increase for Managed Care (\$9.9 million).
- 2% cost of living increase for Chronic Disease Hospitals (\$1 million).
- 5% Cost of living increase for ICF-MR's (\$2 million).
- Expansion of the Personal Care Assistance Waiver (\$2.2 million).
- Eliminate Medicaid coverage for non-critical adult dental services (-\$4.7 million).
- Require a \$2 co-payment for non-emergency transportation (-\$1.2 million).
- Implement Managed Care Pilot program for certain dual eligible clients(-\$50,000).

Pharmacy

- Increase the pharmacy discount paid to Average Wholesale Price (AWP) less 14% (-\$7.2 million).

- Reduce the pharmacy dispensing fee from \$3.30 to \$3.00 (-\$2.4 million).
- Restructure ConnPACE (-\$18 million).
- Restructure pharmacy services for Medicaid Managed Care (-\$2 million).
- Eliminate ConnPACE estate recovery provision.

State Administered General Assistance (SAGA) - The governor provides an additional \$9,000,000 for FY05 in recognition of the failure to achieve budgeted savings through the restructuring of medical benefits. The bulk of these additional costs are due to a lack of savings under the proposal to purchase pharmaceuticals under the 340b federal discount program administered by federally qualified health centers.

Child Care - Provides an additional \$12 million over the current services level in order to reopen the Child Care Certificate program as of April 1, 2004. These funds include \$6 million from the general Fund, \$2 million from the 2001-02 TANF High Performance Bonus and \$6 million from the 2002-03 TANF High Performance Bonus. It is estimated that these funds will serve an additional 1,800 families.

Supplemental Assistance – The governor freezes rate under the Aid to the Disabled, Aid to the Blind and Old Age Assistance program, savings \$2.2 million in FY05.

Behavioral Health Partnership

Implement Behavioral Health Partnership - The governor recommends the implementation of the Connecticut Behavioral Health Partnership. This initiative effects three state agencies: DCF, DSS, and DMHAS. The budget reflects a reallocation between various accounts of \$83.7 million in the Department of Children and Families, \$121.4 million in the Department of Social Services, and \$43.1 million in the Department of Mental Health and Addiction Services. As part of this initiative, the state will enter into a contract with an administrative services organization (ASO), which will manage behavioral health benefits. Most of these moneys will be converted from existing categorical grants, Medicaid, HUSKY, SAGA or residential board and care payments to a fee-for-service model. The Governor intends for the partnership to begin operation by October 1, 2004.

Department of Mental Health and Addiction Services

- Reduce residential detoxification services (-\$385,243)
- Reduce Mental Health Level IV funding (-\$500,000)
- Implement performance based contracting (-\$892,901)
- Eliminate funding for Regional Action Councils (-\$261,724)
- Reduce inpatient stays through utilization of case managers (-\$500,000)
- No direct funding is provided to continue the approximately \$10.5 million in contracts that had previously been funded through the Mental Health Strategy Board.

Department of Children and Families

The governor has recommended a net increase in funding of \$40.2 million for the Department of Children and Families. Major items include:

Obligations Under Juan F. Consent Decree Exit Plan

As part of an agreement with the federal court to end judicial oversight of the agency by November 2006, the state agreed to achieve certain outcome measures. In order to accomplish this, the Governor has recommended the following adjustments.

Support Families of Children Returning from Residential Care – \$4.9 million is recommended to reflect costs of supporting families of children returning home from residential treatment or prolonged hospitalization. The Exit Plan mandates that the number of children placed in privately operated residential treatment care shall not exceed eleven percent (11 %) of the total number of children in DCF out-of-home care.

Annualize Social Work Staffing Expansion – \$12.1 million is recommended to reflect the costs of achieving social worker caseload standards established in an October 2003 agreement with the federal court.

Streamline Finalization of Adoptions – \$975,000 is recommended to reflect the costs of 13 new legal positions under the DCF and the Office of the Attorney General. These staff will work to reduce the number of adoption cases awaiting finalization.

Enhance Targeted Recruitment of Adoptive and Foster Families – The sum of \$500,000 is recommended to expand efforts to recruit homes for older children as well as those with multiple behavioral or developmental problems who require more sophisticated and targeted recruitment activities.

Emergency Services Flexible Fund – Under the terms of an October 2003 agreement, the state agreed to establish a discretionary funds pool of \$1 million for meeting emergency needs of children who are in foster care or at risk of entering foster care. The governor recommends the continuation of this funding.

Other Changes

Expand Supportive Housing Program – \$2.1 million is recommended to expand the Supportive Housing program, under which subsidized housing and case management services are provided to DCF-involved families for whom inadequate housing jeopardizes the safety, permanency and well-being of their children. An additional 180 families will be served.

Bond Funding for Pilot Supportive Housing Project – \$3 million is recommended in new capital project funding (under the Department of Economic and Community Development) to support development costs of a pilot eight-to-ten unit supportive housing project for children with complex medical conditions and their families, including on-site nursing care.

Transfer Funding for DMR Age Outs - \$2.1 million is transferred from DCF to DMR to support eighteen youths who are aging out of DCF's care and for whom DMR is currently providing services.

Annualize Single Cost Accounting Residential Rate Increases – \$3.7 million is recommended to allow the agency to comply with regulatory rate increases for in-state private residential treatment providers.

Board and Care for Children - A net increase of \$21.9 million is recommended to reflect the annualized cost of increased caseloads and new program development experienced in FY 04.

Department of Public Health

Reduce Support for Local and District Departments of Health - The governor recommends reducing grants to local and district departments of health (full time and part time) by \$1.0 million as compared to the \$3.95 million required to pay per capita subsidies under current law.

School Based Health Centers - The governor's recommended budget reflects five percent (5 %) less funding (or \$288,386) for school based health center services than the originally budgeted FY 05 amount of \$5,767,729.

Bond Funding for State Laboratory – \$45 million in new bond funding is recommended to support a new Connecticut State Laboratory. The sum of \$5 million is currently authorized for this purpose.

Bond Funding for Hospital Based Disaster Response Capacity - \$10 million in new bond funding is recommended to support the purchase and installation of portable hospitals for disaster response and isolation care and for grants-in-aid to hospitals to finance physical plant modifications and renovations to isolate patients during infectious disease outbreaks.

Department of Mental Retardation

Waiting List Funding - \$4.6 million in FY 05 to address the needs of individuals on the DMR waiting list. Funding will support 150 individuals currently on the waiting list and in need of residential supports.

High School Graduates Day Programs - \$2.77 million to support day program for the DMR clients graduating from high school in June of 2004. Funding will support 175 new high school graduates with day programs starting in September of 2004.

Age Outs - \$2.6 million to fund residential (34 individuals) and day (52 individuals) services for those aging into DMR's care from the Department of Children and Families and the local education agency (LEA's). In addition, \$2.1 is transferred from DCF to DMR to continue support for 18 mentally retarded children who are aging out of DCF's care and for whom DMR is currently providing care under a Memorandum of Agreement between the two agencies.

Private Providers

The governor has not recommended any additional increase for private provider grantees beyond the 1 percent increase beginning October 1, 2004 already budgeted in the FY05 appropriation.

Education

University of Connecticut Health Center

The governor provides an additional \$1 million in general support.

Connecticut State University

The governor provides an additional \$2 million in general support.

Regional Community Technical Colleges

The governor provides an additional \$1 million in general support.

Department of Education

Priority School District Funding – The governor proposes an additional \$18.7 million in funding within the Priority School District grant program. This includes: \$1.0 million for summer school programs; \$1.2m for school improvement grants to 16 schools; \$1.5 million to create a new voucher program (the voucher would be worth \$3,000 per student and would require local district to provide \$1,000); \$1.0 million for early reading success; and \$14.0m for additional school readiness slots. This increases the total funding to Priority School District participants to \$99.9 million from the presently appropriated \$81.2m.

Reduced Magnet School Funding for RESC Operated Magnets – The governor proposes the elimination of the \$7.0 million supplement to RESC operated magnet schools. This, coupled with a \$4.0 million technical adjustment for enrollment, brings the total funding to magnet schools to \$61.6 million down from the originally appropriated \$72.6 million.

General Government

Office of Policy and Management

Redistribute Early Retirement Incentive Plan (ERIP) Savings & Reduce Total Savings Achieved - Under the original budget for FY04 and FY05 ERIP savings were achieved as a lapse to the General Fund and Transportation Fund. The Governor's recommended budget redistributes these savings to individual agencies and related fringe benefits in the General Fund and Transportation Fund and extends it to five additional appropriated funds. The amount of savings redistributed among agencies in the General Fund and Transportation Fund is \$25.2 million less than the originally budgeted lapses.

Reserve for Salary Adjustments - The governor recommends increasing the General Fund Reserve for Salary Adjustments account by \$35.9 million, to a revised FY05 appropriation of \$41.3 million, to acknowledge Collective Bargaining increases. The original FY05 appropriation was \$5.4 million. This increase will fund the Social and Human Services arbitration award, the Judicial employees agreement, the Judicial Professionals agreement, and the Clerical agreement.

No funding is provided for the corrections supervisors unit, and no funding is provided for any other unsettled contracts.

Eliminate Drug Enforcement Program - Eliminates the Drug Enforcement Program grants to towns. Estimated FY 05 savings are \$850,000. The cities of Bridgeport, Hartford, New Britain, New Haven and Waterbury are each expected to receive a grant award through this program in FY 04.

Re-estimate Savings for Property Tax Relief for Veterans - The original FY 04 and FY 05 budget eliminated the non-means tested portion of the veterans property tax reimbursement program, although towns are required to continue to offer the exemption. An additional \$2.4 is saved through more updated figures.

Establish Washington Center Grants- Funding of \$100,000 is provided for scholarship assistance for UConn and CSU students to participate in internship programs in Washington DC.

Establish Faith Works Compassion Grants - Funding of \$290,000 is provided to establish a Faith Works program within OPM and to provide grants to fund faith activities in the areas of prisoner re-entry into the community, employment services, substance abuse reduction, health and aging, and early childhood development.

Department of Administrative Services (DAS)

Workers' Compensation Claims - The \$5 million bottom line lapse for Workers' Compensation claims is eliminated in the revised FY05 budget.

Spend Management Lapse - An anticipated \$3.75 million in savings is included as a bottom line lapse in the adjusted FY05 budget. The Spend Management lapse is based on achieving cost savings in procurement spending in executive branch agencies and the Judicial branch. The Spend Management Initiative is the outgrowth of a \$2.1 million contract DAS entered into in FY04 with Silver Oak Solutions.

Fleet Operation Savings – Fleet operation savings were shown as a \$5 million lapse at the end of each of the original FY04 and FY05 General Fund budgeted appropriations. This proposal eliminates \$2.5 million of the \$5 million lapse savings in FY 05 and distributes it among individual agency budgets to reflect the statewide reduction of approximately 650 underutilized vehicles and the reduction in the number of vehicles purchased. The remaining \$2.5 million lapse is still reflected as a FY05 lapse in anticipation of using private contractors to maintain the fleet and operate the daily motor pool.

Elections Enforcement, Ethics, and Freedom of Information Commissions

Restoring staffing levels for The State Elections Enforcement Commission, Ethics Commission, and the Freedom of Information - The Governor recommends restoring positions beginning in the current fiscal year to the actual levels of FY 2002-03. This will enable the commissions to continue performing its daily operations and statutory missions. In addition, an Accountant Trainee is added in the Elections Enforcement Commission.

Justice

Department of Corrections

Eliminate Funding for Community Justice Center for males – (-\$2 million). The governor recommends that funding be removed for the center as it is not anticipated that such a facility would be in operation until FY06. The department currently operates a center for its female prisoners in order to assist in community reintegration.

Adjust overtime and workers comp to reflect re-estimation – (-\$5.4 million). Savings in overtime of about \$2 million is anticipated during FY05 as inmates are sent to facilities outside the state. The FY05 budget provides for a total of 2,500 inmates to be sent out of state. In addition, workers compensation is reduced by \$3.4 million to reflect a re-estimation of anticipated payments.

Provide Additional Funds for Inmate Medical Services - \$4.4 million.

Judicial Department

Provide federal funding (Byrne grant) to collect DNA samples from individuals on probation pursuant to Public Act 03-242, “AAC the Collection of DNA Samples from Persons Convicted of a Felony, the Preservation and Testing of DNA Evidence and the Review of Wrongful Convictions,” which requires any person convicted of a felony to submit to DNA testing prior to their release from probation. The FY05 cost estimate is \$330,000.

Provide funding for salary increases for judges and family support magistrates, and an increase in the rate of pay for per diem judges - The FY05 cost estimate is \$2,354,629. Salaries have remained static since their last statutory change (effective April 1, 2002.) The governor recommends that salaries be increased at the beginning of each of the next three fiscal years. The rate of increase for Superior Court judges is 8 per cent each year.

Division of Criminal Justice

Provide additional funding to reimburse victims for the full cost of forensic sex evidence exams in accordance with Public Act 03-6 of the June Special Session, “AAC General Budget and Revenue Implementation Provisions.” The FY05 cost estimate is \$323,407.

Public Defender Service Commission

Pick up expiring federal funds supporting staff members in the Stamford-Norwalk Juvenile office (two attorneys, one investigator, one secretary, and one social worker.) The FY05 cost estimate is \$225,000.

State Marshal Commission

Make a one-time sweep of \$300,000 from the restricted, non-lapsing State Marshal account into the General Fund - Revenues to this account are generated from a \$5 fee on anyone filing a civil action (except small claims) in Superior Court and a \$250 annual fee that state marshals must pay. By law, up to \$250,000 is deposited into the State Marshal account each year to cover part of the Commission's operating expenses.

Department Of Public Safety

Provide Funding for Trooper Training Class – (\$2.58 million). The Governor recommends that \$2.58 million be used to fund a trooper training class in FY 05. While the start date has not been set, it is anticipated that the class would begin during the first quarter of the fiscal year.

Adjust overtime and workers comp to reflect re-estimation – (-\$4.5 million). The Governor recommends that there be a \$4 million reduction based on a recalculation of overtime reimbursement from the highway construction project, the resident trooper program and the Bradley Airport enterprise fund. In addition, workers compensation is reduced by \$500,000 to reflect a re-estimation of anticipated payments.

Economic Development and Environment

Department of Economic Development

Eliminate Tax Abatement and PILOT programs (\$4,886,112).

Connecticut Commission on Arts, Culture, Tourism, History and Film

Fund CATCH-F through the appropriation process and the General Fund - The Commission's initial FY 04 and FY 05 funding was provided through the segregation of \$20 million dollars from the hotel tax and an additional \$4.48 million in carry forward funds for FY 04. The Commission's fringe benefit costs were to have been paid with these funds as well. Under the new funding scenario, fringe benefits will be provided through the Comptroller's misc. accounts.

Reductions have been made to some of the grant recipients within the Commission and three new recipients, CCEDA, CT Center for Science and Exploration and the Mystic Aquarium, have been added.

Transportation

Department of Motor Vehicles

Funding for Positions Required to Maintain Re-Opened Offices and Branches Open - Nine branches were to be closed as a result of the layoffs that occurred during FY03. Of the nine, three branches did not close. These are the Putnam and Stamford Satellite Offices and the

Northwestern (Winsted) branches. The five photo-licensing centers located in New Milford, Derby, Middletown, Milford, and Waterbury as well as the Willimantic branch have reopened but at reduced hours of service.

The governor recommends providing \$1.4 million in order for the nine offices/branches to remain open.

Department of Transportation

Rail and Bus Fares Increases - The governor recommends increasing Rail fares by 5.5% effective July 1, 2004 to offset Rail subsidy. He also recommends advancing the date of the next Bus fare increase scheduled for Jan 1, 2005 to July 1, 2004 to offset increases in Bus subsidy.

Maritime Policy Board (Transportation Strategy Board) - The Transportation Strategy Board, in its January 2003 plan, created the Maritime Task Force. The purpose of the task force is to recommend changes to the state's maritime policy and governance structure in order to maximize the benefits of the state's waterways and maritime resources.

The governor recommends creating the Maritime Task Force within the Department of Transportation and to establish a Maritime Policy Commission. The task force will be known as the Office of Maritime Policy. The governor increases the DOT staffing levels by two positions to provide staffing for the Office of Maritime Policy but does not include additional funding. This will require the DOT to reallocate existing funding in order to meet the needs of the new Office and the Maritime Commission.

Significant Revenue Changes

The governor recommends the following significant tax and revenue changes:

- Delay the repeal of the sales and use tax on newspapers and magazines from July 2004 to July 2005. (\$15 million for FY05).
- Increase the cigarette excise tax from \$1.51 to \$2.05 per pack, effective April 1, 2004. (\$32.8 million for FY04 and \$93.7 million for FY05)
- Increase tobacco products tax from 20 percent to 30 percent of the wholesale price and increase the tax on snuff from \$.40 to \$.60 per ounce effective April 1, 2004. (\$.5 million for FY04 and \$2.4 million in FY05).
- Increase alcoholic beverage tax rates on beer, wine, and distilled spirits by 10 percent effective April 1, 2004. (\$2.1 million in FY04 and \$4.7 million in FY05).
- Escheat unclaimed bottle deposits to the state effective April 1, 2004. (\$4.5 million in FY04 and \$20 million in FY05.)