

Synopsis of the Governor's FY 09 Budget Revisions

The FY 09 Midterm Budget Adjustments were introduced by the Governor on February 6, 2008 at a joint meeting of the Connecticut General Assembly. To facilitate the discussion with the Secretary of the Office of Policy and Management on February 7th at the Appropriations Committee, the Office of Fiscal Analysis has prepared the following brief synopsis of major budget policy changes.

The Governor's FY 09 Midterm Adjustments recommend an all funds budget of \$18,501 million, an increase of \$89.3 million over the original biennial budget passed last session. The Governor is projecting an all funds growth rate of 4.8 percent over the previous fiscal year. Based upon the Governor's expenditure plan, the recommended all funds appropriations places the budget under the spending cap by \$20.4 million.

The **significant program changes** are outlined in this next section. The program changes are followed by a section on **significant revenue changes**. Included at the end of the document is the recommended **earmarking of anticipated FY 08 surplus**.

Significant Program Expenditure Changes

Human Services and Health

Department of Social Services

Medicaid

- Eliminate funding for medical interpreters under the Medicaid program, for a savings of \$4.7 million;
- Change Medical Necessity and Appropriateness Definition under Medicaid for a savings of \$4.5 million in FY08;
- Require certification for medication administration in residential care homes and boarding homes, for a savings of \$1.4 million;
- Cap rate increases for residential care homes at 2%, for a savings of \$1.9 million;
- Implement a long term care rebalancing effort, for a savings of \$1 million;
- Move individuals with psychiatric disabilities from long term care settings to the community, at a cost of \$2.2 million;
- Increase access to Medicaid breast and cervical cancer coverage, at a cost of \$850,000; and

- Implement a hospice benefit under the Medicaid program, costs to be offset by savings from other long term services.

Other Programs

- Establish 7 new positions to ensure DSS program integrity, at a cost of \$825,800;
- Increase financial oversight of nursing homes, at a cost of \$284,330;
- Enhance low income energy programs, at a cost of \$2.25 million; and
- \$5 million is appropriated to the Charter Oak Program to meet anticipated implementation. Additionally, \$1 million from the Tobacco and Health Trust Fund that was originally intended to fund CHOICES is reallocated to the Charter Oak program.

Department of Public Health

- Add 5 facility inspection staff to assure quality care in nursing homes, at a cost of \$256,765 (annualized cost of \$340,310 in FY 10);
- Add 5 child care licensing specialists to assure quality of care in child day care settings, at a cost of \$298,165 (annualized cost of \$385,910 in FY 10);
- Expand the Vaccines for Children program, at a cost of \$4,943,119, to allow it to provide pneumococcal conjugate vaccine for infants (\$4,459,415) and Hepatitis A vaccine for infants (\$483,704);
- Increase by \$300,000 (to \$800,000) the amount credited from newborn screening fees to the department to support upgrades in newborn screening technology and support testing expenses; and
- Enhance the state's public health response to Methicillin-resistant staphylococcus aureus (MRSA) by facilitating the rapid identification of infections, at a cost of \$79,463.

Department of Developmental Services

- \$311,203 for 6 new Case Managers to address the caseload growth.
- \$1.5 million for additional Voluntary Services Program referrals and \$5 million to annualize the FY 08 shortfall; and
- \$1.16 million to fund programs for 27 additional age outs and 19 additional high school graduates.

Department of Mental Health & Addiction Services

- The Governor's Hospital Task Force recommendations:
 - \$500,000 to support the development of effective and feasible models of care for psychiatric emergency assessment or crisis response centers in order to expand access to behavioral health crisis and crisis services for adults;
 - \$2 million to fund three 15-bed high intensity programs for individuals with co-occurring psychiatric and substance abuse disorders, targeted to high users of hospital emergency departments or inpatient beds who also have criminal justice involvement; and

- \$1.5 million to fund eight beds in private psychiatric hospitals to facilitate transfers out of hospital emergency departments.
- \$1.3 million (and the associated 18 positions) to develop 10 medium security step-down beds to address severe overcrowding at the Whiting Forensic Division;
- \$566,346 to expand the Offender Re-Entry Program to five additional sites as was recommended by the Governor’s Sentencing and Parole Review Task Force. Funding will allow the services to be provided up to 12 months prior to discharge from prison for an additional 180 individuals per year and will augment post-release services for an additional 58 individuals per year; and
- \$3.7 million to move individuals with psychiatric disabilities from long term care facilities to community settings. Funding will support: 9 new positions to create a Nursing Home Evaluation & Treatment Unit; case management, respite, and supportive housing services.

Department of Children and Families

- Intensive family preservation/family reunification services are to be expanded, at a cost of \$1.5 million (annualized to \$2.12 million in FY 10). Offsetting savings of \$350,000 (\$500,000 in FY 10) are to be achieved from averted foster care placements;
- \$1,127,817 (annualized to \$1,482,166 in FY 10) is provided to support enhanced services to children in therapeutic foster care. This will include a web based referral system; additional emergency foster homes; training for foster parents; and an evaluation component;
- FY 09 costs associated with the “WR” legal settlement are supported with \$633,453 in new funding, to include funding for additional emergency mobile psychiatric services (\$312,500) and individualized specialized services (\$320,953);
- A further expansion of emergency mobile psychiatric services (EMPS) is provided (at a cost of \$450,000), which will allow for additional hours of operation as well as an increase in the number of teams operating during peak hours of demand;
- Funding of \$613,900 is provided to enhance services for medically complex foster children. This includes \$175,000 to provide child specific training to foster families serving medically complex children, and \$438,900 to implement a new rate system for medically complex foster care placements based upon levels of care. In FY 10, costs associated with this initiative will rise to \$1,616,699;
- Based upon a revised estimate of need, funding budgeted for one Multidisciplinary Treatment Foster Care Team intended to serve girls involved with the juvenile justice system is eliminated, resulting in a savings of \$817,000;
- Funding made available by the closure of a residential treatment center is reallocated to support a new crisis stabilization program (at \$960,000) and a statewide call center for EMPS services (at \$190,000). Crisis stabilization has been identified as an important component in addressing emergency department overcrowding;
- Savings of \$821,250 result from delaying the opening of a new state-operated secure facility for girls until at least late 2009. Construction of this facility has not yet commenced; and

- Funding of \$110,000 is provided to continue support for a Community Diversion Board in Waterbury. These dollars will be supplemented by \$110,000 under the Judicial Department's Court Support Services Division, for a combined total of \$220,000.

Tobacco and Health Trust Fund

Under current law, the Board of Trustees of the Tobacco and Health Trust Fund (THTF) is charged with recommending the annual disbursement of the net earnings from the principal of the THTF. Such recommendations must give priority to programs that address tobacco and substance abuse and serve minors, pregnant women and parents of young children. The Board's recommendations are subject to approval or modification by the Appropriations and Public Health Committees. Disbursements in FY 08 and FY 09 are estimated at \$800,000 and \$1.1 million, respectively.

The Governor recommends that commencing in FY 09, the Board may recommend authorization of up to one-half (1/2) of the annual disbursement from the Tobacco Settlement Fund to the THTF during the prior year in addition to the net earnings from the principal of the Fund. Per statute, the amount disbursed from the TSF to the THTF is at minimum \$12 million a year, implying that at least an additional \$6 million will be available to the Board each year when formulating its recommendations, unless legislation is enacted which alters the deposit to the THTF in any given year.

Education

Department of Education

Expanded Charter School Enrollment: Funds totaling \$1,274,100 are provided for the projected growth of four charter schools located in Bridgeport (2), Hartford and New Haven. This additional funding will provide for 137 new students bringing the total number of charter school students in the state to 4,500.

General Government

Office of Policy and Management

Pilot Manufacturing Machinery & Equipment: A re-estimate of the PILOT Manufacturing Machinery and Equipment (MME) grant reduces FY 09 by \$24.93 million, which is not anticipated to result in any reduction in FY 09 grants to municipalities. In the current fiscal year, funding exceeded the amount necessary to fully fund FY 08 grants by \$22.1 million. These funds would have otherwise lapsed if it were used for the following purposes: FAC 08-5 directed \$750,000 to fund a shortfall in the Elderly Renters account; and PA 08-1 (JSS) directed \$17,065,577 to fund FY 09 costs related to implementing the act, resulting in a projected FY 08 lapse of \$4.3 million in PILOT MME funds. However, the Governor's Recommended Budget repeals the provisions of PA 08-1 JSS which provides \$17.06 in funds from PILOT MME and instead appropriates \$15.93 million in funds in FY 09 to implement provisions of the bill, which

is a reduction of \$1.13 million in FY 09. Additionally, the Governor's recommended budget directs \$12.4 million of the anticipated FY 08 lapsing funds in PILOT MME to cover anticipated deficiencies, and directs \$1.55 million of the lapsing funds to the State Comptroller for consultants, software and training costs associated with an Enterprise Performance Management Business Analytical Reporting System. Thus, a FY 08 lapse of \$7.4 million from PILOT MME is anticipated under the Governor's recommended budget.

Private Providers: Funding in the amount of \$35.7 million is reallocated from the Private Providers account to various state agencies to reflect the FY 08 private provider cost of living adjustment (COLA). The remaining FY 09 balance of \$3.28 million is to be used for grants to private providers for energy, transportation or other costs as determined by OPM. It should be noted that in FY 08 a total of \$35.7 million (of the \$39 million) is anticipated to be expended for the FY 08 3 percent COLA (via transfers from the Private Providers account to the various state agencies). The Governor's deficiency bill directs \$3.28 million in FY 08 funds, which would otherwise lapse, to be used for grants to private providers for energy, transportation, or other extraordinary costs as determined by OPM.

Other significant expansions, reductions and transfers in OPM:

- Provides \$10 million in Energy Contingency funds;
- Provide \$5 million in Regional Performance Incentive Grants;
- Reduction of \$900,000 in funds for local property tax exemption reimbursements for hybrid vehicles, a lapse of \$500,000 these funds is anticipated in FY 08. Although funds for the reimbursements were included in the original biennial budget, the enacting language provides a local property tax option but no authority for OPM to reimburse the towns;
- Transfer the funding of \$599,271 and three positions from the Office of Business; Advocate within OPM to the Department of Economic and Community Development;
- Enhance Urban Youth Violence Prevention grants by \$500,000;
- Provide \$500,000 in FY 09 for municipal operational efficiency studies, to enter into agreements with municipalities that apply and are selected to jointly undertake efficiency studies and audits of municipal operations; and
- Provide \$100,000 for a study of the operation and governance of Bradley International Airport.

Department of Information Technology

- Provide funding for technology needs related to criminal justice initiatives;
 - 5 additional IT positions and related costs total \$293,577; and
 - Transfer \$1.550 million from Internet & Email account to the Criminal Justice Information System.

Office of the State Comptroller

- Consolidate Core-CT responsibilities and funding (\$1.9 million in FY 09) within the Office of the State Comptroller. A net of twenty-three positions and related expenses are reallocated from the Department of Information and Technology; and
- Connecticut's state employee and retiree health insurance benefits (medical, dental and pharmacy) for state employees and retirees are administered by the Retirement and Benefits Division of the State Comptroller. Funding in the amount of \$53 million General Fund and \$2 million Transportation Fund is removed from the FY 09 budgeted accounts to reflect the substantial savings that is anticipated from the current health care negotiation.

Regulation and Protection

Department of Public Utility Control

- Additional funding of \$200,000 to institute an electricity procurement process that utilizes a reverse online auction. The purpose is to reduce the risk factor for purchasing electricity for residential and small business consumers. The process was used in the fall of 2007 by the Office Policy and Management.

Department of Public Safety

- \$1,282,212 for the addition of 20 new troopers to enforce traffic safety on state highways; and
- \$760,000 to upgrade the Sex Offender Registry in order to comply with state and federal law.

Department of Emergency Management and Homeland Security

- Funding for eight new civilian positions, to be offset by the redeployment of 9 Troopers back to the Department of Public Safety, resulting in a net savings of \$273,716.

Justice

Implementation of Public Act 08-1 (January Special Session): Criminal Justice Reform

The Governor's budget eliminates the carry forward and transfer of funds from the PILOT – New Manufacturing and Equipment line item within the Office of Policy and Management to state agencies in order to carry out the provisions of PA 08-1. Instead, the Governor's budget appropriates funds directly to the state agencies involved. The direct appropriations are about \$1.1 million less than the transfer provided for under PA 08-1. This difference is due primarily to a reduction in funding for residential diversionary and re-entry beds. These changes affect the following agencies and programs:

Judicial Department

- \$95,672 to dedicate 2 full-time Victim Advocate positions to parole hearings;
- \$835,676 to hire 8 Adult Probation Officers and contract for services to establish a supervised diversionary program for persons with psychiatric disabilities;
- \$750,000 to establish an automated victim notification system;
- \$2.7 million to provide an additional 108 diversionary beds;
- \$1.0 million to provide 12 beds for the residential treatment of sex offenders; and
- \$1.0 million to expand existing re-entry and diversionary programs in Hartford and New Haven.

Department of Correction

- \$465,355 to expand the Board of Pardons and Paroles (BPP) to include 5 full-time positions dedicated to parole hearings;
- \$161,595 for a Psychologist and 3 clerical positions to provide additional support to the BPP;
- \$1.4 million for 9 additional positions and the ability to expand passive GPS monitoring to 300 additional offenders;
- \$125,000 to establish a secure video connection from each correctional facility to the BPP;
- \$2.7 million to provide an additional 108 re-entry beds;
- \$1.0 million to provide 12 additional beds for the residential treatment of sex offenders; and
- \$725,000 for community support, re-entry, and diversionary services in the Bridgeport area.

Office of Policy and Management

- \$224,640 for an Executive Director and costs related to the Criminal Justice Information System Governing Board; and
- \$2,000,000 to contract for the design and development of a comprehensive, statewide criminal justice information technology system.

Judicial Department

- \$414,037 to hire nine additional probation officers to serve outstanding warrants for violations of probation;
- \$125,000 to fund an expansion of DNA testing to include any person charged with a class A or class B felony and released on bail;
- \$150,000 to contract with three additional family violence victim advocates to support recently established family violence dockets in Norwalk, New Britain and New London;
- \$340,972 to increase the salaries of judges and family support magistrates and per diem compensation of judge trial referees and family support referees by 2%, effective January 1, 2009;

- \$1.5 million to reflect the revised occupancy date (July 1, 2008, instead of October 1, 2008) of the Bridgeport Juvenile Detention Center;
- \$2.5 million reallocation from the Juvenile Alternative Incarceration and Youthful Offender Services line items, and \$0.7 million in new appropriations to expand intensive in-home child & adolescent psychiatric services; and
- \$110,000 to continue support for a Community Diversion Board in Waterbury. These funds will be supplemented by an additional \$110,000 provided under the budget of the Department of Children and Families, for a combined total of \$220,000.

Department of Correction

- \$2.97 million for quad expansion at Carl Robinson Correctional Institution (CRCI). In order to house the increasing number of inmates, the Department of Correction is expanding the capacity at CRCI by converting program space located in the Administration Building to 2 separate quads that will hold 114 inmates per quad (228 inmates). Funding is included for 30 Correction Officers and 18 support staff for the conversion of the 2 quad units;
- \$4.6 million for staffing enhancements for prison and parole systems. As a result of the changes in the granting of parole for violent offenders and tougher sentences for burglary in the first and burglary in the second degree, additional staff is provided to expedite the processing of non-violent offenders. Funding is provided for 50 Correction Officers, 13 Parole Officers, 3 Correctional Counselors and 5 temporary clerical positions. In addition to staffing, \$2.0 million (included as part of the \$4.6 million) is provided for Community Support Services for parolees, in order to enhance public safety; and
- \$4.74 million for changing parole eligibility for second degree burglary. The increase of parole eligibility from 50% of sentence to 85% of sentence for second degree burglary convictions will have a consequential effect on increasing the incarcerated population.

Economic Development and Environment

Commission on Culture and Tourism

- Establish a new Cultural Treasures Program account, which includes \$3.6 million in new funding, \$2.4 million reallocated from the Basic Cultural Resources Grant and \$4.0 million reallocated from the Culture, Tourism and Arts Grant for a total of \$10 million; and
- Capital funding in the amount of \$20.0 million is provided for Cultural Treasures of Regional Significance. Funding will assist with capital improvement projects for organizations, tourist attractions, historic structures or museums considered cultural treasures of regional significance.

Office of Workforce Competitiveness

- Provide \$500,000 in grant funding for higher education nanotechnology programs. The program will promote collaboration between Connecticut institutions of higher education

and the nanotechnology industry to develop curriculum and funding for other programmatic strategies.

Agricultural Experiment Station

- \$86,828 is provided for one position and related expenses for Lyme Disease Research. These funds will replace federal funds which are expiring.

Transportation

Department of Transportation

Reorganization of the DOT: DOT would be reorganized into 2 new agencies by January 1, 2010 – the Department of Highways and the Department of Public Transportation, Aviation and Ports.

- 6 additional positions and create a new department within DOT to assist Commissioner in day to day operations;
- \$1 million for Talent Assessment and Training;
- \$500,000 for “511” implementation;
- 50 additional Engineers;
 - 80% federally funded;
 - 20% funded via capital project;
- 12 additions staff and resources for construction project inspections under \$50 million
 - \$89,532 in FY 09;
 - 80% federally funded;
- 30 additional Bridge Maintainers to perform bridge inspection and repairs.
 - \$770,538 in FY 09;
- \$500,000 in bond funds to finance a master plan for the State's deep water ports;
- \$1.26 million in bond funds for Greenwich Weigh Station on I-95; and
 - to finance replacement of the scale, site improvements and signage.

Department of Motor Vehicles

- Increase truck inspection and enforcement;
 - 10 additional Motor Vehicle Safety Inspectors to inspect commercial vehicle fleets for safety compliance; and
 - \$571,887 in FY 09, includes PS, OE and equipment.

Legislative Management

Auditors of Public Accounts

Funding of \$500,000 is provided to the Auditors of Public Accounts to review (upon the request of the Secretary of OPM) the budget and financial condition of municipalities that receive more

than 35% of their annual operating budget from the state. It is estimated that 35-40 municipalities receive more than 35% of their annual operating budget from the state.

Significant Revenue Changes

The Governor's midterm budget proposes net reductions in General Fund revenue of \$8.0 million in FY 08 and \$78.6 million in FY 09. The Governor's revenue package includes: (1) tax and fee reductions of \$58.7 million in FY 09 and (2) reductions in miscellaneous transfers and other adjustments of \$8.0 million in FY 08 and \$19.9 million in FY 09.

The list below provides a brief description of the significant changes. The anticipated General Fund revenue impact is based on the Governor's estimates.

Sales and Use Tax

- Provide a full 12 month sales tax exemption for Energy Star appliances, effective between July 1, 2008 and June 30, 2009. The anticipated one-time revenue loss is \$23 million in FY 09.

Corporation Tax

- Eliminate the \$250 Business Entity Tax, effective January 1, 2008. The anticipated annual revenue loss is approximately \$35 million beginning in FY 09;
- Provide a new Green Building Corporation Tax Credit, effective January 1, 2009. Businesses that make investments in building systems that reduce greenhouse gas emissions would be eligible to receive a corporation tax credit of 25% of the cost of the investment, up to \$50,000 per business per year. The anticipated annual revenue loss is approximately \$2.0 million beginning in FY 09.

Unified Gift and Estate Tax

- Provide an exemption to the Gift and Estate Tax for working farmland. The anticipated revenue loss is \$0.3 million in FY 09 and \$1.2 million in FY 10.

Property Tax Cap

The Governor's midterm budget proposes the following limits on municipal property tax levies:

Proposed Limits on Municipal Property Tax Levies	
Effective Date	Percent Limit of Prior Year Levy
July 1, 2009	4.0%
July 1, 2010	3.5%
July 1, 2011 and after	3.0%

Exemptions

The proposal provides automatic exemptions from the limit for (1) region school district increased and (2) any new Educational Cost Sharing (ECS) aid over the prior year.

With the approval of the local legislative body, exemptions would also be available for:

- Employee health insurance increases of more than 8% over the prior year for the same or similar benefits;
- Utility costs increases of more than 8% over the prior year;
- Increases of more than 8% needed to fund actuarially recommended contribution of pension or other post retirement benefit (OPEB) costs for the same or similar benefits;
- The amount by which certain State formula aid decreased over the prior year;
- Debt service increases for capital projects over the FY 2008-09 level;
- Expenses related to an emergency, such as a fire, flood, a declared health emergency or natural disaster;
- One-time costs associated with regional service initiatives;
- General overrides, which would require 2/3rds approval of the local legislative body with voters able to reverse any legislative action override limit.

Opt Out Provision

Under the proposal, municipalities would be able to opt out of the cap for two-year periods. In order to opt out for FY 2009-2010, a 2/3rds vote of a municipality's legislative body would be required not later than September 30, 2008, together with a simple majority of the municipality's voters in November. A municipality's legislative body could vote to opt out of the cap again not later than the end of September of every even-numbered year, subject to the approval by voters in November, during the statewide or national elections.

FY 08 Surplus Disposition

The Governor earmarks her \$263.2 million estimated FY 08 surplus in the following manner:

Item	Amount (in millions)
Budget Reserve (Rainy Day) Fund (BRF)	\$242.2
Shorten Corporation Tax Accrual from 8/15 to 7/31	8.0
FY 08 Carryforwards Reducing FY 09 Debt Service Appropriation Requirements	13.0
Total Earmarkings	\$263.2

When the \$242.2 million for the Budget Reserve Fund (BRF) is added to the \$1,381.8 million surplus from FY 04, FY 05, FY 06 and FY 07, the total amount that would be deposited in the BRF would be \$1,624 million. Based upon the Governor's FY 09 net General Fund appropriations of \$17,172 million, the maximum that could be deposited in the BRF would be \$1,717.2 million. With the \$242.2 million deposit from the anticipated FY 08 surplus, the BRF would fall short of being fully funded by \$93.2 million or 5.4%. The BRF would be funded at 94.6% based on a total deposit of \$1,624 million.

OFA projected on February 4, 2008 that the FY 07 surplus would be \$160.4 million or \$102.8 million lower than the Governor's figure. If OFA's lower amount occurs and \$21 million is earmarked in accordance with the Governor's proposals, \$102.8 million less would be deposited to the BRF.

The Governor's proposed \$21 million earmarking would be used for one-time purposes (\$8 million in FY 08 and \$13 million in FY 09).