FY 13 Projected Deficiencies

Prepared for Appropriations Committee Hearing

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The following is provided to help the committee understand the level of deficiency funding that is needed for the current year.

The deficiency bill before you, HB 6351, "AA Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2013," results in a net increase of $192 million to the General Fund (GF). The increases in appropriations of $337.2 million are offset by reductions of $145.2 million. However, these figures are based on the Governor's February projections.

According to our analysis, this bill would put the revised FY 13 budget over the spending cap by $49.8 million. The revised FY 13 budget is currently under the spending cap by $142.2 million. Passage of the $192 million in net increased appropriations included in HB 6351 exceeds the current allowable level of spending by $49.8 million. It should be noted that the Governor's budget spending cap calculations assume that $50 million in deficiency appropriations (contained in this bill) for the Medicaid - Low Income Adult program would qualify as a federal mandate, thus exempting that amount from the spending cap, and keeping the state $0.2 million under the cap.

OFA is currently projecting $348.2 million in GF state agency funding shortfalls. This differs from OPM's March 20, 2013 projection of $314.4 million by a total of $33.8 million. The following table displays the level of funding needed by agencies as projected by OFA and OPM.

FY 13 State Agency Estimated Deficiency Needs OFA /OPM Comparison (in millions)

Agency	HB 6351 $	OFA $	OPM $	Diff. OFA/OPM $
Office of State Comptroller	1.7	1.5	1.5	-
Department of Emergency Services and Public Protection	12.3	13.0	13.8	(0.8)
Department of Consumer Protection	0.9	0.2	0.3	(0.1)
Department of Mental Health & Addiction Services	11.3	12.5	12.5	-
Department of Social Services	289.0	298.9	261.0	37.9
Department of Correction	22.0	20.6	22.0	(1.4)
OSC - Adjudicated Claims	-	1.5	3.3	(1.8)
Total General Fund Increases	**337.2**	**348.2**	**314.4**	**33.8**
Reduce Appropriations in HB 6351:				
Department of Social Services - DSH	(66.5)	-	-	-
OSC - Fringe Benefits	(78.7)	-	-	-
Total General Fund Reductions	**(145.2)**	**-**	**-**	**-**
TOTAL NET	**192.0**	**348.2**	**314.4**	**33.8**

OFA's deficiency projections are based on a comparison between the agency's available funding and estimated annual spending. Available funding is generally lower than the original appropriation level due to OPM holdbacks of funding to meet lapse targets.

Given the reduction in available funding that occurs due to budgeted lapses (holdbacks), we currently identify seven agencies that require $348.2 million in GF deficiency funding. However, if available holdback funding was to be released, this would reduce the amount required to $343.7 million. The following table displays the level of funding available (pre- and post-holdback) to affected agencies.

FY 13 Estimated Agency General Fund Deficiency Needs

Agency	Budgeted Appropriation $	Available Appropriation[1] $	Est. Exp. $	Deficiency without release of holdbacks $	Deficiency with release of holdbacks $
Department of Social Services	5,812,216,680	5,653,086,772	5,951,941,759	(298,854,987)	(297,011,107)
Department of Correction	618,949,296	611,255,837	631,896,600	(20,640,763)	(20,591,375)
Department of Emergency Services and Public Protection	151,569,768	153,179,717	166,224,304	(13,044,587)	(13,044,587)
Department of Mental Health and Addiction Services	693,499,397	682,316,584	694,816,583	(12,499,999)	(9,894,735)
State Comptroller – Adjudicated Claims	4,000,000	4,000,000	5,500,000	(1,500,000)	(1,500,000)
State Comptroller	25,028,592	24,155,905	25,655,905	(1,500,000)	(1,500,000)
Department of Consumer Protection	14,621,623	14,601,075	14,838,075	(237,000)	(112,106)
TOTAL				(348,277,335)	(343,653,909)

[1] Appropriation less budgeted lapses (holdbacks), rescissions, and DMP (PA 12-1 DSS).

Detail on each agency's deficiency needs appears on the next page.

Detail on the Total GF Deficiencies - $348.2 million
(The following assumes that holdbacks will not be released by OPM.)

Office of the State Comptroller (OSC) - $1.5 million

The agency's projected FY 13 budget shortfall is composed of:

- $900,000 in Personal Services and
- $600,000 in Other Expenses.

The projected deficiency in the Personal Services (PS) account is due to the following two factors: (1) PA 12-1 December Special Session (the FY 13 deficit mitigation) included $829,549 in savings in PS (3.8% of the appropriation), of this total the agency will be unable to achieve $670,000; and (2) increased number of individuals that have submitted retirement requests which would require accrued payouts of approximately $230,000.

The projected deficiency in the Other Expenses account is due to the following: (1) the savings of $170,901 (5% of the appropriation) included in PA 12-1 December Special Session (the FY 13 deficit mitigation) are not going to be achieved; and (2) the agency has been unable to attain the targeted savings due to relatively inflexible costs, for example, the upgrade and on-going maintenance costs associated with the CORE-CT accounting system as well as postage costs which are contributing factors to the deficiency. The FY 13 budget was $400,000 below historical spending levels.

Department of Emergency Services and Public Protection (DESPP) - $13 million

The agency's projected FY 13 budget shortfall is composed of:

- $11 million in Personal Services and
- $2 million in Other Expenses.

The $11 million projected shortfall in Personal Services (PS) is primarily driven by two factors: overtime spending and the use of more temporary staff than budgeted. The overtime spending can be attributed to several issues including: aggressive budget assumptions, winter storms, and the Sandy Hook Elementary School incident. The Sandy Hook incident alone consumed over $1.0 million of overtime for the department, 9% of the total PS deficiency. Beyond overtime costs, the department has used more temporary staff to fill vacancies on an interim basis than originally budgeted. During FY 13, several vacancies, including the Legal Director, have been filled using temporary worker retirees.

The $2 million projected shortfall in Other Expenses is driven by several factors including higher than anticipated gasoline costs. While the department spent $6.3 million in FY 11 and $6.7 million in FY 12 on gasoline, only $6.2 million was budgeted in FY 13 for such costs; 8%

less than FY 12 actual costs. The recent rise in fuel price has increased the shortfall over the past several months. The department has spent $4.6 million on gasoline in the current fiscal year through February.

Department of Consumer Protection (DCP) - $237,000

The agency's projected FY 13 budget shortfall is composed of:

- $237,000 in Personal Services.

The $237,000 shortfall in Personal Services (PS) is due to restructuring of casino staffing reimbursements. The reimbursement from the casinos for services provided by the department was reduced from $3.3 million to approximately $2.3 million, due to a re-negotiated assessment. In response, the agency altered staffing levels and moved some personnel costs to the General Fund that was previously paid through the casino reimbursements. The agency has achieved PS savings due to turnover, not refilling vacancies and shifting of staff responsibilities to further reduce the deficiency need in FY 13 to $237,000. This deficiency represents 1.8% of the available PS funding.

Department of Mental Health and Addiction Services (DMHAS) - $12.5 million

The agency's projected FY 13 budget shortfall is composed of:

- $12,500,000 in General Assistance Managed Care.

The anticipated General Assistance Managed Care deficiency is a result of the state not receiving a proposed waiver to limit eligibility for the Medicaid Low Income Adult (MLIA) population. The FY 13 revised budget included savings in DMHAS of $12.5 million associated with reducing the asset limit, counting family income and assets for qualified dependents, and imposing limits on certain medical services.

Department of Social Services (DSS) - $298.9 million

The agency's projected FY 13 budget shortfall is composed of:

- $101.4 million in Medicaid - Acute Care Services (This shortfall represents 7.9% of available account funds);
- $47.1 million in Medicaid - Professional Medical Care (5.9%);
- $43.6 million in Medicaid - Other Medical Services (6.6%);
- $25.7 million in Medicaid - Home and Community Based Services (5.2%);
- $100.6 million in Medicaid - Nursing Home Facilities (8.7%);
- $6.6 million in Medicaid - Other Long Term Care (3.7%); and
- $5.8 million in Personal Services;

This shortfall is partially offset by lapsing funds of:

- $32 million in Medicaid - Administration and Adjustments

The $293.1 million net shortfall in the Medicaid accounts is primarily due to: (1) optimistic assumptions underlying the original appropriation, and (2) continued growth in caseload. This deficiency represents 7% of the available Medicaid funding. As recent Medicaid expenditures have shown more encouraging trends, the Medicaid deficiency may be revised downward in future reports.

Please note that this is the first year in which funds were budgeted in separate Medicaid accounts. DSS is likely to continue to request transfers between these accounts from the Financial Advisory Committee (FAC) to meet cash flow needs.

The adopted budget included several savings initiatives that are not anticipated to be implemented. These initiatives included a waiver to reduce the Medicaid for Low Income Adults (LIA) enrollment ($37.5 million), general utilization management under the new Administrative Service Organization (ASO) structure ($47 million), enhancing Medicaid recoveries from third-party payers ($20 million), and medication administration changes ($15.4 million). These delays have resulted in higher than projected expenditures.

Additionally, the LIA population has continued its strong caseload increase, adding approximately 8,300 additional clients since June (a 10.5% increase), for a total population of 87,600 in February. The cost of these 8,300 clients represents approximately $62.3 million in additional expenditures.

The $5.8 million shortfall in Personal Services is primarily due to additional hiring and overtime associated with increased caseloads and modernization efforts.

The $32 million in Medicaid - Administration and Adjustments is available primarily due to difficulties in budgeting for adjustments that do not directly relate to one of the other Medicaid categories.

It should be noted that 50% of most Medicaid expenditures are reimbursed by the federal government. Therefore, the net budgetary impact of this net deficiency is $146.6 million.

Department of Correction (DOC) - $20.6 million

The agency's projected FY 13 budget shortfall is composed of:

- $20 million in Personal Services and
- $1.6 million in Other Expenses.

This shortfall is partially offset by lapsing funds of:

- $1 million in Inmate Medical Services.

The $20 million projected shortfall in the Personal Services (PS) account is primarily due to unachieved savings related to policy initiatives in the FY 13 revised budget. Based on current expenditure trends, the agency will achieve $9.3 million in PS savings in FY 13, or 30% of the $30.6 million in savings included in the FY 13 revised budget.

The $30.6 million in savings in the budget was spread across four major policy initiatives: (1) house arrest for certain offenders, (2) risk reduction credits, (3) intensive probation, and (4) restructuring time off for correctional officers. Central to the savings assumptions related to these initiatives was the reduction in prison population of 3,750 inmates starting in FY 12. Since the start of the FY 12, the prison population shrunk by approximately 1,250 inmates, or 2,500 fewer than necessary to achieve the assumed savings.

The $1.6 million projected shortfall in Other Expenses is the result of higher than projected costs for food and maintenance. According to the Bureau of Labor Statistics, the Consumer Price Index for food has increased 1.6% from January 2012 to January 2013.

The $21.6 million projected deficiency is offset by a projected $1 million lapse in the Inmate Medical Services account, which is due to delayed hiring and lower than projected pharmacy costs.

Office of the State Comptroller – Adjudicated Claims - $1.5 million

The agency's projected FY 13 budget shortfall is composed of:

- $1.5 million in Adjudicated Claims.

The projected deficiency in the Adjudicated Claims account is due to higher than anticipated claims costs. It should be noted FY 12 was the first year the Adjudicated Claims account received an appropriation. Claims were previously funded out of the resources of the General Fund. Since FY 00, annual claims range from $3.9 million to $15.7 million, with a median annual claims cost of $7.6 million. The FY 13 deficiency represents 27% of total projected FY 13 expenditures.