HB 6825
An Act Making Deficiency Appropriations and Addressing the Deficit for the Fiscal Year Ending June 30, 2015

Prepared for
Appropriations Committee
Public Hearing

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OFFICE OF FISCAL ANALYSIS
Room 5200, Legislative Office Building
Hartford, CT 06106 • (860) 240-0200
E-Mail: ofa@cga.ct.gov
www.cga.ct.gov/ofa

OFA STAFF

Alan Calandro, Director

Christine Ashburn, Section Chief

Sarah Bourne, Principal Analyst	Elementary Education, Office of Higher Education, Town Education Grants
Don Chaffee, Principal Analyst	Legislative Agencies, Budget Information System, State Personnel
Rachel Della Pietra, Principal Analyst	Children and Families, Public Health, Medical Examiner
Christina Gellman, Principal Analyst	Banking, Dept. of Developmental Services, Teachers' Retirement, Dept. of Rehabilitation Services
Alan Shepard, Principal Analyst	Board of Regents for Higher Education, UConn, Consumer Protection

Michael Murphy, Section Chief

Evelyn Arnold, Associate Analyst	Economic Development, Housing, Culture and Tourism, Results Based Accountability
Anne Bordieri, Associate Analyst	Transportation Fund, Motor Vehicles, Dept. of Transportation, Military, Veterans' Affairs, Soldiers, Sailors & Marines'
William Lederman, Principal Analyst	Budget Information System, Income Tax Modeling
Linda Miller, Principal Analyst	Attorney General, Treasurer, Debt Service, Bonding
Chris Wetzel, Principal Analyst	Dept. of Labor, Tax Policy & Revenue Analysis, Dept. of Revenue Services, Spending Cap

Chris Perillo, Section Chief

Bill Craven, Analyst I	Dept. of Administrative Services, State Personnel, Statewide Issues, Energy Funds, Consumer Counsel, Construction Services
Dan Dilworth, Associate Analyst	Office of Policy & Mgmt., Grants to Towns (PILOTS, Pequot), Municipal Funds, Federal Funds
Grant Gager, Associate Analyst	Emergency Services & Public Protection, Office of Government Accountability, Governor, Lt. Governor, Secretary of the State, Comm. on Human Rights & Opportunities
Marcy Ritsick, Associate Analyst	Environment, Agriculture, Agriculture Experiment Station, Council on Environmental Quality

Rob Wysock, Section Chief

Neil Ayers, Principal Analyst	Dept. of Social Services, UConn Health Center, Office of Health Care Advocate, Dept. of Insurance
Jonathan Palmer, Associate Analyst	Corrections, Budget Information System
Phoenix Ronan, Associate Analyst	Criminal Justice, Judicial, Public Defender, Probate
Emily Shepard, Principal Analyst	Dept. of Social Services, Mental Health and Addiction Services, Psychiatric Security Review Board, Office of Early Childhood
Holly Williams, Associate Analyst	State Comptroller, Dept. of Social Services (Health Care), State Employee Fringe Benefits, Workers' Compensation

Administrative Staff
Laurie L. Wysock, Sr. Executive Secretary
Theresa Kelly, Senior Legislative Secretary
Lisa Kiro, Staff Assistant/Fiscal Note Coordinator

Legislative Office Building, Room 5200, Hartford, CT 06106
Phone: (860) 240-0200
E-Mail: ofa@cga.ct.gov; Web: www.cga.ct.gov/ofa

The following is an analysis of HB 6825, An Act Making Deficiency Appropriations and Addressing the Deficit for the Fiscal Year Ending June 30, 2015. This bill, which is the Governor's proposed deficiency and deficit mitigation bill, has two distinct aspects: 1) it makes FY 15 deficiency appropriations; and 2) has FY 15 deficit mitigation measures that require legislation. The deficiency appropriation provisions of the bill are covered in section I and II of this report; the deficit mitigation plan is covered in section III.

Potential Impact of HB 6825 on OFA's Projected FY 15 Deficit
OFA's projected FY 15 deficit is $178.9 million. This figure includes the impact of the November, January, and April rescissions. Therefore, the impact of HB 6825 on OFA's projected FY 15 deficit is related to the bill's deficit mitigation plan. The bill transfers and redirects $37.3 million into the General Fund in FY 15. As a result, HB 6825 reduces OFA's FY 15 deficit figure from $178.9 million to $141.6 million.

Spending Cap Impact
The bill reduces, by $24.7 million, the amount by which the FY 15 budget is under the spending cap. This is due to: 1) a $30 million reduction of appropriations in Debt Service, which is exempt from the spending cap, and a commensurate increase in areas that are subject to the spending cap, 2) a net appropriation reduction of $1 million across all funds, and 3) an approximate $0.3 million reduction in statutory grants to distressed municipalities, which are also exempt from the spending cap. The FY 15 budget is currently under the spending cap by $25.9 million; with passage of the bill, the FY 15 budget would be under the spending cap by $1.2 million.

I. FY 15 Deficiency Appropriations

The deficiency provisions of HB 6825 result in a net reduction of $21 million to the General Fund (GF), and a net increase of $20 million to the Special Transportation Fund (TF). It provides GF increases of $118.1 million and TF increases of $20 million, which are offset by reductions of $139.1 million in appropriations to various agencies (see Section II for a description of these changes). See table below for detail of the deficiency appropriations.

HB 6825, Expenditure Account Changes (in millions)

Agency	FY 15 $
General Fund Increases:	
Department of Emergency Services and Public Protection	5.0
Department of Social Services	88.4
Department of Correction	3.0
Public Defenders	4.7
State Comptroller - Miscellaneous	2.0

Agency	FY 15 $
State Comptroller – Fringe Benefits	15.0
Total - General Fund Increases	**118.1**
Transportation Fund Increases:	
DOT – Rail Operations	20.0
NET Transportation Fund Impact	**20.0**

The bill is based on the Governor's February projections. OFA is currently projecting $145.7 million in GF and $19.1 million in TF state agency funding shortfalls. This differs from the Office of Policy and Management's (OPM) April 20, 2015 projection of $149.8 million in GF and $20.4 million in TF by a total of $5.4 million in GF and TF. The following table displays the level of funding needed by agencies as projected by OFA and OPM.

FY 15 State Agency Estimated Deficiency Needs Comparison
(in millions)

Agency	HB 6825 $	OFA $	OPM $ (4/20/15)	Diff. OFA/OPM $
Department of Social Services	88.4	97.0	108.0	(11.0)
Department of Correction	3.0	12.1	4.9	7.2
OSC - Adjudicated Claims	2.0	8.3	8.5	(0.2)
OSC – Fringe Benefits	15.0	17.0	17.0	-
Department of Emergency Services and Public Protection	5.0	5.0	5.0	-
Public Defenders	4.7	6.3	6.0	0.3
Dept. of Agriculture	-	-	0.4	(0.4)
Total - General Fund	**118.1**	**145.7**	**149.8**	**(4.1)**
DOT – Rail Operations	20.0	5.0	5.0	-
DOT – Personal Services	-	10.7	13.0	(2.3)
OSC – Fringe Benefits	-	3.4	2.4	1.0
Total - Transportation Fund	**20.0**	**19.1**	**20.4**	**(1.3)**
TOTAL - All Appropriated Funds	**138.1**	**164.8**	**170.2**	**(5.4)**

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 budgeted lapse targets.

Given the reduction in available funding that occurs due to budgeted lapses (holdbacks), we currently identify seven agencies that require $164.8 million in deficiency funding. However, if available holdback funding is released, this will reduce the amount required to $161.6 million.

The following table includes the agency's FY 15 appropriation, total level of available funding (less holdbacks and plus any transfers for collective bargaining costs from the Reserve for Salary Adjustments account), estimated expenditures, and projected deficiency amounts.

FY 15 Estimated Agency Deficiency Needs

Agency	Budgeted Appropriation $	Available[1] Appropriation $	Estimated Exp. $	Deficiency without release of holdbacks $	Deficiency with release of holdbacks $
General Fund					
Department of Social Services	2,994,518,834	2,990,897,966	3,087,897,966	(97,000,000)	(95,407,490)
State Comptroller - Fringe Benefits	2,465,679,610	2,457,780,714	2,474,780,431	(16,999,717)	(16,999,717)
Department of Correction	675,833,632	680,589,133	692,692,578	(12,103,445)	(11,009,987)
State Comptroller - Miscellaneous	4,100,000	4,100,000	12,400,000	(8,300,000)	(8,300,000)
Public Defender Services Commission	63,616,706	62,377,370	68,677,370	(6,300,000)	(6,094,734)
Department of Emergency Services and Public Protection	170,416,519	182,705,783	187,712,635	(5,006,852)	(4,686,742)
			General Fund Total	**(145,710,014)**	**(142,498,670)**
Special Transportation Fund					
Department of Transportation	581,747,134	583,051,536	598,751,537	(15,700,001)	(15,700,001)
State Comptroller - Fringe Benefits	188,817,067	188,817,067	192,209,372	(3,392,305)	(3,392,305)
			Special Transportation Fund Total	**(19,092,306)**	**(19,092,306)**
			TOTAL	**(164,802,320)**	**(161,590,976)**

[1]Appropriation less budgeted lapses

Details are provided on the following pages for each agency's deficiency needs.

Detail on the Total Net Deficiencies - $164.8 million
(The following assumes that holdbacks will not be released by OPM.)

Department of Social Services (DSS) - $97 million

The agency's projected FY 15 budget shortfall is composed of:

- $82 million in Medicaid; and
- $15 million in Other Expenses.

The $82 million projected short fall in the Medicaid account is due to the following factors:

1) Enrollment growth in the Medicaid program continues to be strong. There were 21.6% more cases in March, 2015 than in March, 2014. This caseload growth has led to expenditures in excess of budgeted assumptions in many categories of service. Of particular note, pharmacy expenditures continue to track 12.5% above the budgeted assumptions through the first half of the fiscal year;
2) DSS made a $42.9 million retroactive hospital payment in November, with additional obligations anticipated by the end of the fiscal year;
3) Re-estimates for the federal cost share for the Affordable Care Act expansion population has resulted in anticipated state expenditures of approximately $13 million; and
4) FAC 2014-32 transferred $10 million out of the Medicaid account to the Connecticut Children's Medical Center account.

The $15 million projected shortfall in the Other Expenses account reflects higher than anticipated IT related expenses for the Xerox Medicaid support program and DSS's share of IT costs for the Access Health insurance exchange. These higher IT costs are directly related to the continued growth in Medicaid enrollment, which has increased 21.6% in the last 12 months.

Office of the State Comptroller - Adjudicated Claims - $8.3 million

The agency's projected FY 15 budget shortfall is composed of:

- $8.3 million in Adjudicated Claims.

The projected shortfall in the Adjudicated Claims account is due to 1) higher than anticipated claims costs and 2) a settlement for a wrongfully convicted individual in the amount of $6.0 million, payable in FY 15. The projected shortfall represents 67% of total FY 15 projected expenditures. 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 03, annual claims range from $3.9 million to $15.7 million, with a median annual claims cost of $7.6 million.

Office of the State Comptroller - Fringe Benefits - $17.0 million

The agency's projected FY 15 budget shortfall is composed of:

- $31.8 million in Retired State Employees' Health Service Costs.

This shortfall is partially offset by lapsing funds of $14.8 million in the following accounts:

- $11.3 million in Higher Education Alternative Retirement System;
- $2.8 million in Unemployment Compensation;
- $609,000 in Group Life Insurance; and
- $93,000 in Pensions and Retirement –Other Statutory.

The projected shortfall in the Retired State Employees' Health Service Costs account is due to various factors. First, an increase of 9.8% for retirees under 65 and 5% for Medicare eligible retirees in prescription drug costs over what was assumed in the FY 15 budget, including coverage for a new Hepatitis C treatment approved by the FDA this year (estimated cost per 12-week regimen is approximately $94,500). In addition to the new Hepatitis C treatment, compound drugs and costly brand name specialty drugs (for which there is not a generic alternative) are also driving the increase in prescription costs. Secondly, the shortfall in the Retired Employees' Health Services account is also being driven by an increase of approximately 3,000 retirees over what was assumed in the FY 14 – FY 15 budget. The FY 15 budget was not adjusted for the increase in the retiree population experienced in FY 14. Lastly, a reduction in the federal subsidy rates for participating in the Employer Group Waiver Program (which offset Medicare retiree state health costs) resulted in a reduction in FY 15 of approximately $6.9 million over what was assumed in the budget.

Funding is available in the Higher Education Alternative Retirement System (ARP) account, predominately due to the distribution of General Fund funded employees and expenditures being less than was anticipated, due to a shift to funding SERS higher education employees versus ARP employees out of the General Fund. In addition, funding is available in the Unemployment Compensation account, Group Life account and the Pensions – Other Statutory account (which predominately funds pensions for retired Governors) due to personnel and claims expenditures (for unemployment compensation) being less than anticipated for FY 15.

Department of Emergency Services and Public Protection (DESPP) - $5.0 million

The agency's projected FY 15 budget shortfall is composed of:

- $5.3 million in Personal Services.

This shortfall is partially offset by lapsing funds of $0.3 million in the following accounts:

- $293,000 in Fleet Purchase.

The $5.3 million projected shortfall in Personal Services arises, in part, from higher than budgeted overtime expenses in the Division of State Police. The Revised FY 15 Budget included a $4 million reduction in Personal Services to reflect the implementation of overtime savings in the Division of State Police. While DESPP has recently implemented overtime reduction measures, a delay in doing so has made the target savings unlikely to be achieved in FY 15. Additionally, DESPP has incurred approximately $1.7 million in Personal Services expenses related to pay-outs of accrued leave for retiring staff. This shortfall is further exacerbated by a Finance Advisory Committee (FAC) transfer of $2.3 million from Personal Services to Other Expenses during April, 2015.

Funding of approximately $293,000 is available in the Fleet Purchase account due to delays in vehicle delivery from the vendor.

Department of Correction (DOC) - $12.1 million

The agency's projected FY 15 budget shortfall is composed of:

$12.1 million in Personal Services.

The $12.1 million projected shortfall in Personal Services account is due to 1) the FY 14 deficiency remaining unfunded, 2) an increase in hazardous duty retirement of approximately 150% over FY 13, 3) the April 2, 2015 FAC transfer of $4.9 million from the Personal Services account to the Other Expenses account and the Workers' Compensation Claims account to offset deficiencies in those accounts.

The FY 14 deficiency was a result of higher than budgeted use of overtime due to an 80% increase in hazardous duty retirements from the previous year. In addition, retirements in FY 15 have increased approximately 65% over FY 14. The total growth in Correction Officer hazardous duty retirement since FY 13 is approximately 150%.

The FAC transfers to cover the shortfall in Other Expenses is primarily related to inflationary pressures on food and rising maintenance costs. Since FY 11, maintenance costs have increased by approximately 40% and food costs by 10%. In that same period, adjusted appropriations have fallen by 2%. The deficiency in Workers' Compensation Claims is driven by expense growth of 19.0% in FY 15. Specifically, year to date Medical costs have increased 40.2% and Stipulated Agreements have increased from $37,400 to $293,600. Overall, the number of claims has increased less than 1.0%, however the average cost per claim has increased 7.8%.

Public Defenders - $6.3 million

The agency's projected FY 15 budget shortfall is composed of:

- $6.3 million in Personal Services.

The projected shortfall of $6.3 million in the Personal Services account (11.2% of the appropriation) is due to: 1) the March 5, 2015 FAC approval of transferring $5.0 million from the Personal Services to the Assigned Counsel – Criminal and Expert Witnesses account, 2) rescissions to this account totaling $1.2 million, and 3) greater than anticipated accumulated leave payments.

The March 2015 FAC transferred $4.7 million to the Assigned Counsel – Criminal account. The original shortfall in the Assigned Counsel – Criminal account (as referenced HB 6825) is due to PA 12-115, An Act Concerning Habeas Reform, which reduced the time in which a habeas petition can be filed, which in turn has resulted in an influx of habeas petitions received by the agency. Habeas petitions have almost doubled since the legislation passed. Previous to the legislation, the agency averaged 25 petitions per month, or 300 per year. Since the legislation passed, the agency has averaged 50 petitions per month, or 600 per year. The cost per case can vary significantly depending on the complexity of the appeal but is usually between $3,000 and $10,000 per case.

The March 2015 FAC transferred $310,000 to the Expert Witnesses account. Funds in this account are used, in part, to support habeas cases, which have increased significantly, as explained above.

The agency is anticipating greater accumulated leave payments than budgeted. In FY 14, accumulated leave payments totaled $308,086. In FY 15, it is anticipated that accumulated leave payments will total approximately $537,000.

Department of Transportation (DOT) - $15.7 million

The agency's projected FY 15 budget shortfall is composed of:

- $10.7 million in Personal Services; and
- $5 million in Rail Operations.

The $10.7 million projected shortfall in the Personal Services account is driven by the March 5, 2015 FAC transfer of $10.7 million from Personal Services to Other Expenses. This transfer was to cover a shortfall in the Other Expenses account due to higher than budgeted storm related costs for snow and ice removal. DOT's snow and ice removal budget is based on an average of 12 storms per year, and to date there have been approximately 18 storms. The price of road salt has increased by 24%, and due to the severity of the storms, DOT has been using more contractor trucks. Also, per union contract, employees that work certain hours beyond the regularly scheduled day must have meals provided which has exceeded budgeted amounts. Due to winter storm costs funding is needed for the following reasons; 1) $8.8 million from higher than average storm costs for road salt, material and contractual services, 2) $1.9 million for equipment maintenance and repair of the department's fleet. Currently, 280 of DOT's 632 truck fleet, or 45% are past the 12 year useful lifecycle.

The $5 million projected shortfall in the Rail Operations account is driven by the costs associated with the Metro North Rail line. DOT received an unanticipated notification from Metro North of a pending settlement between the Metropolitan Transit Authority (MTA) and the Long Island Railroad workers regarding back wages to 2010. This settlement, and also the costs of ongoing safety initiatives to be implemented in accordance with regulatory authorities have resulted in a projected shortfall in this account.

Office of the State Comptroller - Fringe Benefits - Special Transportation - $3.4 million

The agency's projected FY 15 budget shortfall is composed of:

- $3.9 million in State Employees' Health Service Costs.

This shortfall is partially offset by lapsing funds of $0.5 million in the following accounts:

- $490,300 in Employers' Social Security Tax;
- $37,000 in Unemployment Compensation; and
- $22,000 in Group Life Insurance.

The projected shortfall in the State Employees' Health Service Costs account within the Special Transportation Fund is due to expenditures being 9.4% higher than anticipated for employees of the Departments of Transportation (DOT) and Motor Vehicles (DMV), partially driven by higher than anticipated payroll fringe benefit transactions. Average monthly expenditures are 4.7% higher than the period July through April in FY 14.

Funding is available in the Employers' Social Security Tax account, the Unemployment Compensation account and the Group Life account due to DOT and DMV personnel and claims expenditures (for unemployment compensation) being less than anticipated for FY 15.

II. FY 15 Appropriation Reductions

The bill reduces appropriations to agencies by $139.1 million in the following ways:

- $54.7 million in various accounts, which reflect the November rescission;
- $31.5 million in various accounts, which reflect the January rescission;
- $20 million from the General and Statewide Hiring Reduction Lapses (holdbacks);
- $30 million from State Treasurer – Debt Service; and
- $3 million from Department of Children and Families, Board and Care for Children – Residential.

The table below reflects the impact of the above appropriation reductions contained in section 2 of the bill.

Agency	FY 15 $
General Fund Reductions:	
Legislative Management	(1.7)
Auditors of Public Accounts	(0.3)
Commission on Aging	(.01)
Permanent Commission on the Status of Women	(.02)
Commission on Children	(.02)
Latino and Puerto Rican Affairs Commission	(.01)
African-American Affairs Commission	(.01)
Asian Pacific American Affairs Commission	(.005)
Governor's Office	(0.2)
Secretary of the State	(0.4)
Lt. Governor's Office	(.04)
State Treasurer	(0.2)
State Comptroller	(1.0)
Department of Revenue Services	(2.0)
Office of Governmental Accountability	(0.1)
Office of Policy and Management	(0.7)
Department of Veterans' Affairs	(1.0)
Department of Administrative Services	(3.0)
Attorney General	(1.2)
Division of Criminal Justice	(0.5)
Dept. of Emergency Services and Public Protection	(0.4)
Military Department	(0.2)
Department of Consumer Protection	(0.7)
Labor Department	(0.9)
Commission on Human Rights and Opportunities	(0.1)
Protection & Advocacy for Persons with Disabilities	(0.1)
Department of Agriculture	(.01)

Agency	FY 15 $
Dept. of Energy and Environmental Protection	(3.2)
Dept. of Economic and Community Development	(1.4)
Department of Housing	(0.5)
Agricultural Experiment Station	(0.1)
Department of Public Health	(1.8)
Office of the Chief Medical Examiner	(0.2)
Department of Developmental Services	(16.3)
Dept. of Mental Health and Addiction Services	(7.6)
Psychiatric Security Review Board	(.01)
Department of Social Services	(4.4)
State Department on Aging	(0.3)
Department of Rehabilitation Services	(0.3)
Department of Education	(5.7)
Office of Early Childhood	(1.1)
State Library	(0.5)
Office of Higher Education	(0.1)
University of Connecticut	(5.4)
University of Connecticut Health Center	(3.2)
Teachers' Retirement Board	(.02)
Board of Regents for Higher Education	(5.9)
Department of Correction	(1.1)
Department of Children and Families	(11.9)
Judicial Department	(12.5)
Public Defender Services Commission	(1.5)
Debt Service – State Treasurer	(30.0)
State Comptroller – Fringe Benefits	(4.8)
Reserve for Salary Adjustments	(1.5)
Workers' Compensation Claims - DAS	(0.4)
Total - General Fund Reductions	**(139.1)**
NET General Fund Impact	**(21.0)**

The following provides additional detail on the reduction to the Debt Service account with the State Treasurer and the Board and Care for Children – Residential account within the Department of Children and Families.

Debt Service - State Treasurer - $30 million

Funding is reduced in the following account:

- $30 million in General Fund Debt Service.

OFA's estimated FY 15 lapse for the General Fund debt service account as of April 17, 2015 is $70.8 million. As shown in the table below, the lapse estimate includes debt service adjustments for: 1) the difference between issuance assumptions and actual issuance of GO bonds, 2) bond premiums[1], 3) anticipated future savings for the remainder of the fiscal year, and 4) the FY 15 refinancing of Economic Recovery Notes (ERNs) that were originally issued to fund the 2009 General Fund operating budget deficit.

OFA FY 15 Debt Service Lapse Estimate (in millions)

Description	Amount $
Differences in issuance assumptions	(35.6)
Premiums	(72.3)
Refunding Savings	(9.7)
Economic Recovery Note refinancing and retirement	55.5
Savings on fees, arbitrage rebate and other sources	(8.7)
TOTAL	**(70.8)**

Department of Children and Families (DCF) - $3 million

Funding is reduced in the following account:

- $3 million in Board and Care for Children – Residential.

The $7.1 million projected lapse in the Board and Care for Children - Residential account is due to a reduction in residential placements. Average monthly placements have decreased by 192 children from July through January in FY 15. This reduction continues the overall trend of placements in this account, which has fallen from an average of 1,007 placements in FY 13 to 654 through April 2015.

III. FY 15 Deficit Mitigation Plan

Sections 4 – 6 of the bill transfers or redirects $37.3 million into the General Fund in FY 15. See below for detail.

Section 4 transfers $9.4 million from the Biomedical Research Trust Fund to the General Fund in FY 15. The April 9, 2015 balance in the Biomedical Research Trust Fund is $8.1 million and an additional $4 million will be transferred from the Tobacco Settlement Fund by the end of April, 2015 resulting in a balance of $12.1 million at the time of the transfer. The balance in the Biomedical Research Trust Fund after the $9.4 million transfer to the General Fund is estimated to be $2.7 million

[1]Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold. Between FY 02 and FY 13, the General Fund debt service account lapsed between $28 million and $80 million each year due to bond premiums. The money that the state receives from premiums on GO bonds must be used to pay debt service on outstanding GO bonds under the provisions of CGS Sec. 3-20(f) and federal Internal Revenue Service regulations for tax exempt bond issuance.

Section 5 transfers $15.2 million, in FY 15, from the Community Investment Act (CIA) and credits this amount to the resources of the General Fund. The FY 15 balance in the CIA after this sweep is anticipated to be approximately $37.2 million.

Under the CIA, a $40 recording fee is collected on every municipal real-estate transaction. The revenue derived from these fees is then distributed to four departments: Agriculture (DAG), Energy and Environmental Protection (DEEP), Economic and Community Development (DECD), and Housing (DOH). The $15.2 million transfer includes: 1) $10.0 million from DEEP for the purpose of municipal open space grants; 2) $5.1 million from DECD for the purpose of historic preservation; and 3) $100,000 from DAG for the Connecticut Food Policy Council.

Section 6 eliminates a one-time General Fund revenue diversion of $12.7 million. This results in a corresponding FY 15 General Fund revenue gain of $12.7 million. This funding was intended to reimburse towns for the revenue they lost inadvertently when the Municipal Revenue Sharing Account was terminated effective June 30, 2013. This termination date precluded the deposit of revenue received after the close of the fiscal year but counted toward FY 13 because the revenue was earned in that period.