HB 7026
An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2017

Prepared for
Appropriations Committee
Public Hearing

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The following is an analysis of HB 7026, An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2017. This bill, which is the Governor's proposed deficiency bill, results in no net impact to the General Fund. The General Fund increases of $28.4 million are offset by reductions in appropriations. See the table below for detail of the deficiency bill's appropriations and reductions.

Spending Cap Impact

The deficiency bill increases room under the spending cap by $10 million due to an increase of $10 million in Debt Service appropriations (which are exempt from the cap) and other corresponding reductions which result in a net zero deficiency appropriation in FY 17.

HB 7026, Expenditure Account Changes (in millions)

Agency	FY 17 $
Section 1 General Fund Increases:	
Dept. of Emergency Services & Public Protection	.3
Office of the Chief Medical Examiner	.3
Office of Early Childhood	10.0
Department of Correction	3.5
Public Defender Services Commission	4.3
Debt Service – State Treasurer	10.0
Total - General Fund Increases	**28.4**
Section 2 General Fund Reductions:	
State Comptroller - Fringe Benefits	(28.4)
Total - General Fund Reductions	**(28.4)**
NET GF Impact	**-**

The bill is based on the Governor's February projections. OFA is projecting $46.0 million in General Fund state agency funding shortfalls. This differs from the Office of Policy and Management's (OPM) March 20, 2017 projection of $32.0 million by a total of $14.0 million. The following table displays the level of funding needed by agencies as projected by OFA and OPM.

FY 17 State Agency Estimated Deficiency Needs Comparison
(in millions)

Agency	HB 7026 $	OFA $	OPM $ (3/20/17)	Diff. OFA/OPM $
Office of the Chief Medical Examiner	.3	.3	.3	-
Office of Early Childhood	10.0	9.1	9.2	(.1)
Public Defender Services Commission	4.3	4.3	4.3	-
Dept. of Emergency Services & Public Protection	.3	.5	.5	-
Department of Developmental Services	-	7.7	7.7	-
State Treasurer – Debt Service	10.0	-[1]	10.0	(10.0)
Department of Correction	3.5	2.5	-	2.5
UConn Health Center	-	.8	-	.8
State Comptroller - Miscellaneous	-	20.8	-	20.8
Total - General Fund	**28.4**	**46.0**	**32.0**	**14.0**

Totals may not add due to rounding.

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 eight agencies that require $46.0 million in deficiency funding. However, if available holdback funding is released, this will reduce the amount required to $30.9 million.

[1]The State Treasurer is currently refunding approximately $200 million in outstanding General Obligation bonds, which is expected to generate almost $5 million in FY 17 savings. These savings, in addition to the recognition of variable rate savings, is anticipated to eliminate the FY 17 deficiency of $7.1 million that OFA projected in its Monthly Statement of March 27, 2017.

The following table includes the agency's FY 17 appropriation, total level of available funding (less holdbacks), estimated expenditures, and projected deficiency amounts.

FY 17 Estimated Agency Deficiency Needs

Agency	Budgeted Appropriation $	Available[1] Appropriation $	Estimated Exp. $	Deficiency without release of holdbacks $	Deficiency with release of holdbacks $
General Fund					
State Comptroller - Miscellaneous	13,392,147	13,392,147	34,228,147	(20,836,000)	(20,836,000)
Office of Early Childhood	293,800,629	291,756,495	300,863,931	(9,107,436)	(7,063,302)
Dept. of Developmental Services	525,138,436	518,430,882	526,130,882	(7,700,000)	(992,446)
Public Defender Services Commission	65,555,483	63,074,585	67,336,065	(4,261,480)	(1,780,582)
Dept. of Correction	623,059,557	619,366,315	621,866,316	(2,500,001)	-
UConn Health Center	134,539,312	130,503,134	131,253,134	(750,000)	-
Dept. of Emergency Services & Public Protection	174,420,300	177,994,246	178,494,246	(500,000)	-
Office of the Chief Medical Examiner	5,904,516	5,844,680	6,144,747	(300,067)	(240,231)
			TOTAL	(45,954,984)	(30,912,561)

[1]Appropriation less budgeted lapses.

Details are provided on the following pages for each agency's deficiency needs, based on OFA's projections.

Detail on the Total Net Deficiencies - $46.0 million
(The following assumes that holdbacks will not be released by OPM.)

Office of State Comptroller – Miscellaneous – $20.8 million

The agency's projected FY 17 shortfall is comprised of:
- $20.8 million in the Adjudicated Claims account.

The FY 17 Revised Budget did not include an appropriation for the account. Approximately $18 million of the projected deficiency is for estimated payments for the SEBAC v. Rowland Settlement. The balance of the projected deficiency includes installment payments for previous settlements against the state.

Office of Early Childhood - $9.1 million

The agency's projected FY 17 budget shortfall is comprised of:
- $8.1 million in Birth to Three, and
- $1.5 million in Care4Kids.

This shortfall is partially offset by $450,000 lapsing funds from the following accounts:
- $250,000 million in Early Care and Education, and
- $200,000 in Personal Services.

The $8.1 million projected shortfall in the Birth to Three account (21.1% of the total FY 17 available appropriation), is primarily due to a continuation of the FY 16 deficiency as well as an increase in the number of children who require more intensive services.

The Birth to Three account experienced shortfalls over the past several years while under the Department of Developmental Services. After being transferred to the Office of Early Childhood (OEC), the account received a deficiency appropriation of $6.3 million in FY 16. In addition, the average number of children receiving intensive services increased in both general Birth to Three programs and Autism related programs. Intensive services are those more than 13 hours per month. Although the first 13 hours of service are currently covered within a fixed unit rate, those hours above 13 are paid on a supplemental (hourly) basis.

The $1.5 million shortfall in the Care4Kids account is driven by increased caseload due to several factors, and takes into consideration the program changes made to mitigate the projected deficit. Priority group 4 was closed to new applications in August 2016, while priority groups 2 and 3 were closed to new applications as of January 2017. The state implemented program changes as a result of the federal reauthorization of the Child Care Development Fund (CCDF), which kept families on the program longer. Changes include: (1) a 12 month period of eligibility regardless of changes that would have previously made the child ineligible, (2) three additional months of benefits after individuals are found ineligible due to income at redetermination, and (3) additional months of eligibility for job search activities.

A lapse of approximately $250,000 is estimated in the Early Care and Education account due to a reconciliation of Child Day Care center utilization in FY 16 as well as the current utilization of School Readiness seats. An estimated lapse of approximately $200,000 is estimated in the Personal Services account due to a delay in filling vacancies.

Department of Developmental Services - $7.7 million

The agency's projected FY 17 budget shortfall is comprised of:
- $5.5 million in Personal Services, and
- $1.0 million in Other Expenses, and
- $1.2 million in Workers' Compensation Claims.

The projected shortfall of $6.5 million ($5.5 million in Personal Services and $1.0 million in Other Expenses) is due to the delay in the conversion of 28 DDS group homes from state-operated to private-provider contracted services. It should be noted that this delay also results in a projected lapse of $7.3 million in the Community Residential Services account which funds DDS private providers.

The Workers' Compensation Claims account has a projected shortfall of $1.2 million. The available FY 17 appropriation for this account is 4% less than the FY 16 actual expenditure and while the projected number of claims is lower than FY 16, the cost per claim has increased.

Public Defender Services Commission - $4.3 million

The agency's projected FY 17 budget shortfall is comprised of:
- $2.3 million in Personal Services,
- $1.7 million in Assigned Counsel, and
- $0.2 million in Expert Witnesses.

The Personal Services account is experiencing a projected deficiency of $2.3 million. Available resources to the account are approximately $5 million less than FY 16 actual expenditures. Though the agency has reduced its staff by 40 positions, including 17 from layoffs and 23 from attrition, these reductions are not enough to keep expenditures within the available resources.

The Assigned Counsel account is experiencing a projected deficiency of $1.7 million. Due to flat rate fees implemented by the agency, expenditures in this account do not fluctuate greatly from year to year. However, the available resources in FY 17 are $3.1 million less than the FY 16 actual expenditures. While the agency has taken measures to reduce expenditures in this account, including assigning cases that previously would have been assigned counsel to staff attorneys for both criminal and child protection cases, these reductions are not enough to keep expenditures within the available resources.

The Expert Witnesses account is experiencing a projected deficiency of $0.2 million. There are several factors driving this deficiency: (1) available funding in FY 17 is $88,000 less than actual expenditure in FY 16, and (2) expert costs related to PA 15-84, juvenile resentencing cases.

Department of Correction - $2.5 million

The agency's projected FY 17 budget shortfall is comprised of:

- $3.5 million in Workers' Compensation Claims.

This shortfall is partially offset by $1.0 million lapsing funds in the following account:

- $1.0 million in Board of Pardons and Parole.

The $3.5 million projected shortfall in the Workers' Compensation Claims' account is due to not meeting reductions contained in the FY 17 Revised Budget. The original FY 17 Budget contained a $431,000 reduction and the FY 17 Revised Budget included an additional $2,027,121 reduction. The Office of Policy and Management also assigned this account a holdback of $710,335 in FY 17. Historically, this account has annual expenditures averaging $26.5 million, but was appropriated $23.7 million for FY 17. While current year expenditures are 1.7% lower than FY 16, the reduction is not sufficient to meet the budget reductions.

An estimated lapse of approximately $1.0 million in the Board of Pardons and Paroles account is attributed to appropriations in excess of historical expenditure levels.

University of Connecticut Health Center - $750,000

The agency's projected FY 17 budget shortfall is comprised of:

- $750,000 in Workers' Compensation Claims.

This account has $6.7 million available in FY 17, which is 16% less than FY 16 expenses. The Correctional Managed Health Care contract and John Dempsey Hospital typically comprise 75% of account expenses. The Health Center assumed responsibility for Workers' Compensation Claims, as its own account, beginning in FY 16. Spending declined 5% that fiscal year, from $8.4 million in FY 15 to approximately $8.0 million in FY 16, but still exceeded the $7.0 million appropriation by nearly $1 million. The FY 16 deficiency was handled through an FAC transfer from the UConn (Storrs and regionals) Workers' Compensation Claims account.

Department of Emergency Services and Public Protection - $500,000

The agency's projected FY 17 budget shortfall is comprised of:

- A $500,000 deficiency in Workers' Compensation Claims.

This deficiency represents 12% of the $4,165,000 appropriation available to the agency to pay workers' compensation claims. In FY 17 to date, the agency has expended approximately $40,000 more per month on total indemnities compared to FY 16. This increase is due to growth in trooper salaries and a rise in motor vehicle accidents, which usually result in higher medical claims. The agency's FY 17 appropriation is $75,000 less than FY 16 actual expenditures.

Office of the Chief Medical Examiner (CME) – $300,000

The agency's projected FY 17 budget shortfall is comprised of:

- $270,000 in the Personal Services account (PS), and
- $30,000 in the Other Expenses account (OE).

The $270,000 shortfall in PS represents 5.9% of the FY 17 appropriation in the account. The $30,000 shortfall in OE represents 2.4% of the FY 17 appropriation in the account. The shortfall in PS predominantly reflects overtime expenses. Primary cost drivers for OE are laboratory services, body transportation, and medical supplies. CME's overall caseload continues to rise. From FY 15 to FY 16, autopsies increased by 351 from 1,975 to 2,326. The Office is open 24 hours a day, every day of the year. It is charged to investigate all human deaths that fall into the following categories:

1. Violent (whether apparently homicidal, suicidal, or accidental),
2. Sudden, or unexpected, that are not caused by a readily recognizable disease,
3. Under suspicious circumstances,
4. Related to disease resulting from employment,
5. Related to disease that might constitute a threat to public health, and
6. The bodies of the deceased to be cremated.

FY 16 Appropriation Reductions

Section 2 of the bill reduces appropriations to State Comptroller – Fringe Benefits by a total of $28.4 million. Below is OFA's estimate of the amount of funding available for reduction in State Comptroller – Fringe Benefits.

Office of the State Comptroller - Fringe Benefits - $50.4 million

Funding is available in the following accounts:

- $21.2 million in State Employees' Health Service Cost,
- $12 million in Employers' Social Security Tax,
- $11.8 million in Retired State Employees Health Service Cost,
- $4.9 million in Higher Education Alternative Retirement System,
- $240,000 in Unemployment Compensation,
- $172,000 in Pensions and Retirements – Other Statutory, and
- $108,000 in Group Life Insurance.

Funding is available in the State Employees' Health Service Cost account and the Employers' Social Security Tax account due to personnel reductions across state agencies cause by layoffs and attrition. The active employee health population assumed in the budget is greater than the number of active employees currently covered by the state plan by approximately 1,500. Average per pay period expenditures from the account are approximately 7.2% less than assumed in the budget ($24.8 million compared to $26.7 million). The average number of state employees who were laid off and collecting unemployment monthly is slightly less than 700, compared to the historical average of approximately 300. The average number of employees retiring per month (adjusted for historically high retirement months) is 7.7% higher than FY 16 (174 compared to 161). Social Security average per pay period expenditures are approximately 4.8% less than assumed in the budget ($8.4 million compared to $8.8 million).

Funding is available in the Retired State Employees' Health Services Cost account, despite higher than average retirements, due to overall claims experience of the population being less than budgeted. Average per pay period expenditures from the account are approximately 10.2% less than assumed in the budget ($54.7 million compared to $61.9 million).

Funding is available in the Higher Education Alternate Retirement System (ARP) predominately due to the ARP enrolled employees at the institutions of higher education being attributed to funding sources other than their General Fund block grants. The General Fund ARP appropriation supports ARP employees whose salaries are supported with General Fund block grant dollars.

Funding is available in the Unemployment Compensation due to average monthly unemployment benefit starting to trend downward after January 1st, when those employees laid off, effective July 1st begin to transition off unemployment compensation. A transfer of $4 million from the State Employees' Health Service Cost account was approved at the January meeting of the Finance Advisory Committee. The projected lapse represents approximately 2% of the adjusted appropriation.

Funding is available in the Group Life Insurance and the Pension and Other Statutory accounts due to actual expenditures being less than anticipated by 1.4% and 10% respectively.