HB 5034
An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2018

Prepared for
Appropriations Committee
Public Hearing

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The following is an analysis of HB 5034, An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2018. This bill, which is the Governor's proposed deficiency bill, results in no net impact to the General Fund or the Transportation Fund. General Fund increases of $37.0 million are offset by reductions in appropriations. Transportation Fund increases of $28.1 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 reduces room under the spending cap by $28.1 million due to: (1) a decrease of $28.1 million in Debt Service appropriations (which are exempt from the cap), and (2) other offsetting adjustments in appropriations subject to the cap which result in a net zero deficiency appropriation in FY 18.

General Fund and Transportation Fund
Expenditure Account Changes (in millions)

Agency	FY 18 $
Section 1 General Fund Increases:	
Division of Criminal Justice	.4
Dept. of Emergency Services & Public Protection	3.0
Dept. of Energy & Environmental Protection	2.4
Office of the Chief Medical Examiner	.2
Dept. of Correction	10.0
Dept. of Children & Families	12.4
Public Defender Services Commission	.3
State Comptroller – Fringe Benefits	8.3
Total - General Fund Increases	**37.0**
Section 2 General Fund Reductions:	
Dept. of Social Services	(17.6)
Teachers' Retirement Board	(19.4)
Total - General Fund Reductions	**(37.0)**
NET General Fund Impact	**-**
Section 3 Transportation Fund Increases:	
Dept. of Transportation	24.6
State Comptroller – Fringe Benefits	3.5
Total – Transportation Fund Increases	**28.1**
Section 4 Transportation Fund Reductions:	
Debt Service – State Treasurer	(28.1)
Total – Transportation Fund Reductions	(28.1)
NET Transportation Fund Impact	-

OFA is projecting $65.9 million in General Fund state agency funding shortfalls. This differs from the Office of Policy and Management's (OPM) February 20, 2018 projection of $37.1 million by a total of $28.7 million. OFA is projecting $35.6 million in Transportation Fund state agency funding shortfalls. This differs from the Office of Policy and Management's (OPM) February 20, 2018 projection of $34.9 million by $745,628. The following table displays the level of funding needed by agencies as projected by OFA and OPM.

FY 18 State Agency Estimated Deficiency Needs Comparison (in millions)

Agency	HB 5034 $	OFA $	OPM $ (2/20/18)	Difference OFA/OPM $
State Comptroller – Miscellaneous	-	26.4	-	26.4
Auditors of Public Accounts	-	.2	-	.2
Division of Criminal Justice	.4	.7	.7	-
Dept. of Emergency Services & Public Protection	3.0	4.0	3.0	1.0
Dept. of Energy & Environmental Protection	2.5	2.5	2.1	.4
Office of the Chief Medical Examiner	.2	.2	.2	-
Dept. of Correction	10.0	9.7	8.4	1.3
Dept. of Children & Families	12.4	12.4	11.3	1.1
Public Defender Services Commission	.3	-	-	-
State Comptroller – Fringe Benefits	8.3	-	-	-
Dept. of Mental Health & Addiction Services	-	5.3	7.0	(1.7)
Dept. of Developmental Services	-	3.0	3.0	-
Dept. of Administrative Services – Workers' Comp. Claims	-	1.5	1.5	-
Total – General Fund	**37.0**	**65.9**	**37.1**	**28.7**
Dept. of Transportation	24.6	31.9	31.9	-
State Comptroller – Fringe Benefits	3.5	3.7	3.0	.7
Total – Transportation Fund	28.1	35.6	34.9	**.7**

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 eleven General Fund agencies that require $65.9 million in deficiency funding. However, if available holdback funding is released, this will reduce the amount required to $28.4 million. In addition, we identify deficiencies of $35.6 million in the Transportation Fund that require funding. However, if available holdback fund is released, this will reduce the amount required to $29.3 million.

The following table includes the agency's FY 18 appropriation, total level of available funding (less holdbacks), estimated expenditures, and projected deficiency amounts.

OFA Estimates of FY 18 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	546,139	546,139	26,961,139	(26,415,000)	(26,415,000)
Dept. of Children & Families	786,424,754	773,830,450	786,230,450	(12,400,000)	-
Dept. of Correction	599,633,956	590,322,954	600,039,774	(9,716,820)	-
Dept. of Mental Health & Addiction Services	609,784,206	591,161,571	596,461,571	(5,300,000)	-
Dept. of Emergency Services & Public Protection	185,062,432	178,307,147	182,307,147	(4,000,000)	-
Dept. of Developmental Services	519,576,658	505,493,798	508,493,798	(3,000,000)	-
Dept. of Energy and Environmental Protection	56,249,598	54,267,741	56,717,741	(2,450,000)	(468,143)
Dept. of Administrative Services – Workers' Comp.	7,605,530	7,605,530	9,150,530	(1,545,000)	(1,545,000)
Division of Criminal Justice	49,002,464	46,461,066	47,161,066	(700,000)	-
Office of Chief Medical Examiner	6,410,895	6,226,834	6,396,834	(170,000)	-
Auditors of Public Accounts	10,621,294	10,319,314	10,479,314	(160,000)	-
TOTAL				**(65,856,820)**	**(28,428,143)**
Transportation Fund					
Dept. of Transportation	620,142,556	617,587,853	649,487,854	(31,900,000)	(29,345,298)
State Comptroller – Fringe Benefits	201,086,068	181,886,068	185,631,696	(3,745,628)	-
TOTAL				**(35,645,629)**	**(29,345,298)**

[1]Appropriation less budgeted lapses.

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

Agency Detail on the General Fund Net
Deficiencies - $65.9 million
(The following assumes that holdbacks will not be released by OPM.)

Office of State Comptroller – Miscellaneous – $26.4 million

The agency's projected FY 18 shortfall is comprised of:

- $26.4 million in the Adjudicated Claims account

The FY 18 – FY 19 budget did not include an appropriation for the account. Approximately $16.2 million of the projected deficiency is for payments for the SEBAC v. Rowland Settlement. The balance of the projected deficiency includes installment payments for other settlements against the state.

Department of Children and Families (DCF) - $12.4 million

The agency's projected FY 18 budget shortfall is comprised of:

- $6 million in Personal Services
- $3.7 million in Substance Abuse Treatment
- $1.7 million in Board and Care for Children – Short Term and Residential (B&C – Res)
- $1 million in Community KidCare

The projected shortfall of $6 million in Personal Services reflects 54.8% of the $10.9 million holdback in that account. Personal Services expenditures in FY 17 were $3.7 million higher than the current fiscal year projection of $268.3 million. FY 18 available funding ($262.3 million) is 3.6% less than the agency's actual Personal Services expenditures in FY 17 ($272 million).

The projected shortfall of $3.7 million in Substance Abuse Treatment is related to the Family-Based Recovery project expansion, which is intended to reduce the risk of removal for infants, or toddlers, who are at risk for abuse and/or neglect due to parental substance abuse.

The projected shortfall of $1.7 million in B&C – Res is primarily due to an approximate 3% decrease in average monthly residential placements.

The projected shortfall of $1 million in Community KidCare is primarily due to increased utilization of intensive home-based services and emergency mobile psychiatric services.

Department of Correction - $9.7 million

The agency's projected FY 18 shortfall is comprised of:

- $9.4 million in Personal Services
- $1.7 million in Other Expenses

This shortfall is partially offset by $1.4 million lapsing funds in the following account

- $1.4 million in Workers Compensation Claims

The Department of Correction (DOC) is projected to have a year-end deficiency of $11.1 million resulting in shortfalls of $9.4 million in personal services and $1.7 million in other expenses. DOC's FY 18 available personal services resources, after adjustments for holdbacks and an anticipated transfer from the Reserve for Salary Adjustment account, are 5.4% less than final FY 17 expenditures. However, year-to-date expenditures are only 1.2% lower than FY 17 levels.

The Other Expenses account is projected to have a $1.7 million deficiency due to a reduction in available resources as a result of the holdback to this account.

An estimated lapse of approximately $1.4 million in the Workers Compensation Claims account is attributed to a reduction in the total amount of claims compared to recent historical levels. FY 18 claims to-date are 3% lower when compared to the average claims amount from the last five fiscal years.

Department of Mental Health and Addiction Services – $5.3 million

The agency's projected FY 18 budget shortfall is comprised of:

- $5 million in Personal Services
- $2 million in Other Expenses
- $1.6 million in Workers' Compensation Claims

This shortfall is partially offset by $3.3 million lapsing funds from the following accounts:

- $500,000 in Young Adult Services
- $500,000 in TBI Community Services
- $2.3 million in Home and Community Based Services

The $5 million projected shortfall in the Personal Services account (2.8% of the total FY 18 available appropriation), is primarily due to increased overtime expenditures and anticipated enhanced staffing at Connecticut Valley Hospital (CVH). Overall, the employee count was 4.6% lower in February 2018 than the prior year. Also, the FY 18 holdback of $8.2 million brings the available appropriation approximately $7.7 million below FY 17 total expenditures.

The Other Expenses account shortfall of $2 million (8.6% of the total FY 18 available appropriation) is due to increased expenditures to support security and safety upgrades at CVH. A holdback of approximately $1.2 million was applied to this account in FY 18, bringing the available appropriation approximately $1.7 million below FY 17 total expenditures.

The $1.6 million shortfall in Workers' Compensation Claims represents 14% of the total FY 18 available appropriation. Expenditures through February are trending approximately 9.4% higher than expenditures during the same period in FY 17.

Lower than budgeted expenditures are leading to an estimated lapse of approximately $500,000 in both Young Adult Services and TBI Community Services, which represents 0.7% and 5.8% of the total FY 18 available appropriation, respectively. Young Adult Services expenditures through February are trending approximately 10.9% lower than last year, while expenditures under TBI Community Services are trending approximately 11.8% lower when compared to the same period in FY 17.

Lower than budgeted Home and Community Based Services expenditures are leading to an anticipated lapse of $2.3 million, which represents approximately 10.6% of the total FY 18 available appropriation. Expenditures are trending approximately 26.5% lower than expenditures through the same period in FY 17.

Department of Emergency Services & Public Protection - $4 million

The agency's projected shortfall is comprised of:

- $4,000,000 in Personal Services

The Department of Emergency Services and Public Protection (DESPP) is projected to accumulate a shortfall of $4 million in FY 18. The agency has experienced an unusual number of retirements and personnel changes this year, which has led to a higher than expected cost in paying out employee benefits such as vacation and sick pay ($1.9 million as of January 1). The agency averages 54 retirements per year, but has already experienced 59 as of January 1st.

This change in personnel has been the driver of a 28% increase in overtime costs within the agency's Personal Services account due to the need for officers to cover shifts. These costs are not projected to decrease, as DESPP is currently not able to hire the number of employees necessary to drive down overtime.

Please note that the Office of Policy and Management is likely to transfer funds out of their Reserve for Salary Adjustments (RSA) account to DESPP to cover employee benefit payouts by the end of the fiscal year. The $4 million deficiency would decrease by an amount equal to any such transfer.

Department of Developmental Services (DDS) - $3.0 million

The agency's projected FY 18 budget shortfall is comprised of:

- $3 million in Personal Services

The projected net shortfall of $3 million is due to the delay in the conversion of ten 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 $3 million in the Community Residential Services account in the Department of Social Services, which funds DDS private providers.

Department of Energy and Environmental Protection (DEEP) - $2,450,000

The agency's projected FY 18 budget shortfall is comprised of:

- $2,450,000 in Environmental Conservation

The projected shortfall of $2,450,000 million is due to the newly established Passport to Parks program functioning through DEEP's operating funds instead of the new Passport to Parks non-lapsing account. Additionally, PA 17-2, the biennial budget, reduced Environmental Conservation account appropriations for FY 18, by $1,290,336, to reflect the shift of programmatic expenses from the agency's operating budget to the Passport to Parks account. The agency's FY 18 appropriation for the Environmental Conservation account is $2,997,751, or 36.3% less than its FY 17 appropriation.

Department of Administrative Services – Workers' Compensation Claims – $1.5 million

The agency's projected FY 18 shortfall is comprised of:

- $1.5 million in the Workers' Compensation Claims account

The Workers' Compensation account is projected to run a deficiency of $1.5 million based on higher than anticipated claims trends. FY 18 medical related claim expenditures for the first 7 months of the fiscal year are currently 36% higher than the same period in FY 17, and 20% higher for total claim costs as compared to FY 17. In addition, trends in high cost claims are greater than FY 17. For example, total FY 17 claims expenditures for the 10 highest claims was $1.1 million, the cost of the 10 highest claims for the first 7 months of FY 18 is $1.1 million. The FY 18 appropriation reflected an increase of under 1% (0.6%) over FY 17 actual expenditures.

Division of Criminal Justice - $700,000

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

- $700,000 in Personal Services

The Personal Services account is experiencing a projected deficiency of $700,000 due to accumulated leave payments for vacation and sick time for retired employees. It is anticipated that approximately 25 employees will retire throughout the agency in FY 18.

Office of the Chief Medical Examiner (CME) - $170,000

The agency's projected FY 18 budget shortfall is comprised of:

- $170,000 in Personal Services

The $170,000 shortfall in Personal Services represents 3.4% of the FY 18 appropriation of $4,969,527. The shortfall in Personal Services predominantly reflects Mortuary Operations overtime expenses. CME's overall caseload continues to rise. From 2014 to 2017, autopsies increased by 36% (1,723 to 2,349).

Auditors of Public Accounts - $160,000

The agency's projected FY 18 budget shortfall is comprised of:

- $160,000 in Personal Services

The $160,000 shortfall in Personal Services represents 1.5% of the FY 18 appropriation of $10,349,151. The FY 18 and FY 19 biennial budget did not include funding for (1) the five positions the Auditors absorbed from the Office of Program Review and Investigations, and (2) the statutorily required special education audits (per PA 15-5). In the first year of this requirement (FY 17) the Auditors received grant funding from OPM for the special education positions.

Agency Detail on the Transportation Fund Net Deficiencies - $35.6 million

(The following assumes that holdbacks will not be released by OPM.)

Department of Transportation - $31.9 million

The agency's projected FY 18 budget shortfall is comprised of:

- $31.9 million in Rail Operations

The projected shortfall of $31.9 million in the Rail Operations account is primarily due to the following factors:

- higher than budgeted New Haven Rail Line subsidy expenses related to lower ridership/ revenue ($3.7 million) and food and beverage sales ($1.9 million);
- unbudgeted claims on the New Haven Rail line ($4.3 million);
- unrealized federal funding from the Federal Railroad Administrations Passenger Rail Investment and Improvement Act (PRIIA) ($4.9 million);
- higher than budgeted New Haven Line administrative asset expenditures ($5.5 million);
- higher than budgeted Shoreline East Rail Line subsidy expenses related to retroactive PRIIA payments ($4.9 million);
- unbudgeted expenses related to the lease of railcar equipment to support the Hartford Rail Line ($2.3 million); and
- year-to-date expenditures in several rail related accounts higher than budgeted ($4.4 million).

PA 17-2, the biennial budget increased funding for the Rail Operations account in FY 18 by approximately $7 million to reflect increased subsidy expenses on the New Haven, Shoreline East and Hartford Rail Lines.

Office of State Comptroller – Fringe Benefits – $3.7 million

The agency's projected FY 18 shortfall is comprised of:

- $3.7 million in the State Employees' Health Service Cost account

The State Employees' Health Service Cost account is projected to run a deficiency of $3.7 million based on claims trends being 6.2% higher than anticipated in the budget (13% higher after accounting for the $2.8 million holdback). The FY 18 appropriation is 5% (or $2.3 million) less than FY 17 actual expenditures.

FY 18 General Fund Appropriations Available for Reduction

Below is OFA's estimate of the amount of funding available for reduction in the Teachers' Retirement Board's Retirement Contribution account and in the Department of Social Services' Medicaid account.

Teachers' Retirement Board – Retirement Contribution - $19.4 million

Funding is available in the following account:

- $19.4 million in Retirement Contributions

Funding is available in this account because the revised Teachers' Retirement System valuation, which establishes the state's annual required contribution, decreased the state's retirement contribution by $19.4 million in FY 18. The revision was required to reflect the increase in active teacher contributions from 6% to 7%, effective January 1, 2018.

Department of Social Services - Medicaid - $17.6 million

Funding is available in the following account:

- $17.6 million in Medicaid account

Funding is available in the Medicaid account due to Medicaid expenditures trending lower than budgeted, inclusive of changes made to maintain the Medicare Savings Program , per PA 17-1 of the January 2018 Special Session.

FY 18 Transportation Fund Appropriations Available for Reductions

Below is OFA's estimate of the amount of funding available for reduction in the State Treasurer's Debt Service account.

State Treasurer Debt Service - $28.1 million

Funding is available in the following account:

- $28.1 million in Special Tax Obligation (STO) bond debt repayments

The appropriation reduction is due to the results of the FY 18 STO bond issuance, which closed in February 2018. The majority of the reduced cost was the result of the timing of the issuance (February instead of the expected issuance in the Fall). The reduction in debt service was also partially the result of a decrease in the amount of bonds issued, from the $900 million that was expected in the budget to $800 million. The lower debt service payments that are the result of the FY 18 issuance also reduce the level of debt repayment necessary in future years, though the largest impact per year is realized in FY 18.