FY 12 Projected Deficiencies

Prepared for Appropriations Committee Hearing

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

OFA is currently projecting $65.2 million in General Fund and $1.3 million in Transportation Fund state agency funding shortfalls. This differs from OPM's 10/20/11 projection of $33.0 million (General Fund) by a total of $33.6 million.

The following table shows the level of funding needed by agencies as projected by OFA and OPM.

FY 12 Agency Estimated Deficiency Needs: OFA - OPM Comparison (in millions)

Fund/Agency	OFA $	OPM $ (10/20)	Diff. $
General Fund			
OSC - Fringe Benefits	52.9	0.0	52.9
Department of Correction	8.8	0.0	8.8
Teachers' Retirement Board	2.4	2.4	0.0
Public Defender Services Commission	1.1	0.6	0.6
Department of Social Services	0.0	30.0	(30.0)
Sub-total	**65.2**	**33.0**	**32.3**
Transportation Fund			
Department of Transportation	1.3	0.0	1.3
Sub-total	**1.3**	**0.0**	**1.3**
TOTAL	**66.5**	**33.0**	**33.6**

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

The following table shows the level of funding available (post-holdback) to affected agencies. Holdbacks for these agencies total $363.3 million, which is significantly higher than the deficiency level. Holdbacks could be released by OPM and would therefore reduce the level of deficiency funding required.

The following table includes the agency's original appropriation, total level of holdbacks, projected deficiency and the percentage of the deficiency compared to the available funding.

FY 12 Agency Estimated Deficiency Needs (in millions)

Fund/Agency	Approp. $	Holdbacks $	Available $	OFA Deficiency $	Deficiency % of Available
General Fund					
OSC - Fringe Benefits	2,213.9	(303.8)	1,910.1	52.9	2.8%
Department of Correction	695.2	(36.4)	658.8	8.8	1.3%
Teachers' Retirement Board	792.0	(0.3)	791.7	2.4	0.3%
Public Defender Services Commission	64.7	(2.2)	62.5	1.1	1.8%
Sub-total	**3,765.8**	**(342.7)**	**3,423.1**	**65.2**	**1.9%**
Transportation Fund					
Department of Transportation	602.3	(20.6)	581.7	1.3	0.2%
Sub-total	**602.3**	**(20.6)**	**581.7**	**1.3**	**0.2%**
TOTAL	**4,368.1**	**(363.3)**	**4,004.8**	**66.5**	**1.7%**

TOTAL NET DEFICIENCIES (GF & TF) - $66.5 million

Note: The following assumes that holdbacks will not be released by OPM.

Office of the State Comptroller - Fringe Benefits (OSC) - $52.9 million

The agency's projected FY 12 General Fund budget shortfall is composed of:

- $25.7 million in State Employees Health Service Cost; and
- $33.6 million in Retired State Employees Health Service Cost.
- These shortfalls are offset by $6.4 million in lapsing funds from Employers Social Security Tax ($4.1 million) and Unemployment Compensation ($2.3 million).

The projected deficiency in the State Employees Health Service Cost account is due to an inability to fully achieve the application of a $82.7 million holdback to the account, which represents approximately 14% of the $602.4 million FY 12 appropriation. The inability to fully achieve the holdback is likely the result of various factors, including: 1) higher than expected claims expenditures, 2) the portion of the University of Connecticut Health Center fringe differential anticipated to be expended from the active health account ($6.0 million)[1] and 3) wide-spread enrollment in the Health Enhancement Program (HEP). The budget assumed savings from various health plan changes as a result of the Revised 2011 SEBAC Agreement. Specifically, the savings assumed 50% enrollment in HEP; actual enrollment across state agencies is approximately 96% (a 46% difference).[2]

The projected deficiency in the Retired State Employees Health Service Cost account is due to an inability to fully achieve the application of a $111.1 million holdback to the account, which represents approximately 20% of the $565.1 million FY 12 appropriation. The inability to

[1] The University of Connecticut Health Center (UCHC) employees, including those at John Dempsey Hospital, are state employees and are entitled to the state fringe benefit package. The cost of fringe benefits for UCHC employees are paid from health center revenues, not from the Office of the State Comptroller as it is with most other state agencies. The fringe costs associated with some UCHC employees is greater than the average rate paid for employees at private Connecticut hospitals. In order to address this fringe benefit cost differential, the state included $13.5 million in FY 10 and FY 11 in the State Employee Health-Active Employee Account to compensate UCHC.

The FY 12 and FY 13 budget does not include funding for the UCHC fringe differential. The budget bill includes language that states, the Comptroller's Office shall fund the UCHC fringe differential out of available resources. It is anticipated the UCHC fringe differential will be paid out of the fringe accounts in accordance with past practice, where a portion is paid out of certain fringe accounts, including the Active Health Account.

[2] The Revised 2011 SEBAC Agreement assumed savings from various factors, including the implementation of HEP. The savings assumed 50% of eligible employees would participate and the remaining 50% would pay $1,200 more annually in premiums and up to a $350 annual medical deductible. 96% of eligible employees are enrolled in the HEP program, as a result the anticipated savings to the state from increased employee contributions (premium and medical deductible) is $2.9 million which is $46.7 million less than what was assumed.

fully achieve the holdback is likely the result of various factors, including 1) higher than expected claims expenditures and 2) higher than expected number of employees retiring.[3] It is unclear at this point in time whether an increase in the number of individuals covered by retiree health will equate to a reduction in active employee health expenditures.

It is important to note, as of July 1, 2010 the State Employee and Retiree Health Plan converted from fully-insured, where a set premium was paid, to self-insured where the state pays the total cost of claims on an incurred basis. In addition, since October, claims experience in both the active and retired state employees' health accounts has been fluctuating.[4]

The projected lapse in the Employers Social Security Tax account is due to a reduction in the number of state employees and not refilling vacancies. The projected lapse in the Unemployment Compensation account is due to lower than expected claims costs.

Department of Correction (DOC) - $8.8 million

The agency's projected FY 12 budget shortfall is composed of:

- $9.8 million in Personal Services.
- This shortfall is offset by $1.0 million in lapsing funds in various accounts.

The shortfall in Personal Services (PS) is due to an inability to fully achieve the application of a $33.7 million total holdback to the account, in addition to appropriations reductions to PS totaling $28.3 million included in the FY 12 budget. This $62.0 million in savings assumptions represents 14.1% of the total Personal Services line item appropriation of $440.5 million. Such items include implementing risk reduction credits ($7.8 million), revising the time-off allotments ($6.3 million), the intensive probation initiative ($2.3 million), and house arrest for certain offenders ($1.5 million).

The projected shortfall is partially offset by projected lapses in the Workers' Compensation Claims ($850,000) and other various accounts ($188,000). Lapses are based on anticipated contract delays and historical expenditure trends.

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[3] On average 1,000 employees retiree annually. As of October 1, 2011, 1,575 employees have retired (a 58% increase).

[4] The Active Employee Health Account expenditures increased 35% from July to August, decreased 3% from August to September, and increased 39% from September to October. Expenditures reflected in the Retired State Employee Health Account during the first quarter do not currently represent the bulk of claims expenditures which are anticipated to be paid out of the account. In FY 11, 57.7% of total expenditures were not reflected in the account until the fourth quarter.

Teacher's Retirement Board (TRB) - $2.4 million

The agency's projected FY 12 budget shortfall is composed of:
- $2.4 million in Retirees Health Service Costs.

The $2.4 million shortfall in the Retirees Health Service Costs account is due to higher than anticipated enrollment in the retiree health insurance program offered by the TRB. The account was originally budgeted based upon approximately 17,000 participants. Actual enrollment for FY 12 is now estimated to be 1,600 members higher for a total enrollment of approximately 18,600.

Public Defenders Services Commission (PDS) - $1.1 million

The agency's projected FY 12 budget shortfall is composed of:
- $0.4 million in Personal Services;
- $0.1 million in Expert Witnesses; and
- $1.7 million in Contracted Attorneys.

These shortfalls are partially offset by projected lapses of:
- $0.3 million in Assigned Counsel – Contractual;
- $0.3 million in Family Contracted Attorneys; and
- $0.5 million in various other accounts.

The $0.4 million shortfall in the Personal Services account is due to the inability to fully achieve the application of a $1.9 million holdback to the account. The projected deficiency of $120,000 in the Expert Witnesses account is related to costs for services of psychiatric and forensic professionals required in the defense of capital felony cases. The anticipated number of cases that will require this type of expert witness is greater than originally expected.

The $1.7 million shortfall in Contracted Attorneys is the result of a buy-out agreement between the agency, the Office of Policy and Management, and the child protection attorneys involved. The Child Protection Commission was merged into this agency in FY 12 but the agency was obligated to honor the prior year's increased hourly rates for Child Protection Attorneys. This agreement resulted in a one-time buy-out to close current cases. Prior to the buy-out, most child protection cases were contracted at a rate of $75/hour. All pending cases (in which an agreement has been made between the attorney and the agency) will be closed out at a rate of $200/case. All future cases will be structured at a new flat rate of $500/case rather than the previous hourly rate. This new flat rate for child protection cases is more consistent with the payment structure of contracted public defender cases.

The projected shortfall is partially offset by projected lapses of $1.1 million in various accounts including the Assigned Counsel - Contractual and Family Contracted Attorneys accounts. These lapses are due, in part, to a decreased usage of per diem attorneys by the

Public Defenders Services Commission. The number of per diem attorneys used by the agency was decreased by 19 (from 31 to 12 attorneys) as part of an effort to decrease the agency's expenditures.

Department of Transportation (DOT) - $1.3 million

The agency's project FY 12 shortfall is comprised of:

- $5.8 million in Other Expenses.
- This short fall is offset by $3.7 million Rail Operations and $0.8 million in Bus Operations.

The shortfall in the Other Expense account is the result of applying past expenditure trends to the account, which includes expenses related to winter storms. The current projection assumes the three year average, which is approximately $55.4 million, will be spent this year. It should be noted that over 40% of the funds spent in this account occur between January and March related to winter storm clean up costs. Therefore, actual expenditures will be significantly contingent on the severity of the upcoming winter storm season.

The table below shows the amount budgeted and the actual amount spent from the Other Expenses account for the last three fiscal years.

DOT – Other Expenses Account (in millions)

Fiscal Year	Budget $	Actual $
FY 09	47.9	56.6
FY 10	43.4	52.2
FY 11	46.9	57.3

A projected lapse of $3.7 million in the Rail Operation account and $0.8 million in the Bus Operation account are the result of additional revenue from 4% fare increases scheduled to take effect January 1, 2012. This is anticipated to result in a reduction in both the rail and bus subsidies needed to meet current operations. For FY 12, the budget includes $145.0 million and $135.0 million to subsidize rail and bus services.