



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE APRIL 13, 2021

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Testimony Supporting House Bill No. 6438

AN ACT MAKING DEFICIENCY APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE 30, 2021

Senator Osten, Representative Walker and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony on House Bill No. 6438, An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2021.

This bill makes deficiency appropriations which, in combination with Finance Advisory Committee transfers and adjustment of holdbacks, would fully address shortfalls for FY 2021 projected by the Office of Policy and Management as of January 20, 2021. As in prior years, we are prepared to work with OFA and the Appropriations Committee to adjust the deficiency bill to reflect updated estimates as the year progresses.

As proposed, this bill makes appropriations totaling \$70.0 million for agencies with projected deficiencies for the fiscal year ending June 30, 2021. Reductions in appropriations are proposed to ensure there is no net change to the General Fund budget, and to ensure the adjusted FY 2021 budget remains \$5.0 million under the spending cap, unchanged from the adopted budget.

Section 1 proposes General Fund appropriations totaling \$70.0 million for the agencies noted in the table below with projected deficiencies for FY 2021. The table also depicts our latest estimates for those agencies, and additional text explaining shortfalls and offsetting lapses is attached to this testimony. Section 2 de-appropriates \$70.0 million in the General Fund from the Department of Social Services' Medicaid account in order to maintain balance and cap compliance after deficiency appropriations are made. This de-appropriation is possible because of the enhanced federal match for Medicaid provided as part of the Families First Coronavirus Response Act that has reduced the state's share of program costs under the Medicaid account by about \$295 million in FY 2021. Lastly, section 3 clarifies that the deficiency appropriations for the University of Connecticut Health Center are not eligible for additional fringe benefit recovery. Without this language, an additional \$53.8 million in General Fund resources would need to be made available to support fringe benefit costs.

General Fund Deficiencies

| <u>Agency and Account</u> | <u>HB 6438</u> | <u>Current Estimates (OPM as of 3/19/2021)</u> |
|--|------------------------|--|
| Dept. of Administrative Services | | |
| State Insurance and Risk Mgmt. Operations | \$ (1,000,000) | \$ - |
| Dept. of Economic and Community Development | | |
| Capital Region Development Authority | (5,600,000) | (10,500,000) |
| Office of the Chief Medical Examiner | | |
| Personal Services | (500,000) | (485,000) |
| Dept. of Mental Health and Addiction Services | | |
| Professional Services | (5,900,000) | (5,900,000) |
| Discharge and Diversion Services | (3,000,000) | (3,000,000) |
| Other Expenses | - | (5,600,000) |
| Workers' Compensation Claims | - | (2,600,000) |
| Offsetting lapses | - | 10,800,000 |
| Univ. of Connecticut Health Center | | |
| Operating Expenses | (50,000,000) | (50,000,000) |
| Dept. of Correction | | |
| Personal Services | (2,000,000) | (2,000,000) |
| Inmate Medical Services | (2,000,000) | (2,000,000) |
| Offsetting lapses | - | 350,000 |
| State Comptroller - Miscellaneous | | |
| Adjudicated Claims | - | (30,000,000) |
| State Comptroller - Fringe Benefits | | |
| Unemployment Compensation | - | (1,400,000) |
| Judges and Compensation Commissioners Retirement | - | (3,400,000) |
| Employers Social Security Tax | - | (3,000,000) |
| State Employees Health Service Cost | - | (28,200,000) |
| SERS Defined Contribution Match | - | (2,000,000) |
| State Employees Retirement Contributions - UAL | - | (41,000,000) |
| Offsetting lapses | - | 17,130,000 |
| Additional COVID Testing Requirements | - | (25,000,000) |
| Grand Total - General Fund | \$ (70,000,000) | \$ (187,805,000) |

Special Transportation Fund Deficiencies

| <u>Agency and Account</u> | <u>HB 6438</u> | <u>Current Estimates (OPM as of 3/19/2021)</u> |
|---|----------------|--|
| Dept. of Administrative Services | | |
| State Insurance and Risk Mgmt. Operations | \$ - | \$ (1,000,000) |

Agency representatives are submitting testimony specific to their shortfalls, and additional descriptions of the shortfalls projected by OPM are attached to this testimony. However, I would like to address the need for \$25 million for potential additional COVID testing requirements.

The state’s robust testing efforts are one of the factors that have put Connecticut at the forefront of the national effort to combat the COVID-19 pandemic. The state has leveraged available federal funds to support the comprehensive testing program. First, the state’s most flexible source of federal funding received so far to assist with the COVID response – the Coronavirus Relief Fund (CRF) – is essentially fully committed. To date, \$305 million in CRF funding has been devoted to testing efforts. We have also used a variety of other sources to braid together adequate funding to support testing. This includes insurance reimbursements for testing of Medicare Advantage and Medicare Part B covered residents in nursing homes, as well as Centers for Disease Control and Prevention (CDC) Epidemiology and Laboratory Capacity (ELC) – Enhancing Detection Cooperative Agreement grant funds. Additional General Fund resources are required to ensure all costs can be covered through the end of the fiscal year. The table below provide a summary of the estimated testing costs through June 30, 2021, by population:

| | FY 2021 |
|-------------------------------------|------------------|
| Population | Estimated |
| CTP | \$194.5 |
| Nursing Homes | \$169.3 |
| ALSAs/MRCs | \$39.0 |
| Corrections | \$16.1 |
| State Employees | \$8.3 |
| Higher Ed (CCSU Fall 2020 only) | \$1.6 |
| First Responders and National Guard | \$2.8 |
| TOTAL | \$431.6 |

The table below provides identified funding sources, inclusive of the \$25 million General Fund appropriation (\$ in millions):

| | |
|------------------------------------|----------------|
| CRF (DPH, DSS, OSC, OPM) | \$280.7 |
| CRF: CTP (formerly K12 testing) | \$15.0 |
| ELC1 - \$182M | \$38.9 |
| ELC2 - \$205M | \$40.0 |
| Griffin ins. reimb. for NH testing | \$9.7 |
| Griffin ins. reimb. for NH testing | \$3.2 |
| General Fund | \$25.0 |
| Other Grant Resources | \$19.1 |
| TOTAL | \$431.6 |

As noted earlier in my testimony, OPM stands ready to work with the Committee and OFA to revise this bill to reflect updated deficiency projections. As in prior years, Finance Advisory Committee action in May and possibly even June may be required to address timing of funds availability to

ensure agencies can address operational needs. Such transfers may impact the final bill. I would like to again thank the committee for the opportunity to present this testimony, and I am happy to answer any questions you may have.

Attachment
Deficiencies as Projected by OPM on March 19, 2021

Projected shortfalls totaling \$187.8 million are forecast in the following agencies:

- Department of Economic and Community Development. A \$10.5 million shortfall is anticipated in the Capital Region Development Authority account, after the transfer approved January 7th by the Finance Advisory Committee. The remaining shortfall is due to pandemic-related building use restrictions and event cancellations that have impacted and are expected to continue to impact attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field, the XL Center and the CT Convention Center. In addition, the shortfall reflects the payment of \$2.2 million in outstanding event public safety services provided by the City of Hartford for the XL Center.
- Office of the Chief Medical Examiner. A \$485,000 deficiency is estimated in Personal Services. This represents the annualized impact of the shortfall experienced in FY 2020.
- Department of Mental Health and Addiction Services. A total shortfall of \$6.3 million is projected due largely to the failure to enact FY 2020 deficiency appropriations and lack of FY 2021 budget adjustments addressing direct care costs. While the June 2020 Finance Advisory Committee action addressed a portion of the FY 2020 deficiency, over \$2.1 million in prior year bills were held over for payment in FY 2021. We estimate a \$5.6 million shortfall in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, \$5.9 million in the Professional Services account for contracted medical services including contracted psychiatrists, \$2.6 million in the Workers' Compensation Claims account to reflect claim trends and the carryover of prior year costs, and \$3.0 million in the Discharge and Diversion account to assist with discharges from Connecticut Valley Hospital to community settings for those no longer needing inpatient care. These shortfalls are partially offset by projected lapses of \$10.0 million in Personal Services due to vacancies, and \$800,000 in the Home and Community Based Services account as a result of fewer referrals and placements due to the pandemic.
- University of Connecticut Health Center. A shortfall of at least \$50.0 million is forecast. The FY 2020 budget included a fringe benefit subsidy of \$33.2 million to assist with stabilizing the Health Center's finances, but no subsidy was included in the FY 2021 budget plan. While deficiencies at higher education institutions do not have a direct impact on the General Fund, the magnitude and recurring nature of the Health Center's deficiencies may put additional pressure on state resources in FY 2021.
- Department of Correction. A net deficiency of \$3.65 million is projected. Shortfalls of \$2.0 million in Personal Services and \$2.0 million in Inmate Medical Services are forecast due to increased staff overtime, influenced in part by the impact of COVID-19 on operations. These lapses are offset by a \$350,000 lapse in the Board of Pardons and Paroles account due to vacancies.
- State Comptroller – Fringe Benefits. A total shortfall of \$61.9 million is anticipated. Of this amount, \$41.0 million is due to revised contribution requirements for the State Employees' Retirement System resulting from the June 30, 2019 valuation of the fund. A \$3.4 million shortfall is anticipated in the Judges Retirement System, also reflective of the June 30, 2019, valuation for that system. In addition, we anticipate shortfalls of \$1.4 million in the Unemployment Compensation account, \$3.0 million in the Employers Social Security Tax

account, \$28.2 million in the State Employees Health Service Cost account, and \$2.0 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls are projected lapses of \$13.0 million in the Higher Education Alternative Retirement System account, \$2.0 million in the Retired State Employees Health Service Cost account, \$130,000 in the Pensions and Retirements – Other Statutory account, and \$2.0 million in the Other Post Employment Benefits account.

- State Comptroller – Miscellaneous. We estimate \$30.0 million in expenditures for Adjudicated Claims, which are paid from the resources of the General Fund. No appropriation was made in the enacted budget for payment of these claims.
- Additional COVID Testing Requirements. It is anticipated that \$25.0 million of General Fund resources may be needed to support projected costs of COVID-19 testing. Testing costs are paid through several agencies depending on the population being tested, including the departments of Public Health and Social Services as well as the Office of the State Comptroller.
- Department of Administrative Services. There is a projected shortfall of \$1.0 million in the State Insurance and Risk Management account in the Special Transportation Fund due to unanticipated increased premiums for the CT Bus liability renewal, and the CT Rail liability policy, and a few large bus claim settlements.