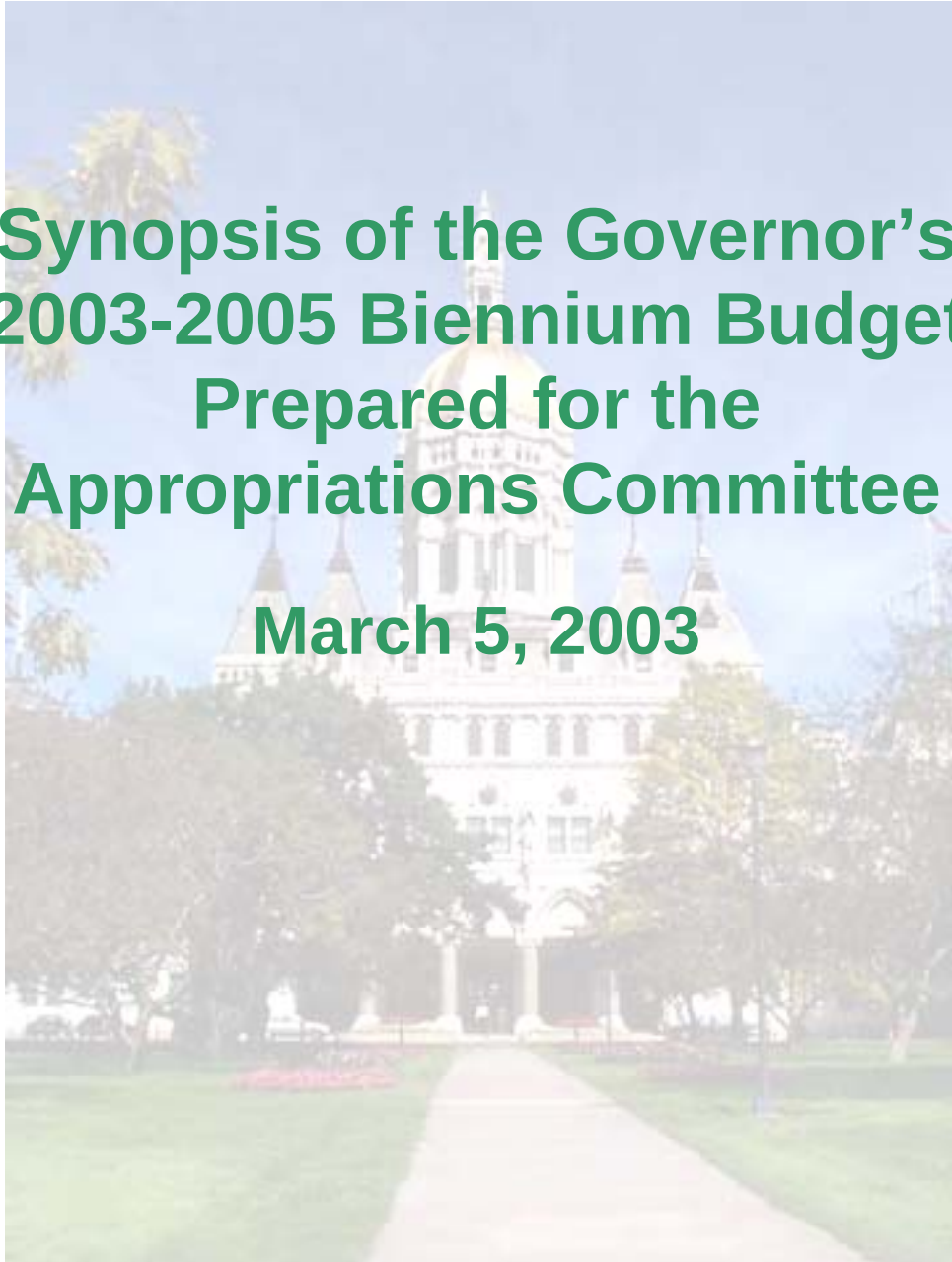


Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



Synopsis of the Governor's 2003-2005 Biennium Budget Prepared for the Appropriations Committee March 5, 2003

Synopsis of the Governor's 2003-2005 Biennium Budget

The governor introduced his budget on March 4, 2003 at a joint meeting of the legislature. To facilitate the discussion with the Secretary of the Office of Policy and Management on March 5th at the Appropriations Committee, the Office of Fiscal Analysis has prepared the following brief summary of major budget policy changes.

The Governor's 2003-2005 Biennium Budget recommends a \$12,476.5 million for FY04 and \$13,026.4 million for FY05 for the General Fund. Based upon General Fund revenue estimates, the governor is projecting a slight surplus for each fiscal year. In addition, the governor has calculated that based upon his recommended all funds appropriations, the budget will be under the spending cap by \$333 million in FY04 and \$65.6 million in FY05. The **significant program changes** are outlined in this next section. The program changes are followed by a section on **agency mergers and eliminations** and a section on **revenue changes**.

Significant Program Expenditures Changes

Human Services and Health

Department of Social Services

State Administered General Assistance (SAGA) – The governor recommends eliminating cash and medical benefits under the SAGA program, for a FY04 savings of \$105 million. This will eliminate health coverage for approximately 24,700 individuals and cash assistance for approximately 4,700 individuals. The governor further proposes increasing grants to the state's hospitals by \$60 million to acknowledge the expected increase in uncompensated care due to the elimination of SAGA.

Medicaid – the governor makes the following recommendations:

- Reduces inflationary rate increases for Medicaid providers in the upcoming biennium, for a net savings of \$55.7 million in FY04 and \$92.4 million in FY05. The budget generally provides for a 2 percent rate one-time rate increase on January 1, 2004;
- Reduce payments to FQHC's for a savings of \$2.1 million in FY04 and \$2.6 million in FY05;
- Restructure the purchase of durable medical equipment for a savings of \$2.5 million in FY04 and \$3.2 million in FY05;

- Restructure managed care and fee-for-service benefit package, for savings of \$6.5 million in FY04 and \$15 million in FY05;
- Eliminate presumptive eligibility, for savings of \$2.8 million in FY04 and \$3 million in FY05;
- Restructure HUSKY B premiums, for savings of \$2.4 million in FY04 and \$3.9 million in FY05;
- Suspend HUSKY B enrollment, for savings of \$2.2 million in FY04 and \$6.9 million in FY05; and
- Competitively bid nursing home beds for unspecified savings in the biennium.

Pharmacy - the governor makes the following recommendations:

- Suspend COLA for determining eligibility for ConnPACE, for savings of \$260,000 in FY04 and \$1.95 million in FY05;
- Reduce average wholesale price paid for prescriptions to AWP-13.5%, for savings of \$6.4 million in FY04 and \$7 million in FY05;
- Limit ConnPACE to a 30 day supply, for savings of \$4.4 million in FY04 and \$4.6 million in FY05;
- Institute an asset test for determining eligibility for ConnPACE, for savings of \$2.5 million in FY04 and \$4.2 million in FY05; and
- Phasing in the Preferred Drug List legislation passed in 2002 for a savings of \$5 million in ConnPACE and Medicaid.

Department of Children and Families

Savings Due to Closure of Long Lane School - Recommended net savings of \$3.6 million have been included to reflect the closure of Long Lane School as of March 2003. Savings of \$4.4 million, which result from reduced staff overtime, other expenses and agency Worker's Compensation Claims, will be partially offset by \$850,000 in costs associated with enhanced levels of residential care.

Consolidate Regional Office Management Structure - Four regional office administrative positions are eliminated to reflect a move from a five region to a three region structure. Savings are estimated at \$231,618 for FY04 and \$231,618 for FY05.

Continue Support for Covenant to Care - Funding for a contract with Covenant to Care, Inc., which oversees the Adopt a Social Worker program and also performs recruitment of minority foster and adoptive parents is recommended to be continued. One-time funding had been dedicated to this contract in FY 03 at \$150,000.

Council to Administer the Children's Trust Fund

The recommended appropriation for the Children's Trust Fund is \$828,185 less than the amount originally budgeted for FY 03. This reflects the continuation of allotment reductions totaling \$570,150 as well as the elimination of \$300,000 in Tobacco and Health Trust Fund dollars previously earmarked for the Healthy Families Program. A 1.5 percent cost of living adjustment is recommended for grantees effective January 1, 2004.

Department of Mental Health and Addiction Services

General Assistance – The appropriation for the GA Managed Care program is reduced through an annualization of the FY03 mid-year changes. The governor also recommends merging the remaining \$42.5 million funding from the GA Managed Care account to the accounts for grants for mental health services and substance abuse services. This transfer represents a change from a fee-for-service system to a grant based system.

Program Eliminations – The governor recommends eliminating the Regional Action Councils and the Governor’s Partnership to Protect Connecticut’s Workforce, for a savings of \$511,498 in FY04 and FY05.

Create Step-Down Unit – The governor recommends creating a step-down unit at Dutcher Hall. This unit will serve as a step between current structured forensic units and release into the community. The lower staffing requirements for this unit will lead to savings of \$525,000 in FY04 and \$551,250 in FY05.

Department of Public Health

Establish Vaccine Purchase Fund - A mandatory assessment on all regulated insurers would be created in order to allow for the transfer of financial responsibility for the state’s universal childhood vaccination program off of the General Fund. Estimated Savings: FY04 - \$7,370,633; and FY05 - \$7,739,165.

Reduce Support for Local and District Departments of Health - The governor recommends reducing grants to local and district departments of health (full time and part time) by almost \$2.3 million as compared to that amount required to pay per capita subsidies under current law. Estimated Savings: FY04 - \$2,252,826; and FY05 - \$2,252,826.

Community Health Services/Health Centers - The governor recommends reducing funding for the Community Health Services line item by 52 percent as compared to the current services level of \$6.1 million. This account is the primary DPH funding source for grants supporting primary health care at Community Health Centers; Fetal and Infant Mortality Reduction programming; and Planned Parenthood services. Estimated Savings: FY04 - \$3,213,020; and FY05 - \$3,519,717.

School Based Health Centers - The governor’s recommended budget reflects \$1.2 million less funding for school based health center services than the originally budgeted FY 03 amount. Estimated Savings: FY04 - \$1,032,010; and FY05 - \$1,032,010.

Discontinue 2003 Earmarkings from Tobacco and Health Trust Fund - Funding was transferred from the Tobacco and Health Trust Fund to the General Fund in FY 03 for specific programming under DPH. The governor’s recommended budget does not continue these transfers, which in FY 03 were for: Easy Breathing Asthma Initiative, \$800,000; Statewide Asthma Plan, \$300,000; School Based Health Centers, \$200,000. However, the governor does recommend the carry forward of \$500,000 from FY 03 into FY 04 for the Easy Breathing Initiative.

Biomedical Research Trust Fund - Funding to continue support for the Biomedical Research Trust Fund is not recommended. Estimated Savings: FY04 - \$500,000; and FY05 - \$500,000.

Department of Mental Retardation

Cap Birth-to-Three program (make a non-entitlement) - \$2.5 million reduction in FY 04 and \$3.75 million in FY 05.

Private Provider Increase 1.5% effective 1/1/04 - \$3 million in FY 04 and \$6 million in FY 05.

New Placements - \$5 million increase in FY 04 and \$7 million in FY 05 to serve clients with high priority for a placement (ageouts, high school grads and waiting list).

Residential Unit Closure/Reconfiguration - \$2.4 million reduction in FY 04 and \$2.9 million in FY 05 by closing and consolidating 9 state-operated residential units. Staff will be reallocated to fill vacancies and clients moved to other locations.

Private Providers Rate Increase

The governor has recommended that private provider grantees be given a 1.5 percent increase in their contracts beginning on January 1, 2004. No additional increase is budget for FY05. For FY 04 the cost of providing this increase will be \$7.3 million that will annualize to \$15.6 million for FY05.

Education

Department of Education

Sheff v. O'Neill Settlement – Funds are provided for the settlement. The first two years of funding under the Sheff v. O'Neill stipulated agreement is provided for in the Governor's recommended budget. The funds are provided within the Magnet School, OPEN Choice and Interdistrict programs. The amount for FY04 is \$3,396,253 and \$5,947,823 for FY05.

School Vouchers – the governor proposes the creation of a school voucher program that allows parents of children of failing schools to take up to \$3,000 per student in ECS funding to attend schools of their choice including public, magnet, charter, or private schools.

Please refer to the grants to towns at the end of this for a summary of the governor's recommendations concerning education aid.

Higher Education

The Governor recommends: (1) a reduction in financial aid funding for a saving of \$2.2 million in FY 04 and \$3.3 million in FY 05); (2) the elimination of dues for the New England Board of Higher Education for a savings of \$350,000 in each fiscal year; and (3) the elimination of the International Initiatives Program for a savings of \$200,000 in FY 04 and in FY 05.

The Governor also recommends the consolidation of Community-Technical College System and the Connecticut State University Chancellors' offices into DHE, creating the Board of Regents of Higher Education (-\$2.75 million in FY 04 and \$5.78 million in FY 05).

General Government

Office of Policy and Management

Eliminate Certain State Grants-in-Aid through OPM - State funding is eliminated for various programs that award grants to non-profit organizations providing services to youths throughout the state which results in FY04 savings of \$3.1 million and FY05 savings of \$3.3 million. These programs are as follows:

- Drugs Don't Work,
- Leadership, Education, Athletics in Partnership (LEAP),
- Children and Youth Program Development,
- Neighborhood Youth Centers, and
- Boys and Girls Clubs.

Restructure PILOT for Manufacturing Machinery and Equipment (MME) by reducing reimbursements from 80% to 65% and immediately remove commercial vehicles, and equipment related to motion pictures, video and sound recordings and equipment related to direct and indirect mailings from the program for a savings of \$20 million in each fiscal year. Beginning with the October 2003 the governor recommends removing exemption eligibility for used manufacturing machinery and equipment and makes only those primarily engaged in manufacturing or biotechnology eligible for an exemption.

Cap OPM Distressed Municipalities Program at FY 03 levels for FY04 savings of \$5.8 million and \$9.0 million for FY05.

Cap Elderly Circuit Breaker Program at FY 03 levels for a savings of \$2.2 million for FY04 and FY05 \$4.2 million.

Eliminate the non-means tested portion of the **Veterans Property Tax Reimbursement Program** for an FY04 savings of \$5.4 million and an FY05 savings of \$5.2 million. It is estimated that 185,000 veterans would continue to receive a property tax exemption, yet the state would no longer reimburse the towns for such an exemption

Department of Public Works

The governor proposes to relocate elected officials from 55 Elm Street, Hartford to 20 Church Street, Hartford. The offices of the Comptroller, Treasurer and the Attorney General are currently located in 55 Elm Street.

Teachers' Retirement System Contribution

The state contribution is reduced to reflect funding at the FY 03 level adjusted for payment on a quarterly basis. In FY 03 funding was reduced to reflect 85% of the actuarial requirement and for a single payment at the start of the fiscal year. This reflects a savings for FY04 of \$85.2 million and an FY05 savings of \$96.0 million. The Teachers' Retirement System Fund had assets valued at \$10.4 billion and liabilities of \$13.7 billion in the most recent valuation on June 30, 2002.

Justice

Department of Correction

The governor's budget includes savings of \$1.6 million in FY 04 and \$9.2 million in FY 05 based on an additional 1,000 inmates being sent out of state. This recommendation includes the elimination of 174 positions in the second year of the biennium. In addition, the Governor's budget describes cost avoidance related to construction costs (\$50 million) and debt service (\$20 million).

The governor's budget also provides funding for the expansion of the current prison system including: (1) the annualization of MacDougall CI (\$4.5 million in FY 04 and FY 05); (2) the expansion of Somers CI (\$5.8 million in FY 05); and (3) the overall increase in the prison population (\$4.4 million in FY 04 and \$8.8 million in FY 05). In addition, the Governor recommends 174 new positions.

Finally, the governor recommends that the Boards of Parole and Pardons be transferred to the Department of Correction. Estimated savings are \$200,000 in FY 04 and \$250,000 in FY 05.

Judicial Department

Provide Funds to operate a New Bridgeport Juvenile Detention Center - In January 2002, the State Bond Commission allocated \$31.6 million to fund development of a superior court for juvenile matters and an adjacent, juvenile detention center with 44 double-occupancy sleeping rooms. Occupancy is scheduled for July 2004. Operating costs are budgeted according to this scheduled opening. Costs are estimated at \$3,632,191 for FY 05.

Provide Funds for Certain Juvenile Services - Additional funding is provided in accordance with the recent order for supplemental relief in the "Emily J" case. That order requires the Judicial Department to fund an upgrade in mental health services at alternative detention program facilities, and expand outpatient mental health services for youth in adolescent community treatment. Costs estimated for FY 04 is \$1,209,025 and FY 05 is \$1,209,025.

Provide Funds for Electronic Data Processing Services – Funds are budgeted within the Judicial Department to provide infrastructure upgrade and support related to various information technology systems used to manage criminal and offender information. Costs estimated for FY 04 is \$440,000 and FY 05 is \$776,000.

Economic Development and Environment

Department of Economic Development

Eliminate State contribution to Tax Abatement and PILOT Grants for FY04 savings of \$4,886,112 and FY05 savings of \$4,886,112.

Tourism intercept from hotel tax and car rental surcharge are eliminated and various tourism related entities, districts and programs will compete for funding through a new appropriated Discovering Connecticut account. Savings of approximately \$10,800,000 in FY 04 and \$11,800,000 in FY 05.

Certain housing functions are transferred to CHFA. Savings from the transfer will be deducted from the \$40 million per year revenue transfer from CHFA to the General Fund. Governor will submit mid term adjustments to reflect this. Operating expenses are transferred for 12 positions whose funding stream was part of an asset transfer to the CHFA in exchange for \$85 million.

Funds are transferred from the certain quasi-public agencies including \$40 million each year from CHFA, \$5 million each year from CDA and CII. In addition, \$25 million in each year will be transferred from the Clean Energy Fund (administered by CII) to the General Fund. This money was to be used for promoting and developing clean energy.

Department of Environment Protection

The General Fund air bureau staff (14) are transferred to Title V funds. These funds are generated by, and support a permit program for larger, stationary sources that release pollutants. Estimated savings for FY04 are \$1,120,000 and FY05 are \$1,156,000.

Elimination of the Transportation Fund transfer to Conservation Fund for a FY04 and FY05 savings of \$2,000,000.

Transportation

Department of Transportation

The appropriation for the DOT is reduced through annualization of the FY 03 mid year changes. The governor also makes the following recommendations:

- Reduce Town Aid Road from \$35 million to \$12.5 million and transfer funding from the General Fund to the Transportation Fund for FY 04 and FY 05.
- Reduce Highway Planning and Research in the upcoming biennium for a savings of \$400,000 in both fiscal years.
- Increase Rail and Bus Fares for a savings of \$15.0 million in FY 04 and \$19.9 million in FY 05 to Transportation Fund.

Grants to Towns

Governor's Significant Policy Revisions Concerning Grants to Towns

Grant	FY 03 Estimate	FY 04 Current Services [1]	FY 04 Governor	Change From FY 03	Change From Current Services [1]	FY 05 Governor
PILOT: State Property [2]	\$66.9	\$67.1	\$67.1	\$0.2	\$0.0	\$67.7
PILOT: Colleges and Hospitals	100.9	100.9	100.9	0.0	0.0	100.9
Pequot/Mohegan Aid	106.0	106.0	85.0	(21.0)	(21.0)	85.0
Town Aid Roads [3]	16.0	16.0	12.5	(3.5)	(3.5)	12.5
PILOT: Manufacturer's Inventory	48.1	48.1	47.6	(0.5)	(0.5)	44.3
Public School Transportation	43.1	53.0	43.1	0.0	(9.9)	43.1
Non-public School Transportation	4.3	5.1	4.3	0.0	(0.8)	4.3
Adult Education	16.9	19.4	16.9	0.0	(2.5)	16.9
Excess Cost -Student Based (Special Education)	62.7	91.0	62.7	0.0	(28.3)	62.7
Education Equalization (ECS)[4]	1,516.3	1,591.0	1,488.0	(28.3)	(103.0)	1,488.0
Health Services - Pupils in Private Schools	3.8	4.6	3.8	0.0	(0.8)	3.8
Priority School Districts	81.6	81.6	79.8	(1.8)	(1.8)	79.8
Magnet Schools	44.7	57.2	59.3	14.6	2.1	73.1
Total	\$2,111.3	\$2,241.0	\$2,071.0	(\$40.3)	(\$170.0)	\$2,082.1

[1] Current services reflects changes in grants made in February by the General Assembly.

[2] Includes Bradley Airport Fund.

[3] Funding has been moved to the Transportation Fund.

[4] The figures presented for FY 04 and FY 05 for ECS represent the Governor's budgeted amount for ECS. The amount necessary to provide funding for the Governor's recommended legislation is actually approximately \$1.0 million higher, \$1,488.0 million versus \$1.489.0 million.

Agency Mergers and Eliminations

Legislative Management -The governor recommends eliminating the following four legislative agencies: Commission on the Status of Women; Commission on Children; Latino and Puerto Rican Affairs Commission; and the African-American Commission. The governor does not have the authority to reduce legislative managements budget and is recommending that these agencies be eliminated by increasing the proposed appropriations lapse for the legislative branch.

Managed Care Ombudsman (MCO) - The agency is merged into the Department of Insurance and creates a Managed Care Advisory Unit. Of the 4 positions and \$700,000 in current funding for the MCO, \$286,000 and 2 positions will be transferred. The balance of the funding and positions are eliminated.

Office of Workforce Competitiveness consolidated with DECD.

Consolidation Board of Education and Services for the Blind between DSS (vocational & adult services) and SDE (children services). Vocational and Rehabilitation and Adult Services of BESB are merged into DSS. This will result in a transfer of \$5.4 million in FY 04 and FY 05. This includes 48 full-time positions and funding to support vocational and rehabilitation services, programs to enhance life skills and promote independence in the home for legally blind individuals statewide. The Children's Services Program is moved into SDE. This will result in a transfer of \$8.6 million in FY 04 & FY 05. The transfer will support 25 positions (teachers of visually impaired and support staff) who will provide specialized training and support, costs of adaptive materials and other related services to children who are legally blind, visually impaired or multi-handicapped.

Commission on the Deaf and Hearing Impaired moved into DSS.

The Chancellor's Offices of Connecticut State University and the Community Technical Colleges merged into Department of Higher Education. The central offices of CSU and the CTC's are consolidated into the Department of Higher Education.

Consolidate the functions **the Film Commission, the Historical Commission, and Arts Commission and tourism** into the new Commission on the Arts, Culture and Tourism. The tourism intercept funding from hotel tax and car rental surcharge are eliminated and various tourism related entities, districts and programs would compete for funding through a new appropriated Discovering Connecticut account. Savings of approximately \$10,800,000 are expected to be realized in FY 04 and \$11,800,000 in FY 05.

Agriculture Department functions are transferred to the Consumer Protection.

The **Council On Environmental Quality** is eliminated.

Eliminate Office of the Victim Advocate - This agency was established in 1998 to protect the legal rights of crime victims in Connecticut. It engages in individual case advocacy, advocating for systemic reforms regarding victims' rights and services, legal action, public education, and

legislative advocacy. In FY 02 the agency investigated 225 cases, conducted 35 public forums and initiated legal action in 40 cases. Three filled positions are eliminated. Estimated savings for FY04 is \$215,874 and for FY05 is \$223,742.

Downsize and Consolidate the State Elections Enforcement Commission, Ethics Commission and the Freedom of Information Commission into the newly created Commission on Fair and Open Government. The governor recommends eliminating 21 positions from the Elections, Ethics and Freedom of Information Commissions and transferring the remaining 16 positions to create the Commission on Fair and Open Government. The elimination of the 21 positions will result in a PS savings of \$1.5 million in FY 04 and \$1.6 million in FY 05.

Revenue Changes

Governor's Revenue Proposals

March 4, 2003

General Fund

(In Millions)

<u>Tax Type</u>	<u>Governor's Proposals</u>	<u>Eff. Date</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
Income Tax	Reduce \$500 property tax credit to \$400	1/1/03	-	68.0	69.4
	Phaseout \$100 property tax credit at higher income levels	1/1/03	-	12.0	12.2
	Defer increase in singles exemption	1/1/03	-	-	7.0
	Enhanced audit collections resulting from new computer system	1/1/03	-	-	30.0
	Sub-Total		-	80.0	118.6
Sales & Use Tax	Computer & Data Processing - Remain at 1%	4/1/03	-	-	10.8
	Eliminate sales tax free week	7/1/03	-	3.1	3.3
	Eliminate hospital sales tax (5.75%)	7/1/03	-	(115.7)	(116.4)
	Cable TV - Collections on increase to 6% on GRT	1/1/03	0.1	0.4	0.4
	Eliminate revenue intercept for tourism districts	7/1/03	-	16.6	17.3
	Eliminate transfers from hotel occupancy tax	7/1/03	-	1.8	1.8
	Enhanced audit collections resulting from new computer system	7/1/03	-	-	15.0
	Sub-Total		0.1	(93.8)	(67.8)
Corporation Tax	Eliminate Neighborod Assistance tax credit	1/1/03	-	2.0	2.0
	Elim. Low & Moderate Income Housing tax credit	1/1/03	-	2.0	2.0
	Eliminate Employer Assisted Housing tax credit	1/1/03	-	0.5	0.5
	Eliminate Historic Housing tax credit	1/1/03	-	0.5	0.5
	Impose 10% surcharge in income year 2004	1/1/04	-	22.8	12.3
	Enhanced audit collections resulting from new computer system	1/1/03	-	-	4.0
	Sub-Total		-	27.8	21.3
Public Service Tax	Cable TV - Raise Gross Receipts Tax rate from 5% to 6%	4/1/03	1.5	6.3	6.7
Inheritance & Estate	Defer phasedown in succession tax 2 years (Class B&C)	1/1/03	-	11.0	26.0
Insurance Cos.	Limit credits to no more than 70% of premiums tax	1/1/03	1.5	2.5	2.5
Real Est. Conveyance	Increase rates	4/1/03	5.0	25.0	25.0
Oil Companies	Transfer to emergency spill response account		-	(10.5)	(10.5)
Misc Taxes	Defer Gift Tax phase-down for 1 year	1/1/04	-	-	-
	Retain Tourism account surcharge in the General Fund	7/1/03	-	4.6	4.8
	Sub-Total		-	4.6	4.8
Fees	Judicial - Increase various fees	Pass.	-	4.7	4.7
Rents, Fines, Escheats	Escheat unclaimed bottle deposits	4/1/03	-	18.0	20.0
Federal Grants	Revenue loss due to budget changes		-	(16.0)	(62.4)
Trans. to Resources of GF	Energy Conservation and Load Management Fund		-	72.0	72.0
	Clean Energy Fund		-	25.0	25.0
	CT Housing Finance Authority		-	40.0	40.0
	CT Innovations, Inc.		-	5.0	5.0
	CT Development Authority		-	5.0	5.0
	Sub-Total		-	147.0	147.0

<u>Tax Type</u>	<u>Governor's Proposals</u>	<u>Eff. Date</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
Transfer to Other Funds	Reduce Mashantucket/Pequot Grant		-	28.5	28.5
	Pre-fund FY 05 Mashantucket/Pequot Grant		-	(35.0)	35.0
	Sub-Total		-	(6.5)	63.5
GAAP Implementation	Postpone implementation of GAAP accounting		-	(17.0)	(17.0)
Tobacco Settlement	Elim. transfer to Tobacco and Health Trust Fund	7/1/03	-	12.0	12.0
	Elim. transfer to Biomedical Research Trust Fund	7/1/03	-	4.0	4.0
	Sub-Total		-	16.0	16.0
General Fund - Total			<u>8.1</u>	<u>199.1</u>	<u>298.4</u>

Special Transportation Fund (In Millions)

<u>Tax Type</u>	<u>Governor's Proposals</u>		<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
Fees	Increase sale of driver history records fees		-	9.0	9.0
	Raise Motor Vehicle record copy fees to \$20		-	1.1	1.1
	Sub-Total		-	10.1	10.1
Transfers Other Funds	Reduce Conservation Fund intercept	7/1/03	-	2.3	2.3
Special Transportation Fund - Total			<u>-</u>	<u>12.4</u>	<u>12.4</u>