Dannel P. Malloy
GOVERNOR
STATE OF CONNECTICUT

December 13, 2017

The Honorable Martin M. Looney, President Pro Tempore, State Senate
The Honorable Leonard Fasano, Senate Republican President Pro Tempore
The Honorable Bob Duff, Senate Majority Leader
The Honorable Joe Aresimowicz, Speaker of the House
The Honorable Matthew Ritter, House of Representatives Majority Leader
The Honorable Themis Klarides, House of Representatives Minority Leader
Legislative Office Building
Hartford, CT 06106

Dear Legislative Leaders:

Given recent revenue projections showing the state facing a potential shortfall of approximately $208 million, and the Comptroller's December 1, 2017, certification of that projection, I strongly recommend that the legislature take action to ensure this year's budget ends in balance. To that end, please find attached proposed measures for bringing the budget into balance.

The items in the attachment constitute a menu of choices for your consideration. I understand that these options will be almost universally objectionable, and that there is little appetite among you or your members for making such adjustments to your budget. In fact, I agree these changes are difficult and that in better economic times, with a balanced budget, none of us would put them on the table for consideration. However, I have a clear statutory obligation to provide you with a plan to mitigate the deficit. Moreover, I believe we do a disservice to the public when we defer necessary steps and fail to take decisive action, ultimately making the cost to taxpayers and damage to government services even more severe.

You have all expressed a desire to reverse or modify elements of the adopted bipartisan budget, including savings from changes to eligibility for the Medicare Savings Program as well as certain holdbacks I was charged with implementing. Please note that any actions to modify the bipartisan budget would be in addition to spending reductions or revenue increases required to mitigate the $208 million deficit. However, also note that the total amount of options provided in this plan exceeds $300 million, meaning that you now have the tools at your disposal to both address the Medicare Savings Program *and also* close the current deficit.

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I want to recognize that some of the options contained in this plan are on the revenue side of the ledger; there are $189 million in revenue increases compared to $113 million in spending cuts. Like you, I would prefer not to rely on any tax increases at all. However, just as your bipartisan budget raised taxes by about $500 million in FY 2018, it appears that a continued mix of spending cuts and revenue changes may be needed in order to bring it into balance. As you consider this plan, please keep in mind that there are spending cuts we elected *not* to propose, thereby necessitating the need for more revenue. For instance, this plan does not defer hospital rate increases, it does not close regional state agency offices, it does not put additional burdens on higher education, and it does not make significant cuts to DDS programs. If you choose not to consider additional revenues when balancing the budget, it would be difficult or potentially impossible to avoid impacts in areas such as these.

Finally, as you review these options and consider what actions you will take to bring the budget into balance, I want to reiterate my strong and consistent belief that any changes you make should be *realistic* and *achievable*. Attempting to balance the budget with broad or vague options such as "reduce agency spending" or "reduce overtime" might appear to produce savings without any apparent harm. However, please understand that agency budgets have already been cut drastically, and cannot be significantly reduced further without deteriorating customer service levels, or abandoning programs and services that you and your members hold dear.

Thank you for your prompt consideration of this plan. My staff stand ready to work with you to finalize a workable plan for mitigating the deficit. I believe that our constituents expect that we will decisively address our current year problem and turn our attention to the greater challenges we face in FY 2019 and in succeeding years.

Sincerely,

Dannel P. Malloy
Governor

Attachment – FY 2018 Deficit Mitigation Plan

c: Kevin Lembo, Comptroller
Sen. Catherine Osten, Co-Chair, Appropriations Committee
Sen. Paul Formica, Co-Chair, Appropriations Committee
Rep. Toni Walker, Co-Chair, Appropriations Committee
Rep. Melissa Ziobron, Ranking Member, Appropriations Committee
Sen. John Fonfara, Co-Chair, Finance, Revenue and Bonding Committee
Sen. L. Scott Frantz, Co-Chair, Finance, Revenue and Bonding Committee
Rep. Jason Rojas, Co-Chair, Finance, Revenue and Bonding Committee
Rep. Christopher Davis, Ranking Member, Finance, Revenue and Bonding Committee
Neil Ayers, Director, Office of Fiscal Analysis
Agency Heads

FY 2018 Deficit Mitigation Proposals

Assumes implementing legislation passes mid-January 2018.

FY 2018 Projected Deficit (Comptroller, 12/1/17)	($207,800,000)
Total - Deficit Mitigation Proposals	$302,516,441
Resulting Surplus/(Deficit)	$94,716,441

Agency	Fund	Appropriation Title	Description	Net Impact on Deficit FY 2018	Net Impact on Deficit FY 2019	Requires Legislation	Comments
Office of Legislative Management	GF	Equipment	Reduce funding for equipment	($25,000)	($100,000)		
Office of Legislative Management	GF	Old State House	Close the Old State House eff. 1/1/18	($200,000)	($500,000)		
Office of Policy and Management	GF	Municipal Transition	Eliminate remaining funding for Municipal Transition	($5,055,685)	$0		OPM would not make supplemental payments referenced in section 21 of PA 17-4, JSS. The FY 2019 appropriation is insufficient to fully pay the grants and will require proration of payments.
Department of Labor	GF	STRIVE	Eliminate remaining funding for STRIVE	($38,029)	($76,058)		
Department of Public Health	GF	Community Health Services	Eliminate grants to Community Health Centers	($177,379)	($388,542)		Reductions represent amounts provided for data collection and reporting.
Department of Public Health	GF	School Based Health Clinics	Eliminate new grant for East Hartford School Based Health Center	($120,235)	($120,235)		
Department of Public Health	GF	School Based Health Clinics	Reduce support for School Based Health Centers	($262,450)	($524,900)		
Department of Developmental Services	GF	Family Support Grants	Reduce Family Support Grant funding	($189,466)	($189,466)		Funding will be maintained at the FY 2017 expenditure level and grants to individuals for one-time expenses for health and safety related items, respite, recreation, adaptive equipment, housing, etc. will be reduced.
Department of Developmental Services	GF	ID Partnership	Delay ID Partnership initiatives	($514,500)	$0		Funding provided to explore initiatives that create a broader continuum of services will be delayed until FY 2019.
Department of Developmental Services	GF	Employment and Day Services	Eliminate opportune vacancy funding	($500,000)	($2,000,000)		Eliminate partial funding made available for emergency placements when individuals leave services.
Department of Mental Health and Addiction Services	GF	Home and Community Based Services	Reduce funding for Home and Community Based Services	($500,000)	($500,000)		Costs have been lower than budgeted.
Department of Mental Health and Addiction Services	GF	Grants for Substance Abuse Services	Reduce Grants for Substance Abuse Services	($1,061,612)	($1,061,612)		Adjusts funding to reflect enhanced revenue for providers as a result of the ACA expansion and behavioral health rate increases.
Department of Mental Health and Addiction Services	GF	Grants for Mental Health Services	Reduce Grants for Mental Health Services	($1,986,679)	($1,986,679)		Adjusts funding to reflect enhanced revenue for providers as a result of the ACA expansion and behavioral health rate increases.
Department of Social Services	GF	Medicaid	Eliminate Medicaid payments for Graduate Medical Education	($5,280,000)	($10,570,000)	Y	While Medicare is the primary payer of graduate medical education, many states voluntarily support these costs through their Medicaid programs. In Connecticut, nearly 70% of the state's hospitals are slated to receive Medicaid payments totaling $21.1 million in FY 2018. This proposal eliminates these payments for the balance of the fiscal year. Savings figures reflect the state's share of Medicaid expenditures. After factoring in the federal share, this proposal will reduce total Medicaid expenditures by $10.6 million in FY 2018 and $21.1 million in FY 2019.

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Department of Social Services	GF	Medicaid	Require dually eligible clients to cover all Medicare Part D co-payments	($30,000)	($90,000)	Y	Currently, persons dually eligible for Medicare and Medicaid who are not receiving home and community-based services are responsible for paying up to $17 per month in Medicare co-pays for Part D-covered drugs, with the state covering any costs that exceed this amount. Connecticut is one of only a few states assisting dually eligible clients with these costs. Under this proposal, dually eligible clients will be responsible for covering the costs of all Medicare Part D co-pays, which range from $1.20 to $8.25 in 2017.
Department of Social Services	GF	Medicaid	Reduce enhanced reimbursement for Primary Care Providers	($900,000)	($3,800,000)		The enacted budget reduced reimbursement for primary care providers to 95% of the 2014 Medicare fee schedule. This proposal reduces reimbursement to 90%, consistent with the level in place under Executive Order 58. Savings figures reflect the state's share of Medicaid expenditures. After factoring in the federal share, this proposal will reduce total Medicaid expenditures by $2.2 million in FY 2018 and $9.3 million in FY 2019.
Department of Social Services	GF	Medicaid	Reduce Personal Needs Allowance for residents of long-term care facilities	($400,000)	($1,100,000)	Y	Social Security and other income received by residents of long-term care facilities are applied towards the cost of care except for a monthly personal needs allowance (PNA). Residents use these funds for clothing and other personal needs. This proposal reduces the monthly PNA from $60 to $50, which is in line with the average for the states in the Northeast and is $20 above the federal minimum. Savings figures reflect the state's share of Medicaid expenditures. After factoring in the federal share, this proposal will reduce total Medicaid expenditures by $800,000 in FY 2018 and $2.2 million in FY 2019.
Department of Social Services	GF	Connecticut Home Care Program	Eliminate category 1 of the State-Funded Home Care Program	($1,200,000)	($4,400,000)	Y	Category 1, the lowest level of need under the state-funded program, is targeted to individuals who are at risk of hospitalization or short-term nursing facility placement but are not frail enough to require long-term nursing facility care. Intake to Category 1 is currently frozen. Under this proposal, funding for Category 1 of the program is eliminated with the exception of funding to support the assisted living demonstration projects.
Department of Social Services	GF	Community Residential Services	Reflect funding requirements for public group home conversions	($1,100,000)	$0		$3.4 million was carried forward from FY 2017 into FY 2018 for cash advance and start-up costs to support the conversions of approximately 28 CLAs from public to private operation. As DDS will only be converting 10 CLAs this year, approximately $2.2 million is unneeded for this purpose.

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Department of Social Services	GF	Community Residential Services	Reduce funding for emergency placements	($1,000,000)	($4,000,000)		
Department of Social Services	GF	State Administered General Assistance	Reduce benefits under State Administered General Assistance (SAGA)	($900,000)	($2,700,000)	Y	Recipients of SAGA who are deemed unemployable receive cash assistance of $219 per month. Transitional individuals receive $219 per month (if responsible for the full rent or a portion of the rent) or $55 per month (if no rent costs). This proposal reduces these benefits from $219 to $175 and from $55 to $50.
Department of Education	GF	CT Writing Project	Eliminate remaining funding for CT Writing Project effective January 2018	($10,125)	($30,000)		
Department of Education	GF	Bridges to Success	Eliminate remaining funding for Bridges to Success effective January 2018	($13,500)	($40,000)		
Office of Early Childhood	GF	Care4Kids TANF/CCDF	Close intake to Care4Kids from waiting list effective December 2017	($18,000,000)	($49,000,000)		
State Library	GF	Connecticard	Eliminate remaining funding for Connecticard	($703,638)	($703,638)		
Office of Higher Education	GF	Minority Advancement Program	Eliminate remaining funding for Minority Advancement Program	($160,067)	($1,789,690)		
Teachers' Retirement Board	GF	Retirement Contributions	Reflect savings due to revised TRS valuation	($19,396,000)	($40,054,000)		
Department of Correction	GF	STRIDE	Eliminate remaining funding for STRIDE	($36,671)	($108,656)		
Judicial Department	GF	Justice Education Center, Inc.	Eliminate funding for Justice Education Center	($155,405)	($466,217)		
Various	GF	Various	Reduce funding for municipal aid	($50,000,000)	($50,000,000)		Would need to be taken from Pequot or ECS.
Revenue	GF	Sales and Use Tax	Increase sales and use tax rate to 6.5%	($33,400,000)	($98,200,000)	Y	Effective 3/1/2018.
Revenue	GF	Sales and Use Tax	Further increase rate from 6.5% to 6.9%	($81,100,000)	($237,200,000)	Y	Effective 3/1/2018.
Revenue	GF	Sales and Use Tax	Increase restaurant tax from 6.5% to 7%	($9,900,000)	($30,700,000)	Y	Effective 3/1/2018.
Revenue	GF	Sales and Use Tax	Increase hotel tax from 15% to 17%	($5,600,000)	($16,400,000)	Y	Effective 3/1/2018.
Revenue	GF	Sales and Use Tax	Repeal exemption for nonprescription drugs	($5,800,000)	($17,000,000)	Y	Effective 3/1/2018; assumes 6.5% rate.
Revenue	GF	Cigarettes	Increase tax by 25 cents to $4.60/pack	($6,600,000)	($20,000,000)	Y	Effective 3/1/2018; sales tax would yield additional revenue.
Revenue	GF	Cigarettes	Floor tax	($2,800,000)	$0	Y	Effective 3/1/2018.
Revenue	GF	Cigarettes	Increase tax on cigars from 50 cents to $1.50	($1,000,000)	($2,900,000)	Y	Effective 3/1/2018; sales tax would yield additional revenue.
Revenue	GF	Cigarettes	Impose 75% excise tax on e-cigarettes	($2,800,000)	($8,500,000)	Y	Effective 3/1/2018; sales tax would yield additional revenue.
Revenue	GF	Real Estate Conveyance	Increase 0.75% rate to 1%, 1.25% rate to 2%	($25,100,000)	($77,300,000)	Y	Effective 3/1/2018.
Revenue	GF	Alcoholic Beverages	Eliminate minimum bottle pricing	($300,000)	($1,500,000)	Y	Effective 3/1/2018; sales tax would yield additional revenue.
Revenue	GF	Transfers - Other Funds	Eliminate transfer from FY 2018 to FY 2019	($17,800,000)	$17,800,000	Y	Effective from passage.
Revenue	GF	Alcoholic Beverages	Allow grocery store sale of wine	($400,000)	($400,000)	Y	Effective 3/1/2018; sales tax would yield additional revenue.
GRAND TOTAL				**($302,516,441)**	**($668,599,693)**		