Malloy orders $79 million in emergency budget cuts

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By Mark Pazniokas and Keith M. Phaneuf (CT Mirror)

Gov. Dannel P. Malloy used his emergency fiscal authority Tuesday to cut nearly $79 million in spending, pushing the budget deeper into the black and preserving his conversion of finances to Generally Accepted Accounting Principles, which Malloy says is necessary for honest budgeting.

Malloy's use of his emergency powers to keep his first budget in balance is an unwelcome development for a governor trying to put a fiscal crisis behind him, but he cast the action as a relatively modest correction after a year of tumult.

"Last year we were on the brink of the abyss with the largest per capita deficit in the nation," Malloy said at his monthly meeting with agency heads, which was open to the media and televised live on CT-N. "Today we're talking about less than one-half of 1 percent. Put it in perspective."

A year ago, Malloy was confronting an inherited deficit of $3.67 billion.

But House Minority Leader Lawrence F. Cafero Jr., R-Norwalk, said he believes the cuts are the first of many Malloy will have to make to address a weakening revenue picture.

"This I'll give him credit for, I think he is trying to get ahead of it," Cafero said.

More than one-third of the cuts, or $28.4 million, will come from the Department of Children and Families, with the Department of Mental Health and Addiction services getting the next biggest hit, $14.5 million.

In a year that Malloy says will be dedicated to education reform, he is cutting the Department of Education by $3.2 million.

The DCF cuts will be blunted by policy changes already in the works.

For example, the agency is slated to lose $15.3 million for residential and foster care services, but it decided months ago to keep more children living with their families. When a child does need to enter DCF custody, the agency avoids placing them in large group facilities.

Other states that have followed this approach have reported much more in savings once the strategy was fully implemented, according to the Anne E. Casey Foundation, a national child welfare advocacy group that is working closely with DCF. Virginia saved $100 million a year.

Benjamin Barnes, the governor's budget director, said they also will save $10.5 million by keeping vacant positions at DCF open and reconfiguring contracts with private providers.

"We believe that we can accomplish this through adjustments in those contracts through holding back money," Barnes said. "We are going to be squeezing contractors."

That raised some alarms for Terry Edelstein, the leader of the Connecticut Community Providers Association. She said, "I would argue we're already squeezed."

Department officials have said they plan to begin rolling accountability measures into their contracted services with private providers, and that they will no longer pay for services that aren't producing the desired results.

The rescissions, or cuts, detailed Tuesday will mean delays in filling vacant positions, with a high standard to be met to make new hires: public health and safety must be at stake, or the position is necessary to gain or sustain revenue greater than the cost of the position.

The executive branch will be responsible for $72.1 million of the cuts, with $5.76 million coming from the judicial branch and $800,000 from the legislature. Malloy, who nominated six judges to the Superior Court last week, said the court will have to live with about 17 other judicial vacancies.

The order was not unexpected.

Barnes warned last week that the administration would order emergency cuts after new projections showed the $88 billion surplus built into this year's $20.14 billion budget had all but vanished.

The administration estimated on Friday that the surplus had plunged to a paper-thin $1.4 million, equal to 1/134th of 1 percent of the general fund.

That has been driven largely by declining state tax projections. A consensus revenue report last week from executive and legislative branch analysts showed income tax projections alone are down more than $169 million from the revenue forecast in the adopted budget, but that loss was offset somewhat by gains in sales and wholesale fuel tax receipts.

Existing law grants the governor limited authority to unilaterally rescind allocations in many line items by up to 5 percent, though municipal aid cannot be touched, and the state's share of funding for Medicaid, an entitlement, cannot be reduced without federally approved changes in coverage.

Malloy said the cuts ordered Tuesday don't reflect the maximum reduction he could have made, adding that further rescissions could be ordered if the budget picture worsens before the fiscal year ends June 30.

But Barnes warned that the rescissions themselves could present a fiscal challenge down the road.

That's because this year's budget also hinges on the Malloy administration's finding more than $831 million in unidentified savings, or lapses. Barnes' office already has developed a schedule assigning a share of that overall lapse target to most agencies.

Barnes said some of the rescissionary cuts "overlap" with efficiency measures agencies already had planned to meet their lapse responsibilities. This means those departments must find new ways to save money.

Barnes was unable to say precisely how much of the cuts proposed Tuesday would come from lapses, but Senate Minority Leader John McKinney, F-Fairfield, said it could be more than half.

"While I intend to take an exhaustive review of the proposed rescissions by the Malloy administration, we need to make sure his numbers add up. After an initial review by my staff, it appears that as much as $41.7 million of the governor's proposed rescissions have already been identified as lapses," McKinney said.

Barnes also warned that the administration likely would scale back plans to fill vacant positions across state government.

More than 2,600 state workers elected to retire from state service between January and Oct. 1, 2011 -- more than two-and-a-half times the number of retirements recorded over the same period in 2010. The 2011 total was driven largely by new restrictions in retirement benefits that took effect Oct. 1, according to the concessions deal negotiated by Malloy with state employee unions.

"We're not slowing down rehiring of vital positions because we want to," Malloy said. "We're doing it to be prudent."

Roderick L. Bremby, the commissioner of social services, said he doesn't expect the higher standards to get in the way of his request to hire more than 100 new workers. Barnes agreed that the request would likely meet the higher standards -- "to some degree."

"I'm certain that's a critical priority given the troubles that we've had with administering some of the federal programs," Barnes said.

DSS is seeking to hire 134 new workers, 120 of whom would be responsible for handling eligibility for the wide range of programs the department administers.

The department has come under fire for problems in handling program applications in recent years. Legal aid lawyers sued the department earlier this month, blaming understaffing in the department for delays in processing Medicaid applications. The department is also facing potential federal sanctions for problems in processing applications for the Supplemental Nutrition Assistance Program, formerly known as food stamps.

DSS received approval to refill 52 eligibility positions that became vacant when workers retired last fall and is in the process of hiring people.

Overall, state agencies received approval to hire about 1,000 workers to refill jobs left open after retirements last fall, but only about 250 of those jobs have been filled. Barnes said jobs "absolutely necessary" to ensure compliance with state or federal law or a court order would be approved.

Bremby said he believes the department's request for additional workers -- which would be in addition to the 52 already authorized -- meets the criteria Barnes set.

The Democratic governor absorbed some criticism last week from Republican legislative leaders, who noted that the shrinking surplus would leave Malloy unable to continue his GAAP initiative.

GAAP rules are a series of common financial guidelines established by the Government Accounting Standards Board to emphasize transparency. Unlike the modified cash basis state government has long used, GAAP rules require that funds be on hand to cover expenses as they are incurred. Similarly, revenues are counted in most situations in the year in which they are received.

The Malloy administration estimated in its Fiscal Accountability report in mid-November that state government would need another $1.7 billion in its coffers to cover all its obligations under GAAP rules. And that differential grows annually with inflation.

The governor pledged to use the first $75 million of any surplus this fiscal year to cover that inflationary cost and stop the GAAP differential from growing. When the budget was adopted in June, Malloy signed language that allowed him to delay the first of 15 annual payments to eliminate that $1.7 billion differential until 2014.