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**Written Testimony of Comptroller Sean Scanlon
February 16, 2024**

**State Comptroller and Miscellaneous Accounts
Budget Presentation to the Appropriations Committee**

Good afternoon Senator Osten, Representative Walker, Senator Berthel, Representative Nuccio, and members of the Appropriations Committee.

Thank you for the opportunity to testify on Governor Lamont's proposed FY 2025 budget adjustments for the Office of the State Comptroller (OSC) and the Miscellaneous Accounts administered by this office.

I would first like to highlight a few of OSC's major achievements since I've last addressed this committee:

- Convening municipal leaders and labor representatives, OSC brokered reforms to the Connecticut Municipal Employee System (CMERS). These reforms mitigate rising costs caused by structural problems decades in the making, saving municipalities nearly \$40 million in FY 2025 and over \$700 million over the coming decades, stabilizing costs for 107 of our cities and towns.
- OSC continues a historic modernization project for Core-CT, the state's Enterprise Resource Planning system, which provides human resource, payroll, benefits administration and financial services for thousands of state employees, retirees, and outside vendors. Our team successfully migrated Core-CT onto the cloud in November 2023 and is in the process of modernizing the system's functionality and efficiency and integrating 100,000 of the state's active and retired teachers onto the platform by the end of 2024.
- OSC administers several programs that meet the critical needs of the state, many of which were recently established. These include an assistance program to victims of flooding in Hartford; a retirement savings program for employees of small businesses; a prescription drug savings card for residents struggling with rising costs; a subsidy program to assist paraeducators in affording healthcare; and the Connecticut Premium Pay Program ("hero pay") that distributed funds to more than 150,000 Connecticut essential workers who were on the frontlines

during the early days of the pandemic, keeping our grocery stores open, our hospitals operating and our communities safe.

We also continue to administer the fringe benefits for state and municipal employees, including a health plan that covers approximately 250,000 lives, maintain the state’s payroll and reporting functions, and provide critical input on the state’s finances and economy. Further detail on our programs and efforts are provided below.

Impact of the FY 2025 Governor’s Proposed Budget Adjustments

The Governor’s proposed budget adjustments largely meet the needs of our agency. However, we continue to seek funding for the following critical needs:

1. \$529,000 in Personal Services and 7 positions for the following (detail below):

<u>Positions</u>	<u>Title</u>	<u>Salary</u>	<u>Purpose</u>
2	Retirement Benefits Officer	53,061	Manage the distribution of pension benefits to survivors of deceased pension plan participants
4	ERPFB Specialist (IT)	92,469	CORE-CT Modernization project and critical functions including payroll, benefits and IT.
1	Accounts Examiner	53,061	Pre-Audit State P-Card transactions to monitor for acceptable use and fraud.

Retirement Benefits Officers: OSC is requesting two additional positions at the level of Connecticut Careers Trainee with a target class of Retirement and Benefits Officer. The primary purpose of these positions is to serve the family members of the deceased retirees who are contacting our office to report the deaths and to receive guidance. These cases, ranging now typically from 150-200 per month, require significant care across three divisions to ensure that surviving families receive the guidance they need to process transactions across health care, group life, payroll and pension matters. These processes have been compromised with significant staffing decreases over the last decade.

Both the retiree volume and the number of retiree deaths has drastically increased since 2013. The number of individuals receiving pension payments has increased from 49,580 in 2013 to 75,384 in 2023 and the average number of deaths per month has increased from 118 in 2013 to 175 in 2023.

IT Specialists: There has been a 25% staff reduction over the last 7 years, mostly due to retirements. With an increased demand on the Core-CT system and active Core-CT

modernization and Teachers Retirement Services projects, the reduction in staffing will affect Core-CT's ability to meet the state's needs and project timelines. There are currently 18 (25%) vacant technical positions in the Core-CT organization. Consultants and temporary staff are currently being used to fill some of these key positions, which is not a long-term solution to maintain a system that supports the most mission-critical transactions at every agency in state government.

Accounts Examiner: In FY 2023, there were over 100,000 State PCard transactions totaling \$35 million in state funds. Currently, there is no pre-audit process to focus on transactions prior to reconciliation. A pre-audit process would align with best practices and standards and could save the state a significant amount of money if additional errors or fraud were identified.

The benefits of such a pre-audit program would include preventing transactions that fail to comply with procurement or agency policy, identifying patterns of misuse, identifying potential fraud, and identifying weaknesses in internal controls and policy at the agency and statewide level.

2. \$830,000 in Other Expenses for the following projects:

<u>Item</u>	<u>Funding Requested</u>	<u>Purpose</u>
1	634,749	Core Modernization Project & Current IT Needs
2	120,000	IT Costs charged by DAS BITS
3	75,000	Marketing for Array Rx Program

Core Modernization Project Needs

The Core-CT modernization project is underway and will continue through 2024. The modernization project has a focus on improving infrastructure, security, and business functionality. The major milestones of the project include moving the Core-CT infrastructure to a cloud service provider, upgrading the software stack to the latest versions and adding additional functionality in the areas of process automation and self-service. Core-CT is used by over 50,000 state employees and processes over 2 million payments per year.

For Core-CT and other mission-critical IT needs, we are asking for \$755,000 (Items 1 & 2).

Item 1: Our initial cost projections to transition to the cloud were \$1.5 million prior to implementation. Actual costs related to our cloud footprint, including virtual servers and security features have grown to \$1.9 million. We are asking for \$400,000 to cover these critical costs.

Separate from the ongoing CORE modernization project, our agency has existing information technology needs estimated at \$235,000 related to software and hardware maintenance cost

increases that were not funded in prior years. While we have been able to absorb these costs historically, they create structural risk to our IT systems that manage benefits & pay for a population soon to be over 150,000 people.

IT Costs Charged to OSC by DAS

Item 2: Core-CT utilizes a software scheduling tool and service provided by DAS/BITS. The tool ensures Core-CT system processes are run, monitored and job inter-dependencies are enforced. It helps identify and prevent systemwide disruptions when a process fails. Historically, Core-CT has been charged \$3,200 per year for this service. Recently, the DAS finance and mainframe billing teams completed a review and re-evaluation of the costs for the job scheduling product. The chargeback for this product and service is now quoted at \$110,000 – \$120,000 per year.

Overall, the DAS BITS scheduling tool works well and is effective. With the current modernization and TRS projects, redesigning the schedule and implementing a new scheduling tool would be a significant undertaking which the HR and Finance teams do not have the capacity to take on at this time. It is essential that we continue with the DAS BITS service and to add this increased cost to the OSC's OE request.

Marketing for ArrayRx program

Item 3: ArrayRx is a drug discount card program administered by OSC. The card has delivered 20-80% savings to some enrollees off the price of prescription drugs. There is no cost to enroll, and the program is aimed at our underinsured residents.

A recent market assessment estimated that there are approximately 175,000 people in the state that could benefit from the card, but OSC has no funding to market this program. Considering the skyrocketing costs of prescription drugs, we believe we should get as many people signed up for this card as possible which is why we are asking for \$75,000 in funding for outreach costs.

Fringe Impact from Governor's Proposed Budget

The Governor's budget proposal meets the needs of our fringe benefit accounts therefore we are not requesting any additional funding at this time.

The Governor's budget includes three important changes to OSC's budget that we want to highlight for the Committee's awareness:

1. The Governor's budget proposes changing the Judges Retirement System (JRS) to a 15-year layered amortization with level dollar funding. The adjustment to the remaining amortization period from 8 to 15 years will reduce this year's ADEC, allowing for the adoption for a more conservative long term funding policy. The proposed change from level percent of payroll to level dollar approach will bring the judges' plan in line with the amortization funding method used for SERS. The level dollar approach requires

larger amortization payments in the early years, resulting in a more rapid elimination of the unfunded liability.

This change will result in a savings to our JRS appropriation of approximately \$7 million in FY 2025.

2. The Governor’s proposal also includes \$31.4 million in additional funding to pay the SERS actuarially determined employer contribution in FY 2025. This additional funding is required due to actuarial losses detailed in the system’s annual valuation.

3. Finally, the budget includes \$72.9 million over the biennial budget for the Higher Education Alternate Retirement Program appropriation. This is an accounting change that has no net impact to our bottom line. A corresponding revenue adjustment has already been made that offsets this additional appropriation.

In addition, the current budget for group life is projected to have a deficiency of \$669,000 in fiscal year 2024 and \$620,000 in Fiscal Year 2025. The deficiencies in this account are driven by increased enrollment in the group life from new and existing employees. The office implemented a competitive procurement for a new group life vendor for FY 2024, resulting in a slight decrease in premium rates. However, the combination of new employees electing to enroll in the group life plan and an open enrollment in December 2023 resulted in a higher total enrollment in group life than initially predicted creating the projected deficiency in this account.

OSC Agency Positions

Authorized	284
Filled	250
Funded vacancies	20
Unfunded Vacancies	14
Requested	7

Program Updates

The Connecticut Retirement Security Program (MyCTSAvings)

The Connecticut Retirement Security Program, publicly branded as “MyCTSAvings,” was created to provide easy, simple access to retirement savings to Connecticut’s workers – nearly 600,000 residents – whose employers do not offer one.

All Connecticut employers with five or more employees—at least five of whom are paid at least \$5,000 or more—must facilitate MyCTSAavings if they don't offer a qualified retirement plan. Participating businesses only need to provide their employee's information and submit employee contributions to the program on their usual payroll cycle. The program then creates Roth IRA accounts for each employee, and it's up to them whether they want to save with the program or opt-out.

MyCTSAavings has experienced rapid growth in the last year as a result of its expanded capacity and staff. The office has participated in over 70 events in the last year, including holding informational sessions, business walks, webinars, and other collaborations with the business community. As of this month, the program serves nearly 25,000 employees across the state, a growth of almost 300% since the same time last year. Assets under management have grown even more, increasing 700% from \$2.4 million to over \$17 million. Connecticut continues to have the lowest opt-out rates of Secure Choice programs in the country, with more than 80% of savers choosing to stay enrolled in the program when they are signed up.

The OSC expects to see continued growth over the next year with the expansion of Connecticut's businesses; last year MyCTSAavings reached out to over 10,000 businesses newly eligible in 2023 and expects to reach out to thousands more who will be eligible in 2024.

Healthcare Accounts

The OSC continues to work towards more affordable, quality healthcare by focusing on improving the health of participating members and reducing costs through aggressive contracting and innovative programing. In fiscal year 2023 the State Employee Health Plan and Partnership plan (the plan) had a combined medical and pharmacy trend of 2.6%. This was driven by modest growth on the medical side combined with a negative trend in pharmacy. This continues a long-term trend of positive cost trends in the active and retiree health care accounts. In fact, since the passage of the 2017 SEBAC agreement spending in the health accounts has had a combined compound annual growth rate of just 1.2% between (FY 2017 - FY 2023) and the share of the general fund budget that goes towards active and retiree health care has declined by 1% from 7.6% to 6.6%. During this period combined active and retiree membership grew about 1% per year, thus on a per employee/retiree basis the compound annual growth rate was a meager 0.3%. The cost management of the health accounts has significantly expanded the funds available for other budget priorities. Had the health accounts grown at the same rate as the broader budget an additional \$221 million would be required to fund active and retiree health care costs.

In fiscal year 2023 the state launched a series of new programs that helped to reduce costs for the plan and for members. First, the plan launched a program that leverages available pharmaceutical manufacturer assistance to lower plan and member specialty drug costs. The program reduced specialty drug spend by over \$30 million in its first year. In addition, the plan launched an innovative new Primary Care Initiative that significantly increases investment in primary care to provide primary care groups with the resources they need to improve care coordination and chronic disease management for covered members. Lastly, the plan competitively bid a new Medicare Advantage contract – reducing costs by over \$100 million

annually and a new dental contract, which ensures moderate cost growth in the coming years and expands access to dentists and specialists for plan members.

In fiscal year 2024 the plan launched a new obesity management program to provide specialized clinical obesity care to plan members and control rising costs of anti-obesity medications – the program is seen as a national model. In addition, the plan has updated its provider of distinction program to focus on individual high performing providers for certain planned procedures and conditions. The plan is currently competitively bidding its pharmacy benefit management services contract. The new contract is expected to better align the incentives of the pharmacy benefit manager and the plan, drive more utilization of high value and effective medications, while reducing pharmacy cost growth for the plan and its members. Lastly, we recently announced an update to the Health Enhancement Plan, the renowned wellness program that has resulted in some of the highest rates preventive care and screenings in the nation for state health plan members. The program was updated to better align with the U.S. Preventive Care Task force’s preventive care recommendations, and administrative changes were implemented to simplify compliance for members.

Moving forward the plan will continue to focus on improving members’ health and retaining costs.

Hartford Flood Compensation Program

On June 12, 2023, Governor Ned Lamont signed into law the 2024-2025 biennium budget, which established the Hartford Flood Compensation Program, a \$5,000,000 pilot program overseen by the Office of the State Comptroller. The charge of this grant program is providing financial assistance or reimbursement – for things such as repairs – to eligible owners of real property in the city of Hartford who experienced damage caused by flooding on or after January 1, 2021.

To date 395 applications have been received by the Program Administrator, Dr. Gary Rhule. The Program Administrator has approved 159 applications, totaling \$1,939,043 in pay outs. Of the 159 approvals, 125 payments have been sent out to residents of Hartford. The additional payments will be made once required documents are returned to the Program Administrator. Administrative costs, which include payment to the Program Administrator, payment to Blue Hills Civic Association for outreach and application assistance, and reimbursement for required inspections, have totaled \$226,847.

In total, the program will have spent \$2,166,239 of the \$5,000,000 allotment.

Conclusion

The Office of the State Comptroller stands committed to increasing government transparency, reducing costs for the 300,000 Connecticut residents covered by our health plans, and continuing the fiscal progress of the past few years.

We’ve expanded our transparency efforts most recently by releasing our first Annual Loss Report, which quantifies the amount of state assets lost or stolen over the last year. We’ve saved

taxpayers money by controlling healthcare costs and paying down our liabilities. And we've successfully managed an array of programs helping residents across the state with issues ranging from flooding to health care and drug costs.

This budget, along with our requests, will ensure that the Office of the State Comptroller can continue to administer both statewide projects and routine services at a high level of efficiency and responsiveness.

I look forward to our continued cooperation in service of the residents of this state.

A handwritten signature in black ink, appearing to read "Sean Scanlon". The signature is fluid and cursive, with the first name "Sean" and last name "Scanlon" clearly distinguishable.

Sean Scanlon
State Comptroller