

KEVIN LEMBO
STATE COMPTROLLER



MARTHA CARLSON
DEPUTY COMPTROLLER



STATE OF CONNECTICUT
OFFICE *of the* STATE COMPTROLLER
165 Capitol Ave.
Hartford, CT 06106

Written Testimony of Comptroller Kevin Lembo
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State Comptroller and Miscellaneous Accounts Budget Presentation to the Appropriations Committee

Good morning Senator Osten, Representative Walker, Senator Formica, Representative Lavielle and members of the Appropriations Committee:

Thank you for the opportunity to testify on the Governor's Proposed Budget Adjustments for the Office of the State Comptroller (OSC) and the Miscellaneous Accounts administered by the Comptroller's Office. I am confident that, absent any unforeseen events, the biennial budget adjustments as proposed by the Governor will be sufficient.

The OSC is responsible for all aspects of settling the state's debts, including vendor payments, employee payroll, retiree payroll, healthcare benefits, grants, and most other fiscal transactions our state agencies perform. Core-CT serves as the comprehensive financial engine upon which the General Assembly, the Administration and the Office of Fiscal Analysis (OFA) rely to formulate budget and program policy, as well as the system of record for the comprehensive annual financial report (CAFR).

Economic realities over the last several years continue to challenge every family, business, municipality and state agency -- but also provide an opportunity for government to reinvent how it does business.

I am proud that OSC staff continues to fulfill our core mission, while assuming expansive new responsibilities at the same time. We've enhanced OpenConnecticut -- the state financial portal dedicated to fiscal transparency where members of the public can use the interactive tool to perform their own analyses concerning revenue and expenditure changes. By statute, OpenConnecticut now includes all checkbook level data from all quasi-public institutions, including vendor payments and employee level payroll data.

To reduce health care costs, we are in the process of implementing new programs that will provide state and municipal employees and their dependents who are enrolled in the state plan the highest quality health care while controlling costs. One of our core initiatives is to develop a network of verified centers of excellence for certain conditions and procedures. Under this program the state is changing the reimbursement model for certain procedures from the current fee for service, in which providers are paid a fixed fee for each service they perform, to a bundle payment model, in which providers are reimbursed one flat rate for an entire episode of care, including services provided prior to and following a major procedure. A bundled payment incents providers to improve their efficiency and reduce avoidable complications which drive up costs. The result is lower cost and better quality health care. Plan participants will be encouraged, through monetary incentives, to utilize the top performing providers engaged in bundled payment agreements. Incentive eligible

providers will be determined by their performance as measured by patient outcomes and their efficiency in providing services. This new payment model and center of excellence network is a dramatic shift from the traditional fee-for-service payment model that provides little incentive to deliver health care efficiently.

In December, we completed a competitive bid process for the medical Administrative Service Organization (ASO) for the state health plan and awarded a contract to Anthem to be the sole ASO for the state plan. Anthem will be our partner in administering the Centers of Excellence network and bundled payments model. My office recently released a Requests for Proposals (RFP) for administration of the state dental plan and will soon release an RFP for the administration of the Medicare Advantage plan for Medicare eligible retirees. Through these procurements we hope to improve the quality of the benefit administration for plan participants while also reducing costs for the state.

Overall, our switch to Medicare Advantage has exceeded our initial savings projections. However, the new premiums for calendar year 2020 were greater than anticipated due to higher than projected utilization and the reinstatement of the health insurer tax for calendar year 2020. The increased premiums will reduce the amount of savings we will achieve in the retiree health care appropriation this fiscal year.

Last year at this time, we began a competitive search for a pharmacy benefit manager and awarded a contract to CVS Caremark. Since the new contract went into effect on July 1, we have seen a negative 10% trend in our pharmacy spend in the state plan. We anticipate that we will continue to benefit from this new agreement through the rest of this fiscal year and into the next.

We continue to add municipalities to the CT Partnership Plan every year, which has successfully lowered health care costs for participating municipalities by allowing them to join the state employee health care plan. The program now covers nearly 60,000 municipal and other nonstate public employees and their dependents. Partnership plan participants will continue to benefit from the innovations occurring in the state plan.

The automated financial system (Core-CT) continues to be vital in meeting the evolving business needs of our state and quasi-public agencies. While Core-CT continues to perform well, it is entering its twentieth year of service and the support staff is still contracting due to attrition. The combination of these two factors pose some challenges for Core-CT over the next several years.

Technology has changed dramatically over the last twenty years and Core-CT needs to evolve to continue to provide a stable and secure platform. Over the next year the Core-CT team will concentrate on evaluating modern technologies such as cloud computing to plan for the next iteration of the Core-CT technology infrastructure.

The other major initiative that will be undertaken this year will develop a plan to address the diminishing Core-CT support staff. This is going to be especially challenging since the state is anticipating many retirements before July 2022, which could include Core-CT support team members, and the fact that Core-CT is the pension administration for the state. As a result of previous large retirement waves in the early 2000's, there was a retirement benefit finalization backlog of 15,000 employees. Over the last three years, OSC working diligently and utilizing Core-CT, has eliminated that backup. This plan will try to ensure that a new backlog is not created after July 2022.

I bring to your attention that my FY2020/2021 capital budget request last year included \$11.4M to ensure that Core-CT continues to provide the enterprise financial and human resource functions that Connecticut depends upon. These funds will be used for enhanced cyber security, software maintenance, application support and hardware modernization. I am told that this portion of our request was approved and would be satisfied through the Governor's IT Capital Investment Fund, however, OSC has yet to receive these funds.

Health Care Accounts

The Governor's Budget Adjustment assumes a \$15.78 million reduction in the State Employees Health Service account and an \$80.0 million reduction in the Retired State Employees Health Service account. Our current projections, accounting for cost trends and shifts in utilization as well as projected savings from multiple initiatives currently under way, are in line with the governor's budget adjustments.

Conclusion

In summary, OSC maintains its commitment to find operating efficiencies, create savings, and provide greater transparency in government. Our efforts on OpenConnecticut have positioned our state as a national leader in open government, and health care innovations underway are also positioning our state as a national model for establishing health care quality system wide. We are continuing to explore ways to expand on our efforts and enhance our recognition as an innovator in this space.

We work hard to deliver the best quality service to state employees, retirees, vendors, municipalities, state agencies, and the public. We have an extraordinary staff with a track record of finding ways to successfully deliver routine services, while at the same time implementing large statewide projects.

Thank you very much for your time. I am pleased to answer any questions.