

MINUTES OF THE MEETING OF THE FINANCE ADVISORY COMMITTEE
August 8, 2024

PRESENT: Lieutenant Governor Susan Bysiewicz
Deputy Comptroller Tara Downes
Deputy Treasurer Sarah Sanders
Senator Catherine Osten
Representative Toni Walker
Representative Tammy Nuccio
Deputy Secretary Paul Potamianos
Office of Policy and Management, Finance Advisory Committee Clerk

Lieutenant Governor Bysiewicz called the meeting to order at 1:00 p.m.

The minutes of the June 6, 2024, meeting were adopted.

The following new transactions were considered by the committee:

2025-1 for the Office of Policy and Management on behalf of various agencies.

Pursuant to the authority granted in section 4 of Public Act 24-81, this is a transfer from various state agency accounts of \$34,679,519 to the State Employees Retirement Contribution accounts in the Office of the State Comptroller, and \$42,447,000 to the Retirement Contribution account under the Teachers' Retirement Board to enable the state to fulfill its FY 2025 pension contribution obligations.

Senator Osten asked if funding proposed for transfer out of Department of Revenue Services (DRS) and the Department of Developmental Services (DDS) represents unused funds for the first month and a half of the fiscal year. Deputy Secretary Potamianos explained that the adopted budget included a savings target requiring the Office of Policy and Management to hold back from allotment to state agencies certain amounts to achieve the state's budgetary bottom line. Part of those hold backs of state agency appropriations included amounts in the Personal Services accounts to both of these agencies. This transfer would take monies held back from availability to agencies and redirect it instead to meet the state's pension obligations. Senator Osten asked if these transfers will affect business operations for the agencies. Deputy Secretary Potamianos indicated that this is not expected to affect agency operations and that the agencies had lapsed Personal Services funding in the last several fiscal years. Senator Osten asked about the impact of the \$6 million proposed for transfer from DRS on the agency's ability to fill positions. Louis Bucari, First Assistant Commissioner and General Counsel at the Department of Revenue Services, responded that there are currently approximately 51 vacant positions, and the agency would not be able to fill those vacancies this year. Senator Osten asked if these positions were added to increase revenue collections. Mr. Bucari answered that he does not believe so. The agency is mindful of the fact that the legislature required the agency to conduct a study that is due in December relative to the state's tax gap, and an element of the report is to identify staffing needs that may be required to reduce any potential tax gap. Senator Osten asked if the \$6 million transfer means that the agency will not fill any of the empty positions for the rest of this year. Mr. Bucari confirmed that this is correct.

Senator Osten and Representative Nuccio asked how many positions \$8 million equates to for DDS. Nicholas Jerard, Chief Fiscal Officer, responded that he would provide that information to the committee. Mr. Jerard explained that filling positions typically reduces overtime, so there is an offset when hiring full-

time and part-time direct service workers. Senator Osten asked if this transaction reflects a transfer of \$8 million of the \$19 million Personal Services holdback. Mr. Jerard responded affirmatively. Senator Osten asked whether OPM will be releasing the remaining \$11 million of the holdback. Deputy Secretary Potamianos answered the holdback could potentially be released in whole or in part dependent on where the agency ends up with its hiring.

Representative Nuccio asked for confirmation that the holdback for DRS is \$11 million, leaving \$5 million remaining after this transaction. Deputy Secretary Potamianos confirmed that this is correct, and added that that \$5 million has not been made available to the agency, and the agency will need to program within available funds for the remainder of the year. He further noted that if an issue around hiring arises, OPM has the flexibility to release that remaining holdback. Representative Nuccio asked if we have a total of policy actions for holdbacks across the state budget by area. Deputy Secretary Potamianos answered that the budget required \$129 million of holdbacks for Personal Services across the General Fund. He further noted that DRS and DDS had lapsed significant amounts of Personal Services in the last couple of years, and that OPM felt confident that in holding back funds this year agency operations would not be impacted. Representative Nuccio asked for clarification on the State Employee Health Service Cost. Deputy Comptroller Tara Downes provided an explanation of the reasons for the lapse. Deputy Secretary Potamianos added that this transaction is consistent with a recommended budget revision that the Governor proposed in February.

Representative Walker asked if DRS had a lapse last year in their Personal Service account. Deputy Secretary Potamianos confirmed this, noting that in FY 2024, the deficiency appropriations bill reduced DRS' Personal Services appropriation by \$11 million. In FY 2023, the agency did not expend over \$15 million of its Personal Services funding. As a result, this transfer is consistent with lapses that had been experienced by the agency in the last two fiscal years. Representative Walker asked if the agency experienced overtime during both years. Deputy Secretary Potamianos answered that the numbers cited are the all-in Personal Services costs which include straight time wage costs plus any overtime that may have been incurred by either agency, and that the proposed transfers reflect available Personal Services funding after accounting for all of those costs. Deputy Secretary Potamianos will provide the exact overtime numbers to the committee. Representative Walker asked whether the DDS transfer would impact the agency's ability to address overtime costs. Deputy Secretary Potamianos replied that the agency would still be able to hire positions with funds that they would have otherwise spent on overtime. Mr. Jerard confirmed that this is correct. Representative Walker asked if DDS is currently incurring overtime costs. Mr. Jerard responded affirmatively. Deputy Secretary Potamianos stated last year the deficiency appropriations bill took \$19.7 million out of Personal Services for DDS and in FY 2023 the agency did not expend a little over \$27 million of its Personal Services funding. He reiterated that OPM felt that this would not have a significant impact on operations and still would give the agency flexibility to hire.

Representative Nuccio asked if the Medicaid overages have been addressed. Deputy Secretary Potamianos answered that OPM's first estimate for FY 2025 will be released later this month, but we will have opportunities as the year progresses to address shortfalls via FAC transfers and/or deficiency appropriations if necessary. Representative Nuccio asked whether any transfers are taking place using the enhanced transfer authority adopted last session that do not require FAC approval. Deputy Secretary Potamianos responded that no transfers have occurred to date using that authority, and noted that the Finance Advisory Committee and the Office of Fiscal Analysis would be notified in the event that authority is exercised.

Senator Osten cited HB 5001 relative to expanding services within DDS and asked if the transfer would impact the implementation of that bill. Chief Fiscal Officer Jerard indicated that this transfer will not impact the implementation of this bill, however, the agency may need to work with OPM on the remaining \$11.6 million to ensure the agency has the ability to hire for the various provisions of that bill. Senator Osten asked if we know the amount needed for retiree health care. Deputy Secretary Potamianos answered that OPM has an estimate of the retiree shortfall, and that even with the \$24 million transfer out of the active health account, OPM's analysts project there still would be a significant amount of funding available in that account that could be redirected to the retiree health account to help mitigate that shortfall. He further noted that it is still early in the fiscal year and that the amount needed to cover retiree health obligations will be refined as the year progresses. Senator Osten asked for clarification on the retirement costs in the Special Transportation Fund and the General Fund. Deputy Secretary Potamianos explained that there are two components of the pension transfers that are being proposed today, a portion for the normal cost of pensions and a portion for the unfunded liability. The transfers today would enable the state to make the full actuarially required employer contribution for this year. Senator Osten asked if the \$42 million for the Teachers' Retirement Fund is consistent with the actuarial valuation. Deputy Secretary Potamianos confirmed this is correct. Senator Osten asked about the amortization of the judge's retirement fund and whether this made the funds available for this transfer. She also asked if that amortization now aligns the judge's retirement account with retirement plans for teachers and state employees. Secretary Potamianos replied that the judges' plan has a somewhat shorter amortization time frame for unfunded liability than the other two plans, but the approaches are similar across all three. Senator Osten requested information regarding DDS to ensure that HB 5001 is addressed, and asked for confirmation of the timeframe for achieving full funding for the judges' retirement plan, the state employees plan, and the teacher's retirement plan. Deputy Secretary Potamianos committed to providing this information.

The item was unanimously approved.

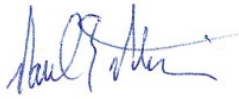
2025-2 for Office of Policy and Management. Transfer of \$7,709,878 from the Motor Vehicle Tax grant account to the Tiered Pilot grant account in the Municipal Revenue Sharing Fund to enable the Office of Policy and Management to pay municipalities in September for their full Tiered Pilot formula grants in accordance with statutory requirements.

Senator Osten asked whether the Governor's proposed budget had recognized overfunding in the motor vehicle tax grant account. Deputy Secretary Potamianos confirmed this, noting that the Governor's recommended budget adjustments for FY 2025 included an \$18.3 million downward adjustment in the motor vehicle tax grant account to reflect funding necessary to meet the statutory 32.46 mill rate cap. Senator Osten asked if the funding left over in the account after this transaction could be used to address other shortfalls in the budget. Deputy Secretary Potamianos responded that that would require legislative action. Senator Osten asked whether the flexibility provided to the Governor to adjust the FY 2025 budget would allow OPM to move funds between agencies with projected shortfalls. Deputy Secretary Potamianos noted that the authority was specific to honoring the actuarially determined employer contribution for the State Employees Retirement System, the Teacher's Retirement System, or the Judges Retirement System. Senator Osten asked that the Office of Fiscal Analysis and the Office of Legislative Research review the legislative language to determine whether the authority could be interpreted more broadly. Deputy Secretary Potamianos indicated an openness to having that discussion.

The item was unanimously approved.

The meeting was adjourned at 2:34 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Paul E. Potamianos", with a stylized flourish at the end.

Paul E. Potamianos, Deputy Secretary, Office of Policy and Management
Finance Advisory Committee Clerk