

# Budget Status: Second Quarter, FY 2020 Audit, Federal Action

House Fiscal Staff Presentation to  
House Finance Committee  
February 25, 2021

---

# Introduction

- Global pandemic affecting all facets of RI health and economy
  - Uncertainty persists
- First two-thirds of fiscal year now over
  - FY 2021 budget became law in December, with nearly half the year already over
  - Many changes at federal level affecting state finances
- Governor's FY 2022 budget and revisions to FY 2021 due March 11

# Introduction

- State budget status with all available info
  - FY 2021 enacted budget
  - FY 2020 audited closing
  - Q2 reports
  - Federal legislation and related guidance
  - OMB COVID spending reports/portal
  - Staff analysis
- Some items subject to frequent change
  - HFAS interpretation and perspective

# Introduction

- **FY 2020** Preliminary Closing – Sept 8
- Agency budget requests – Oct 1 (due)
- Agency Q1 reports – Oct 30 (due)
- Caseload/Revenue – November 2/6
- Budget Office Q1 report – Nov 16
- **FY 2021** Budget Signed December 21
- Agencies Q2 – Jan 30
- Budget Office Q2 – Feb 15
- **FY 2020** Audited Closing – Feb 23
- Governor's **FY 2022** Budget – March 11

# Introduction

- Legislative & administrative actions from feds have significant affect on budget
  - State Budget Relief
    - Newly approved grants for COVID response
    - Medicaid enhanced match extension
    - FEMA match waiver
  - State Budget Cost
    - Tax treatment of PPP related expenses
    - Other tax extensions?
    - Maintenance of effort requirements

# Budget Gaps and Deficits

- Deficits or surpluses
  - Actual or projected differences between resources and expenditures in the *actual year or current year*
- Budget Gaps
  - Projected differences between estimated resources and estimated expenditures in the *budget year and out years*
    - Governor must submit a balanced budget to the Assembly for the Budget Year
    - Out years must also be presented

# Budget Gaps and Deficits

- Budget gap/deficit projections always tricky & subject to varied assumptions
- Starting point vs ending point
  - For future year it's current service/law needs vs current law revenues
    - Many subjective assumptions possible
  - In a current year review – it's enacted vs updated spending & revenue estimates
- Pervasive uncertainty complicates all calculations

# Budget Status - February

- FY 2021 Budget adopted in December based on then current federal law and related guidance
  - Ending surplus of \$7 million
  - FY 2022 budget gap estimate of \$450 million
    - *Mostly related to extensive use of one-time funds*
- Federal activity has altered outlook
  - Fifth stimulus enacted 12/27
  - Admin action on Medicaid & FEMA match
  - Pending sixth stimulus



# Budget Status - February

- Second stimulus law increased Medicaid match rate by 6.2% in March 2020
  - Retroactive to January 1, 2020
    - Effective while public health emergency declared
  - FY 2021 enacted: \$108.2 million – 3 quarters
    - Extension to 4<sup>th</sup> quarter = \$34.5 million in new savings
  - FY 2022 savings \$60-\$70 million
    - Biden administration plans to keep through CY 2021
    - Means 2 quarter of FY 2022 at \$30-35M each
  - Over 2 fiscal years, extension worth \$100 M

# Summary

- Audited Closing
- Current Year
  - COVID Relief
- FY 2022
- Risks and Issues

Closing and Current Year

---

# FY 2020 Preliminary – Sept

	<b>Enacted</b>	<b>Prelim</b>	<b>Diff.</b>
Opening	\$40.8	\$40.8	\$0.0
<i>From Rainy Day Fund</i>	120.0	120.0	-
Other Revenues	3,922.2	4,063.9	141.8
<b>Total Revenues</b>	<b>\$4,082.9</b>	<b>\$4,224.7</b>	<b>\$141.8</b>
To Rainy Day	(122.1)	(126.4)	(4.3)
Expenditures	(3,958.7)	(3,912.6)	46.1
Closing Surplus	2.1	185.7	183.7
Reappropriation	-	(5.3)	(5.3)
<b>Free Surplus</b>	<b>\$2.1</b>	<b>\$180.4</b>	<b>\$178.3</b>

\$ in millions

# FY 2020 Closing

- Preliminary FY 2020 data showed \$178 million gain to final enacted surplus assumption
  - Revenues beat adjusted expectations
  - Spending was lower
    - Medicaid growth less than expected
  - Subject to audit adjustment before final
  - Significant changes were expected
    - **Some positive changes already built into FY 2021 budget assumptions**

# FY 2020 Audited

	<b>Enacted</b>	<b>Audited</b>	<b>Diff.</b>
Opening	\$40.8	\$40.8	\$0.0
<i>From Rainy Day Fund</i>	120.0	120.0	-
Other Revenues	3,922.2	4,063.7	141.6
<b>Total Revenues</b>	<b>\$4,082.9</b>	<b>\$4,224.5</b>	<b>\$141.6</b>
To Rainy Day	(122.1)	(126.4)	(4.2)
Expenditures	(3,958.7)	(3,936.6)	22.2
Closing Surplus	2.1	161.5	159.5
Reappropriation	-	(5.3)	(5.3)
<b>Free Surplus</b>	<b>\$2.1</b>	<b>\$156.2</b>	<b>\$154.1</b>

\$ in millions

# FY 2020 Prelim vs. Audited

	<b>Prelim</b>	<b>Audited</b>	<b>Diff.</b>
Opening	\$40.8	\$40.8	\$0.0
<i>From Rainy Day Fund</i>	120.0	120.0	-
Other Revenues	4,063.9	4,063.7	(0.2.)
<b>Total Revenues</b>	<b>\$4,224.7</b>	<b>\$4,224.5</b>	<b>\$(0.2)</b>
To Rainy Day	(126.4)	(126.4)	-
Expenditures	(3,912.6)	(3,936.6)	(24.0)
Closing Surplus	185.7	161.5	(24.2)
Reappropriation	(5.3)	(5.3)	-
<b>Free Surplus</b>	<b>\$180.4</b>	<b>\$156.2</b>	<b>(24.2)</b>

\$ in millions

# FY 2020 Audit Major Items

<b>Closing Balance Impact</b>	<b>FY 2020</b>
FEMA reimbursement to 21	(109.6)
Increased CRF for Staff/Ops	77.0
Medicaid Payables	14.0
ESH – prior year billings	(7.7)
BHDDH Cost Allocation	2.6
All Other Expenses	(0.2)
Revenues	(0.2)
<b>Total</b>	<b>(\$24.2)</b>

- Largest items were known at the time the FY 2021 budget was adopted and impact accounted for
- Should be viewed over 2 years

\$ in millions



# FY 2020 Audit Major Items

- Technical accounting for reimbursement from FEMA forced unbudgeted state expense in FY 2020 that gets reversed in FY 2021

<b>Closing Balance Impact</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>2 Year</b>
FEMA technical shift to 21	(109.6)	109.6	–
Additional CRF Personnel	77.0	(70.0)	7.0
Other items	8.7	-	8.7
<b>Total</b>	<b>(\$24.2)</b>	<b>\$39.6</b>	<b>\$15.7</b>

\$ in millions

# BHDDH FY 2020 Closing

	<b>Notable Issues</b>	<b>Issue</b>	<b>Resolution</b>
Division of Developmental Disabilities	RICLAS - Apartments	Expenses not Medicaid reimbursable/working with EOHHS	Still RIPTA match issue - \$0.8M?
	RIPTA Services		
	Out of State Placements		
Behavioral Healthcare Services & Administrative Programs	Staffing & Operating Expenses	Cost Allocation Plan completed by PCG	\$2.6 million savings now in Audited

# Current Year

- The Budget Office second quarter report show *current year* has a \$43.7 million surplus primarily from federal Medicaid match extension: \$34.5 million
  - Further deterioration of ESH federal funds
  - Minor adjustments elsewhere
  - Audited closing not complete at the time
  - No estimate on additional federal actions

# FY 2021

	<b>Enacted*</b>	<b>BO Q2</b>	<b>Diff.</b>
Opening	\$185.7	\$185.7	\$-
Revenues	4,108.4	4,108.4	-
Rainy Day	(128.7)	(128.7)	-
Expenditures	(4,153.3)	(4,121.8)	(31.5)
<b>Total FY 2021</b>	<b>\$ 12.2</b>	<b>\$43.7</b>	<b>\$31.5</b>

\* Corrected for opening surplus error; \$ in millions

- Audited closing improves bottom line by about \$24 million a total of \$55.5 million

# COVID-19 Relief

- There have been 5 federal acts to address crisis
  - Coronavirus Preparedness & Response Supplemental Appropriations Act – March 6
  - Families First Coronavirus Response Act – March 18
  - CARES Act – March 27
  - Paycheck Protection Program & Health Care Enhancement Act – April 24
  - Consolidated Appropriations Act – Dec 27

# COVID-19 Relief

- Federal acts include funding for
  - State and local budgets
    - Strings and limitations
  - Individuals
    - Direct stimulus payments
    - Optional tax changes
  - Businesses
    - Loans
    - Optional tax changes

# State & Local Budgets

<b>Federal Relief Projections for RI</b>	<b>Amount</b>
Treasury	\$1,450.0
Education	431.7
Health & Human Services	483.9
Centers for Disease Control & Prevention	172.4
Labor	178.7
Federal Emergency Management Agency	97.5
Housing & Urban Development	44.7
Transportation	183.3
Other	96.8
<b>Total</b>	<b>\$3,319.0</b>

\$ in millions

# COVID - 19 Relief

- Consolidated Appropriations for FY 2021
  - Signed December 27, 2020
- \$900 billion cited as new COVID-19 relief
  - Extends or modifies current programs
    - Direct payments to individuals
    - Extended UI benefits
    - Funding for
      - Vaccines & testing
      - Business
      - Schools
      - Rental assistance



# COVID - 19 Relief

- Education - Consolidated Act provides \$81.9 billion
  - Mostly distributed same way as CARES Act
  - Requirements to states to maintain spending (MOE) are different
    - Now based on proportion of state spending on education compared to all state spending instead of maintaining specific dollar amounts
      - Complicated to operationalize
    - Funding available into FY 2023

# COVID - 19 Relief

- CARES Act K-12 & Higher Ed all allocated in FY 2020 & FY 2021 budgets
- 5<sup>th</sup> Stimulus adds much more with new rules, longer availability

<b>Education Funds</b>	<b>CARES</b>	<b>Consolidated Appropriations</b>	<b>Total</b>
Governor's Fund	\$8.7	\$11.0	\$19.7
K-12 Fund	46.4	184.8	231.2
Higher Education Fund	29.5	51.5	81.0
<b>Total</b>	<b>\$84.6</b>	<b>\$247.3</b>	<b>\$331.9</b>

\$ in millions

# COVID - 19 Relief

- Governor's Fund flexible funding
  - In January, Governor Raimondo submitted her use plan for CARES and new funding

<b>Governor's Initiatives</b>	<b>Total</b>
Increase student access to mental health	\$0.9
Expand prekindergarten	2.5
Expand access to CCRI similar to Promise	5.3
Office of Postsecondary Commissioner	3.9
Private Schools	7.1
<b>Total</b>	<b>\$19.7</b>

\$ in millions

# COVID - 19 Relief

- CDC Grants \$8.8 billion
  - Rhode Island's share is \$70.5 million
    - \$61.0 million for testing
    - \$9.6 million for vaccine preparedness
  - FY 2021 budget provided \$73.0 million from general revenues to supplement known federal sources (FEMA/other stimulus grants)
    - \$60.5 million for testing
    - \$12.5 million for vaccine preparedness
  - Could new funding be used to offset some or all general revenue expenses?

# Department of Transportation

- Consolidated Appropriations Act has two major pieces
  - Standard Budget
    - Provides additional \$63.2 million to DOT
      - Requires a 20% state match
  - Stimulus portion provides \$54.3 million for highway projects
    - Eligible uses: operating expenses & revenue losses
    - No state match required which helps offset gas tax collection declines and RICAP reductions

# COVID - 19 Relief

- Coronavirus Relief Fund use extended to December 31, 2021
  - RI got \$1.25 billion
  - FY 2021 Budget assumed December 30, 2020
- Most funds appeared to be committed by previous deadline
  - Updated information suggests some is left
    - Program uptake
    - FEMA match change

# COVID-19 Relief

- Evolving and contradictory guidance from Treasury has made decisions difficult
  - Newer guidance opened the door to charging Department of Corrections costs to CRF funds
    - Use for forensic unit at ESH
- FY 2020 & FY 2021 budgets used these according to most updated rules

# CRF - Personnel

Agency	FY 2020	FY 2021	Total
Department of Corrections	\$49.3	\$78.6	\$127.9
Department of Public Safety	24.8	37.2	62.1
Department of Health	8.3	7.9	16.1
Vets Home (DHS)	6.9	12.0	18.7
BHDDH	24.0	4.9	28.9
Other Human Services	3.2	2.6	5.8
General Government/Education	4.4	3.6	8.0
Other Public Safety	2.1	0.5	2.6
Environmental Mgmt./Transportation	1.2	1.6	2.8
<b>Total</b>	<b>\$124.2</b>	<b>\$148.7</b>	<b>\$272.9</b>

\$ in millions



# CRF – Planned Uses

<b>Committed Amount for FY 2020 &amp; FY 2021</b>	
Hospitals & Nursing Homes	\$221.9
Testing & Contact Tracing	91.8
Healthcare Provider Support	33.2
Education & Local Aid	248.1
Small Business Relief & Job Training	200.4
Enhanced UI Benefits	40.0
Eviction Diversion & Housing	14.5
State Agency Personnel & Ops	279.7
All Other	73.4
<b>Unclear/Unallocated</b>	<b>47.0</b>
<b>\$ in millions</b>	<b>Total</b>
	<b>\$1,250.0</b>

# Post 12/30 Items in 7171, Sub A

Item	General Revenues	Federal Funds	Total
Surge Hospital	\$11.4	\$8.4	\$19.8
Quarantine & Isolation	2.6	-	2.6
Government Readiness	2.2	-	2.2
Vaccine Campaign	12.5	16.7	29.2
Testing & Contact Tracing	72.0	157.5	229.5
Enforcement & Inspection	1.7	0.0	1.7
Landlord Incentives/Rental Assistance	0.4	2.2	2.6
Other COVID Related Expenses	2.9	10.5	13.4
<b>Total</b>	<b>\$105.7</b>	<b>\$196.1</b>	<b>\$301.8</b>

\$ in millions

# Post 12/30 Items OMB Update

Item	General Revenues	Federal Funds	Total
Surge Hospital	\$13.5	\$6.8	\$20.3
Quarantine & Isolation	2.4	-	2.4
Government Readiness	2.0	-	2.0
Vaccine Campaign	8.4	20.8	29.2
Testing & Contact Tracing	53.1	176.5	229.5
Enforcement & Inspection	1.7	0.0	1.7
Landlord Incentives/Rental Assistance	0.4	6.0	6.4
Other COVID Related Expenses	7.8	18.8	26.6
HCBS for Individuals with I/DD	-	10.0	10.0
<b>Total</b>	<b>\$89.3</b>	<b>\$239.8</b>	<b>\$329.1</b>

\$ in millions

# Post 12/30 COVID Response

- Many of the items may now be covered by new or freed up federal funds
  - State funds for FEMA match
  - Leftover CRF with deadline extension
  - State funds for expenses with new grants
- Intersection of all items and expenses not clear
  - Guidance and timing issues

# Budget and Out-years

---

# FY 2022 Budget Gap

FY 2022 Budget Gap Estimate	
At December budget enactment	\$445
FY 2020 Closing Impact	(24)
Budget Office Q2	(32)
Medicaid Match enhanced – 2 quarters	(60)
<b>Total</b>	<b>\$329</b>

\$ in millions

- Many other items without good estimates in play  
FEMA match
  - \$25-50M
- Cost of tax change on PPP expenses
  - “tens of millions”
- Sixth Stimulus \$\$\$\$

# Issues and Risks

- Revenues and Caseloads will be estimated again in May
  - Economic forecast and recovery will change estimates
  - Current sales tax data is strong vs estimates
  - Other revenue performance less clear given major tax law changes in addition to economic conditions

# November 2020

## Consensus Revenue Estimates

	<b>FY 2020 Reported</b>	<b>FY 2021 Rev.</b>	<b>Change to May</b>	<b>FY 2022 Estimate</b>	<b>Change to FY 21</b>
Personal Income	\$1,405.5	\$1,450.4	\$154.6	\$1,439.1	\$(11.3)
Business Taxes	478.2	458.2	40.0	470.3	12.1
Sales & Use Taxes	1,326.2	1,390.8	128.6	1,439.6	48.8
Other Taxes	70.0	73.9	13.5	67.2	(6.7)
Total Taxes	\$3,280.0	\$3,373.3	\$336.7	\$3,416.2	\$42.9
Departmental	435.2	390.0	(13.0)	249.0	(141.0)
Other Misc.	52.8	10.3	(1.7)	12.2	1.8
Lottery	283.9	272.5	7.3	356.3	83.8
Unclaimed Prop.	12.1	10.3	1.3	11.3	1.0
<b>Total</b>	<b>\$4,063.9</b>	<b>\$4,056.4</b>	<b>\$330.6</b>	<b>\$4,045.0</b>	<b>\$(11.5)</b>

\$ in millions



# Revenue Revisions: FY 2021

	<b>Nov 2019</b>	<b>May 2020</b>	<b>Change to Nov</b>	<b>Nov 2020</b>	<b>Change to May</b>
Personal Income	\$1,495.7	\$1,295.8	\$(199.9)	\$1,450.4	\$154.6
Business Taxes	456.2	418.2	(38.0)	458.2	40.0
Sales & Use Taxes	1,397.0	1,262.2	(134.8)	1,390.8	128.6
Other Taxes	64.1	60.4	(3.7)	73.9	13.5
<b>Total Taxes</b>	<b>\$3,413.0</b>	<b>\$3,036.6</b>	<b>\$(376.4)</b>	<b>\$3,373.3</b>	<b>\$336.7</b>
Departmental	410.0	403.0	(7.0)	390.0	(13.0)
Other Misc.	14.7	12.1	(2.7)	10.3	(1.7)
Lottery	395.5	265.2	(130.3)	272.5	7.3
Unclaimed Prop.	8.4	9.0	0.6	10.3	1.3
<b>Total</b>	<b>\$4,241.6</b>	<b>\$3,725.9</b>	<b>\$(515.8)</b>	<b>\$4,056.4</b>	<b>\$330.6</b>

\$ in millions

# Issues and Risks

- Current issues at Eleanor Slater Hospital have forced state spending where federal funds were once used
  - Continued uncertainty on plans for even limited federal funds due to ongoing compliance issues
    - Services do not match patient eligibility
    - Prior funding levels near \$60 million
    - Now a fraction of that \$20.7 in the enacted
      - Q2 lowers further

# Issues and Risks

- State currently working on options for ensuring compliance with a 2014 federal consent decree
  - Regarding community based services and work opportunities for individuals with developmental disabilities
  - \$10 million in CRF funding authorized after the budget was adopted
    - Stabilize provider network affected by COVID

# Issues and Risks

- High level of uncertainty on large items including potential new stimulus
  - Federal legislation can affect state revenues while offering tax payer relief
  - Many programs come with strings and limitations
    - Maintenance of effort
- Most of this is expected to be one time
  - **Affects budget planning and stability**

# FY 2021 by Category - All Sources

All Sources	FY 2020 Original Enacted	FY 2021 Enacted
Salaries & Benefits	\$1,835.4	\$1,871.4
Contracted Services	347.9	518.1
Other State Operations	1,011.7	1,507.9
Aid to Locals	1,519.9	1,669.2
Assistance, Grants, Benefits	4,326.2	6,084.5
Capital	480.4	362.6
Capital Debt Service	268.0	266.2
Operating Transfers	181.1	450.6
<b>Total</b>	<b>\$9,970.6</b>	<b>\$12,730.4</b>

# FY 2021 by Category – General Revenues

General Revenues	FY 2020 Original Enacted	FY 2021 Enacted
Salaries & Benefits	\$946.9	\$850.9
Contracted Services	58.1	103.3
Other State Operations	164.8	274.5
Aid to Locals	1,348.1	1,298.7
Assistance, Grants, Benefits	1,327.9	1,299.3
Capital	8.8	4.4
Capital Debt Service	198.6	195.8
Operating Transfers	24.5	126.3
<b>Total</b>	<b>\$4,077.6</b>	<b>\$4,153.3</b>

# Budget Status: Second Quarter, FY 2020 Audit, Federal Action

House Fiscal Staff Presentation to  
House Finance Committee  
February 25, 2021

---