

# *Budget Status*



House Finance Committee

February 9, 2011

# *Introduction*

- State is facing major budgetary problems
- Governor's FY 2012 and FY 2011 budgets will be submitted in March
- Ongoing series of staff presentations on budget and related issues
- Focus is on overall fiscal situation for current year, budget and out-years
  - ◆ Economy
  - ◆ Projections

# *Introduction*

- November briefing covered FY 2010 closing, overall fiscal situation for current year, budget and out-years
  - ◆ Economy
  - ◆ Projections
- Today's briefing will recap those issues and discuss budget process

# *Introduction*

- Today's briefing will recap those issues and discuss budget process
- Additional briefings will consider specific expenditure areas in depth
  - ◆ Medicaid and Human Services
  - ◆ Personnel Expenses

# *Introduction*

- The state is beginning its recovery from severe economic distress
- No current year deficit expected
- Facing continued budget year and out-year issues growing from about \$300 million to \$375 million

# *Introduction*

- House Fiscal Staff Estimates
  - ◆ Use November revenue and caseload conference estimates
  - ◆ Use first quarter reports from agencies, Budget Office Q1, and staff estimates for FY 2011 (Q2 reports show little variance from Q1 but not all in)
  - ◆ Staff estimates for FY 2012 and beyond

# Introduction

- ◆ The *current year* appears balanced despite loss of federal funds
- ◆ The *budget and out year* gaps are a function of both cyclical economic and continued structural issues



# Economic Forecast



# *Economic Forecast*

- Revenue Estimating Conference adopts a consensus economic forecast
  - ◆ It takes testimony from Moody's Economy.com
  - ◆ The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts

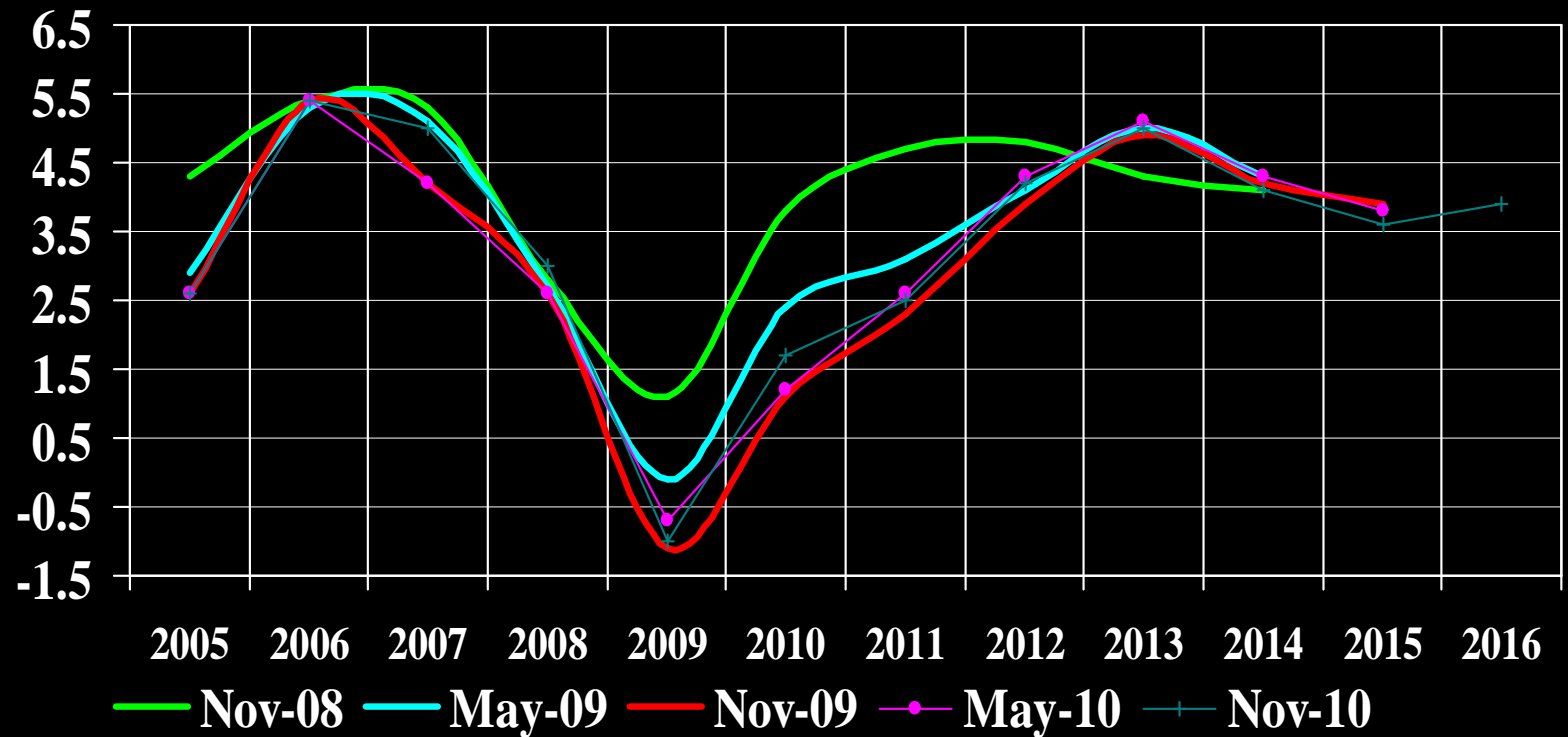
# *Economic Forecast*

November forecast was pessimistic...but  
change to May forecast is mixed

- Stronger near term personal income growth
- Stronger long term wage & salary growth
- Slower jobs recovery – job losses began in 2007 not regained until 2014

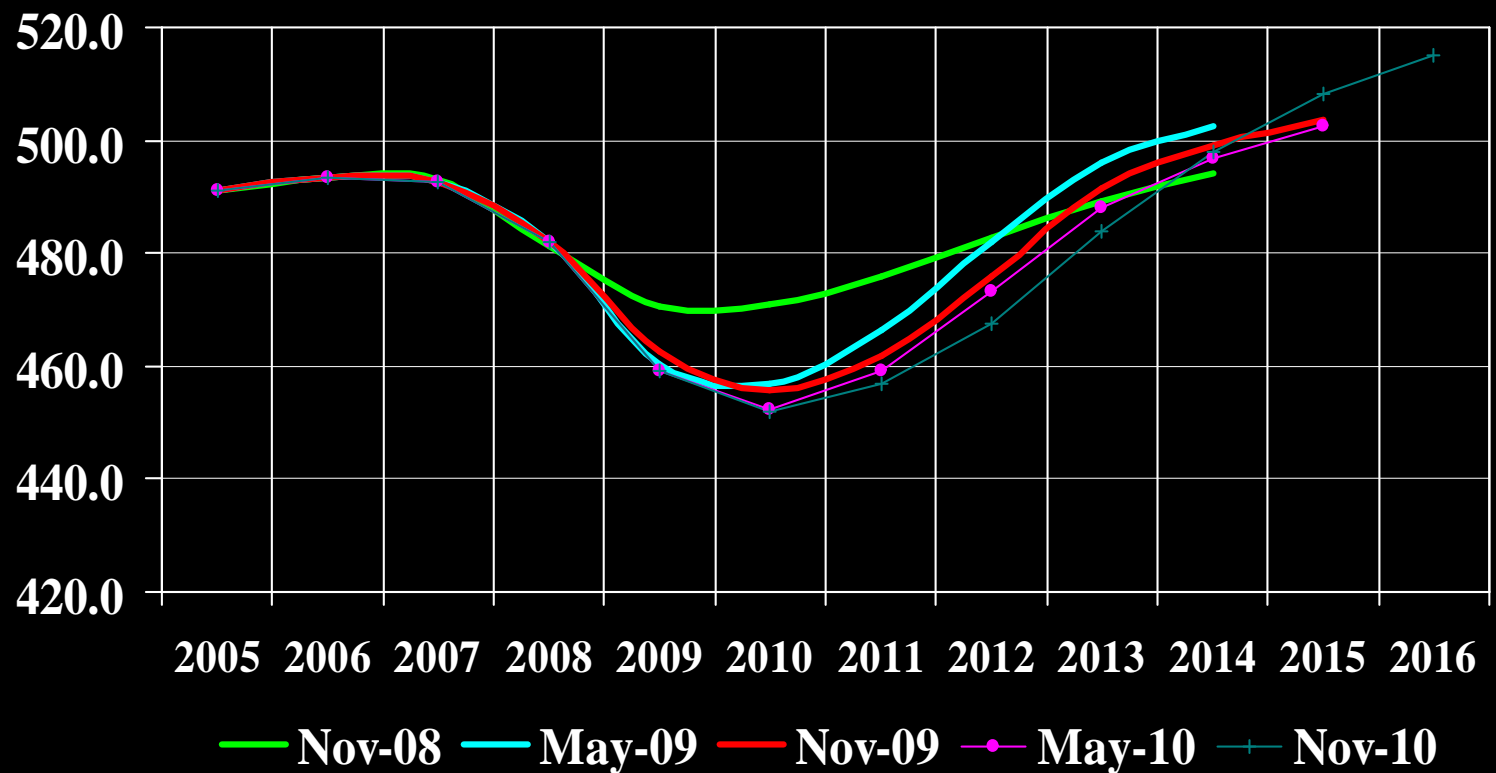
# Consensus Economic Forecast

## Forecast Differences - Personal Income Growth



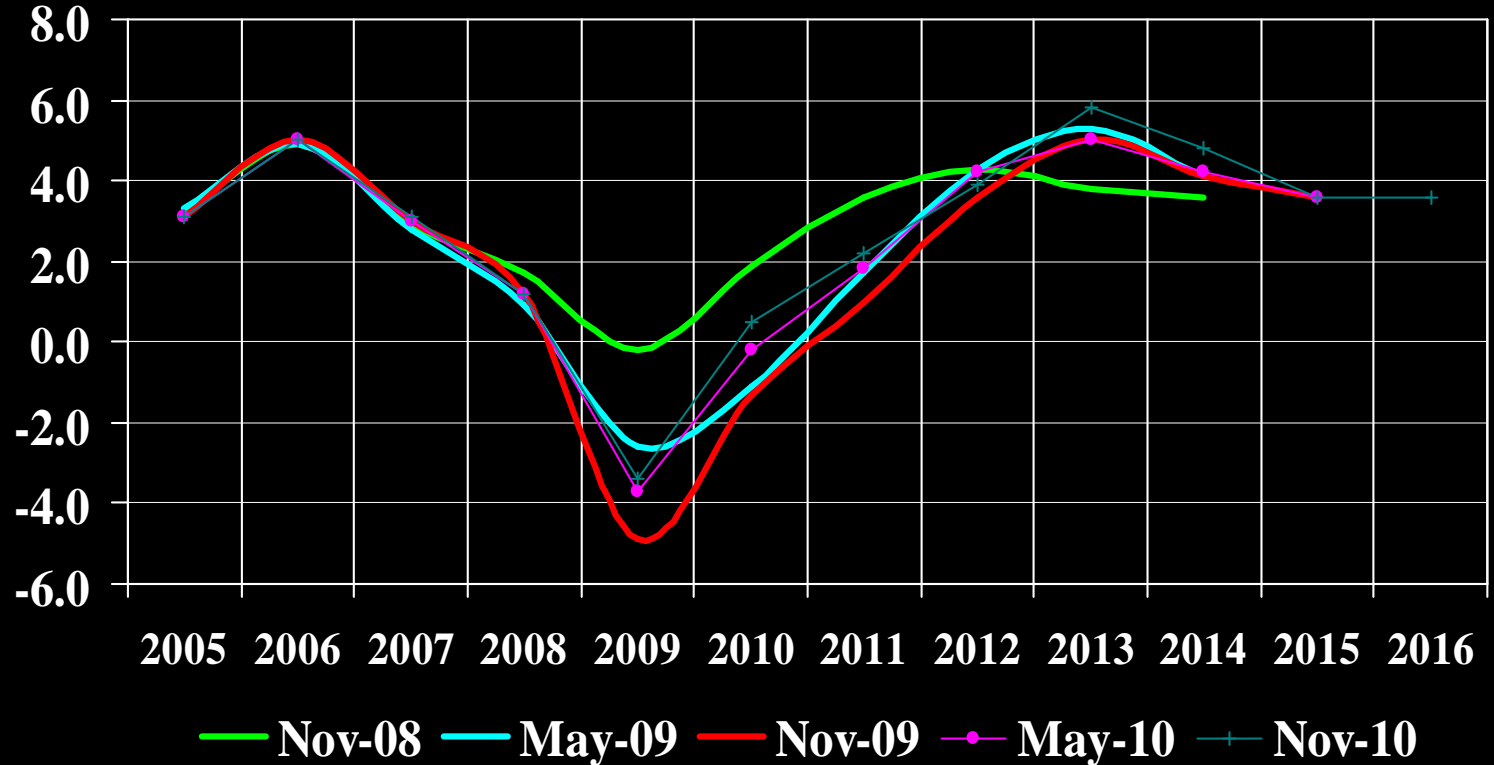
# Consensus Economic Forecast

## Forecast Differences - Jobs

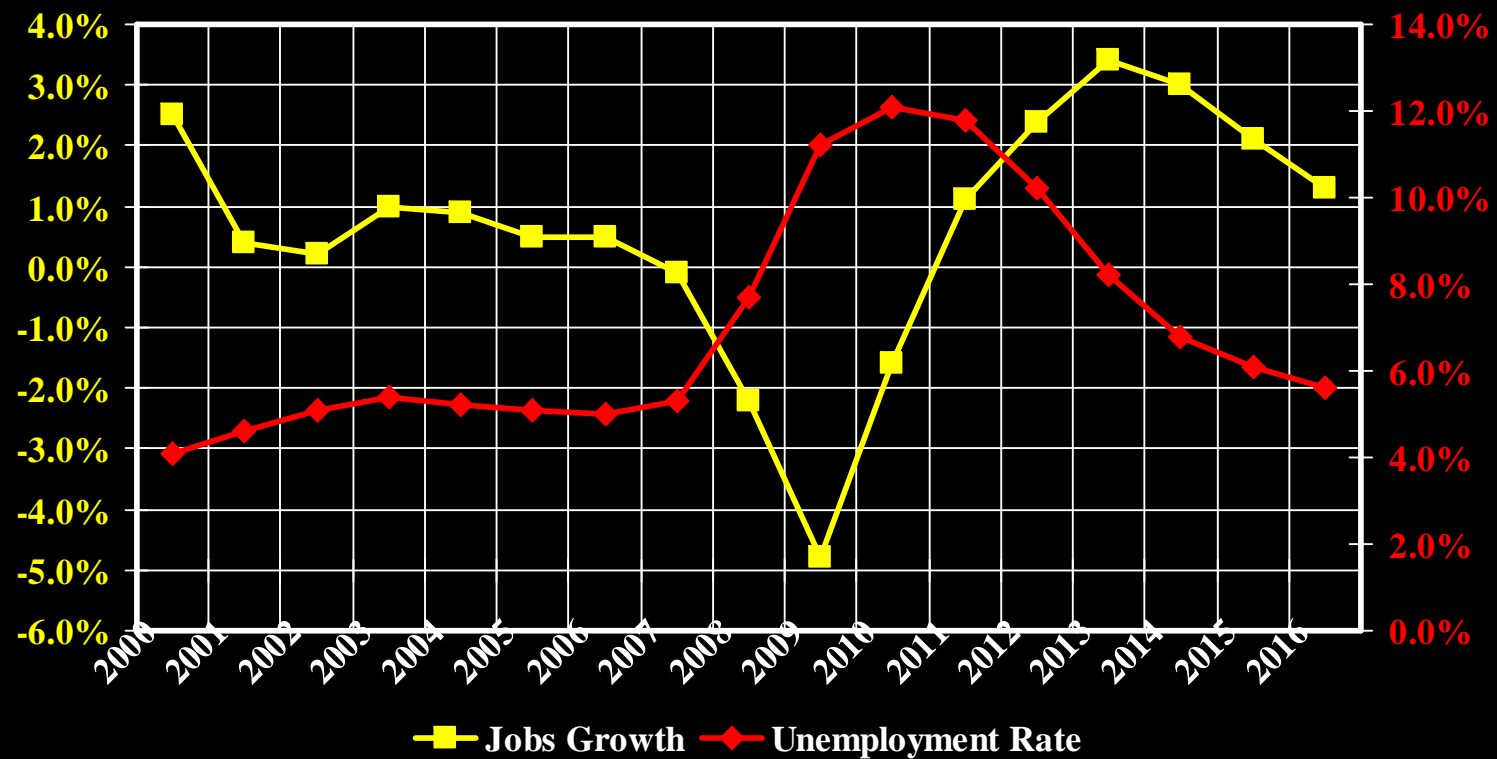


# Consensus Economic Forecast

## Wage and Salary Income Growth



# Employment – Unemployment



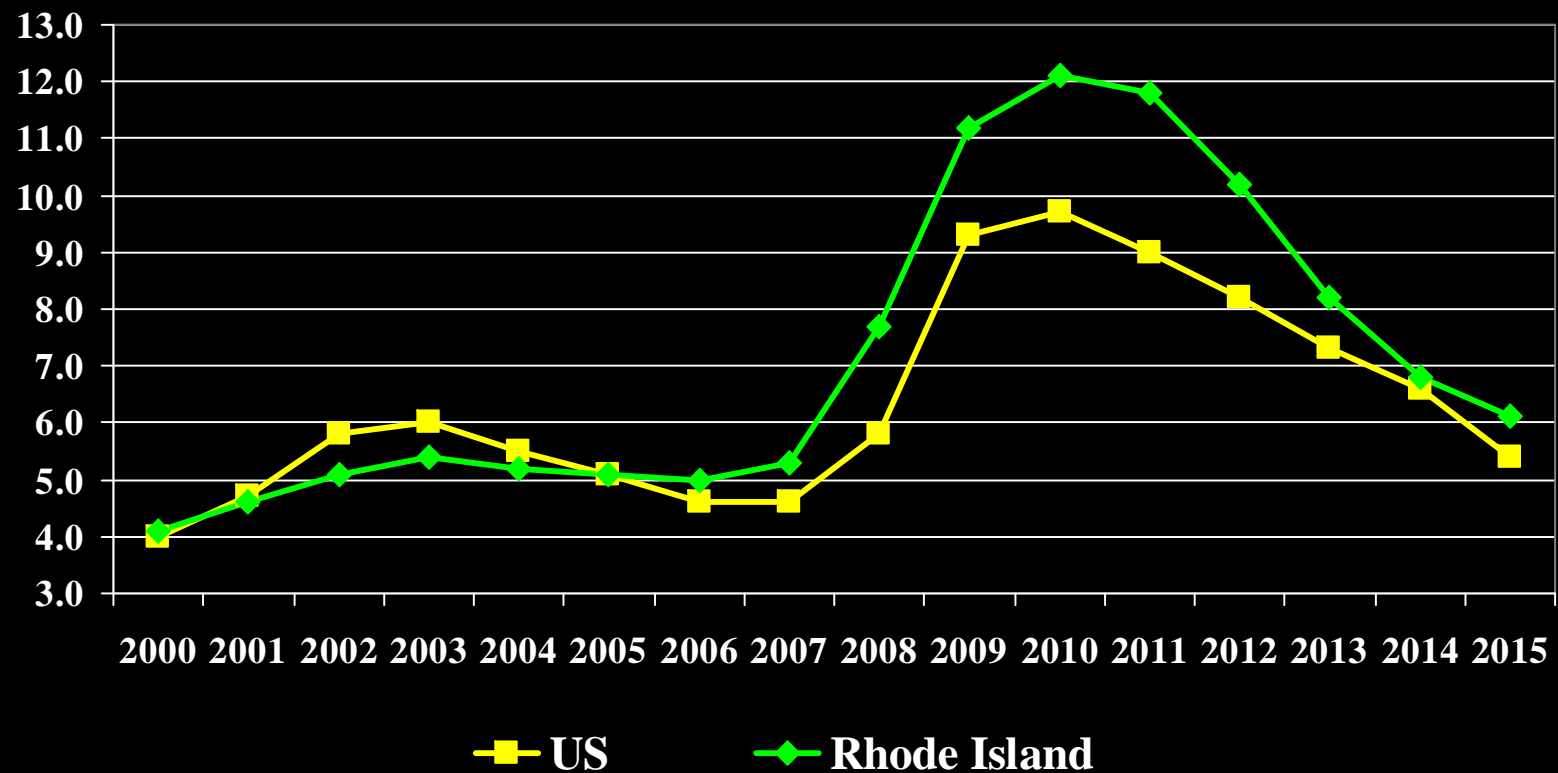
# Employment Growth

## Jobs Growth - RI Currently Underperforming



# Unemployment Rates

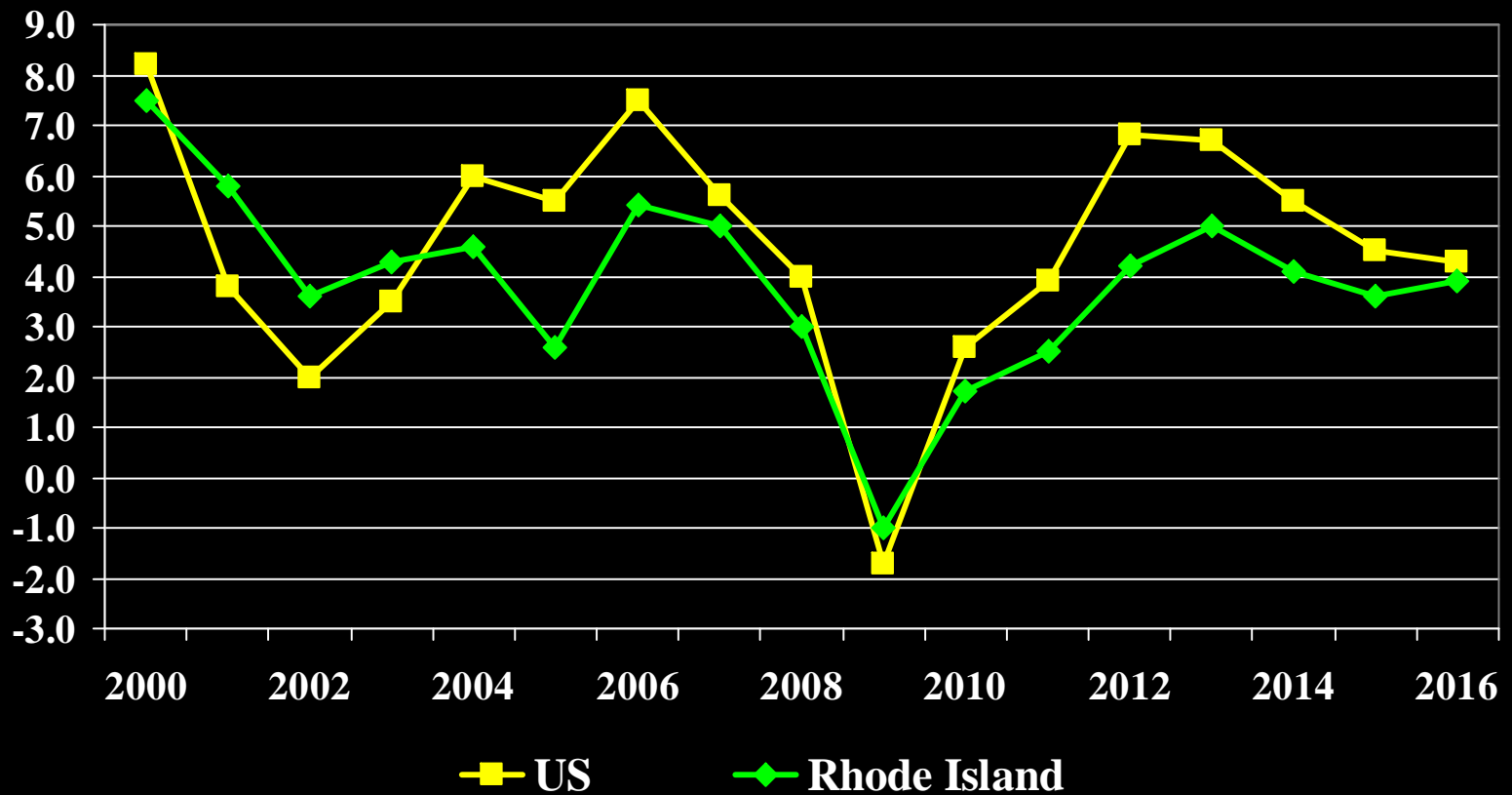
RI has Consistently Higher Unemployment





# Revenues

## Personal Income Growth - RI Underperforms



# Revenue Drivers





Revenues

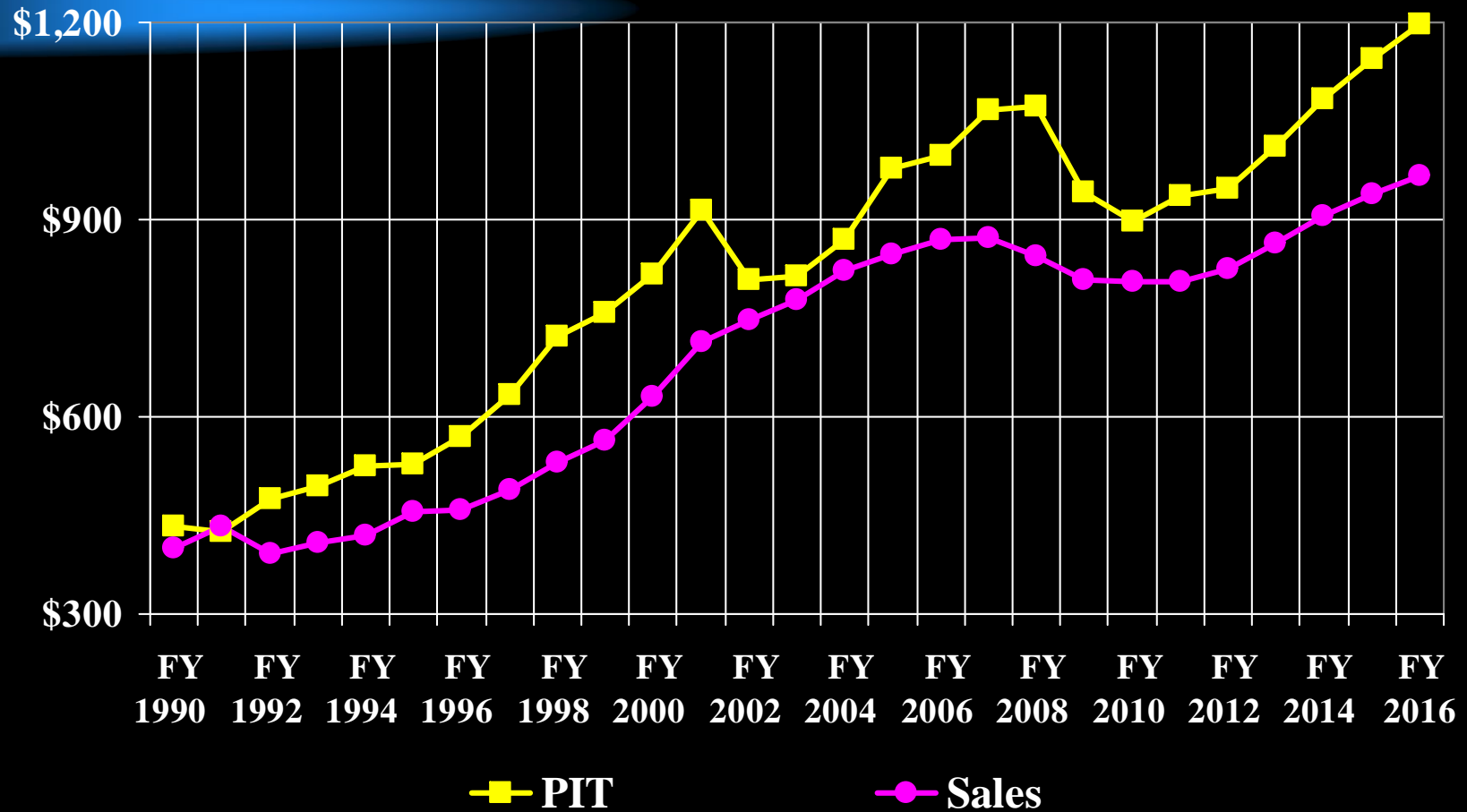
# *Revenues*

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - ◆ FY 2010 less than anticipated
  - ◆ FY 2011 collections ahead
  - ◆ Economic forecast is for slow recovery

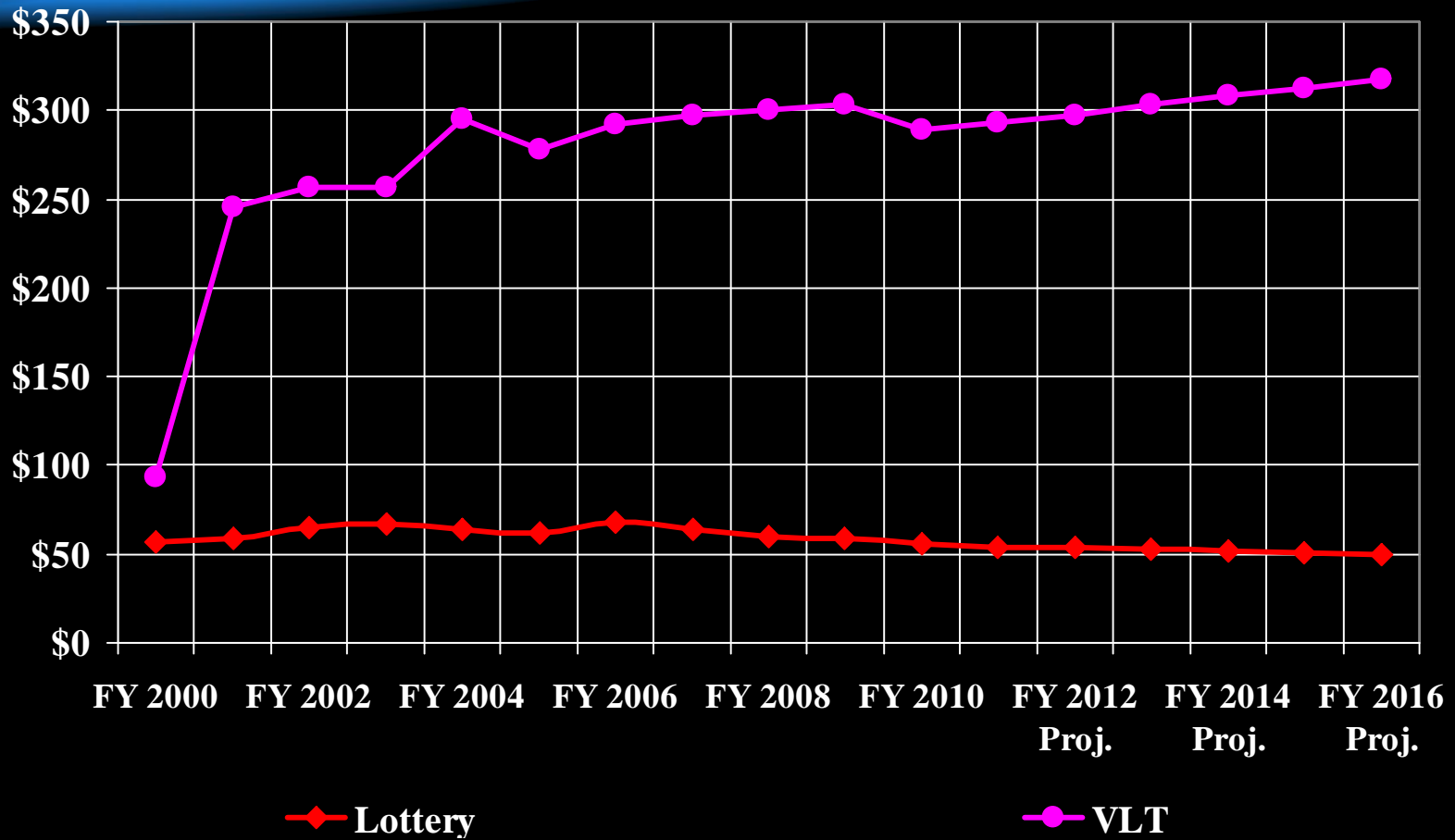
# Income and Sales



# Income and Sales



# Lottery





# Audited Closing



## *FY 2010 Closing*

- State was facing \$200 million problem for FY 2010 by this time last year
  - ◆ Largely due to revenue shortfalls in FY 2009 closing (\$60+ million) and FY 2010 estimates from November 2009 (\$130+ million)
  - ◆ Limited time to solve

# *FY 2010 Closing*

- Solutions

- ◆ Local Aid reductions
- ◆ Pension reductions
- ◆ Advancing federal resources
- ◆ One-time expenditure & revenue items
- ◆ Agency reductions and initiatives
- ◆ May revenues

## *FY 2010 Audited*

	Enacted	Current	Diff.
Opening	\$ (61.3)	\$ (61.3)	\$ 0.0
Revenues	<b>3,019.1</b>	<b>3,017.0</b>	<b>(2.0)</b>
Rainy Day	(71.0)	(70.9)	0.1
Expenditures	(2,886.8)	(2,863.6)	23.2
Reapprop.	-	(3.4)	(3.4)
Free Surplus	\$ 0.0	\$ 17.9	\$ 17.9

## *Closing – Revenues*

- Revenues down \$2.0 million from estimates
  - ◆ Taxes up \$22.3 million with strong sales and business corporation taxes
  - ◆ Income tax down somewhat

## *Closing – Revenues*

- ◆ All other sources down \$24.3 million - primarily one-time payments that were not received
  - \$8.0 million in land sales that did not occur
  - \$6.0 million donation from providers of services for those with developmental disabilities did not occur
  - \$7.5 million federal funds recovery for child support enforcement expenses delayed

## *Closing - Expenditures*

- Total spending \$23.2 million below budgeted amounts
  - ◆ Medical caseloads lower than expected
  - ◆ Higher statewide utilities savings
  - ◆ Greater teacher retirement savings
  - ◆ Staffing vacancies
  - ◆ Delayed purchases

## *Closing - Expenditures*

- Total spending \$23.2 million below budgeted amounts – but areas of overspending
  - ◆ 9 agencies overspent
  - ◆ 16 overspent when centrally budgeted pension savings are considered
  - ◆ Appropriation lines overspent even if agency totals were not

# *Closing - Expenditures*

- Total spending \$23.2 million below budgeted amounts – but areas of overspending
  - ◆ Unachieved initiatives
  - ◆ Unexpected expenses



# *Closing - Expenditures*

- Unachieved initiatives
  - ◆ Indirect cost recovery
  - ◆ Savings from prison population reductions
  - ◆ BHDDH - Methadone maintenance federal match
  - ◆ DHS – Nursing home high cost case review
  - ◆ DHS – Estate recoveries

# *Closing - Expenditures*

- Unbudgeted expenses
  - ◆ Floods – Military Staff, Corrections, DEM
  - ◆ Rose Hill landfill expense accrual
  - ◆ Facilities/Repairs - Judiciary

# *Closing - Expenditures*

- Impact on FY 2011
  - ◆ Do savings or higher base expenses carry to FY 2011?
  - ◆ Will delayed purchases require additional funds in current year
  - ◆ Are initiatives being implemented?



Current Year

# *Current Year*

- The *current year* has no deficit but includes unmet expenditure savings that could affect out-years
  - ◆ Medicaid reimbursement shortfall resolved by revenue uptick and closing surplus and other savings

# *FY 2011*

- Preliminary Closing – September 1
- Caseload estimates – November 8
- Revenue estimates – November 10
- Agency Q1 reports – Due Oct 30
- Budget Office Q1 report – Nov 15

# *FY 2011*

- Audited Closing – January 14
- Governor's Budget Due - Feb 3
  - ◆ Extended to March 10th
- Agencies' 2<sup>nd</sup> quarter reports were due to fiscal offices at the end of January
  - ◆ A number of large agencies have not submitted them

# FY 2011

	Enacted	Current	Diff.
Opening	\$ 0.0	\$ 21.3*	\$21.3
Revenues	3,020.6	3,037.4	<b>16.7</b>
Rainy Day	(78.5)	(79.4)	(0.9)
Expenditures	(2,942.1)	(2,975.8)	<b>(33.7)</b>
Total FY 2011	\$ 0.0	\$ 3.3	\$ 3.3

*\*Includes \$3.4 million reappropriation*



## *Current Year*

- Medicaid reimbursement, \$38.1 million lower than budgeted - largest impact to current year
- Revenues are up by \$16.7 million
- Opening free surplus up by \$17.9 million
- Added resources increase rainy day transfer by \$0.9 million
- Expenditures less of an issue but still problematic

## *Current Year*

- Caseloads & medical down \$5.9 million
- Caseload trends, debt service and formula local aid adjustments mask size of unachieved expenditure savings
- Staff estimates differ from Budget Office
  - ◆ Teacher retirement, Legislature, others

## Current Year

Reappropriation	3.4
Legislature*	(3.7)
Medicaid Match Rate	38.1
OHHS Caseload – Net of rate change	(2.1)
Debt Service – revised estimate	(2.0)
Retirement Adjustments*	(2.0)
Formula Local Aid	(2.4)
Other *	4.4
* Items different than Budget Office Q1 estimates	

# *FMAP*

- Federal Medical Assistance Percentage
- Matching rate for Medicaid
- Changes annually based on three year relative per capita personal income
- Enhanced rate extension assumed in the enacted budget – actual lower
- Enhancement over in FY 2012

## *Current Year*

- OHHS Caseload – \$2.1 million less
  - ◆ DHS - \$5.9 million less
  - ◆ DEA - \$0.2 million less
  - ◆ DCYF - \$2.3 million more
  - ◆ BHDDH - \$1.0 million more
  - ◆ Health - \$0.7 million more

## *Current Year: DHS Caseloads*

- Nov Caseload Conference \$5.9 million in savings – excluding \$28.3 million rate change impact
  - ◆ Medical Assistance - \$9.5 million less
    - Mainly managed care and other services offset by unachieved savings
  - ◆ Cash Assistance – \$3.6 million more

## *Current Year*

- Medical Assistance – \$5.7 million in unachieved savings
  - ◆ \$4.3 million will not contract for the medical care of nursing home residents
  - ◆ \$0.8 million from increasing estate recoveries
    - Given staff but only recently hired

# *Current Year*

- DHS – Cash Assistance
  - ◆ Add \$3.6 million
    - Additional child care costs - \$2.1 million
    - Unachieved savings - \$1.5 million



# *Current Year*

- Unachieved savings - \$1.5 million:
  - ◆ \$1.1 million from delay in state takeover of state SSI payment
    - Budget assumed 10/1/10 start
  - ◆ \$0.2 million - delay new SSI category
  - ◆ \$0.2 million - delay DMV data check initiative

## *Current Year: OHHS Caseload*

- BHDDH - \$3.9 million general revenue saving from 2 Global Waiver Changes
  - ◆ Establish a behavioral health safety net - \$4.0 million all funds; \$1.4 million general revenues
  - ◆ Restructure the provider network - \$7.0 million all funds; \$2.5 million from general revenues

# *Current Year*

- BHDDH
  - ◆ Behavioral Health Care Safety Net:
    - Instead implemented an across-the-board rate reduction to community mental health
    - Department projects to achieve the same savings
  - ◆ FY 2010 overspent in this area by \$2.0 million all funds, \$0.6 million gen. rev.

# *Current Year*

- BHDDH

- ◆ DD Provider Network with lead agency:

- Did not implement this change
- Instead eliminated daily rates & will implement further rate reform in Spring 2011
- Department projects to achieve the same savings

- ◆ Historical review suggests this is optimistic

# *Current Year*

- Developmental disabilities community based services
  - ◆ Last year Department and Budget Office projected \$1.0 million general revenue deficit in the first quarter report
  - ◆ Revised budget added \$16.6 million, \$6.0 million from gen rev – offset by donation assumption

# *Current Year Deficit*

- Developmental disabilities community based services
  - ◆ FY 2010 preliminary - \$195.8 million from all funds
    - Overspent by \$6.7 million all funds; \$2.0 million general revenues

# *Current Year*

- DCYF

- ◆ System of Care Transformation - unachieved savings of \$6.7 million
- ◆ Savings of \$4.4 million from caseload trends offset the loss

- Health

- ◆ \$0.7 million for HIV/AIDS program
- ◆ Budget Office assumes \$1.2 million

## *Current Year*

- Debt Service \$2.0 million lower than enacted
- Teacher Retirement \$3.8 million lower from base change from FY 2010 – not reflected in Budget Office report
- Other retirement \$1.8 million higher from calculation error in the enacted budget



# *Current Year*

- Formula Local Aid – \$2.4 million less
  - ◆ School Construction Aid \$2.8 million less – not all projects done by June 30 deadline
  - ◆ Charter Schools \$280,000 more estimated adjustment for actual enrollments
  - ◆ Group Home beds \$30,000 more

# *Current Year*

- Other - \$4.4 million more
  - ◆ All other projected adjustments to agency expenditures
  - ◆ Unachieved indirect cost recovery savings
  - ◆ RIBCO settlement largely offset by other changes

## *Current Year*

- Other - \$4.4 million more
  - ◆ Legal expenses for Central Falls receivership
  - ◆ Includes additional medical examiner funding, flood funding
  - ◆ Veterans home expenses
  - ◆ Variety of other adjustments



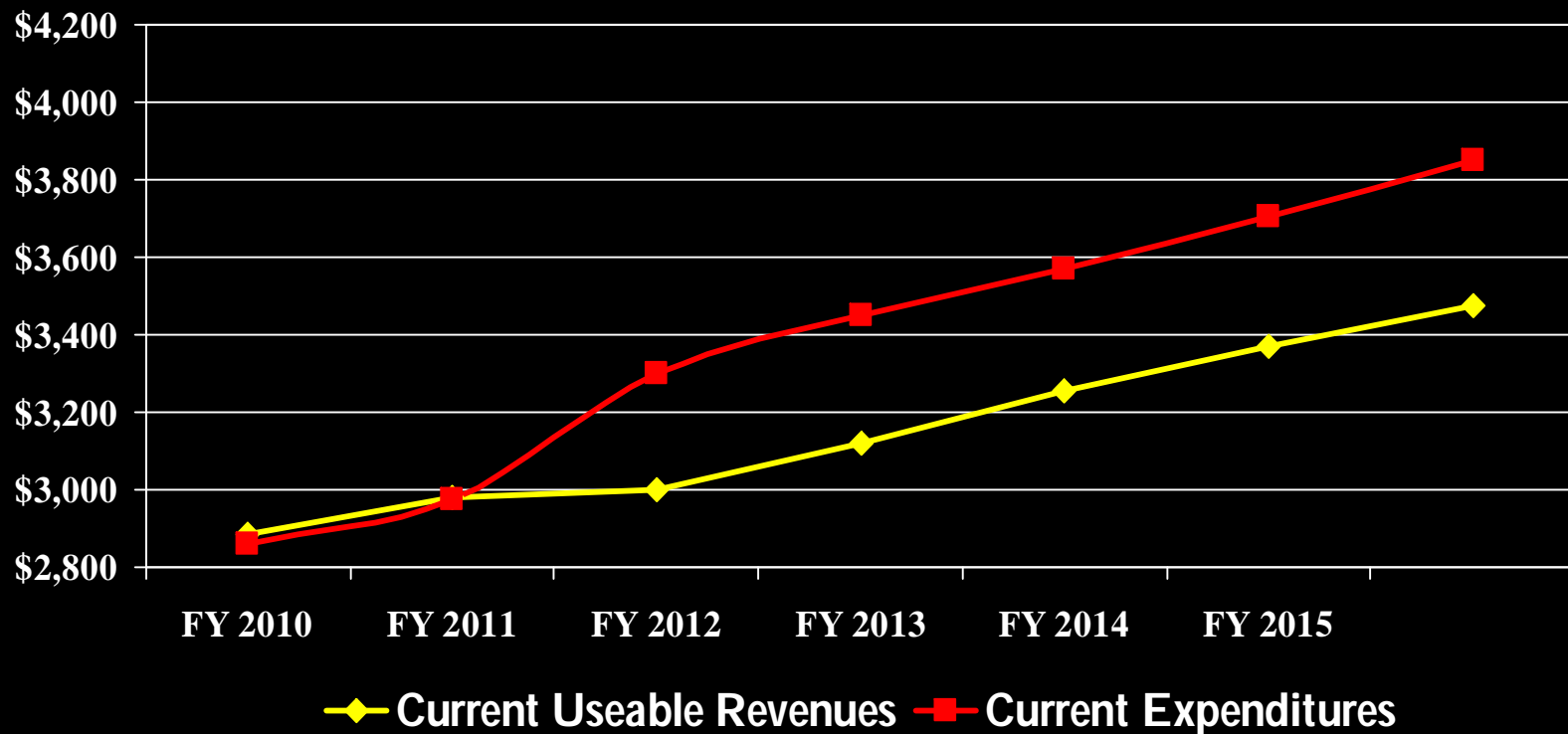
# Budget Year and Out-years

# *Budget Year and Out-years*

- There are also *budget year* and *out-year problems*
  - ◆ The budget year likely has a gap of \$300 million
  - ◆ That gap grows in the out years to \$375 million
  - ◆ Somewhat lower than Fiscal Staff estimates in June

# Budget and Out Years

## Revenues vs. Expenditures - Current Estimates



## *Budget Year and Out-years*

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Stimulus funding ameliorated recent pressures – \$240 million “cliff” in FY 2012
- It did not remove them

# *Budget Year and Out-years*

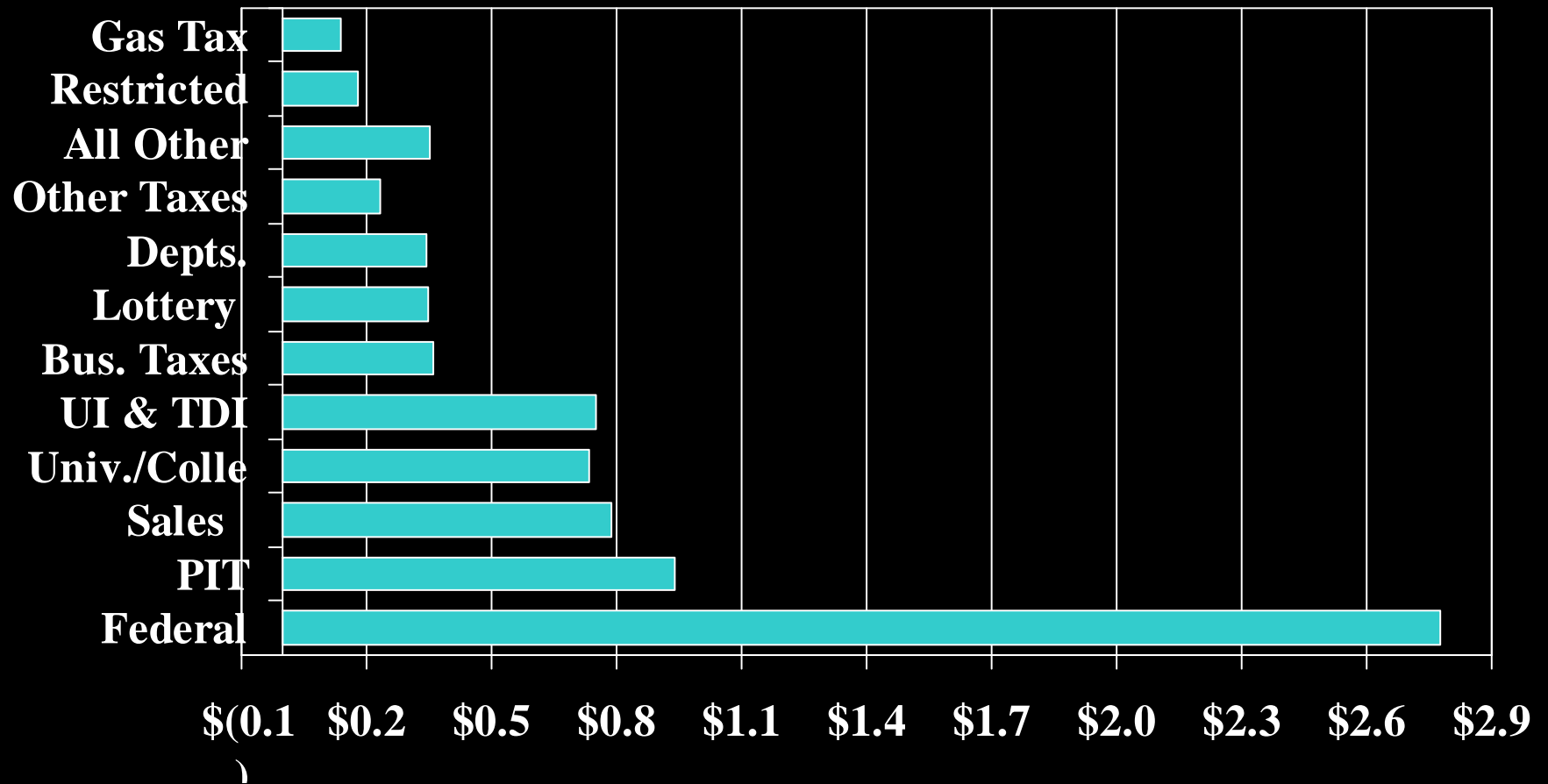
- Potentially unsustainable expenditure structure
  - ◆ The stimulus package exacerbated the out-year problem
  - ◆ Enacted structural changes not implemented
  - ◆ Growth rates exceeding revenue growth rates



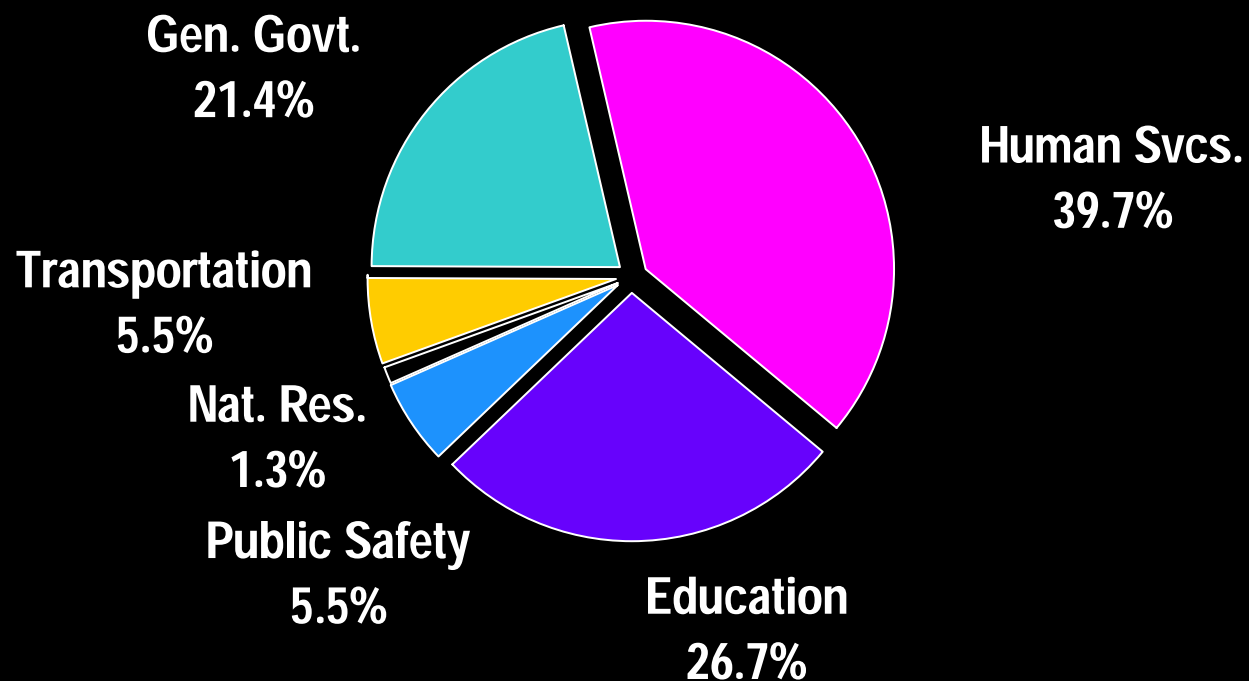
# Growth Rates

Item	Est. Annual Growth
Jobs	2.5%
State Personal Income	5.0%
Taxes	3.8%
Total Revenues	3.1%
Total Expenditures	5.3%
Salaries & Benefits – 25% of total	4.7%
Medicaid – 22% of total	7.9%

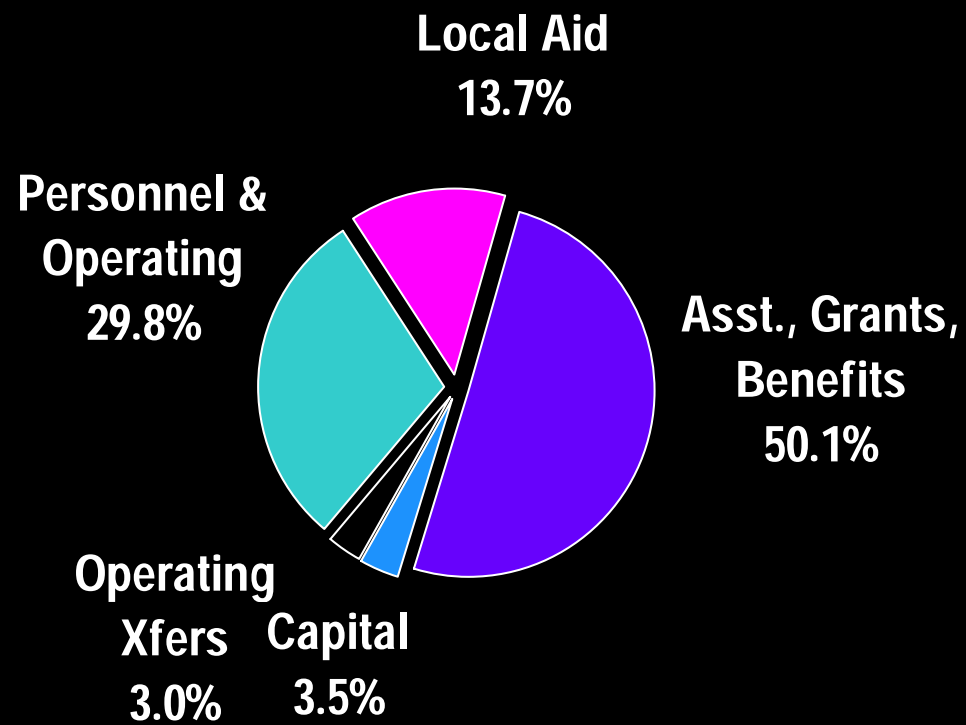
# Sources



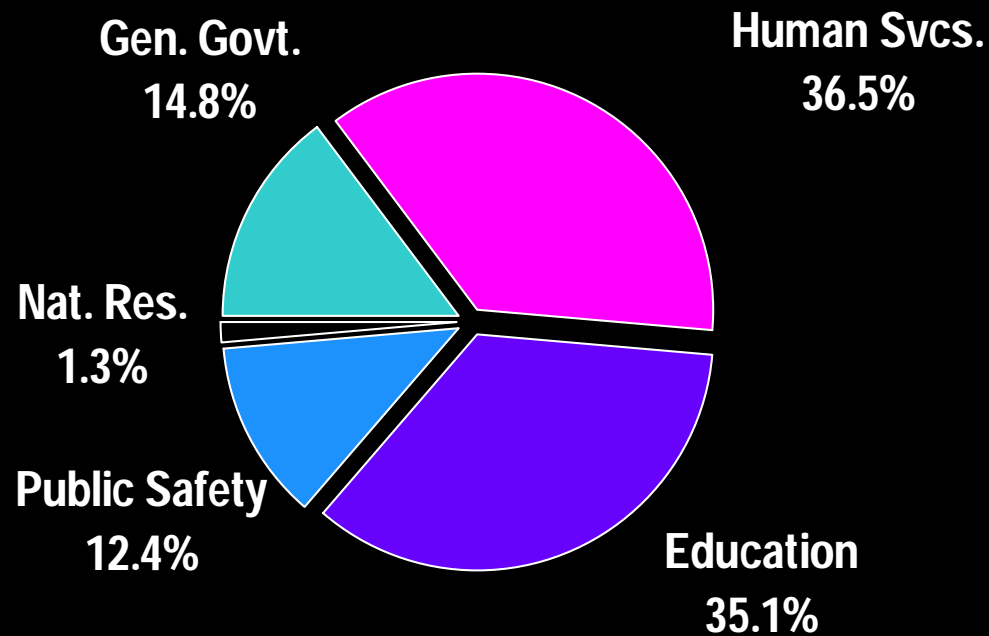
# *Uses – All Funds by Function*



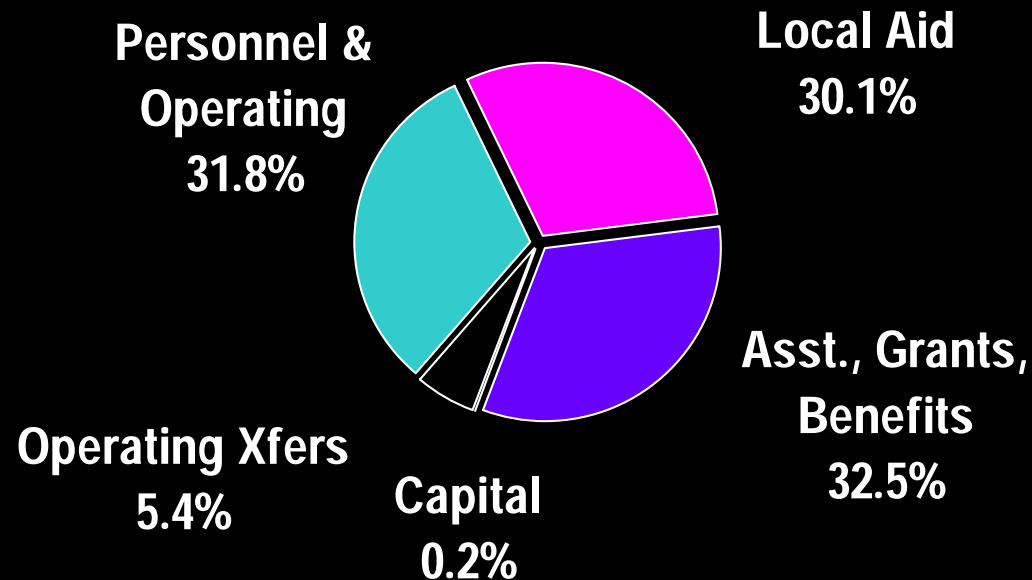
# Uses – All Funds by Category



# *Uses – General Revenues by Function*



# *Uses – General Revenues by Category*



## *Budget Year and Out-years*

- Budget Office Instructions were based on earlier \$318.8 million deficit projection
  - ◆ Includes calculation of current service revenues and expenses
- Agencies asked to submit budgets that reflect true current service expenses that are “unconstrained”

# *FY 2012 Budget Requests*

FY 2011 Enacted	\$2,942.1
Current Services Adjustment	355.9
FY 2012 Budget Office Current Svs.	3,298.0
FY 2012 Unconstrained Request	3,366.7
Difference from Budget Office	68.7
<i>Implied Current Service Need</i>	<i>\$ 424.9</i>



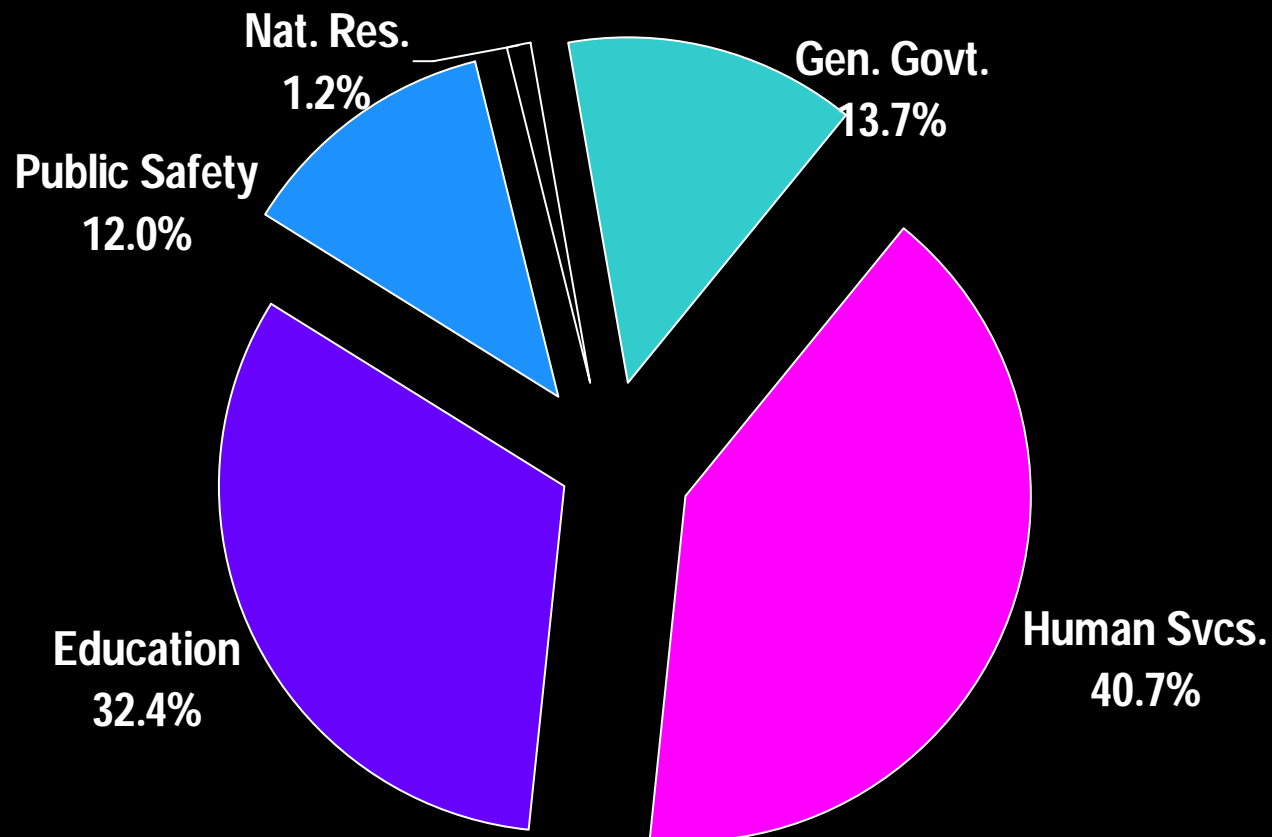
## *FY 2012 Budget Requests*

- Budget Office also asked for options for reductions of 15 percent adjusted for certain exclusions
- Those reductions represent \$452.2 million of savings from Budget Office current service estimate
- This design gives adequate options when proposals are rejected or softened

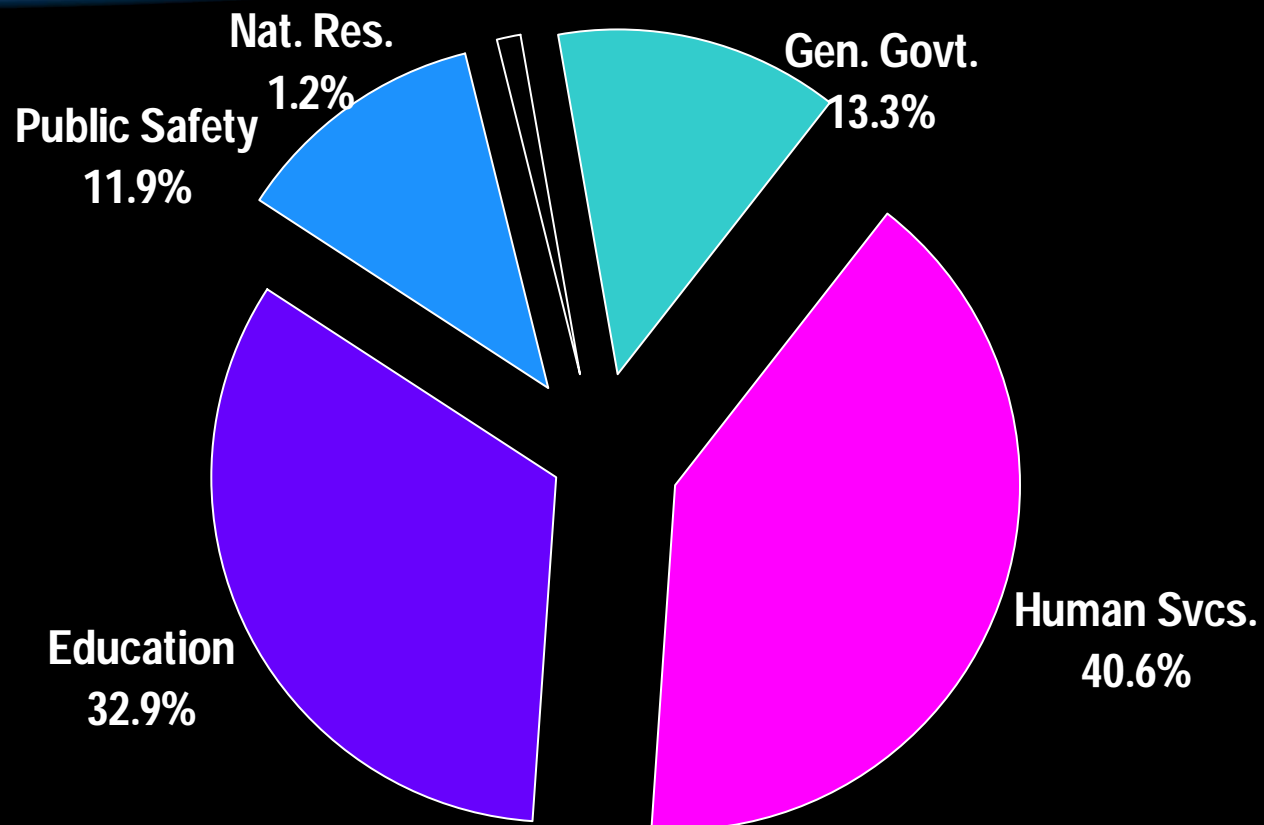
# *FY 2012 Budget Requests*

FY 2012 Budget Office Current Svs.	\$ 3,298.0
Target Adjustment	(452.2)
FY 2012 Budget Office Target	2,845.8
FY 2012 Constrained Requests	3,230.9
<i>Difference from Budget Office Target</i>	<i>385.1</i>
Constrained vs. B.O. Current Svs	( 67.1)
Constrained vs. Unconstrained Req.	\$ (135.8)

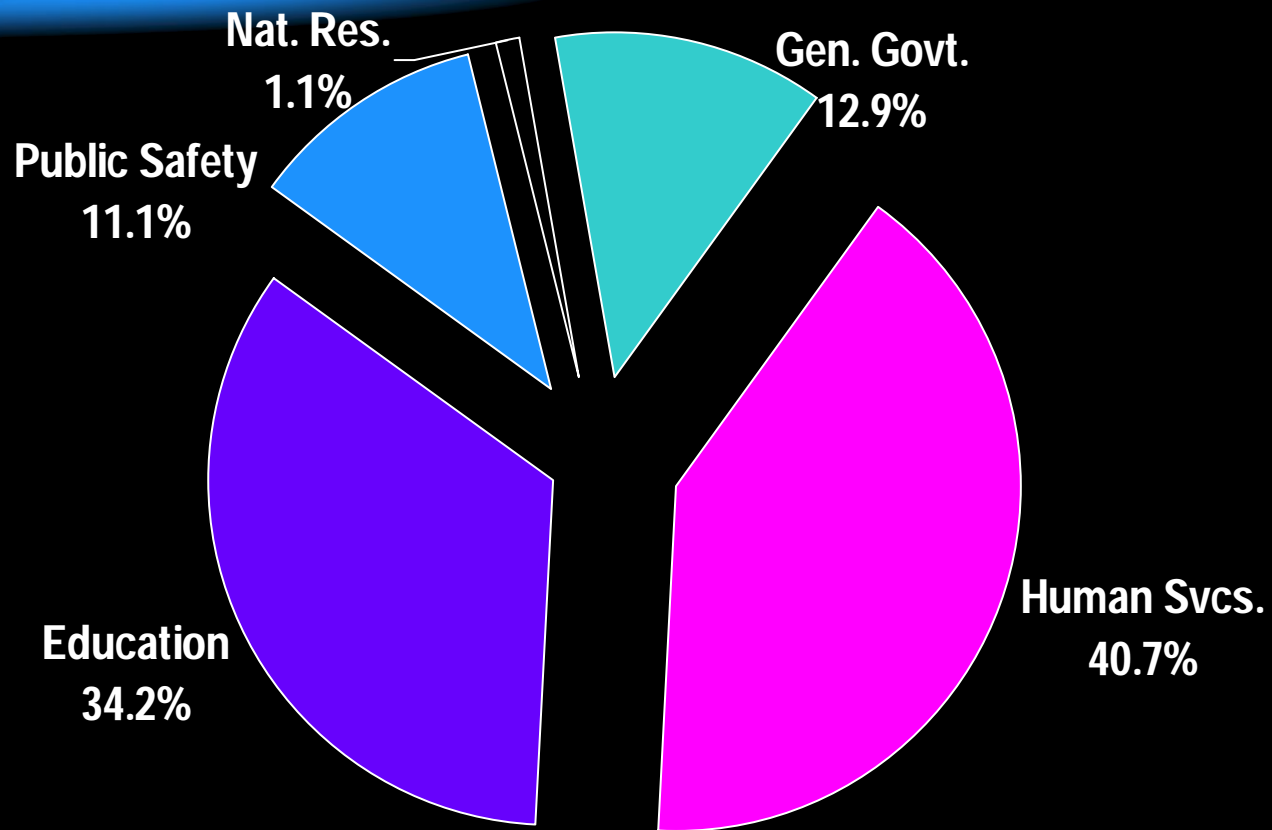
# *FY 2012 Budget Office Current Serv.*



# *FY 2012 Unconstrained*



# *FY 2012 Constrained*



## *Budget Year and Out-years*

- Recent experience suggests many proposals submitted are not viable or of overstated value
- Already some of the savings in “target” proposals have been revised downward

## *Budget Year and Out-years*

- Array of options allows for decision makers to consider all choices and implications
- No longer have stimulus MOE requirements
- But major reductions to local aid and other areas limit options

# *Budget Year and Out-years*

- Some proposals may take time for full implementation
- Process should include the five-year forecast
- Are solutions also structurally balanced?
  - ◆ Do revenue solutions grow at the same rate as the expenditures they support





Summary

# *Summary*

- Governor's Budget expected March 10th
- Current year appears balanced with caveat about unachieved savings
- Major budget and out-year gaps
  - ◆ Slow growing economy
  - ◆ Structural tax and expenditure issues

## *Next Briefings*

- *Thursday February 10* – Medicaid and Human Services programs and issues
- *Tuesday February 15* – Personnel and related issues