

# Budget Status

House Finance Committee  
January 11, 2012

# Introduction

- State budgetary problems continue
- Governor's FY 2013 and FY 2012 revised budgets due Jan 19
  - Requested extension to Jan 31
- Focus is on overall fiscal situation for current year, budget and out-years
  - Economy
  - Projections

# Introduction

- Typically staff briefs Committee in Nov. regarding, overall fiscal situation for current year, budget and out-years
  - Economy
  - Projections
- Special session on pensions dominated fall committee work
- Today's briefing will cover those issues and discuss budget process

# Introduction

- The state is in a slow recovery from severe economic distress
- No current year deficit expected
- Facing continued budget year and out-year issues growing from about \$134 million to \$273 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 2012
  - Staff estimates for FY 2013 and beyond
    - Not all policy issues accounted for

# Introduction

- The *current year* appears balanced but overspending is a problem
- 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



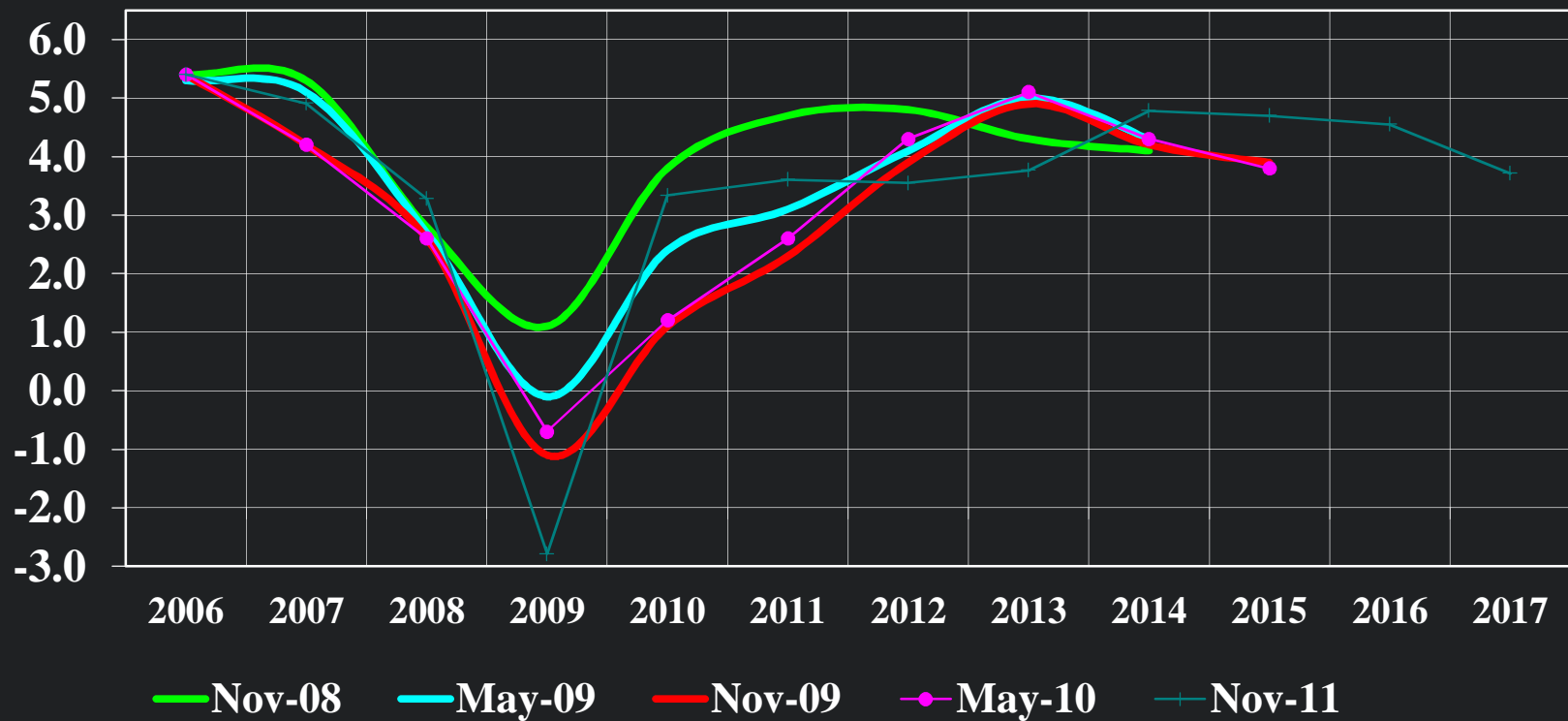
# Economic Forecast

November forecast worse than May

- Personal income, jobs, wage & salary growth all lower and slower
- RI recovery continues to lag U.S.
- Slower jobs recovery – job losses began in 2007 not regained until 2015  
– May forecast was 2014

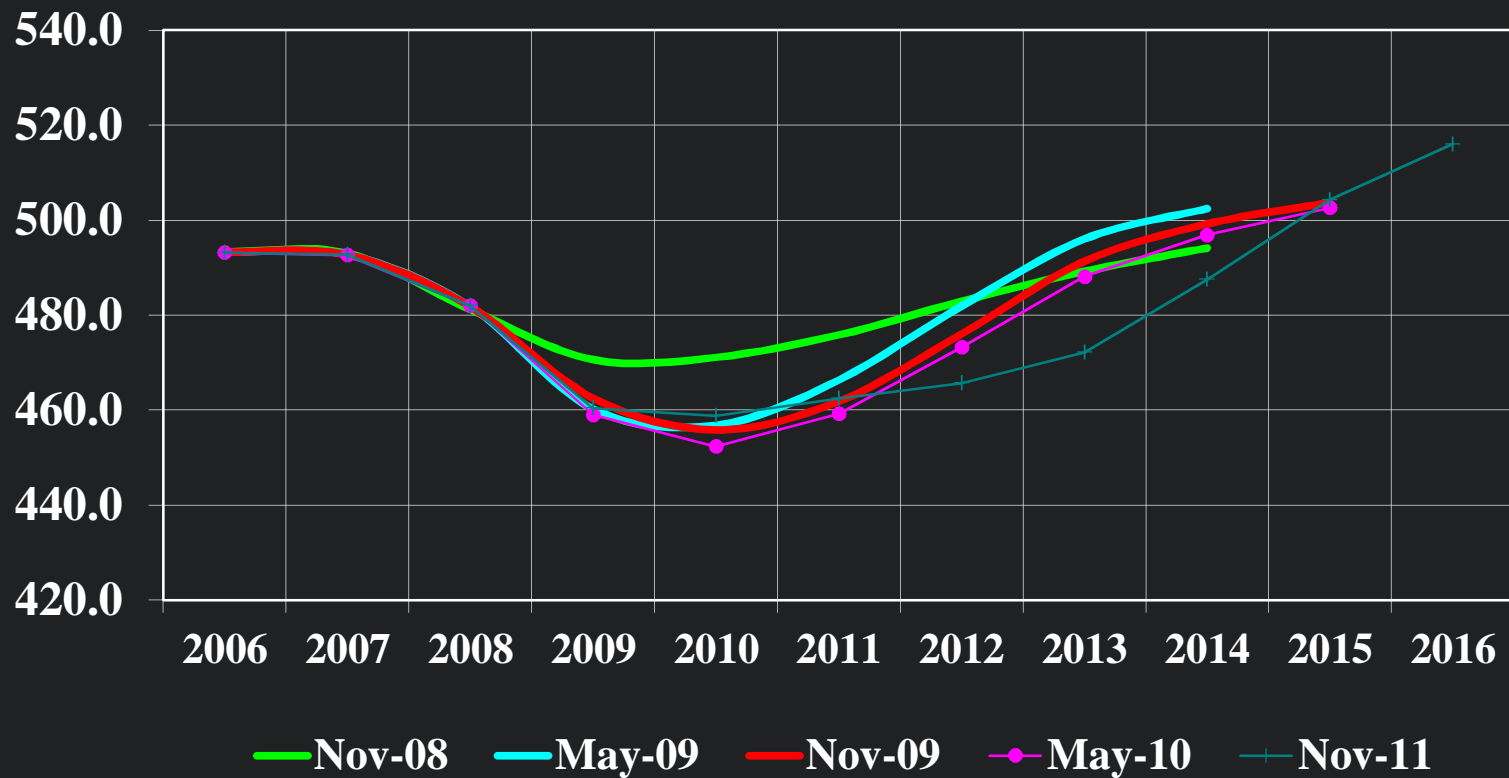
# Consensus Economic Forecast

## Forecast Differences - Personal Income Growth



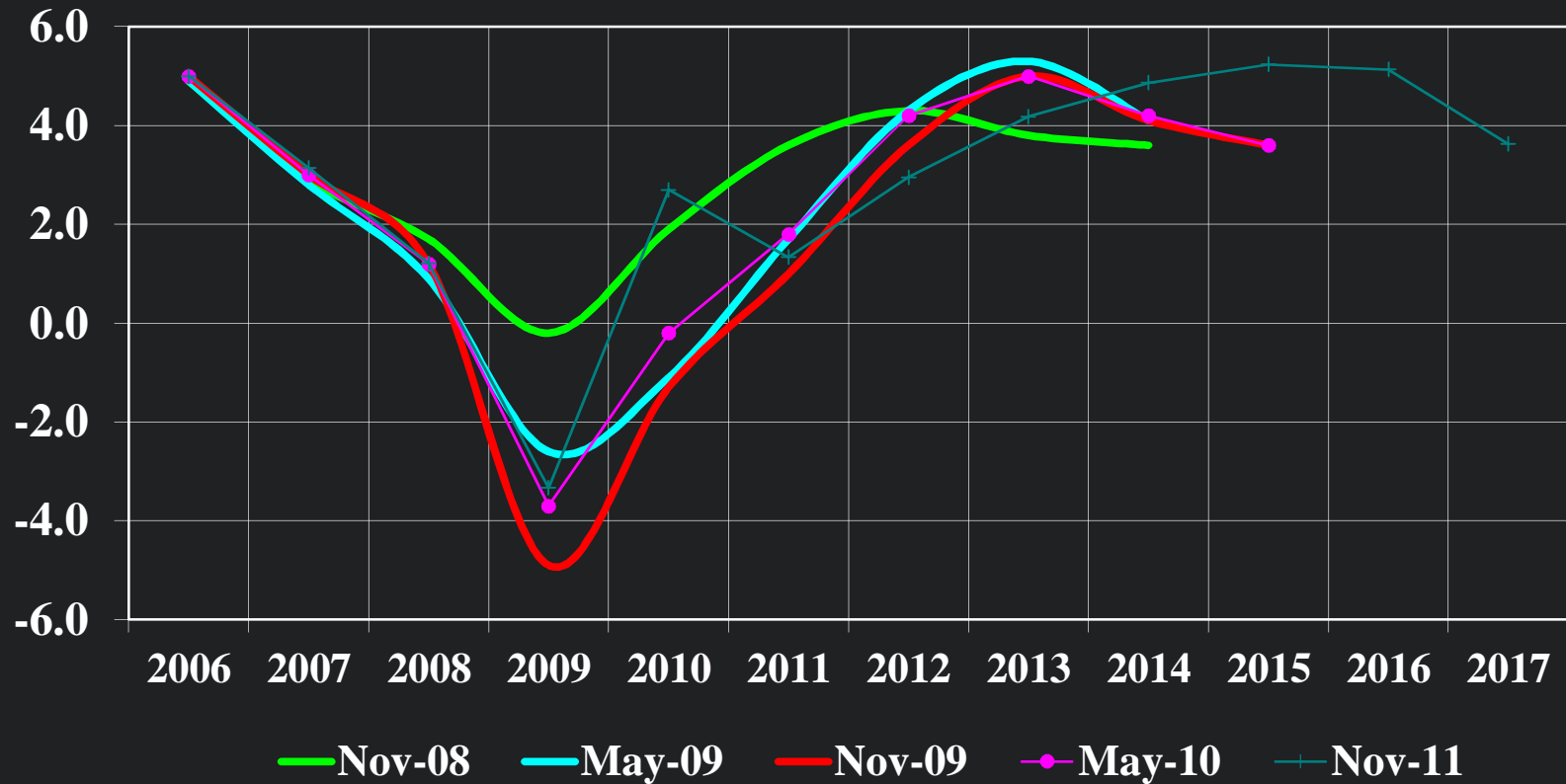
# Consensus Economic Forecast

## Forecast Differences - Jobs



# Consensus Economic Forecast

## Wage and Salary Income Growth

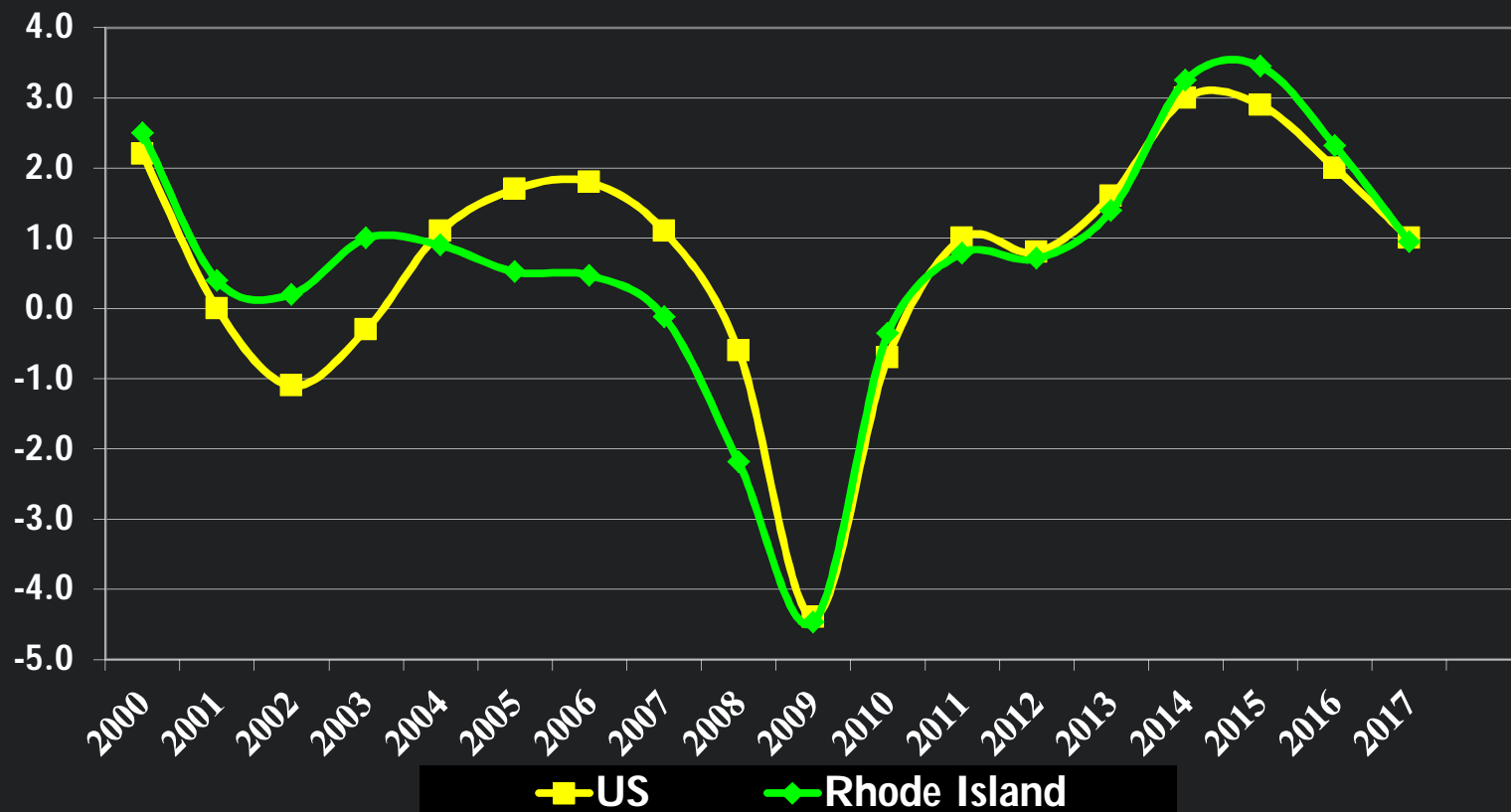


# Employment – Unemployment



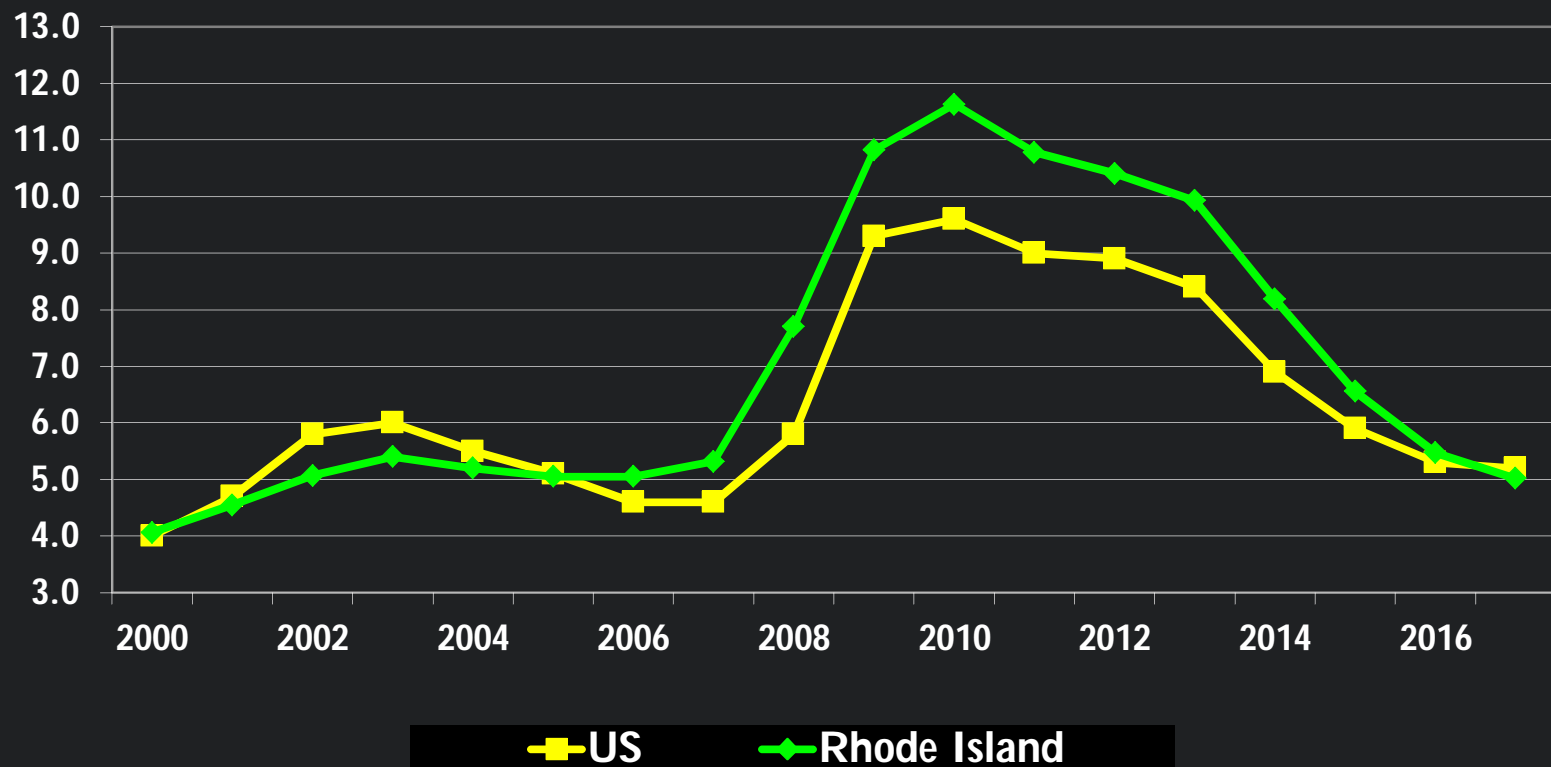
# Employment Growth

## Jobs Growth - RI Currently Underperforming



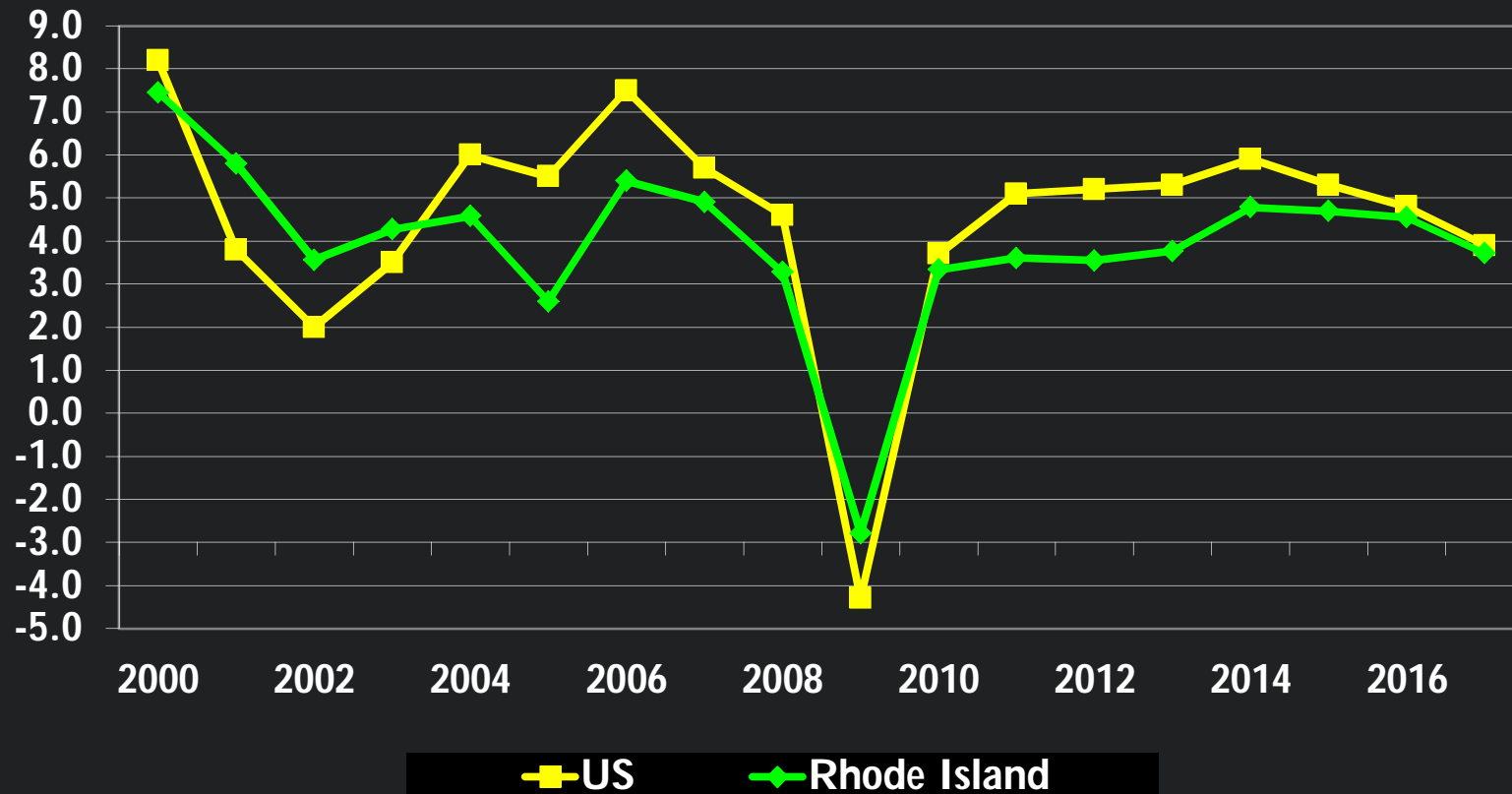
# Unemployment Rates

RI has Consistently Higher Unemployment



# Revenues

## Personal Income Growth - RI Underperforms





# Revenue Drivers

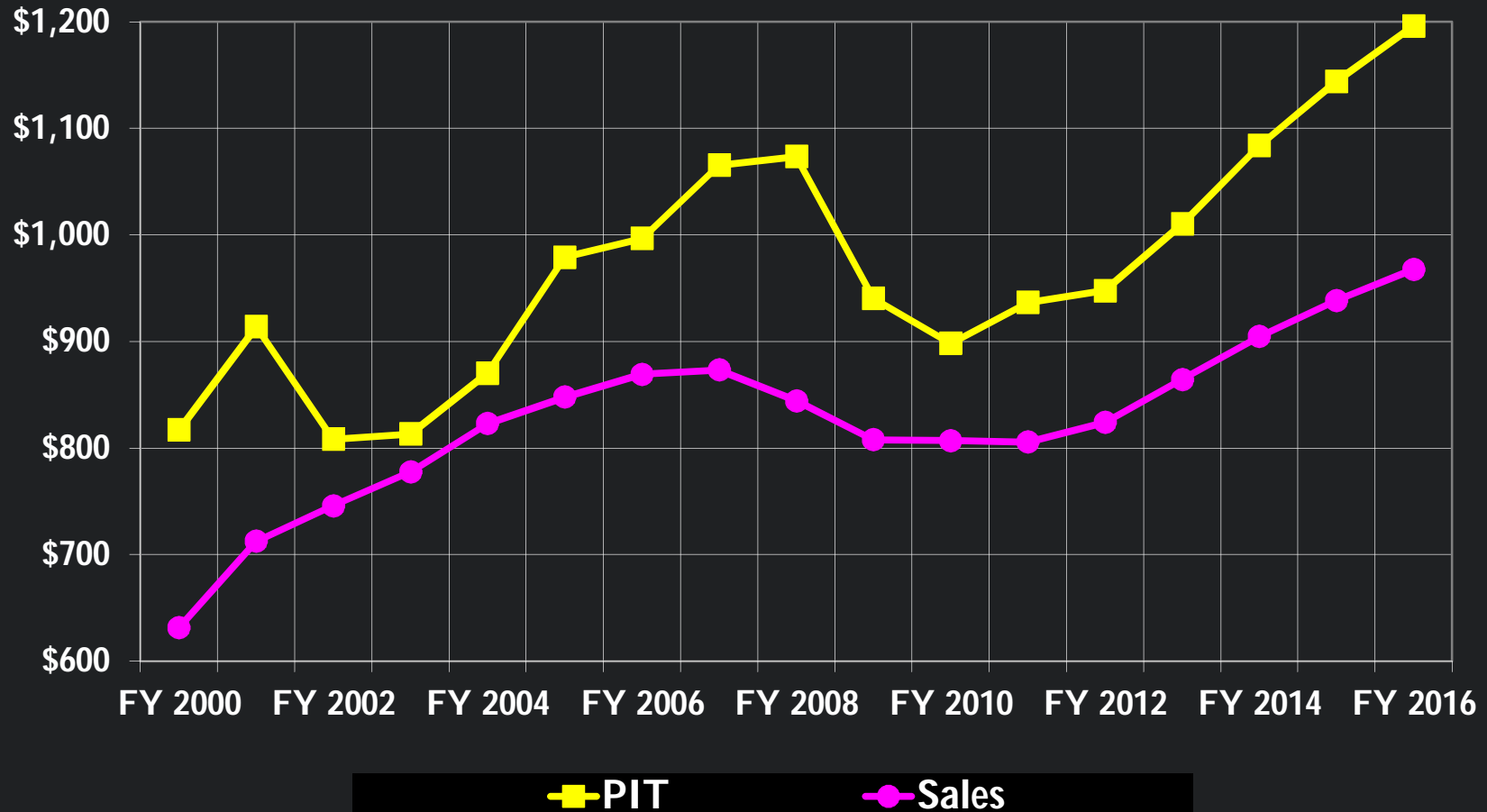


Revenues

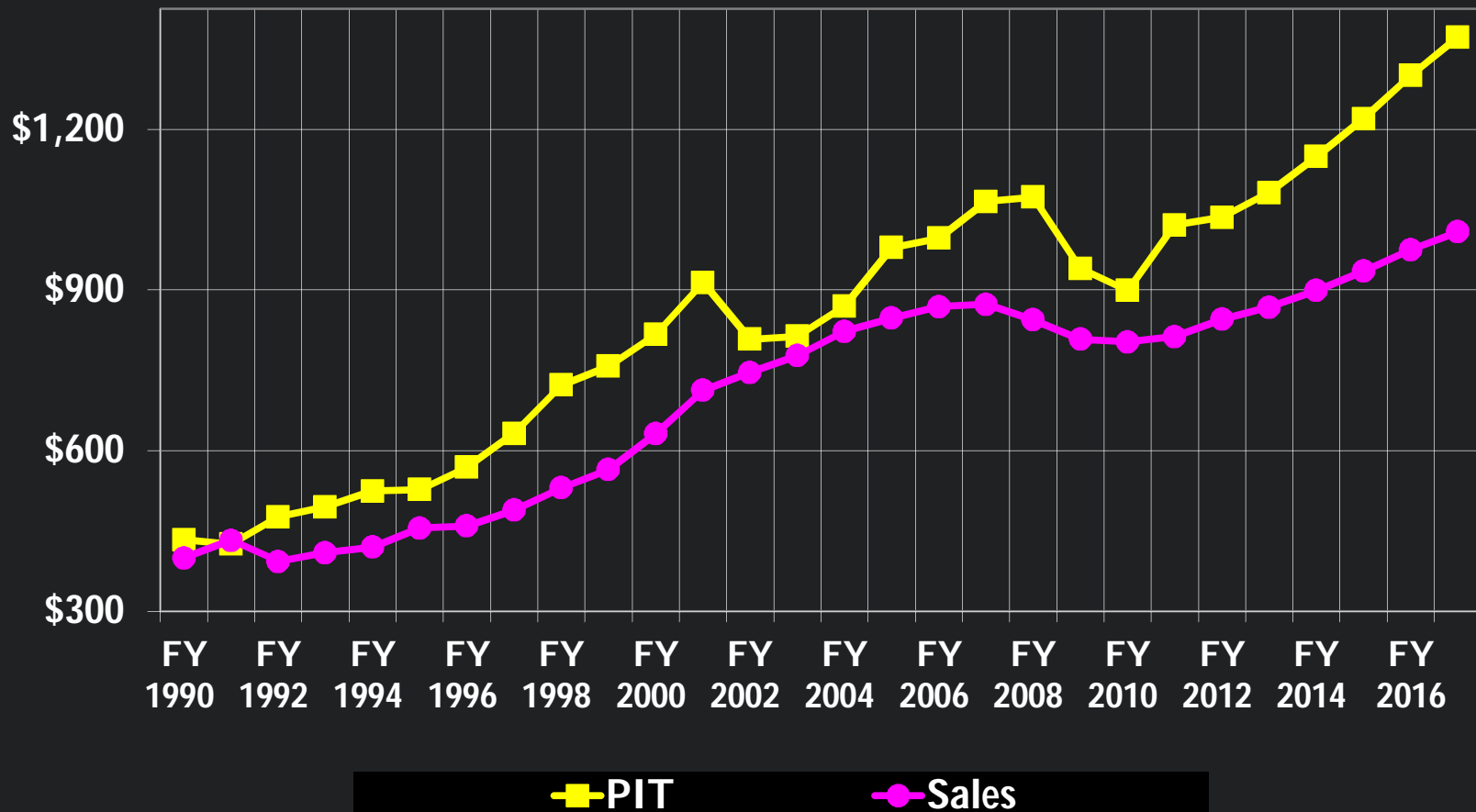
# Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2011 were less than anticipated
  - FY 2012 collections ahead/holding
  - Economic forecast is for slow recovery

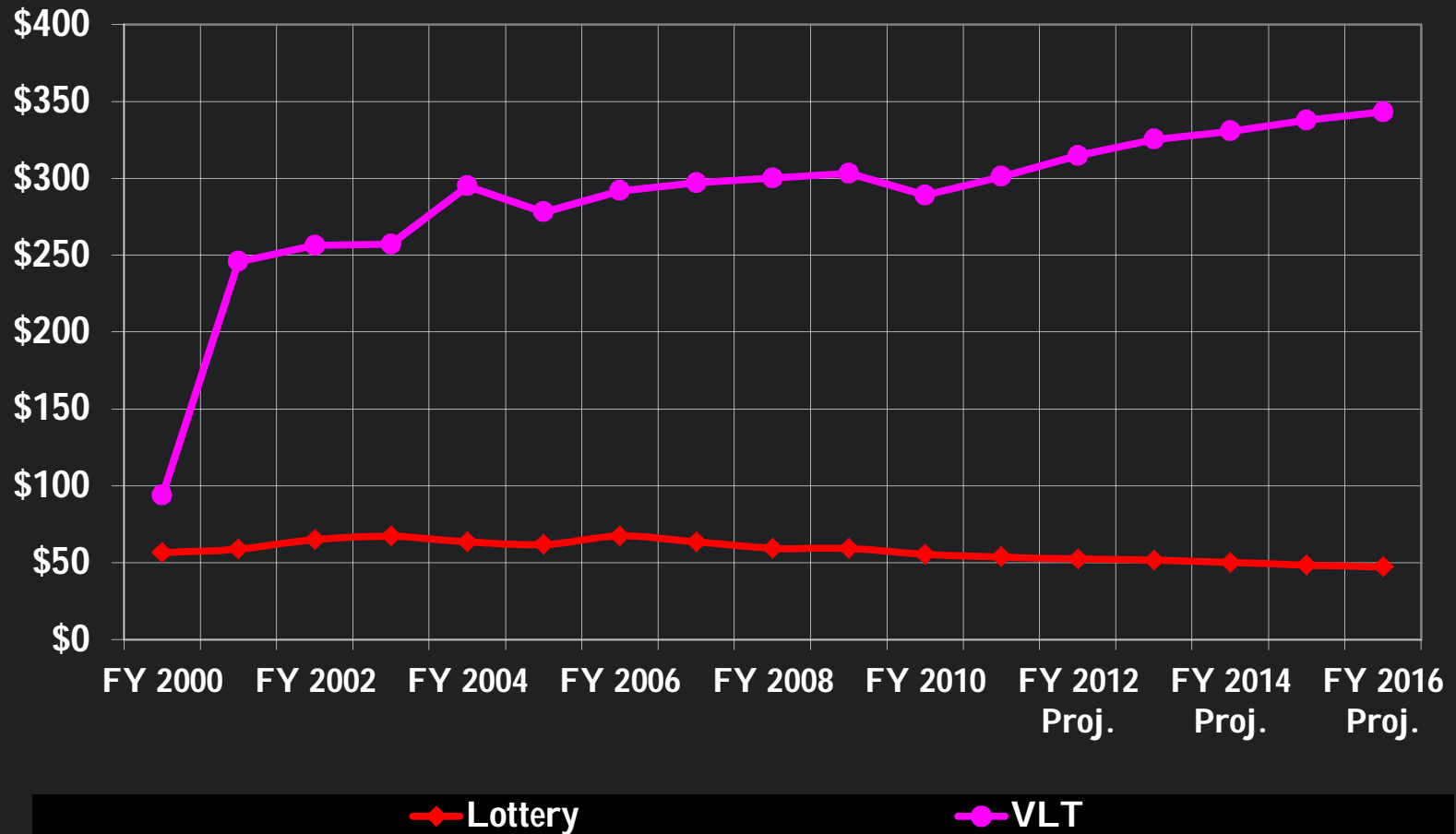
# Income and Sales



# Income and Sales



# Lottery



# Audited Closing

# FY 2011 Closing

- State was not facing major current year problem this time last year
- Expenditure reductions and more favorable revenues in May allowed for significant surplus to close major 2012 gap



# FY 2011 Audited

	Enacted	Current	Diff.
Opening	\$ 21.3	\$ 21.9	\$ 0.6
Revenues	<b>3,091.0</b>	<b>3,083.7</b>	<b>(7.2)</b>
Rainy Day	(80.8)	(80.7)	0.2
Expenditures	(2,974.2)	(2,956.2)	18.1
Reapprop.	-	(4.5)	(4.5)
Free Surplus	<b>\$57.2</b>	<b>\$ 64.2</b>	<b>\$ 7.0</b>

# Closing – Revenues

- Revenues down \$7.3 million from estimates
  - Taxes down \$6.2 million with personal income tax gains offsetting business taxes
    - Business tax discrepancies somewhat explained by accrual changes that made estimates difficult
  - All other revenue down \$1 million
    - Lottery and unclaimed property up while miscellaneous (one-timers) down

# Closing - Expenditures

Total spending \$18.1 million below budgeted amounts

- \$4.5 million unspent and reappropriated
- \$12.7 million savings from Medical caseloads and positive impact of risk sharing with managed care plans
- \$2.0 million DOA centralized utilities and facilities savings

# Closing - Expenditures

- Total spending \$18.1 million below budgeted amounts – but areas of overspending
  - 8 agencies overspent
- Appropriation lines overspent even if agency totals were not
  - 23% of lines were overspent
- Unachieved initiatives
- Unexpected expenses

# Closing - Expenditures

- Unachieved initiatives
  - BHDDH – overtime and staffing at Eleanor Slater Hospital (\$1.2 million) and in RICLAS (\$1.0 million)
  - Developmental Disabilities: \$2.3 million
  - DCYF – \$3.2 million

# Closing - Expenditures

- Unexpected Expenses
  - RIC Debt Service: \$1.6 million
    - MOE issue – funding recaptured
  - Trooper Contract retro: \$0.6 million

# Closing - Expenditures

- Impact on FY 2012
  - Do savings or higher base expenses carry to FY 2012?
  - 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
  - Major shortfall from overspending masked by revenue uptick, additional closing surplus and other savings

# FY 2012

- Preliminary Closing – September 1
- Agency Q1 reports – Oct 30
- Caseload estimates – November 4
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 15
- Audited Closing – Jan 5
- Governor's Budget – Jan 19
- Agencies Q2 – Jan 30

# FY 2012

	Enacted	Current	Diff.
Opening	\$ 57.2	\$ 68.8*	\$11.6
Revenues	3,176.0	3,195.4	<b>19.4</b>
Rainy Day	(90.5)	(91.3)	(0.7)
Expenditures	(3,142.7)	(3,172.9)*	<b>(30.2)</b>
Total FY 2012	\$ 0.2	\$ 1.4	\$1.2

*\*Includes \$4.5 million reappropriation*

# Current Year

- Revenues are up by \$19.4 million
- Opening free surplus up by \$7 million
- Added resources increase rainy day transfer by \$0.7 million
- Expenditures appear up by \$24.1 million net of reappropriations... still problematic

# Current Year

- Staff estimates differ from Budget Office
  - Transportation – RIDE and DOT
  - Central Falls
  - Corrections
  - Refining and revising of estimates continues as more info is available

# Current Year

Reappropriation	4.5
OHHS Caseload*	9.5
Debt Service	(5.2)
Transportation*	5.1
Formula Local Aid	(0.5)
Public Safety *	7.0
Other *	8.6
* Items different than Budget Office Q1 estimates	

# Reappropriation

- Statutory for Legislature and Judiciary
- Secretary of State - Quick Start Program
- Attorney General - Tobacco Litigation
- Treasurer - Renovations/Legal- SEC Investigation

# Current Year: OHHS Caseload

- DHS - \$1.1 million less
- DCYF - \$6.2 million more
- BHDDH - \$2.2 million more



# Current Year: OHHS Caseload

- Nov Caseload Conference:
  - \$1.1 million in savings
  - Medical Assistance - \$1.9 million less
    - Saving in managed care, hospital and other services
    - Increases in long term care and Rhody Health
  - Cash Assistance – \$0.8 million more

# Current Year: OHHS Caseload

- Medical Assistance – \$2.5 million in unachieved savings
  - Add back from general revenues for the Money Follows the Person initiative
    - Increased Medicaid rate for home and community based services

# Current Year: OHHS Caseload

- BHDDH - \$2.2 million general revenue savings from initiatives
  - Staffing costs at the Eleanor Slater Hospital and RICLAS system
    - Overtime savings in budget from delayed staff hiring

# Current Year: OHHS Caseload

- DCYF - \$6.2 million
  - \$3.4 million to correct Medicaid claiming
  - \$2.6 million for caseload expenditures
  - \$0.3 million unachieved savings

# Current Year

- Debt Service \$5.2 million lower
  - One time savings
- Transportation Shortfall
  - \$5.1 million
    - Budget office estimate \$7.6 million
    - Staff estimate assumes turnover and lower winter maintenance

# Current Year

- Formula Local Aid – \$0.5 million less
  - Property Revaluation \$0.1 million less
  - School Construction: \$2.7 million less
  - Teacher Retirement: \$2.4 million more

# Current Year

- Public Safety – \$7 million more
  - Trooper Contract \$1.4 million
  - Underestimated RIBCO costs \$3.1 million
  - DOC Unacheived statewide savings \$1.9 million
  - Other DOC issues \$0.6 million

# Current Year

- Other - \$10.8 million more
- Placeholder for \$2.6 million request for Central Falls settlement
- All other projected adjustments to agency expenditures
  - Unachieved statewide savings
  - Hurricane Irene



# Current Year

- Other -
  - DMV staffing
  - DOA Technology Expenses

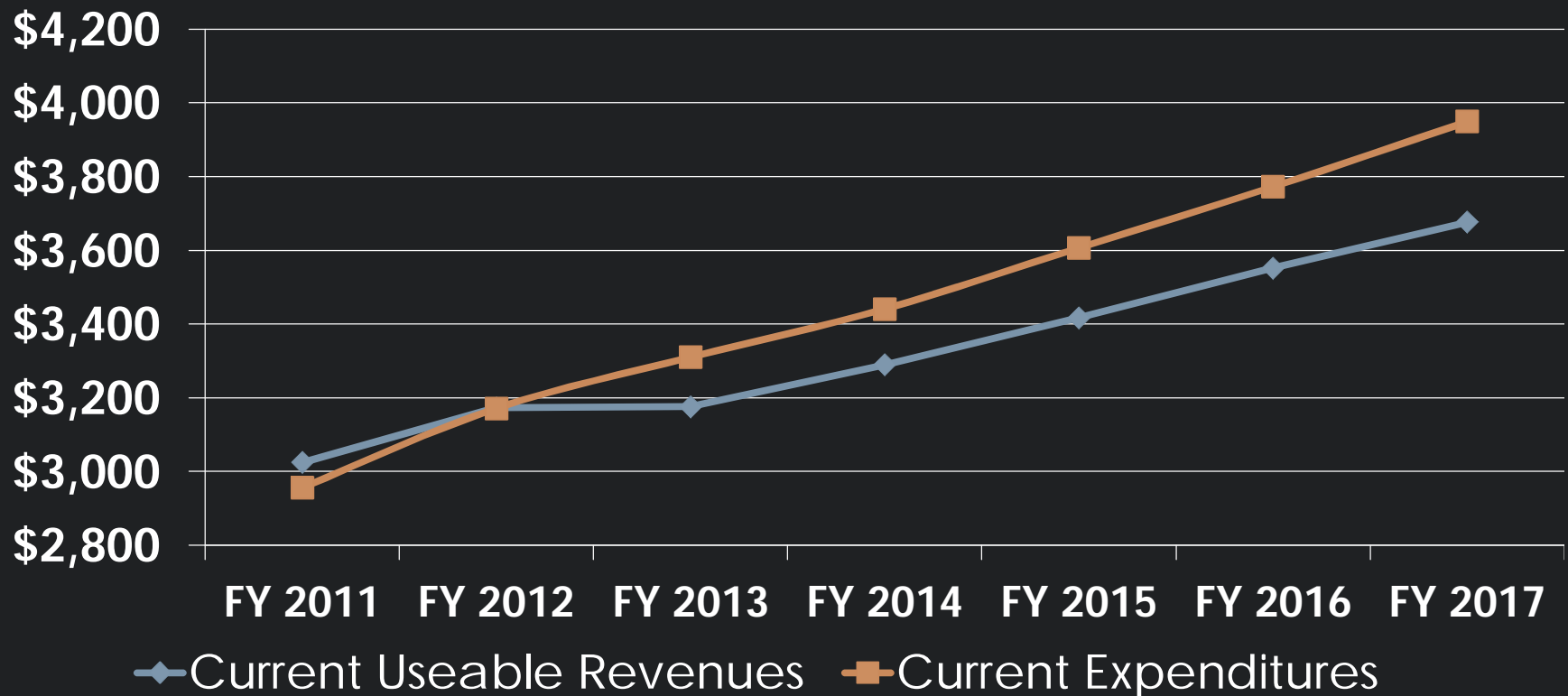
# Budget Year and Out-years

# Budget Year and Out-years

- There are also *budget year* and *out-year problems*
  - The budget year likely has a gap of \$134 million
  - That gap grows in the out years to \$273 million
  - Lower than Fiscal Staff estimates in June; higher if pension savings are excluded
  - Lower revenues and higher expenses

# Budget and Out Years

## Revenues vs. Expenditures:- Current Estimate



# Budget Year and Out-years

- Last staff estimates showed
  - The budget year gap of \$142 million
    - New estimate has \$117 million in pension legislation savings
    - \$51 million less in revenues based on REC
    - \$24.7 million debt service estimate reporting error
    - Other known or expected increases

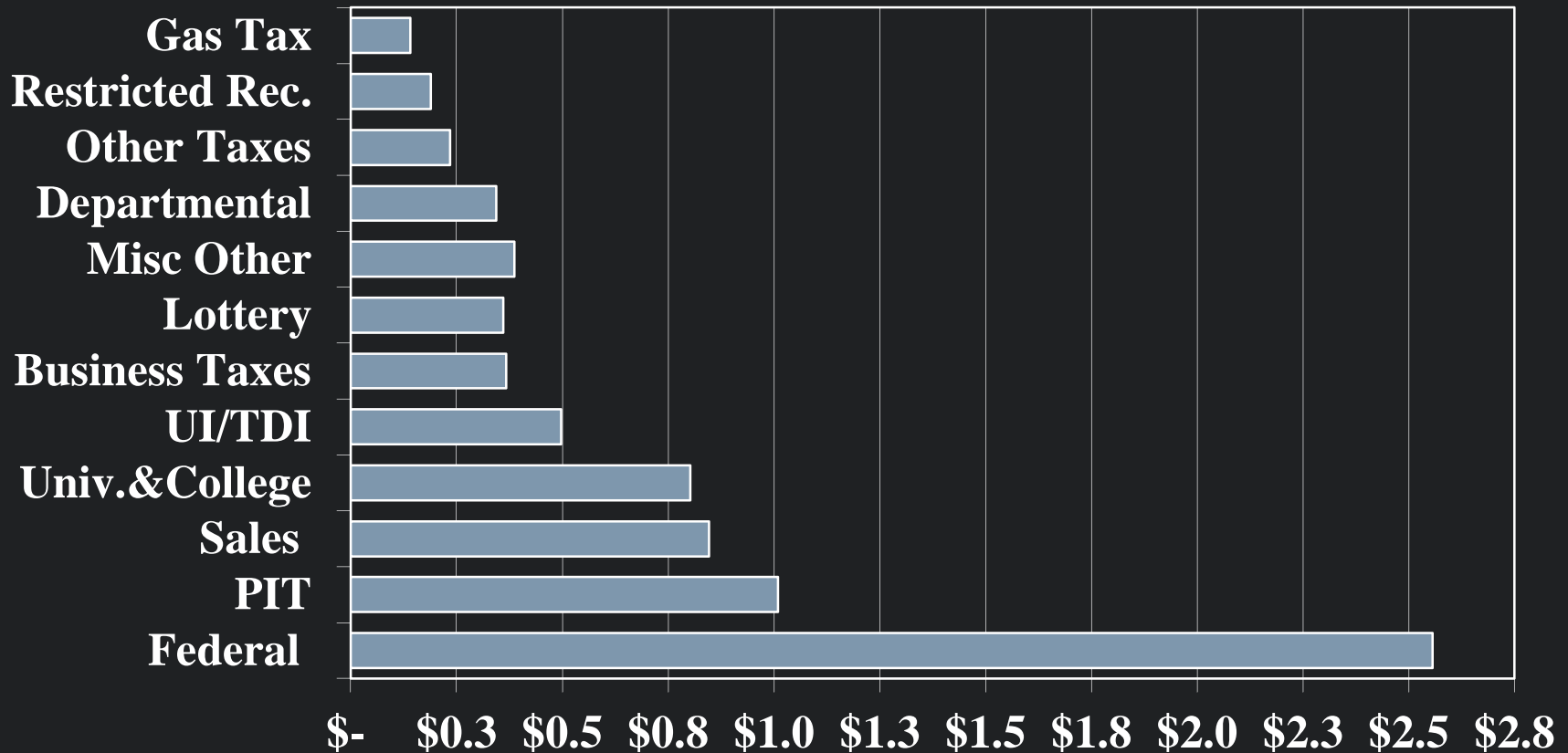
# Budget Year and Out-years

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Stimulus “cliff” only partially resolved with one time savings in FY 2012

# Budget Year and Out-years

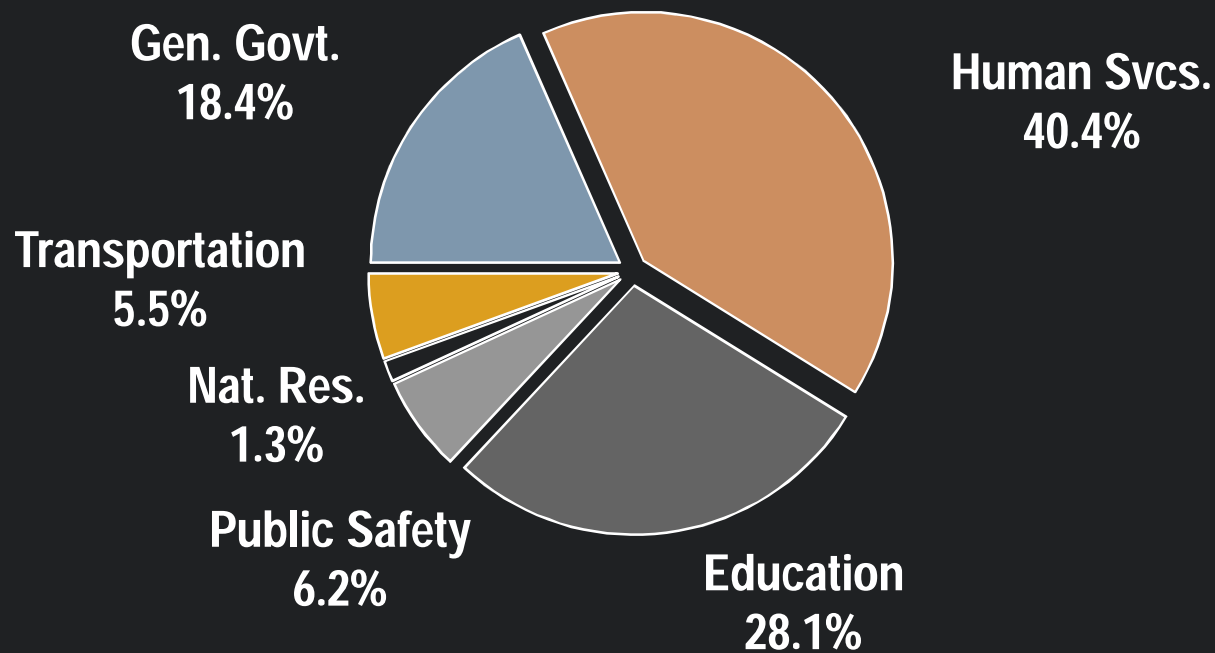
- Continued issue of problematic expenditure structure
  - The stimulus package exacerbated the out-year problem
  - Many enacted structural changes; implemented... still others not achieved
  - Growth rates exceeding revenue growth rates

# Sources

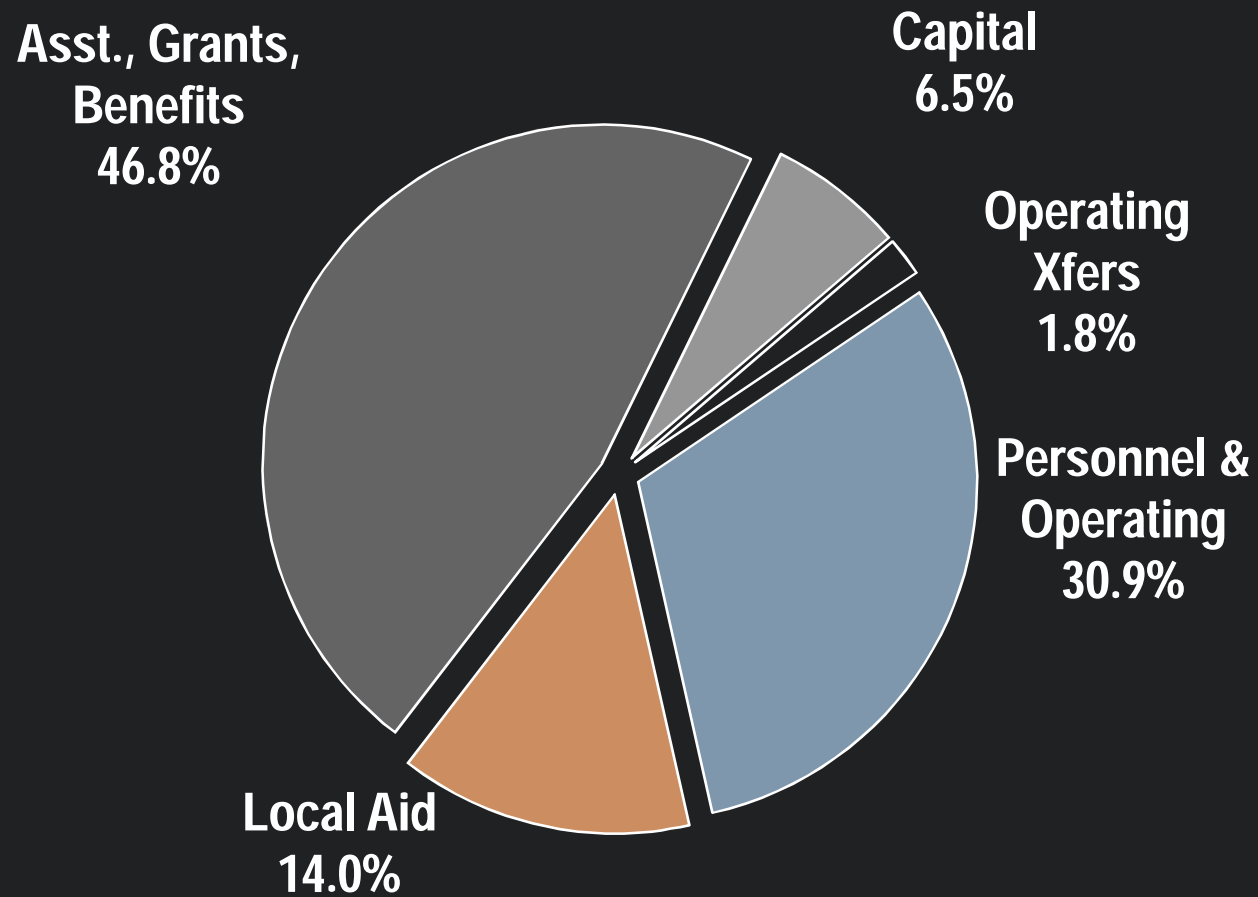




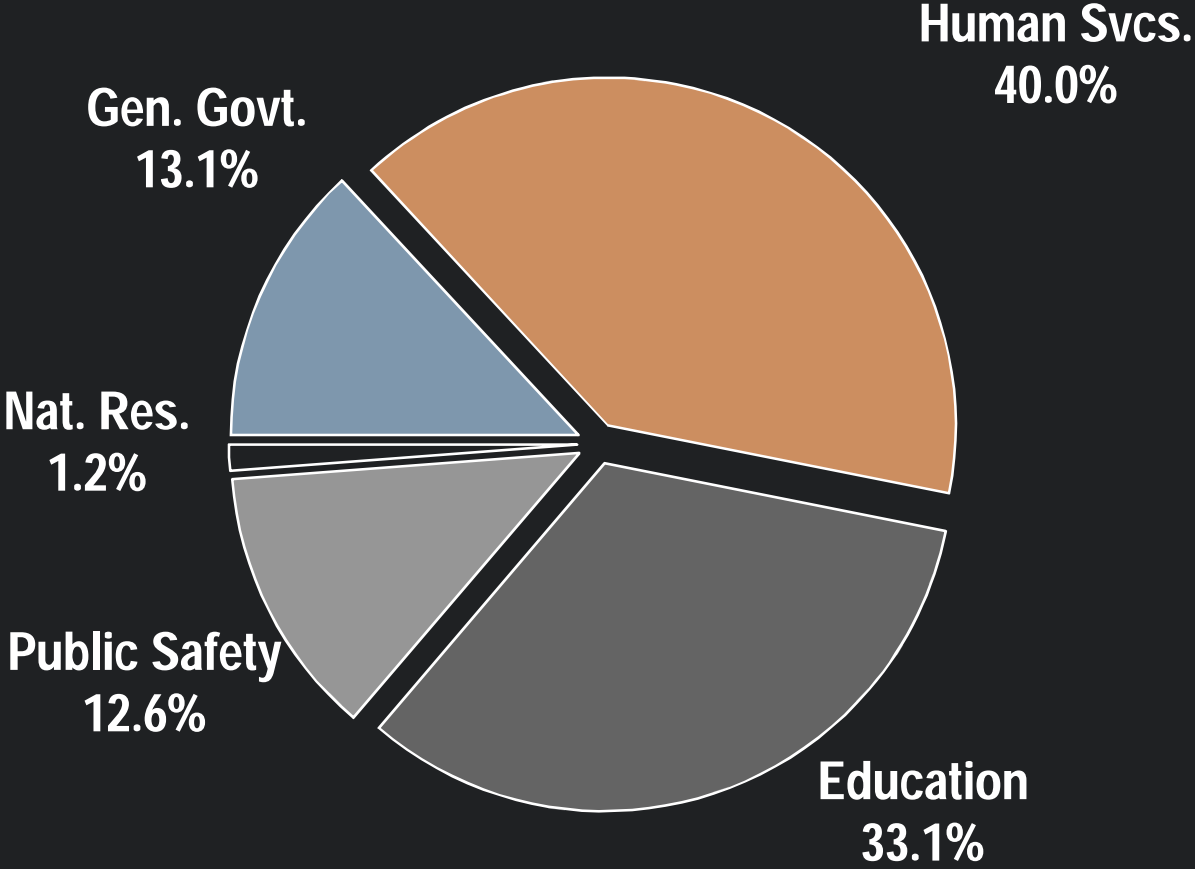
# Uses – All Funds by Function



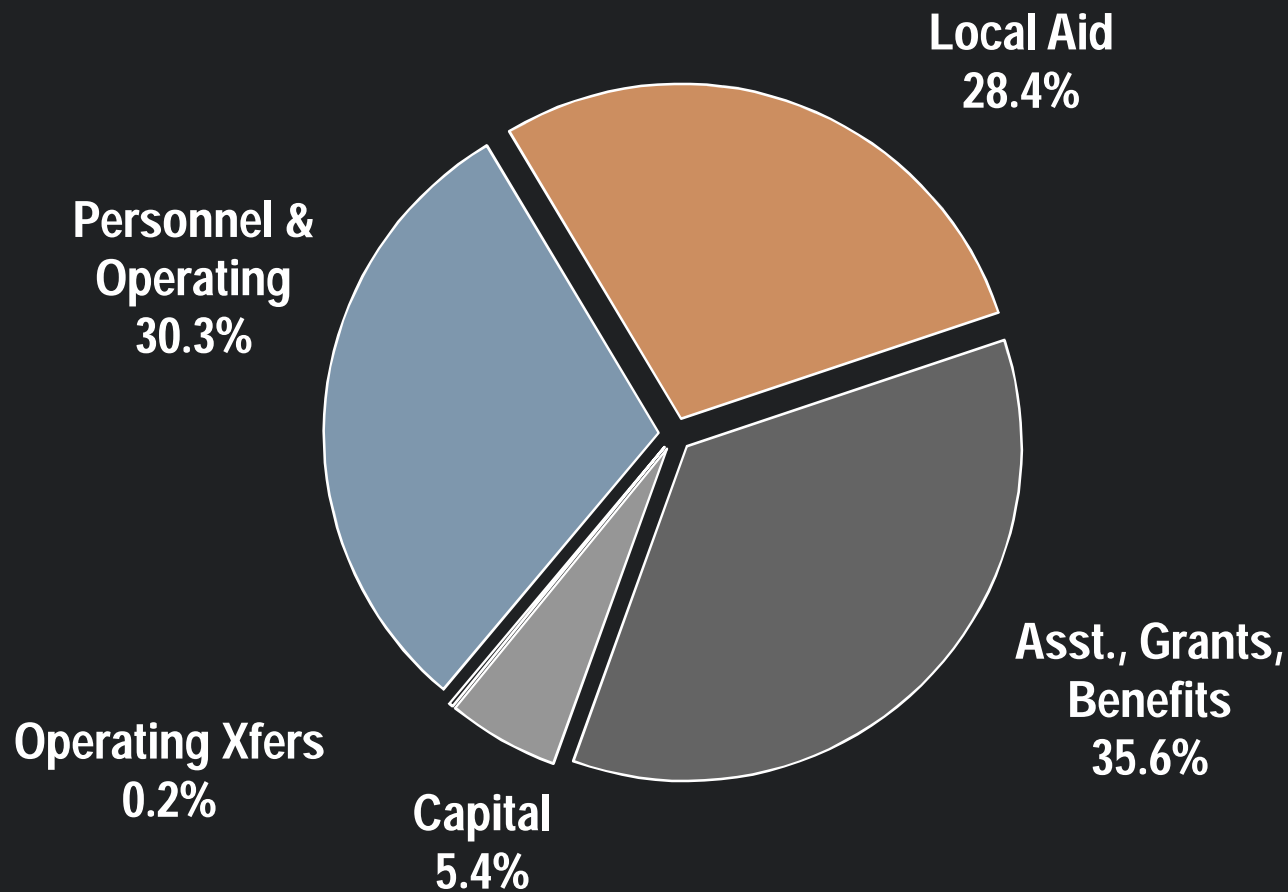
# Uses – All Funds by Category



# Uses – General Revenues by Function



# Uses – General Revenues by Category



# Budget Year and Out-years

- Budget Office Instructions based on \$214.8 million July deficit projection
  - Includes calculation of current service revenues and expenses
  - Also includes a number of “policy choices”
    - Increasing PILOT
    - Restoring 2012 funding reductions

# Budget Year and Out-years

- Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office
- Agency requests still exceeded current service estimates
  - Not all same items included

# FY 2013 Budget Requests

FY 2012 Enacted	\$3,142.5
Current Services Adjustment	266.0
FY 2013 Budget Office Current Svs.	3,408.5
FY 2013 Agency Requests	3,459.5
Difference from Budget Office	\$ 51.0

# FY 2013 Current Service Expenditures

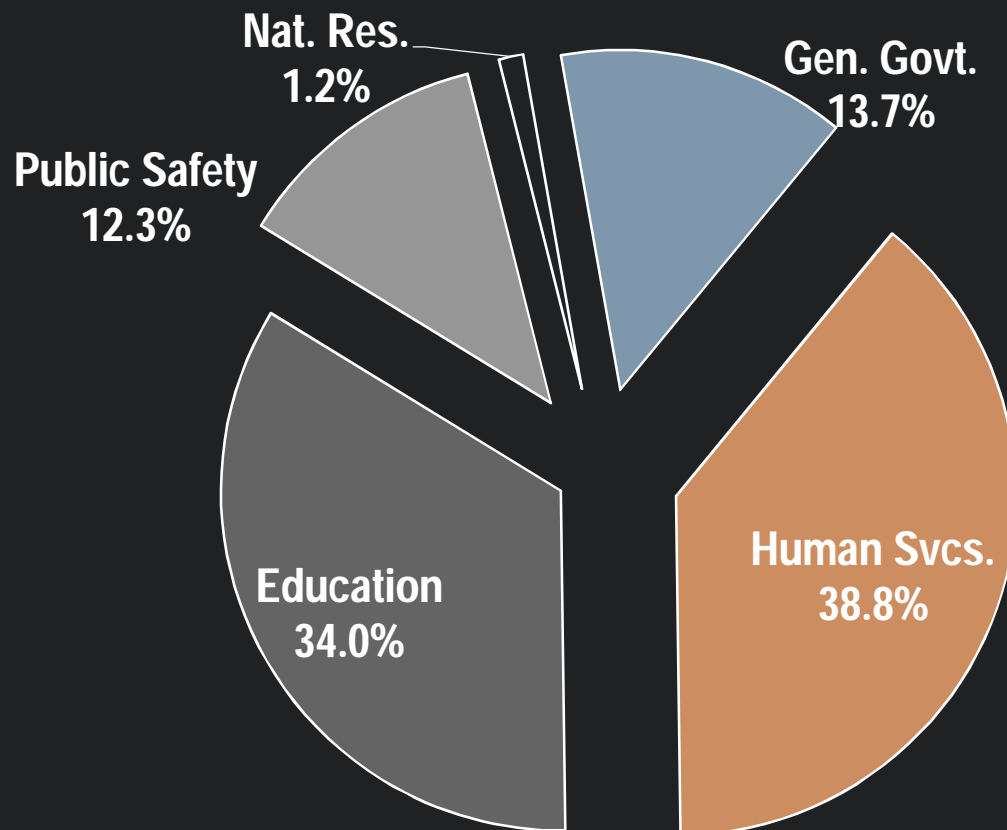
- Main discrepancy \$24.7 million debt service reporting error in 5-year forecast submitted with Governor's budget
- Other Changes
  - \$7.2 million additional debt service
  - \$6.6 million of local aid policy choices
  - Restorations of personnel savings



# FY 2013 Budget Requests

- Budget Office did not ask for targeted reductions below current service
- Priorities were to be set during new performance budgeting process
- No budget reduction initiatives submitted with requests
  - Staff typically begin review of ideas as part submission analysis

# FY 2013 Budget Office Current Serv.



# FY 2013 Current Service Expenditures

- HFAS June estimates has FY 2013 estimated expenditures \$39.9 million Lower than Budget Office July estimates

FY 2013 Budget Office Current Svs.	\$3,408.5
FY 2013 HFAS June Estimate	3,368.6
Difference from Budget Office	\$ 39.9

# 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

- Governor's Budget expected Jan 31
- Current year appears balanced but major unachieved savings
- Major budget and out-year gaps
  - Slow growing economy
  - Structural tax and expenditure issues