

Governor's FY 2013 Budget



Staff Presentation to the House
Finance Committee
February 9, 2012

Governor's FY 2013 Budget



Introduction

Governor's FY 2013 Budget

- January 31 - Governor announced his FY 2013 Budget via televised address
- Feb 1 - 2012 - H 7323 Introduced and referred to House Finance Committee
 - Most publications provided that day
 - Capital books still outstanding

Budget Briefings, Publications & Hearings

- Jan 18 – Budget Status
- Feb 1 – Budget at First Glance
- Feb 8 - Expanded Budget at a Glance
- Feb 9 – Governor’s Budget Overview
- Feb 14 – Article hearings begin
- House Fiscal Staff *Budget Analysis*

References

- Materials are on line on the Assembly website - <http://www.rilin.state.ri.us> under House Fiscal Reports
- Includes items prepared by House Fiscal Staff that may be helpful

Governor's FY 2013 Budget

Feb 9 Overview

- FY 2012 Revised Budget
- FY 2013 Revenue-Expenditure Gap
- Governor's Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears

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 in FY 2011
- Used surplus to help close significant FY 2012 gap

FY 2011 Audited

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

Closing – Revenues

- Revenues \$7.3 million less
 - Taxes down \$6.2 million
 - All other revenue down \$1 million
- Spending \$18.1 million below budget
 - \$4.5 million unspent and reappropriated
 - \$12.7 million savings from Medical caseloads and positive impact of risk sharing with managed care plans

FY 2012 – Q1 Staff Estimate

	Enacted	Current	Diff.
Opening	\$ 57.2	\$ 68.8*	\$11.6
Revenues	3,176.0	3,195.4	19.4
Rainy Day	(90.5)	(91.3)	(0.7)
Expenditures	(3,142.5)	(3,172.8)*	(30.3)
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 looked to be up by \$25.8 million net of reappropriations

Current Year: HFAS Q1 Est.Changes

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	

FY 2012 – Governor Revised

	Enacted	Gov	Diff.
Opening	\$ 57.2	\$ 68.8*	\$11.6
Revenues	3,176.0	3,201.4	25.4
Rainy Day	(90.5)	(91.4)	(0.9)
Expenditures	(3,142.5)	(3,172.8)*	(30.2)
Total FY 2012	\$ 0.2	\$ 6.0	\$5.8

**Includes \$4.5 million reappropriation*

Current Year

- Staff estimates differed from Budget Office Q1
 - Transportation – RIDE and DOT
 - Central Falls
 - Corrections

Current Year: Gov. Revised vs. HFAS

<i>Q1 HFAS est. ending surplus</i>	<i>\$1.2</i>
Transfer from RICAP	6.0
Merit System Study	(0.3)
DOT Deficit	2.0
America's Cup	(0.8)
OHHS Personnel	2.2
Elderly Transport	(0.6)
All Other	(3.7)
<i>Total Gov Ending Surplus</i>	<i>\$6.0</i>

Governor's FY 2013 Budget

- FY 2012 Revised Budget
- FY 2013 Revenue-Expenditure Gap

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
 - FY 2011 Surplus
 - Federal Education funds for locals

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 revenues based on REC
 - \$24.7 million debt service estimate reporting error
 - Other known or expected increases

FY 2013 Budget Gap

FY 2013 Revenue-Expenditure Gap

- Budget Office estimates
 - \$214.8 million in July
 - \$117.4 million in Nov. w/o FY 2012 spending issues
- Staff estimates
 - \$142 million in June
 - \$134 million in Nov- includes impacts of current year overspending

Governor's FY 2013 Budget

- FY 2012 Revised Budget
- FY 2013 Revenue-Expenditure Gap
- **Governor's Recommended Solution**

Governor's Solution

FY 2011 Surplus	\$ 6.0
Revenue Initiatives	107.5
Human Services	31.3
Locals	(9.5)
Departments & agencies, transfer change	(18.0)
Total	\$117.4

Governor's Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies

Revenues

Revenues Solution: \$107.5 million

- \$28.1 million in new sales taxes
- \$45.7 million in other tax increases
- \$16.4 million from new or increased fees
- \$17.2 million from other

Revenues

Sales Taxes

Clothing & footwear >\$175	Art. 24	\$13.3
Non Compliance w/Streamlined	Art. 24	(1.8)
Taxis & other road transportation	Art. 24	3.3
Moving,storage,warehouse,freight	Art. 24	10.8
Pet care (excl. veterinary)	Art. 24	1.3
Car Washes	Art. 24	1.3
Total		\$28.1

Revenues

Other Tax Increases		
Meals and Beverage	Art. 24	\$39.5
Tobacco	Art. 24	4.3
B&B/Vacation homes=hotel	Art. 24	1.9
Total		\$45.7

Revenues

New or Increased Fees		
DOH – Fee Restructure	Art. 9	\$ 1.5
ELSEC – Tel. Access (RR)	Art. 12	0.8
DEM – Beverage Container	Art. 24	0.2
DMV – School Bus	Art 25	0.1
DMV – License/Reg. fee advance (to DOT operations)	Art 25	13.9
Total		\$16.4

Revenues

Other: Enhanced Collections, Scoop

Tax Amnesty	Art. 24	\$10.9
Tax Prep Staff reallocation	n/a	1.3
Tobacco Enforcement	n/a	2.9
DEM: Testing/Well Drilling	Art. 30	(0.1)
EDC: Project Status	Art. 24	(1.0)
NBC Debt Service transfer	Art. 1	3.1
Total		\$17.2

Governor's Solution

- Revenues
- **Human Services**
- Locals
- Departments and Agencies

All Human Service Agencies

Human Services Solution: \$31.2 million

- \$16.4 million from provider reductions
- \$6.9 million from program efficiencies
- \$4.0 million from cost shifting
- \$3.9 million from changes that impact clients

OHHS

Providers	GR	All
Managed Care Plans – 4.14% rate reduction	\$14.0	\$28.9
Hospitals – pay “lesser of cost” for inpatient services	1.9	4.0
Durable Medical Equipment – 5% reduction	0.5	1.0

OHHS/DHS/DCYF

Clients	GR	All
Eliminate Dental Care for Adults	\$2.7	\$5.6
Veterans' Home staffing and census	0.4	0.4
YESS/Life Skills	0.4	0.4
Increase Child Care Cost Sharing	0.3	0.6
Ride transportation – \$2 charge to attend adult day (one way)	0.2	0.2

OHHS

Efficiencies	GR	All
Home & Community Based Svcs – clinical review for elderly recipients	\$3.0	\$6.3
Managed Care – limit readmissions & other cost avoidance strategies	2.0	4.1
Expand Estate Recoveries	0.5	1.1
“Medical Home” – lower cost setting	0.5	1.0

OHHS/BHDDH

Efficiencies	GR	All
Katie Beckett – Clinical Review	\$0.4	\$0.8
Post Payment Review	0.2	0.5
Shift members to Connect Care Choice	0.1	0.3
Substance Abuse – Residential Services	0.1	0.1

BHHDH/OHHS

Cost Shifts	GR	All
Health Homes	\$3.5	\$-
Third Party Liability	0.3	0.5
RIPAE Utilization	0.2	0.2

OHHS

Impact to Hospitals	GR	All
Eliminate Upper Payment Limit*	\$5.8	\$12.1
Lesser of Payment Methodology	1.9	4.0
Eliminate State Only Acute Care Payment*	1.0	1.0
Total	\$8.7	\$17.1

* *not part of current services calculation*

Governor's Solution

- Revenues
- Human Services
- **Locals**
- Departments and Agencies
- Statewide Savings

Education Aid

- Funds 2nd year of formula
 - Adds \$20.7 million based on updated data
 - Adds \$11.0 million to accelerate funding to underfunded districts
 - Includes \$7.5 million for categoricals
 - Assumes use of \$0.5 million from federal education jobs funds received in FY 2012 in lieu of general revenues

Education Aid

- \$11.0 million to accelerate transition of funding for underfunded districts
- 26 districts and 3 charter schools receive funding based on the share of total formula aid

Education Aid

- Categorical Funds - \$7.5 million
 - \$0.5 million for High Cost Special Ed
 - \$3.0 million for High Cost Career & Tech
 - \$1.5 million for Early Childhood
 - \$2.2 million for Transportation
 - \$0.4 million for Regionalization Bonus

Education Aid

- Distributions calculated by Department based on transition guidance in law
- Distributions are subject to change based on updated data due in March
 - Nothing in Article establishes exact dates
- Assumes no new charter school open for 2012-2013 school year

Education Aid – Construction Aid

- Funding formula legislation includes a 2-year phased increase in minimum state share ratio
 - 35% for FY 2012
 - 40% for FY 2013
- Minimum had been 30%
- Rolls back minimum to 35%
 - Assumes savings of \$0.4 million from this

Education Aid – Construction Aid

- Proposes legislation to reimburse charter schools at the 3-year weighted average state share of sending districts
- Unless sponsored by a school district, current eligible for 30% reimbursement
- Impact on out-year estimates not reflected

Education Aid – Other

- Ends textbook reimbursement - \$240,000
- Ends school breakfast admin reimbursement - \$270,000
- Assumes state has greater share of cost for DCYF youth - \$500,000
 - based on change in special education cost methodology

Local Aid

	Enacted	Revised	Rec.
Dist. Communities	\$10.4	\$10.4	\$10.4
PILOT	33.1	33.1	33.1
Library Aid	8.7	8.7	8.7
Car Tax	10.0	10.0	10.0
Actuarial Valuations		0.2	

Local Aid

- Distressed Communities
 - Level funded
 - Cranston qualifies in FY 2013
- PILOT = enacted; \$8.8 million less than full funding
- Car Tax = enacted \$10 million

Local Aid

- Library Construction Aid – \$ 2.5 million for full funding
- Property Valuation Reimbursement – \$1.6 million for full funding
- Local pension actuarial reimbursements - \$0.2 million

Governor's Solution

- Revenues
- Human Services
- Locals
- **Departments and Agencies**
- Statewide Savings

Departments and Agencies

- Debt Service - \$22.9 million less than current service
 - Refunding
 - Some one-time savings
 - Support for 195 land debt
 - New IT debt

Departments and Agencies

- Debt Service - \$22.9 million less than current service – some one-time
- Mergers and Reorganization
 - Public Television
 - HEAA and Higher Education
 - Office of Management and Budget
 - OHHS
 - Energy Programs

Transportation

- Deficit not shown in previous statewide budget projections
- \$13.9 million of new fees go toward transportation deficit in FY 2013
 - Fees had been set to phase in later
- Long term plan has general revenues funding more debt service
 - Frees up gas tax proceeds to address deficit

Transportation

- Sakonnet and Jamestown Bridge transferred to RITBA
- Operating expenditure patterns status quo at DOT
- RIPTA deficit not addressed
 - \$10 million shown in Governor's FY 2013 budget

Other Items

- Community Service Grants \$2.1 million from 25% reduction
 - Finance Committee will have separate hearings on this issue
 - Review of grantees and uses

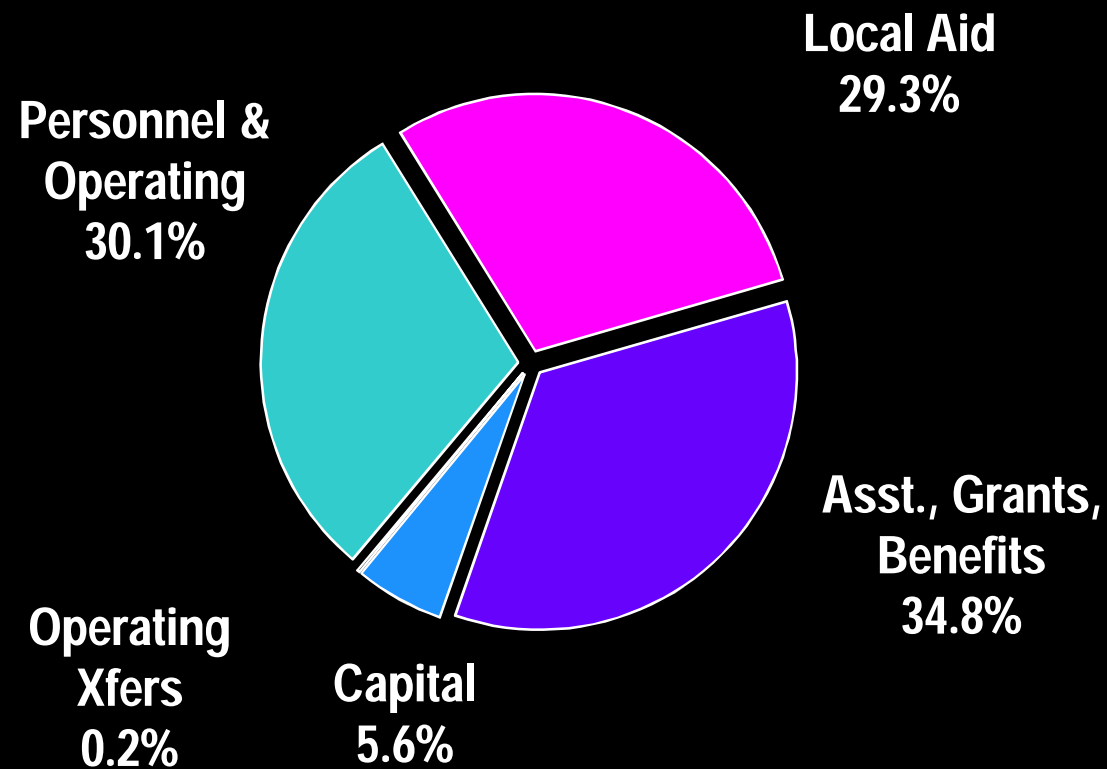
Governor's FY 2013 Budget

- FY 2012 Revised Budget
- FY 2013 Revenue-Expenditure Gap
- Governor's Recommended Solution
- **Operating Budget Overview**

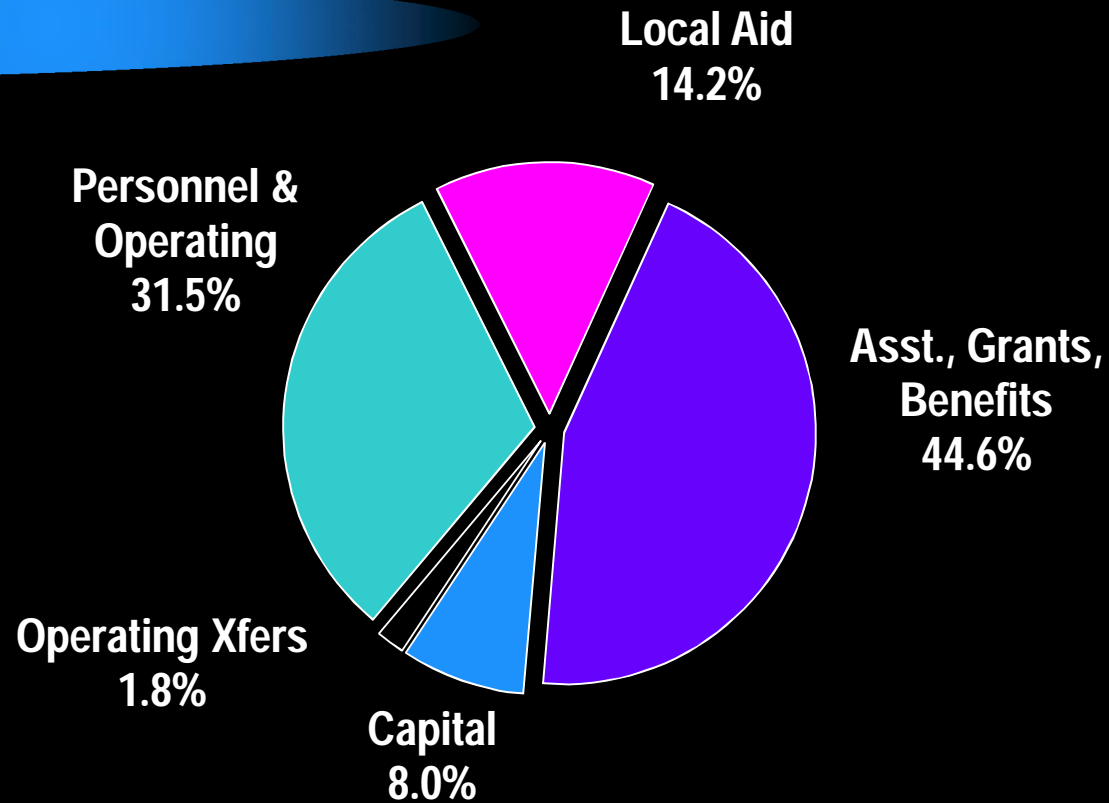
Expenditures

	Enacted	Budget	Change
Gen. Rev.	\$3,142.5	\$3,269.2	126.7
Federal	2,606.5	2,594.2	(12.3)
Restricted	189.6	224.1	34.5
Other	1,763.6	1,855.9	92.4
Total	\$7,702.2	\$7,943.4	\$241.2

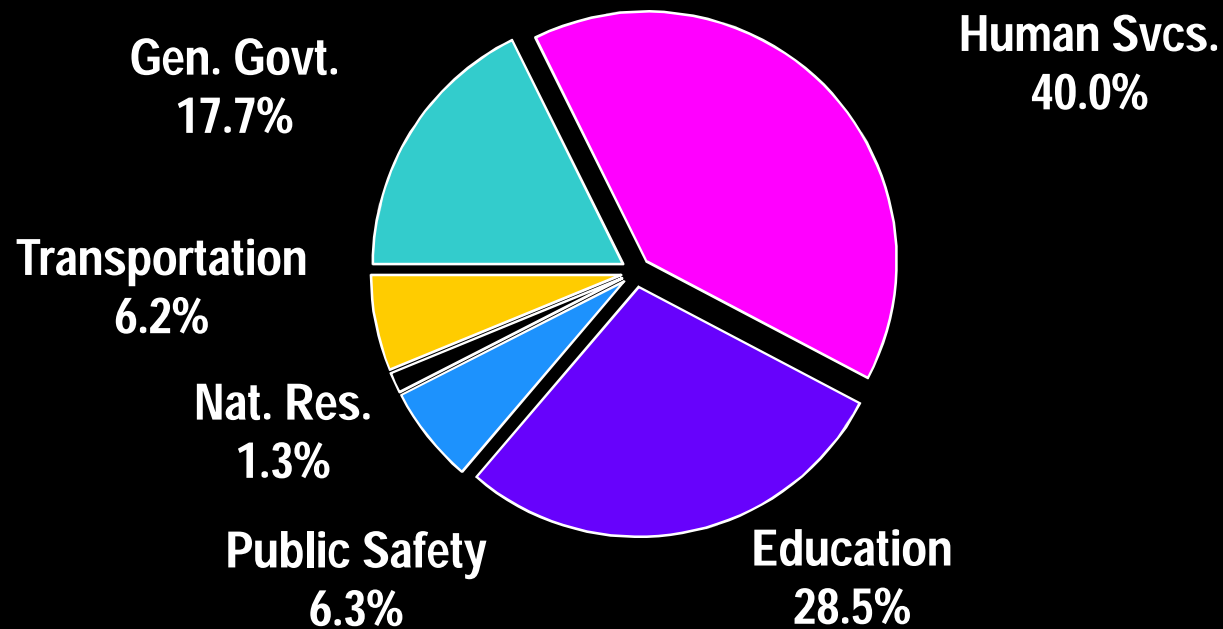
Uses – General Revenues by Category



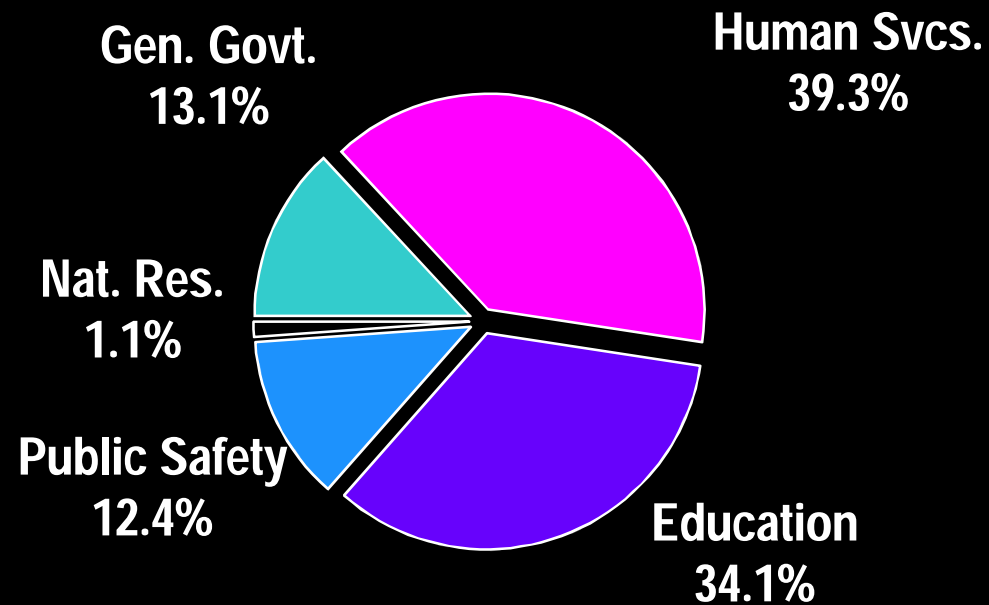
Uses – All Funds by Category



Uses – All Funds by Function



Uses – General Revenues by Function



Personnel and Operating

- Salaries and Benefits
 - Increase of 4.3% from enacted
 - General revenues increase 3.9%
- No COLA for most

Personnel and Operating

- Retirement rates – state employees
 - Decreases from projected 36.34% of payroll to 22.18% of payroll
 - Includes 1% contribution to defined contribution plan

Personnel and Operating

- Human Resources Reorganization
 - FY 2012 revised includes \$300,000 for merit system study
- Election Day Holiday
- Directors Compensation
- Overtime Calculation – Dept. of Corrections

Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2011 Avg.	13,144.6	580.5	13,725.1
FY 2012	14,166.0	776.2	14,942.2
FY 2012 Rev.	14,157.8	776.2	14,934.0
Governor FY 13	14,061.5	776.2	14,837.7
<i>Jan 28 Filled</i>	<i>13,097.9</i>	<i>608.6</i>	<i>13,706.5</i>
Diff from Enacted	(1,065.5)	(171.6)	(1,237.1)
Diff from Gov	(961.0)	(171.6)	(1,132.6)

Personnel and Operating

- Contracted Services
 - Increase of 7.9% from enacted
 - General revenues decrease 0.3%
 - Almost half of the increase is for Race to the Top stimulus funds in Dept of Education's budget

Personnel and Operating

- Operating Costs
 - Increase of 7.0% from enacted
 - 2.8 % decrease from general revenues
 - Retirement savings shift to unidentified operating costs

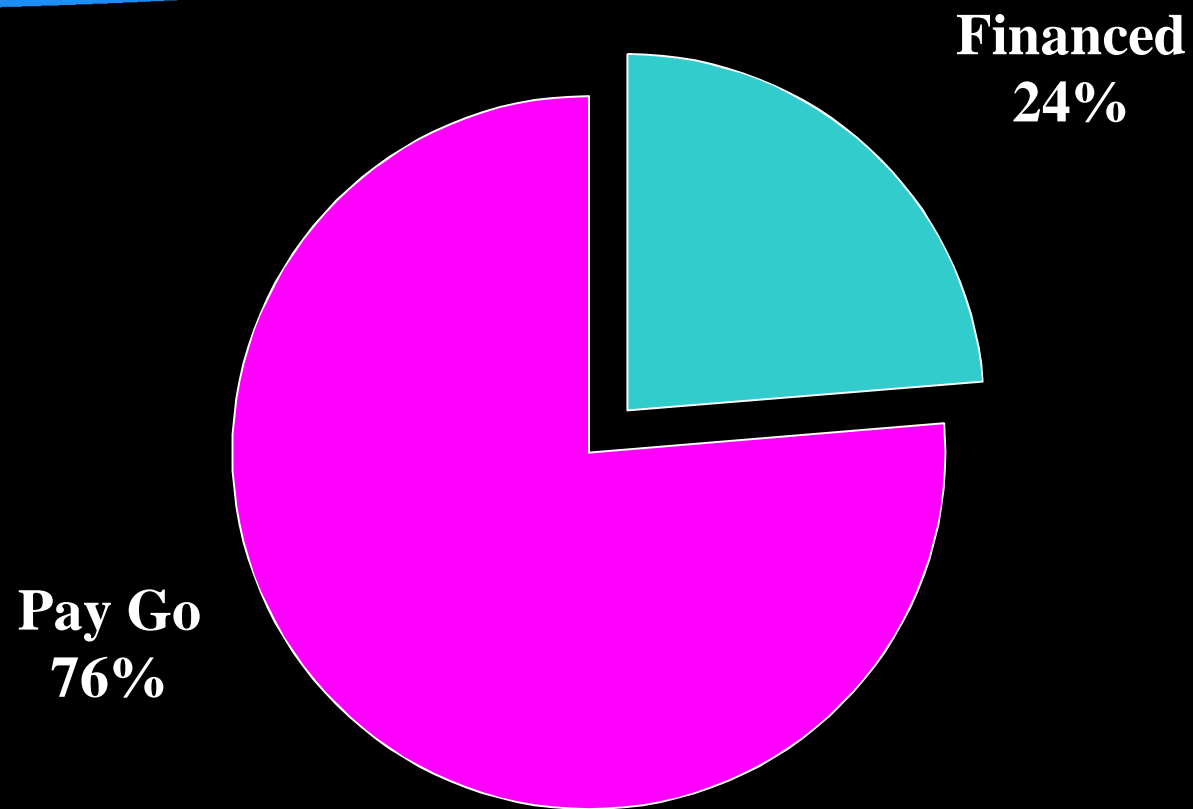
Governor's FY 2013 Budget

- FY 2013 Revenue-Expenditure Gap
- Governor's Recommended Solution
- Operating Budget Overview
- **Capital Budget**

Capital

- FY 2013 – FY 2017
- \$3.6 billion outlays
 - Average \$721.7 million per year
 - \$855.2 million from financing proceeds
 - \$2.7 billion of financing net tax supported

Capital Budget Funding



Capital

- Also includes \$278 million under Public Corporation Debt Management Act
 - Information Technology
 - T.F. Green Improvements
 - Central Landfill
 - Quonset Point

Capital

- Plan relies on \$201.4 million of new general obligation bonds
 - November 2012 ballot
 - Legislation included in Article 5

Rhode Island Capital Plan Funds

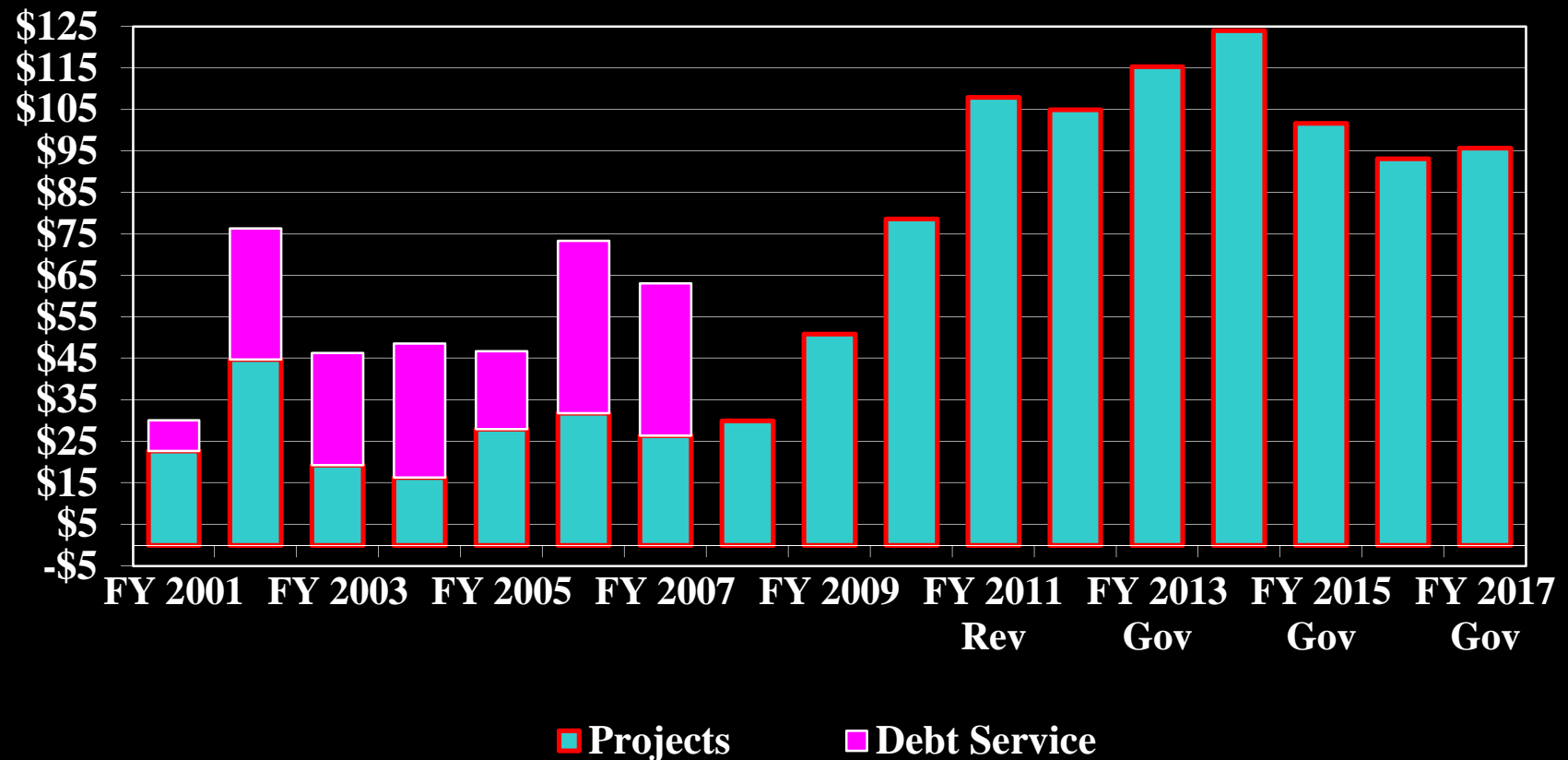
- 1990 Assembly set up the “rainy day” fund to ensure adequate cash and budget reserves
- Voter referendum in November 1992
- Largest source of state funded pay-go
- State spending limited to 97.8% of general revenues, dropping to 97.0% in FY 2013

Rhode Island Capital Plan Funds

- Remainder goes to Budget Stabilization and Cash Reserve Account
- When account reaches 4.6% (5.0% in FY 2013), excess flows to the capital account
- Used nearly exclusively for debt service in early part of last decade
- Voters amended constitution in 2006 to limit use for projects only

Rhode Island Capital Plan Funds

Rhode Island Capital Plan Funds



Rhode Island Capital Plan Funds

- FY 2013 – FY 2017
- \$95.7 million for additional year
 - Asset protection projects at various agencies
 - \$3.1 million for Improvements to Fort Adams for America's Cup
 - \$0.6 million for 4.0 positions in DOA

Rhode Island Capital Plan Funds

- Departure from current use of funds
- Definition of capital assets
- Funds are traditionally limited to use on physical assets

Assembly Role

- Appropriate Pay-Go (Articles 1 and 10)
- Approve General Obligation Bond Referenda
 - Voters approve or reject
 - Debt service automatic
- Other Financing (Kushner)
 - Approve or reject resolution
 - Generally appropriate debt service

Public Corporation Debt Management Act (Kushner Act)

- Enacted in 1994
- Subsequently amended to increase Assembly's approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner

Project Considerations

- Does the project need to be done
- Is the project ready to be done
 - When will it start
 - Is it well thought through and ready for funding/financing
 - When will it be complete

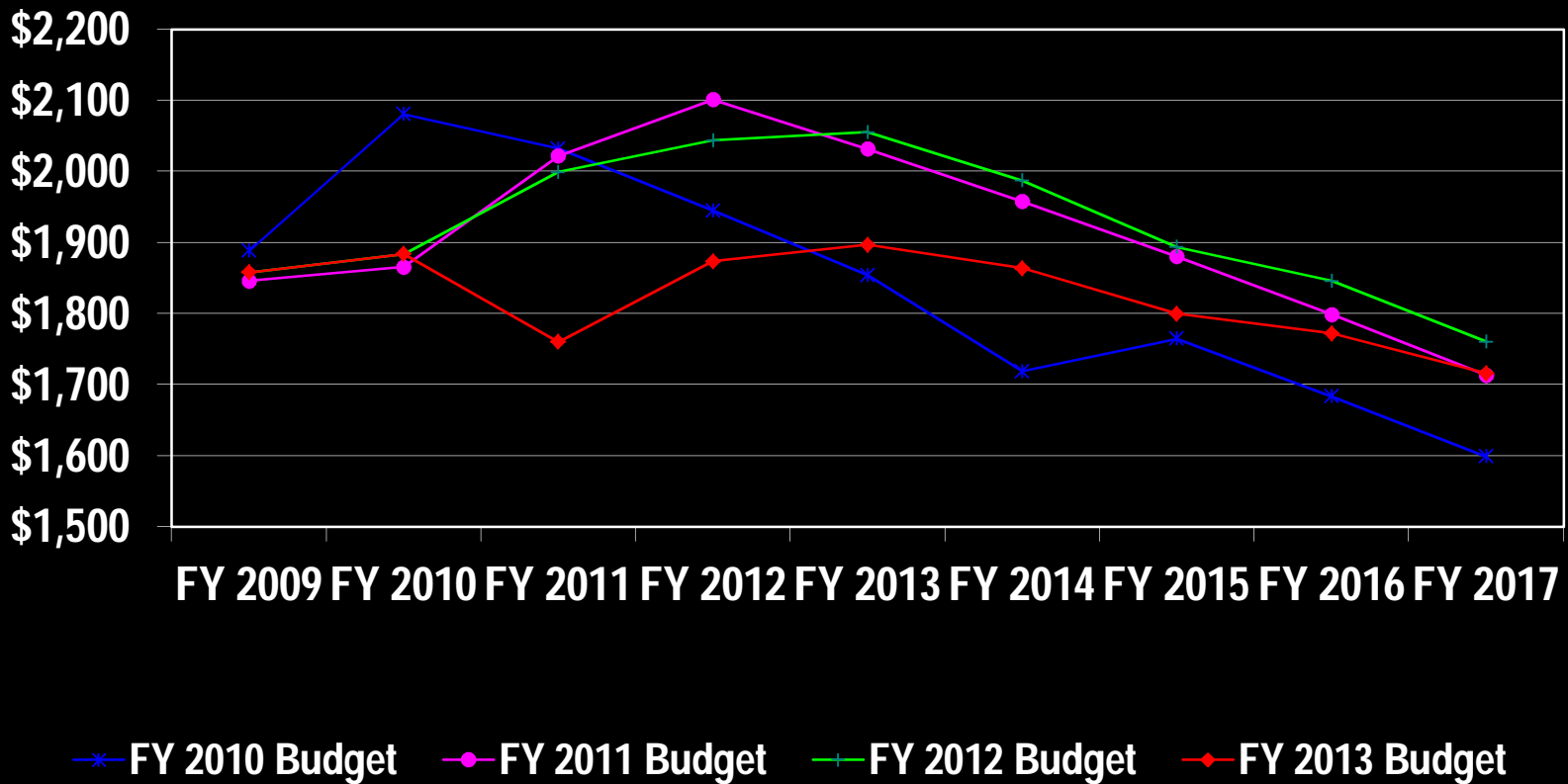
Funding Considerations

- Should a project be financed or pay-go
- Rhode Island Capital Plan funds available as pay-go for all or part of project
- More pay-go equals less future debt service

Funding Considerations

- State's overall debt structure
 - Net tax supported debt would decrease by \$129.9 million to \$1.7 billion
 - Had dropped to \$1.3 billion in FY 2003 after use of tobacco bonds to defease debt
 - Past practice indicates it will be higher as more projects are added

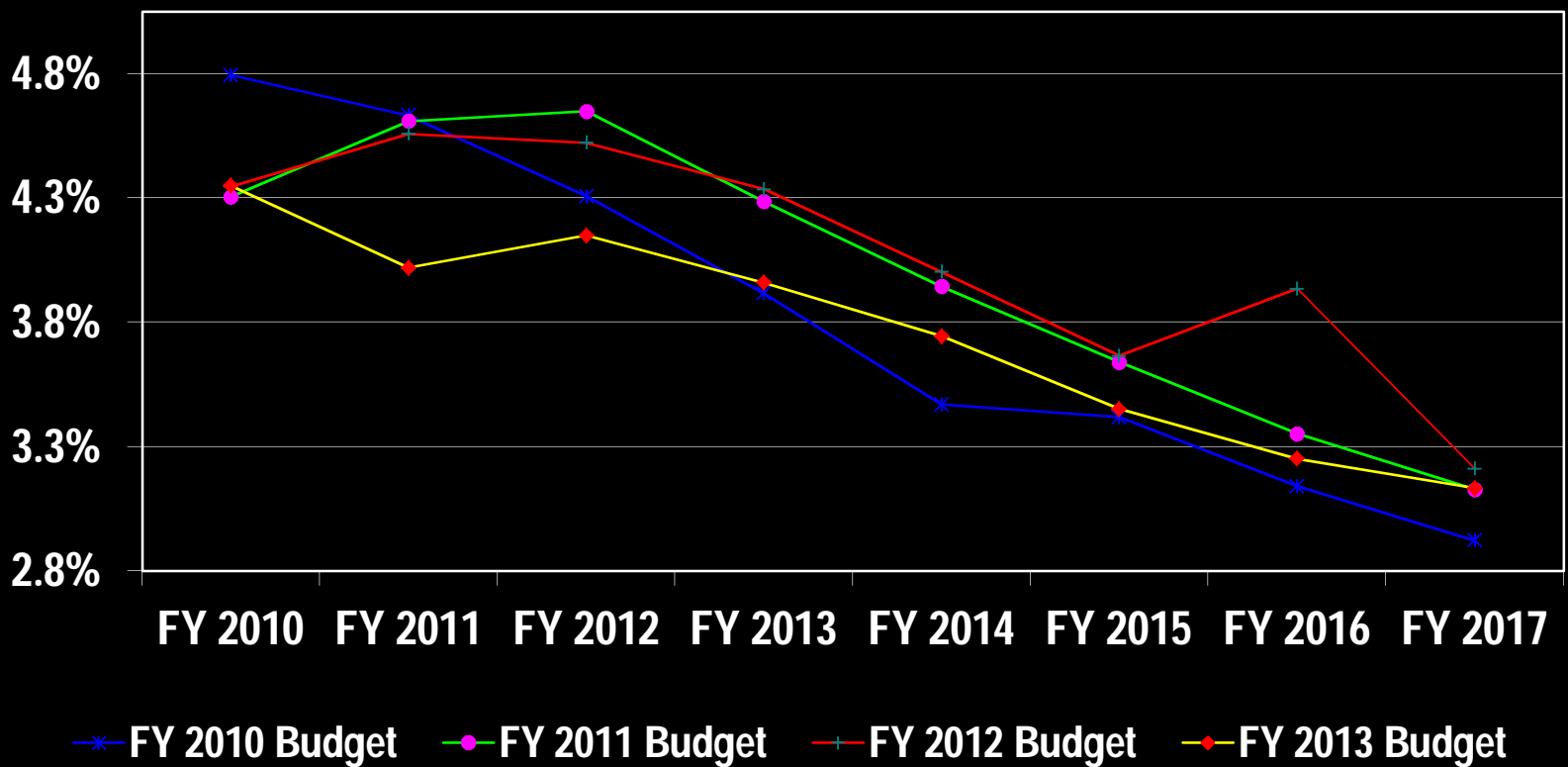
Net Tax Supported Debt



Funding Considerations – Debt Ratios

- Debt as a percent of personal income would increase from 4.0% in FY 2011 to 4.1% in FY 2012
- Would then drop to 3.1% in FY 2017, but likely to be higher based on projects being added
- Had dropped to 3.7% in FY 2004, the lowest level since FY 1991

Debt as Percent of Personal Income

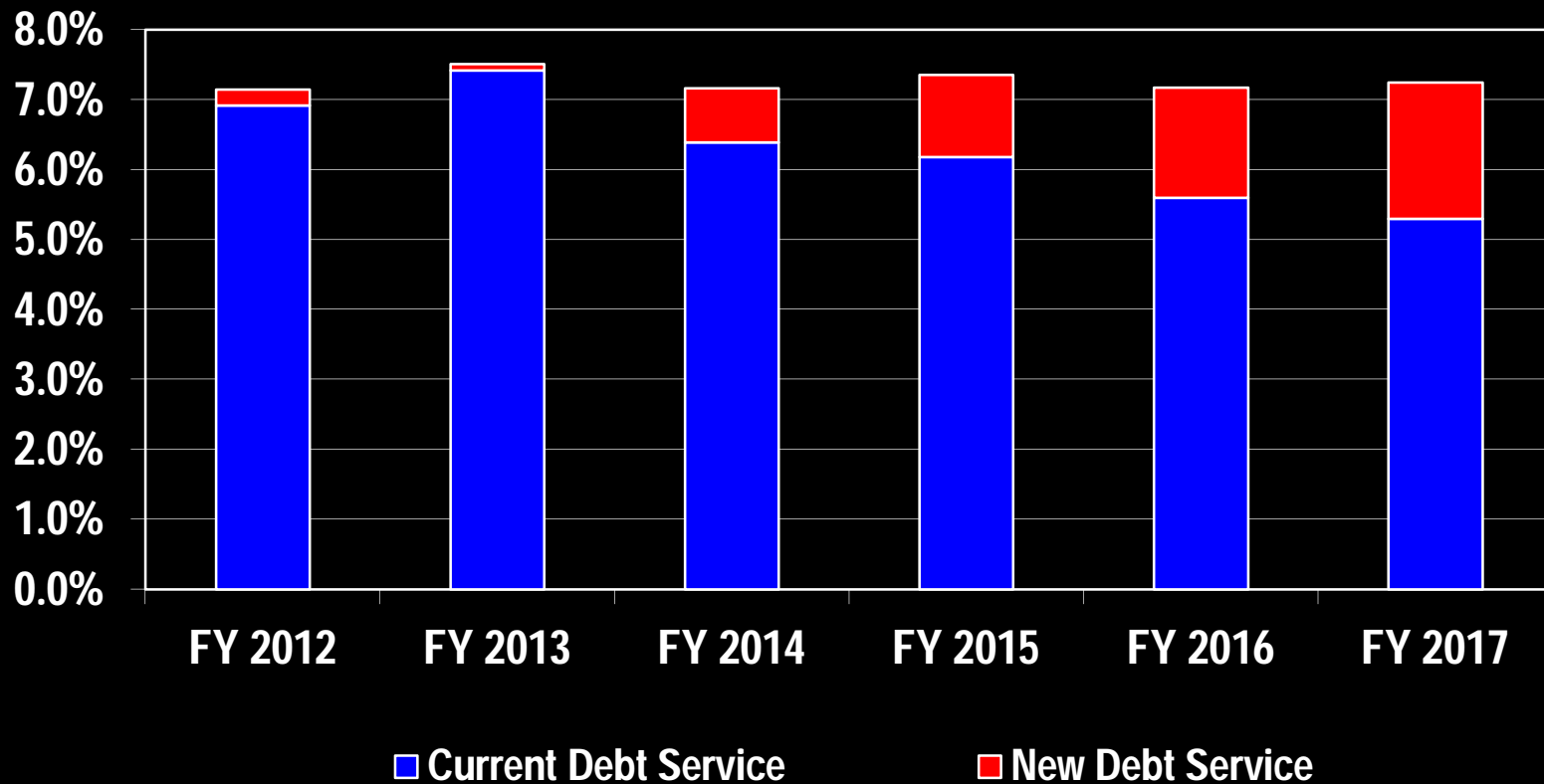


Funding Considerations – Debt Service

Fiscal Year	Net Tax Supported Debt Service*	Pct. of General Revenues
2012	\$221.3	7.1%
2013	\$239.1	7.5%
2014	\$241.1	7.2%
2015	\$259.9	7.4%
2016	\$264.5	7.2%
2017	\$278.8	7.2%

*Millions

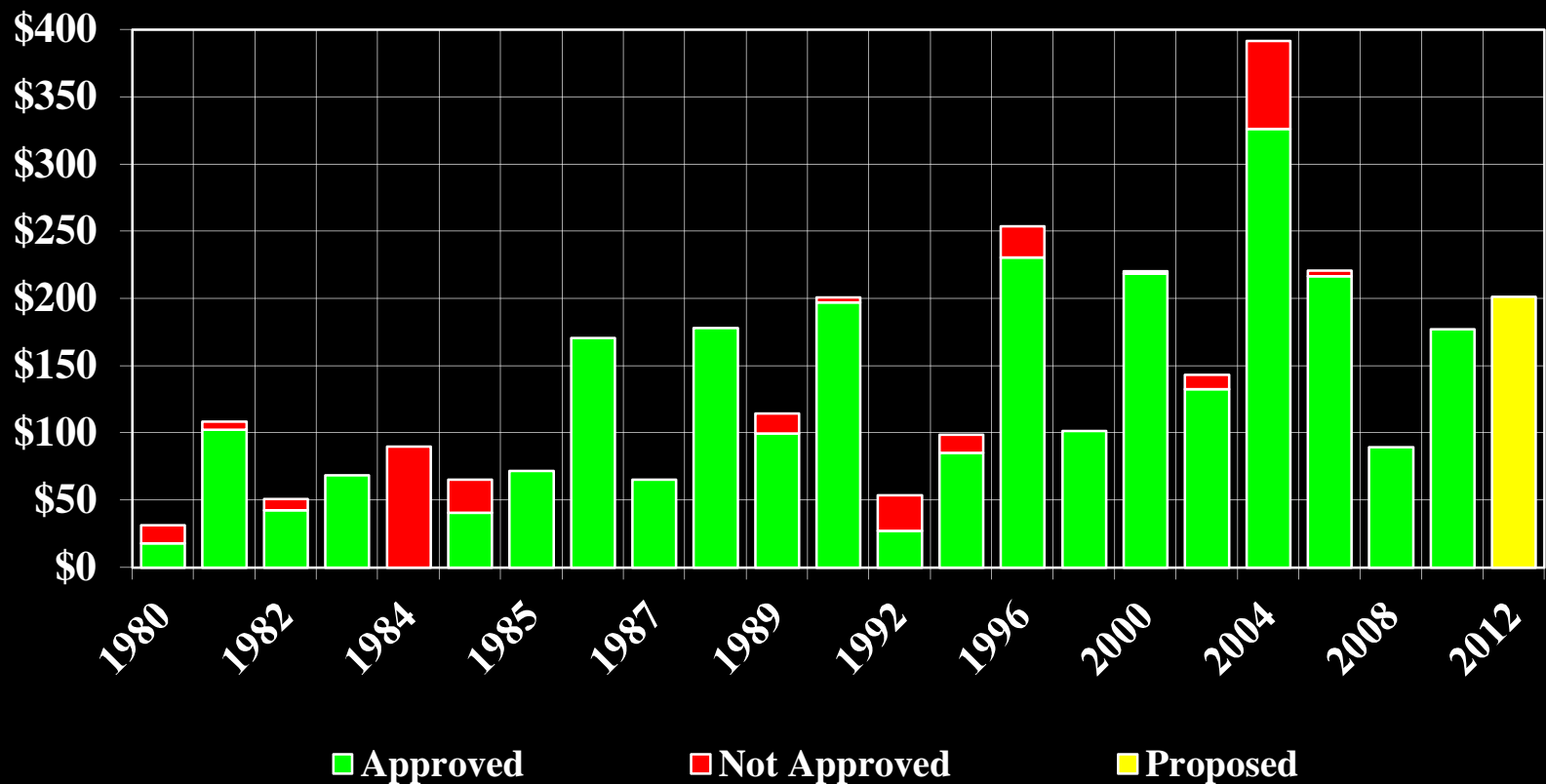
Debt Service as Percent of Useable Revenues



Source Issues

- If the project is to be financed, what vehicle should be used?
 - General obligation bonds approved by the voters
 - COPS or other mechanism that is subject to appropriation, without voter approval

GO Bond Approvals



Bond Referenda – November 2012

Higher Education	\$109,900,000
Transportation	21,500,000
Water Infrastructure	20,000,000
Recreation & Open Space	25,000,000
Affordable Housing	25,000,000
Total	\$201,400,000

Sources Considerations

- If COPS or other mechanism
 - Is there a legitimate revenue stream
 - How far removed are revenue streams from state general revenues
 - Should general obligation bonds be considered
 - Should the Kushner resolution be time limited

Kushner Items – (Millions)

Information Technology - COPS

RIFANS Implementation	\$11.5
Integrated Tax System	25.0
LEA Technology	20.0
Total	\$56.5

Kushner Items (Millions)

Revenue Bonds

T.F. Green Improvements – including Runway Extension	\$174.0
Central Landfill – Leachate Pretreatment Facility	40.0
Quonset – Davisville Piers Dredging	7.5
Total	\$221.5

Governor's FY 2013 Budget

- FY 2012 Revised
- FY 2010 Revenue-Expenditure Gap
- Governor's Recommended Solution
- Operating Budget Overview
- Capital Budget
- **Outyears**

Outyear Projections

- Five-year projections required by statutes
- Attempt to reflect impact of Massachusetts gaming
 - Accounts for 1/3rd of the 2017 deficit
- Staff to do further analysis

Out Years Budget Office Deficits Estimates

	Est.	Pct. of Useable
FY 2014	\$(103.6)	3.0%
FY 2015	\$(232.2)	6.8%
FY 2016	\$(348.7)	10.1%
FY 2017	\$(464.4)	13.3%

Budget Briefings, Publications & Hearings

- Jan 18 – Budget Status
- Feb 1 – Budget at First Glance
- Feb 8 - Expanded Budget at a Glance
- Feb 9 – Governor’s Budget Overview
- Feb 14 – Article hearings begin
- House Fiscal Staff *Budget Analysis*