

Governor's FY 2014 Budget Five-Year Forecast

Staff Presentation to the House Finance
Committee
April 24, 2013

Budget Briefings, Publications & Hearings

- Dec 12 – Budget Status
- Jan 22 – Budget at First Glance
- Jan 29 - Expanded Budget at a Glance
- Jan 30 – Governor’s Budget Overview
- Feb and March – Article hearings and Agency Budget Hearings

Five Year Forecast

- Background
 - Snapshot of Governor's budget projections
- Details on Components
 - Economic Forecast
 - Revenues
 - Expenditures

Five-Year Forecast

- **35-3-1 Budget officer – General powers and duties...**
 - (6) Prepare a five (5) year financial projection of anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas, which projection shall be included in the budget submitted to the general assembly pursuant to § 35-3-7

Five-Year Forecast

- First required in 1984 – as an annual report due in April
- 1996 Assembly amended the law to require its submission with the budget
- Important indicator of structural soundness of the budget presented and the state's finances in general

Five-Year Forecast

- Governor's Budget - Executive Summary contains 14 page explanation of the out-year forecast
- Describes purpose, limitations and risks to the forecast presented
- Narrative and tables explaining assumptions

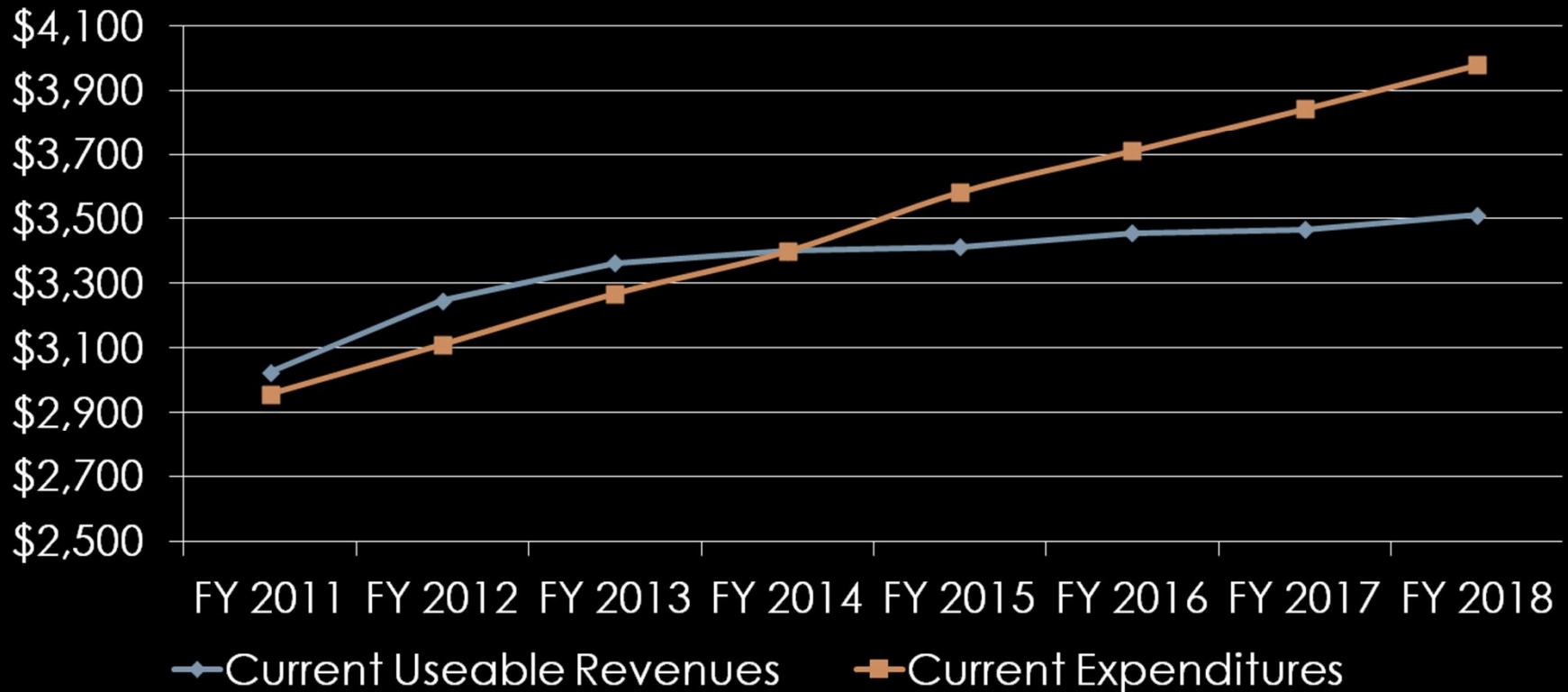
Five-Year Forecast

Governor's Budget Explains:

- Purpose is to provide a baseline fiscal outlook
- Subject to a variety of risks and uncertainties that could alter the results
 - national economic and business conditions,
 - political or legal impediments

Budget and Out Years: Governor FY 2014

Revenues vs. Expenditures

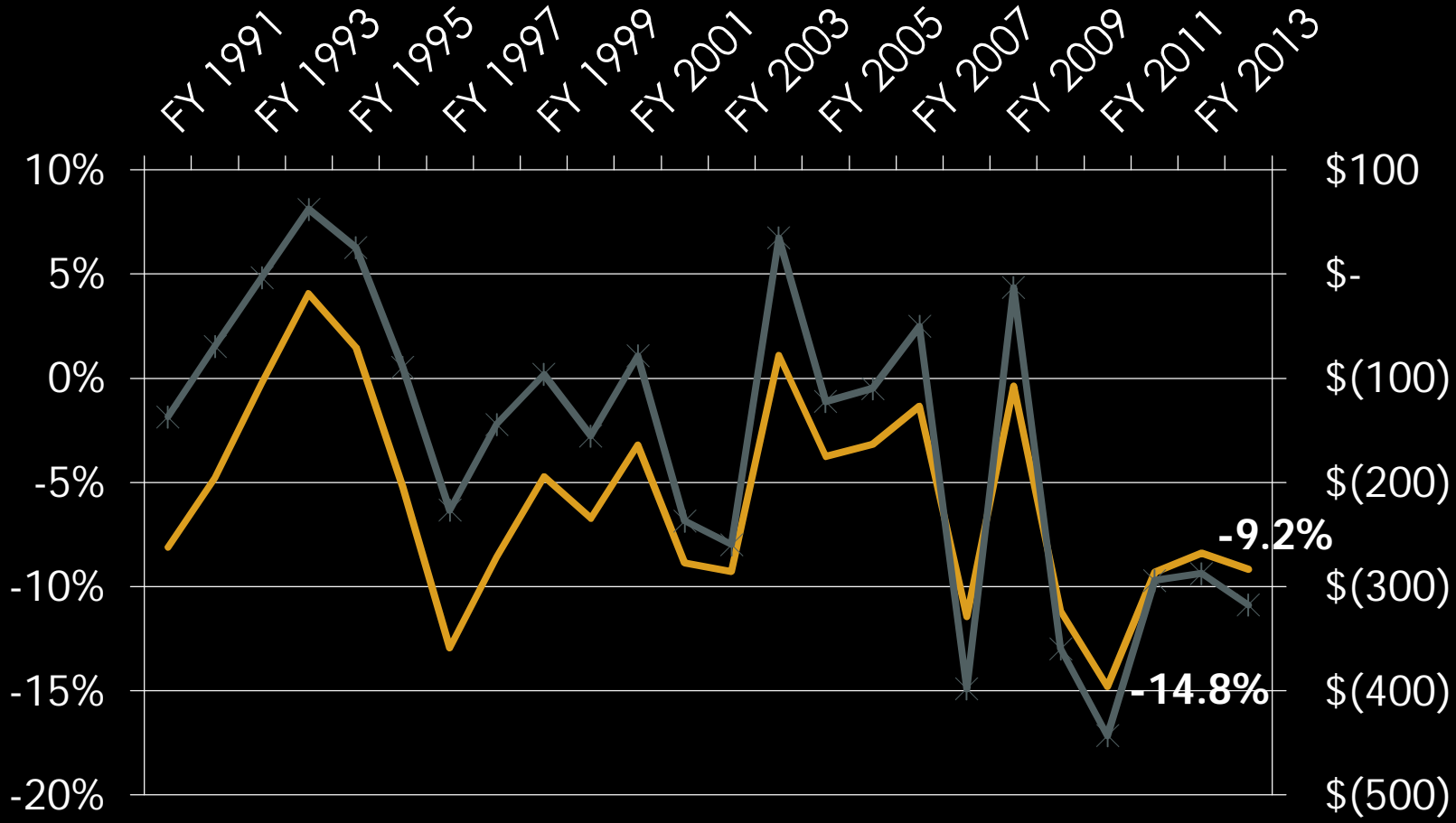


Out Years Deficits Estimates

	Estimate (millions)	Share of Useable Revenues
FY 2015*	\$(147.2)	4.3%
FY 2016	\$(254.5)	7.4%
FY 2017	\$(377.8)	10.9%
FY 2018	\$(468.9)	13.4%

*corrects inadvertent \$22 million error

Average Deficits



Five-Year Forecast

- *Revenue* growth is based on the November 2012 Consensus Economic Forecast
 - Internal models for different tax types
 - Often differ from House Fiscal models
 - Include Governor's proposed revenue changes
 - Attempts to reflect impact of Massachusetts Casinos

Five-Year Forecast

- *Expenditure* growth is based on multiple measures and assumptions
- November 2012 Consensus Economic Forecast for inflation
- Variety of national medical expenditure models
- Adjustment for specific proposals in Governor's Budget
- Policy Choices

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

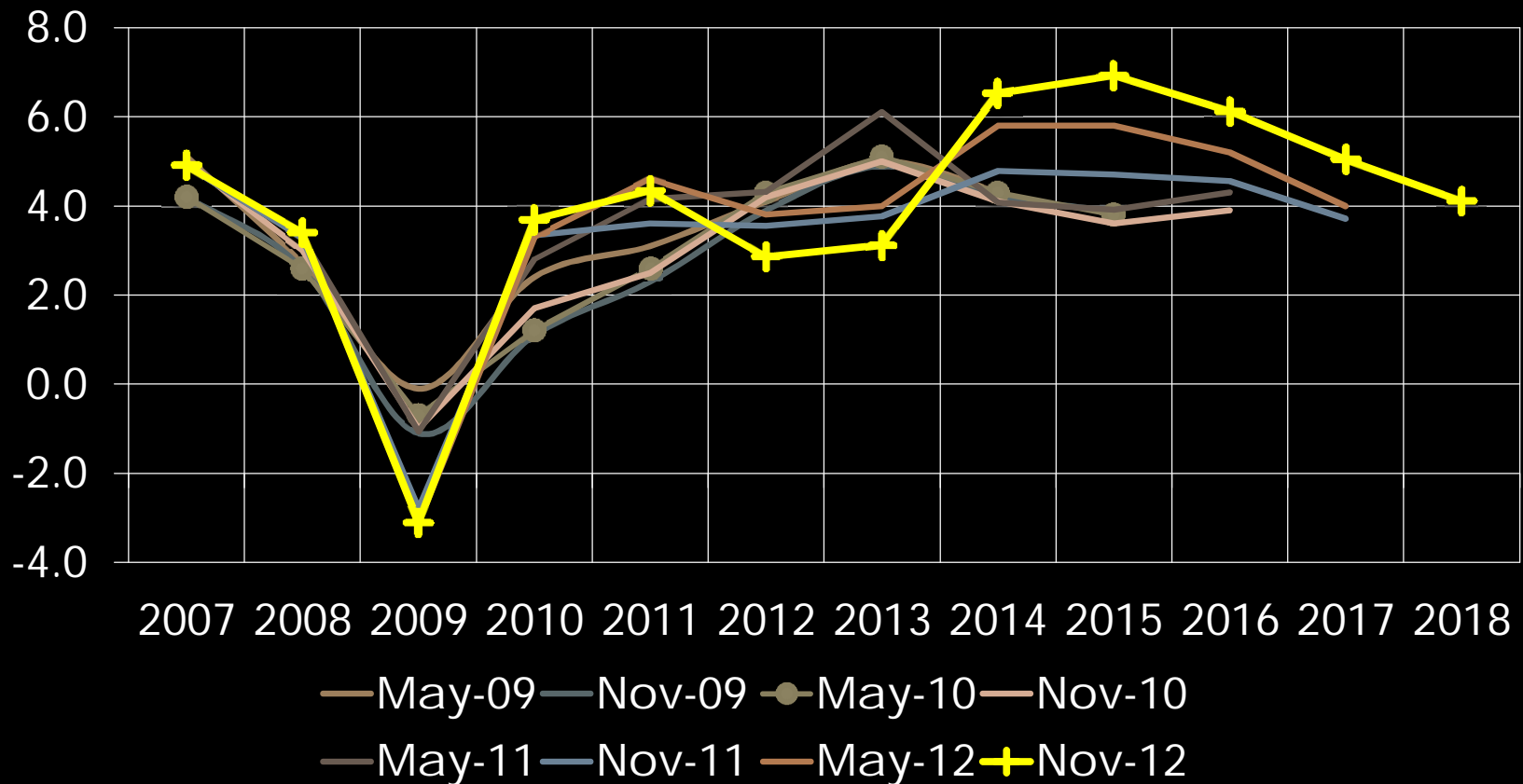
Economic Forecast

November forecast worse than May

- Personal income, jobs, wage & salary growth rates all lower and slower in short term
- RI recovery continues to lag U.S.
- Slower jobs recovery – job losses began in 2007 not regained until 2016
– May forecast was 2015

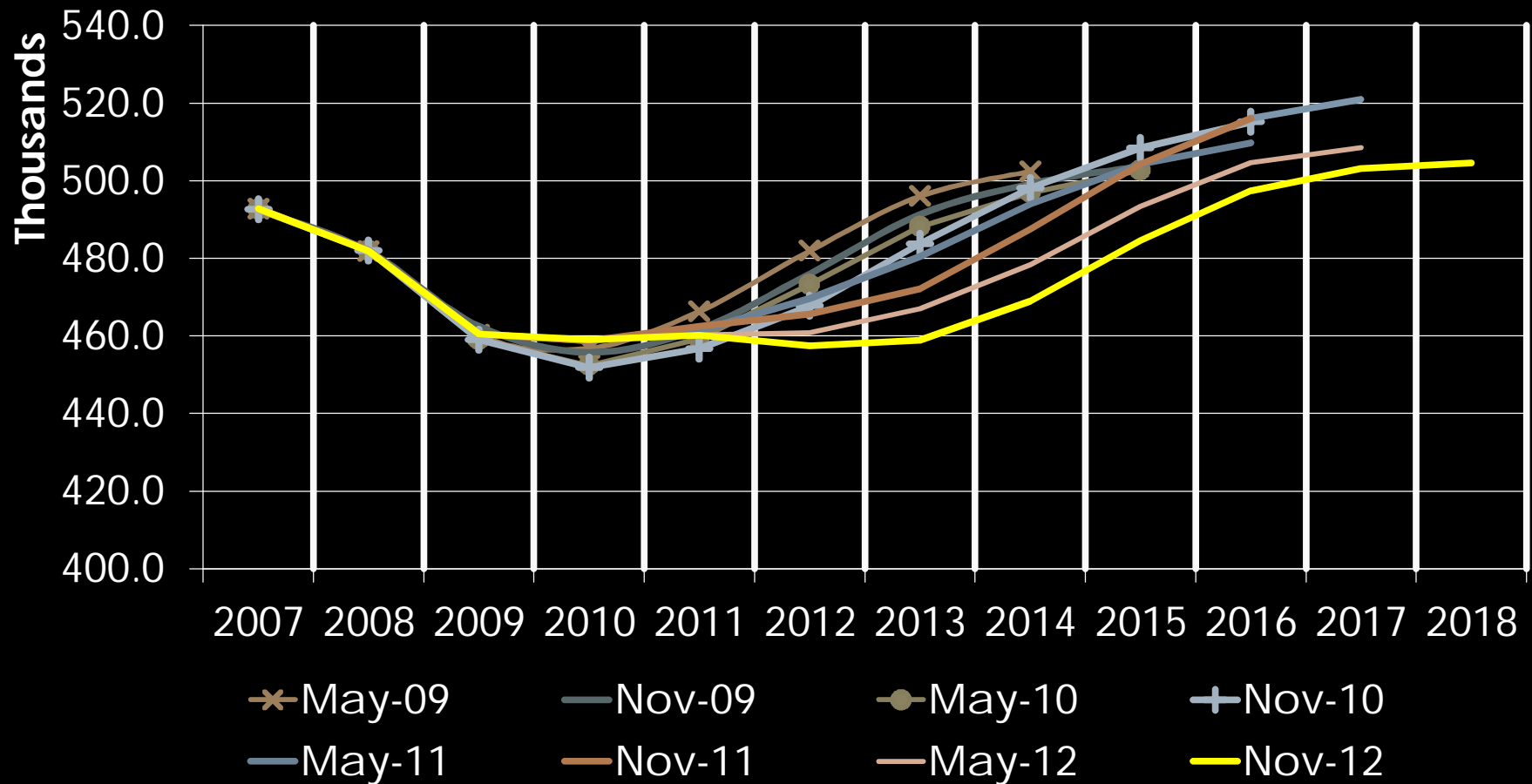
Consensus Economic Forecast

Forecast Differences - Personal Income Growth



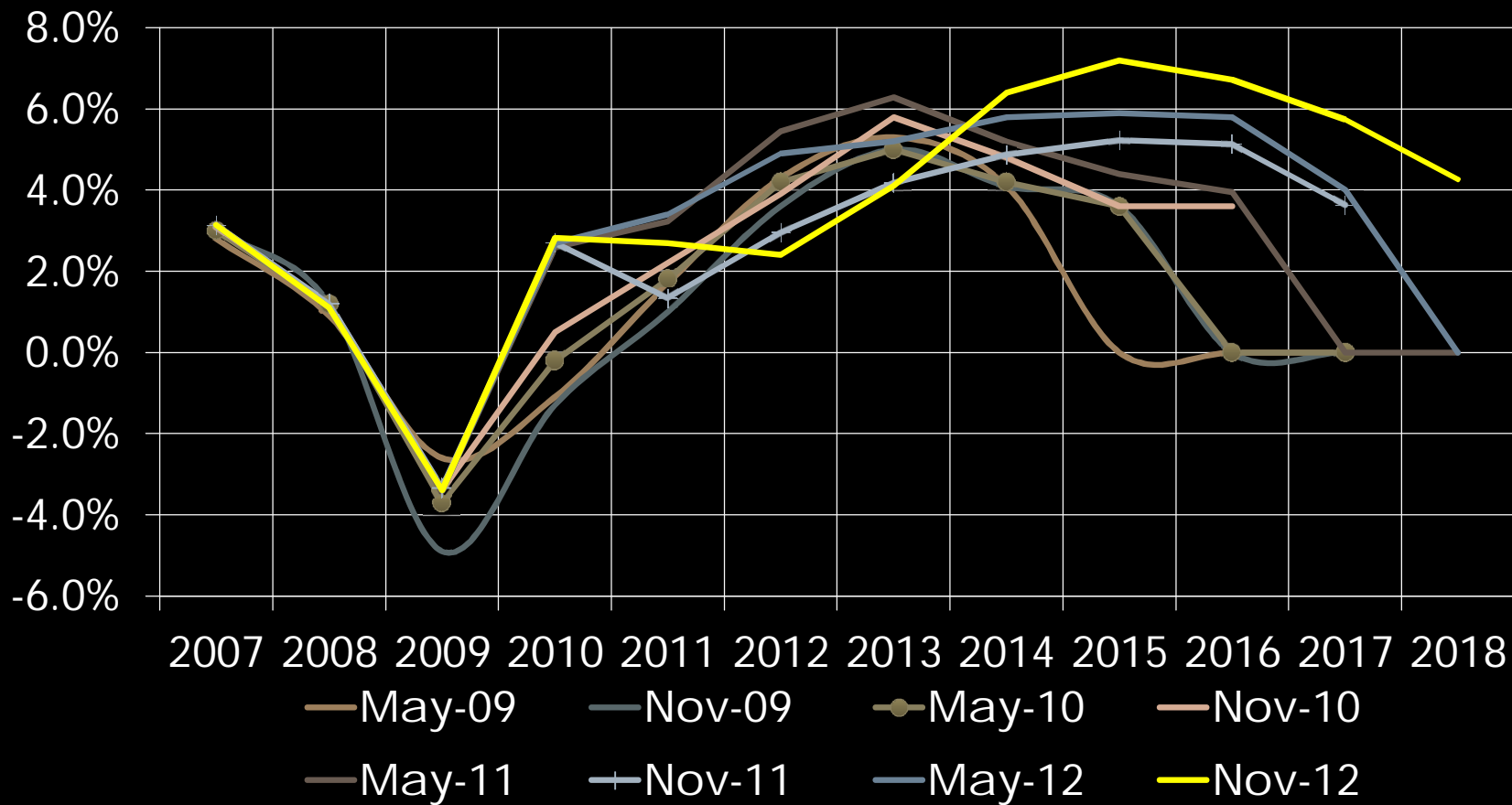
Consensus Economic Forecast

Forecast Differences - Jobs



Consensus Economic Forecast

Wage and Salary Income Growth

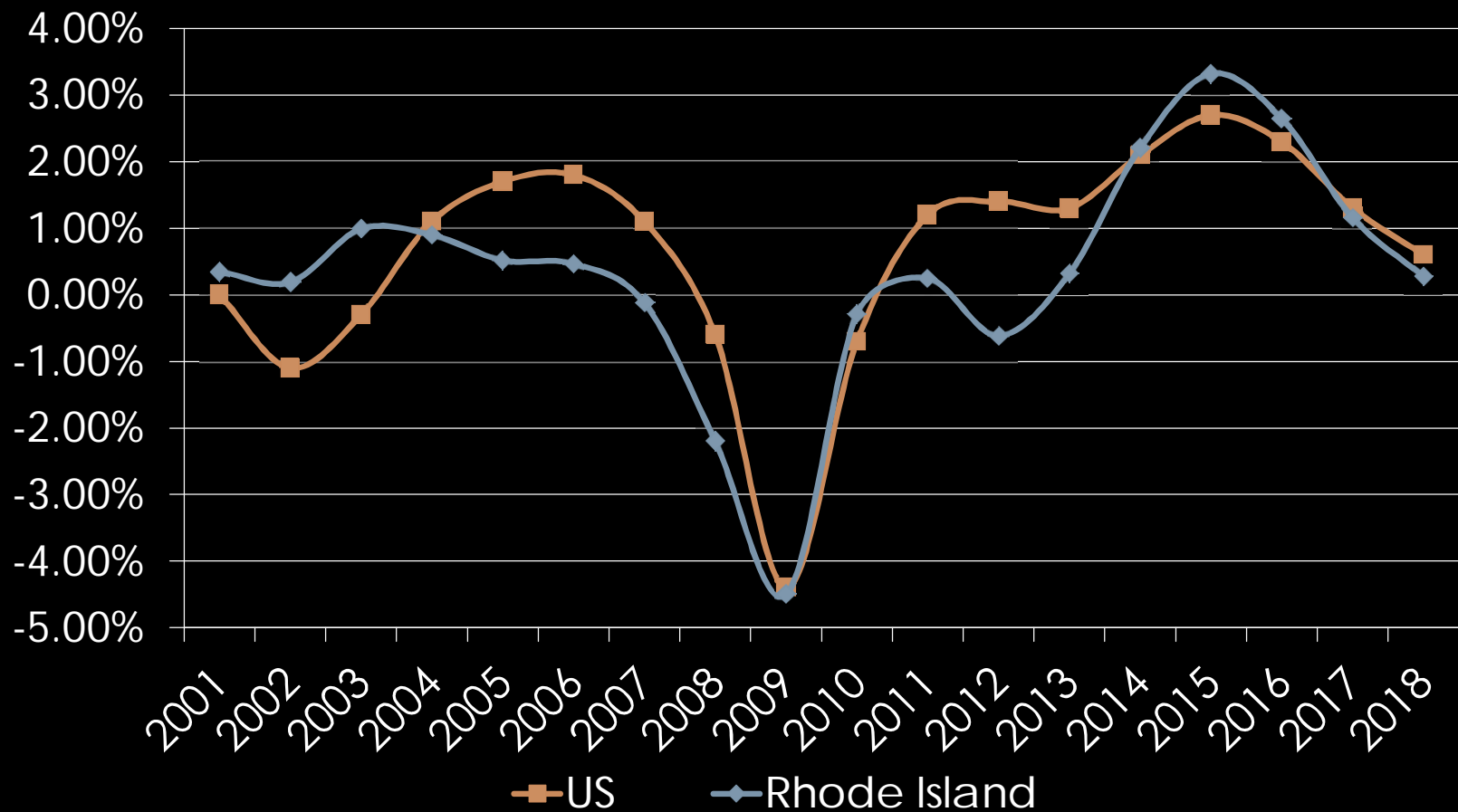


Employment – Unemployment



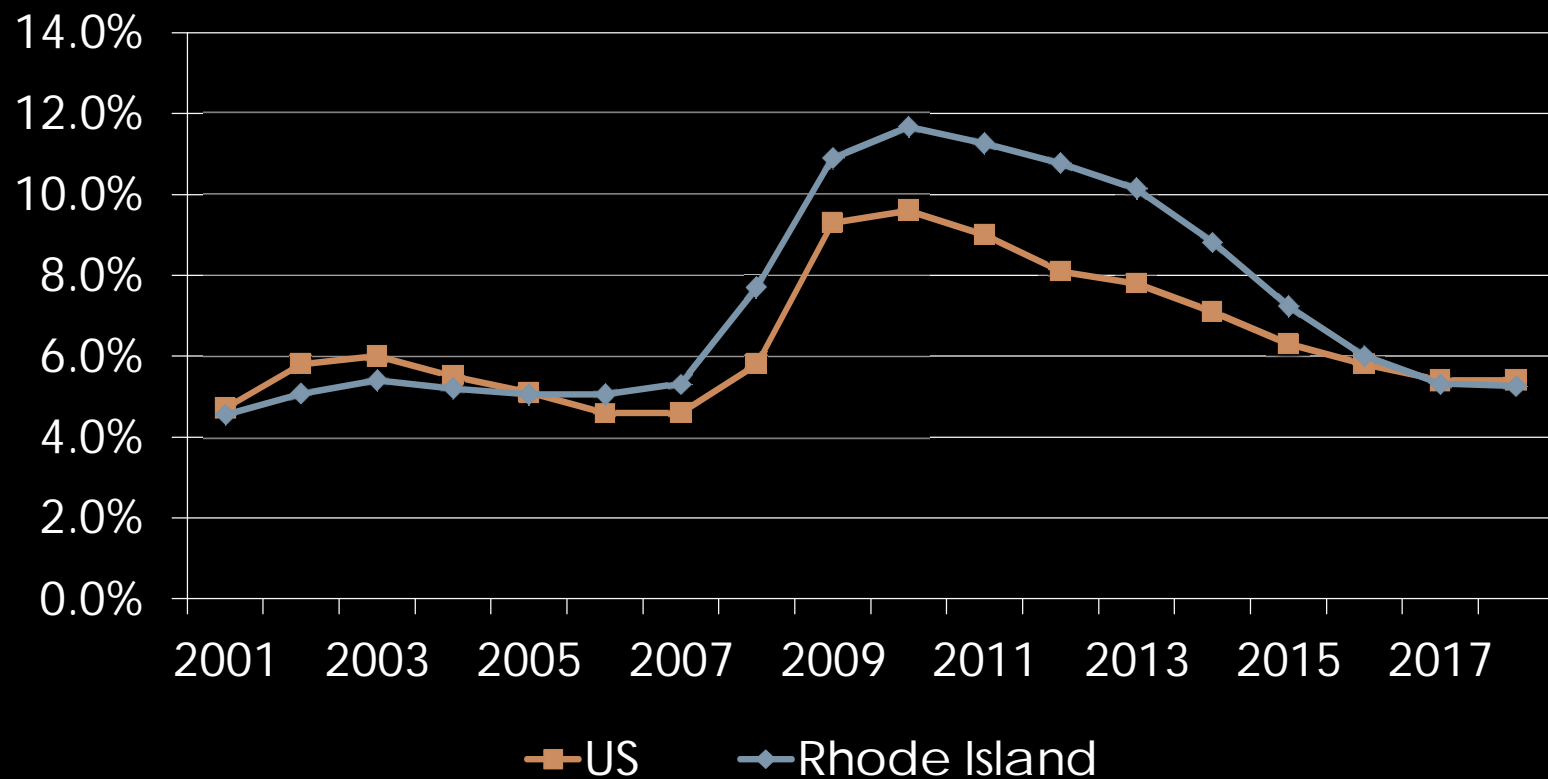
Employment Growth

Jobs Growth - RI Currently Underperforming



Unemployment Rates

RI has Consistently Higher Unemployment



Risks to the Forecast

- Economic Forecast assumed resolution of the “Fiscal Cliff”
 - Half the “sequestration” of federal grants will take place
 - Expiration of Bush Tax Cuts for incomes over \$250K
 - Reinstatement of full payroll tax (2%)

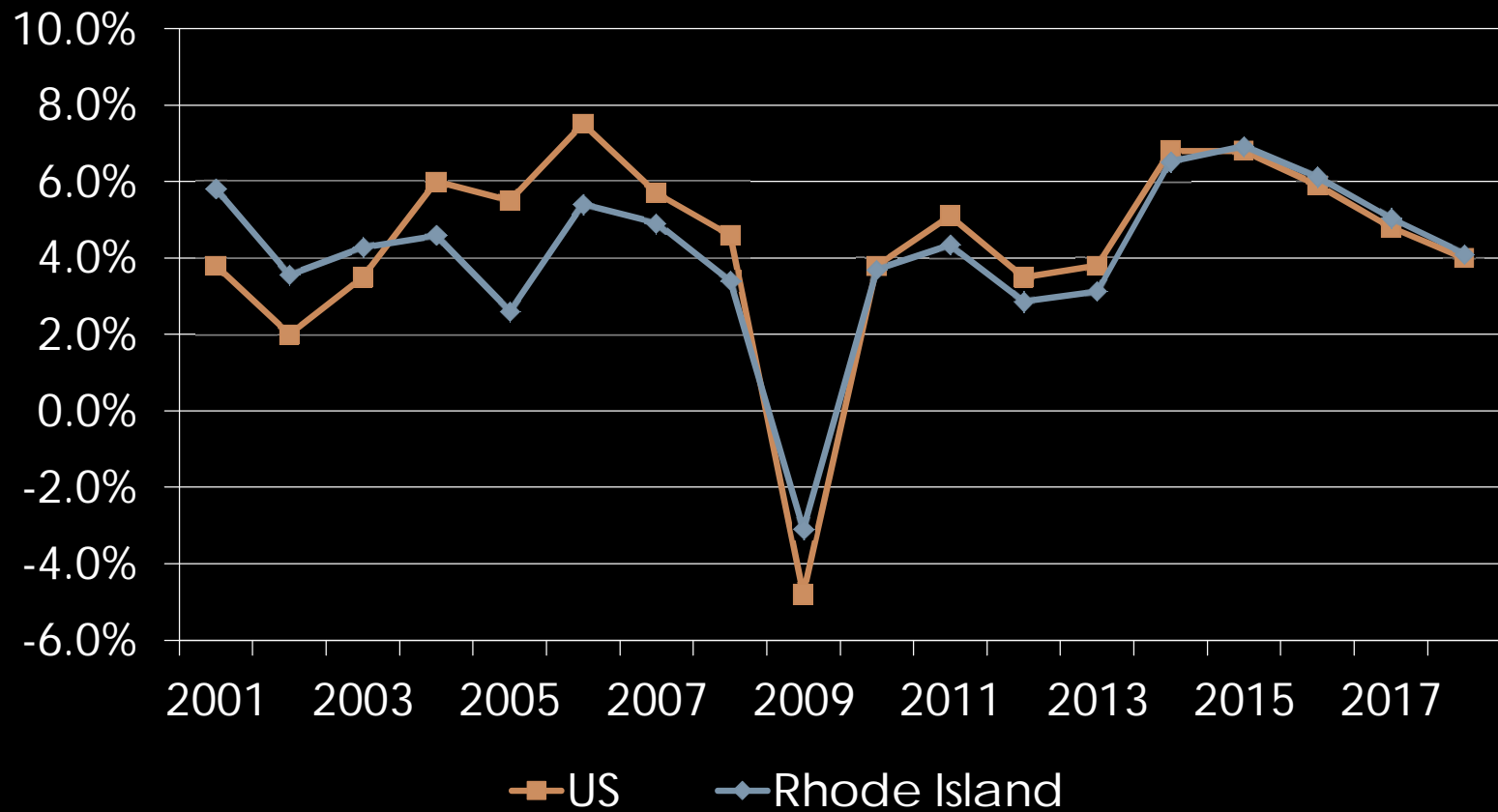
Revenues

Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
 - FY 2012 were more than anticipated
 - FY 2013 collections ahead/holding
 - FY 2014 consensus estimates close to staff estimates
 - Economic forecast is for slow recovery
 - Staff out-year projections assume affects of gaming in Mass starting in FY 2015

Revenues

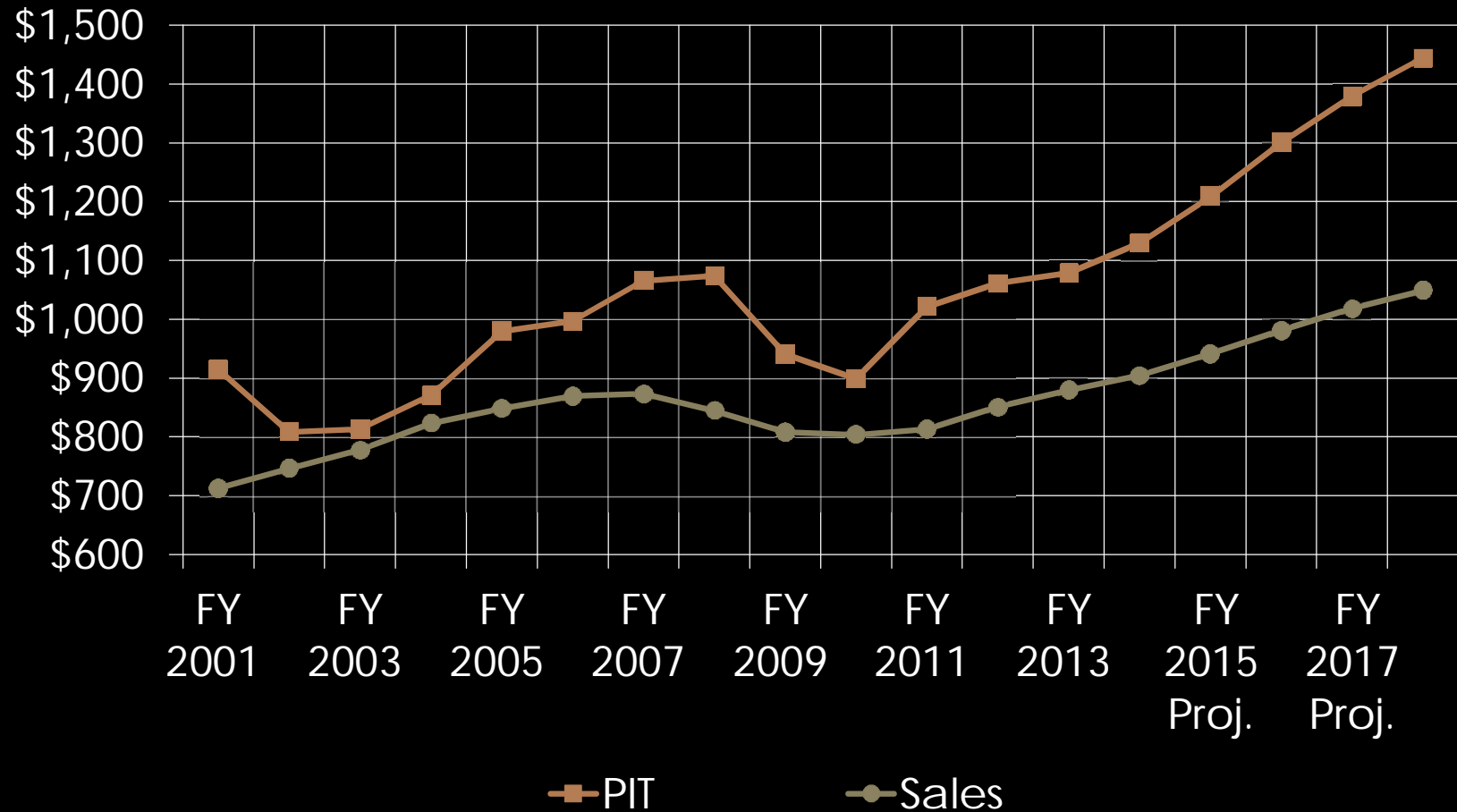
Personal Income Growth - RI Underperforms



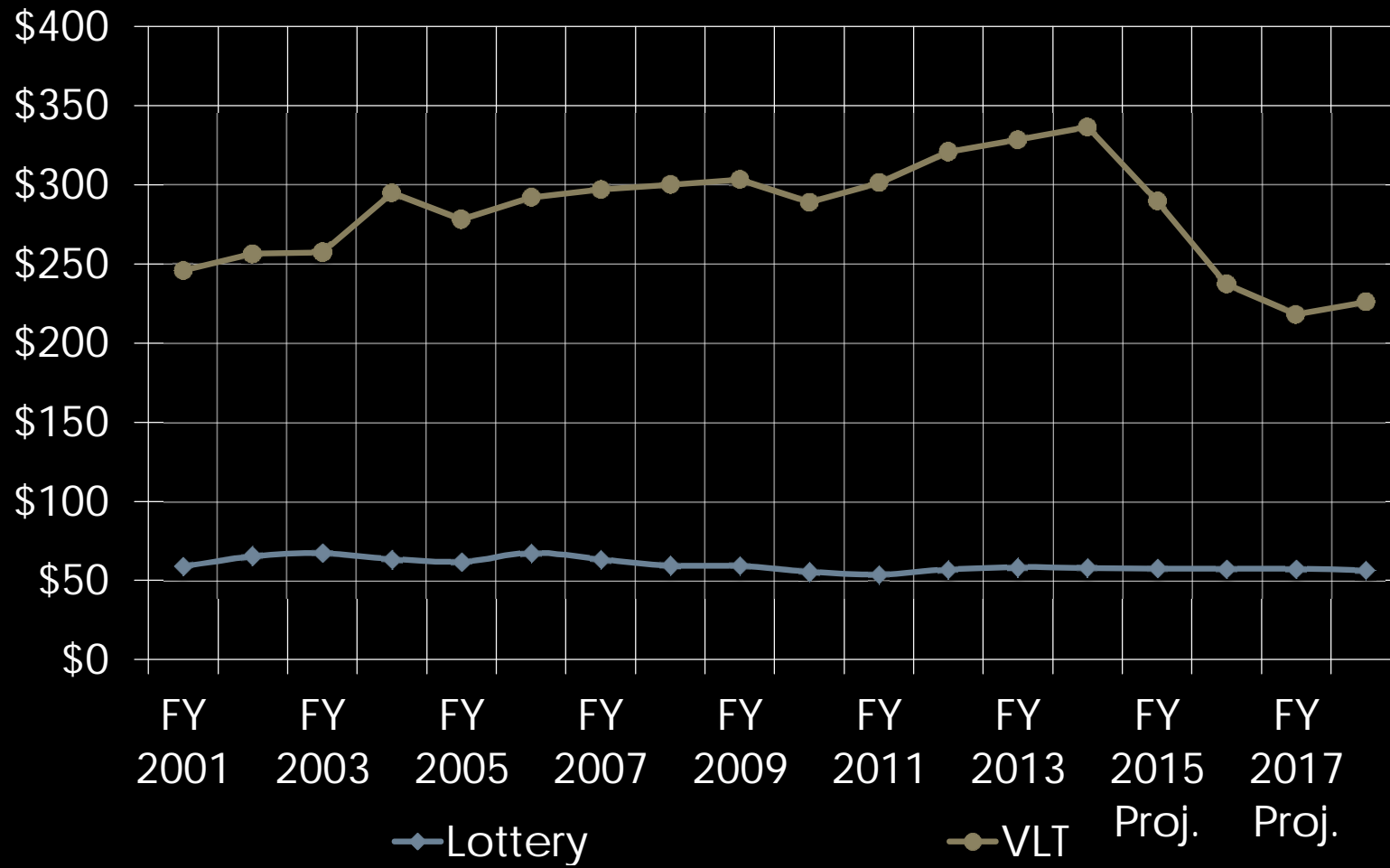
Revenue Drivers



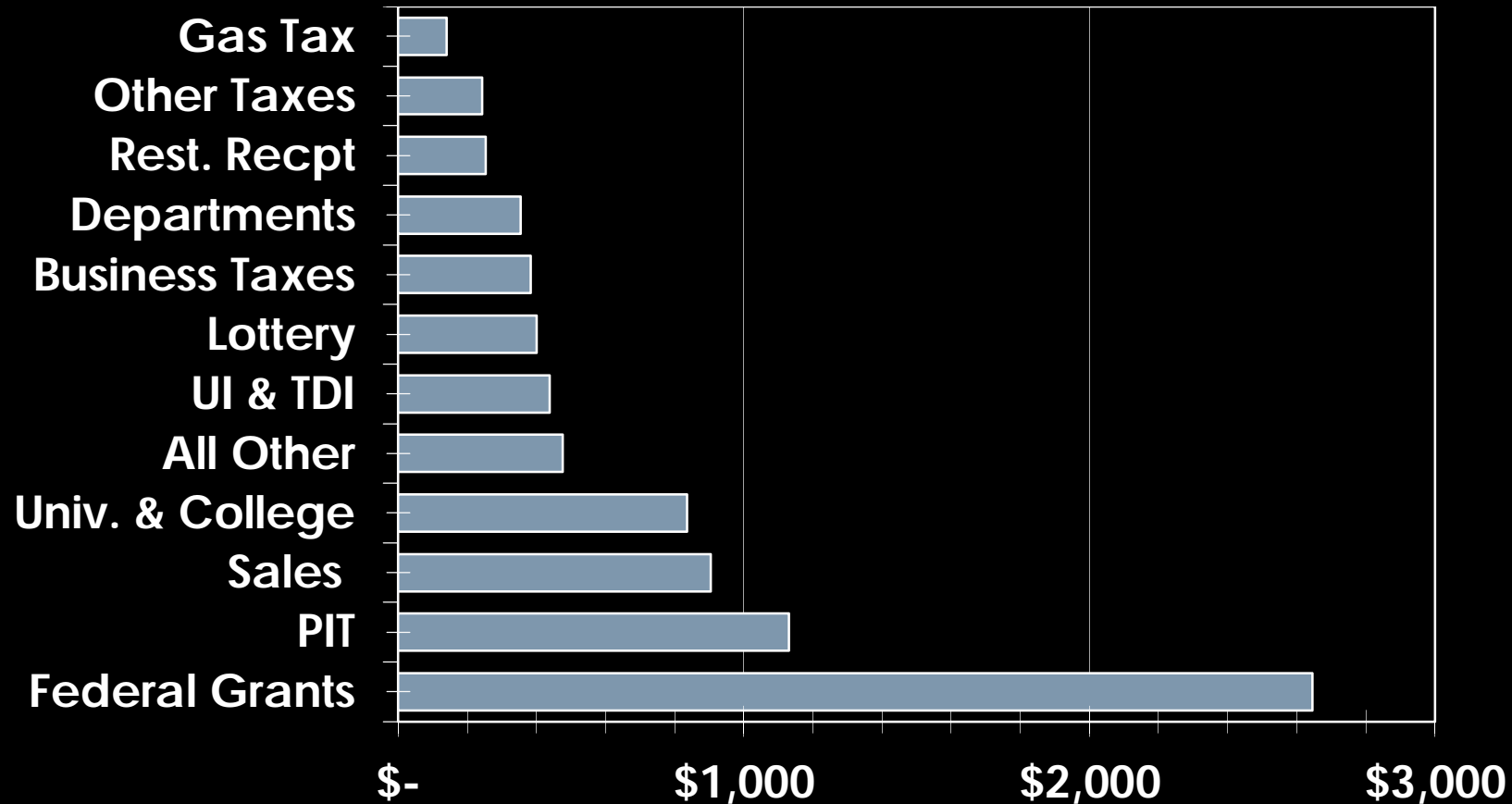
Income and Sales



Lottery



Sources: FY 2014 Governor



Revenue Detail: Gov. 5-Year

Tax	2014	2015	2016	2017	2018
Pers. Income	\$1,130.8	\$1,190.7	\$1,248.7	\$1,289.5	\$1,319.9
Gen. Business	382.7	391.7	398.3	403.1	412.8
Sales & Use	1,103.6	1,121.3	1,141.5	1,157.3	1,175.4
Other Taxes	43.2	44.3	45.5	47.0	48.5
Departments	353.3	349.2	354.6	354.3	359.9
Other	412.8	420.1	374.4	321.7	302.6
Total	\$3,426.4	\$3,517.3	\$3,562.8	\$3,572.9	\$3,619.1
Change	2.9%	2.7%	1.3%	0.3%	1.3%

Revenue Detail: Gov. 5-Year

Tax	2014	2015	2016	2017	2018
Pers. Income	4.8%	5.3%	4.9%	3.3%	2.4%
Gen. Business	-0.4%	2.4%	1.7%	1.2%	2.4%
Sales & Use	2.3%	1.6%	1.8%	1.4%	1.6%
Other Taxes	4.1%	2.6%	2.6%	3.4%	3.2%
Departments	0.4%	-1.2%	1.5%	-0.1%	1.6%
Other	4.2%	1.7%	-10.9%	-14.1%	-5.9%
Total	2.9%	2.7%	1.3%	0.3%	1.3%

Revenue Detail

- General Business Taxes
 - Business Corporation
 - Public Utilities
 - Financial Institutions
 - Insurance Companies
 - Bank Deposits
 - Health Care Providers

Revenues

Revenues

- Corp. Income Tax Rate Phased (\$8.0M)
- Jobs Dev. Act Phased - \$2.4M
- Eliminate Enterprise Zone - \$0.3M
- Special Investigation Tax Unit - \$1.25M

Article 9 Fiscal Impact

<i>Fiscal Year</i>	2014	2015	2016	2017	2018
Entp. Zone	\$ 0.3	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.7
Rate Cut	(8.0)	\$ (21.1)	\$ (31.1)	\$ (36.7)	\$ (37.6)
Jobs Credit	2.4	7.5	10.4	10.8	11.0
Total	\$ (5.3)	\$ (12.9)	\$ (20.1)	\$ (25.2)	\$ (25.9)

Revenue Detail

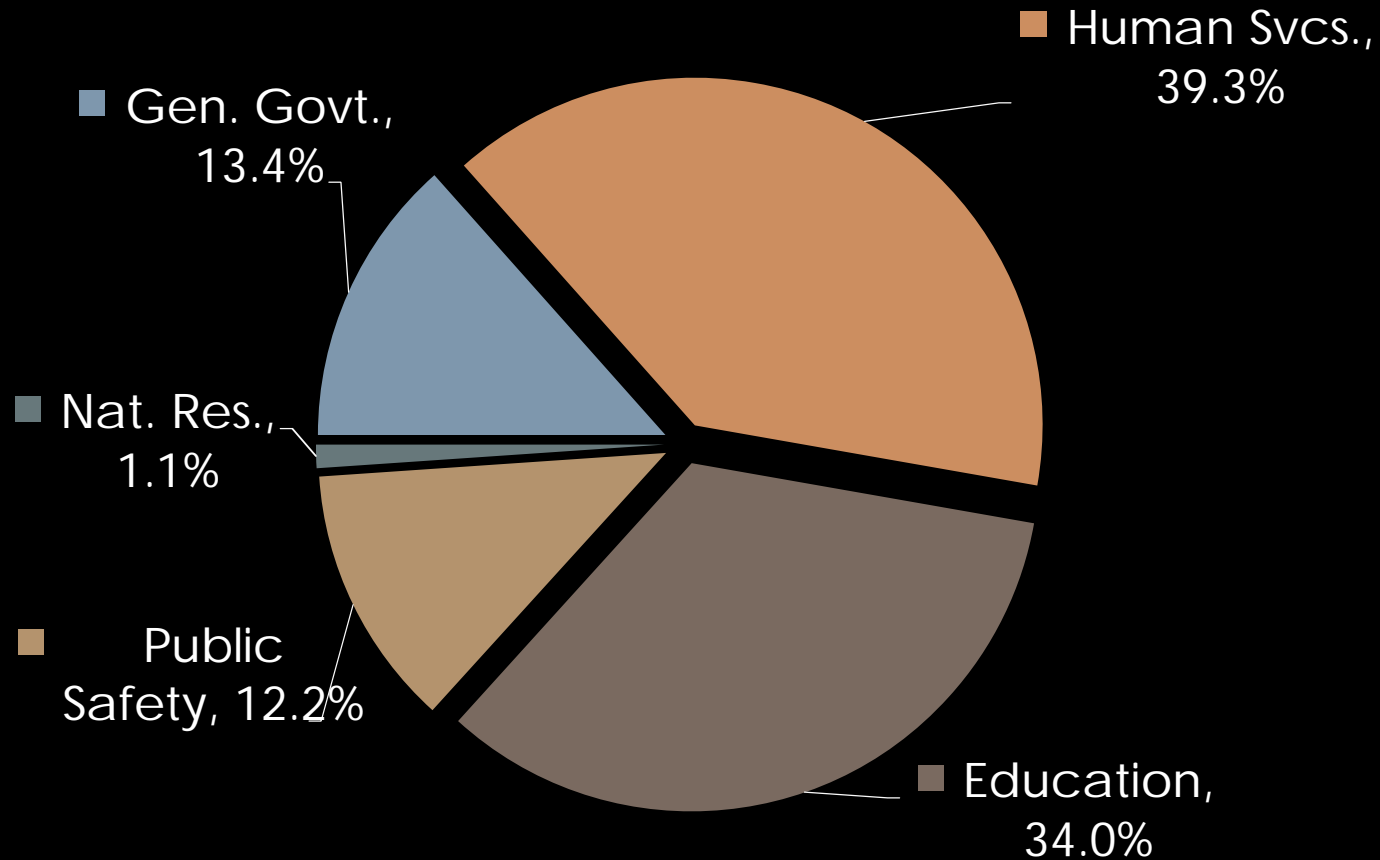
- Sales and Use Taxes
 - Sales and Use
 - Motor Vehicle
 - Motor Fuel
 - Cigarettes
 - Alcohol
 - Controlled Substances

Revenue Detail

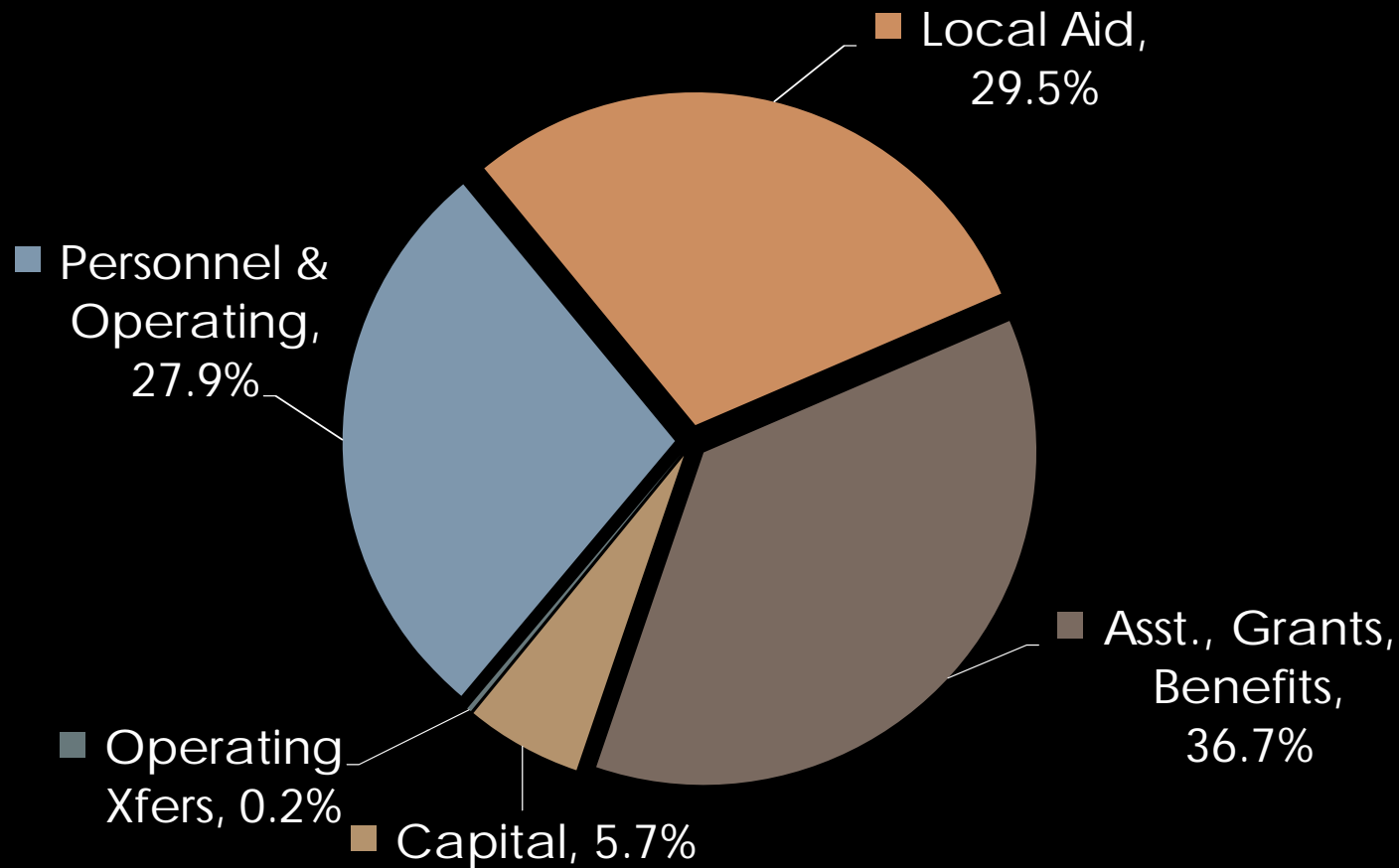
- Other Taxes
 - Inheritance and Gift
 - Racing and Athletics
 - Realty Transfer Tax
- Departmental fees, fines, licenses
- Other Sources
 - Lottery Commission Receipts
 - Unclaimed Property

Expenditures

General Revenues by Function: Governor FY 2014



General Revenues by Category: Governor FY 2014



Expenditure Detail: Gov. 5-Year

Category	2014	2015*	2016	2017	2018
State Operations	\$956.3	\$989.7	\$1,026.4	\$1,045.7	\$1,070.1
Grants & Benefits	1,247.9	1,316.3	1,390.5	1,472.6	1,555.2
Local Aid	1,002.5	1,029.5	1,058.8	1,070.3	1,100.3
Capital	192.6	224.9	234.7	255.0	253.8
Total	\$3,399.0	\$3,560.3	\$3,710.4	\$3,843.6	\$3,979.4
Change	4.0%	4.7%	4.2%	3.6%	3.5%
Revenues	2.9%	2.7%	1.3%	0.3%	1.3%

**inadvertently overstated by \$22M in totals – Reported as \$3,582.3*

State Operations

Detail	2014	2015	2016	2017	2018
Salaries	2.5%	2.6%	2.4%	2.3%	2.3%
Medical	6.0%	7.0%	6.4%	6.0%	5.3%
Retirement	2.5%	3.8%	5.0%	-2.1%	-1.0%
Benefits	2.5%	2.6%	2.4%	2.3%	2.3%
Contracted	2.3%	2.6%	2.4%	2.3%	2.3%
Operating	-3.0%	0.7%	7.5%	-0.7%	2.3%
Total	-3.2%	3.5%	3.7%	1.9%	2.3%

State Operations

Detail	FY 2014	4 Yr. Avg. Growth	Notes
Salaries	\$499.5	2.3%	No COLA
Medical	119.9	5.3%	
Retirement	94.6	1.4%	
Benefits	62.4	2.3%	
Contracted	48.8	2.4%	Grows at CPI
SubTotal	\$825.2	7.7%	
Oper.& xfers	\$131.1	2.4%	Grows at CPI
Total	\$956.3	2.9%	

Personnel and Operating

- Salaries and Benefits
 - General revenues increase 3.9% in FY 2014 - No COLA
 - Most contracts expire at the end of current fiscal year
 - Many new positions

Personnel and Operating

- Personnel Studies
 - FY 2013 revised and FY 2014 budgets include \$1.25 million
 - \$250K for merit system
 - *\$1.0 million to review state's classification system and to make recommendations to streamline*

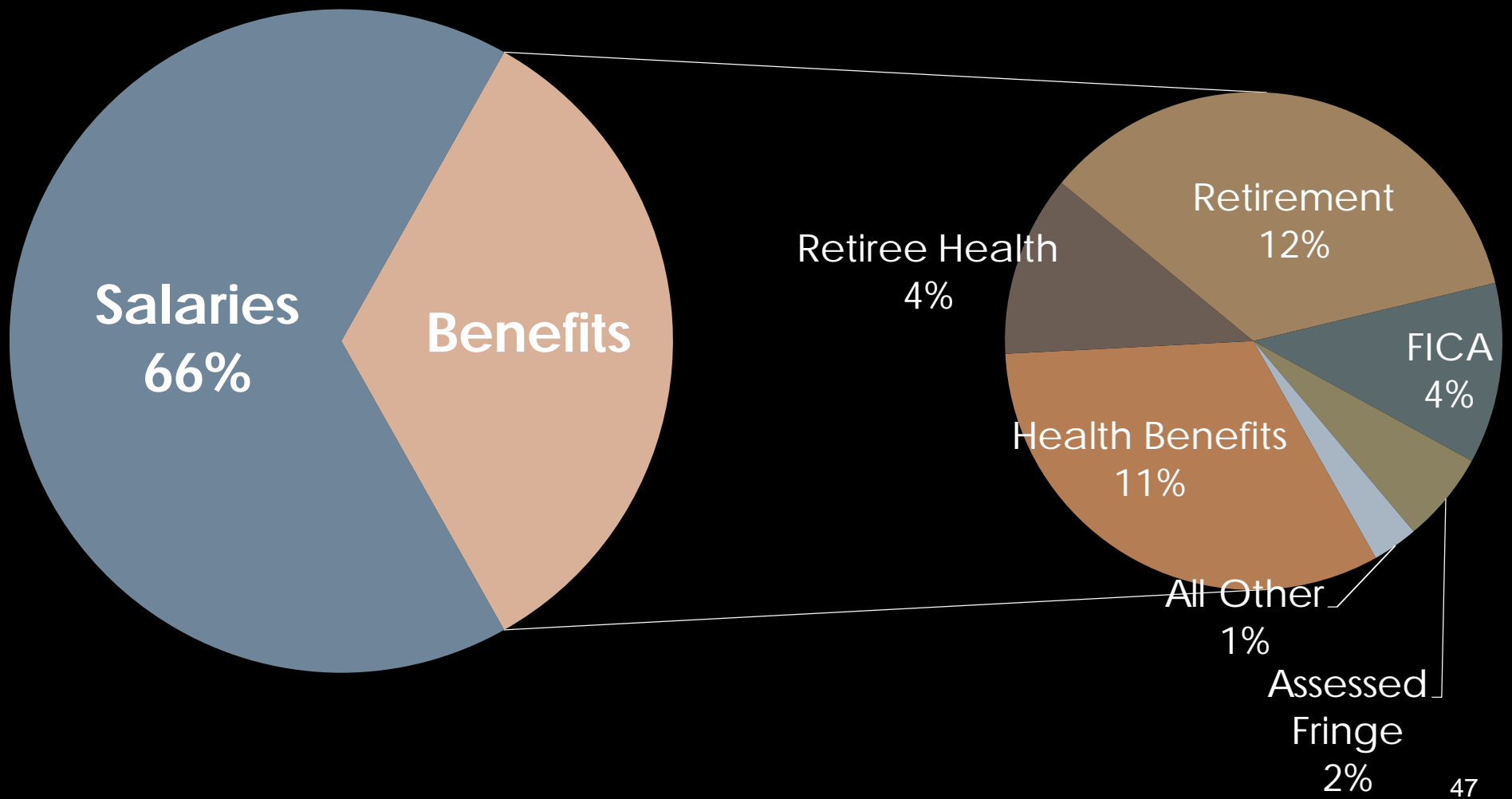
Personnel and Operating

- Contracted Services
 - FY 2014 includes \$48.8 million
 - 2.3% more than FY 2013
 - Average annual growth is 2.4% in the out-years
 - Assumes it grows at CPI

Personnel and Operating

- Medical
 - Assumes 20% average employee co-share
- Retirement
 - Rates increase slightly through FY 2016 and then begin decreasing, consistent with actuarial projections
- Other Benefits
 - Includes retiree health – no growth assumed

Personnel



Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2012 Avg.	13,091.4	607.6	13,699.0
FY 2013 Enacted	14,250.1	776.2	15,026.3
FY 2013 Rev.	14,326.3	776.2	15,102.5
Governor FY 14	14,395.4	776.2	15,171.6
<i>Jan Filled</i>	<i>13,072.0</i>	<i>599.9</i>	<i>13,671.9</i>
Diff from Enacted	(1,178.1)	(176.3)	(1,354.4)
Diff from Gov.	(1,323.4)	(176.3)	(1,499.7)

Personnel and Operating

- Assembly has made efforts to control escalating costs
 - Ending longevity in 2011
 - Pension changes in 2005, 2009, 2010 and 2011
 - Retiree Health reductions in 2008
- Personnel report in *Budget Analysis FY 2014* on Assembly website - <http://www.rilin.state.ri.us> under House Fiscal Reports

Personnel and Operating

- Operating Costs
 - 1.9% decrease from general revenues
- Major change in budget presentation for Eleanor Slater Hospital skews comparison

Grants and Benefits

Program	2014	2015	2016	2017	2018
Nursing Facilities	5.4%	4.3%	4.6%	5.1%	5.8%
Home & Comm. Care	4.3%	8.8%	8.1%	9.0%	9.2%
Hospitals	1.3%	5.3%	5.9%	6.6%	5.5%
DSH	3.5%	4.0%	4.9%	4.8%	4.7%
Managed Care	5.7%	7.0%	6.5%	6.0%	5.3%
Other Medical	7.8%	7.8%	8.2%	10.4%	8.9%
DD Services	2.5%	3.4%	4.1%	5.2%	4.5%
DCYF	0.7%	4.7%	4.6%	5.7%	4.5%

additional program information in House Fiscal Staff *Budget Analysis Medicaid* Special report – p 707

Grants and Benefits

Program	2014	4Yr Avg Growth	Notes
Managed Care	\$382.6	6.2%	Rate reduction
Nursing Facilities	\$186.1	5.0%	Rate Freeze
Home & Comm. Care	\$39.4	8.8%	Rate?/use
Hospitals	\$45.5	5.8%	1-y rate freeze
DSH	\$63.3	4.6%	ACA issue
Other Medical	\$49.0	8.8%	
OHHS – Other Medicaid	\$57.3	14.4%	ACA match

Grants and Benefits

Program -continued	2014	4-Yr Avg. Growth	Notes
DCYF	\$93.5	4.9%	
DD Services	\$89.1	4.3%	
Behavioral Health	\$41.2	3.2%	
DHS – Cash & Medicaid	\$38.0	1.5%	
All Other Grants	\$162.6	4.5%	Growth?
Total	\$1,247.7	5.7%	

additional program information in House Fiscal Staff *Budget Analysis*
 Medicaid Special report – p 707

Grants and Benefits

- Nursing Facilities:
 - National nursing home index – below 4% and caseload change
 - FY 2018 – rate may be too high
 - Shift to community based services
- Home and Community Care
 - State experiencing lower growth five-year average rate of 8.1%
 - 5.6% increase used at Nov CEC for FY 2014 compared to FY 2013

Grants and Benefits

- Hospitals:
 - State experiencing lower growth rate than projected
 - 3.8% increase used at Nov CEC for FY 2014 compared to FY 2013
- DSH
 - Expected reduction in uncompensated care at the hospitals from patients being insured as of 1/1/2014
 - State savings from matching a lower cap
 - No corresponding Hospital Tax decrease

Grants and Benefits

- Managed Care:
 - State experiencing lower growth rate than projected 7% trend
 - 5.8% increase used at Nov CEC for FY 2014 compared to FY 2013
- Other Medical:
 - State experiencing lower growth rate than projected trend – includes 10.4% in FY 2017
 - 3.8% increase used at Nov CEC for FY 2014 compared to FY 2013

Grants and Benefits

- Services for Developmentally Disabled:
 - May have lower growth rate than forecast
 - between 3% to 4%
 - Caseload increases about 1% and rates are not tied to a Medicaid inflator
- DCYF Services:
 - May have lower growth rate than forecast
 - below 3%
 - Rates are set – not tied to a Medicaid inflator

Grants and Benefits

- Out year forecast includes growth rates applied to all other grants:
 - 3.5% in FY 2015 & 4.9% in FY 2016
 - 4.8% in FY 2017 & 4.7% in FY 2018
 - Applied to community service grants, pay go pensions & some 1- time appropriations
 - Expenses that either should not increase or in some cases decrease

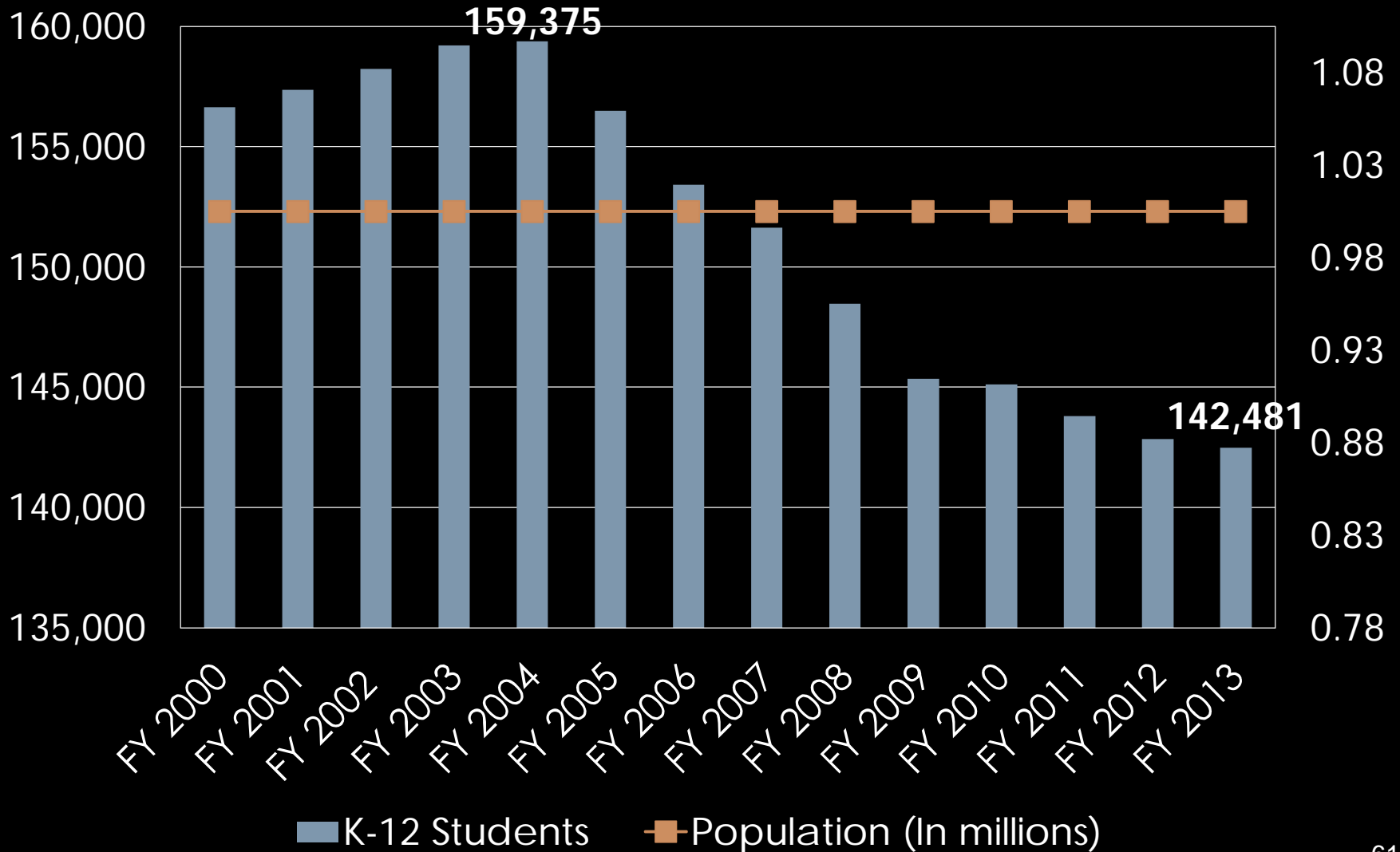
Local Aid

	FY 2014	4-Yr Avg Growth	Notes
Education	\$922.2	2.8%	Continued phase in
Incentive	10.0	-25.0%	2 years of funding
MV	10.0	0%	
PILOT	33.1	0%	Ratable reduction
Distressed	15.4	0%	
Library	11.3	0.6%	
Property Val	0.5	34.4%	
Total	\$1,002.5	2.4%	

Local Aid

- Education Aid
 - Categorical funding fully transitioned
 - Shifts all educational costs for visually impaired students to districts over a 3year period
 - Group home aid consistent with FY 2014 level
 - Teacher retirement assumes annual payroll growth of 2.0% and contribution rates increasing through FY 2016
 - School construction aid includes projects projected to be completed as of June, 30, 2013 with no new projects

Population/K-12 Enrollment



Local Aid

- Municipal Incentive Aid
 - 3 year proposal through FY 2016
- Motor Vehicle Tax Reimbursements
 - Level funded
- PILOT
 - level funded
 - Full funding at the current law allowance would require an additional \$10.0 million annually

Local Aid

- Distressed Communities
 - Reflects an additional \$5.0 million from the FY 2013 enacted budget in each year
- Library Aid
 - Level funded
- Property Revaluation Program
 - assumes \$1.0 million in FY 2015, \$2.0 million in FY 2016, \$1.0 million in FY 2017 and \$1.8 million in FY 2018
- Local and Education Aid reports on line on the Assembly website -
<http://www.rilin.state.ri.us> under House Fiscal Reports

Capital

Detail	FY 2014	4 Yr Avg Growth	Notes
GO-Debt	\$97.3	7.6%	New bonds, DOT
Historic Tax	23.3	16.9%	Remaining debt
EDC Guaranty	2.5	99.8%	\$12.5M annual
COPS/Leases	32.5	0.1%	Existing only
Conven. Ctr.	23.1	-0.1%	
Performance	7.0	0.0%	
Pay-go	6.7	0.1%	
Total	\$192.6	7.3%	

Capital

- GO Debt
 - Based on existing and proposed projects
 - Assumes a rate between 3% and 5%
- Historic Tax Credit Program
 - Assumes proposal to reinstate the program on a limited basis- use all debt
- EDC Job Creation Guaranty
 - Assumes payment of 38 Studios loan \$12.5 million annually

Capital

- COPS/Other Leases
 - Assumes issuance of new certificates for integrated tax system and technology improvements for LEAs
 - Assumes 5% and a 20-year term
 - No new debt proposed
- Convention Center
 - Terms of agreement, minimum rentals payable by state are equal to gross debt service cost

Capital

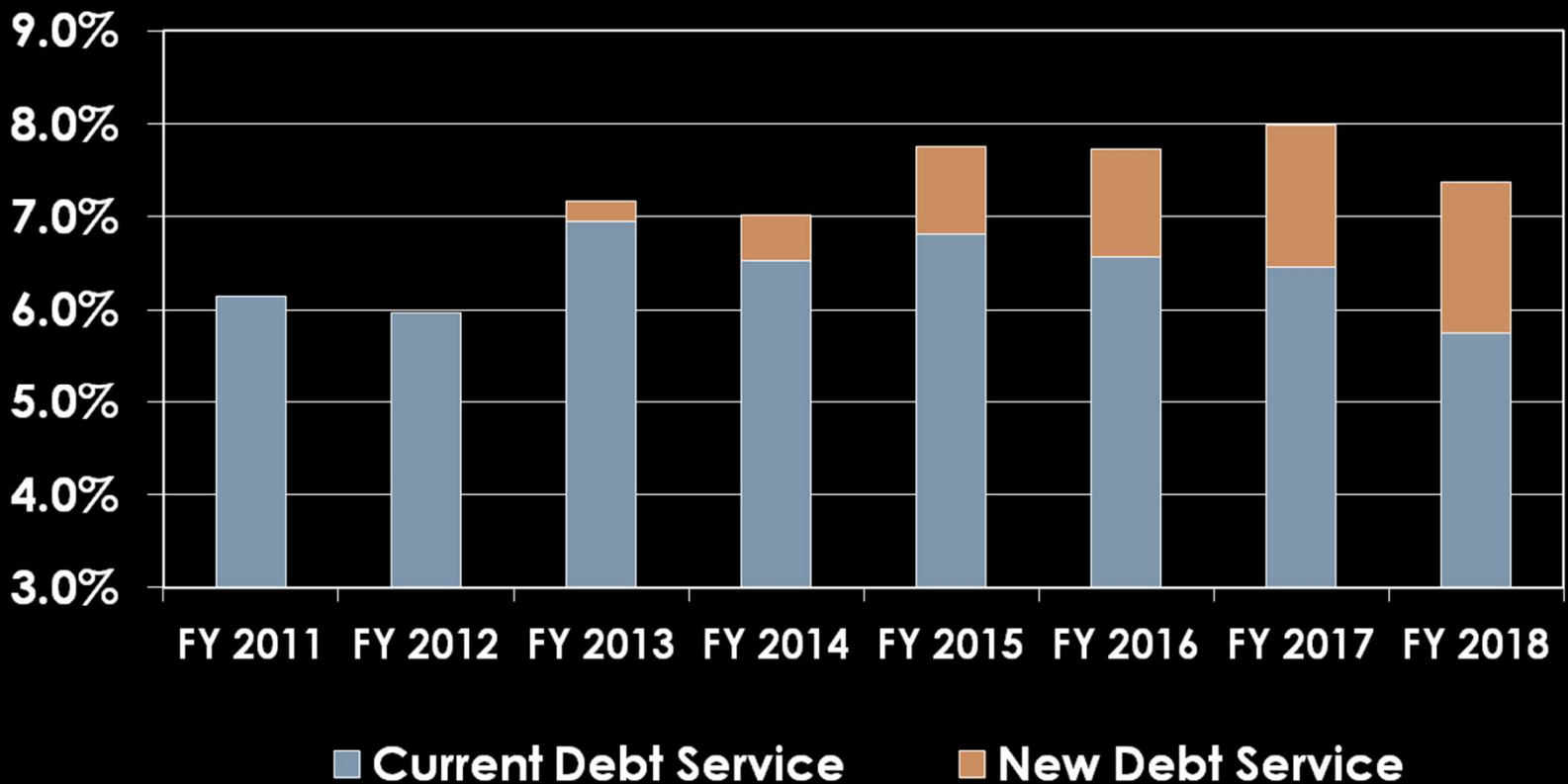
- Performance Based
 - Assumes agreements between EDC and private entities will require level funding
- TANS
 - Assumes that the state does not issue TANS in any of the out-years

Debt Service

Fiscal Year	Net Tax Supported Debt Service*	Pct. of Revenues
2013	\$233.8	7.2%
2014	\$233.2	7.0%
2015	\$264.1	7.7%
2016	\$266.7	7.7%
2017	\$276.5	8.0%
2018	\$258.6	7.4%

*Millions

Debt Service as Percent of Useable Revenues



Budget Year and Out-years

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Projected gaming revenue losses grow in later years of forecast

Budget Year and Out-years

- Continued issue of problematic expenditure structure
 - Many enacted structural changes implemented... still others not achieved
 - Growth rates exceeding revenue growth rates
- Major changes already implemented, limiting choices

Budget Year and Out Years Obstacles

- High tax – low revenue yield structure
 - Example - Sales tax
- Major portions of expenditure base grow at significantly more rapid rate than economy supports

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

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