

Governor's FY 2015 Budget

Staff Presentation to the House Finance
Committee
January 29, 2014

Governor's FY 2014 Budget

- January 15 - Governor announced his FY 2015 Budget via televised address
 - Publications provided that day
- Jan 16 - 2014 - H 7133 introduced and referred to House Finance Committee
 - Official due date

Budget Briefings, Publications & Hearings

- Dec 4 – Budget Status
- Jan 16 – Budget at First Glance
- Jan 22 – Budget at a 2nd Glance
- Jan 29 – Final expanded B-A-G
- Jan 29 – Governor’s Budget Overview
- House Fiscal Staff *Budget Analysis*
- Feb 4 – Article hearings begin

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Governor’s FY 2015 Budget

Finance Committee Review

- Briefing - Overview
- Article hearings through February
 - 29 separate articles some with multiple sections affecting different issues
- Subcommittee review of individual agency budgets – March
- Governor’s requested amendments and other issues of interest

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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
- Hearings available “on demand” on Assembly website

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Governor's FY 2015 Budget

- ***FY 2013 Audited Closing***
- FY 2014 Revised Budget
- FY 2015 Revenue-Expenditure Gap
- Governor's Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears

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FY 2013 Closing

- FY 2014 budget counted on surplus from FY 2013 to help fund FY 2014
- Preliminary FY 2013 data showed \$3.6 million gain to that assumption
- Audit adjustment before final

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Closing – Revenues

- Revenues \$0.2 million below
 - Taxes up \$9.9 million with personal income tax gains offsetting business taxes
 - Business taxes have been difficult to estimate
 - All other revenue down \$9.7 million
 - Departmental receipts down \$6.6 million – primarily unpaid hospital license fees
 - Largely recaptured in November Revenue estimate
 - Audit adjustment for that and settlement

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FY 2013 Audited

	Enacted	Actual	Diff.
Opening	\$ 122.9	\$122.9	\$ 0.0
Revenues	3,323.8	3,324.0	0.2
Rainy Day	(103.2)	(103.2)	0.0
Expenditures	(3,233.8)	(3,216.0)	(17.8)
Xfer Fleet/IT/Ret.	16.4	16.5	0.1
Closing Surplus	\$ 93.4	\$ 111.2	\$17.8
Reappropriation	-	(7.1)	(7.1)
Free Surplus	\$ 93.4	\$ 104.1	\$ 10.7

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Closing – Revenues

- Revenues \$0.2 million less
 - Law requires final revenues above estimates be transferred to the Employees' Retirement System to pay down unfunded liability
 - \$0.2 million transfer for FY 2013
 - FY 2012 closing revenues exceeded estimates requiring transfer of \$12.5 million
 - Gov. proposes repealing provision for FY 2014 and forward

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Closing - Expenditures

Spending \$17.8 million below:

- \$7.1 million unspent & re-appropriated
- \$6.6 million Medicaid/Admin
- \$1.6 million DOA central facilities
- \$1.5 million DOR
- Personnel savings in DOA, DPS, DOC, DCYF
- \$4.5 million overspent in BHDDH
- \$1.7 million overspent in DHS (TANF penalty)

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FY 2014 –HFAS Q1

	Enacted	Current	Diff.
Opening	\$ 93.4	\$104.1	\$10.7*
Revenues	3,381.0	3,426.7	45.6
Rainy Day	(104.2)	(105.7)	(1.5)
Expenditures	(3,359.8)	(3,372.2)*	12.4
Xfer to Depr. Fund	(10.0)	(10.0)	-
Total FY 2014	\$ 0.4	\$ 42.8	\$42.4

**Includes \$7.1 million reappropriation*

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Current Year: HFAS Q1 Estimated Changes

Reappropriation	\$ 7.1
Legislature	(2.0)
OHHS Caseload & Programs*	12.6
Education Aid Programs	(2.8)
Corrections*	5.7
Judiciary	1.5
Other *	(2.6)
Total	\$19.4

* Items different than Budget Office Q1 estimates

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FY 2014 – Governor Revised

	Enacted	Governor	Diff.
Opening	\$ 93.4	\$ 111.2 *	\$17.8
Revenues	3,381.0	3,425.3	44.3
Rainy Day	(104.2)	(105.9)	(1.7)
Expenditures	(3,359.8)	(3,351.7)*	(8.0)
Xfer to Deprec.	(10.0)	(10.0)	-
Total FY 2014	\$ 0.4	\$68.9	\$68.4

**Includes \$7.1 million reappropriation*

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FY 2014 – Revised Comparison

	HFAS Q1	Gov	Diff.
Opening*	\$104.1	\$ 111.2 *	\$7.1
Revenues	3,426.7	3,425.3	(1.4)
Rainy Day	(105.7)	(105.9)	(0.2)
Expenditures	(3,372.2)*	(3,351.7)*	(20.5)
Xfer to Deprec.	(10.0)	(10.0)	-
Total FY 2014	\$ 42.8	\$68.9	\$26.1

**Includes \$7.1 million reappropriation*

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Current Year: Gov. Revised vs. HFAS

Q1 HFAS est. ending surplus	\$42.8
Audited Closing	1.5
Corrections/Judiciary	7.9
Statewide Debt and Medical	6.5
Revenue Scoop	4.2
UHIP/Human Services	4.9
New Initiatives/Issues	(1.2)
All Other	2.3
Total Gov. Ending Surplus	\$68.9

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Current Year – Governor

- A number of agencies reported overspending
- Largely not funded in revised budget
- Corrective action plans
- Other savings

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Budget Year and Out-years

- Budget Office Instructions based on \$149 million July deficit projection
 - Includes calculation of current service revenues and expenses
 - Some revisions based on more updated data
 - Other revisions reflect different methodology and "policy choices"

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Governor's Solution

FY 2014 Surplus	\$68.9
Debt Service	5.6
Medical Benefits	3.6
Revenue Initiatives	15.5
Human Services	54.3
Locals	4.9
All Other	(12.9)
Total	\$140

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Governor's Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies

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Revenues Changes

- New/Increased Taxes - \$2.1 million
 - Hotel Resale - \$0.9 million
 - Other Temporary Lodging - \$0.5 million
 - E-Cigarettes - \$0.8 million

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Revenues Changes

- Enhanced Collections - \$13.3 million
 - Revenue Officers - \$7.6 million
 - Use Tax Safe Harbor - \$2.2 million
 - Automated Sales Suppression - \$0.8 million
 - State Employees Compliance - \$0.4 million
 - Employee Classification - \$1.8 million
 - Registration Block - \$0.5 million

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Governor's Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies

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All Human Service Agencies

Human Services Solution: \$54.3 million

- \$28.3 million from provider reductions
- \$21.2 million from program efficiencies
 - Includes ACA implementation savings
- \$3.6 million from cost shifting
- \$1.3 million from changes that impact clients

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OHHS

Providers	GR	All
Managed Care Plans – 2.95 % rate reduction	\$10.4	\$21.7
Hospitals – Eliminate UPL	5.5	11.1
Hospitals – Rate Freeze	3.8	7.9
Nursing Homes – Rate Freeze	3.3	7.5

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OHHS/DCYF

Providers	GR	All
Pharmacy Rebate Collections	\$2.5	\$5.0
Family Care Community Partnership contract reduction	0.9	0.9
Lifespan contract reduction - Training School	0.3	0.3
5% reduction - other contracts	0.2	0.2

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DHS/BHDDH

Providers	GR	All
Community Health Centers	\$0.5	\$1.0
Health Home rates reduction	0.7	1.3
Adolescent Residential Services	0.1	0.1
RI Council Hotline/NAMI Supports & Education Program	0.1	0.1

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OHHS

Clients	GR	All
Katie Beckett Cost Sharing - families above 250%	\$1.5	\$2.9
Extended Family Planning Services	(0.2)	(0.4)

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OHHS

Efficiencies	GR	All
Health Care Utilization Review	\$7.8	\$16.3
Durable Medical Equipment	1.0	2.0
Imaging Services	0.9	2.0
Long term care financial review	0.5	1.0

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OHHS/BHDDH

Efficiencies	GR	All
Affordable Care Act	\$8.4	\$12.4
Pre-authorization for Supportive Psychiatric Services	0.2	0.4
Coverage for pregnant and post-partum women	0.6	1.2
Out-of-State Recipients	0.05	0.1

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DCYF

Efficiencies	GR	All
OHHS - pay for 6 medically fragile youth*	\$1.0	\$1.0
Eligible 19 -21 year olds to BHDDH	0.5	0.7
10 adolescents to in-state placements	0.3	0.3

* Funding excluded in OHHS' budget - net savings of \$0.5 million

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OHHS

Cost Shifts	GR	All
Community First Choice Option	\$3.0	\$-
Connect Care Community Partner Health Home Option	0.5	-

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OHHS

Impact to Managed Care Plans	GR	All
Rate Reduction	\$10.4	\$21.7
Health Care Utilization Review	7.8	16.3
Pharmacy Benefit	2.5	5.0
Extended Family Planning	(0.2)	(0.4)
Total	\$20.5	\$42.6

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OHHS

Impact to Hospitals	GR	All
Eliminate Upper Payment Limit	\$5.5	\$11.1
Rate Freeze	3.8	7.9
Total	\$9.3	\$19.0

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Governor's Solution

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

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Education Aid

- Funds 4th year of formula
 - Adds \$33.8 million based on updated data
 - Includes \$1.4 million estimate for full day kindergarten implementation
 - Includes \$12.3 million for categorical aid
 - This is \$3.1 million more than enacted

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Education Aid

- Categorical Funds - \$12.3 million
 - \$1.5 million for High Cost Special Ed
 - \$3.5 million for Career & Tech
 - \$3.0 million for Early Childhood
 - \$4.4 million for Transportation

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Education Aid

- Distributions calculated by Dept. based on transition guidance in law – new interpretation of Group Homes Aid - \$0.8 million less than current law
- Distributions are subject to change in March based on updated data
- Assumes 3 new charter schools open for 2014-2015 school year

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Education Aid

- Textbook Reimbursement - eliminates non-public school reimbursement for savings of \$240,000
- School Breakfast – eliminates administrative cost reimbursement for savings of \$270,000

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Local Aid

	Enacted	Revised	Rec.
Dist. Communities	\$10.4	\$10.4	\$10.4
PILOT	35.1	35.1	35.1
Library Aid	8.8	8.8	8.8
Car Tax	10.0	10.0	10.0
Municipal Incentive	5.0	5.0	5.0

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Local Aid

- Distressed Communities = enacted \$10.4 million
 - Central Falls
 - North Providence
 - Pawtucket
 - Providence
 - West Warwick
 - Woonsocket
 - Cranston receives 50% transition payment

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Local Aid

- PILOT = enacted \$35.1 million
 - Municipalities did not provide data by Aug. 1 deadline
 - July payment distribution will be revised spring 2014
- Car Tax = enacted \$10 million
 - Municipalities provided data late
 - Distribution will be revised spring 2014

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Local Aid

- Library Construction Aid – \$ 2.3 million for full funding
- Property Valuation Reimbursement – \$0.6 million for full funding
 - East Providence, Warren, and Warwick

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Local Aid

- Municipal Incentive Aid = \$5 million
 - Tied to actions on local pension plans
 - FY 2014 Revised Distribution excludes Coventry
 - \$0.2 million reallocated to other 38 communities in May 2014
 - Includes Article 2 – maintains annual funding at enacted level of \$5.0 million for FY 2015 and FY 2016

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Governor's Solution

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

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Other Items

- Adds \$10.0 million for higher ed. and forces no tuition increase through legislation
- \$0.8 million for Volvo Race tourism
- Adds \$1.1 million for Arts/Cultural Economy
- Adds \$0.4 million for workforce development
- Includes \$12.3 million in debt service relating to 38 Studios default as part of the Job Creation Guaranty

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Governor's Solution

FY 2014 Surplus	\$68.9
Debt Service	5.6
Medical Benefits	3.6
Revenue Initiatives	15.5
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All Other	(12.9)
Total	\$140

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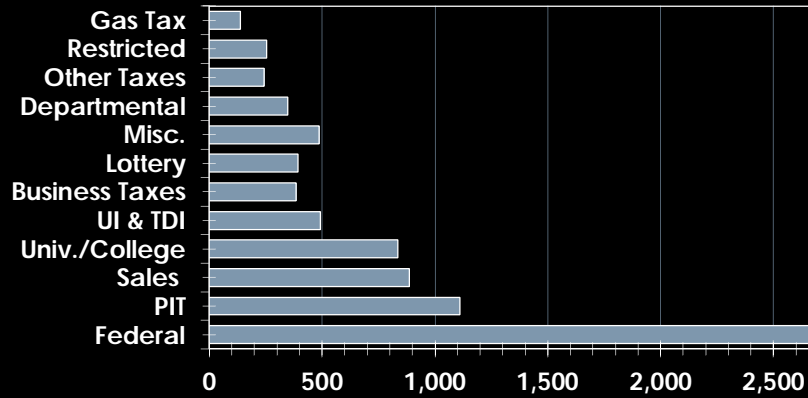
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Expenditures

	Enacted	Budget	Change
Gen. Rev.	\$3,359.8	\$3,456.1	\$96.3
Federal	2,717.7	2,878.4	160.7
Restricted	255.0	258.9	3.9
Other	1,880.6	1,950.6	70.0
Total	\$8,213.1	\$8,544.0	\$330.9

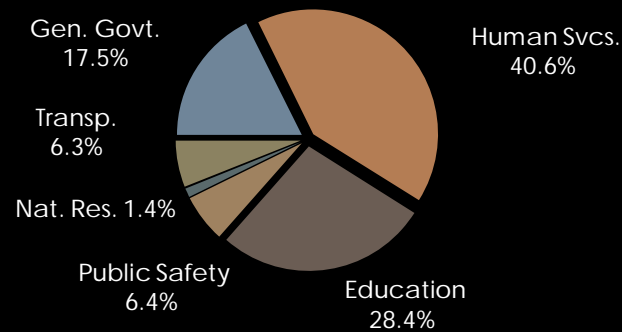
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Sources (millions)



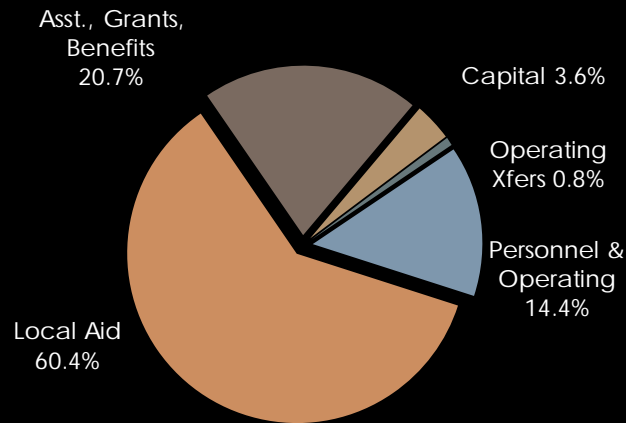
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All Funds by Function: Governor FY 2015



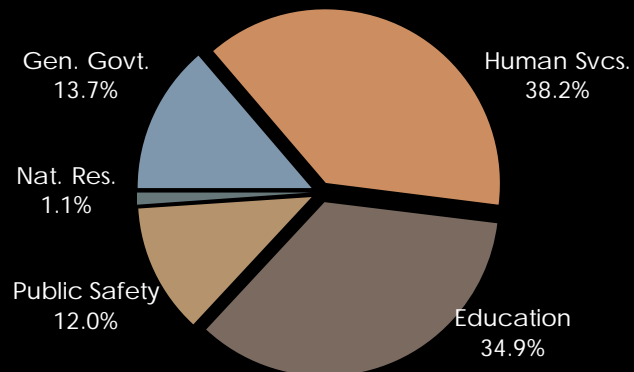
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All Funds by Category: Governor FY 2015



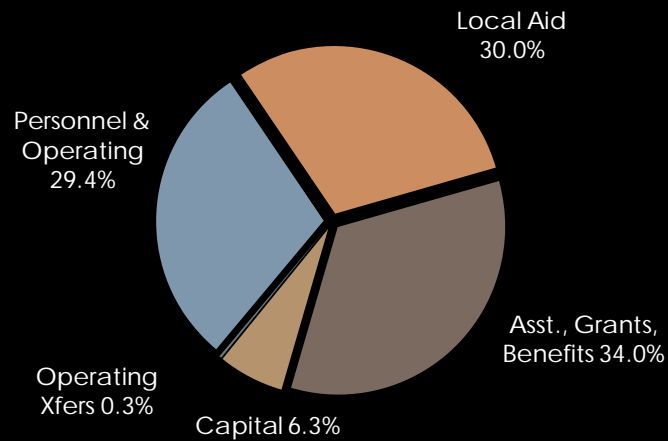
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General Revenues by Function: Governor FY 2015



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General Revenues by Category: Governor FY 2015



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Personnel and Operating

- Personnel Study
 - FY 2014 revised budget includes \$0.5 million for a classification and compensation study
 - Classification – define jobs and update position description
 - Compensation – data and market driven
 - A Request for Proposals was issued in October

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Personnel and Operating

- Contracted Services
 - Increase of 1.4% from enacted
 - General revenues increase 11.6%
 - Primarily for state's match for the Unified Health Infrastructure Project

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Personnel and Operating

- Contracted Services
 - Over the past few years, Assembly required state agencies to be held more accountable for contract services they purchase

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Personnel and Operating

- Contracted Services
 - General Assembly requirements:
 - list privatization contracts
 - quarterly reports of non-state employee expenditures for legal and services
 - 5.5% assessment to be paid to the retirement system - Pension Reform

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Personnel and Operating

- Contracted Services
 - Governor's Budget
 - Repeals the 5.5% assessment
 - Alters to consolidate and publish online
 - Annually versus quarterly

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Personnel and Operating

- Salaries and Benefits
 - Increase of 2.7% from enacted
 - General revenues increase 2.0%
- No COLA
- Most contracts expired at the end of last fiscal year

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Personnel and Operating

- Salaries and Benefits
 - Directors' Salaries
 - Repeals legislation that requires Administration to refer proposed salaries for cabinet directors to General Assembly
 - Would be treated as all other unclassified positions

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Personnel and Operating

- Operating Costs
 - Increase 13.5% from enacted
 - 1.1% increase from general revenues
 - Technology for the Courts – Case Management
 - Lottery funds – commission payments to Twin Rivers

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Personnel and Operating

- Operating Costs
 - Direct Deposit
 - Requires controller to implement a direct deposit payroll system
 - Automatic for employees hired after Sept. 30, 2014
 - Employees hired before Sept. 30, 2014, must do so by June 30, 2016

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Personnel and Operating

- Operating Costs
 - State Leases
 - Eliminates requirement for General Assembly approval before entering a long term lease

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Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2013 Avg.	13,066.3	598.3	13,664.6
FY 2014 Enacted	14,342.1	776.2	15,118.3
FY 2014 Rev.	14,439.0	661.3	15,100.3
Governor FY 15	14,454.1	642.9	15,097.0
<i>Jan Filled</i>	<i>13,328.7</i>	<i>600.9</i>	<i>13,929.6</i>
Diff from Enacted	(1,013.4)	(175.3)	(1,188.7)
Diff from Gov.	(1,125.4)	(42.0)	(1,167.4)

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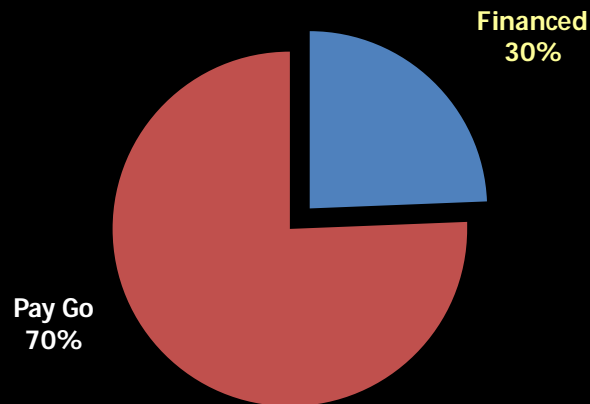
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Capital

- FY 2015 – FY 2019
- \$3.8 billion outlays
 - Average \$751.6 million per year
 - \$1,065.6 million from financing
 - \$2,515.6 million from current revenue

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Capital Budget Funding



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Capital

- Plan relies on \$275.0 million of new general obligation bonds for November 2014 ballot
 - Higher Education projects
 - Transportation
 - Water Infrastructure
 - Recreation and Environment
 - Arts- Cultural Economy

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Capital

- Includes \$200.1 million under Public Corporation Debt Management Act
 - Information Technology
 - Virks Building Renovation
 - Historic Structures Tax Credits
 - T.F. Green Improvements
 - Garrahy Courthouse Parking

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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 97.0% of general revenues
 - FY 2013 was end of 5-year move from 98.0%

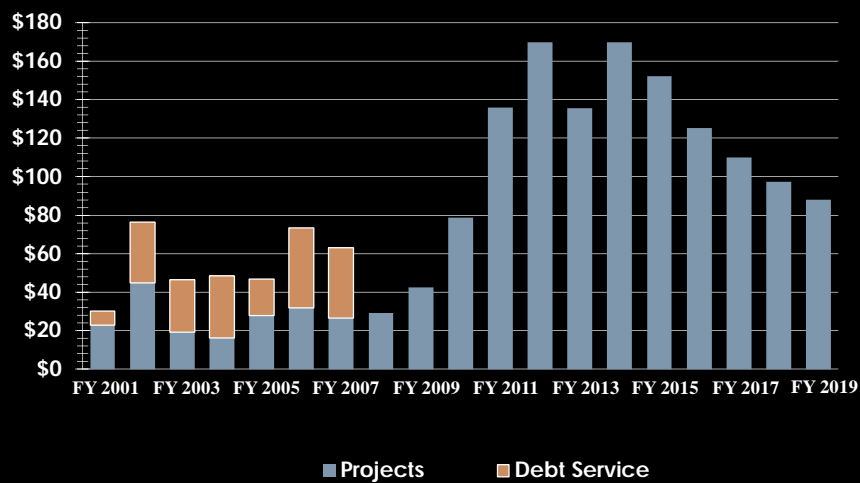
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Rhode Island Capital Plan Funds

- Remainder goes to Budget Stabilization & Cash Reserve Account
- When account reaches 5.0%, 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
- Dedication of pay-go sources to capital lessens need to issue debt

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Rhode Island Capital Plan Funds



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Rhode Island Capital Plan Funds

- Resources in the Fund have grown over time
- Being used for its intended purpose: lowering the state's borrowing needs
 - Annual \$23 million that is being used in lieu of borrowing to match federal transportation funds

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Rhode Island Capital Plan Funds

- FY 2015 – FY 2019
 - \$572.8 million
- Approximately \$100 million annually
 - 25% for Transportation
 - 25% for Higher Education asset protection

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Rhode Island Capital Plan Funds

- Improvements for state buildings
 - Courts, prisons, hospitals
- State facilities
 - Dams, piers, parks
- Designed to extend the life of facilities
 - Prevent the need for costly replacements

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Rhode Island Capital Plan Funds

- Departure from current use of funds
- Funds are traditionally limited to use on physical assets
- Expanded use for
 - Statewide Communications Network
 - Correction personnel
 - DEM Telephones

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Bond Referenda – Nov. 2014

Higher Education	\$125,000,000
Transportation	40,000,000
Water Infrastructure	35,000,000
Environment & Recreation	40,000,000
Arts	35,000,000
Total	\$275,000,000

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Bond Referenda – Nov. 2014

	Annual Debt Service	Total Cost
Higher Education	\$10.3	\$200.2
Transportation	3.3	64.1
Water Infrastructure	2.9	56.1
Environment	3.3	64.1
Arts	2.9	56.1
Total	\$22.8	\$440.6

Assumes 5% rate and 20 year maturity

Data in millions

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Assembly Role

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

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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

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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

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Kushner Items

Certificate of Participation (COPS)

Information Technology	\$30.0
Virks Building Renovation	13.0
Historic Structures Tax Credits	52.1
Total	\$95.1

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Kushner Items

Revenue Bonds (in millions)

T.F. Green Improvements – including Runway Extension	\$60.0
Garrahy Courthouse Parking	45.0
Total	\$105.0

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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

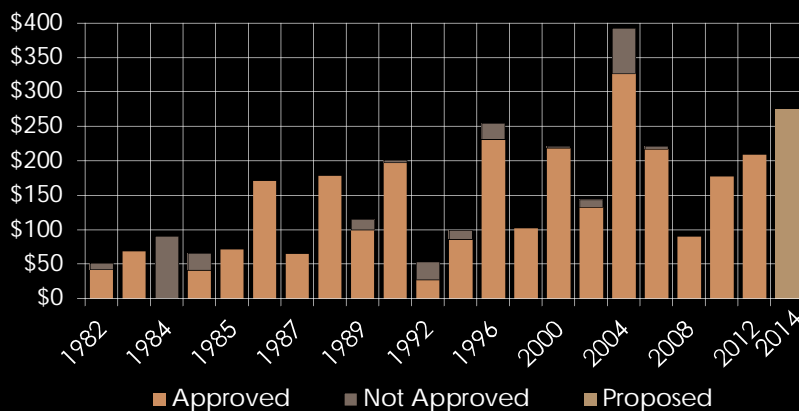
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Funding Considerations

- State's overall debt structure
 - Net tax supported debt would increase by \$23.7 million to \$1,913.6 million
 - 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

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GO Bond Approvals



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Funding Considerations – Debt Ratios

- Debt as a percent of personal income would remain at 3.9% in FY 2013 and FY 2014
- Would then drop to 2.9% in FY 2019, but likely to be higher based on projects being added
- Had dropped to 3.7% in FY 2004, the lowest level since FY 1991

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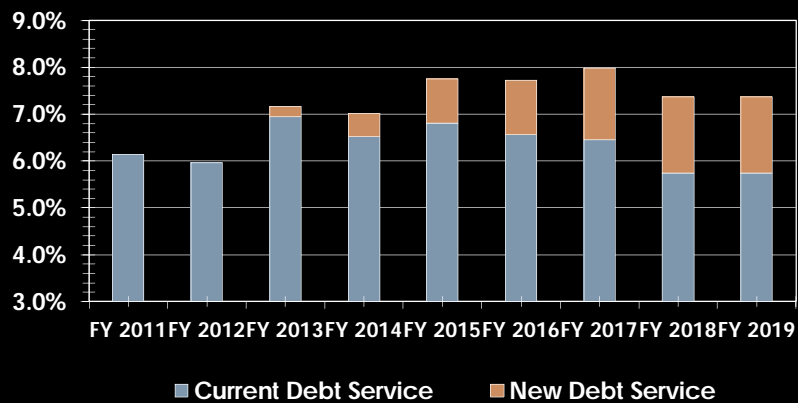
Funding Considerations – Debt Service

Fiscal Year	Net Tax Supported Debt Service*	Pct. of Revenues
2014	\$225.1	6.3%
2015	\$256.4	7.1%
2016	\$262.5	7.1%
2017	\$284.5	7.6%
2018	\$271.8	7.1%
2019	\$259.4	6.7%

*Millions

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Debt Service as Percent of Useable Revenues



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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

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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

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Outyear Projections

- Five-year projections required by statutes
- Attempt to reflect impact of Massachusetts gaming
 - Accounts for 1/3rd of the 2019 deficit

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Out Years Budget Office Deficits Estimates

	Estimated	Share Useable Revenues
FY 2016	\$(151.1)	4.4%
FY 2017	\$(256.7)	7.3%
FY 2018	\$(330.5)	9.3%
FY 2019	\$(419.3)	11.6%

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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 year of forecast

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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

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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?

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