

Budget Status

House Finance Committee
January 29, 2015

Introduction

- November briefing covered FY 2014 closing, overall fiscal situation for current year, budget and out-years
 - Economy
 - Projections
- Today's briefing will recap and update those issues and discuss budget process

Introduction

- Additional briefings will consider specific expenditure areas in depth
 - Medicaid and Human Services
 - Personnel Expenses
 - Local Aid and other items of interest
- Governor's FY 2016 and FY 2015 revised budgets due by law February 5 – *submission anticipated March 12*

Introduction

- State budgetary problems persist and this will be another challenging year
- Overall fiscal situation for current year, budget and out-years
 - Economy
 - Projections
 - Issues

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 2015
 - Staff estimates for FY 2016 and beyond
 - Estimates vary – this is HFAS perspective

Introduction

- Preliminary Closing – Aug 30
- Agency Q1 reports – Oct 30
- Caseload estimates – November 5
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 17
- Audited Closing – December 30
- Agencies Q2 – Jan 30
- Governor's Budget – ~~Feb 5~~ **March 12?**

Introduction

- The state continues its slow recovery from severe economic distress
- Current year picture is clearer and more challenging than recent years with close to \$30 million shortfall
- Facing continued budget year and out-year issues growing from about \$186.5 million to over \$460 million

Introduction

- The *current year* has overspending problems
- The *budget and out year* gaps are a function of both cyclical economic and continued and worsening structural issues

Economic Forecast

Economic Forecast

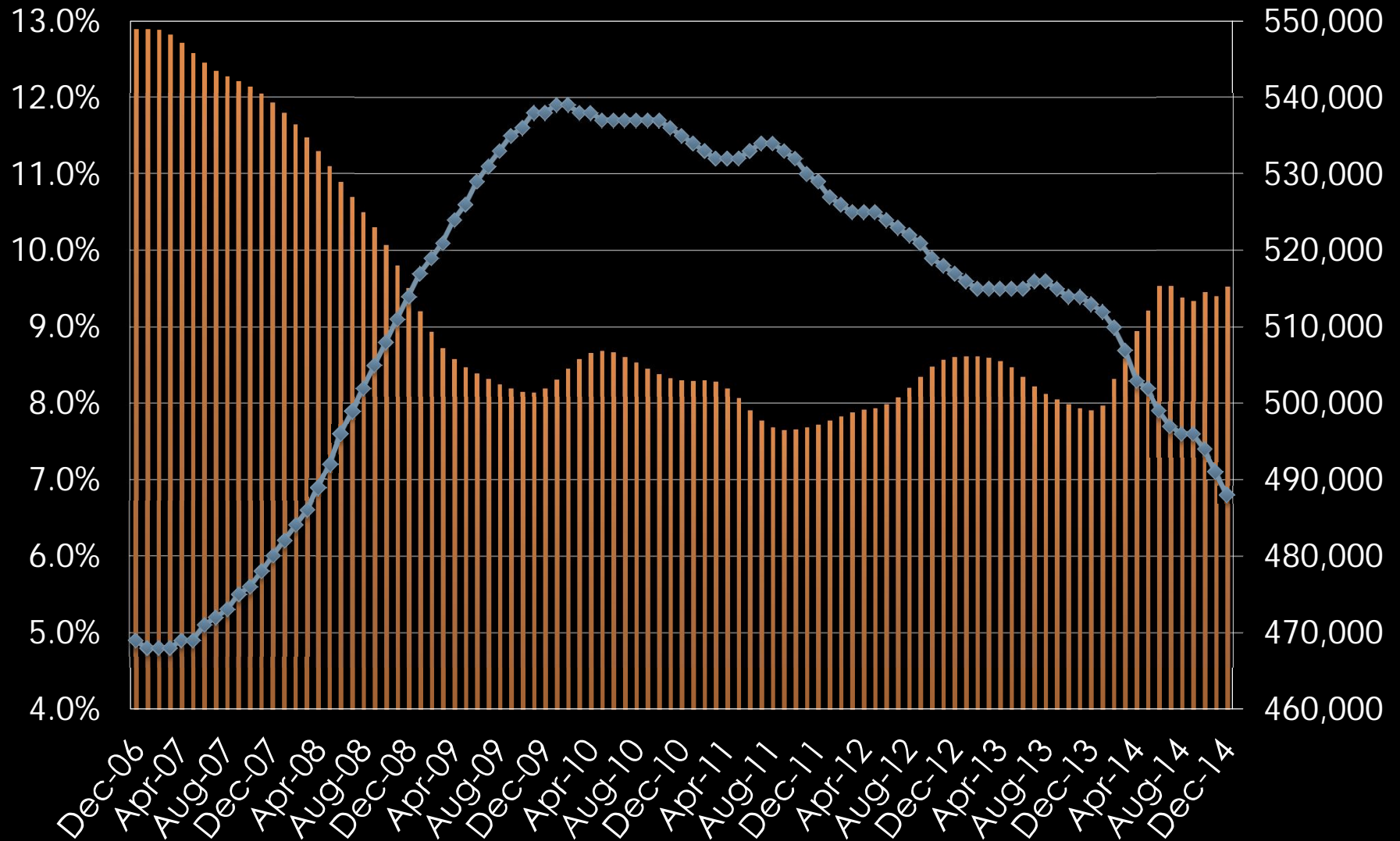
- Revenue Estimating Conference adopts a consensus economic forecast
 - It takes testimony from Moody's Economy.com
 - The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts
 - Updated in November will do again in May

Economic Forecast

November forecast more pessimistic than May 2014 forecast

- Personal income, jobs, and wage & salary growth rates all projected to slow FY 2015
- RI recovery continues to lag U.S.
- Still significant slack in the labor market

Unemployment Rate and Total Jobs December 2006 – December 2014

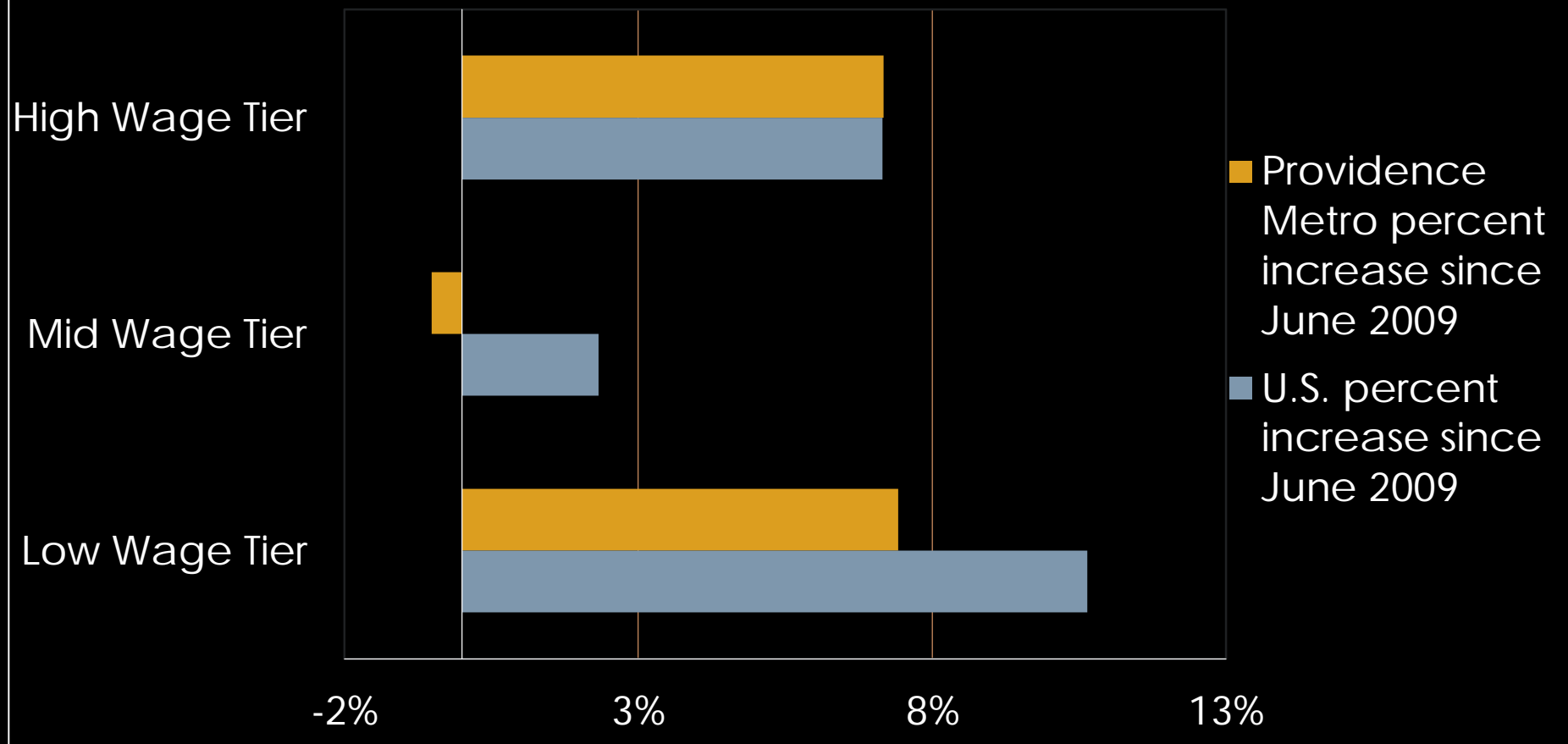


Jobs

- Dec. 2006 - 577k *in workforce (peak)*
 - 28,272 - 4.9% unemployed
- March 2010 - 574k *in the workforce*
 - 68,079 - 11.9% unemployed
- Dec. 2014 - 553k *in the workforce*
 - 37,313 - 6.8% Unemployed
 - 33,559 fewer employed than start of recession
- Jobs regained not as good as ones lost

Economic Forecast

Recovered Jobs by Wage Tier Nov 2014 Testimony

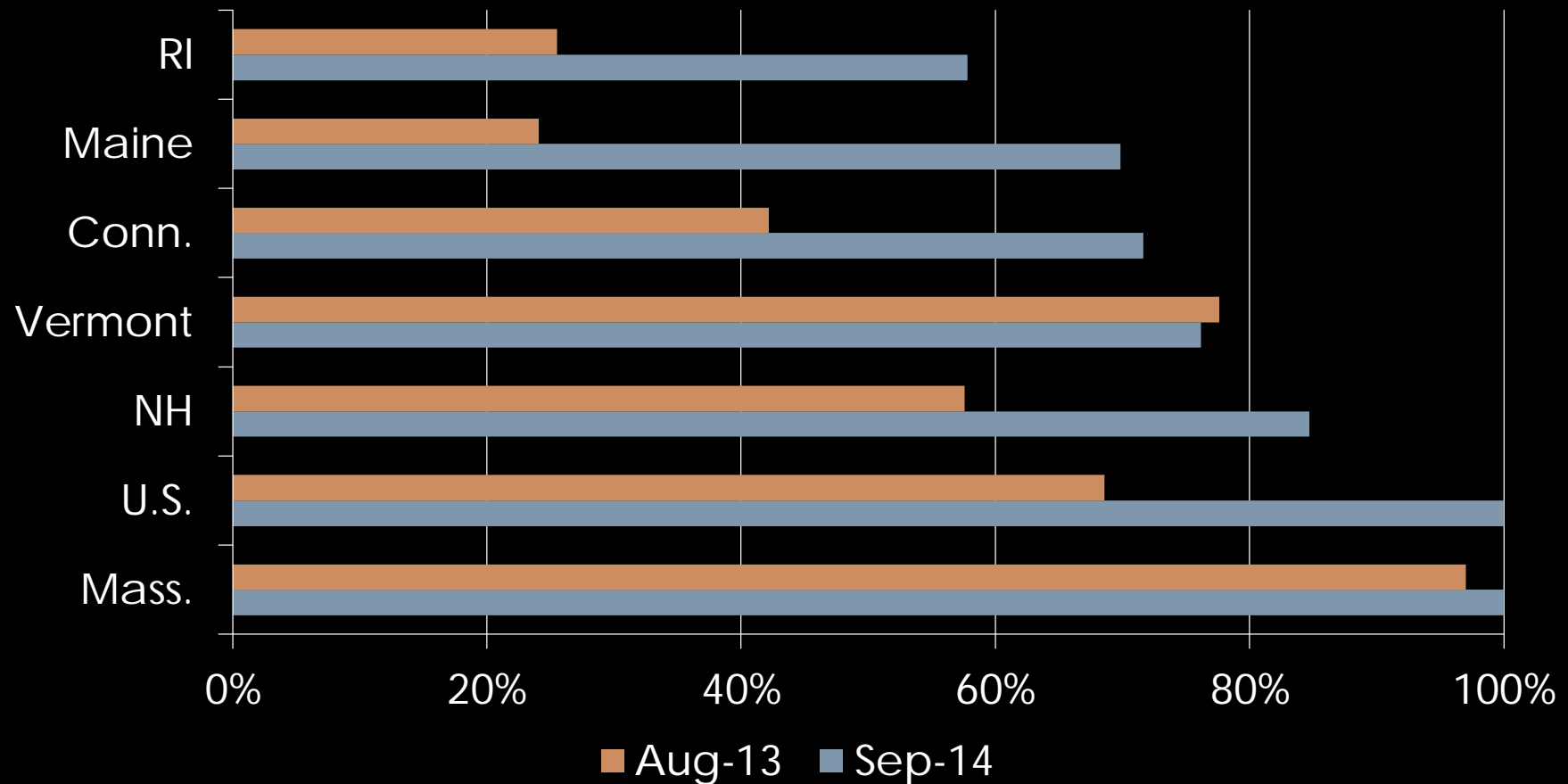


Sources: BLS, Moody's Analytics

Jobs: RI Labor Market

	Workforce	Employed	Unemployed	
Dec 2006	577,158	548,886	28,272	4.9%
Mar 2010	573,930	505,851	68,079	11.9%
Sept 2014	555,771	513,446	42,325	7.6%
Dec 2014	552,640	515,327	37,313	6.8%
12/14 vs 12/6	(24,518)	(33,559)	9,041	1.9%
12/14 vs 3/10	(21,290)	9,476	(30,766)	(5.1%)
<i>Source: DLT Labor Market information</i>				

% of Recession Job Losses Recouped



Sources: BLS, Moody's Analytics

Jobs: Comparisons

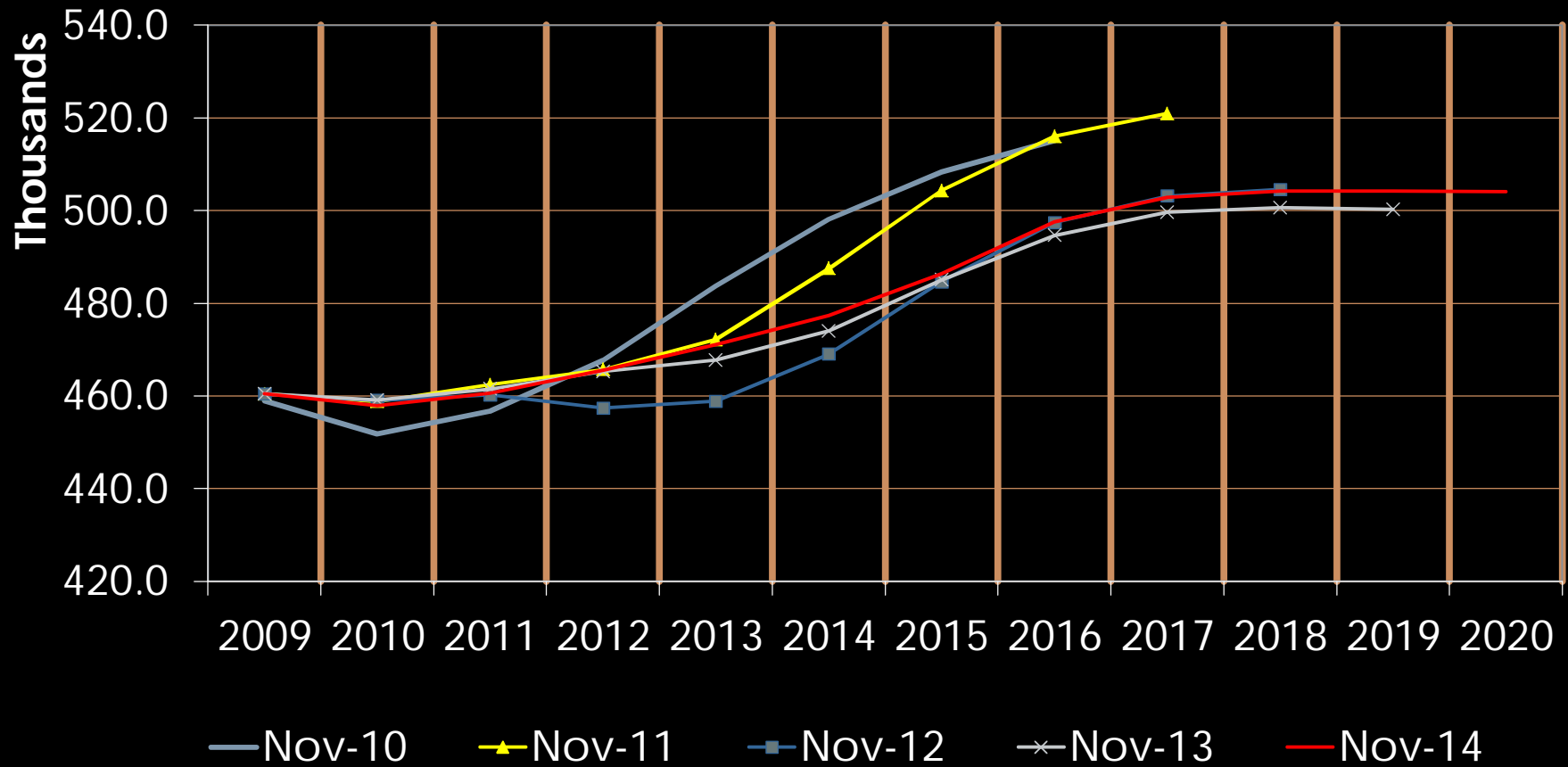
Unemployment Rates	U.S. Average	New England Average	Rhode Island
Dec 2006	4.4%	4.5%	4.9%
Mar 2010	9.9%	8.7%	11.9%
Sept 2014	5.9%	6.0%	7.6%
Dec 2014	5.6%	5.6%	6.8%
12/14 vs 12/06	1.2%	1.1%	1.9%
12/14 vs 3/10	(4.3%)	(3.1%)	(5.1%)
<i>Source: DLT Labor Market information</i>			

Economic Forecast

- Recovery again slower than prior projections
 - 4th consecutive overall downward revision
- US Economy more structurally impacted by recession than previous estimates
- RI economy continues to under-perform compared to US as a whole and closest neighbors

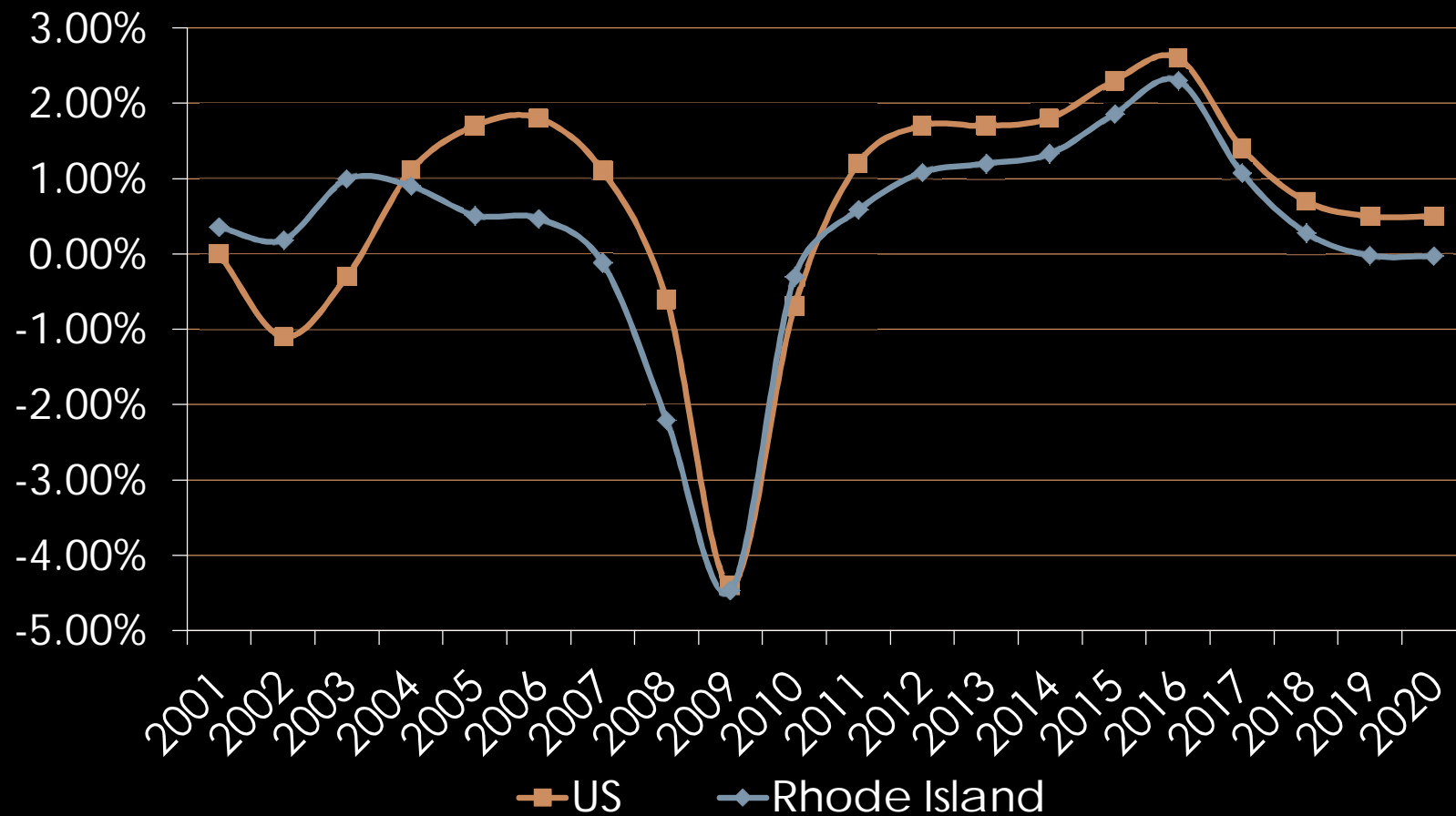
Consensus Economic Forecast

Forecast Differences - Jobs



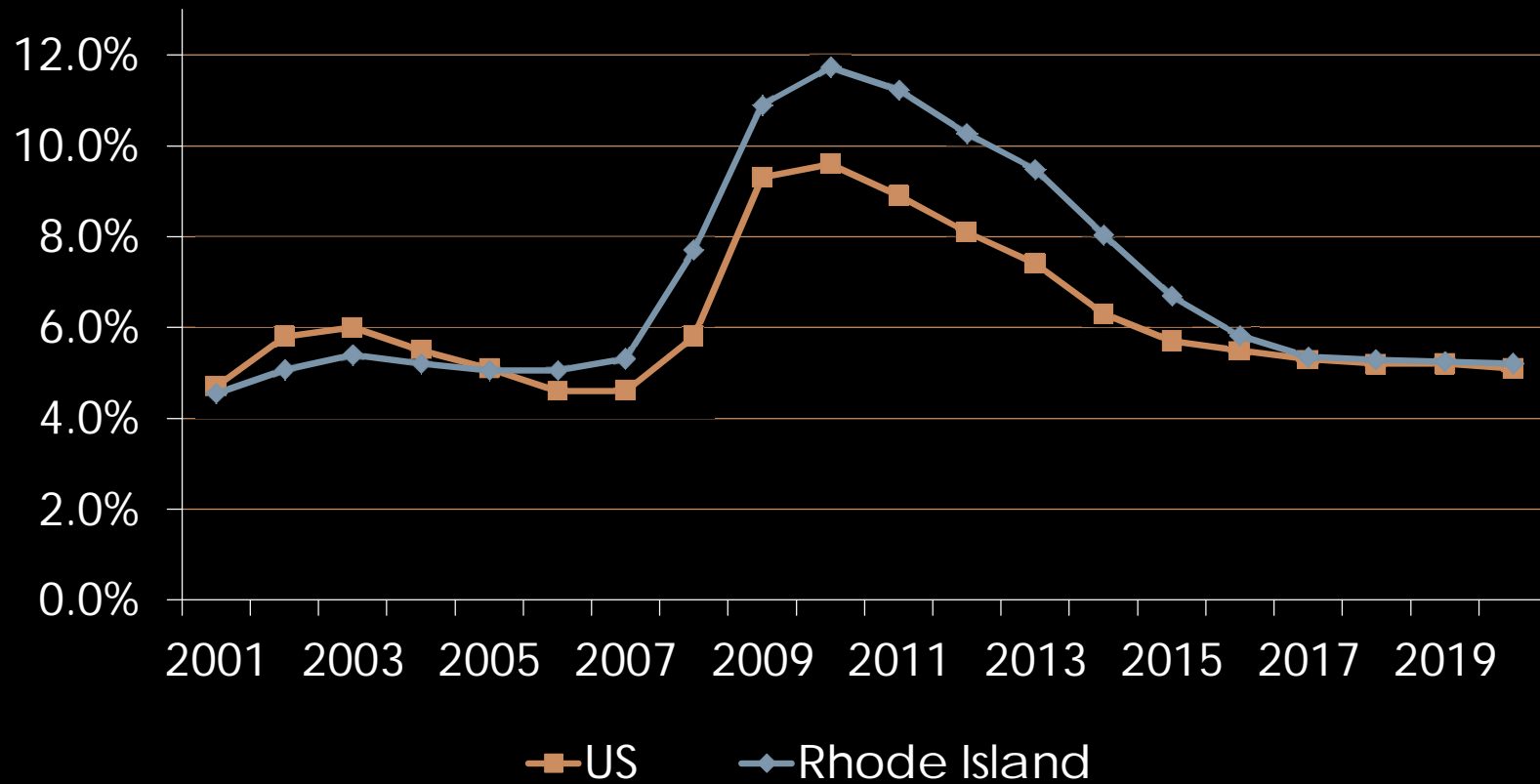
Employment Growth

Jobs Growth - RI Underperforming



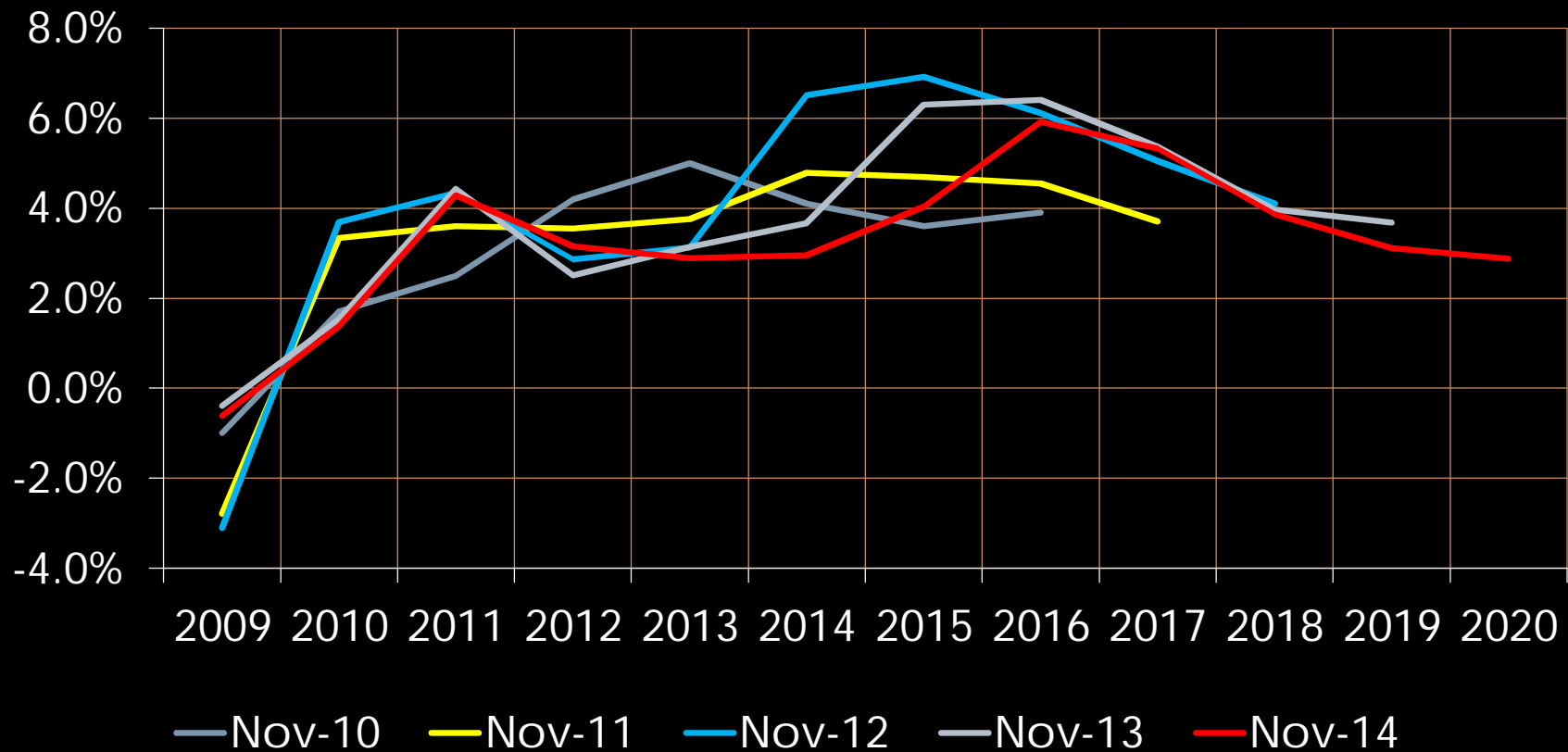
Unemployment Rates

RI has Consistently Higher Unemployment



Consensus Economic Forecast

Forecast Differences - Personal Income Growth



Revenue Drivers



Projections

Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
 - FY 2014 were more than anticipated
 - All excess revenues sent to retirement system
 - Projections assume losses from gaming in Massachusetts in FY 2016

Revenues

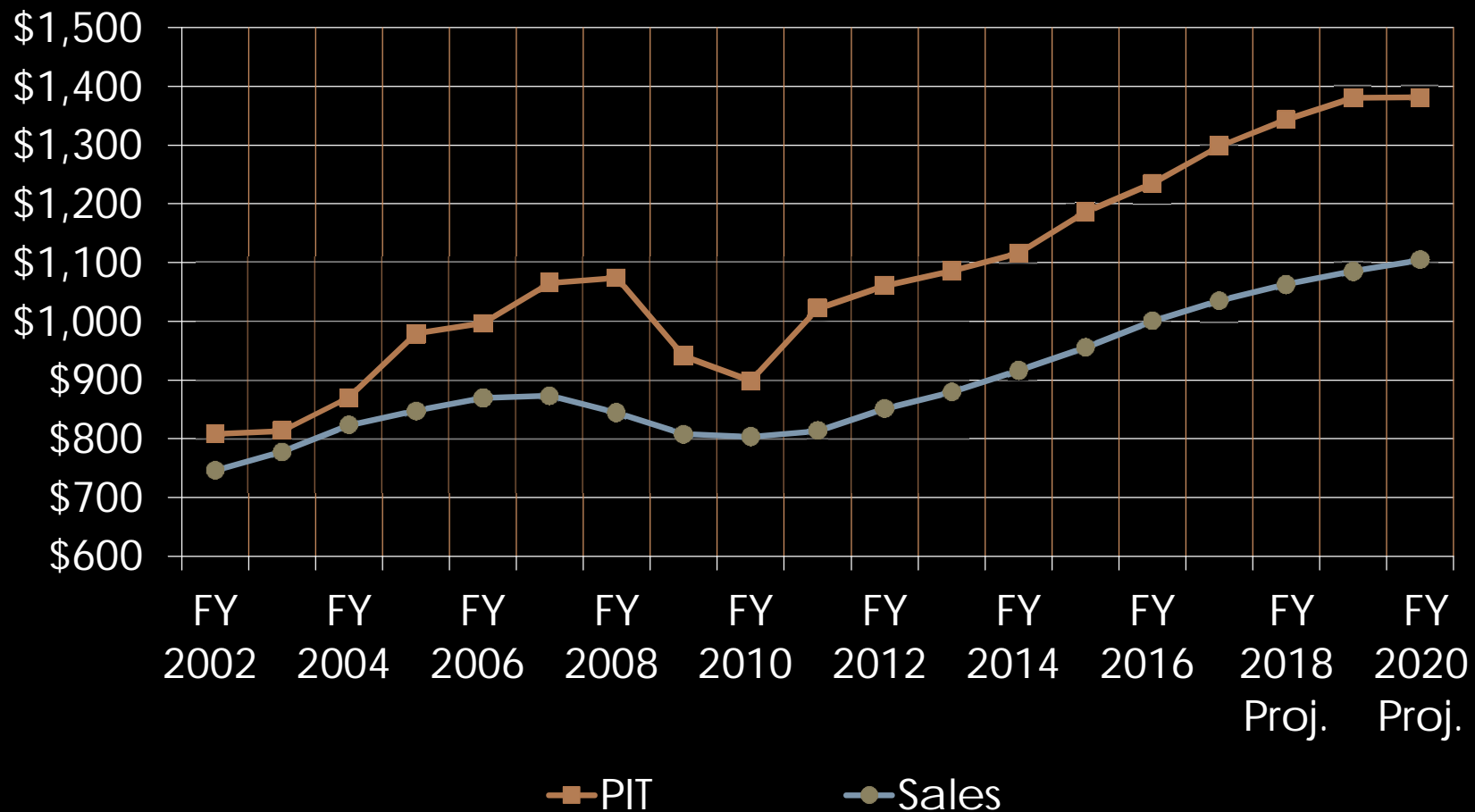
- Taxes in FY 2015 = \$2,757.5 million
 - \$77.0 million or 2.9% above FY 2014 actuals
 - \$18.5 million above the enacted estimate
 - \$25.9 million is from Income and Sales
- Taxes in FY 2016 = \$2,836.9 million
 - 2.9% increase to FY 2015 revised
 - \$79.4 million with \$93.9 million from Income and Sales

November 2014

Consensus Revenue Estimates

<i>(in millions)</i>	FY 2014 Prelim	FY 2015 Rev. Est.	Change to Enacted	FY 2016 Estimate	Change to FY 2015 Rev. Est.
Personal Income	\$1,115.5	\$1,167.7	\$10.6	\$1,216.6	\$48.9
Business Taxes	385.6	391.7	(10.7)	403.4	11.7
Sales & Use Taxes	1,126.7	1,161.2	18.3	1,187.3	26.1
Other Taxes	52.7	36.9	0.3	29.6	(7.3)
Total Taxes	\$2,680.5	\$2,757.5	\$18.5	\$2,836.9	\$79.4
Departmental	360.3	349.3	(2.4)	199.3	(150.0)
Other Misc.	6.4	7.8	0.3	1.1	(6.7)
Lottery	376.3	383.3	(1.2)	334.8	(48.5)
Unclaimed Prop.	12.7	11.0	0.5	8.1	(2.9)
Total	\$3,436.3	\$3,508.9	\$15.8	\$3,380.2	\$(128.7)

Income and Sales



Revenues

- Lottery Revenues – first major decline has been estimated for FY 2016

	FY 2014	FY 2015	FY 2016
Games	\$ 58.1	\$ 56.5	\$ 56.5
VLT (Slots)	306.5	314.9	266.1
Table Games	11.7	11.9	12.2
Total	\$376.3	\$383.3	\$334.8
Y-O-Y %	(-0.8)%	1.9%	(-12.7)%

FY 2014 Closing

- FY 2015 budget counted on surplus from FY 2014 to help fund FY 2015
- Preliminary FY 2014 data showed \$8.7 million gain to that assumption
 - Subject to audit adjustment before final
- Audited data \$8.6 million
 - Revenues had bigger revision – impacting retirement transfer only

FY 2014 *Preliminary*

	Enacted	Current	Diff.
Opening	\$ 111.2	\$111.2	\$ 0.0
Revenues	3,416.0	3,436.3	20.3
Rainy Day	(105.6)	(106.2)	(0.6)
Expenditures*	(3,352.4)	(3,336.3)	16.1
Closing Surplus	59.2	95.0	35.8
Reappropriation	-	(7.4)	(7.4)
Txfer: Retirement		(19.7)	(19.7)
Free Surplus	\$ 59.2	\$ 68.0	\$ 8.7

**Includes \$10 million transfer to accelerated depr. fund*

FY 2014 Audited

	Enacted	Current	Diff.
Opening	\$ 111.2	\$111.2	\$ 0.0
Revenues	3,416.0	3,430.3	14.2
Rainy Day	(105.6)	(106.0)	(0.4)
Expenditures*	(3,352.4)	(3,336.4)	16.0
Closing Surplus	59.2	89.0	29.8
Reappropriation	-	(7.4)	(7.4)
Txfer: Retirement		(13.8)	(13.8)
Free Surplus	\$ 59.2	\$ 67.8	\$ 8.6

**Includes \$10 million transfer to accelerated depr. fund*

Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2015
 - Do savings or higher base expenses in FY 2014 carry to FY 2015?
 - Will delayed purchases require additional funds in current year?
 - Are agencies constraining spending?
 - Are initiatives being implemented?

Closing – Revenues

- Revenues \$14.2 million (0.6%) above
 - Taxes up \$18.3 million with personal income and sales tax gains offsetting business taxes
 - Business taxes have been difficult to estimate
 - All other revenue down \$4.1 million
 - Lottery receipts down \$4.4 million – traditional as well as slots and table games

Closing – Revenues

- Revenues \$14.2 million more
 - Law requires final revenues above estimates be transferred to the Employees' Retirement System to pay down unfunded liability
 - Transfer = \$13.8 million which is net of 3% transfer to rainy day fund
- Prior year transfers
 - \$0.2 million in FY 2013
 - \$12.5 million in FY 2012

Closing - Expenditures

- General revenue spending \$16.0 million (0.5%) below budgeted amounts – but areas of overspending
 - 5 agencies overspent when undistributed COLA funding is considered
- Appropriation lines overspent even if agency totals were not
 - 31% of general revenue lines were overspent... Ongoing pattern not completely explained by COLA issue
 - Last year it was 22%

Closing - Expenditures

Spending \$16.0 million below:

- \$7.4 million unspent & re-appropriated
- \$8.8 million Medicaid savings
- \$2.5 million overspent in DCYF
- \$1.4 million overspent Public Safety
- \$0.8 million overspent in DOC
- \$0.3 million overspent in DEM

Current Year

- The *current year* has a projected deficit mainly from unmet expenditure savings that could affect out-years
 - Major shortfall from overspending masked by revenue uptick, debt service and other savings
- Requests for supplemental appropriations exceed \$60 million
- Q1 reports even higher - over \$90 million to include caseloads

Corrective Action Plans

- Most agencies are projecting to spend more than authorized in FY 2015
- Corrective action plans required by law submitted after Nov. briefing and reviewed in Dec. follow-up hearing
- Budget Office continues to work with agencies on spending issues

FY 2015

	Enacted	Current	Diff.
Opening	\$ 59.2	\$75.2	\$16.0*
Revenues	3,493.1	3,508.9	15.8
Rainy Day	(106.6)	(107.3)	(0.7)
Expenditures	(3,445.2)	(3,505.1)*	59.9
Total FY 2015	\$ 0.6	(\$ 28.3)	(\$28.8)

**Includes \$7.4 million reappropriation*

Current Year

- Revenues are up by \$15.8 million
- Added resources increase rainy day transfer by \$0.7 million
- Expenditures appear up by \$15.5 million net of re-appropriations and November Caseload increase
- Closing surplus down by \$28.8 million

Current Year

Reappropriation	\$ 7.4
Legislature	(1.1)
Employee COLAs	20.2
Debt Service	(20.4)
OHHS: Caseload Conference	37.0
OHHS: Other Programs*	11.8
Corrections*	5.0
Other *	-
Total	\$59.9

* Items different than Budget Office Q1 estimates

Reappropriation

- Statutory requirement: \$4.4 million
 - Legislature rev. budget lowers by \$2.0 million
- Governor discretionary: \$3.0 million
 - I-195 = \$0.6 million
 - E-Permitting = \$0.5 million
 - AG Tobacco Litigation = \$0.4 million
 - DLT Jobs programs = \$0.4 million
 - Personnel Study = \$0.3 million
 - DOA, DOR, DOH total = \$0.7 million

Current Year: *Employee COLAs*

- Governor's FY 2015 budget did not include funding for COLAs
 - Most employee contracts expired at the end of FY 2013
- April 2014, Council 94 agreed to a new 4-year contract
 - July 1, 2013 – June 30, 2017

Current Year: *Employee COLAs*

- Main provisions of new contract:
 - Increase in co-pays for office visits and prescription drugs
 - Health insurance deductibles of \$250/\$500 for individuals/families
 - COLAs
 - April 6, 2014 – 2%
 - October 5, 2014 – 2%
 - October 4, 2015 – 2%

Current Year: *Employee COLAs*

- FY 2015 enacted budget assumed COLA would be absorbed through base adjustments to agency budgets
 - Roughly \$24 million from general revenues
- Q1 report assumes COLA for all
 - Some contracts are still not settled
 - Higher Ed not in total - no ask for state funding of COLA in FY 2015 revised budget

Current Year: *Employee COLAs*

- Impact on out-years
 - Some growth in FY 2016 was assumed from raises but not full impact
 - Full impact estimated at around \$47.4 million from general revenues for all employees
 - Out-year estimates used for deficit projections assumed about ½ would be absorbed, essentially the FY 2015 value

Current Year: *Debt Service*

- Debt Service - \$20.4 million less
 - Historic Tax issuance delay \$10.3 million
 - Refunding \$5.8 million
 - New Issuance - \$4.3 million

Current Year: OHHS

- Nov Caseload Conf. : \$37.0 million
 - Medical Assistance - \$37.2 million more
 - \$12.3 million treatment for Hepatitis C
 - \$6.9 million for long term care
 - \$6.4 million for managed care
 - \$4.8 million for hospital costs
 - \$4.6 million more for unachieved savings
 - Cash Assistance – \$0.1 million less

Current Year: OHHS

- Other Programs: \$11.8 million
 - UHIP - \$4.2 million
 - DCYF – \$7.3 million
 - BHDDH – Consent Decree \$0.3 million
 - Oversight
 - Training

Current Year: OHHS

- Unified Health Infrastructure Project – UHIP
 - In coordination with the Health Benefits Exchange to implement ACA
 - Apply through the Exchange & if Medicaid eligible directed to UHIP
 - Eventually one system to apply for medical and cash assistance benefits
 - Opportunity to build a new system with federal match
 - Replace decades old systems that did not “talk” to each other

Current Year: OHHS

- OHHS/DHS - \$4.2 million – UHIP
 - Shortfall based on updated estimates
 - Match differs based on use
 - 90% match for development costs
 - Other services – 75% to 50% match
 - Plan requires federal approval
 - \$229.6 million; \$51.7 m general revenue total through 2020

Current Year: OHHS

- Is this the final cost for project?
 - Updated plan filed October 2014
- What is the net cost when only have one system?
 - Currently funded systems will not be needed – those savings have not been identified
 - Additional program integrity and personnel efficiencies
- Unresolved issue of Exchange funding impacts this

Current Year: OHHS Caseload

- DCYF - \$7.3 million
 - Still many unknowns and moving parts
 - Agency and Budget estimates appear inflated but there are clearly major issues
 - System of Care related issues - \$5.0 million
 - Foster Care rate Proposal - \$1.7 million
 - Caseworker related - \$1.0 million
 - Other unachieved savings - \$0.3 million
 - Other new expenses - \$0.5 million
 - Offsetting savings – (\$1.3) million

Current Year: Corrections

- Corrections -\$5.0 million more
 - 44 more inmates than enacted budget
 - Per diem inmate costs – \$0.9 million
 - Hepatitis C estimate - \$1.5 million
 - Staffing expenses - \$4.3 million
 - Unachieved Savings related to correctional industries - \$0.5 million
 - Reduced federal funding -\$0.2 million
 - Other reductions offset \$2.4 million of this

Current Year: *Other*

- All other projected adjustments to agency expenditures net to zero
 - Utilities Increases - \$0.8M
 - Elections Public Matching Funds - \$0.7M
 - Higher Education Admin Office - \$0.8M
 - Education Aid Adjustments - \$0.5M

Current Year: *Other*

- All other projected adjustments to agency expenditures net to zero
 - DEM Seasonal/Park & Rec - \$0.6M
 - State Police retirement - \$0.6M
 - Turnover Savings in many agencies partially offsetting COLA – DOA, DOR, DBR

Current Year

- Difference from Budget Office –
 - Neither is a recommendation, but staff estimates exclude many new spending items included in agency requests

Current Year

- Only five months left to solve and fewer if legislation is required
- Prior Administration's efforts?
 - May memo – constrained spending
 - September memo – hiring freeze
- Filled Positions
 - Staff is monitoring changes
 - Some needed to generate revenue

Budget Year and Out-years

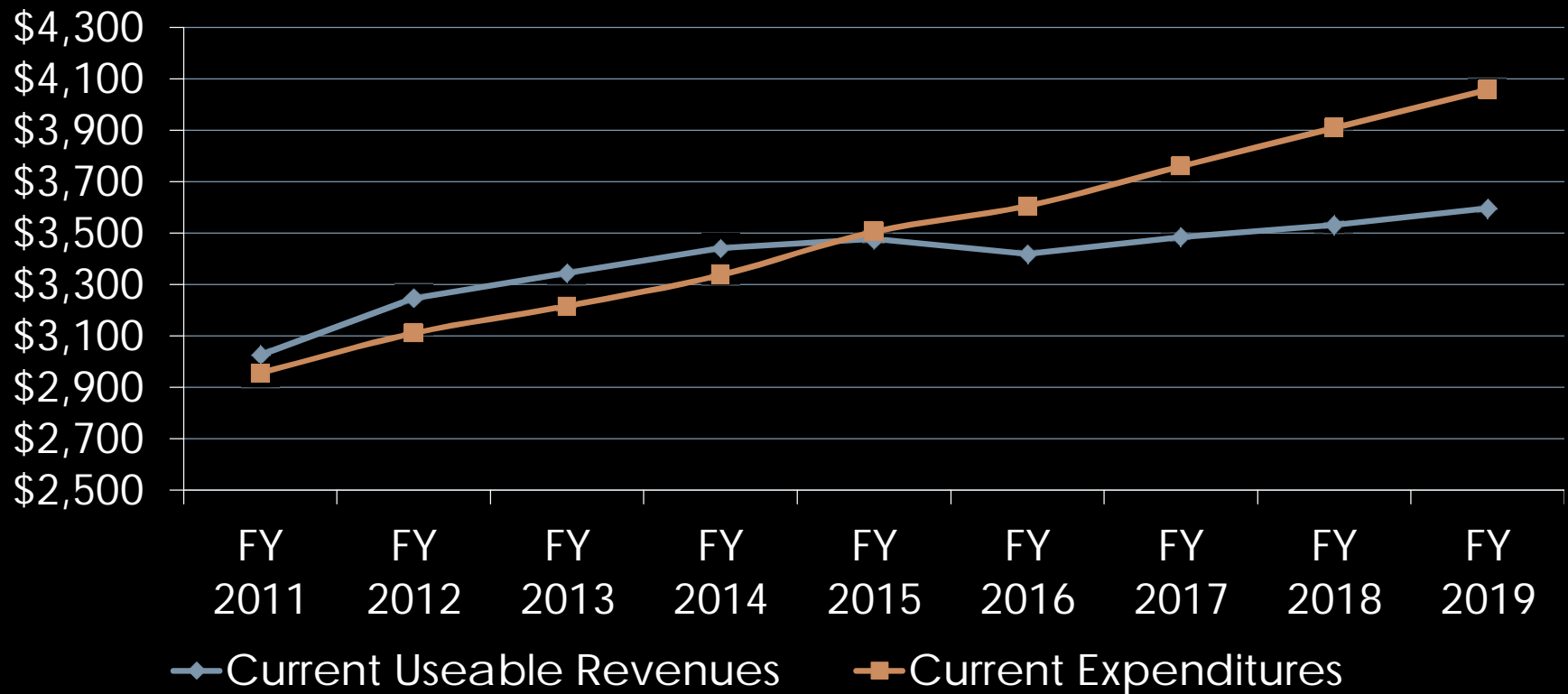
- There are also *budget year* and *out-year* problems
 - FY 2016 was estimated in July to have a gap of approximately \$122 million
 - Budget Office estimated higher gap - mainly to revenue projection differences and COLA treatment
 - General size of issue in later years not likely to change significantly

Issues and Risks to the Forecast

- Economic impact of federal action
- Oil/Gas Prices
- True Hepatitis C costs
- Regional gaming issues
- Sustainable funding for state health benefits exchange
- Control of current year spending to mitigate budget year deficit
 - Weather events

Budget and Out Years

Revenues vs. Expenditures: HFAS Nov. Estimate



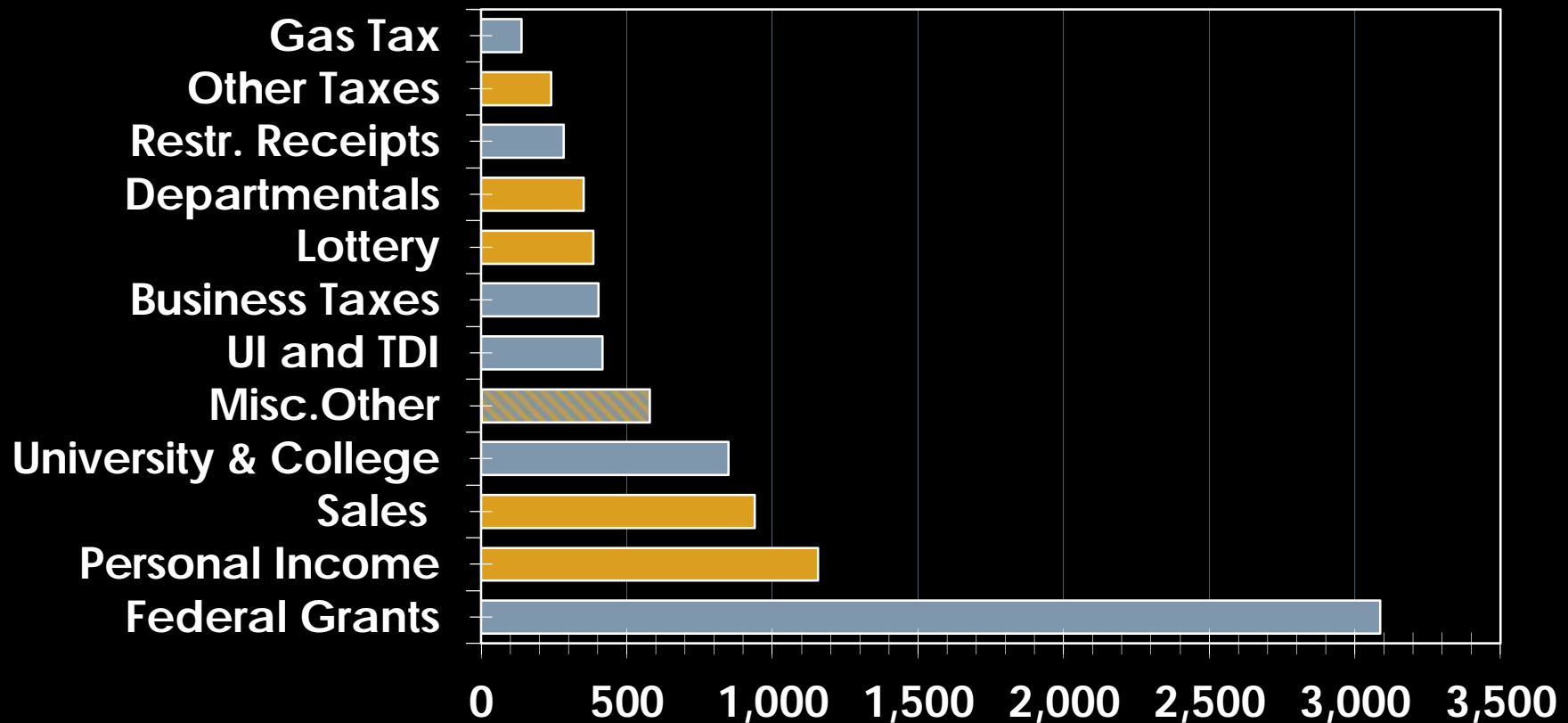
Budget Year and Out-years

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
 - Gaming revenue losses begin in FY 2016
 - Increasing dedication of revenues to transportation
 - Annualized impact of tax law changes

Budget Year and Out-years

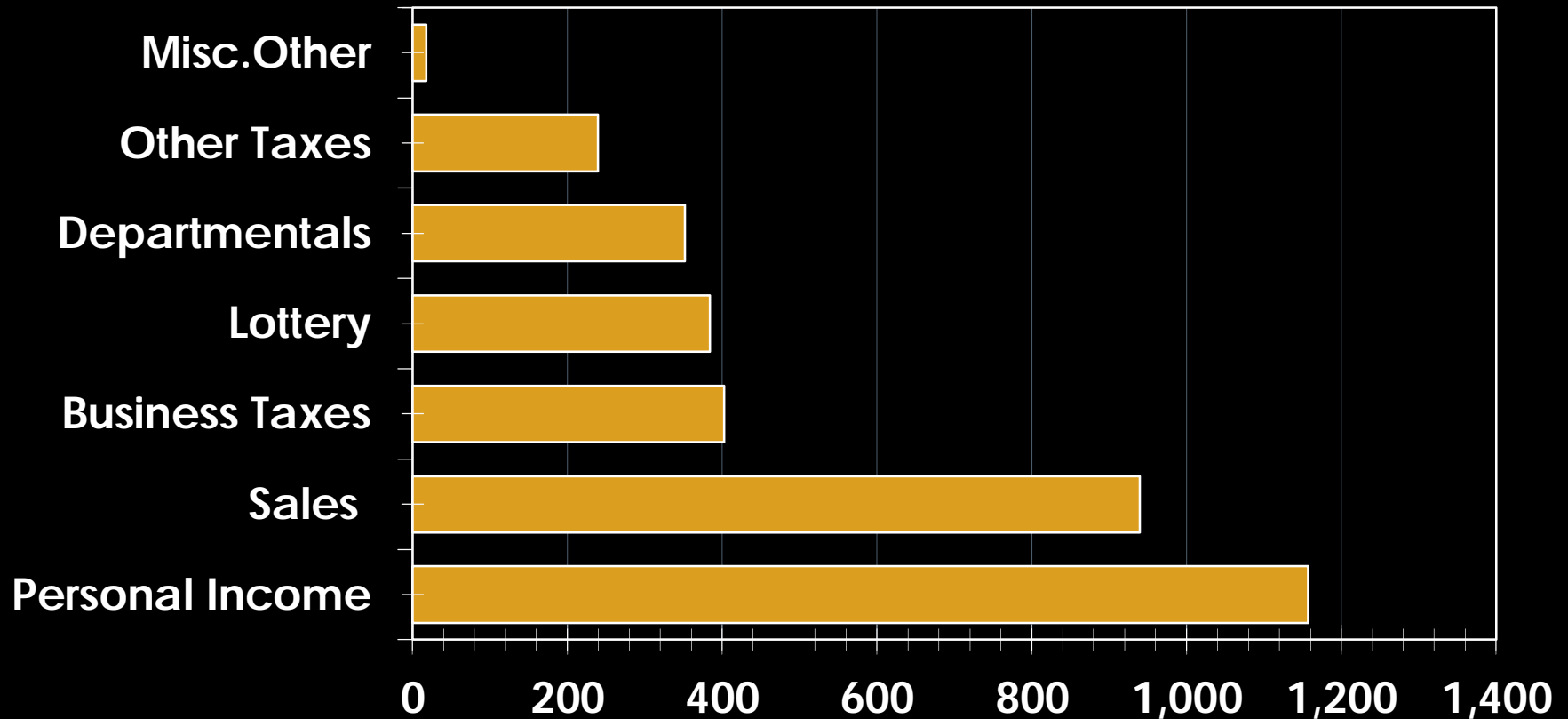
- Continued issue of problematic expenditure structure
 - Many enacted structural changes implemented... still others not achieved
 - Growth rates exceeding revenue growth rates

All Sources *(millions)*

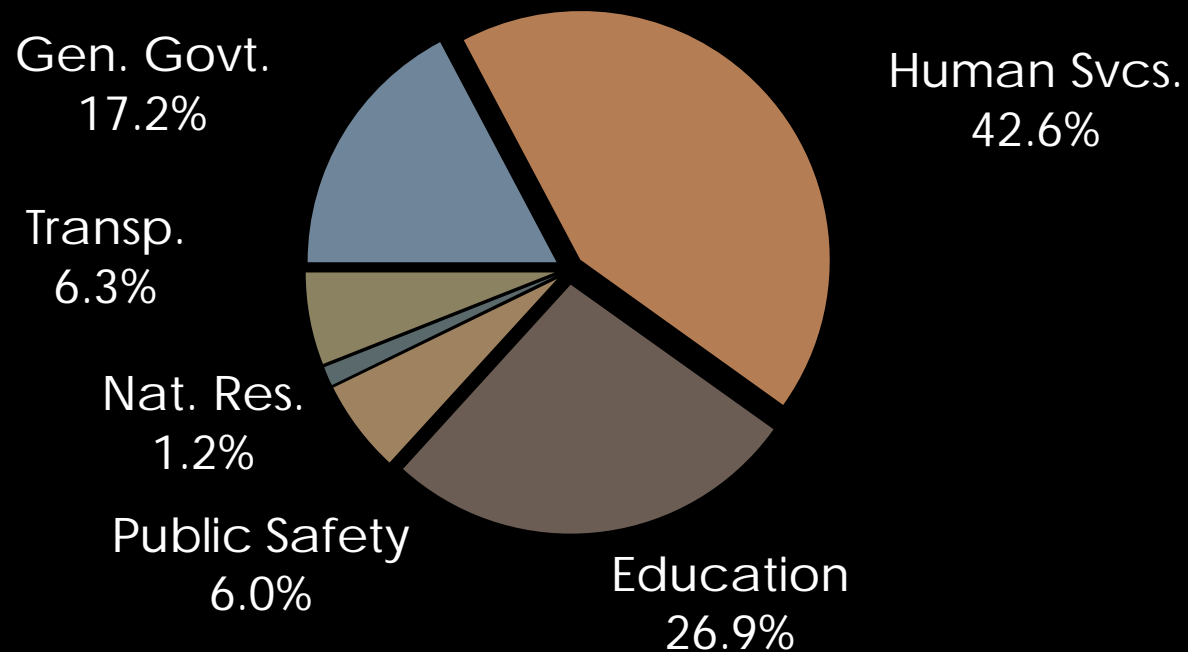


General Revenue Sources

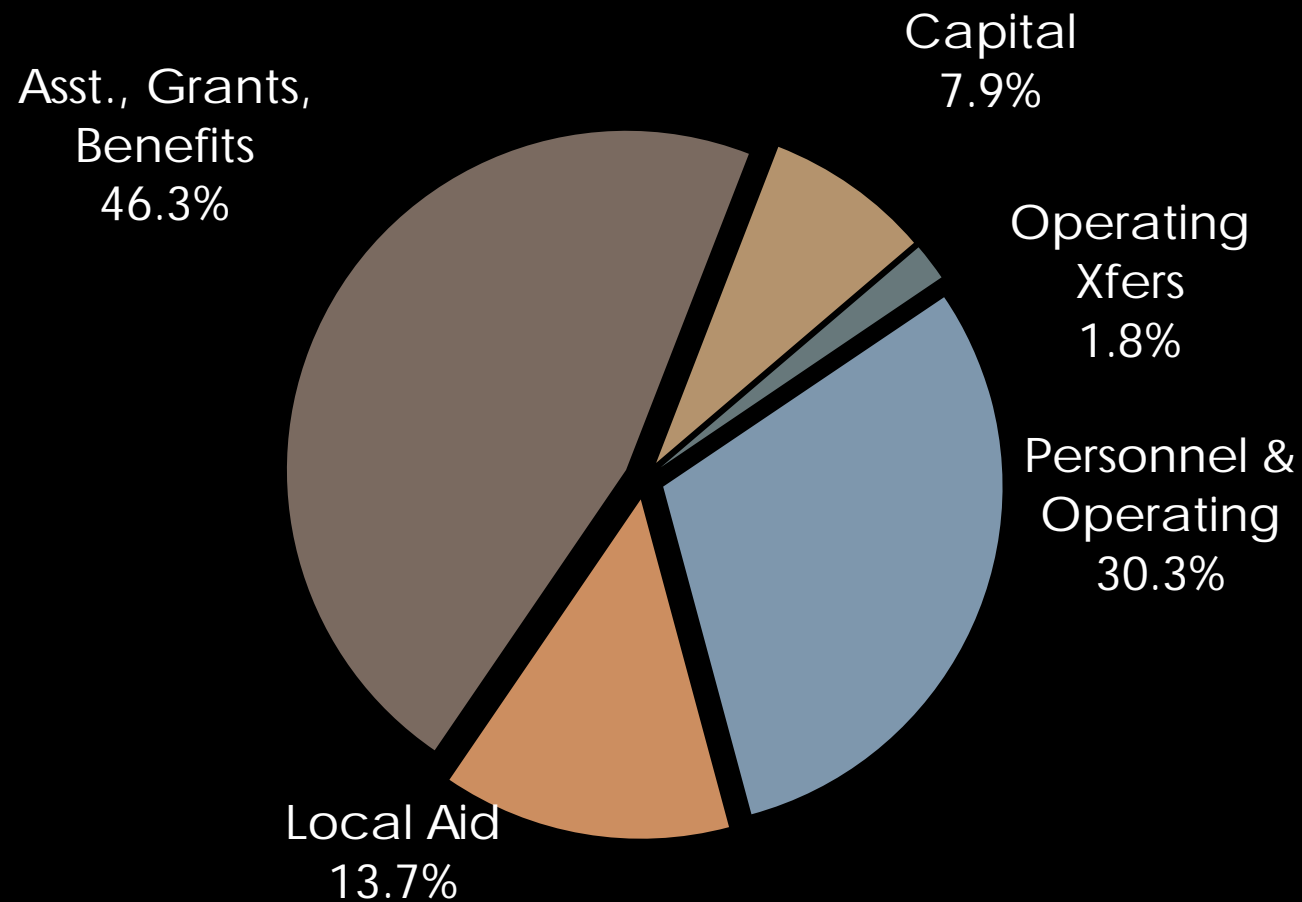
(millions)



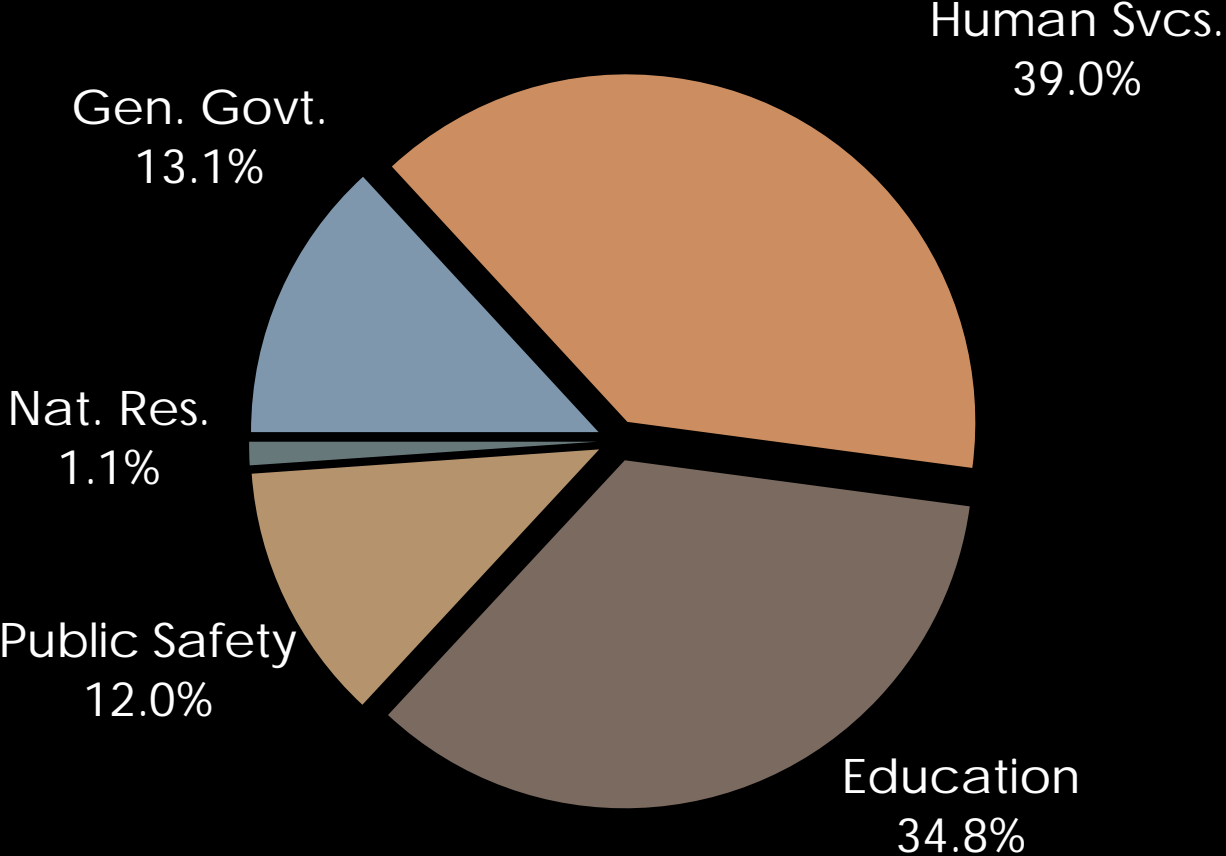
Uses – All Funds by Function



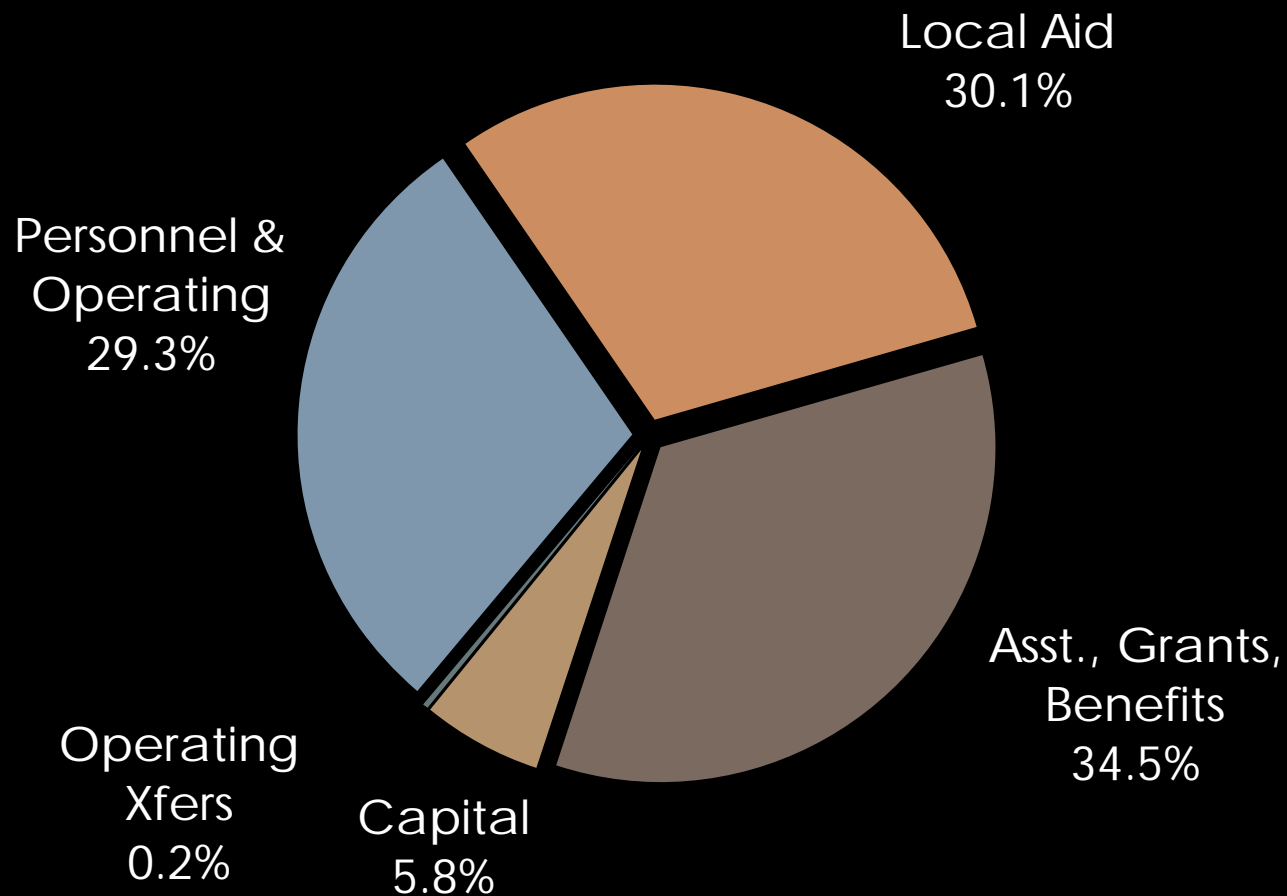
Uses – All Funds by Category



Uses – General Revenues by Function



Uses – General Revenues by Category

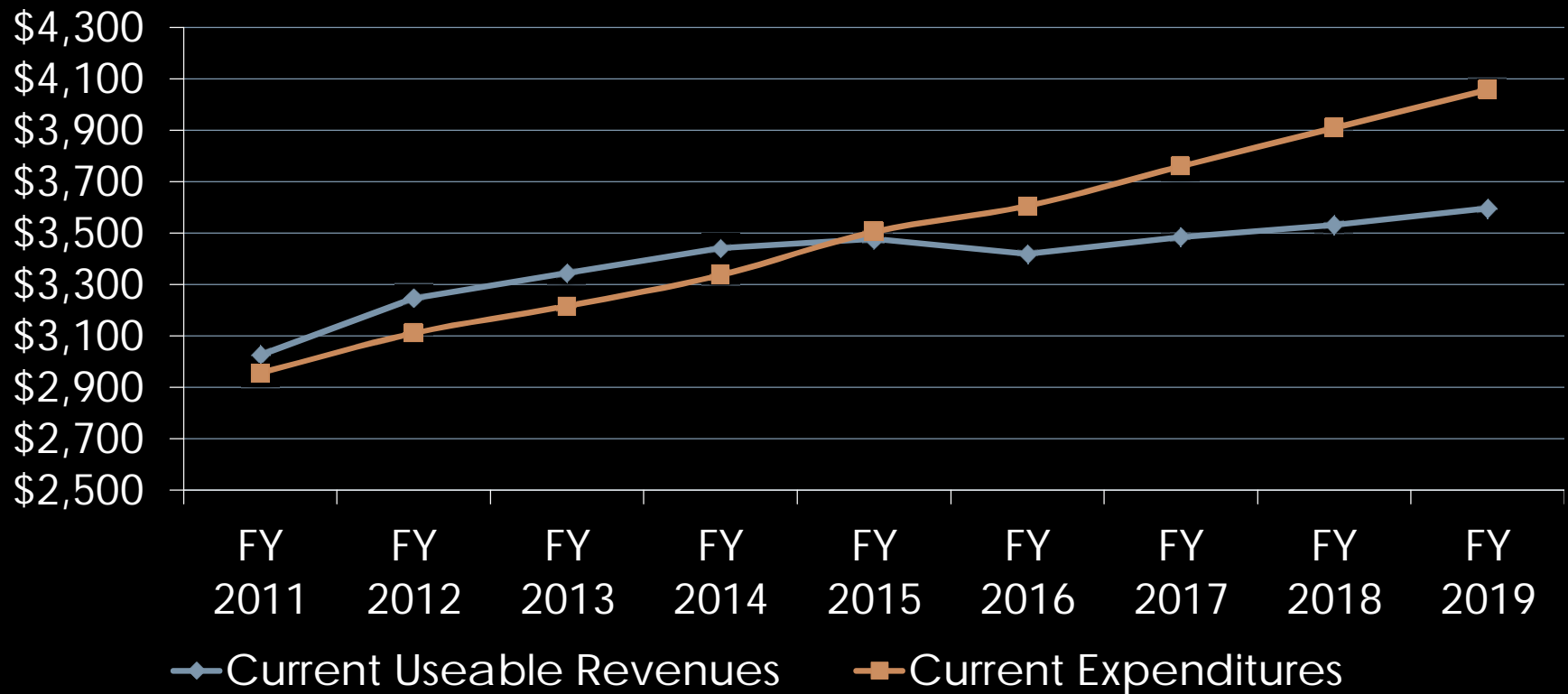


Structural Deficit

- What is it?
 - When current expenses exceed current revenues
 - Prior year surplus or other one-time resources/cuts cover the gap
- Why does it happen?
 - Short term economic events
 - Spending needs/wants growing faster than revenues

Budget and Out Years

Revenues vs. Expenditures: HFAS Nov. Estimate



Uses – Growth Rates

Item	Est. Annual Growth
Jobs	1.2%
State Personal Income	5.1%
Taxes	2.7%
Total Revenues	1.4%
Total Expenditures	4.1%
Salaries & Benefits – 25% of total	3.5%
Medicaid – 31.5% of total	6.0%

Structural Deficit

- How do you fix it?
 - Align growth rates of revenues and expenditures
 - Identify areas that are not in alignment
 - Identify highest priorities, greatest impact and measure all decisions against those

Structural Deficit

- How do you fix it?
 - Sometimes this has to be done over a longer time horizon – meaning one-time fixes can be used to bridge gaps to fully implemented structural solutions
 - “Over-solve” for budget year with solutions that have full impact in years 2 and 3

Structural Deficit

- What makes it hard to fix?
 - Solutions on both revenue and expenditure side of the equation have support and impact many
 - Many competing ideas
 - Pressing need for services or infrastructure investment
 - Need to reverse stagnant growth and compete
 - Budget process may not produce all options

Budget Year and Out-years

- Budget Office Instructions based on \$166.6 million July deficit projection
 - Includes calculation of current service revenues and expenses
 - Some revisions based on updated data
 - Other revisions reflect different methodology and “policy choices”
 - Fully funds COLA – FY 2015 enacted assumed portion absorbed into base

FY 2016 Budget Gap

FY 2015 Enacted Budget (millions)	Total	S/B in total
Education Aid	\$961.0	-
Local Aid	77.3	-
Medicaid Programs	1,083.8	72.2
Other Human Service Programs	258.2	112.5
Public Safety	413.2	336.0
Environment	37.7	29.8
Higher Education (incl. debt)	191.0	105.1
Other Education	47.3	31.6
Debt Service (excl. higher ed.)	168.1	-
Other State Government	207.6	141.3
Total FY 2015 General Revenues	\$3,445.2	\$828.6

FY 2016 Budget Gap

FY 2016 Budget Gap Calculation	Total	S/B in Total
FY 2015 General Revenues	\$3,445.2	\$828.6
Statewide Benefit Adj.(no COLA)	5.4	5.4
COLA	37.4	37.4
Caseload & Medicaid Match Adj.	45.6	-
Debt Service	3.9	-
Local Aid	(3.5)	-
Education Aid	46.0	-
Nonrecurring and Other Items	15.5	-
Subtotal: Current Service Adjust.	\$150.3	\$42.8
FY 2015 Current Services	\$3,595.5	\$871.4
FY 2016 Revenues (BO Estimate)	\$3,428.9	
Budget Gap	(\$166.6)	

FY 2016 Budget Requests

- Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office
- Agency requests exceed current service estimates by over \$62 million
 - Not all same items included
- Agency requests are \$212.1 million over the FY 2015 enacted budget

FY 2016 Budget Requests

- Budget Office also asked for options for reductions of 7.5%, adjusted for certain exclusions
- Those reductions represent \$166.6 million of savings from Budget Office current service estimate
- Prior years' targets have been larger than estimated deficit

Budget Year and Out-years

- That design gives adequate options when proposals are rejected or softened
- Options allow decision makers to consider all choices and implications
- But prior years' actions limit options

Summary

- Governor's Budget currently expected around March 12
- Major budget challenges
 - Slow growing economy
 - Structural tax and expenditure issues
 - Long anticipated gaming losses now immediate factor
 - Deficit fatigue
 - Specific agency issues

Next Briefings

- *Wednesday February 4* – Medicaid and Human Services programs and issues
- *Wednesday February 11* – Personnel and related issues
- *Wednesday February 25* – Local Aid and other issues of interest

Budget Status

House Finance Committee
January 29, 2015
