

Budget Status

House Finance Committee
December 6, 2016

Introduction

- Governor's FY 2018 and FY 2017 revised budgets are due January 19 – 6 weeks from now
- 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 2017
 - Staff estimates for FY 2018 and beyond
 - Estimates vary – this is HFAS perspective

Introduction

- Typically staff briefs Committee regarding overall fiscal situation for current year, budget and out-years
 - Economy
 - Projections
- Today's briefing will cover those issues and discuss budget process
 - Highlight some areas of concern

Introduction

- Preliminary Closing – Sept 1
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 7
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor's Budget – Jan 19
- Agencies Q2 – Jan 30

Introduction

- The state continues to face structural budget problems
- Current year picture is clearer and overspending eating into unexpected revenues
 - Potentially exacerbating structural issue
- Facing continued budget year and out-year issues growing from about \$112 million to over \$300 million

Economic Forecast

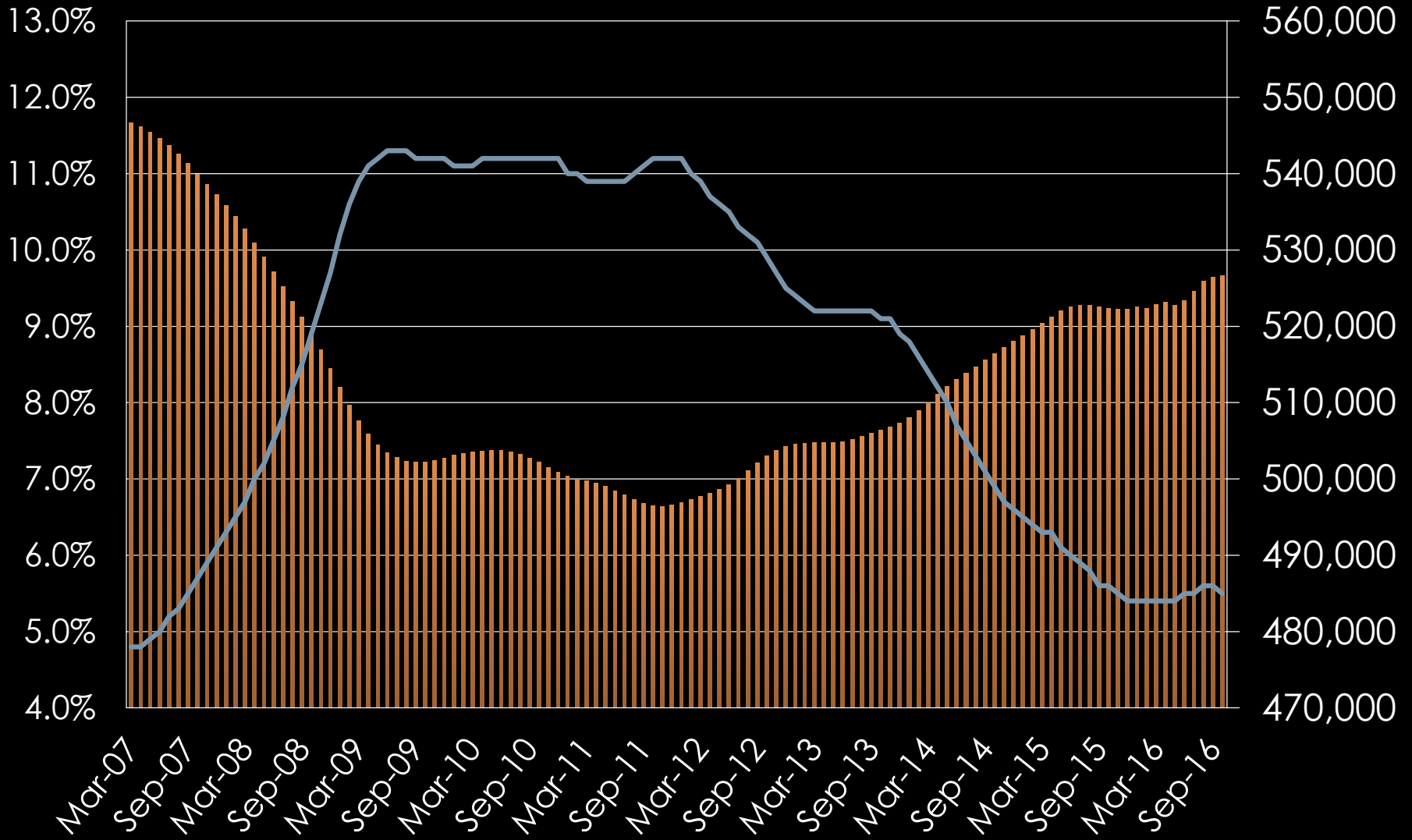
Economic Forecast

- Revenue Estimating Conference adopts a consensus economic forecast
 - It takes testimony from IHS Economics
 - The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts
 - Updated in November

Economic Forecast

- November forecast more pessimistic than May 2016 forecast
- Employment, personal income, wage & salary growth rates all projected to be somewhat lower in FY 2017
 - Growth shifted to later years
 - Some structural downgrade to forecast
- RI recovery continues to lag U.S. and other New England states

Unemployment Rate and Total Jobs March 2007 – Oct 2016

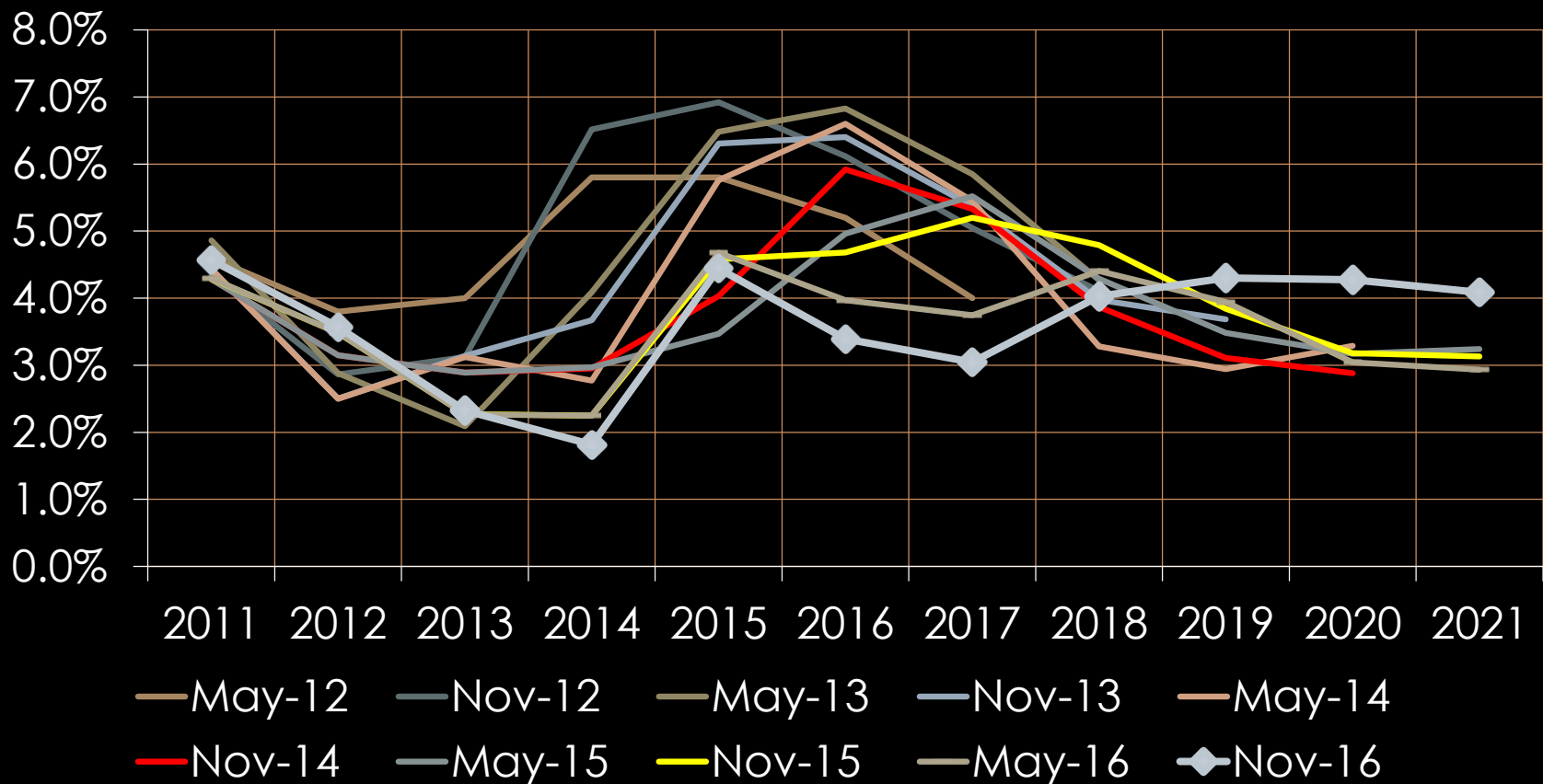


Economic Forecast

- As of September, RI has recouped 86.2% of jobs lost during the recession
- 35,100 net new jobs created between August 2009 and September 2016
 - 38% in jobs paying less than \$29,999
 - 42% between \$30,000 - \$59,000
 - 21% over \$60,000
- This lags US and New England except Maine and Connecticut

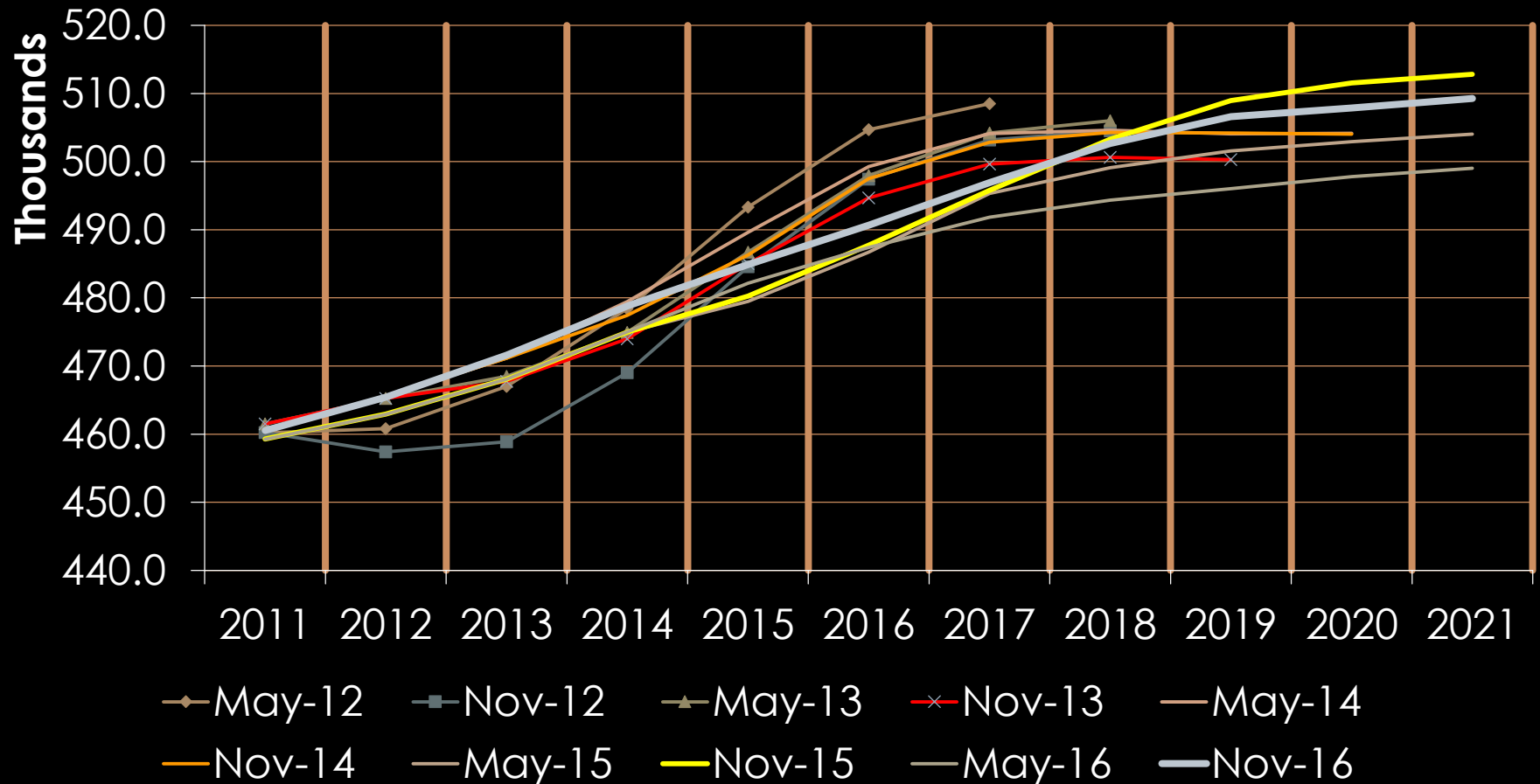
Consensus Economic Forecast

Forecast Differences - Personal Income Growth



Consensus Economic Forecast

Forecast Differences - Jobs



Revenue Drivers



Revenue Projections

Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
 - FY 2016 were more than anticipated
 - Unexpected events covered missed estimates
 - Losses from gaming in Massachusetts stabilized new losses not in REC forecast horizon

Revenues

- Taxes in FY 2017 = \$2,973.1 million
 - \$65.2 million or 2.2% above FY 2016 actuals
 - Impact of tax changes, cyclical items
 - \$41.4 million above the enacted estimate
 - Nearly half from personal income tax
- Taxes in FY 2018 = \$3,029.5 million
 - 1.9% increase to FY 2017 revised
 - \$55.3 million: \$72.5 million from Income & Sales
 - Final shift of revenues to transportation
 - Annualized tax change impacts

November 2016

Consensus Revenue Estimates

<i>(in millions)</i>	FY 2016 Reported	FY 2017 Rev. Est.	Change to Enacted	FY 2018 Estimate	Change to FY 2017 Rev. Est.
Personal Income	\$1,217.4	\$1,267.6	\$18.4	\$1,316.2	\$48.6
Business Taxes	435.2	477.0	17.7	481.3	3.2
Sales & Use Taxes	1,173.8	1,184.8	(4.7)	1,192.8	8.0
Other Taxes	81.5	43.7	10.1	39.2	(4.5)
Total Taxes	\$2,907.9	\$2,973.1	\$41.4	\$3,029.5	\$ 55.3
Departmental	367.6	364.8	3.3	206.7	(158.1)
Other Misc.	4.1	7.2	0.1	0.8	(6.3)
Lottery	369.8	363.5	(1.8)	365.0	1.5
Unclaimed Prop.	14.2	11.0	1.8	9.6	(1.4)
Total	\$3,663.6	\$3,719.6	\$44.8	\$3,611.6	\$(109.0)

Revenues

- Other than Taxes
 - FY 2017 = \$746.5 million
 - Up \$3.4 million
 - FY 2018 = \$582.1 million
 - Down \$109.0 million from FY 2017
 - Excludes \$169.0 million hospital license fee but deficit calculations assume reenactment
 - Lottery up \$1.5 million
 - All others down \$7.7 million – mostly impact of one-time revenue

Revenues

- Lottery – major declines were estimated; actual is less severe, more coming later

Type	Fiscal Year				
	2014	2015	2016	2017	2018
Games	\$ 58.1	\$ 56.9	\$ 61.0	\$ 56.6	\$55.9
VLT (Slots)	306.5	312.3	293.2	288.9	290.8
Tables	11.7	12.8	15.6	18.0	18.3
Total	\$376.3	\$381.9	\$369.8	\$363.5	\$365.0
Y-O-Y %	(-0.8)%	1.5%	(3.2)%	(1.7)%	0.4%

Closing and Current Year

FY 2016 Closing

- As with prior years, FY 2017 budget counted on surplus from FY 2016 to help fund expenses for which there were no current revenues
- Preliminary FY 2016 data shows \$43.9 million gain to that assumption
 - Subject to audit adjustment before final

FY 2016 Preliminary

	Enacted	Current	Diff.
Opening	\$ 174.9	174.9	\$ 0.0
Revenues	3,635.0	3,663.6	28.6
Rainy Day	(114.1)	(114.9)	(0.9)
Expenditures	(3,572.6)	(3,548.5)	24.1
Closing Surplus	123.3	175.1	51.8
Reappropriation	-	(7.8)	(7.8)
Free Surplus	\$ 123.3	\$167.2	\$ 43.9

Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2017 and structural issues
 - Do savings or higher base expenses repeat?
 - Are initiatives being implemented?
 - Are they just slow or not achievable?
 - Are agencies constraining spending?

Closing – Revenues

- Revenues \$28.6 million (0.8%) above
 - Taxes up \$22.7 million: unusual inheritance tax payment covered misses in income (\$7.5M), corporate (\$18.6M), and sales taxes (\$9.1M)
 - Refund issue adding unexpected challenge to personal income estimate
 - Corp taxes affected by IT system change-over that saw pending refunds cleared
 - All other revenue up \$5.8 million
 - Dept. receipts; unclaimed property

Current Year

- The *current year* is balanced but includes unmet expenditure savings and base spending increases that could affect out-years
 - Major shortfall from overspending masked by revenue uptick, and other savings

Closing - Expenditures

- General revenue spending \$24.1 million (0.7%) below budgeted amounts – but areas of overspending
 - 3 agencies overspent total
 - Judiciary– negligible amount
 - Corrections and BHDDH
- Appropriation lines overspent even if agency totals were not
 - 21.7% of general revenue lines were overspent... Ongoing pattern

Closing - Expenditures

Spending \$24.1 million below:

- \$7.8 million unspent & re-appropriated
- \$3.5 million DOA – utilities, staffing
- \$10.0 million Medicaid savings
- \$1.4 million administrative savings - EOHHS

- \$0.9 million *overspent* in BHDDH
- \$0.3 million *overspent* in Corrections
- <\$100 in Judiciary

Closing - Expenditures

- \$10.0 million less for Medicaid -1.1 %
 - \$3.0 million less for managed care programs from claiming enhanced Medicaid match & higher rebates
 - \$2.7 million less for long term care
 - \$4.4 million less for other programs
 - Pharmacy, hospital & other medical services

Closing - Expenditures

- BHDDH - \$0.9 million overspend
 - \$0.8 million more for privately provided services in Division of Dev Disabilities
 - \$0.1 million more for RICLAS
 - Above \$1.6 million added back for unachieved initiative to move people to less intensive setting
 - \$1.0 million in unachieved cost shift
 - \$1.0 million less at state hospital
 - \$0.2 million less from all sources/shift to Medicaid

Current Year

- Revenues are up by \$44.8 million
- Added resources increase rainy day transfer by \$2.7 million
- Expenditures appear up by \$19.4 million net of re-appropriations and November Caseload increase
- Closing surplus up by \$62.0 million

FY 2017

	Enacted	Current	Diff.
Opening	\$ 123.3	\$175.1	\$51.8*
Revenues	3,674.7	3,719.6	44.8
Rainy Day	(113.9)	(116.6)	(2.7)
Expenditures	(3,683.7)	(3,715.7)*	32.0
Total FY 2017	\$ 0.4	\$62.4	\$62.0

**Includes \$7.8 million reappropriation*

Corrective Action Plans

- RIGL 35-3-24 requires Departments to submit corrective action plans within 30 days of discovery of over-obligation or over-expenditure
 - Plans to be submitted to Budget Officer, Controller, Auditor General, Chairs of House and Senate Finance Committees

Corrective Action Plans

- Corrective Action Plans
 - Are savings feasible?
 - Do they require law changes?
- Budget Office Q1 notes it is working with agencies to resolve deficits
- BHDDH and DCYF received more OMB guidance/restrictions in October

Corrective Action Plans

- 17 agencies are projecting to spend more than authorized in FY 2017
 - Some include new items that may overstate actual overspend
- 7 submitted corrective action plans
 - DCYF this morning, BHDDH this afternoon
 - Corrective actions total \$13.1 million
 - Includes \$8.6 million from DOC selling land

Current Year

Reappropriation	\$ 7.8
Legislature*	(1.3)
OHHS: Caseload Conference	4.7
OHHS: Other Programs	11.2
RIBCO Arbitration	9.4
Courts*	1.8
Other *	(1.6)
Total	\$32.0
* Items different than Budget Office Q1 estimates	

Reappropriation

- Statutory requirement: \$6.3 million
 - Legislature budget lowers by \$1.3 million
- Governor discretionary: \$1.6 million
 - “...may be reappropriated by the governor to the ensuing fiscal year and made immediately available for the same purposes as the former appropriations...”
 - Not all actions appear to conform to statute

Reappropriation

- Governor discretionary: \$1.6 million
 - I-195 - \$0.1 million
 - **EOHHS - \$0.3 million**
 - Municipal Incentive Aid - \$0.1 million
 - Personnel Study - \$0.4 million
 - **Governor Contingency - \$0.3 million**
 - DOA, DBR, Elections, Mental Health Advocate, AG, & Military Staff - \$0.4 million total

Current Year: OHHS

- Nov Caseload : \$4.7 million more
 - Medical Assistance - \$9.6 million more
 - Not all savings initiatives implemented as proposed - \$5.4 million added back
 - UHIP delay - \$2.4 million
 - Transportation contract re-procurement - \$1.0 million
 - Automated patient share - \$1.0 million
 - NICU bundled rate - \$1.0 million
 - Pharmacy savings initiative greater by \$2.7 million offsets others related to managed care that were implemented but not full savings

Current Year: OHHS

- Nov Caseload : \$4.7 million
 - Cash Assistance – \$4.9 million less
 - Primarily delay in federal enhancement requirements related to child care

Current Year: OHHS

- Other Programs: \$11.2 million
 - DCYF – \$4.8 million
 - BHDDH – \$5.7 million
 - DHS - \$0.7 million

Current Year: DCYF

- DCYF - \$4.8 million
 - Unachieved savings - \$2.7 million
 - Caseloads - \$3.8 million
 - Turnover and operating savings (\$1.7 million)
 - Juvenile corrections

Current Year: DCYF

FTEs	Enacted	Avg. Filled	% Filled	Highest Filled	% Highest Filled
FY 2011	691.0	617.5	89.4%	628.0	90.9%
FY 2012	662.5	605.7	91.4%	616.0	93.0%
FY 2013	665.5	580.3	87.2%	593.0	89.1%
FY 2014	670.5	581.4	86.7%	595.0	88.7%
FY 2015	670.5	571.2	85.2%	591.0	88.1%
FY 2016	672.5	548.8	81.6%	565.0	84.0%
FY 2017	629.5	533.1	84.7%	541.6	86.0%

Current Year: BHDDH

- BHDDH - \$5.7 million only \$4.8 million new
 - Home Health Aides - \$0.9 million
 - Shift from EOHHS Medicaid budget
 - Reverses budget initiative that had unintended consequences for individual service plans
 - Unachieved operations savings from Eleanor Slater Hospital - \$3.5 million
 - Unachieved cost shifts - \$1.1 million
 - Other staffing & operations - \$0.2 million

Current Year: DHS

- DHS - \$0.7 million more net of caseload savings
 - UHIP/InRhodes extension operations cited elsewhere as about \$1 million
 - Multiple cost shifts among programs and fund sources makes this hard to verify
 - Vocational Rehab services maintenance of effort issues

Current Year: Judiciary

- Judiciary - \$1.8 million
 - Judicial appointments - \$0.7 million
 - Case Management System - \$0.6 million
 - Outside Legal - \$0.3 million
 - Interpreters and Translators - \$0.1 million

Current Year: Corrections

- Corrections -\$9.8 million
 - RIBCO COLA - \$9.4 million
 - Population/Medical – \$1.3 million
 - Per diem inmate costs
 - Mental health/psychiatric services
 - New lab testing contract
 - Institutional corrections staffing – (\$0.9 million)

Current Year: Corrections

- RIBCO COLA - \$9.4 million
 - State had been budgeting as if settlement would be same as state employees
 - Nearly twice the FY 2018 base impact than planned
- \$12.7 million set aside from previously budgeted amounts for all prior years
 - Will cost \$18.2 million - \$5.5 million more
- \$8.3 million budgeted for FY 2017
 - Actual costs are \$12.2 million - \$3.9 million more
 - \$15.0 million for FY 2018

Current Year: Other

- All other projected adjustments to expenditures down \$1.6 million
 - DOA utility savings- \$1.6 million
 - Secretary of State regulatory initiative partial shift to FY 2018 - \$0.3 million
 - AG – staffing savings - \$0.3 million
 - Increased statewide savings - \$0.3 million

Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2015 Avg.	13,212.7	588.3	13,801.1
FY 2016 Avg.	13,097.9	591.7	13,689.6
FY 2017 Enacted	14,206.8	745.8	14,952.6
<i>Avg. Filled 11/16</i>	<i>13,104.1</i>	<i>597.9</i>	<i>13,702.0</i>
Diff. from Enacted	(1,102.7)	(147.9)	(1,250.6)
Diff. from FY 2016	6.2	6.2	12.4

Current Year

- Difference from Budget Office –
 - Neither is a recommendation
 - Staff estimates exclude many new spending items included in agency requests
 - Items requested but not funded in enacted budget
 - Items desired because of savings in other areas

Budget and Out-years

Budget Year and Out-years

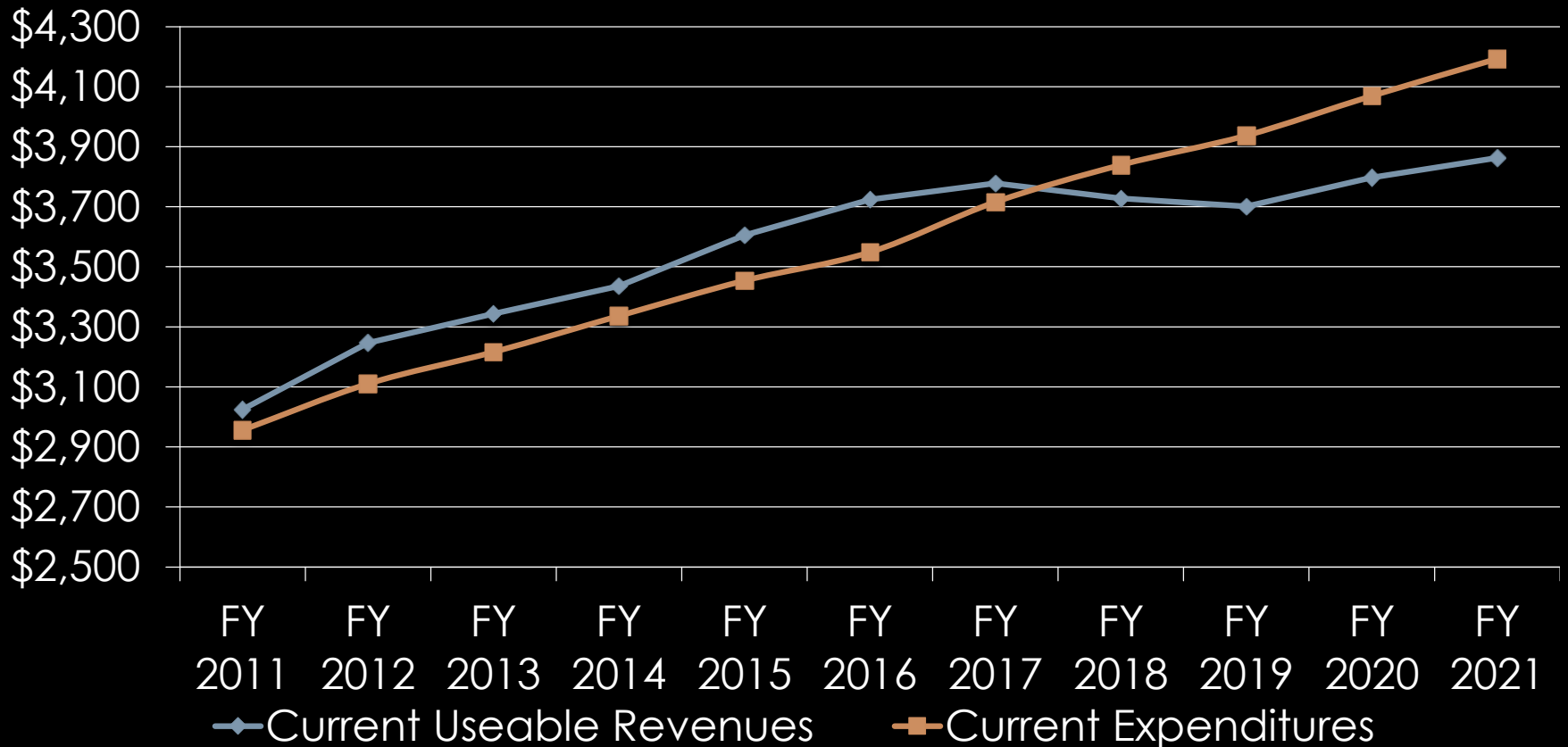
- There are *budget year* and *out-year problems*
 - FY 2018 was estimated in July to have a gap of approximately \$182 million
 - Budget Office estimated higher gap \$185 million
 - revenue projection differences and other adjustments to long term savings

Budget Year and Out-years

- Gaps largely function of structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
 - Gaming revenue losses began in FY 2016
 - Increasing dedication of revenues to transportation
 - Annualized impact of tax law changes
- Planned spending increases
 - Education funding phase-in

Budget and Out Years

Revenues vs. Expenditures: HFAS Nov. Estimate



Structural Deficit

- When current expenses exceed current revenues
 - Prior year surplus or other one-time resources/cuts cover the gap
 - Spending or revenue reduction initiatives that grow over time – unfunded commitments

Structural Deficit

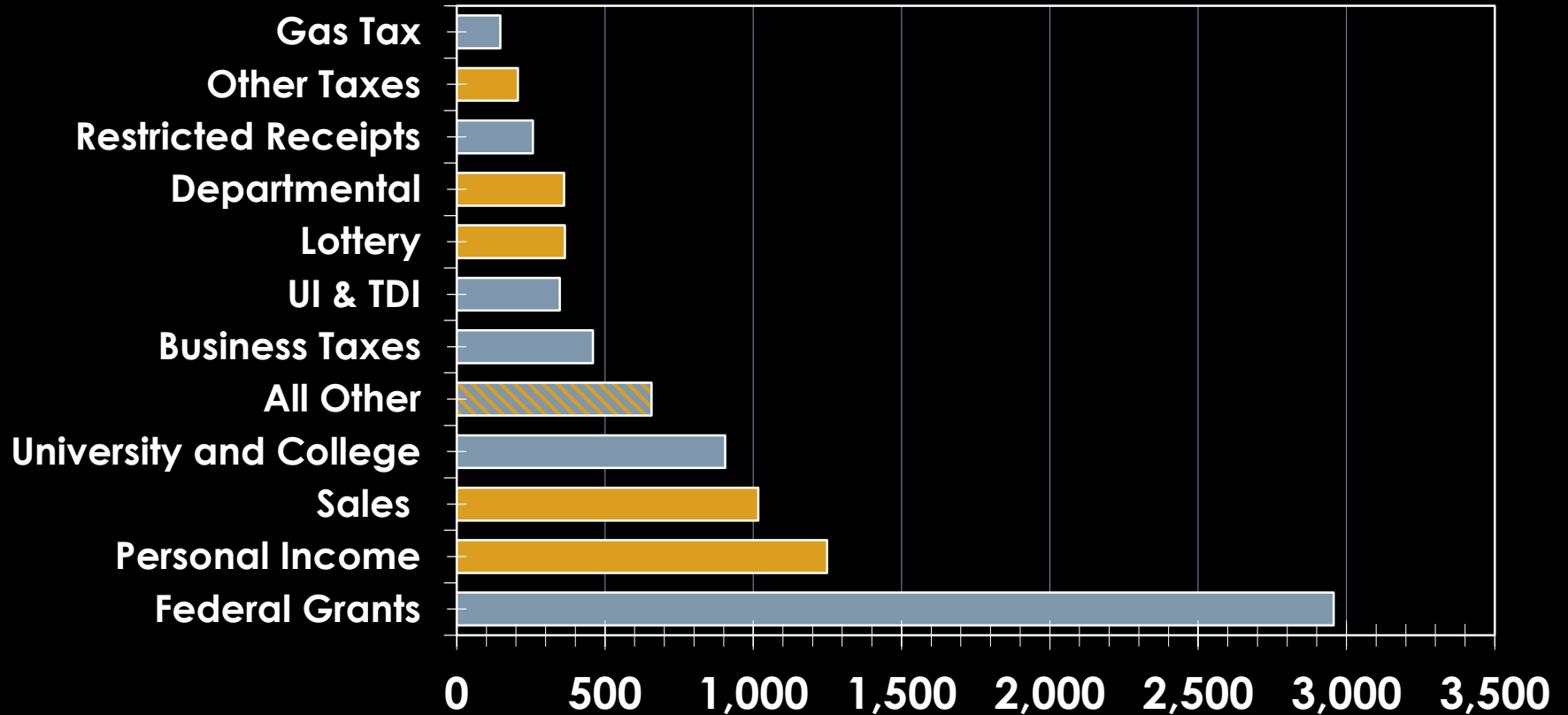
- Aligning growth rates of revenues and expenditures is difficult
 - One-time fixes can be used to bridge gaps to structural solutions
 - Pressing need for services or infrastructure investment
 - Need to reverse stagnant growth
 - Budget process may not produce all options

Uses – Growth Rates

Item	Est. Annual Growth
Jobs	0.8%
State Personal Income	3.7%
Taxes	2.8%
Total Revenues	2.0%
Total Expenditures	3.2%
Salaries & Benefits – 25% of total	4.0*%
Medicaid – 30% of total	5.0%

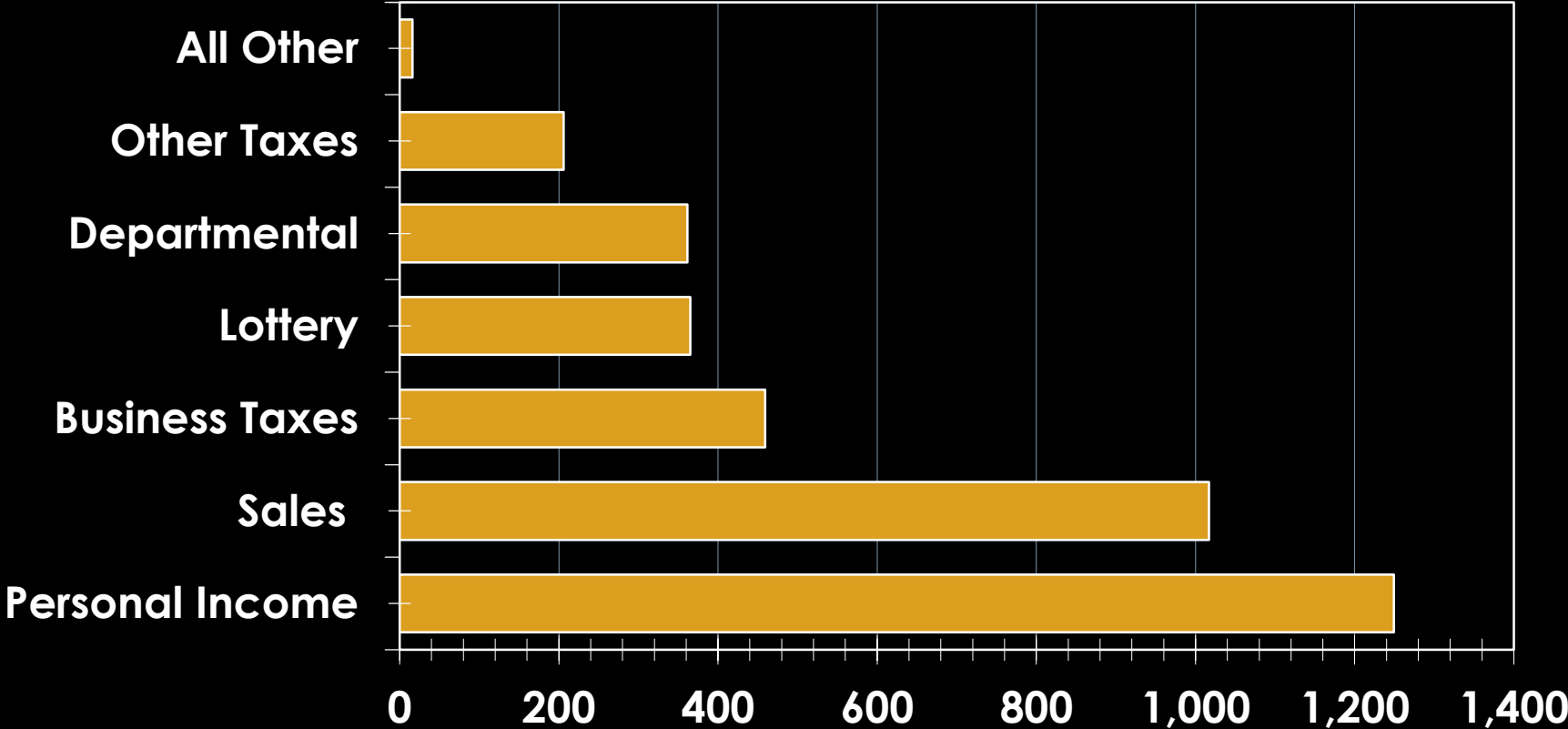
*corrected from original presentation

All Sources (\$millions)

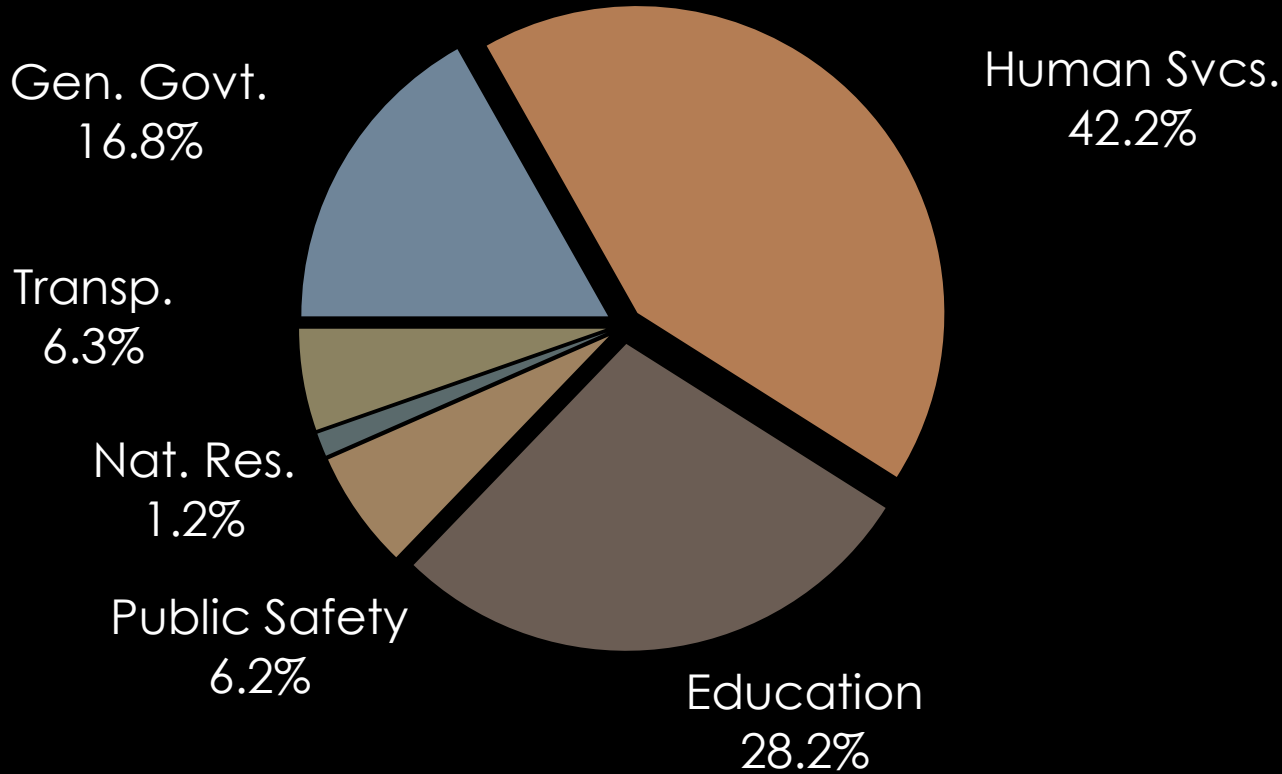


General Revenue Sources

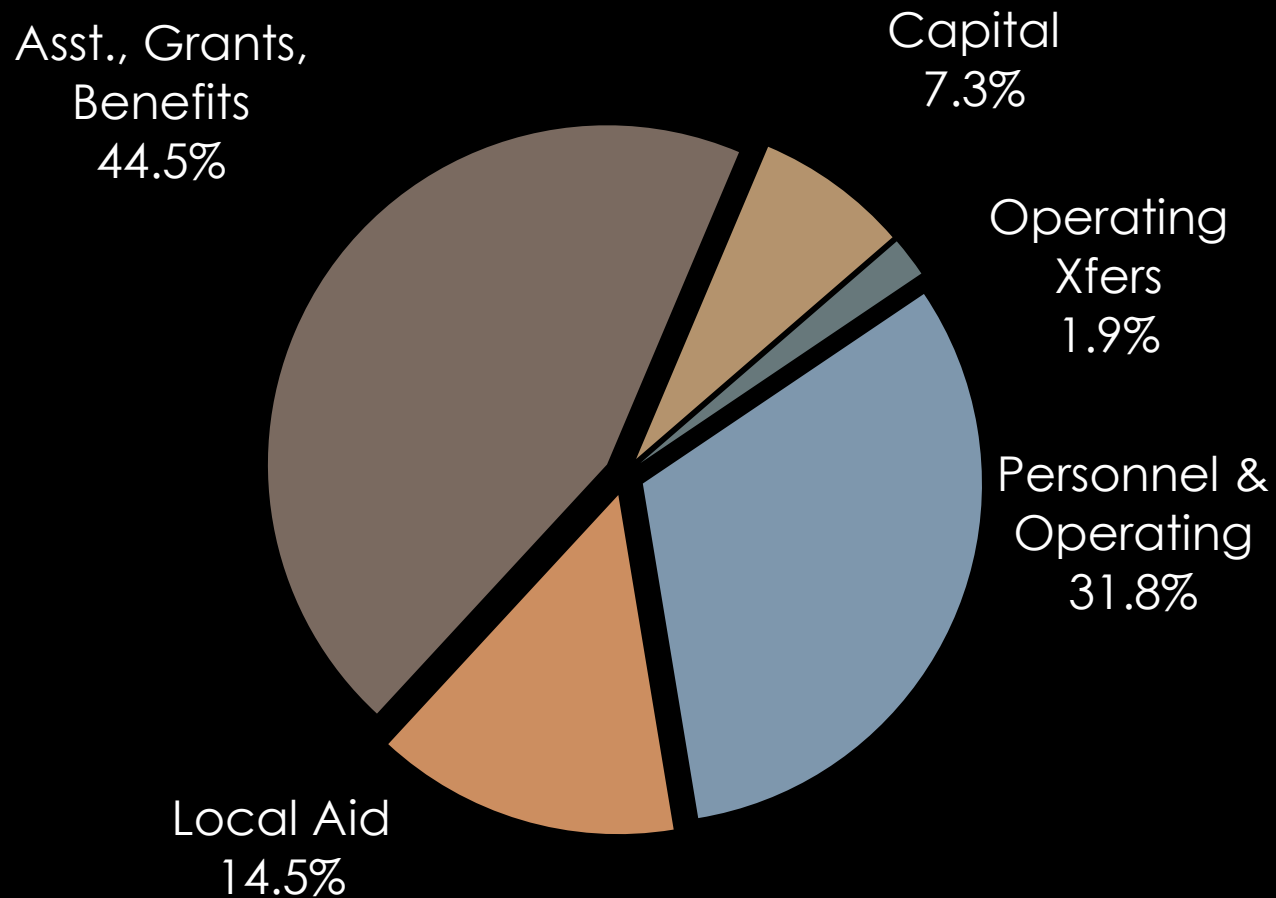
(\$millions)



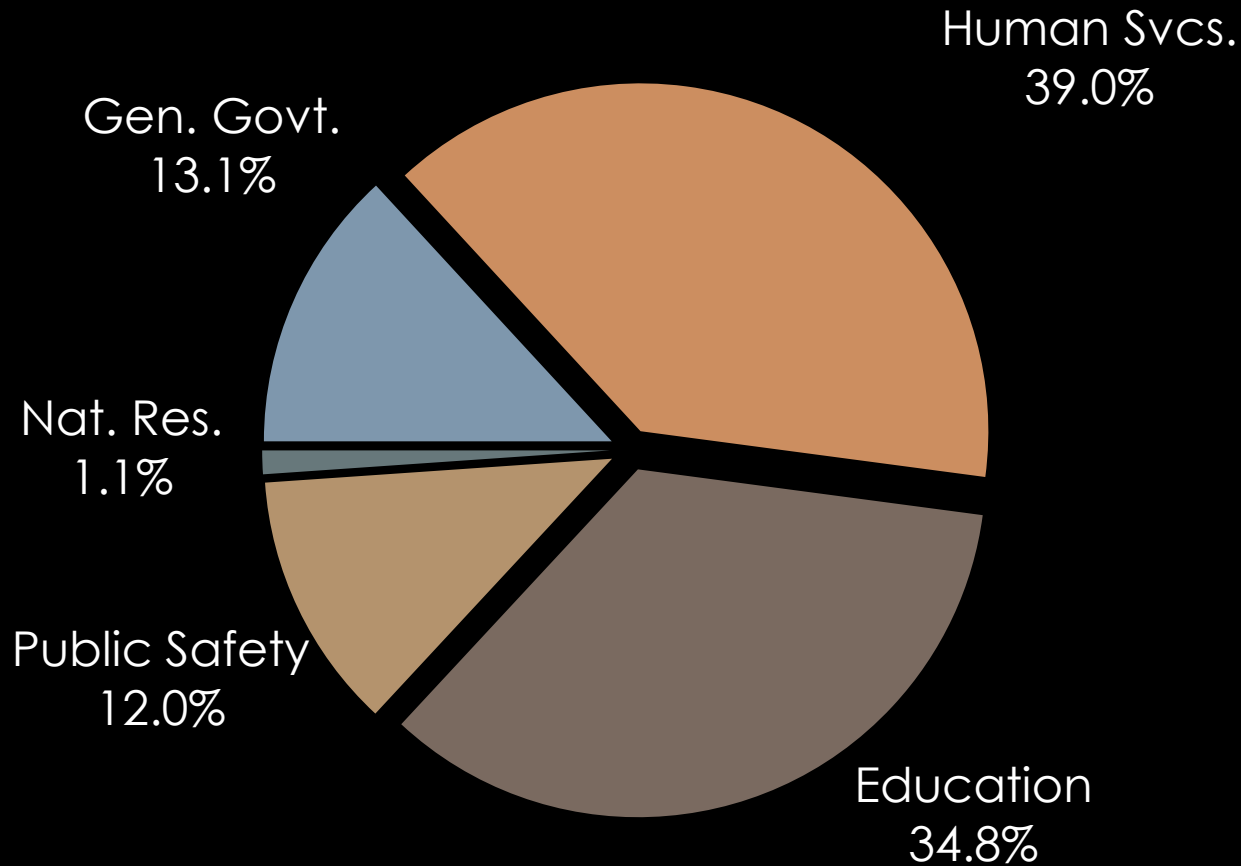
Uses – All Funds by Function



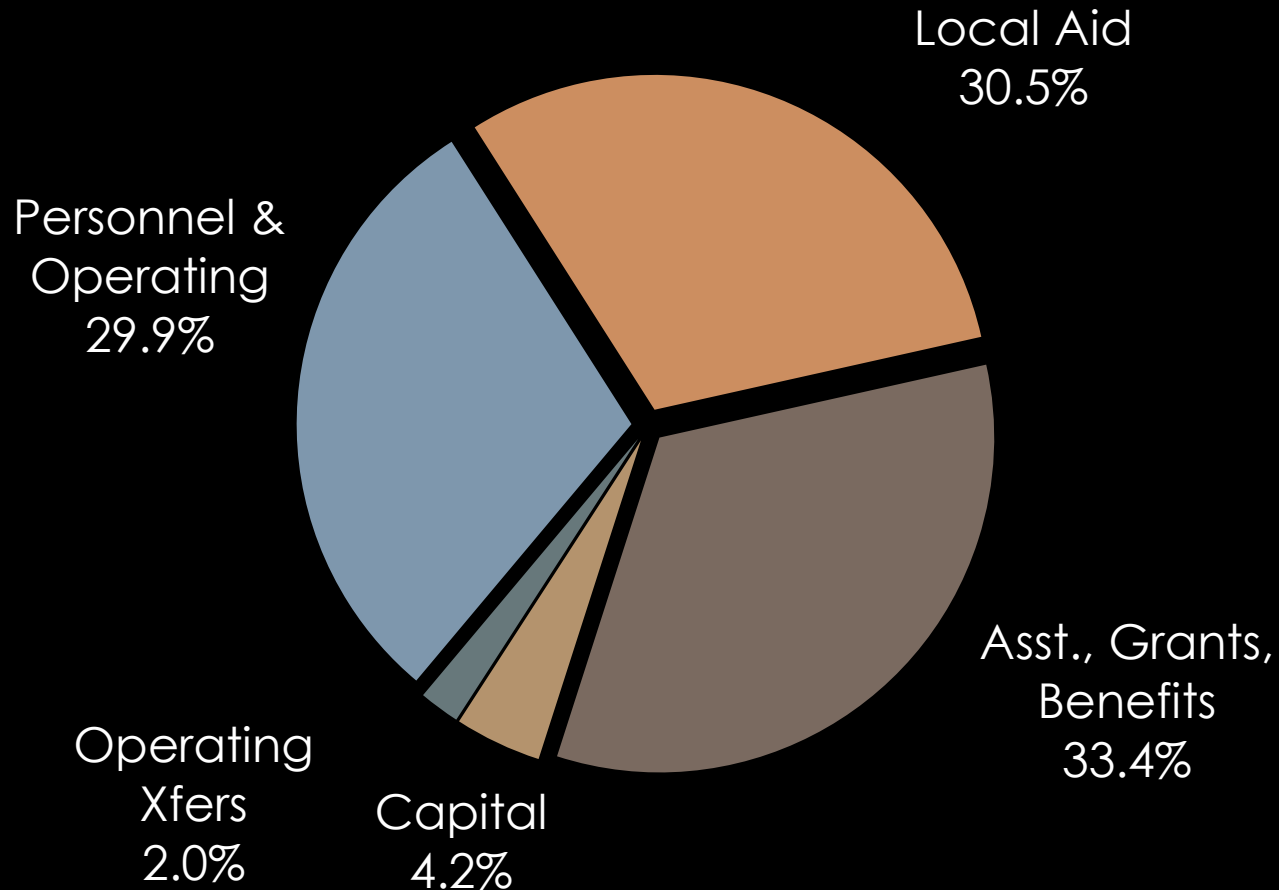
Uses – All Funds by Category



Uses – General Revenues by Function



Uses – General Revenues by Category



Budget Year and Out-years

- Budget Office Instructions based on \$185 million July deficit projection
 - Includes calculation of current service revenues and expenses
 - Some revisions based on updated data – differing assumptions on savings initiatives
 - Other revisions reflect different methodology and “policy choices”

Budget Year and Out-years

- Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office
- Agency requests exceed current service estimates by over \$121 million
 - Not all same items included
- Do not have all budgets in

FY 2018 Budget Requests

- Budget Office also asked for options for reductions of 8.0%, adjusted for certain exclusions
- Agency budget submissions do not all include options to meet targets
 - Many options not sound

FY 2018 Budget Requests

- Some agencies significantly delayed in budget submissions
 - All still not submitted
- Hampers ability for adequate review by executive and legislative staffs

Issues and Risks to the Forecast

- Control of current year spending
 - Employee medical increases all accounted for?
- DMV computer system
- Medicaid savings and caseloads
 - UHIP impacts
 - Future federal action
- Potential for cyclical economic event
- Demographic issues

Summary

- Governor's Budget expected Jan 19
- Major budget challenges
 - Slow growing economy
 - Structural tax and expenditure issues
 - Deficit fatigue
 - Specific agency issues
 - Many competing priorities
 - Fewer options for savings

Budget Status

House Finance Committee
December 6, 2016
