

# Budget Status

House Fiscal Staff Presentation to  
House Finance Committee  
November 29, 2018

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# Introduction

- Governor's FY 2020 and FY 2019 revised budgets are due January 17 – 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 2019
  - Staff estimates for FY 2020 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 – Aug 31
- Agency budget requests - Oct 1 (due)
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 6
- Revenue estimates – November 9
- Budget Office Q1 report – Nov 16
- Audited Closing – ???
- Governor's Budget – Jan 17
- Agencies Q2 – Jan 30

# Introduction

- The state continues to face structural budget problems
  - Out-year issues growing from about \$150\* million to almost \$300 million
  - 2-year total still around \$160 million
- *Second consecutive current year deficit projection*
  - Potentially exacerbating structural issues
- Uncertain revenue items add risk
  - Some are one-time/limited

\*corrected from \$110M noted in 11/29 hearing

# Economic Forecast

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# Economic Forecast

- Revenue Estimating Conference adopts a consensus economic forecast
  - It takes testimony from IHS Markit
  - The firm builds U.S. macroeconomic models from which it derives its Rhode Island forecasts
  - Updated in November



# Economic Forecast

- November forecast slightly more pessimistic than May 2018 forecast
- Growth rates in FY 2019 & FY 2020 for personal income, wage & salary projected to be somewhat lower; personal consumption up only for FY 2019
- Slow population growth
  - Driven by educated international migration

# Economic Forecast

- Recession risk 'contained' but 'likely' within 5-years due to multiple challenges
  - Domestic & international trade policy
    - Tariffs, Brexit & Euro splintering, China slowdown
  - Fiscal Policy
    - Effects of TCJA anticipated to wane past 2020
  - Monetary Policy
    - Multiple Fed Reserve rate hikes 3x in 2019, 1x in 2020
  - Markets
    - Increases in energy costs, tighter mortgage lending

# Economic Forecast

- Since March, state's unemployment rate dropped steadily from 4.5% to 3.9%
  - Continues to be a problem for teenage boys (26.0%), girls (14.0%), & young men (9.1%)
  - Economy likely at or beyond full employment
- Labor force is still down 12,800 from peak in December 2006
  - Working age population has grown little
    - Population is older
  - Participation among younger workers is not improving

# Revenue Drivers



# Revenue Drivers



# Revenue Projections

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# Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2018 were just under anticipated total
    - Some significant missed estimates
  - TCJA added complexity & risk to forecast
  - Gaming expansion and betting delays also make estimates more difficult
  - Sales tax receipts strong

# Revenues

- Taxes in FY 2019 = \$3,166.7 million
  - \$68.8 million or 2.2% above FY 2018 actuals
    - Impact of tax changes, cyclical items
  - \$16.9 million below the enacted estimate
    - Sales tax increases offset PIT, Business tax decreases
- Taxes in FY 2020 = \$3,279.7 million
  - 3.6% increase to FY 2019 revised
    - \$113.0 million: \$93.6 million from Income & Sales
    - Last year of TCJA foreign profits boost - \$15 million



# November 2018

## Consensus Revenue Estimates

<i>(in millions)</i>	FY 2018 Reported	FY 2019 Rev. Est.	Change to Enacted	FY 2020 Estimate	Change to FY 2019 Rev. Est.
Personal Income	\$1,345.3	\$1,380.7	\$(4.9)	\$1,428.3	\$47.6
Business Taxes	442.4	459.9	(25.9)	482.9	23.0
Sales & Use Taxes	1,244.8	1,273.8	9.3	1,318.0	44.2
Other Taxes	65.3	52.3	4.6	50.5	(1.8)
<b>Total Taxes</b>	<b>\$3,097.9</b>	<b>\$3,166.7</b>	<b>\$(16.9)</b>	<b>\$3,279.7</b>	<b>\$ 113.0</b>
Departmental	397.6	405.0	0.9	227.0	(178.0)
Other Misc.	37.1	11.7	2.4	7.0	(4.8)
Lottery	365.0	399.6	7.9	427.1	27.5
Unclaimed Prop.	10.9	10.1	0.4	9.5	(0.6)
<b>Total</b>	<b>\$3,908.4</b>	<b>\$3,993.1</b>	<b>\$(5.4)</b>	<b>\$3,950.3</b>	<b>\$(42.9)</b>

# Revenues

- Other than Taxes
  - FY 2019 = \$826.4 million
    - Up \$11.5 million from enacted
  - FY 2020 = \$670.6 million
    - Down \$155.9 million from FY 2019
    - Excludes \$180.0 million hospital license fee but deficit calculations assume reenactment
    - Lottery up \$27.5 million
      - Annualized impact of Tiverton and sports betting

# Revenues

- Lottery – Declines less steep than initial estimates
  - Sports Betting delayed, no better data

Type	Fiscal Year					
	2015	2016	2017	2018	2019	2020
Games	\$ 56.9	\$ 61.0	\$ 55.9	\$58.0	\$62.3	\$60.0
VLT(Slots)	312.3	293.2	289.0	288.4	307.2	320.0
Tables	12.8	15.6	17.8	18.6	18.6	19.8
Sports	-	-	-	-	11.5	27.3
Total	\$381.9	\$369.8	\$362.7	\$365.0	\$399.6	\$427.1
Y-O-Y %	1.5%	(3.2)%	(1.9)%	0.6%	9.5.%	6.9%

# Revenues Risks

	FY 2019	FY 2020	2-Year Total
Foreign Profits Repatriation	\$17.4	\$15.0	\$32.4
Sports Betting	11.5	27.3	38.8
Tax Collections Enhancement	13.5	13.5	27.0
<b>Total</b>	<b>\$42.4</b>	<b>\$55.8</b>	<b>\$98.2</b>

Closing and Current Year

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# FY 2018 Closing

- As with prior years, FY 2019 budget counted on surplus from FY 2018 to help fund expenses for which there were no current revenues
- Preliminary FY 2018 data shows \$14.3 million gain to that assumption
  - Subject to audit adjustment before final

# FY 2018 Preliminary

	Enacted	Current	Diff.
Opening	\$ 72.0	\$ 72.0	\$ 0.0
Revenues	3,910.5	3,908.4	(2.1)
Rainy Day	(119.2)	(119.1)	0.1
<b>Expenditures</b>	<b>(3,832.0)</b>	<b>(3,805.7)</b>	<b>26.3</b>
<b>Closing Surplus</b>	<b>\$ 31.3</b>	<b>\$ 55.6</b>	<b>\$24.3</b>
Reappropriation	-	(10.1)	(10.1)
<b>Free Surplus</b>	<b>\$ 31.3</b>	<b>\$ 45.5</b>	<b>\$ 14.3</b>

# Closing – Revenues

- Revenues \$2.1 million (0.1%) below
  - Taxes down \$2.1 million
    - More business (\$2.1M), Sales (\$5.7M) & Tobacco taxes (\$3.8M) covered misses in income (\$11.9M)
    - Lack of stability in PIT refund activity again accounts for big part of that discrepancy
    - Business taxes remain difficult to estimate
      - Financial Institutions and Public Utilities exceeded estimates covering 8.5% miss in Corp tax
  - All other revenue up \$0.1 million
    - Lottery up \$0.4 million



# Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2019 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 - Expenditures

- General revenue spending \$26.3 million (0.7%) below budgeted amounts – but areas of overspending
  - 2 agencies appeared to overspend total
    - DLT (43.2%) and DCYF (4.6%)
    - 5 more agencies would have overspent but for after-the-fact expense transfers
  - Appropriation lines overspent even if agency totals were not
    - 26.1% of general revenue lines were overspent... ongoing pattern

# Closing - Expenditures

- After-the-fact expense transfers
  - Altered bottom line outcomes for 8 agencies but no change to state bottom line
    - Charging DOA for expenses budgeted in other agencies
    - Changing how Gov. staff costs were allocated
  - Gives impression fewer agencies overspent
    - 3 would have larger surpluses: Gov., DOA, EOHHS
    - 5 would have overspent: EOC, RIDE, OPC, DOC, DPS
  - Impedes transparent analyses

# Closing - Expenditures

Spending \$26.3 million below:

- \$10.1 million unspent & re-appropriated
- \$23.1 million Medicaid savings
- \$2.7 million DOA – utilities, staffing
  - Centralized services
- \$3.9 million *overspent* in DLT
- \$7.7 million *overspent* in DCYF

# Closing - Expenditures

- EOHHS - \$23.1 million less from Medicaid
  - \$17.9 million less from one-time prior year adjustments for nursing home payments
    - State made advanced payments & payments for claims for some nursing homes resident
  - \$5.6 million less for all other programs
    - Higher drug rebates, lower payments for managed care plans
    - Offset by increase in hospital expenses
      - Increase inpatient days & correct Medicaid rate

# Centralized Services

- 2017 Assembly authorized internal service funds for centralized services
  - Information technology, capital asset management & maintenance, & HR
- Costs previously budgeted in DOA
  - Methodology on initial distribution vague
  - Long term impacts and transparency concerns
- FY 2018 closing highlights unresolved issues – will impact FY 2019 and FY 2020

# Centralized Services

- Legislation also requires DOA to report fund activities on a quarterly basis

	Due Date	Date Submitted
FY 2018	Oct. 15, 2017	Oct. 13, 2017
	Jan. 15, 2018	Feb. 21, 2018
	April 15, 2018	Nov. 14, 2018
	July 15, 2018	
FY 2019	Oct. 15, 2018	?

# Current Year

- The *current year* has a \$47.2 million deficit primarily from unmet expenditure savings and unbudgeted policy choices
  - Impacts future spending
  - Overspending exacerbated by downward revenue adjustment
  - Six months left to solve



# Current Year

- Revenues are down by \$5.4 million
- Closing resources increase rainy day transfer by \$0.3 million
- Expenditures appear up by \$44.7 million net of re-appropriations and November Caseload increase
- Closing surplus down by \$47.8 million

# FY 2019

	Enacted	Current	Diff.
Opening	\$ 31.3	\$55.6	\$24.3*
Revenues	3,998.5	3,993.1	(5.4)
Rainy Day	(120.9)	(121.2)	(0.3)
Expenditures	(3,908.2)	(3,974.7)*	66.5
Total FY 2019	\$ 0.7	\$(47.2)	(47.8)

*\*Includes \$10.1 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

- 16 agencies are projecting to spend more than authorized in FY 2019
  - Some include new items that may overstate actual overspend
- 9 submitted plans
  - Not all submissions identified solutions
    - Some contained incorrect info
  - Corrective actions total \$1.9 million
  - Many seemed perfunctory

# Corrective Action Plans

- Corrective Action Plans
  - Are savings feasible?
  - Do they require law changes?
  - Timing?
- Budget Office Q1 notes it is working with agencies to resolve deficits
  - What efforts have been taken already?
  - Some issues known for months

# Current Year - Changes

Reappropriation	\$10.1
Legislature*	(1.8)
Judiciary*	(1.1)
EOHHS/DHS: Caseload Conference	11.7
EOHHS/DHS/DCYF/BHDDH: Other*	34.7
Corrections	7.2
Labor and Training	2.6
Local Aid	2.3
Other *	0.9
<b>Total</b>	<b>\$66.5</b>

\* Items different than Budget Office Q1 estimates

# Reappropriation

- Statutory requirement: \$9.7 million
  - Legislature - \$7.9 million
    - Revised budget lowers by \$1.8 million
  - Judiciary - \$1.9 million
    - Q1 lowers by \$1.1 million
- Governor discretionary: \$0.3 million
  - DOA Trainings - \$0.1 million
  - DOA/DBR Building code work - \$0.1 million
  - DOH - Lab Systems - \$0.1 million

# Current Year - Changes

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# Current Year: *EOHHS/DHS*

- Nov Caseload: \$11.7 million more
  - Cash Assistance – \$0.1 million less
    - Updated enrollment and monthly cost for disabled individuals receiving a Supplemental Security Income (SSI) payment
      - \$77,900
    - Lower monthly costs for general public assistance payment
      - \$50,600

# Current Year: EOHHS/DHS Caseload

- Nov Caseload : \$11.7 million more
  - Medical Assistance - \$11.9 million more
    - General revenue savings from
      - Increased federal funds claiming
      - Enrollment declines
    - General revenue cost increases from
      - Unachieved savings
      - Unbudgeted policy changes or interpretations

# Current Year: EOHHS Caseload

Agency	Unachieved/Partial Savings	
	Initiative	Gen Rev
EOHHS	Community First Choice	\$3.0
	Non-Emergency Transportation	1.2
	Managed Care medical component reduction – implemented as change in risk sharing arrangement between state & the plans	1.7
	<b>Total</b>	<b>\$5.8</b>

\$ in millions

# Current Year: EOHHS Caseload

Agency	New Costs	
	Initiative	Gen Rev
EOHHS	Hepatitis C Coverage	\$6.1
	Hospice Rate Increase – nursing home room & board	2.2
	10% of nursing home claims not eligible for Medicaid match	3.3
	<b>Total</b>	<b>\$11.6</b>

\$ in millions

# Current Year: EOHHS/DHS Caseload

- Hepatitis C protocol
  - Restrictive former policy on who could access costly curative Rx relaxed as of July
    - Threat of legal action received by EOHHS in May
  - Not accounted for in budget – no notice
    - Budgetary impact did not appear to factor into decision to lift the restriction
      - Unclear what other options were considered
    - Policy change impacts DOC protocols when community standard of care changes
  - Over \$10 million in FY 2019 including DOC

# Current Year: EOHHS/DHS Caseload

- Hospice Room and Board rates
  - FY 2019 budget increased rates for skilled nursing (20%) and other home care services (10%) including hospice
  - EOHHS interpreted language for skilled nursing to apply to all components of hospice care payments including room & board
    - Providers receive room & board payment when delivering service in a nursing facility but pass that back to the host facility
    - Inconsistent with intent and budgeted amounts

# Current Year: EOHHS Agencies

OMB	General Revenues			
	Enacted	Q1	Deficit	%
EOHHS	\$982.9	\$994.8	\$11.9	1.2%
BHDDH	188.1	197.5	9.4	5.0%
DCYF	161.6	176.5	14.9	9.2%
DHS	98.0	98.8	0.8	0.8%
DOH	29.0	29.0	-	-
<b>Total</b>	<b>\$1,459.6</b>	<b>\$1,496.5</b>	<b>\$36.9</b>	<b>2.5%</b>

\$ in millions

# Current Year: EOHHS Agencies

HFS Estimate	General Revenues			
	Enacted	Q1	Deficit	%
EOHHS	\$982.9	\$1,000.0	\$17.1	1.7%
BHDDH	188.1	197.0	8.9	4.7%
DCYF	161.6	176.5	14.9	9.2%
DHS	98.0	103.6	5.6	5.7%
DOH	29.0	28.9	(0.1)	-0.2%
<b>Total</b>	<b>\$1,459.6</b>	<b>\$1,506.0</b>	<b>\$46.4</b>	<b>3.2%</b>

\$ in millions



# Unachieved Savings- Timeline

- Community First Choice Option – enhanced Medicaid match for certain services to help keep individuals in the community
  - Requirements essentially unchanged since FY 2015

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FY 2015 EOHHS Request/Enacted	In
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FY 2016 & FY 2017 Enacted (1/2 savings)	In
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Nov 2016 CEC	Out
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FY 2019 Enacted	In
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Nov 2018 CEC testimony	Out
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# Unachieved Savings - Timeline

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## Community First Choice (CFC) Option

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**August 2016 EOHHS annual report:** *“federal authority requirements would need to include areas that would present a challenge to meeting the MOE requirements and would require RI to restructure the approved 1115 Demonstration Waiver renewal authority”*

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**November 2018 EOHHS testimony:** *“After reviewing all of CMS’ technical assistance documents related to CFC, CMS has concerns about how Rhode Island could apply this State Plan option given our eligibility framework”*

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# UHIP Recovery Restricted Receipts

- Enacted budget assumed receipt of \$7.0M from Deloitte for staffing costs
  - Revised budgets appear to be counting on more yet none received
    - Design, Contact Center, other consultants
  - Unclear if there is a state cost in the absence of these funds
- HFAS estimate assumes increase could be general revenue costs

# UHIP Recovery Restricted Receipts

Agency	FY 2019 Enacted	FY 2019 Revised	Chg. to Enacted	FY 2020 Req.	Chg. to Enacted
EOHHS	\$ -	\$5.3	\$5.3	\$7.5	\$7.5
DHS	7.0	10.9	4.0	11.1	4.2
HSRI	-	0.4	0.4	1.5	1.5
<b>Total</b>	<b>\$7.0</b>	<b>\$16.6</b>	<b>\$9.7</b>	<b>\$20.1</b>	<b>\$13.2</b>

\$ in millions

# Current Year: BHDDH

BHDDH - \$8.9 million

- Division of Developmental Disabilities - \$7.6 million
  - Unachieved Savings – \$7.1 million
    - Moving individuals out of 24-hour group homes
    - Having a new process to review & approve excess authorizations and validating the assessment tool
  - Budget and Q1 appear to be based on current activity - none of proposed change
    - FY 2018 spending largely on target
    - Corrective actions not quantified

# Current Year: BHDDH Caseload

Agency	Unachieved	
	Initiative	Gen Rev
BHDDH	Validation of Assessment Tool	\$3.6
	Resource Allocations	1.3
	Developmentally disabled adults – shift to less restrictive residential settings	1.2
	Home Health Case Management	1.0
	<b>Total</b>	<b>\$7.1</b>

\$ in millions

# Current Year: BHDDH

BHDDH - \$8.9 million

- Eleanor Slater Hospital - \$0.4 million overspend
  - Includes \$2.1 million for a new security contract
    - \$1.0 million from general revenues
  - Enacted budget includes \$0.4 million/\$0.2 million general revenues for security services
  - Offset by other savings
- Other admin expenditures - \$0.9 million

# Current Year: BHDDH

Corrective Action - \$ no value cited

- Eleanor Slater Hospital
  - Plan includes early implementation of FY 2020 initiatives including maximization of federal revenues at the state hospital if possible
  - Should also include improving third party billing opportunities
    - EOHHS testimony notes that there are 223 individuals over last 12 months between the 2 campuses – 108 have Medicare as the prime insurer



# Current Year: DCYF

- DCYF - \$14.9 million
  - Baseline Caseload - \$6.5 million
    - Similar overspend in FY 2018
    - **Despite full funding of Q3 projections**
  - Unachieved savings - \$9.1 million
  - Day care and other services - \$1.2 million
  - Juvenile Corrections savings of \$1.9 million
    - Similar savings in FY 2018
- No Corrective Action Plan filed
  - No savings proposals in FY 2020 request

# Current Year: DCYF Caseload

Agency	Unachieved	
	Initiative	Gen Rev
DCYF	Increased Medicaid & Title VI -E Reimbursements	\$3.5
	Institutional Services Reduction	1.9
	Congregate Care – less restrictive settings	2.5
	Other Contract Reductions	1.2
	<b>Total</b>	<b>\$9.1</b>

\$ in millions

# Current Year: DHS

- DHS - \$5.7 million more net of caseload
  - Transportation for Elderly - \$1.2 million
    - Consistent with FY 2018 actuals
    - EOHHS holds contract, charges DHS for its portion
    - Contract rebid for savings to EOHHS
      - Included increased rates for elderly
  - Child Support Enforcement - \$1.0 million
    - Savings from improving child care collections and Medicaid recoveries not achieved

# Current Year: DHS

- DHS Corrective Action - unclear
  - Reduce elderly transportation costs by eliminating 1/3 of services
    - Cut rides to elderly nutrition sites, INSIGHT, and general medical care
    - Appears to be worth \$0.9 million

# Current Year - Changes

Reappropriation	\$10.1
Legislature*	(1.8)
Judiciary*	(1.1)
EOHHS/DHS: Caseload Conference	11.7
EOHHS/DHS/DCYF/BHDDH: Other*	34.7
<b>Corrections</b>	<b>7.2</b>
Labor and Training	2.6
Local Aid	2.3
Other *	0.9
<b>Total</b>	<b>\$66.5</b>

\* Items different than Budget Office Q1 estimates

# Current Year: Corrections

- Corrections - \$7.2 million
  - RIBCO Contract Settlement - \$1.1 million
    - Above amounts assumed for other employees
    - Pay grade and stipend increases
    - Injured on duty changes NOT reflected in numbers but potential to impact budget
  - Hep C - \$4.5 million
    - Assumes 180 inmates at \$25,000 each
    - In FY 2018 - 21 inmates were treated
    - In FY 2019 – 18 year to date

# Current Year: Corrections

- Corrections -\$7.2 million
  - Other Costs - \$1.6 million
    - Other inmate medical costs consistent with FY 2018
    - Expenses not incurred in FY 2018 shifted to FY 2019
  - Savings in programs that kept FY 2018 in balance are not anticipated in FY 2019
    - Discharge Planning
    - Medication Assisted Treatment
- Corrective Action Plan
  - Constrained hiring and spending

# Current Year - Changes

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# Closing - Expenditures

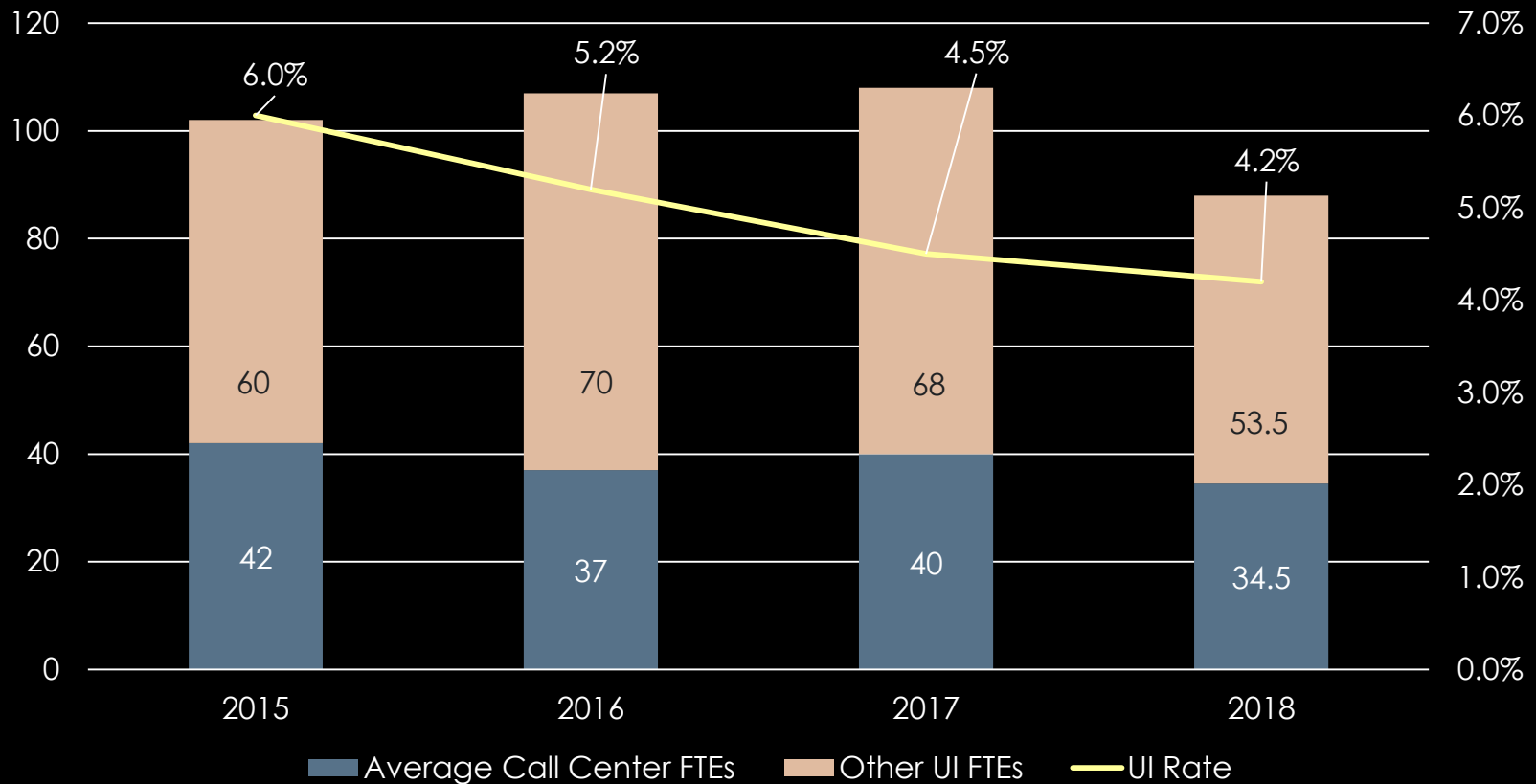
- DLT - \$3.9 million overspent in FY 2018
  - Spending commitment for unemployment admin against unavailable federal funds including FY 2017 expenses
  - FY 2017 plan to use \$2.0 million from special funds in UI trust fund to pay admin costs denied by USDOL; appeal denied in May 2017
    - Typically offsets costs from JDF/Tardy & Interest
    - Funds budgeted for other purposes in FY 2017
  - Receivable booked despite denial

# Closing - Expenditures

- Resource shortfall persisted in FY 2018
  - DLT revised budget proposed shifting \$1.0 million in costs to TDI & TCI through job sharing
    - Budget adopted the plan but it never happened and charges were made against federal award
  - State Controller recognized that federal award is overcommitted
    - No funding is available to cover FY 2017 receivable
    - Charges 2-year deficit to general revenues, \$3.9 million overspend

# DLT – Unemployment Admin

Average UI FTEs vs Average Unemployment Rate  
2015 - 2018



# Current Year: DLT

- Issue underscores the importance of proper control and management of all sources
  - Errors result in general revenue allocations reducing state resources
- Unclear what additional controls are needed to avoid recurrence
- DLT seeking state funding to help cover current year gap

# Current Year: DLT

\$2.6 million general revenues

- \$2.4 million helps fill projected gap between award for UI & actual staff costs
  - JDF/Tardy & Interest Funds also budgeted to support program
- \$0.2 million for centralized service charges based on actual from FY 2018

# Current Year - Changes

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Other *	0.9
<b>Total</b>	<b>\$66.5</b>

\* Items different than Budget Office Q1 estimates

# Current Year: Local Aid

- Car tax - actual data requires \$1.5 million more than enacted estimate
- Teacher Retirement - \$0.6 million more
  - Consistent with FY 2018 shortfall
- Other data and formula adjustments for education aid require \$0.2 million

# Current Year: Other

- All other projected adjustments to expenditures up \$0.9 million
  - Includes \$1.8 million more to change how expenses related to gaming enforcement are show
    - Offsetting revenue change in November Estimate
  - Savings of \$0.8 million in candidate matching funds for elections
  - Turnover and operating savings in several agencies



# Full-time Equivalent Positions

	Total
FY 2016 Avg.	13,689.6
FY 2017 Avg.	13,809.6
FY 2018 Avg.	13,913.2
FY 2019 Enacted	15,209.7
Avg. Filled 11/24	13,968.7
Diff. from Enacted	(1,241.0)
Diff. from FY 2018	55.5
Total includes 788.8 higher ed. FTE limited to 3 <sup>rd</sup> party funds	

# 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 area

# Current Year – Historical Context

Current Fiscal Year	Opening Surplus Change	Nov REC Change	Nov CEC Change	Q1 Over-spend	Combined Impact excl. txfer to RDF
2010	(61.8)	(130.5)	16.3	18.6	(227.1)
2011	17.9	16.7	22.4	7.9	4.3
2012	3.6	19.4	(1.1)	23.8	0.3
2013	21.7	7.5	(24.3)	5.4	48.0
2014	3.6	45.6	0.1	5.3	43.9
2015	8.7	15.8	37.0	15.5	(28.0)
2016	47.8	52.4	14.9	25.9	59.4
2017	43.9	44.8	4.7	19.4	64.7
2018	14.1	(10.3)	29.3	28.9	(54.4)
2019	14.3	(5.4)	11.7	44.7	(47.8)

# Current Year

- Risks and Issues – similar to last year
  - Ability to identify and respond to issues
    - Delayed course correction efforts
      - Financial management reporting?
  - Six months to solve
    - What steps are being taken or considered?
    - Fewer ideas than usual contained in agency budgets or corrective action plans

# Budget and Out-years

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# Budget Year and Out-years

- There are *budget year* and *out-year* problems
  - FY 2020 was estimated in June to have a gap of approximately \$158 million
  - Budget Office estimated similar gap in July
    - Revenue and expenditures both higher
  - HFAS estimates about \$150 million\* gap plus current year issue
    - Q1 spending negates revenue gains in FY 2020

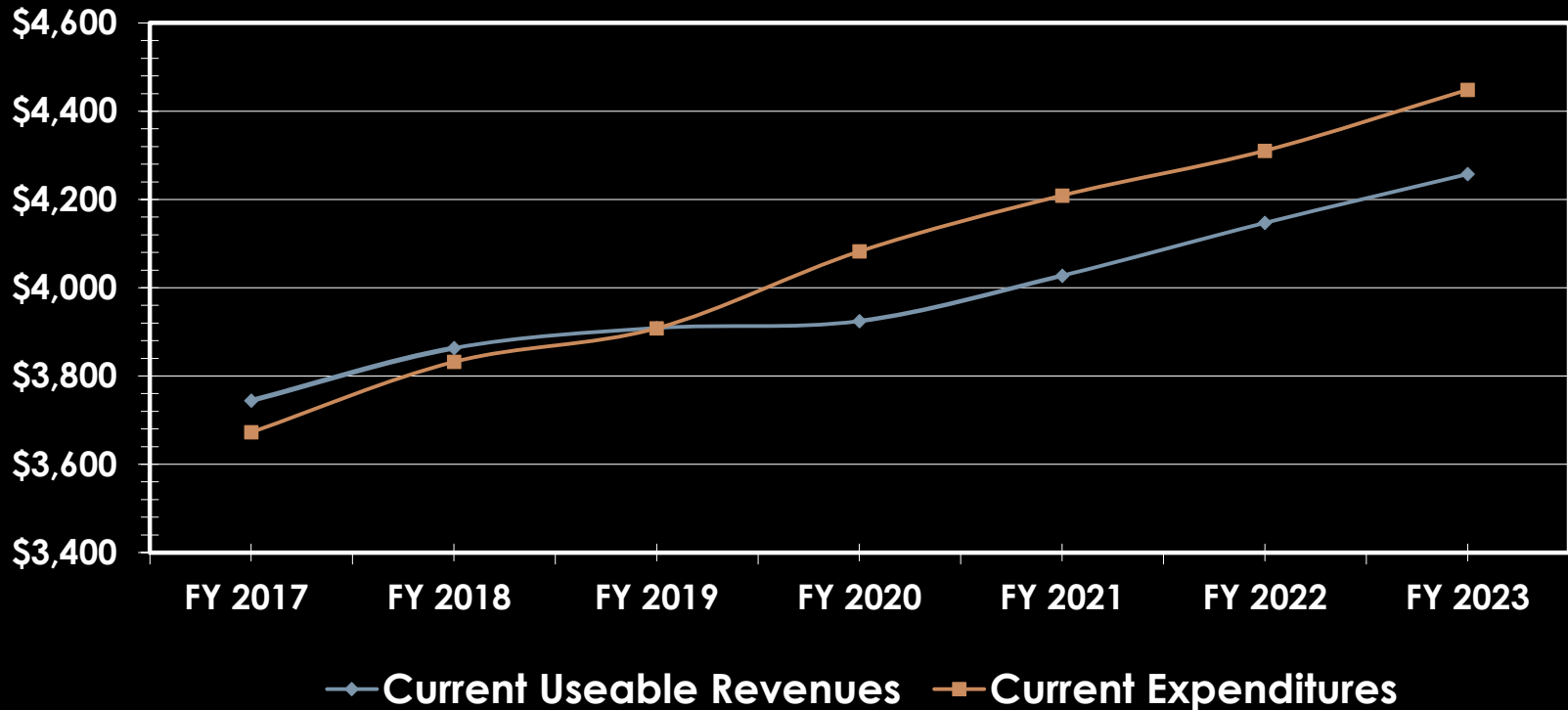
\*corrected from \$110M noted in 11/29 hearing

# Budget Year and Out-years

- Gaps largely function of structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
  - Prior gaming revenue losses
  - Dedication of revenues to transportation
- Planned spending increases
  - Medicaid expansion cost sharing
  - Car tax phase out

# Budget and Out Years

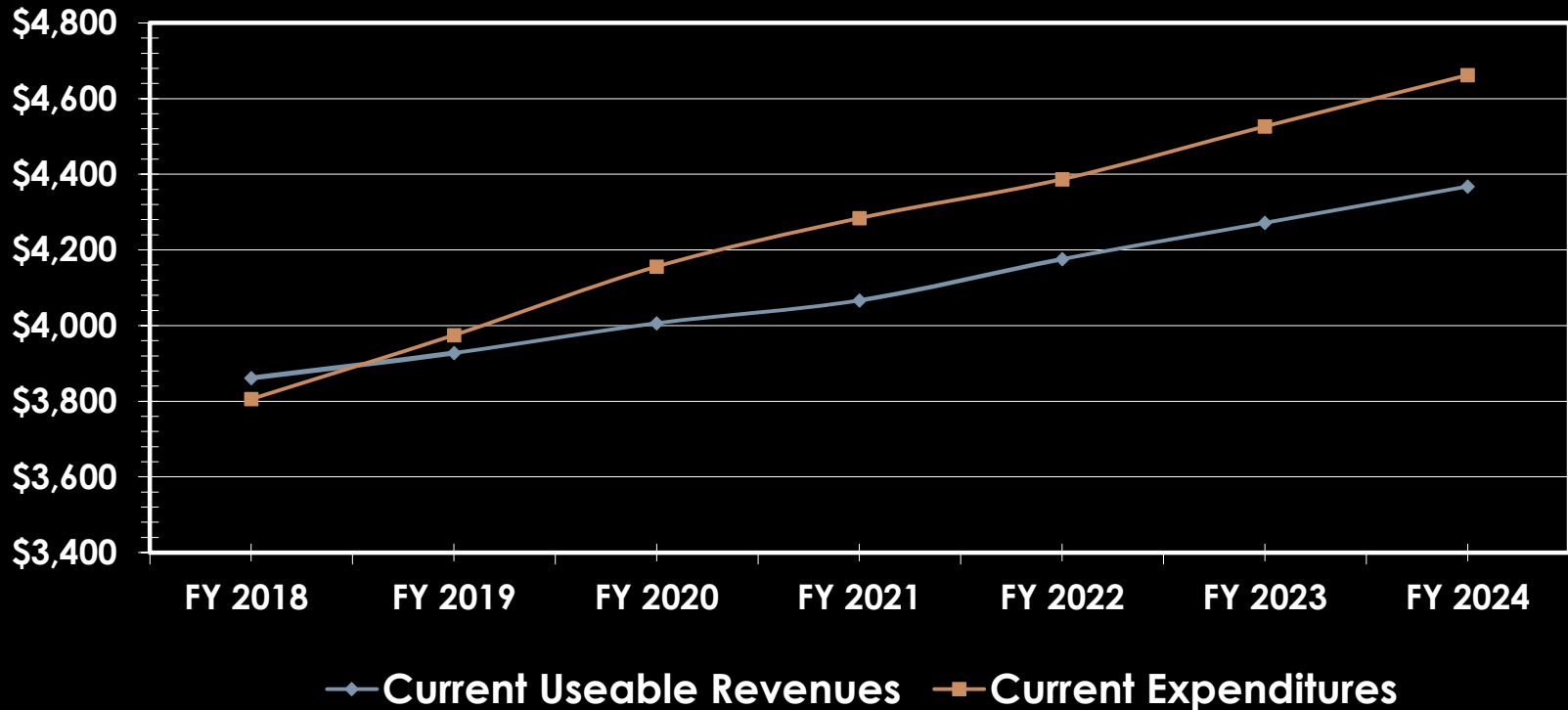
## Revenues vs. Expenditures June 2018 Estimates





# Budget and Out Years

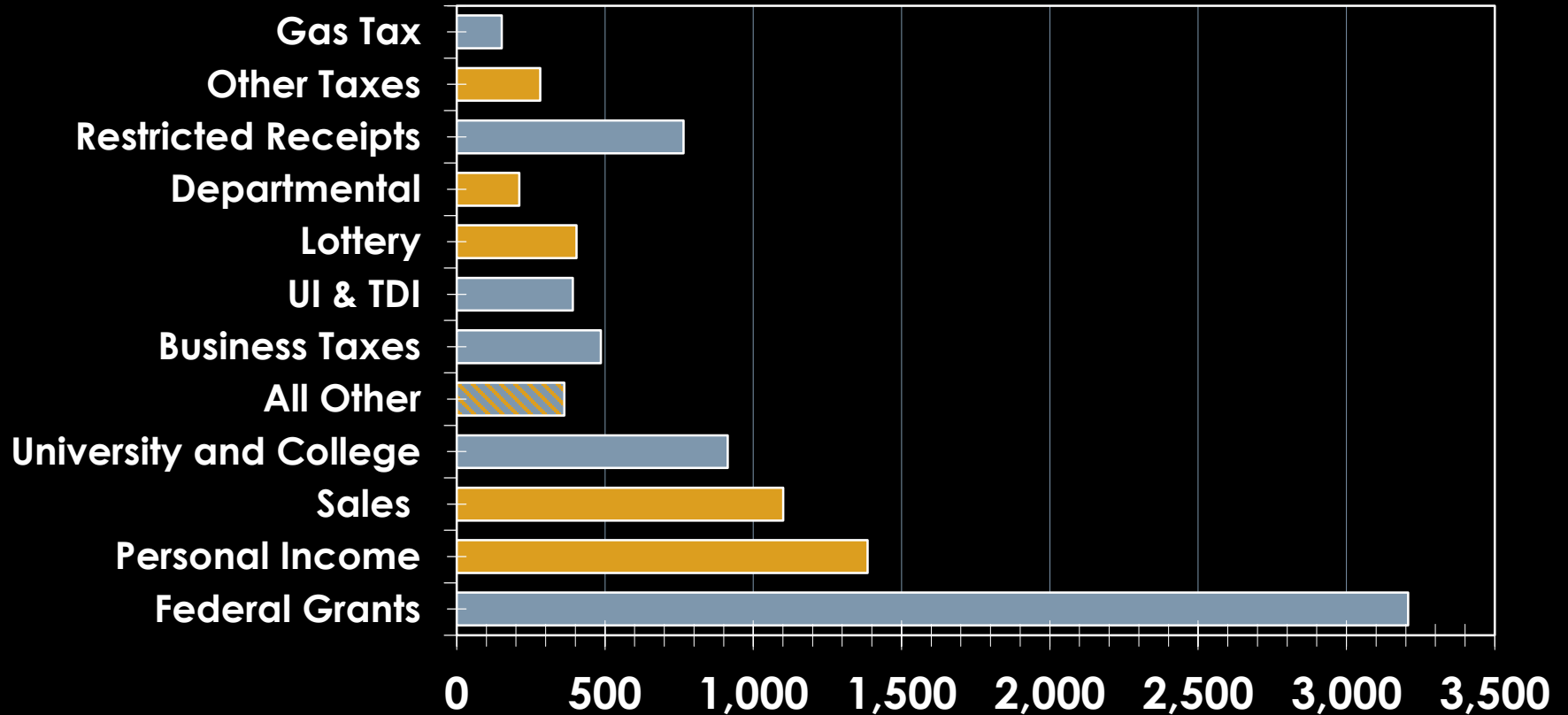
## Revenues vs. Expenditures Nov 2018 Estimates



# Uses – Growth Rates

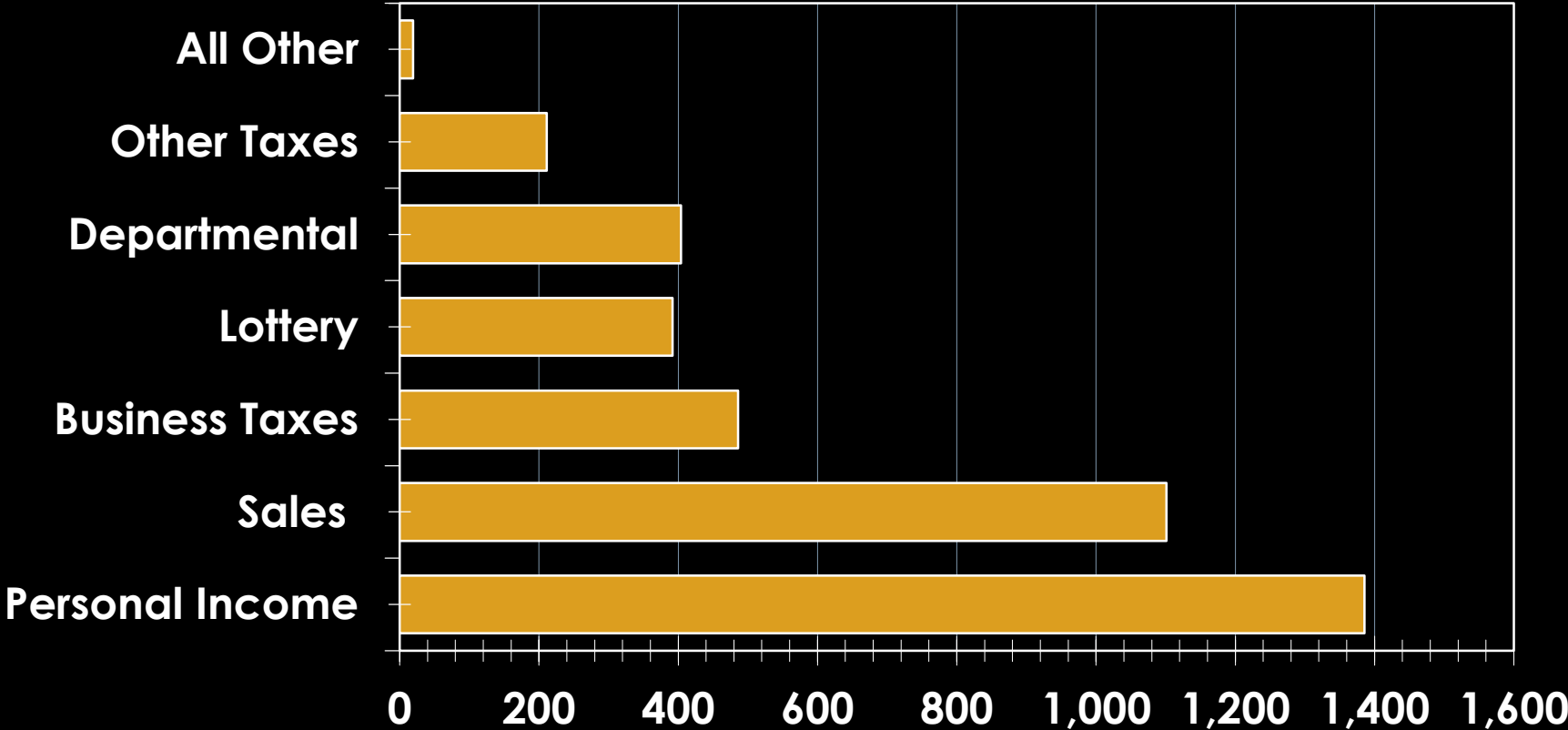
Item	Est. Annual Growth
Jobs	0.3%
State Personal Income	4.2%
Taxes	2.6%
Total Revenues	2.0%
Total Expenditures	2.7%
Salaries & Benefits – 25% of total	3.2%
Medicaid – 30% of total	4.0%

# All Sources (\$millions)

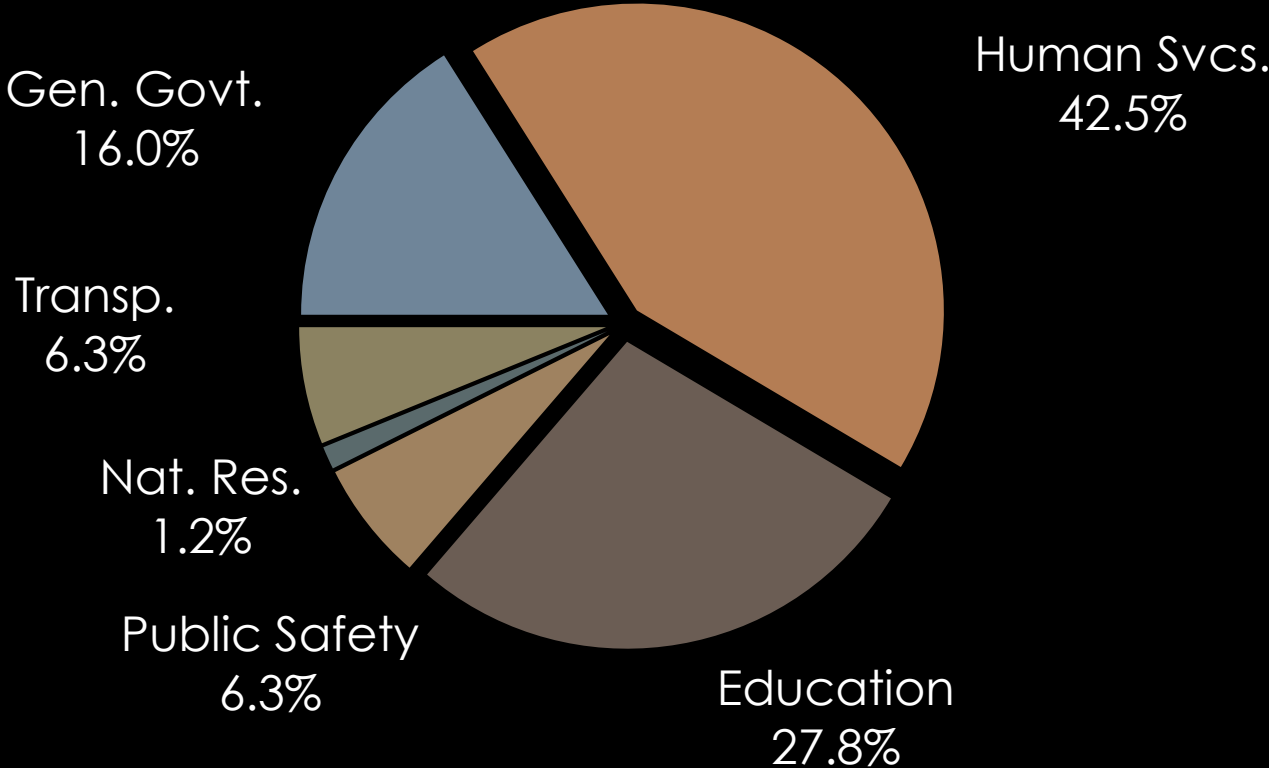


# General Revenue Sources

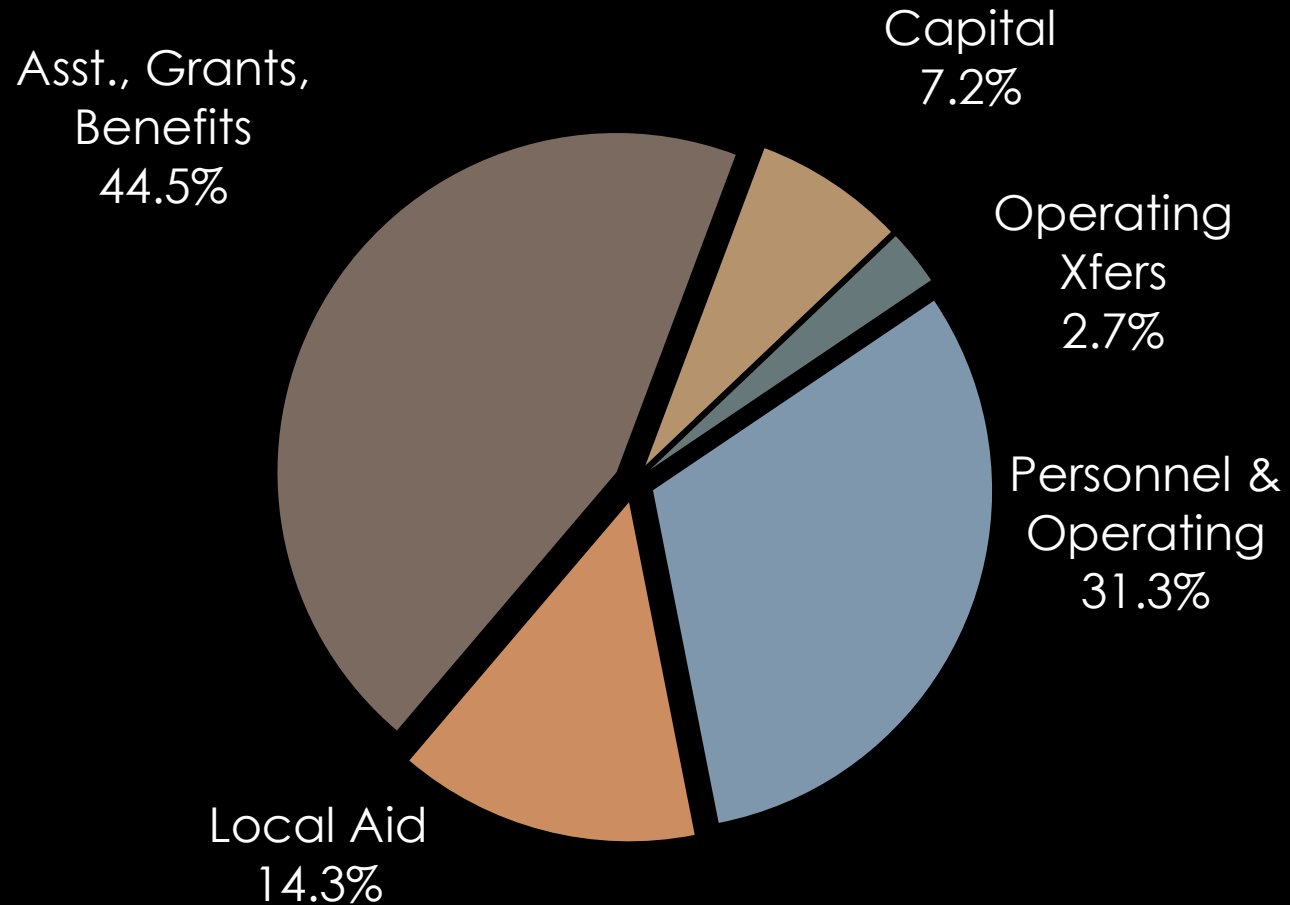
(\$millions)



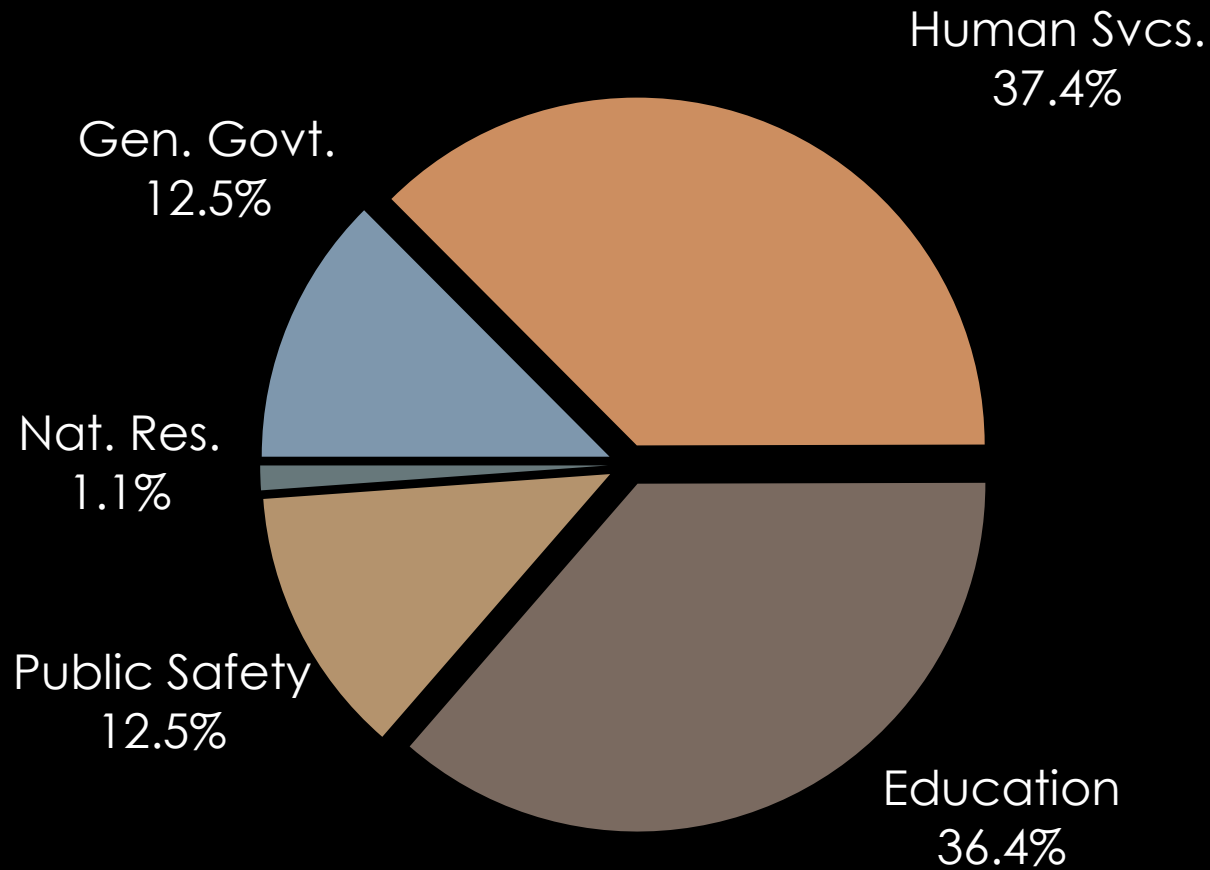
# Uses – All Funds by Function



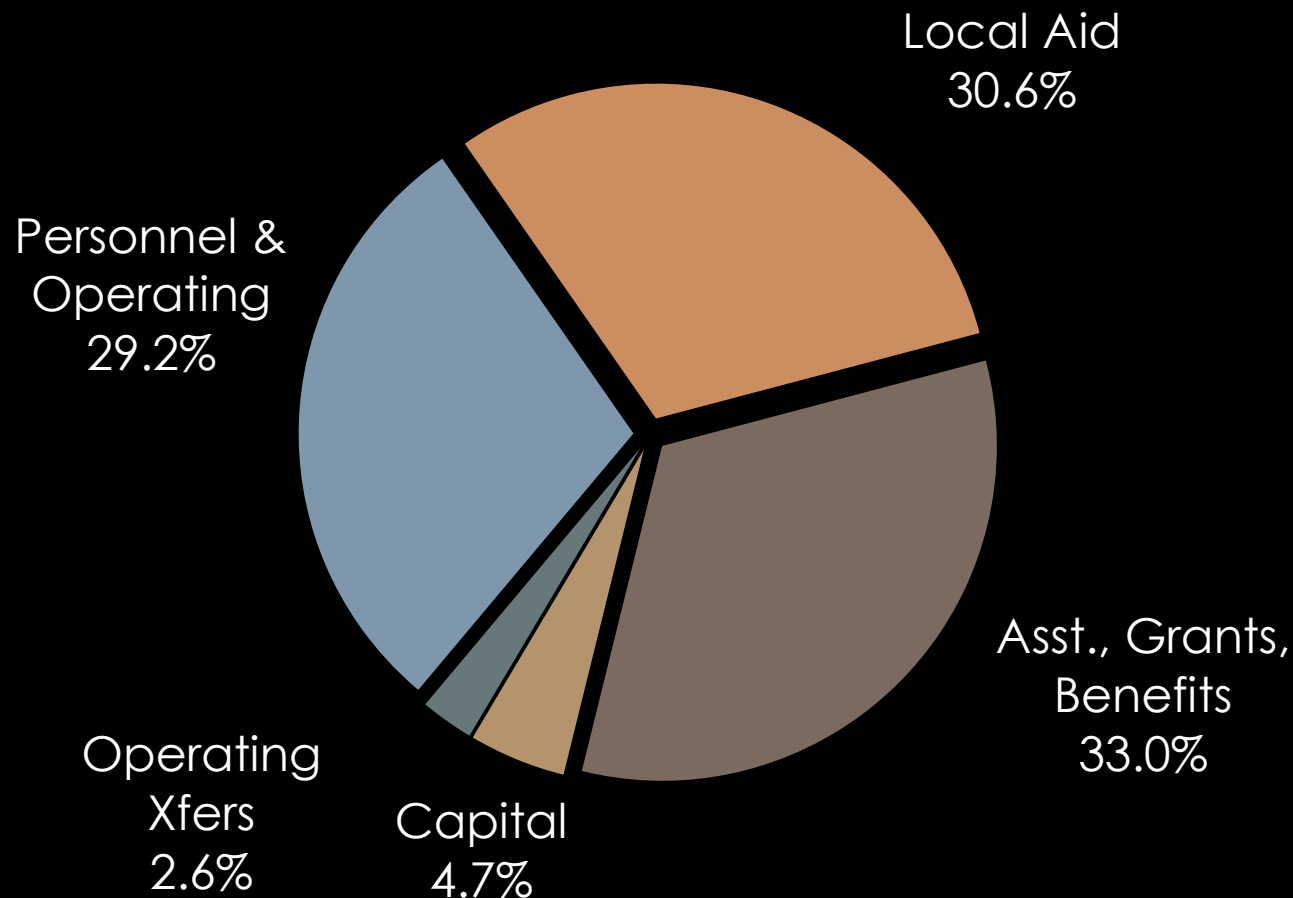
# Uses – All Funds by Category



# Uses – General Revenues by Function



# Uses – General Revenues by Category





# Budget Year and Out-years

- Budget Office Instructions based on \$158 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 \$79 million
  - Not all same items included
- Do not have all budgets in
  - Sec of State, Governor’s Office, Higher Ed, & Military Staff submissions still outstanding

# FY 2020 Budget Requests

- Budget Office also asked for options for reductions
  - 5% adjusted for certain exclusions
    - Equated to \$121.3 million
- May agency submissions do not include options to meet targets
  - Total requests off target by over \$148 million
    - Significant change in compliance vs prior years
    - Many agencies suggested revenue items
  - Many options not sound

# FY 2020 Budget Requests

- Some agencies significantly delayed in budget submissions
  - New budget system continues to present challenges
  - Many experienced difficulty using it
    - Discrepancies between what agencies think they included
- Adds extra challenge exercising adequate review by executive and legislative staffs

# Issues and Risks to the Forecast

- Revenue items
  - Volatile or untested estimates
  - Executing enhanced collections
- Control of current year spending
  - Policy decisions that impact budgets
- Medicaid savings and caseloads
- Potential for cyclical economic event
  - Forecast does not include impacts of possible new tariffs

# Summary

- Governor's Budget expected Jan 17
- Major budget challenges
  - Current year deficit is time sensitive
  - Structural tax and expenditure issues
  - Many competing priorities
    - Fewer options for savings

# Budget Status

House Fiscal Staff Presentation to  
House Finance Committee  
November 29, 2018

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