Budget Status

House Finance Committee
November 18, 2010
Introduction

- State is still facing major budgetary problems
- Focus is on overall fiscal situation for current year, budget and outyears
  - Economy
  - Projections
Introduction

• The state is beginning its recovery from severe economic distress
• No current year deficit expected
• Facing continued budget year and outyear issues growing from about $300 million to $375 million
Introduction

- House Fiscal Staff Estimates
  - Use November revenue and caseload conference estimates
  - Use first quarter reports from agencies, Budget Office first quarter report, and staff estimates for FY 2011
  - Staff estimates for FY 2012 and beyond
Introduction

- The *current year* appears balanced despite loss of federal funds
- The *budget and out year* gaps are a function of both cyclical economic and continued 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
Economic Forecast

November forecast is pessimistic… but change to May forecast is mixed

● Stronger near term personal income growth

● Stronger long term wage & salary growth

● Slower jobs recovery – job losses began in 2007 not regained until 2014
Consensus Economic Forecast

Forecast Differences - Personal Income Growth

- Nov-08
- May-09
- Nov-09
- May-10
- Nov-10

Years: 2005 to 2016
Months: Nov-08, May-09, Nov-09, May-10, Nov-10
Consensus Economic Forecast

Forecast Differences - Jobs

- Nov-08
- May-09
- Nov-09
- May-10
- Nov-10
Consensus Economic Forecast

Wage and Salary Income Growth


Nov-08  May-09  Nov-09  May-10  Nov-10
Employment – Unemployment

-6.0%  -5.0%  -4.0%  -3.0%  -2.0%  -1.0%  0.0%  1.0%  2.0%  3.0%  4.0%  5.0%  6.0%  7.0%  8.0%  9.0%  10.0%  11.0%  12.0%  13.0%  14.0%

Jobs Growth  Unemployment Rate
Jobs – 8 Years Peak to Peak
1991 – 10 Years Peak to Peak
Jobs in the Recessions

- 1989 Recession
- 1991 Recession
- 1993 Recession
- 1995 Recession
- 1997 Recession
- 1999 Recession
- 2001 Recession
- 2003 Recession
- 2005 Recession
- 2007 Recession
- 2009 Recession
- 2011 Recession
- 2013 Recession

1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013

- Orange bars represent the 1991 Recession.
- Purple bars represent the 2008 Recession.
Employment History

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1987</th>
<th>1989</th>
<th>1991</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
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<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2015</th>
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<tr>
<td>Good Times</td>
<td>400,000</td>
<td>420,000</td>
<td>440,000</td>
<td>460,000</td>
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<td>560,000</td>
<td>580,000</td>
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<td>620,000</td>
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<td>1991 Recession</td>
<td>400,000</td>
<td>420,000</td>
<td>440,000</td>
<td>460,000</td>
<td>480,000</td>
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<td>560,000</td>
<td>580,000</td>
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<tr>
<td>2008 Recession</td>
<td>400,000</td>
<td>420,000</td>
<td>440,000</td>
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<td>560,000</td>
<td>580,000</td>
<td>600,000</td>
<td>620,000</td>
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</tbody>
</table>
Employment Growth

Jobs Growth - RI Currently Underperforming

-6.0
-5.0
-4.0
-3.0
-2.0
-1.0
0.0
1.0
2.0
3.0
4.0
5.0
6.0


US
Rhode Island
Unemployment Rates

RI has Consistently Higher Unemployment

US

Rhode Island
Revenues

Personal Income Growth - RI Underperforms

-3.0  -2.0  -1.0  0.0  1.0  2.0  3.0  4.0  5.0  6.0  7.0  8.0  9.0


US  Rhode Island
Revenue Drivers

Percent Change

-6.0  -4.0  -2.0  0.0  2.0  4.0  6.0  8.0  10.0


-6.0  -4.0  -2.0  0.0  2.0  4.0  6.0

Personal Income  Wages and Salaries
Revenues
Revenues

Revenue estimates are driven by trends, collections to date, and the economic forecasts

- FY 2010 less than anticipated
- FY 2011 collections ahead
- Economic forecast is for slow recovery
Income and Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>PIT</th>
<th>Sales</th>
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<tbody>
<tr>
<td>FY 2000</td>
<td>$600</td>
<td></td>
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<tr>
<td>FY 2002</td>
<td>$700</td>
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<td>FY 2004</td>
<td>$800</td>
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<td>FY 2006</td>
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<td>FY 2008</td>
<td>$1,000</td>
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<td>FY 2010</td>
<td>$1,100</td>
<td>$700</td>
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<td>FY 2012</td>
<td>$1,200</td>
<td>$800</td>
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<td>FY 2014</td>
<td></td>
<td>$900</td>
</tr>
<tr>
<td>FY 2016</td>
<td></td>
<td>$1,000</td>
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</table>
Income and Sales

Sales

PIT


$1,200

$900

$600

$300
Lottery

The graph shows the revenue from the lottery and VLT (Video Lottery Terminals) for fiscal years (FY) from 2000 to 2016. The y-axis represents revenue in dollars, ranging from $0 to $350. The x-axis represents fiscal years from FY 2000 to FY 2016. The line graph demonstrates a trend of increasing revenue for both the lottery and VLT over the years, with the lottery showing a more significant upward trend compared to VLT. Projections for FY 2014 and FY 2016 are also indicated on the graph.
Preliminary Closing
State was facing $200 million problem for FY 2010 by this time last year

- Largely due to revenue shortfalls in FY 2009 closing ($60+ million) and FY 2010 estimates from November 2009 ($130+ million)
- Limited time to solve
FY 2010 Preliminary Closing

● Solutions
  ◆ Local Aid reductions
  ◆ Pension reductions
  ◆ Advancing federal resources
  ◆ One-time expenditure & revenue items
  ◆ Agency reductions and initiatives
  ◆ May revenues
## FY 2010 (Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
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</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ (61.3)</td>
<td>$ (61.3)</td>
<td>$ 0.0</td>
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<tr>
<td>Revenues</td>
<td>3,019.1</td>
<td>3,015.6</td>
<td>(3.4)</td>
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<tr>
<td>Rainy Day</td>
<td>(71.0)</td>
<td>(70.9)</td>
<td>0.1</td>
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<tr>
<td>Expenditures</td>
<td>(2,886.8)</td>
<td>(2,862.4)</td>
<td>24.4</td>
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<tr>
<td>Reappropr.</td>
<td>-</td>
<td>(3.4)</td>
<td>(3.4)</td>
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<tr>
<td>Free Surplus</td>
<td>$ 0.0</td>
<td>$ 17.7</td>
<td>$ 17.7</td>
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</table>
Closing – Revenues

- Revenues down $3.4 million from estimates
  - Taxes up $20.8 million with strong sales and business corporation taxes
  - Income tax down somewhat
Closing – Revenues

- All other sources down $24.2 million - Primarily one-time payments that were not received
  - $8.0 million in land sales that did not occur
  - $6.0 million donation from providers of services for those with developmental disabilities did not occur
  - $7.5 million federal funds recovery for child support enforcement expenses delayed
Closing - Expenditures

- Total spending $24.4 million below budgeted amounts
  - Medical caseloads lower than expected
  - Higher statewide utilities savings
  - Greater teacher retirement savings
  - Staffing vacancies
  - Delayed purchases
Closing - Expenditures

- Total spending $24.4 million below budgeted amounts – but areas of overspending
  - 9 agencies overspent
  - 16 overspent when centrally budgeted pension savings are considered
  - Appropriation lines overspent even if agency totals were not
Closing - Expenditures

- Total spending $24.4 million below budgeted amounts – but areas of overspending
  - Unachieved initiatives
  - Unexpected expenses
Closing - Expenditures

- Unachieved initiatives
  - Indirect cost recovery
  - Savings from prison population reductions
  - BHDDH - Methadone maintenance federal match
  - DHS – Nursing home high cost case review
  - DHS – Estate recoveries
Unbudgeted expenses
- Floods – Military Staff, Corrections, DEM
- Rose Hill landfill expense accrual
- Facilities/Repairs - Judiciary
Closing - Expenditures

- Impact on FY 2011
  - Do savings or higher base expenses carry to FY 2011?
  - Will delayed purchases require additional funds in current year?
  - Are initiatives being implemented?
Current Year
Current Year

- The current year has no deficit but includes unmet expenditure savings that could affect out years
  - Medicaid reimbursement shortfall resolved by revenue uptick and closing surplus and other savings
FY 2011

- Closing – September 1
- Caseload estimates - November 8
- Revenue estimates - November 10
- Agency quarterly reports were due to fiscal offices at the end of October
- Budget Office first quarter report was due by November 15
## FY 2011

<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ 0.0</td>
<td>$ 21.1*</td>
<td>$21.1</td>
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<tr>
<td>Revenues</td>
<td>3,020.6</td>
<td>3,037.4</td>
<td>16.7</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(78.5)</td>
<td>(79.4)</td>
<td>(0.9)</td>
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<tr>
<td>Expenditures</td>
<td>(2,942.1)</td>
<td>(2,975.8)</td>
<td>(33.7)</td>
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<tr>
<td>Total FY 2011</td>
<td>$ 0.0</td>
<td>$ 3.1</td>
<td>$ 3.1</td>
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</table>

*Includes $3.4 million reappropriation
Current Year

- Medicaid reimbursement, $38.1 million lower than budgeted - largest impact to current year
- Revenues are up by $16.7 million
- Opening free surplus up by $17.7 million
- Added resources increase rainy day transfer by $0.9 million
- Expenditures less of an issue but still problematic
Current Year

- Caseloads and medical down $5.9 million
- Caseload trends, debt service and formula local aid adjustments mask size of unachieved expenditure savings
- Staff estimates differ from Budget Office
  - Teacher retirement, Legislature, others
## Current Year

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
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<tbody>
<tr>
<td>Reappropriation</td>
<td>3.4</td>
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<tr>
<td>Legislature*</td>
<td>(3.7)</td>
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<tr>
<td>Medicaid Match Rate</td>
<td>38.1</td>
</tr>
<tr>
<td>OHHS Caseload – Net of rate change</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Debt Service – revised estimate</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Retirement Adjustments*</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Formula Local Aid</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Other *</td>
<td>4.4</td>
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</table>

* Items different than Budget Office Q1 estimates
FMAP

- Federal Medical Assistance Percentage
- Matching rate for Medicaid
- Changes annually based on three year relative per capita personal income
- Enhanced rate extension assumed in the enacted budget – actual lower
- Enhancement over in FY 2012
Current Year

● OHHS Caseload – $2.1 million less
  ◆ DHS - $5.9 million less
  ◆ DEA - $0.2 million less
  ◆ DCYF - $2.3 million more
  ◆ BHDDH - $1.0 million more
  ◆ Health - $0.7 million more
Current Year: DHS Caseloads

- Nov Caseload Conference $5.9 million in savings – excluding $28.3 million rate change impact
  - Medical Assistance - $9.5 million less
    - Mainly managed care and other services offset by unachieved savings
  Cash Assistance – $3.6 million more
Current Year

- Medical Assistance -
  - $5.7 million in unachieved savings
    - $4.3 million will not contract for the medical care of nursing home residents
    - $0.8 million from increasing estate recoveries
      - Given staff but only recently hired
Current Year

- DHS – Cash Assistance
  - Add $3.6 million
    - Additional child care costs - $2.1 million
    - Unachieved savings - $1.5 million
Current Year

- Unachieved savings - $1.5 million:
  - $1.1 million from delay in state takeover of state SSI payment
    - Budget assumed 10/1/10 start
  - $0.2 million - delay new SSI category
  - $0.2 million - delay DMV data check initiative
Current Year: OHHS Caseload

- BHDDH - $3.9 million general revenue saving from 2 Global Waiver Changes
  - Establish a behavioral health safety net - $4.0 million all funds; $1.4 million general revenues
  - Restructure the provider network - $7.0 million all funds; $2.5 million from general revenues
Current Year

● BHDDH

◆ Behavioral Health Care Safety Net:
  ● Instead implemented an across the board rate reduction to community mental health
  ● Department projects to achieve the same savings

◆ FY 2010 Overspent in this area by $2.0 million all funds, $0.6 million gen. rev.
Current Year

- BHDDH
  - DD Provider Network with lead agency:
    - Did not implement this change
    - Instead eliminated daily rates & will implement further rate reform in Spring 2011
    - Department projects to achieve the same savings
  - Historical review suggests this is optimistic
Current Year

- Developmental disabilities community based services
  - Last year Department and Budget office projected $1.0 million general revenue deficit in the first quarter report
  - Revised budget added $16.6 million added, $6.0 m from gen rev – offset by donation assumption
Current Year Deficit

- Developmental disabilities community based services
  - FY 2010 preliminary - $195.8 million from all funds
    - Overspent by $6.7 million all funds; $2.0 million general revenues
Current Year

- DCYF
  - System of Care Transformation - unachieved savings of $6.7 million
  - Savings of $4.4 million from caseload trends offset the loss

- Health
  - $0.7 million for HIV/AIDS program
  - Budget Office assumes $1.2 million
Current Year

- Debt Service $2.0 million lower than enacted
- Teacher Retirement $3.8 million lower from base change from FY 2010 – not reflected in Budget Office report
- Other retirement $1.8 million higher from calculation error in the enacted budget
Current Year

- Formula Local Aid – $2.4 million less
  - School Construction Aid $2.8 million less – not all projects done by June 30 deadline
  - Charter Schools $280,000 more estimated adjustment for actual enrollments
  - Group Home beds $30,000 more
Current Year

- Other - $4.4 million more
  - All other projected adjustments to agency expenditures
  - Unachieved indirect cost recovery savings
  - RIBCO settlement largely offset by other changes
Current Year

- Other - $4.4 million more
  - Legal expenses for Central Falls receivership
  - Includes additional medical examiner funding, flood funding $0.0
  - Veterans home expenses
  - Variety of other adjustments
Budget Year and Outyears
Budget Year and Outyears

- There are also *budget year* and *outyear problems*
  - The budget year likely has a gap of $300 million
  - That gap grows in the out years to $375 million
  - Somewhat lower than Fiscal Staff estimates in June
Revenues vs. Expenditures - Current Estimates

- **Current Useable Revenues**
- **Current Expenditures**

**Budget and Out Years**

- FY 2010
- FY 2011
- FY 2012
- FY 2013
- FY 2014
- FY 2015

- $2,800
- $3,000
- $3,200
- $3,400
- $3,600
- $3,800
- $4,000
- $4,200
These gaps continue to be a function of both cyclical economic and continued structural issues.

Stimulus funding ameliorated recent pressures - $240 million “cliff” in

It did not remove them.
Potentially unsustainable expenditure structure
- The stimulus package exacerbated the outyear problem
- Enacted structural changes not implemented
- Growth rates exceeding revenue growth rates
# Growth Rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Est. Annual Growth</th>
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</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>2.5%</td>
</tr>
<tr>
<td>State Personal Income</td>
<td>5.0%</td>
</tr>
<tr>
<td>Taxes</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>3.1%</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>5.3%</td>
</tr>
<tr>
<td>Salaries &amp; Benefits – 25% of total</td>
<td>4.7%</td>
</tr>
<tr>
<td>Medicaid – 22% of total</td>
<td>7.9%</td>
</tr>
</tbody>
</table>
Budget Year and Outyears

- Budget Office Instructions based on $318.8 million deficit projection
- Agencies asked to submit budgets that both reflect true current service expenses and options for reductions up to 15 percent
- Reductions appear to represent $452 million from Budget Office current service estimate
Budget Year and Outyears

- Agencies have not all submitted budgets
- Recent experience suggests many proposals submitted are not viable or of overstated value
- No longer have stimulus MOE requirements
- But major reductions to local aid and other areas limit options
Summary
Summary

- Current year appears balanced with caveat about unachieved savings
- Major budget and out years gaps
  - Slow growing economy
  - Structural tax and expenditure issues
  - Staff continuing work on estimates