Budget Status

House Finance Committee
February 9, 2011
Introduction

- State is facing major budgetary problems
- Governor’s FY 2012 and FY 2011 budgets will be submitted in March
- Ongoing series of staff presentations on budget and related issues
- Focus is on overall fiscal situation for current year, budget and out-years
  - Economy
  - Projections
Introduction

- November briefing covered FY 2010 closing, overall fiscal situation for current year, budget and out-years
  - Economy
  - Projections

- Today’s briefing will recap those issues and discuss budget process
Introduction

- Today’s briefing will recap those issues and discuss budget process
- Additional briefings will consider specific expenditure areas in depth
  - Medicaid and Human Services
  - Personnel Expenses
Introduction

- The state is beginning its recovery from severe economic distress
- No current year deficit expected
- Facing continued budget year and out-year 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 Q1, and staff estimates for FY 2011 (Q2 reports show little variance from Q1 but not all in)
  - 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 was 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

-1.5 -0.5 0.5 1.5 2.5 3.5 4.5 5.5 6.5


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

-6.0  -4.0  -2.0  0.0  2.0  4.0  6.0  8.0
Nov-08  May-09  Nov-09  May-10  Nov-10
Employment – Unemployment

Jobs Growth

Unemployment Rate
Employment Growth

Jobs Growth - RI Currently Underperforming
Unemployment Rates

RI has Consistently Higher Unemployment
Revenues

Personal Income Growth - RI Underperforms

US
Rhode Island
Revenue Drivers

![Graph showing revenue drivers from 2000 to 2016 with data points for Personal Income and Wages and Salaries. The graph displays trends and changes in percent change over the years.]
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

![Graph showing Income and Sales from FY 2000 to FY 2016.](image)

- **PIT**
- **Sales**
Lottery


Lottery VLT
Audited Closing
FY 2010 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 Closing

- Solutions
  - Local Aid reductions
  - Pension reductions
  - Advancing federal resources
  - One-time expenditure & revenue items
  - Agency reductions and initiatives
  - May revenues
### FY 2010 Audited

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<tr>
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<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
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</thead>
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<tr>
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<td>$ (61.3)</td>
<td>$ (61.3)</td>
<td>$ 0.0</td>
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<td>Revenues</td>
<td>3,019.1</td>
<td>3,017.0</td>
<td>(2.0)</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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<td>Expenditures</td>
<td>(2,886.8)</td>
<td>(2,863.6)</td>
<td>23.2</td>
</tr>
<tr>
<td>Reapprop.</td>
<td>-</td>
<td>(3.4)</td>
<td>(3.4)</td>
</tr>
<tr>
<td>Free Surplus</td>
<td>$ 0.0</td>
<td>$ 17.9</td>
<td>$ 17.9</td>
</tr>
</tbody>
</table>
Closing – Revenues

- Revenues down $2.0 million from estimates
  - Taxes up $22.3 million with strong sales and business corporation taxes
  - Income tax down somewhat
Closing – Revenues

- All other sources down $24.3 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 $23.2 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 $23.2 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 $23.2 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
Closing - Expenditures

- 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
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

- Preliminary Closing – September 1
- Caseload estimates – November 8
- Revenue estimates – November 10
- Agency Q1 reports – Due Oct 30
- Budget Office Q1 report – Nov 15
FY 2011

- Audited Closing – January 14
- Governor’s Budget Due - Feb 3
  - Extended to March 10th
- Agencies’ 2\textsuperscript{nd} quarter reports were due to fiscal offices at the end of January
  - A number of large agencies have not submitted them
## FY 2011

<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>$ 0.0</td>
<td>$ 21.3*</td>
<td>$21.3</td>
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<tr>
<td>Revenues</td>
<td>3,020.6</td>
<td>3,037.4</td>
<td>16.7</td>
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<tr>
<td>Rainy Day</td>
<td>(78.5)</td>
<td>(79.4)</td>
<td>(0.9)</td>
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<tr>
<td>Expenditures</td>
<td>(2,942.1)</td>
<td>(2,975.8)</td>
<td>(33.7)</td>
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<tr>
<td>Total FY 2011</td>
<td>$ 0.0</td>
<td>$ 3.3</td>
<td>$ 3.3</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 $17.9 million
- Added resources increase rainy day transfer by $0.9 million
- Expenditures less of an issue but still problematic
Current Year

- Caseloads & 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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</thead>
<tbody>
<tr>
<td>Reappropriation</td>
<td>3.4</td>
</tr>
<tr>
<td>Legislature*</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Medicaid Match Rate</td>
<td>38.1</td>
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<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>
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<tr>
<td>Formula Local Aid</td>
<td>(2.4)</td>
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<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, $6.0 million 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
  - Veterans home expenses
  - Variety of other adjustments
Budget Year and Out-years
There are also budget year and out-year 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
Budget and Out Years

Revenues vs. Expenditures - Current Estimates

- Current Useable Revenues
- Current Expenditures
These gaps continue to be a function of both cyclical economic and continued structural issues.

Stimulus funding ameliorated recent pressures – $240 million “cliff” in FY 2012.

It did not remove them.
Budget Year and Out-years

● Potentially unsustainable expenditure structure
  ◆ The stimulus package exacerbated the out-year problem
  ◆ Enacted structural changes not implemented
  ◆ Growth rates exceeding revenue growth rates
### Growth Rates

<table>
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<tr>
<th>Item</th>
<th>Est. Annual Growth</th>
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<tbody>
<tr>
<td>Jobs</td>
<td>2.5%</td>
</tr>
<tr>
<td>State Personal Income</td>
<td>5.0%</td>
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<tr>
<td>Taxes</td>
<td>3.8%</td>
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<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>
Sources

- Gas Tax
- Restricted
- All Other
- Other Taxes
- Depts.
- Lottery
- Bus. Taxes
- UI & TDI
- Univ./Colle
- Sales
- PIT
- Federal

$(0.1) $(0.2) $(0.5) $(0.8) $(1.1) $(1.4) $(1.7) $(2.0) $(2.3) $(2.6) $(2.9)
Uses – All Funds by Function

- Human Svcs.: 39.7%
- Education: 26.7%
- Gen. Govt.: 21.4%
- Transportation: 5.5%
- Nat. Res.: 1.3%
- Public Safety: 5.5%
Uses – All Funds by Category

- Local Aid: 13.7%
- Asst., Grants, Benefits: 50.1%
- Personnel & Operating: 29.8%
- Operating Xfers: 3.0%
- Capital: 3.5%
Uses – General Revenues by Function

- **Human Svcs.**: 36.5%
- **Education**: 35.1%
- **Public Safety**: 12.4%
- **Nat. Res.**: 1.3%
- **Gen. Govt.**: 14.8%
Uses – General Revenues by Category

- Personnel & Operating: 31.8%
- Operating Xfers: 5.4%
- Capital: 0.2%
- Local Aid: 30.1%
- Asst., Grants, Benefits: 32.5%
Budget Year and Out-years

- Budget Office Instructions were based on earlier $318.8 million deficit projection
  - Includes calculation of current service revenues and expenses
- Agencies asked to submit budgets that reflect true current service expenses that are “unconstrained”
# FY 2012 Budget Requests

<p>| | |</p>
<table>
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<tr>
<td>FY 2011 Enacted</td>
<td>$2,942.1</td>
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<tr>
<td>Current Services Adjustment</td>
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<td>FY 2012 Budget Office Current Svs.</td>
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<tr>
<td>FY 2012 Unconstrained Request</td>
<td>3,366.7</td>
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<tr>
<td>Difference from Budget Office</td>
<td>68.7</td>
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<tr>
<td><em>Implied Current Service Need</em></td>
<td>$ 424.9</td>
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</table>
FY 2012 Budget Requests

- Budget Office also asked for options for reductions of 15 percent adjusted for certain exclusions
- Those reductions represent $452.2 million of savings from Budget Office current service estimate
- This design gives adequate options when proposals are rejected or softened
## FY 2012 Budget Requests

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>FY 2012 Budget Office Current Svs.</td>
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<td>Target Adjustment</td>
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<td>FY 2012 Budget Office Target</td>
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<td>FY 2012 Constrained Requests</td>
<td>3,230.9</td>
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<tr>
<td><strong>Difference from Budget Office Target</strong></td>
<td>385.1</td>
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<td>Constrained vs. B.O. Current Svs</td>
<td>(67.1)</td>
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<tr>
<td>Constrained vs. Unconstrained Req.</td>
<td>$(135.8)</td>
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</table>
FY 2012 Budget Office Current Serv.

- Education: 32.4%
- Public Safety: 12.0%
- Natural Res.: 1.2%
- General Govt.: 13.7%
- Human Svcs.: 40.7%
FY 2012 Unconstrained

- Education: 32.9%
- Public Safety: 11.9%
- Human Svcs.: 40.6%
- Gen. Govt.: 13.3%
- Nat. Res.: 1.2%
FY 2012 Constrained

- Education: 34.2%
- Public Safety: 11.1%
- Nat. Res.: 1.1%
- Gen. Govt.: 12.9%
- Human Svcs.: 40.7%
**Budget Year and Out-years**

- Recent experience suggests many proposals submitted are not viable or of overstated value
- Already some of the savings in “target” proposals have been revised downward
Budget Year and Out-years

● Array of options allows for decision makers to consider all choices and implications

● No longer have stimulus MOE requirements

● But major reductions to local aid and other areas limit options
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
Summary
Summary

- Governor’s Budget expected March 10th
- Current year appears balanced with caveat about unachieved savings
- Major budget and out-year gaps
  - Slow growing economy
  - Structural tax and expenditure issues
Next Briefings

- **Thursday February 10** – Medicaid and Human Services programs and issues

- **Tuesday February 15** – Personnel and related issues