Budget Status

House Finance Committee
January 11, 2012
Introduction

- State budgetary problems continue
- Governor’s FY 2013 and FY 2012 revised budgets due Jan 19
  - Requested extension to Jan 31
- Focus is on overall fiscal situation for current year, budget and out-years
  - Economy
  - Projections
Typically staff briefs Committee in Nov. regarding, overall fiscal situation for current year, budget and out-years

- Economy
- Projections

Special session on pensions dominated fall committee work

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

- The state is in a slow recovery from severe economic distress
- No current year deficit expected
- Facing continued budget year and out-year issues growing from about $134 million to $273 million
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 2012
- Staff estimates for FY 2013 and beyond
  - Not all policy issues accounted for
The current year appears balanced but overspending is a problem. The budget and outyear gaps are a function of both cyclical economic and continued structural issues.
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
November forecast worse than May

- Personal income, jobs, wage & salary growth all lower and slower
- RI recovery continues to lag U.S.
- Slower jobs recovery – job losses began in 2007 not regained until 2015 – May forecast was 2014
Consensus Economic Forecast

Forecast Differences - Jobs

- Nov-08
- May-09
- Nov-09
- May-10
- Nov-11

Year:
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
Employment – Unemployment

[Graph showing jobs growth and unemployment rate from 2000 to 2017]
Employment Growth

Jobs Growth - RI Currently Underperforming

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


US  Rhode Island
Unemployment Rates

RI has Consistently Higher Unemployment

- **US**
- **Rhode Island**
Revenues

Personal Income Growth - RI Underperforms

US
Rhode Island
Revenue Drivers

![Graph showing percent change in Personal Income and Wages and Salaries from 2000 to 2016.]

- Personal Income
- Wages and Salaries
Revenues
Revenue estimates are driven by trends, collections to date, and the economic forecasts

- FY 2011 were less than anticipated
- FY 2012 collections ahead/holding
- Economic forecast is for slow recovery
Income and Sales
Income and Sales

$300
$600
$900
$1,200


PIT
Sales
Audited Closing
State was not facing major current year problem this time last year

Expenditure reductions and more favorable revenues in May allowed for significant surplus to close major 2012 gap
## FY 2011 Audited

<table>
<thead>
<tr>
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<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
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</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ 21.3</td>
<td>$ 21.9</td>
<td>$ 0.6</td>
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<tr>
<td>Revenues</td>
<td>3,091.0</td>
<td>3,083.7</td>
<td>(7.2)</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(80.8)</td>
<td>(80.7)</td>
<td>0.2</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(2,974.2)</td>
<td>(2,956.2)</td>
<td>18.1</td>
</tr>
<tr>
<td>Reapprop.</td>
<td>-</td>
<td>(4.5)</td>
<td>(4.5)</td>
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<tr>
<td>Free Surplus</td>
<td>$57.2</td>
<td>$ 64.2</td>
<td>$ 7.0</td>
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</table>
Revenues down $7.3 million from estimates

- Taxes down $6.2 million with personal income tax gains offsetting business taxes
  - Business tax discrepancies somewhat explained by accrual changes that made estimates difficult
- All other revenue down $1 million
  - Lottery and unclaimed property up while miscellaneous (one-timers) down
Closing - Expenditures

Total spending $18.1 million below budgeted amounts

- $4.5 million unspent and reappropriated
- $12.7 million savings from Medical caseloads and positive impact of risk sharing with managed care plans
- $2.0 million DOA centralized utilities and facilities savings
Total spending $18.1 million below budgeted amounts - but areas of overspending
- 8 agencies overspent
- Appropriation lines overspent even if agency totals were not
  - 23% of lines were overspent
- Unachieved initiatives
- Unexpected expenses
Closing - Expenditures

- Unachieved initiatives
  - BHDDH – overtime and staffing at Eleanor Slater Hospital ($1.2 million) and in RIC LAS ($1.0 million)
  - Developmental Disabilities: $2.3 million
  - DC YF – $3.2 million
Closing - Expenditures

- Unexpected Expenses
  - RIC Debt Service: $1.6 million
    - MOE issue – funding recaptured
  - Trooper Contract retro: $0.6 million
Impact on FY 2012

- Do savings or higher base expenses carry to FY 2012?
- 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
  - Major shortfall from overspending masked by revenue uptick, additional closing surplus and other savings
FY 2012

- Preliminary Closing – September 1
- Agency Q1 reports – Oct 30
- Caseload estimates – November 4
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 15
- Audited Closing – Jan 5
- Governor’s Budget – Jan 19
- Agencies Q2 – Jan 30
### FY 2012

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<th>Diff.</th>
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<tbody>
<tr>
<td>Opening</td>
<td>$ 57.2</td>
<td>$ 68.8*</td>
<td>$11.6</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,176.0</td>
<td>3,195.4</td>
<td><strong>19.4</strong></td>
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<tr>
<td>Rainy Day</td>
<td>(90.5)</td>
<td>(91.3)</td>
<td>(0.7)</td>
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<tr>
<td>Expenditures</td>
<td>(3,142.7)</td>
<td>(3,172.9)*</td>
<td><strong>(30.2)</strong></td>
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<tr>
<td>Total FY 2012</td>
<td>$ 0.2</td>
<td>$ 1.4</td>
<td>$1.2</td>
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*Includes $4.5 million reappropriation
Current Year

- Revenues are up by $19.4 million
- Opening free surplus up by $7 million
- Added resources increase rainy day transfer by $0.7 million
- Expenditures appear up by $24.1 million net of reappropriations... still problematic
Current Year

- Staff estimates differ from Budget Office
  - Transportation - RIDE and DOT
  - Central Falls
  - Corrections
  - Refining and revising of estimates continues as more info is available
## Current Year

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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<tr>
<td>Reappropriation</td>
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<tr>
<td>OHHS Caseload*</td>
<td>9.5</td>
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<tr>
<td>Debt Service</td>
<td>-(5.2)</td>
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<tr>
<td>Transportation*</td>
<td>5.1</td>
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<tr>
<td>Formula Local Aid</td>
<td>-(0.5)</td>
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<tr>
<td>Public Safety*</td>
<td>7.0</td>
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<tr>
<td>Other*</td>
<td>8.6</td>
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</table>

* Items different than Budget Office Q1 estimates
Reappropriation

- Statutory for Legislature and Judiciary
- Secretary of State - Quick Start Program
- Attorney General - Tobacco Litigation
- Treasurer - Renovations/Legal- SEC Investigation
Current Year: OHHS Caseload

- DHS - $1.1 million less
- DCYF - $6.2 million more
- BHDDH - $2.2 million more
Nov Caseload Conference:
- $1.1 million in savings
- Medical Assistance - $1.9 million less
  - Saving in managed care, hospital and other services
  - Increases in long term care and Rhody Health
- Cash Assistance – $0.8 million more
Current Year: OHHS Caseload

- Medical Assistance – $2.5 million in unachieved savings
  - Add back from general revenues for the Money Follows the Person initiative
    - Increased Medicaid rate for home and community based services
BHDDH - $2.2 million general revenue savings from initiatives

- Staffing costs at the Eleanor Slater Hospital and RICLAS system
  - Overtime savings in budget from delayed staff hiring
Current Year: OHHS Caseload

- DCYF - $6.2 million
  - $3.4 million to correct Medicaid claiming
  - $2.6 million for caseload expenditures
  - $0.3 million unachieved savings
Current Year

- Debt Service $5.2 million lower
  - One time savings

- Transportation Shortfall
  - $5.1 million
    - Budget office estimate $7.6 million
    - Staff estimate assumes turnover and lower winter maintenance
Current Year

- Formula Local Aid – $0.5 million less
  - Property Revaluation $0.1 million less
  - School Construction: $2.7 million less
  - Teacher Retirement: $2.4 million more
Public Safety – $7 million more

- Trooper Contract $1.4 million
- Underestimated RIBCO costs $3.1 million
- DOC Unachieved statewide savings $1.9 million
- Other DOC issues $0.6 million
Current Year

- Other - $10.8 million more
- Placeholder for $2.6 million request for Central Falls settlement
- All other projected adjustments to agency expenditures
  - Unachieved statewide savings
  - Hurricane Irene
Current Year

- Other -
  - DMV staffing
  - DOA Technology Expenses
Budget Year and Out-years
Budget Year and Out-years

- There are also budget year and out-year problems
  - The budget year likely has a gap of $134 million
  - That gap grows in the out years to $273 million
  - Lower than Fiscal Staff estimates in June; higher if pension savings are excluded
  - Lower revenues and higher expenses
Budget and Out Years

Revenues vs. Expenditures: Current Estimate

- Current Useable Revenues
- Current Expenditures
Budget Year and Out-years

- Last staff estimates showed
  - The budget year gap of $142 million
    - New estimate has $117 million in pension legislation savings
    - $51 million less in revenues based on REC
    - $24.7 million debt service estimate reporting error
    - Other known or expected increases
These gaps continue to be a function of both cyclical economic and continued structural issues. Stimulus “cliff” only partially resolved with one time savings in FY 2012.
Continued issue of problematic expenditure structure
- The stimulus package exacerbated the out-year problem
- Many enacted structural changes; implemented ... still others not achieved
- Growth rates exceeding revenue growth rates
Sources

Gas Tax
Restricted Rec.
Other Taxes
Departmental
Misc Other
Lottery
Business Taxes
UI/TDI
Univ.&College
Sales
PIT
Federal

$-$ $0.3 $0.5 $0.8 $1.0 $1.3 $1.5 $1.8 $2.0 $2.3 $2.5 $2.8
Uses – All Funds by Function

- Human Svcs. 40.4%
- Education 28.1%
- Transportation 5.5%
- Public Safety 6.2%
- Nat. Res. 1.3%
- Gen. Govt. 18.4%
Uses – General Revenues by Function

- Human Svcs.: 40.0%
- Education: 33.1%
- Public Safety: 12.6%
- Nat. Res.: 1.2%
- Gen. Govt.: 13.1%
Uses – General Revenues by Category

- Personnel & Operating: 30.3%
- Local Aid: 28.4%
- Asst., Grants, Benefits: 35.6%
- Capital: 5.4%
- Operating Xfers: 0.2%
Budget Year and Out-years

- Budget Office Instructions based on $214.8 million July deficit projection
  - Includes calculation of current service revenues and expenses
  - Also includes a number of “policy choices”
    - Increasing PILOT
    - Restoring 2012 funding reductions
Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office.

Agency requests still exceeded current service estimates.

- Not all same items included.
## FY 2013 Budget Requests

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<tr>
<th>Description</th>
<th>Amount</th>
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<td>FY 2012 Enacted</td>
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<td>Current Services Adjustment</td>
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<td>FY 2013 Budget Office Current Svs.</td>
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<td>FY 2013 Agency Requests</td>
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<tr>
<td>Difference from Budget Office</td>
<td>$ 51.0</td>
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FY 2013 Current Service Expenditures

- Main discrepancy $24.7 million debt service reporting error in 5-year forecast submitted with Governor’s budget
- Other Changes
  - $7.2 million additional debt service
  - $6.6 million of local aid policy choices
  - Restorations of personnel savings
FY 2013 Budget Requests

- Budget Office did not ask for targeted reductions below current service
- Priorities were to be set during new performance budgeting process
- No budget reduction initiatives submitted with requests
  - Staff typically begin review of ideas as part submission analysis
FY 2013 Budget Office Current Serv.

- Gen. Govt.: 13.7%
- Human Svcs.: 38.8%
- Education: 34.0%
- Public Safety: 12.3%
- Nat. Res.: 1.2%
## FY 2013 Current Service Expenditures

- HFAS June estimates has FY 2013 estimated expenditures $39.9 million lower than Budget Office July estimates.

<table>
<thead>
<tr>
<th>FY 2013 Budget Office Current Svs.</th>
<th>$3,408.5</th>
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<tr>
<td>FY 2013 HFAS June Estimate</td>
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<tr>
<td>Difference from Budget Office</td>
<td>$ 39.9</td>
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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
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

- Governor’s Budget expected Jan 31
- Current year appears balanced but major unachieved savings
- Major budget and out-year gaps
  - Slow growing economy
  - Structural tax and expenditure issues