Budget Status

House Finance Committee
December 12, 2012
State budgetary problems persist
Governor’s FY 2014 and FY 2013 revised budgets due Jan 17
Focus is on overall fiscal situation for current year, budget and out-years
- Economy
- Projections
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 as well as offer overview of federal “fiscal cliff”
The state continues its slow recovery from severe economic distress. Current year surplus expected. Facing continued budget year and out-year issues growing from about $69.3 million to over $400 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 2013
  - Staff estimates for FY 2014 and beyond
    - Not all policy issues accounted for
  - Estimates vary – this is HFAS perspective
The current year appears balanced with excess 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 rates all lower and slower in short term
- RI recovery continues to lag U.S.
- Slower jobs recovery – job losses began in 2007 not regained until 2016
  - May forecast was 2015
Consensus Economic Forecast

Forecast Differences - Personal Income Growth

-4.0  -2.0  0.0  2.0  4.0  6.0  8.0

-4.0  -2.0  0.0  2.0  4.0

May-09 S Nov-09 S May-10 S Nov-10
May-11 S Nov-11 S May-12 S Nov-12
Consensus Economic Forecast

Forecast Differences - Jobs

Thousands


May-09 Nov-09 May-10 Nov-10
May-11 Nov-11 May-12 Nov-12
Employment Growth

Jobs Growth - RI Currently Underperforming

-5.00%  -4.00%  -3.00%  -2.00%  -1.00%  0.00%  1.00%  2.00%  3.00%  4.00%


US  Rhode Island
Unemployment Rates

RI has Consistently Higher Unemployment

US
Rhode Island
Revenues

Personal Income Growth - RI Underperforms

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

2001  2003  2005  2007  2009  2011  2013  2015  2017

US   Rhode Island
Revenue Drivers

- Personal Income
- Wages and Salaries

2001 2003 2005 2007 2009 2011 2013 2015 2017

-4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0%
Risks to the Forecast

- Economic Forecast assumes resolution of the “Fiscal Cliff”
  - Half the “sequestration” of federal grants will take place
  - Expiration of Bush Tax Cuts for incomes over $250K
  - Reinstatement of full payroll tax (2%)
While Most State Grant Programs are Subject to Sequester...

Most State Grant Funding is Exempt

- Exempt: 24%
- Covered: 76%
- Exempt: 82%
- Covered: 18%
## Fiscal Cliff
(adapted from Federal Fund Information for States Presentation)

<table>
<thead>
<tr>
<th>Grant Areas Subject to Sequester</th>
<th>Budget Function</th>
<th>Funding Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Employment and Training</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Community Development</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Justice</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Energy, Environment, Nat. Resources</td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td>Education (Pell Grants Exempt)</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Income Security and Social Services</td>
<td>23%</td>
<td></td>
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<tr>
<td>Transportation</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Health (MA, CHP, MA Admin exempt)</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>
## The Largest Grants are Mostly Exempt

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2013 CR (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid - Vendor (E)</td>
<td>$251,464</td>
</tr>
<tr>
<td>Food Stamp Benefits (E)</td>
<td>69,885</td>
</tr>
<tr>
<td>Pell Grants (E)</td>
<td>35,992</td>
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<tr>
<td>National Highway Performance (C/E)</td>
<td>21,752</td>
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<tr>
<td>CHIP (E)</td>
<td>17,406</td>
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<tr>
<td>TANF (E)</td>
<td>17,178</td>
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<tr>
<td>Title I Grants to LEAs (C)</td>
<td>14,605</td>
</tr>
<tr>
<td>Special Education (C)</td>
<td>11,649</td>
</tr>
<tr>
<td>Medicaid - Admin (E)</td>
<td>11,440</td>
</tr>
<tr>
<td>School Lunch (E)</td>
<td>11,263</td>
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</tbody>
</table>
### Fiscal Cliff

(adapted from Federal Fund Information for States Presentation)

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2013 CR (in millions)</th>
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<tbody>
<tr>
<td>Title I Grants to LEAs</td>
<td>$14,605</td>
</tr>
<tr>
<td>Special Education</td>
<td>11,649</td>
</tr>
<tr>
<td>Head Start</td>
<td>8,017</td>
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<tr>
<td>WIC</td>
<td>6,659</td>
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<tr>
<td>Public Housing Operating Fund</td>
<td>3,986</td>
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<tr>
<td>LIHEAP</td>
<td>3,493</td>
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<tr>
<td>UI State Administration</td>
<td>3,245</td>
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<tr>
<td>Vocational Rehabilitation</td>
<td>3,231</td>
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<tr>
<td>Consolidated Health Centers</td>
<td>3,076</td>
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<tr>
<td>Community Development Block Grant (CDBG)</td>
<td>2,967</td>
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</table>
Risks to the Forecast

- No current estimates of impact on state revenues from economic effects of a different “Fiscal Cliff” resolution
- Many states have tax policy directly linked to federal rules
  - RI tax revenues would increase with:
    - Roll back of EITC expansion and dependent care tax credits and student loan interest deduction
    - Elimination of credits for elementary and secondary teacher expenses and qualified tuition expenses
Risks to the Forecast

- Too many variables at play in the potential resolution
- Are grant reductions extended to currently exempt programs?
  - Impacts on Medicaid would be a significant issue to states especially with ACA implementation
- Cliff is more like a slope...and federal government has tools to avert certain impacts pending a resolution
Revenues
Revenues

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

- FY 2012 were more than anticipated
- FY 2013 collections ahead/holding
- FY 2014 consensus estimates close to staff estimates
- Economic forecast is for slow recovery
- Staff out-year projections assume affects of gaming in Mass starting in FY 2015
Income and Sales
Preliminary Closing
FY 2012 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 2013 gap
<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ 68.8</td>
<td>$ 68.8</td>
<td>$ 0.0</td>
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<tr>
<td>Revenues</td>
<td>3,257.4</td>
<td>3,270.3</td>
<td>12.9</td>
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<tr>
<td>Rainy Day</td>
<td>(93.0)</td>
<td>(93.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(3,139.3)</td>
<td>(3,109.9)</td>
<td>29.4</td>
</tr>
<tr>
<td>Xfer Retirement</td>
<td>-</td>
<td>(12.5)</td>
<td>(12.5)</td>
</tr>
<tr>
<td>Closing Surplus</td>
<td>$ 93.9</td>
<td>$ 123.3</td>
<td>$ 29.4</td>
</tr>
<tr>
<td>Reapprop.</td>
<td>-</td>
<td>(7.7)</td>
<td>(7.7)</td>
</tr>
<tr>
<td>Free Surplus</td>
<td>$ 93.9</td>
<td>$ 115.5</td>
<td>$ 21.7</td>
</tr>
</tbody>
</table>
Revenues $12.9 million (0.4%) above

- Taxes up $14.8 million with personal income tax gains offsetting business taxes
  - Missed business tax estimate to lesser degree than last year
  - Continues to prove difficult to estimate
- All other revenue down $1.9 million
  - Departmental receipts down $5.0 million – unpaid hospital license fees
  - Miscellaneous (one-timers) up $3.3 million
Revenues $12.9 million more

- Law requires final revenues above estimates be transferred to the Employees’ Retirement System to pay down unfunded liability

- Total Transfer = $12.5 million
  - $12.9 million less 3% rainy day contribution ($0.4 million) leaves $12.5 million to be transferred as excess
Total spending $29.4 million (0.9%) below budgeted amounts

- $7.7 million unspent & reappropriated
- $14.5 million savings from Medical caseloads and impact of risk sharing
- $3.7 million less for Teacher Retirement
- $1.5 million DOA centralized utilities and facilities savings
- $5.6 million overspent in DCYF, BHDDH
Closing - Expenditures

- Total spending $29.4 million below budgeted amounts - but areas of overspending
  - 6 agencies overspent
- Appropriation lines overspent even if agency totals were not
  - 22% of general revenue lines were overspent
- Unachieved initiatives
- Unexpected expenses
BHDDH – overtime and staffing in RICLAS ($2.2 million) and at Eleanor Slater Hospital ($0.9 million)

Developmental Disabilities: $1.0 million

Behavioral Healthcare – $3.2 million more from general revenues
- fewer services eligible for enhanced Health Homes Medicaid rate
- Accomplished by shifting savings from other behavioral health programs
Closing - Expenditures

- DCYF – $1.8 million
- $1.9 million personnel savings
- $1.1 million family service region billing overlap
- $2.6 million other caseload
Closing - Expenditures

- Impact on FY 2013
  - Do savings or higher base expenses in FY 2012 carry to FY 2013?
  - 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 2013

- Preliminary Closing – September 1
- Agency Q1 reports – Oct 30
- Caseload estimates – November 4
- Revenue estimates – November 9
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor’s Budget – Jan 17
- Agencies Q2 – Jan 30
## FY 2013

<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>$ 93.9</td>
<td>$ 123.3 *</td>
<td>$29.4</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,320.9</td>
<td>3,328.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(102.4)</td>
<td>(103.3)</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(3,295.8)</td>
<td>(3,284.7)*</td>
<td>(11.1)</td>
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<tr>
<td>Xfer to Fleet/IT</td>
<td>(16.4)</td>
<td>(16.4)</td>
<td>-</td>
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<tr>
<td>Total FY 2013</td>
<td>$ 0.1</td>
<td>$ 47.3</td>
<td>$47.2</td>
</tr>
</tbody>
</table>

*Includes $7.7 million reappropriation*
Current Year

- Revenues are up by $7.5 million
- Opening free surplus up by $47.2 million
- Added resources increase rainy day transfer by $0.9 million
- Expenditures appear up by $5.4 million net of reappropriations and November Caseload Savings
Current Year

- Staff estimates differ from Budget Office
  - Legislature
  - BHDDH, DCYF
  - Public Safety, Corrections
  - Areas that appear to be new initiatives
  - Refining and revising of estimates continues as more info is available
- Expenses $5.0 million higher if all Budget Office adds are included w/HFAS
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Reappropriation</td>
<td>$ 7.7</td>
</tr>
<tr>
<td>Legislature</td>
<td>(3.0)</td>
</tr>
<tr>
<td>OHHS Caseload &amp; Programs*</td>
<td>(12.6)</td>
</tr>
<tr>
<td>School Construction Aid</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Corrections*</td>
<td>2.6</td>
</tr>
<tr>
<td>Other Public Safety *</td>
<td>(1.8)</td>
</tr>
<tr>
<td>Other*</td>
<td>(1.6)</td>
</tr>
</tbody>
</table>

*Items different than Budget Office Q1 estimates
Reappropriation

- **Statutory requirement:** $6.5 million
  - Legislature = $6.3 million, revised budget lowers by $3.0 million
  - Judiciary = $0.1 million
- **Governor discretionary:** $1.3 million
  - Corrections = $0.5 million
  - OHHS = $0.4 million
  - DOA, DOR, Treasurer, Ethics, AG and PD combined total = $0.4 million
Nov Caseload Conference:

- $24.3 million in savings
- Medical Assistance - $24.3 million less
  - Saving in managed care, Rhody Health, hospital, pharmacy and other services
  - Increases in long term care and Part D payment
- Cash Assistance – $59,761 more
Current Year: OHHS Caseload

- Medical Assistance – $1.5 million in unachieved savings
  - Add back from general revenues for the home and community based clinical review utilization
  - Savings for last six months of fiscal year
    - Enacted budget includes full year savings
Current Year: OHHS Caseload

- BHDDH
  - Behavioral Health – Health Homes
    - $4.4 million
    - Budget Office showed savings of $1.7 million that does not appear to be consistent with current activities
  - ESH - $1.2 million
  - Developmental Disabilities -$1.8 million

- OHHS/DHS
  - Unified Health Infrastructure Project - $0.6 million
Current Year: OHHS Caseload

- DCYF - $6.2 million
  - $1.3 million to correct Medicaid claiming
    - Recurring issue
  - $1.8 million for estimated structural budget estimating/shortfall issues
  - $0.3 million unachieved savings
Current Year

- **Corrections** - $2.6 million more
  - Unachieved savings
  - Increased per diem costs
  - Budget Office adds more for staffing

- **Public Safety** - $1.8 million less
  - Personnel savings consistent with FY 2012 closing
  - Additional Operating costs
    - Budget Office includes $1.2 million more for purchases
Current Year

- Other - $1.6 million less
- All other projected adjustments to agency expenditures
  - IT Expenses
  - Utilities Savings
  - Turnover Savings
Budget Year and Out-years
There are also budget year and out-year problems

- The budget year likely has a gap of $69.3 million
- That gap grows in the out years to $410 million
- Short term estimates lower than Fiscal Staff estimates in June; Higher surplus and lower caseload expenses
- Later year similar size as prior estimates
Budget and Out Years

Revenues vs. Expenditures: Current Estimate


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

- These gaps continue to be a function of both cyclical economic and continued structural issues.
- Projected gaming revenue losses grow in later year of forecast.
Budget Year and Out-years

- Continued issue of problematic expenditure structure
  - Many enacted structural changes implemented ... still others not achieved
  - Growth rates exceeding revenue growth rates
Uses – All Funds by Function

- Human Svcs. 39.3%
- Education 28.0%
- Transp. 6.3%
- Gen. Govt. 18.8%
- Nat. Res. 1.3%
- Public Safety 6.3%
Uses – All Funds by Category

- Asst., Grants, Benefits: 45.2%
- Local Aid: 13.9%
- Capital: 8.0%
- Operating Xfers: 1.8%
- Personnel & Operating: 31.1%
Uses – General Revenues by Function

- Human Svcs. 39.3%
- Education 33.9%
- Public Safety 12.3%
- Gen. Govt. 13.4%
- Nat. Res. 1.1%
Uses – General Revenues by Category

- Personnel & Operating: 29.9%
- Local Aid: 29.2%
- Asst., Grants, Benefits: 35.0%
- Operating Xfers: 0.2%
- Capital: 5.8%
Budget Office Instructions based on $128 million July deficit projection
- Includes calculation of current service revenues and expenses
- Some revisions based on more updated data

- Also includes a number of “policy choices”
  - Increasing PILOT
  - Restoring FY 2013 funding reductions
FY 2014 Current Service Expenditures

- HFAS June estimates has FY 2014 estimated expenditures $22 million higher than Budget Office July estimates

<table>
<thead>
<tr>
<th>FY 2014 Budget Office Current Svs.</th>
<th>$3,444.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014 HFAS June Estimate</td>
<td>3,466.9</td>
</tr>
<tr>
<td>Difference from Budget Office</td>
<td>($22.0)</td>
</tr>
</tbody>
</table>
Differences from earlier estimates

- $30 million less for human services spending growth: more accurate data
- $8.7 million more for formula education aid: based on updated data
- $8.4 million less by assuming no COLA and greater benefit cost growth based on more updated rates
- $8.6 million to increase PILOT local aid
Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office.

Agency requests still exceeded current service estimates by $21.9 million.

- Not all same items included.
## FY 2014 Budget Requests

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2013 Enacted</td>
<td>$3,295.8</td>
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<tr>
<td>Current Services Adjustment</td>
<td>149.1</td>
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<tr>
<td>FY 2014 Budget Office Current Svs.</td>
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<tr>
<td>FY 2014 Agency Unconstrained Req.</td>
<td>3,466.8</td>
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<tr>
<td>Difference from Budget Office</td>
<td>$21.9</td>
</tr>
<tr>
<td>Implied Current Service Need</td>
<td>$171.0</td>
</tr>
</tbody>
</table>
Gen. Govt. 13.3%
Human Svcs. 40.0%
Education 33.4%
Public Safety 12.1%
Nat. Res. 1.1%
Budget Office also asked for options for reductions of 7%, adjusted for certain exclusions

Those reductions represent $152.7 million of savings from Budget Office current service estimate
## FY 2014 Budget Requests

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>FY 2014 Budget Office Current Svs.</td>
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<td>Target Adjustment</td>
<td>(152.7)</td>
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<tr>
<td>FY 2014 Budget Office Target</td>
<td>3,292.2</td>
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<tr>
<td>FY 2014 Constrained Requests</td>
<td>3,307.3</td>
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<tr>
<td>Difference from Budget Office Target</td>
<td>15.1</td>
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<tr>
<td>Constrained vs. B.O. Current Svs</td>
<td>(137.6)</td>
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<tr>
<td>Constrained vs. Unconstrained Req.</td>
<td>$ (159.4)</td>
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</tbody>
</table>
Budget Year and Out-years

- This design gives adequate options when proposals are rejected or softened
- Array of options allows for decision makers to consider all choices and implications
- 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?
Governor’s Budget expected Jan 17
Current year has surplus but areas of overspending that will limit use of surplus for bridging structural solutions
Major budget and out-year gaps
- Slow growing economy
- Structural tax and expenditure issues