Governor’s FY 2014 Budget

Staff Presentation to the House Finance Committee
January 30, 2013

Governor’s FY 2014 Budget

• January 16 - Governor announced his FY 2014 Budget via televised address
  • Publications provided that day

• Jan 22 - 2013 - H 5127 Introduced and referred to House Finance Committee
  • House was not in session on the Jan 17 due date
Budget Briefings, Publications & Hearings

- Dec 12 – Budget Status
- Jan 22 – Budget at First Glance
- Jan 29 - Expanded Budget at a Glance
- Jan 30 – Governor’s Budget Overview
- Feb 5 – Article hearings begin
- House Fiscal Staff Budget Analysis

References

- Materials are on line on the Assembly website - http://www.rilin.state.ri.us under House Fiscal Reports
- Includes items prepared by House Fiscal Staff that may be helpful
Governor’s FY 2014 Budget

- FY 2012 Audited Closing
- FY 2013 Revised Budget
- FY 2014 Revenue-Expenditure Gap
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- Operating Budget Overview
- Capital Budget Overview
- Outyears

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
- Minor changes from preliminary explained at Dec. 12 Briefing
**FY 2012 Audited**

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<td>$ 93.9</td>
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**Closing – Revenues**

- Revenues $13.3 million more
  - Law requires final revenues above estimates be transferred to the Employees’ Retirement System to pay down unfunded liability
  - Total Transfer = $12.9 million
    - $13.3 million less 3% rainy day contribution ($0.4 million) leaves $12.9 million to be transferred as excess
Closing - Expenditures

Total spending $29.0 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

Governor’s FY 2014 Budget

- FY 2012 Audited Closing
- **FY 2013 Revised Budget**
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### FY 2013 – HFAS Q1

<table>
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<td>Total FY 2013</td>
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*Includes $7.7 million reappropriation

### Current Year: HFAS Q1

**Estimated Changes**

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<tr>
<td>Legislature</td>
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<tr>
<td>OHHS Caseload &amp; Programs*</td>
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<td>School Construction Aid</td>
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<td>Corrections*</td>
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<tr>
<td>Other *</td>
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* Items different than Budget Office Q1 estimates
### FY 2013 – Governor Revised

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<td>Total FY 2013</td>
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### FY 2013 – Revised Comparison

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<th>Diff.</th>
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<td>$ 123.3 *</td>
<td>$ 122.9 *</td>
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<tr>
<td>Rainy Day</td>
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<tr>
<td>Expenditures</td>
<td>(3,284.7)*</td>
<td>(3,267.7)*</td>
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<tr>
<td>Xfer to Fleet/IT</td>
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<td>(16.4)</td>
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<td>Total FY 2013</td>
<td>$ 47.3</td>
<td>$79.3</td>
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*Includes $7.7 million reappropriation
Current Year: Gov. Revised vs. HFAS

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<tr>
<td>Retirement System Transfer</td>
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<tr>
<td>Teacher Retirement Experience</td>
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<td>Unpaid Hospital Fee/Lottery Reg.</td>
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<td>Human Services</td>
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<td>New Initiatives</td>
<td>(8.9)</td>
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<tr>
<td>All Other</td>
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<tr>
<td><strong>Total Gov Ending Surplus</strong></td>
<td><strong>$79.3</strong></td>
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</table>

New Initiatives – Rev. Budget

- Adds $8.9 million for new initiatives:
  - Distressed Communities Aid - $5.0 million
  - RIPTA Debt Service - $1.6 million
  - Workforce Investment - $1.0 million
  - Several new expenses in Administration - $1.3 million
New Initiatives – Rev. Budget

- Adds $1.3 million for DOA initiatives:
  - Personnel study - $500K
  - DCYF legal costs - $500K
  - Labor contract negotiations - $150K
  - RI Ready Project - $75K
  - University/College Collaborative - $50K

Current Year – Governor

- Concept of no supplemental for any agencies except for:
  - Hurricane Sandy
  - Reappropriations
  - Governor’s Initiatives
- Not so for Corrections which has $1.2 million more net of statewide savings and expenses transferred to DOA
Governor’s FY 2014 Budget

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Budget Year and Out-years

- 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 have FY 2014 estimated expenditures $22 million higher than Budget Office July estimates

<table>
<thead>
<tr>
<th>FY 2014 Budget Office Current Svs.</th>
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<tr>
<td>FY 2014 HFAS June Estimate</td>
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<td>Difference from Budget Office</td>
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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
Governor’s FY 2013 Budget

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Governor’s Solution

- Budget contains no new taxes or fees
- Reduces Taxes
- Increases Local Aid
- Uses surplus and other onetime solutions
### Governor’s Solution

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>FY 2012 Surplus</td>
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<tr>
<td>Debt Service</td>
<td>5.6</td>
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<tr>
<td>Caseload Experience</td>
<td>21.7</td>
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<td>Revenue Initiatives</td>
<td>(2.9)</td>
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<td>Human Services</td>
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<td>Locals</td>
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<tr>
<td>All Other</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$128</strong></td>
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</table>

### Governor’s Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies
- Statewide Savings
Revenues

- Corp. Income Tax Rate Phase down ($8.0M)
- Jobs Dev. Act Phase down - $2.4M
- Eliminate Enterprise Zone - $0.3M
- Special Investigation Tax Unit - $1.25M

Governor’s Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies
- Statewide Savings
All Human Service Agencies

Human Services Solution: $19.5 million

- $14.5 million from provider reductions
- $0.5 million from program efficiencies
- $4.4 million from cost shifting
- $0.1 million from changes that impact clients

Governor's Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies
- Statewide Savings
Education Aid

- Funds 3\textsuperscript{rd} year of formula
  - Adds $26.5 million based on updated data
  - Includes $10.2 million for categoricals
    - This is $2.7 million more than enacted

Education Aid

- Categorical Funds - $10.2 million
  - $1.0 million for High Cost Special Ed
  - $3.5 million for Career & Tech
  - $2.5 million for Early Childhood
  - $3.3 million for Transportation
### Education Aid

- Distributions calculated by Department based on transition guidance in law
- Distributions are subject to change based on updated data due in March
- Assumes 3 new charter schools open for 2013-2014 school year

### Local Aid

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<td>Car Tax</td>
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<tr>
<td>Municipal Incentive</td>
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Local Aid

- Distressed Communities
  - $5.0 million more for both FY 2013 and FY 2014
  - PILOT = enacted; $9.9 million less than full funding
  - Car Tax = enacted $10 million

Library Construction Aid – $2.5 million for full funding
Property Valuation Reimbursement – $0.5 million for full funding
Municipal Incentive Aid - $10 million
  - Tied to actions on local pension plans
$10 million from RICAP Fund to local road repairs
Governor’s Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies
- Statewide Savings

Statewide Savings

Stateside Savings Initiatives
- Vehicle Ins. Rebate - $400K
- Dental Contract - $165K
- Generics for Nexium - $0.5 million
- Ends coverage to former spouses - $0.7 million
- FICA Alternative Plan - $400K
- Medicare Exchange for Retirees - $0.7 million
Other Items

- Adds $6.0 million for higher ed. and forces no tuition increase through legislation
- Provides $0.6 million to EDC to promote tourism
- Adds $3.0 million for Statewide Work Immersion Initiative ($1.0 m in FY 2013)
- Includes $2.5 million in debt service relating to 38 Studios default as part of the Job Creation Guaranty

Governor’s Solution

<table>
<thead>
<tr>
<th>FY 2012 Surplus</th>
<th>$79.2</th>
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Sources:
FY 2014 Governor

<table>
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## Expenditures

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<td><strong>Total</strong></td>
<td><strong>$8,099.9</strong></td>
<td><strong>$8,172.5</strong></td>
<td><strong>$72.6</strong></td>
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## All Funds by Function:
**Governor FY 2014**

- Gen. Govt.: 17.5%
- Transp.: 6.3%
- Nat. Res.: 1.4%
- Public Safety: 6.4%
- Education: 28.4%
- Human Svcs.: 40.6%
All Funds by Category: Governor FY 2014

- Asst., Grants, Benefits: 46.2%
- Capital: 7.9%
- Operating Xfers: 1.8%
- Personnel & Operating: 29.6%
- Local Aid: 14.4%

General Revenues by Function: Governor FY 2014

- Human Svcs.: 39.3%
- Gen. Govt.: 13.4%
- Nat. Res.: 1.1%
- Public Safety: 12.2%
- Education: 34.0%
Personnel Studies

- FY 2013 revised and FY 2014 budgets include $1.25 million
- $250K for merit system
- $1.0 million to review state’s classification system and to make recommendations to streamline
### Full-time Equivalent Positions

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<td>(1,499.7)</td>
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</table>

### Personnel and Operating

- **Contracted Services**
  - Increase of 0.9% from enacted
    - General revenues increase 5.1%
    - More than half of the increase is for Google funds budgeted in Office of Attorney General --- plan being developed
Personnel and Operating

- Salaries and Benefits
  - Increase of 4.3% from enacted
  - General revenues increase 3.9%
  - No COLA
  - Most contracts expire at the end of current fiscal year

Personnel and Operating

- Operating Costs
  - Decrease 16.5% from enacted
    - 1.9% decrease from general revenues
    - Statewide benefit savings shift to unidentified operating costs
  - Major change in budget presentation for Eleanor Slater Hospital skews comparison
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Capital

- FY 2014 – FY 2018
- $3.3 billion outlays
  - Average $665.2 million per year
  - $810.3 million from financing proceeds
  - $2,515.6 million from current revenue
Capital Budget Funding

- Financed 24%
- Pay Go 76%

Capital

- Includes $115.5 million under Public Corporation Debt Management Act
- Higher Education
  - CCRI - Athletic Facilities
  - RIC - Student Union
  - URI - Parking Garage, Utility Upgrades, Health and Counseling Center
Capital

- Plan relies on $167.5 million of new general obligation bonds
  - November 2014 ballot
  - No action until next session
  - Higher Education projects

Rhode Island Capital Plan Funds

- 1990 Assembly set up the “rainy day” fund to ensure adequate cash and budget reserves
- Voter referendum in November 1992
- Largest source of state funded pay-go
- State spending limited to 97.0% of general revenues
  - FY 2013 is end of 5-year move from 98.0%
Rhode Island Capital Plan Funds

- Remainder goes to Budget Stabilization & Cash Reserve Account
- When account reaches 5.0%, excess flows to the capital account
- Used nearly exclusively for debt service in early part of last decade
- Voters amended constitution in 2006 to limit use for projects only
- Dedication of pay-go sources to capital lessens need to issue debt

Rhode Island Capital Plan Funds

![Bar chart showing project and debt service funding from FY 2001 to FY 2017]
Rhode Island Capital Plan Funds

- FY 2014 – FY 2018
- $79.3 million for additional year
- Asset protection projects at various agencies
- Fire Code Compliance Projects
- $10.0 million for Local Road Program
- $3.0 million for Hurricane Sandy match

Rhode Island Capital Plan Funds

- Departure from current use of funds
- Funds are traditionally limited to use on physical assets
- Expanded use for
  - Local Aid for Roads
  - Quasi Publics
  - Vehicles and equipment
Assembly Role

- Appropriate Pay-Go (Articles 1 & 10)
- Approve General Obligation Bond Referenda
  - Voters approve or reject
  - Debt service automatic
- Other Financing (Kushner)
  - Approve or reject resolution
  - Generally appropriate debt service

Public Corporation Debt Management Act (Kushner Act)

- Enacted in 1994
- Subsequently amended to increase Assembly’s approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner
**Project Considerations**

- Does the project need to be done
- Is the project ready to be done
  - When will it start
  - Is it well thought through and ready for funding/financing
  - When will it be complete

**Funding Considerations**

- Should a project be financed or pay-go
  - Rhode Island Capital Plan funds available as pay-go for all or part of project
  - More pay-go equals less future debt service
Funding Considerations

- State’s overall debt structure
  - Net tax supported debt would decrease by $274.4 million to $1,598.2 million
  - Had dropped to $1.3 billion in FY 2003 after use of tobacco bonds to defease debt
  - Past practice indicates it will be higher as more projects are added

Funding Considerations – Debt Ratios

- Debt as a percent of personal income would decrease from 3.9% in FY 2012 to 3.7% in FY 2013
- Would then drop to 2.5% in FY 2018, but likely to be higher based on projects being added
- Had dropped to 3.7% in FY 2004, the lowest level since FY 1991
## Governor’s Solution

<table>
<thead>
<tr>
<th>FY 2012 Surplus</th>
<th>$79.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>5.6</td>
</tr>
<tr>
<td>Caseload Experience</td>
<td>21.7</td>
</tr>
<tr>
<td>Revenue Initiatives</td>
<td>(2.9)</td>
</tr>
<tr>
<td>Human Services</td>
<td>19.5</td>
</tr>
<tr>
<td>Locals</td>
<td>1.4</td>
</tr>
<tr>
<td>All Other</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$128</strong></td>
</tr>
</tbody>
</table>

#### Funding Considerations – Debt Service

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Tax Supported Debt Service*</th>
<th>Pct. of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$233.8</td>
<td>7.2%</td>
</tr>
<tr>
<td>2014</td>
<td>$233.2</td>
<td>7.0%</td>
</tr>
<tr>
<td>2015</td>
<td>$264.1</td>
<td>7.7%</td>
</tr>
<tr>
<td>2016</td>
<td>$266.7</td>
<td>7.7%</td>
</tr>
<tr>
<td>2017</td>
<td>$276.5</td>
<td>8.0%</td>
</tr>
<tr>
<td>2018</td>
<td>$258.6</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

*Millions
If the project is to be financed, what vehicle should be used?

- General obligation bonds approved by the voters
- COPS or other mechanism that is subject to appropriation, without voter approval
Sources Considerations

- If COPS or other mechanism
  - Is there a legitimate revenue stream
  - How far removed are revenue streams from state general revenues
  - Should general obligation bonds be considered
  - Should the Kushner resolution be time limited

Outyear Projections

- Five-year projections required by statutes
- Attempt to reflect impact of Massachusetts gaming
  - Accounts for 30 percent of the 2018 deficit
### Out Years Budget Office Deficits Estimates

<table>
<thead>
<tr>
<th></th>
<th>Est.</th>
<th>Share Useable Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015</td>
<td>$(169.2)</td>
<td>5.0%</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$(254.5)</td>
<td>7.4%</td>
</tr>
<tr>
<td>FY 2017</td>
<td>$(377.8)</td>
<td>10.9%</td>
</tr>
<tr>
<td>FY 2018</td>
<td>$(468.9)</td>
<td>13.4%</td>
</tr>
</tbody>
</table>

### Budget and Out Years: Governor FY 2014

#### Revenues vs. Expenditures

- 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
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?

Budget Briefings, Publications & Hearings

- Feb 5 – Article hearings begin
- House Fiscal Staff Budget Analysis
- Subcommittee Hearings on Budgets
Governor’s FY 2014 Budget

Staff Presentation to the House Finance Committee
January 30, 2013