Budget Status

House Finance Committee
December 4, 2013
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
Introduction

- State budgetary problems persist and this will be another challenging year
- Governor’s FY 2015 and FY 2014 revised budgets due Jan 16 – 6 weeks from now
- Overall fiscal situation for current year, budget and out-years
  - Economy
  - Projections
  - Issues
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 2014
  - Staff estimates for FY 2015 and beyond
    - Not all policy issues accounted for
    - Transportation funding issues
  - Estimates vary – this is HFAS perspective
Introduction

- Preliminary Closing – Aug 30
- Agency Q1 reports – Oct 30
- Caseload estimates – November 4
- Revenue estimates – November 8
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor’s Budget – Jan 16
- Agencies Q2 – Jan 30
Introduction

- The state continues its slow recovery from severe economic distress
- Current year picture is clearer
- Facing continued budget year and out-year issues growing from about $100 million to $400 million or more depending on assumptions
Introduction

- The **current year** has some overspending problems
- The **budget and out-year 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
- Updated in November
November forecast more pessimistic than May

- Personal income is higher because of revisions to the base numbers
- Jobs, wage & salary growth rates all projected to slow from May estimates
- RI recovery continues to lag U.S.
- Job losses began in 2007 - lost jobs will not be regained until 2016
Economic Forecast

Recovered Jobs by Wage Tier

Sources: BLS, Moody’s Analytics
• The “good news” keeps getting pushed to later years
• Recovery much slower than prior projections
• US Economy hurt by gov’t shutdown
• RI economy underperforms compared to US as a whole
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%


US Rhode Island

16
Unemployment Rates

RI has Consistently Higher Unemployment

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<td>2019</td>
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Projections
Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2013 were less than anticipated
  - Projections assume no losses from gaming in Massachusetts in FY 2015
    - Staff projects losses beginning in FY 2016
Revenues

- Taxes in FY 2014 = $2,654 million
  - 3% from FY 2013 actuals
  - $31 million above the enacted estimate
    - $28.3 million is from Income and Sales

- Taxes in FY 2015 = $2,717.8 million
  - 2.4% increase to FY 2014 revised
  - $63.8 million with $59.8 million from Income and Sales
**Revenues**

- **Other than Taxes**
  - **FY 2014 = $772.7 million**
    - Up $14.6 million - Primarily recapturing items that were expected in FY 2013
  - **FY 2015 = $620.7 million**
    - Down $152 million from FY 2014
    - Excludes $141.3 million hospital license fee
      - Deficit calculations assume reenactment
      - All others down $10.1 million – mostly impact of one-time revenue
FY 2013 Closing

- FY 2014 budget counted on surplus from FY 2013 to help fund FY 2014
- Preliminary FY 2013 data shows $3.6 million gain to that assumption
  - Subject to audit adjustment before final
## FY 2013 Preliminary

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<td>3,315.9</td>
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<td>(103.2)</td>
<td>(102.9)</td>
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<td>Expenditures</td>
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<td>(3,215.4)</td>
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<td>Xfer Fleet/IT</td>
<td>16.4</td>
<td>16.4</td>
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<td>Closing Surplus</td>
<td>$93.4</td>
<td>$104.1</td>
<td>$10.7</td>
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<td>Reappropriation</td>
<td>-</td>
<td>(7.1)</td>
<td>(7.1)</td>
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<tr>
<td>Free Surplus</td>
<td>$93.4</td>
<td>$97.0</td>
<td>$3.6</td>
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Closing - Expenditures

- Unachieved initiatives
- Unexpected expenses
- Impact on FY 2014
  - Do savings or higher base expenses in FY 2013 carry to FY 2014?
  - Will delayed purchases require additional funds in current year?
  - Are initiatives being implemented?
Closing – Revenues

- Revenues $8.0 million (0.4%) below
  - Taxes up $9.9 million with personal income tax gains offsetting business taxes
    - Business taxes have been difficult to estimate
  - All other revenue down $17.9 million
    - Departmental receipts down $14.7 million – primarily unpaid hospital license fees
    - Largely recaptured in November Revenue estimate
Closing – Revenues

- Revenues $8.0 million less
  - Law requires final revenues above estimates be transferred to the Employees’ Retirement System to pay down unfunded liability
  - No Transfer for FY 2013
    - FY 2012 closing revenues exceeded estimates requiring transfer of $12.5 million
Closing - Expenditures

- Total spending $18.4 million (0.9%) below budgeted amounts – but areas of overspending
  - 7 agencies overspent – 5 by less than $20k
  - Appropriation lines overspent even if agency totals were not
  - 22% of general revenue lines were overspent… Ongoing pattern
Closing - Expenditures

Spending $18.4 million below:
- $7.1 million unspent & re-appropriated
- $8.1 million Medicaid/Admin
- $1.6 million DOA central facilities
- $1.4 million Public Safety
- $1.5 million DOR
- Personnel savings in DOA, DOC, DCYF

- $4.5 million overspent in BHDDH
- $1.7 million overspent in DHS (TANF penalty)
$1.7 million overspent in DHS - TANF Penalty
- Eligibility/verification discrepancies not investigated
- From 2003 audit
- Not sufficiently corrected in time

Additional $1.3 million general revenue penalty being appealed
Closing - Expenditures

- BHDDH: $4.5 million
  - Mental Health: $1.3 million overspent
    - Overspent Medicaid funded services by $4.9 million
    - Offset by savings in state only programs
  - ESH: $0.3 million overspent
    - 3rd quarter report showed $1.2 million in savings
  - Administrative Divisions: $0.5 million overspent
    - Not included in the 3rd quarter report
Division of Developmental Disabilities: $2.3 million overspent
- RICLAS $0.8 million overspent
- Community Based System – overspent $1.5 million from general revenues
  - 3rd quarter report projected a $0.4 million deficit
  - Rate increase in 3rd and 4th quarter
RICAP

$93.9 million spent in FY 2013 - 81% of the appropriation (70% adjusted for DOT issue)
  - FY 2012: 64.4%, FY 2011: 61.2%

Higher spending levels based on efforts to move projects better

Still problems
  - Many slow moving projects
  - DOT allowed to overspend by $13.4 million
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.
- Requests for supplemental appropriations $22.3 million.
- Q1 reports even higher at $29 million.
Corrective Action Plans

- RIG L 35-3-24 requires Departments to submit corrective action plans within 30 days of discovery of over-obligation or over-expenditure
  - Plans to be submitted to Budget Officer, Controller, Auditor General, Chairs of House and Senate Finance Committees
Corrective Action Plans

- 15* agencies are showing a deficit for FY 2014.
- None has submitted a corrective action plan.
  - DOC does reference corrective actions in its 1st quarter report.
- Budget Office Q1 notes it is working with agencies to resolve deficits.
  - (*corrected from prev. version that said 19 agencies)
## FY 2014

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<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
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<tr>
<td>Opening</td>
<td>$ 93.4</td>
<td>$104.1</td>
<td>$10.7*</td>
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<tr>
<td>Revenues</td>
<td>3,381.0</td>
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<tr>
<td>Rainy Day</td>
<td>(104.2)</td>
<td>(105.7)</td>
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<td>Expenditures</td>
<td>(3,359.8)</td>
<td>(3,372.2)*</td>
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<td>Xfer to Depr. Fund</td>
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<td>Total FY 2014</td>
<td>$ 0.4</td>
<td>$ 42.8</td>
<td>$42.4</td>
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*Includes $7.1 million reappropriation
Current Year

- Revenues are up by $45.6 million
- Added resources increase rainy day transfer by $1.5 million
- Expenditures appear up by $12.3 million net of reappropriations and November Caseload increase
- Closing surplus up $42.4 million
## Current Year

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<td>Legislature</td>
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<td>OHHS Caseload &amp; Programs*</td>
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<td>Education Aid Programs</td>
<td>(2.8)</td>
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<tr>
<td>Corrections*</td>
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<tr>
<td>Judiciary</td>
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<tr>
<td>Other*</td>
<td>(2.6)</td>
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<td><strong>Total</strong></td>
<td><strong>$19.4</strong></td>
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*Items different than Budget Office Q1 estimates
Reappropriation

- Statutory requirement: $4.7 million
  - Legislature rev. budget lowers by $2.0 million
- Governor discretionary: $2.3 million
  - Corrections = $0.7 million
  - I-195 = $0.7 million
  - AG = $0.3 million
  - GOV = $0.2 million
  - DOA, DOR, Ethics, Military total = $0.4 million
Current Year: OHHS

- Nov Caseload Conference:
  - $0.1 million in added costs
  - Medical Assistance - $0.2 million less
    - Savings in managed care
    - Shifted existing resources to new Rhody Health Options program
    - Increased Part D Medicare payment
  - Cash Assistance – $0.3 million more
Current Year: OHHS

- OHHS/DHS - $7 million
  - Unified Health Infrastructure Project – UHIP
    - New eligibility system for OHHS agencies integrated with Health Benefits Exchange
    - $7 million shortfall based on updated estimates and federal cost sharing
      - Match differs based on use
      - Highest match for development costs
In coordination with the Health Benefits Exchange to implement ACA
Apply through the Exchange & if Medicaid eligible directed to UHIP
Eventually create one system to apply for medical and cash assistance benefits
Opportunity to build a new system with federal match
Current Year: OHHS

- $209.4 million from all sources
  - $39.1 million from general revenues
- 90% Medicaid match for system development
  - Other services – 75% to 50% match
- FY 2013 spent – $27.2 million
  - $16.7 million in OHHS; $1.8 million from general revenues
  - $9.6 million in DOA for Exchange
  - $0.9 million in DHS
Current Year: OHHS

- Is this the final cost for project?
  - Any updates to FY 2014 costs
- What is the net cost when only have one system?
  - Currently funded systems will not be needed
- How will Exchange be funded after January 1, 2015
Current Year: OHHS

- BHDDH - $2.9 million
  - $2.3 million Eleanor Slater Hospital staffing
  - $0.2 million RICLAS and DD admin with large swings in funding among items
  - $0.4 million other increases

- DD provider rate increase submitted to federal gov’t for approval – impact on current and budget year not clear
Current Year - OHHS

- DHS $1.1 million above enacted:
  - $0.6 million - new positions, fill vacancies
  - $0.4 million - restoring unachieved indirect cost recovery
  - $0.1 million – all other operations
Current Year: OHHS Caseload

- DCYF - $0.7 million
  - $0.3 million unachieved savings from not closing the Bristol Family Service office as proposed in enacted budget
  - $0.3 million in unbudgeted expenses from changing funding arrangement with Groden Center
  - $0.1 million legal expenses – not funded in the enacted
  - No apparent Medicaid claiming shortfall
    - Had been a recurring issue
Current Year: Education Aid

- Education Aid $2.8 million savings
  - School Construction Aid -$2.3 million savings from projects not finished in time for reimbursement
  - Teacher Retirement - $0.8 million in savings based on the FY 2013 closing
  - Group Homes Aid - $0.3 million more for new beds
Current Year

- Corrections -$5.7 million more
  - Staffing expenses - $4.9 million
    - 40 more inmates than enacted budget
    - Budget Office Q1 has higher $ for staffing
  - Weapons requalification arbitration ruling $0.4 million
  - All other adjustments $0.4 million
    - Software, per diem, SCAAP savings
Current Year

- Other - $2.6 million less
- All other projected adjustments to agency expenditures
  - Utilities Savings
  - Labor Contract negotiations cost
  - Pay-go pension savings
  - Turnover Savings in several agencies - DOR, DBR, DPS
Current Year

- Difference from Budget Office –
  - Neither is a recommendation, but staff estimates exclude many new spending items included in agency requests
  - Shows Judiciary as requested
  - Other minor adjustments
There are also *budget year and out-year problems*

- FY 2015 was estimated in July to have a gap of approximately $140 million
- Budget Office estimates higher gap - mainly to revenue projection differences
- Current staff estimate is $100 - $400 million in out years - almost 12% of revenues
These gaps continue to be a function of both cyclical economic and continued structural issues

- Use of surplus to partially balance budget
- Projected gaming revenue losses begin in FY 2016 and grow in later years 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
Sources (millions)
Uses – All Funds by Function

- Human Svcs. 40.3%
- Education 28.2%
- Transp. 6.3%
- Public Safety 6.3%
- Nat. Res. 1.5%
- Gen. Govt. 18.1%
Uses – All Funds by Category

- Asst., Grants, Benefits: 34.9%
- Local Aid: 29.6%
- Personnel & Operating: 29.6%
- Capital: 5.6%
- Operating Xfers: 0.2%
Uses – General Revenues by Function

- Gen. Govt. 13.1%
- Nat. Res. 1.1%
- Public Safety 12.3%
- Education 34.3%
- Human Svcs. 39.2%
Budget Office Instructions based on $149 million July deficit projection
- Includes calculation of current service revenues and expenses
- Some revisions based on more updated data
- Other revisions reflect different methodology and “policy choices”
Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office

Agency requests exceed current service estimates by over $63.4 million
  * Not all same items included
Budget Office also asked for options for reductions of 7%, adjusted for certain exclusions. Those reductions represent $152.1 million of savings from Budget Office current service estimate. Very similar to last year’s targets.
## FY 2015 Budget Requests

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<td>Implied Current Service Need</td>
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## FY 2015 Budget Requests

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<td>FY 2015 Constrained Requests</td>
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<td>Constrained vs. B.O. Current Svs</td>
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<td>Constrained vs. Unconstrained Req.</td>
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Budget Year and Out-years

- Design gives adequate options when proposals are rejected or softened.
- Options allow decision makers to consider all choices and implications.
- But prior years’ actions limit options.
- Media have already covered the proposals this fall as in the past.
Risks to the Forecast

- Economic impact of new Federal Government budget issues
  - Last year it was “Fiscal Cliff”
- Federal sequestration will continue to impact federal grants and programs
  - Pressure on RI and all states to backfill
- Unemployment numbers going in the wrong direction
Ongoing Issues

- RI infrastructure funding gap
- Sustainable funding for state health benefits exchange
- Control of current year spending to mitigate budget year deficit
Summary

- Governor’s Budget expected Jan 16
- Major budget challenges
  - Slow growing economy
  - Structural tax and expenditure issues
Budget Status

House Finance Committee
December 4, 2013