Budget Status

House Finance Committee
December 6, 2016
Introduction

- Governor’s FY 2018 and FY 2017 revised budgets are due January 19 – 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 2017
  - Staff estimates for FY 2018 and beyond
  - Estimates vary – this is HFAS perspective
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
  - Highlight some areas of concern
Introduction

- Preliminary Closing – Sept 1
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 7
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor’s Budget – Jan 19
- Agencies Q2 – Jan 30
The state continues to face structural budget problems

Current year picture is clearer and overspending eating into unexpected revenues

- Potentially exacerbating structural issue

Facing continued budget year and out-year issues growing from about $112 million to over $300 million
Economic Forecast
Revenue Estimating Conference adopts a consensus economic forecast

- It takes testimony from IHS Economics
- The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts
- Updated in November
Economic Forecast

- November forecast more pessimistic than May 2016 forecast
- Employment, personal income, wage & salary growth rates all projected to be somewhat lower in FY 2017
  - Growth shifted to later years
    - Some structural downgrade to forecast
- RI recovery continues to lag U.S. and other New England states
Unemployment Rate and Total Jobs
As of September, RI has recouped 86.2% of jobs lost during the recession.
35,100 net new jobs created between August 2009 and September 2016.
- 38% in jobs paying less than $29,999
- 42% between $30,000 - $59,000
- 21% over $60,000
This lags US and New England except Maine and Connecticut.
Consensus Economic Forecast

Forecast Differences - Personal Income Growth

- May-12
- Nov-12
- May-13
- Nov-13
- May-14
- Nov-14
- May-15
- Nov-15
- May-16
- Nov-16
Consensus Economic Forecast

Forecast Differences - Jobs

Thousands


May-12  Nov-12  May-13  Nov-13  May-14
Nov-14  May-15  Nov-15  May-16  Nov-16
Revenue Drivers

![Graph showing personal income and wages and salaries trends from 2001 to 2021.](image)
Revenue Projections
Revenue estimates are driven by trends, collections to date, and the economic forecasts

- FY 2016 were more than anticipated
  - Unexpected events covered missed estimates
- Losses from gaming in Massachusetts stabilized new losses not in REC forecast horizon
Revenues

- Taxes in FY 2017 = $2,973.1 million
  - $65.2 million or 2.2% above FY 2016 actuals
    - Impact of tax changes, cyclical items
  - $41.4 million above the enacted estimate
    - Nearly half from personal income tax
- Taxes in FY 2018 = $3,029.5 million
  - 1.9% increase to FY 2017 revised
    - $55.3 million: $72.5 million from Income & Sales
    - Final shift of revenues to transportation
    - Annualized tax change impacts
## November 2016 Consensus Revenue Estimates

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>$1,217.4</td>
<td>$1,267.6</td>
<td>$18.4</td>
<td>$1,316.2</td>
<td>$48.6</td>
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<tr>
<td>Business Taxes</td>
<td>435.2</td>
<td>477.0</td>
<td>17.7</td>
<td>481.3</td>
<td>3.2</td>
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<tr>
<td>Sales &amp; Use Taxes</td>
<td>1,173.8</td>
<td>1,184.8</td>
<td>(4.7)</td>
<td>1,192.8</td>
<td>8.0</td>
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<tr>
<td>Other Taxes</td>
<td>81.5</td>
<td>43.7</td>
<td>10.1</td>
<td>39.2</td>
<td>(4.5)</td>
</tr>
<tr>
<td><strong>Total Taxes</strong></td>
<td><strong>$2,907.9</strong></td>
<td><strong>$2,973.1</strong></td>
<td><strong>$41.4</strong></td>
<td><strong>$3,029.5</strong></td>
<td><strong>$55.3</strong></td>
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<td>Departmental</td>
<td>367.6</td>
<td>364.8</td>
<td>3.3</td>
<td>206.7</td>
<td>(158.1)</td>
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<tr>
<td>Other Misc.</td>
<td>4.1</td>
<td>7.2</td>
<td>0.1</td>
<td>0.8</td>
<td>(6.3)</td>
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<tr>
<td>Lottery</td>
<td>369.8</td>
<td>363.5</td>
<td>(1.8)</td>
<td>365.0</td>
<td>1.5</td>
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<tr>
<td>Unclaimed Prop.</td>
<td>14.2</td>
<td>11.0</td>
<td>1.8</td>
<td>9.6</td>
<td>(1.4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,663.6</strong></td>
<td><strong>$3,719.6</strong></td>
<td><strong>$44.8</strong></td>
<td><strong>$3,611.6</strong></td>
<td><strong>$(109.0)</strong></td>
</tr>
</tbody>
</table>
Revenues

- Other than Taxes
  - FY 2017 = $746.5 million
    - Up $3.4 million
  - FY 2018 = $582.1 million
    - Down $109.0 million from FY 2017
    - Excludes $169.0 million hospital license fee but deficit calculations assume reenactment
    - Lottery up $1.5 million
    - All others down $7.7 million – mostly impact of one-time revenue
Lottery – major declines were estimated; actual is less severe, more coming later

<table>
<thead>
<tr>
<th>Type</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Games</td>
<td>$ 58.1</td>
</tr>
<tr>
<td>VLT (Slots)</td>
<td>306.5</td>
</tr>
<tr>
<td>Tables</td>
<td>11.7</td>
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<tr>
<td>Total</td>
<td>$376.3</td>
</tr>
<tr>
<td>Y-O-Y %</td>
<td>(-0.8)%</td>
</tr>
</tbody>
</table>
Closing and Current Year
As with prior years, FY 2017 budget counted on surplus from FY 2016 to help fund expenses for which there were no current revenues.

Preliminary FY 2016 data shows $43.9 million gain to that assumption.
- Subject to audit adjustment before final
## FY 2016 Preliminary

<table>
<thead>
<tr>
<th>Item</th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
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</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$174.9</td>
<td>174.9</td>
<td>$0.0</td>
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<tr>
<td>Revenues</td>
<td>3,635.0</td>
<td>3,663.6</td>
<td>28.6</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>-(114.1)</td>
<td>-(114.9)</td>
<td>-(0.9)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>-(3,572.6)</td>
<td>-(3,548.5)</td>
<td>24.1</td>
</tr>
<tr>
<td>Closing Surplus</td>
<td>123.3</td>
<td>175.1</td>
<td>51.8</td>
</tr>
<tr>
<td>Reappropriation</td>
<td>-</td>
<td>-(7.8)</td>
<td>-(7.8)</td>
</tr>
<tr>
<td>Free Surplus</td>
<td>$123.3</td>
<td>$167.2</td>
<td>$43.9</td>
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</table>
Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2017 and structural issues
  - Do savings or higher base expenses repeat?
  - Are initiatives being implemented?
    - Are they just slow or not achievable?
  - Are agencies constraining spending?
Closing – Revenues

- Revenues $28.6 million (0.8%) above
  - Taxes up $22.7 million: unusual inheritance tax payment covered misses in income ($7.5M), corporate ($18.6M), and sales taxes ($9.1M)
    - Refund issue adding unexpected challenge to personal income estimate
    - Corp taxes affected by IT system change-over that saw pending refunds cleared
  - All other revenue up $5.8 million
    - Dept. receipts; unclaimed property
Current Year

- The current year is balanced but includes unmet expenditure savings and base spending increases that could affect out-years
  - Major shortfall from overspending masked by revenue uptick, and other savings
General revenue spending $24.1 million (0.7%) below budgeted amounts – but areas of overspending

- 3 agencies overspent total
  - Judiciary – negligible amount
  - Corrections and BHDDH

- Appropriation lines overspent even if agency totals were not
  - 21.7% of general revenue lines were overspent... Ongoing pattern
Closing - Expenditures

Spending $24.1 million below:

- $7.8 million unspent & re-appropriated
- $3.5 million DOA – utilities, staffing
- $10.0 million Medicaid savings
- $1.4 million administrative savings - EOHHS
- $0.9 million overspent in BHDDH
- $0.3 million overspent in Corrections
- <$100 in Judiciary
$10.0 million less for Medicaid -1.1 %
- $3.0 million less for managed care programs from claiming enhanced Medicaid match & higher rebates
- $2.7 million less for long term care
- $4.4 million less for other programs
  - Pharmacy, hospital & other medical services
Closing - Expenditures

- BHDDH - $0.9 million overspend
  - $0.8 million more for privately provided services in Division of Dev Disabilities
  - $0.1 million more for RICLAS
    - Above $1.6 million added back for unachieved initiative to move people to less intensive setting
  - $1.0 million in unachieved cost shift
  - $1.0 million less at state hospital
    - $0.2 million less from all sources/shift to Medicaid
Current Year

- Revenues are up by $44.8 million
- Added resources increase rainy day transfer by $2.7 million
- Expenditures appear up by $19.4 million net of re-appropriations and November Caseload increase
- Closing surplus up by $62.0 million
## FY 2017

<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ 123.3</td>
<td>$175.1</td>
<td>$51.8*</td>
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<tr>
<td>Revenues</td>
<td>3,674.7</td>
<td>3,719.6</td>
<td>44.8</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(113.9)</td>
<td>(116.6)</td>
<td>(2.7)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(3,683.7)</td>
<td>(3,715.7)*</td>
<td>32.0</td>
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<tr>
<td>Total FY 2017</td>
<td>$ 0.4</td>
<td>$62.4</td>
<td>$62.0</td>
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</table>

*Includes $7.8 million reappropriation
Corrective Action Plans

- RIGL 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

- Corrective Action Plans
  - Are savings feasible?
  - Do they require law changes?
- Budget Office Q1 notes it is working with agencies to resolve deficits
- BHDDH and DCYF received more OMB guidance/restrictions in October
17 agencies are projecting to spend more than authorized in FY 2017
- Some include new items that may overstate actual overspend
7 submitted corrective action plans
- DCYF this morning, BHDDH this afternoon
- Corrective actions total $13.1 million
  - Includes $8.6 million from DOC selling land
# Current Year

<table>
<thead>
<tr>
<th>Reappropriation</th>
<th>$7.8</th>
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<tr>
<td>Legislature*</td>
<td>(1.3)</td>
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<tr>
<td>OHHS: Caseload Conference</td>
<td>4.7</td>
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<tr>
<td>OHHS: Other Programs</td>
<td>11.2</td>
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<tr>
<td>RIBCO Arbitration</td>
<td>9.4</td>
</tr>
<tr>
<td>Courts*</td>
<td>1.8</td>
</tr>
<tr>
<td>Other *</td>
<td>(1.6)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$32.0</strong></td>
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</table>

* Items different than Budget Office Q1 estimates
Reappropriation

- Statutory requirement: $6.3 million
  - Legislature budget lowers by $1.3 million
- Governor discretionary: $1.6 million
  - “...may be reappropriated by the governor to the ensuing fiscal year and made immediately available for the same purposes as the former appropriations…”
  - Not all actions appear to conform to statute
Reappropriation

- Governor discretionary: $1.6 million
  - I-195 - $0.1 million
  - EOHHS - $0.3 million
  - Municipal Incentive Aid - $0.1 million
  - Personnel Study - $0.4 million
  - Governor Contingency - $0.3 million
  - DOA, DBR, Elections, Mental Health Advocate, AG, & Military Staff - $0.4 million total
Current Year: OHHS

- Nov Caseload: $4.7 million more
  - Medical Assistance - $9.6 million more
    - Not all savings initiatives implemented as proposed - $5.4 million added back
      - UHIP delay - $2.4 million
      - Transportation contract re-procurement - $1.0 million
      - Automated patient share - $1.0 million
      - NICU bundled rate - $1.0 million
    - Pharmacy savings initiative greater by $2.7 million offsets others related to managed care that were implemented but not full savings
Nov Caseload: $4.7 million
- Cash Assistance – $4.9 million less
  - Primarily delay in federal enhancement requirements related to child care
Current Year: OHHS

- Other Programs: $11.2 million
  - DCYF – $4.8 million
  - BHDDH – $5.7 million
  - DHS - $0.7 million
Current Year: DCYF

- DCYF - $4.8 million
  - Unachieved savings - $2.7 million
  - Caseloads - $3.8 million
  - Turnover and operating savings ($1.7 million)
    - Juvenile corrections
## Current Year: DCYF

<table>
<thead>
<tr>
<th>FTEs</th>
<th>Enacted</th>
<th>Avg. Filled</th>
<th>% Filled</th>
<th>Highest Filled</th>
<th>% Highest Filled</th>
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<tbody>
<tr>
<td>FY 2011</td>
<td>691.0</td>
<td>617.5</td>
<td>89.4%</td>
<td>628.0</td>
<td>90.9%</td>
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<tr>
<td>FY 2012</td>
<td>662.5</td>
<td>605.7</td>
<td>91.4%</td>
<td>616.0</td>
<td>93.0%</td>
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<td>FY 2013</td>
<td>665.5</td>
<td>580.3</td>
<td>87.2%</td>
<td>593.0</td>
<td>89.1%</td>
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<td>FY 2014</td>
<td>670.5</td>
<td>581.4</td>
<td>86.7%</td>
<td>595.0</td>
<td>88.7%</td>
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<tr>
<td>FY 2015</td>
<td>670.5</td>
<td>571.2</td>
<td>85.2%</td>
<td>591.0</td>
<td>88.1%</td>
</tr>
<tr>
<td>FY 2016</td>
<td>672.5</td>
<td>548.8</td>
<td>81.6%</td>
<td>565.0</td>
<td>84.0%</td>
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<tr>
<td>FY 2017</td>
<td>629.5</td>
<td>533.1</td>
<td>84.7%</td>
<td>541.6</td>
<td>86.0%</td>
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</table>
Current Year: BHDDH

- BHDDH - $5.7 million only $4.8 million new
  - Home Health Aides - $0.9 million
    - Shift from EOHHS Medicaid budget
    - Reverses budget initiative that had unintended consequences for individual service plans
  - Unachieved operations savings from Eleanor Slater Hospital - $3.5 million
  - Unachieved cost shifts - $1.1 million
  - Other staffing & operations - $0.2 million
Current Year: DHS

- DHS - $0.7 million more net of caseload savings
  - UHIP/InRhodes extension operations cited elsewhere as about $1 million
    - Multiple cost shifts among programs and fund sources makes this hard to verify
  - Vocational Rehab services maintenance of effort issues
Current Year: Judiciary

- Judiciary - $1.8 million
  - Judicial appointments - $0.7 million
  - Case Management System - $0.6 million
  - Outside Legal - $0.3 million
  - Interpreters and Translators - $0.1 million
Current Year: Corrections

- Corrections -$9.8 million
  - RIBCO COLA - $9.4 million
  - Population/Medical – $1.3 million
    - Per diem inmate costs
    - Mental health/psychiatric services
    - New lab testing contract
- Institutional corrections staffing – ($0.9 million)
Current Year: Corrections

- **RIBCO COLA - $9.4 million**
  - State had been budgeting as if settlement would be same as state employees
    - Nearly twice the FY 2018 base impact than planned

- **$12.7 million set aside from previously budgeted amounts for all prior years**
  - Will cost $18.2 million - $5.5 million more

- **$8.3 million budgeted for FY 2017**
  - Actual costs are $12.2 million - $3.9 million more
  - $15.0 million for FY 2018
Current Year: Other

- All other projected adjustments to expenditures down $1.6 million
  - DOA utility savings - $1.6 million
  - Secretary of State regulatory initiative partial shift to FY 2018 - $0.3 million
  - AG – staffing savings - $0.3 million
  - Increased statewide savings - $0.3 million
# Full-time Equivalent Positions

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>3rd Party</th>
<th>Total</th>
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<tbody>
<tr>
<td>FY 2015 Avg.</td>
<td>13,212.7</td>
<td>588.3</td>
<td>13,801.1</td>
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<tr>
<td>FY 2016 Avg.</td>
<td>13,097.9</td>
<td>591.7</td>
<td>13,689.6</td>
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<tr>
<td>FY 2017 Enacted</td>
<td>14,206.8</td>
<td>745.8</td>
<td>14,952.6</td>
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<td>Avg. Filled 11/16</td>
<td>13,104.1</td>
<td>597.9</td>
<td>13,702.0</td>
</tr>
<tr>
<td>Diff. from Enacted</td>
<td>(1,102.7)</td>
<td>(147.9)</td>
<td>(1,250.6)</td>
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<tr>
<td>Diff. from FY 2016</td>
<td>6.2</td>
<td>6.2</td>
<td>12.4</td>
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</tbody>
</table>
Current Year

- **Difference from Budget Office** –
  - Neither is a recommendation
  - Staff estimates exclude many new spending items included in agency requests
    - Items requested but not funded in enacted budget
    - Items desired because of savings in other areas
Budget and Out-years
There are budget year and out-year problems

- FY 2018 was estimated in July to have a gap of approximately $182 million
- Budget Office estimated higher gap $185 million
  - revenue projection differences and other adjustments to long term savings
Budget Year and Out-years

- Gaps largely function of structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
  - Gaming revenue losses began in FY 2016
  - Increasing dedication of revenues to transportation
  - Annualized impact of tax law changes
- Planned spending increases
  - Education funding phase-in
Budget and Out Years

Revenues vs. Expenditures: HFAS Nov. Estimate
Structural Deficit

- When current expenses exceed current revenues
  - Prior year surplus or other one-time resources/cuts cover the gap
  - Spending or revenue reduction initiatives that grow over time – unfunded commitments
Structural Deficit

- Aligning growth rates of revenues and expenditures is difficult
  - One-time fixes can be used to bridge gaps to structural solutions
  - Pressing need for services or infrastructure investment
    - Need to reverse stagnant growth
  - Budget process may not produce all options
## Uses – Growth Rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Est. Annual Growth</th>
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<tbody>
<tr>
<td>Jobs</td>
<td>0.8%</td>
</tr>
<tr>
<td>State Personal Income</td>
<td>3.7%</td>
</tr>
<tr>
<td>Taxes</td>
<td>2.8%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>2.0%</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>3.2%</td>
</tr>
<tr>
<td>Salaries &amp; Benefits – 25% of total</td>
<td>4.0*%</td>
</tr>
<tr>
<td>Medicaid – 30% of total</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

*corrected from original presentation
All Sources ($millions)

- Federal Grants
- Personal Income
- Sales
- University and College
- All Other
- Gas Tax
- Other Taxes
- Restricted Receipts
- Departmental
- Lottery
- UI & TDI
- Business Taxes

Bar chart showing the distribution of income sources with Federal Grants being the largest contributor.
General Revenue Sources
($millions)

- Personal Income: $1,270 million
- Sales: $1,000 million
- Business Taxes: $450 million
- Lottery: $400 million
- Other Taxes: $200 million
- Departmental: $350 million
- All Other: $50 million
Uses – All Funds by Function

- Human Svcs. 42.2%
- Education 28.2%
- Transp. 6.3%
- Gen. Govt. 16.8%
- Nat. Res. 1.2%
- Public Safety 6.2%
Uses – All Funds by Category

- Personnel & Operating: 31.8%
- Asst., Grants, Benefits: 44.5%
- Local Aid: 14.5%
- Capital: 7.3%
- Operating Xfers: 1.9%
- Personnel & Operating: 31.8%
Uses – General Revenues by Function

- Human Svcs.: 39.0%
- Education: 34.8%
- Gen. Govt.: 13.1%
- Public Safety: 12.0%
- Nat. Res.: 1.1%
Uses – General Revenues by Category

- Local Aid: 30.5%
- Personnel & Operating: 29.9%
- Asst., Grants, Benefits: 33.4%
- Operating Xfers: 2.0%
- Capital: 4.2%
Budget Office Instructions based on $185 million July deficit projection

- Includes calculation of current service revenues and expenses
- Some revisions based on updated data – differing assumptions on savings initiatives
- 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 $121 million.

- Not all same items included
- Do not have all budgets in
FY 2018 Budget Requests

- Budget Office also asked for options for reductions of 8.0%, adjusted for certain exclusions
- Agency budget submissions do not all include options to meet targets
  - Many options not sound
Some agencies significantly delayed in budget submissions
  ▪ All still not submitted
Hampers ability for adequate review by executive and legislative staffs
Issues and Risks to the Forecast

- Control of current year spending
  - Employee medical increases all accounted for?
- DMV computer system
- Medicaid savings and caseloads
  - UHIP impacts
  - Future federal action
- Potential for cyclical economic event
- Demographic issues
Summary

- Governor’s Budget expected Jan 19
- Major budget challenges
  - Slow growing economy
  - Structural tax and expenditure issues
    - Deficit fatigue
    - Specific agency issues
  - Many competing priorities
    - Fewer options for savings
Budget Status

House Finance Committee
December 6, 2016