Budget Status

House Fiscal Staff Presentation to House Finance Committee
November 29, 2018
Governor’s FY 2020 and FY 2019 revised budgets are due January 17 – 6 weeks from now

Overall fiscal situation for current year, budget and out-years
- Economy
- Projections
- Issues
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 2019
- Staff estimates for FY 2020 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 – Aug 31
- Agency budget requests - Oct 1 (due)
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 6
- Revenue estimates – November 9
- Budget Office Q1 report – Nov 16
- Audited Closing – ???
- Governor’s Budget – Jan 17
- Agencies Q2 – Jan 30
Introduction

The state continues to face structural budget problems
- Out-year issues growing from about $150* million to almost $300 million
- 2-year total still around $160 million
- Second consecutive current year deficit projection
  - Potentially exacerbating structural issues
- Uncertain revenue items add risk
  - Some are one-time/limited

*corrected from $110M noted in 11/29 hearing
Economic Forecast
Revenue Estimating Conference adopts a consensus economic forecast

- It takes testimony from IHS Markit
- The firm builds U.S. macroeconomic models from which it derives its Rhode Island forecasts
- Updated in November
November forecast slightly more pessimistic than May 2018 forecast.

Growth rates in FY 2019 & FY 2020 for personal income, wage & salary projected to be somewhat lower; personal consumption up only for FY 2019.

Slow population growth
- Driven by educated international migration.
Economic Forecast

- Recession risk ‘contained’ but ‘likely’ within 5-years due to multiple challenges
  - Domestic & international trade policy
    - Tariffs, Brexit & Euro splintering, China slowdown
  - Fiscal Policy
    - Effects of TCJA anticipated to wane past 2020
  - Monetary Policy
    - Multiple Fed Reserve rate hikes 3x in 2019, 1x in 2020
  - Markets
    - Increases in energy costs, tighter mortgage lending
Since March, state’s unemployment rate dropped steadily from 4.5% to 3.9%
- Continues to be a problem for teenage boys (26.0%), girls (14.0%), & young men (9.1%)
- Economy likely at or beyond full employment
- Labor force is still down 12,800 from peak in December 2006
  - Working age population has grown little
    - Population is older
  - Participation among younger workers is not improving
Revenue Drivers

![Bar chart showing Personal Income and Wages and Salaries from 2003 to 2023]

- Personal Income
- Wages and Salaries
Revenue Drivers

- Personal Income
- Wages & Salaries
- Personal Consumption
Revenue Projections
Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2018 were just under anticipated total
    - Some significant missed estimates
  - TCJA added complexity & risk to forecast
  - Gaming expansion and betting delays also make estimates more difficult
  - Sales tax receipts strong
Revenues

- Taxes in FY 2019 = $3,166.7 million
  - $68.8 million or 2.2% above FY 2018 actuals
    - Impact of tax changes, cyclical items
  - $16.9 million below the enacted estimate
    - Sales tax increases offset PIT, Business tax decreases

- Taxes in FY 2020 = $3,279.7 million
  - 3.6% increase to FY 2019 revised
    - $113.0 million: $93.6 million from Income & Sales
    - Last year of TCJA foreign profits boost - $15 million
## November 2018
### Consensus Revenue Estimates

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>$1,345.3</td>
<td>$1,380.7</td>
<td>$(4.9)</td>
<td>$1,428.3</td>
<td>$47.6</td>
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<td>Business Taxes</td>
<td>442.4</td>
<td>459.9</td>
<td>(25.9)</td>
<td>482.9</td>
<td>23.0</td>
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<td>Sales &amp; Use Taxes</td>
<td>1,244.8</td>
<td>1,273.8</td>
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<td>1,318.0</td>
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<td>65.3</td>
<td>52.3</td>
<td>4.6</td>
<td>50.5</td>
<td>(1.8)</td>
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<td><strong>Total Taxes</strong></td>
<td><strong>$3,097.9</strong></td>
<td><strong>$3,166.7</strong></td>
<td><strong>$(16.9)</strong></td>
<td><strong>$3,279.7</strong></td>
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<td>Departmental</td>
<td>397.6</td>
<td>405.0</td>
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<td>Other Misc.</td>
<td>37.1</td>
<td>11.7</td>
<td>2.4</td>
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<tr>
<td>Lottery</td>
<td>365.0</td>
<td>399.6</td>
<td>7.9</td>
<td>427.1</td>
<td>27.5</td>
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<tr>
<td>Unclaimed Prop.</td>
<td>10.9</td>
<td>10.1</td>
<td>0.4</td>
<td>9.5</td>
<td>(0.6)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$3,908.4</strong></td>
<td><strong>$3,993.1</strong></td>
<td><strong>$(5.4)</strong></td>
<td><strong>$3,950.3</strong></td>
<td><strong>$(42.9)</strong></td>
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</tbody>
</table>
Revenues

- Other than Taxes
  - FY 2019 = $826.4 million
    - Up $11.5 million from enacted
  - FY 2020 = $670.6 million
    - Down $155.9 million from FY 2019
    - Excludes $180.0 million hospital license fee but deficit calculations assume reenactment
    - Lottery up $27.5 million
      - Annualized impact of Tiverton and sports betting
Revenues

- Lottery – Declines less steep than initial estimates
  – Sports Betting delayed, no better data

<table>
<thead>
<tr>
<th>Type</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Games</td>
<td>$56.9</td>
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<tr>
<td>VLT(Slots)</td>
<td>312.3</td>
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<tr>
<td>Tables</td>
<td>12.8</td>
</tr>
<tr>
<td>Sports</td>
<td>-</td>
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<tr>
<td>Total</td>
<td>$381.9</td>
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<tr>
<td>Y-O-Y %</td>
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## Revenues Risks

<table>
<thead>
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<th>FY 2019</th>
<th>FY 2020</th>
<th>2-Year Total</th>
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<tbody>
<tr>
<td>Foreign Profits Repatriation</td>
<td>$17.4</td>
<td>$15.0</td>
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<tr>
<td>Sports Betting</td>
<td>11.5</td>
<td>27.3</td>
<td>38.8</td>
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<td>Tax Collections Enhancement</td>
<td>13.5</td>
<td>13.5</td>
<td>27.0</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$42.4</strong></td>
<td><strong>$55.8</strong></td>
<td><strong>$98.2</strong></td>
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</tbody>
</table>
Closing and Current Year
As with prior years, FY 2019 budget counted on surplus from FY 2018 to help fund expenses for which there were no current revenues.

Preliminary FY 2018 data shows $14.3 million gain to that assumption:
- Subject to audit adjustment before final
## FY 2018 Preliminary

<table>
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<th>Current</th>
<th>Diff.</th>
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</thead>
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<tr>
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<td>$ 72.0</td>
<td>$ 72.0</td>
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<tr>
<td><strong>Revenues</strong></td>
<td>3,910.5</td>
<td>3,908.4</td>
<td>(2.1)</td>
</tr>
<tr>
<td><strong>Rainy Day</strong></td>
<td>(119.2)</td>
<td>(119.1)</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td>(3,832.0)</td>
<td>(3,805.7)</td>
<td>26.3</td>
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<td><strong>Closing Surplus</strong></td>
<td>$ 31.3</td>
<td>$ 55.6</td>
<td>$24.3</td>
</tr>
<tr>
<td><strong>Reappropriation</strong></td>
<td>-</td>
<td>(10.1)</td>
<td>(10.1)</td>
</tr>
<tr>
<td><strong>Free Surplus</strong></td>
<td>$ 31.3</td>
<td>$ 45.5</td>
<td>$ 14.3</td>
</tr>
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</table>
Closing – Revenues

- Revenues $2.1 million (0.1%) below
  - Taxes down $2.1 million
    - More business ($2.1M), Sales ($5.7M) & Tobacco taxes ($3.8M) covered misses in income ($11.9M)
    - Lack of stability in PIT refund activity again accounts for big part of that discrepancy
    - Business taxes remain difficult to estimate
      - Financial Institutions and Public Utilities exceeded estimates covering 8.5% miss in Corp tax
  - All other revenue up $0.1 million
    - Lottery up $0.4 million
Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2019 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?
General revenue spending $26.3 million (0.7%) below budgeted amounts – but areas of overspending

- 2 agencies appeared to overspend total
  - DLT (43.2%) and DCYF (4.6%)
  - 5 more agencies would have overspent but for after-the-fact expense transfers

- Appropriation lines overspent even if agency totals were not
  - 26.1% of general revenue lines were overspent… ongoing pattern
Closing - Expenditures

- After-the-fact expense transfers
  - Altered bottom line outcomes for 8 agencies but no change to state bottom line
    - Charging DOA for expenses budgeted in other agencies
    - Changing how Gov. staff costs were allocated
  - Gives impression fewer agencies overspent
    - 3 would have larger surpluses: Gov., DOA, EOHHS
    - 5 would have overspent: EOC, RIDE, OPC, DOC, DPS
  - Impedes transparent analyses
Closing - Expenditures

Spending $26.3 million below:

- $10.1 million unspent & re-appropriated
- $23.1 million Medicaid savings
- $2.7 million DOA – utilities, staffing
  - Centralized services
- $3.9 million overspent in DLT
- $7.7 million overspent in DCYF
EOHHS - $23.1 million less from Medicaid

- $17.9 million less from one-time prior year adjustments for nursing home payments
  - State made advanced payments & payments for claims for same nursing homes resident
- $5.6 million less for all other programs
  - Higher drug rebates, lower payments for managed care plans
  - Offset by increase in hospital expenses
    - Increase inpatient days & correct Medicaid rate
Centralized Services

- 2017 Assembly authorized internal service funds for centralized services
  - Information technology, capital asset management & maintenance, & HR
- Costs previously budgeted in DOA
  - Methodology on initial distribution vague
  - Long term impacts and transparency concerns
- FY 2018 closing highlights unresolved issues – will impact FY 2019 and FY 2020
Legislation also requires DOA to report fund activities on a quarterly basis.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Due Date</th>
<th>Date Submitted</th>
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<tbody>
<tr>
<td></td>
<td>Jan. 15, 2018</td>
<td>Feb. 21, 2018</td>
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<tr>
<td></td>
<td>April 15, 2018</td>
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<tr>
<td></td>
<td>July 15, 2018</td>
<td>Nov. 14, 2018</td>
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<tr>
<td>FY 2019</td>
<td>Oct. 15, 2018</td>
<td>?</td>
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</tbody>
</table>
Current Year

- The *current year* has a $47.2 million deficit primarily from unmet expenditure savings and unbudgeted policy choices
  - Impacts future spending
  - Overspending exacerbated by downward revenue adjustment
  - Six months left to solve
Current Year

- Revenues are down by $5.4 million
- Closing resources increase rainy day transfer by $0.3 million
- Expenditures appear up by $44.7 million net of re-appropriations and November Caseload increase
- Closing surplus down by $47.8 million
## FY 2019

<table>
<thead>
<tr>
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<th>Diff.</th>
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</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ 31.3</td>
<td>$55.6</td>
<td>$24.3*</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,998.5</td>
<td>3,993.1</td>
<td>(5.4)</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(120.9)</td>
<td>(121.2)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(3,908.2)</td>
<td>(3,974.7)*</td>
<td>66.5</td>
</tr>
<tr>
<td>Total FY 2019</td>
<td>$ 0.7</td>
<td>$(47.2)</td>
<td>(47.8)</td>
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</tbody>
</table>

*Includes $10.1 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

- 16 agencies are projecting to spend more than authorized in FY 2019
  - Some include new items that may overstate actual overspend
- 9 submitted plans
  - Not all submissions identified solutions
    - Some contained incorrect info
  - Corrective actions total $1.9 million
  - Many seemed perfunctory
Corrective Action Plans

- Are savings feasible?
- Do they require law changes?
- Timing?

Budget Office Q1 notes it is working with agencies to resolve deficits
- What efforts have been taken already?
- Some issues known for months
## Current Year - Changes

<table>
<thead>
<tr>
<th>Reappropriation</th>
<th>$10.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislature*</td>
<td>(1.8)</td>
</tr>
<tr>
<td>Judiciary*</td>
<td>(1.1)</td>
</tr>
<tr>
<td>EOHHS/DHS: Caseload Conference</td>
<td>11.7</td>
</tr>
<tr>
<td>EOHHS/DHS/DCYF/BHDDH: Other*</td>
<td>34.7</td>
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<tr>
<td>Corrections</td>
<td>7.2</td>
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<td>Labor and Training</td>
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<td>Local Aid</td>
<td>2.3</td>
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<tr>
<td>Other *</td>
<td>0.9</td>
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<tr>
<td><strong>Total</strong></td>
<td>$66.5</td>
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</table>

* Items different than Budget Office Q1 estimates
Reappropriation

- **Statutory requirement: $9.7 million**
  - Legislature - $7.9 million
    - Revised budget lowers by $1.8 million
  - Judiciary - $1.9 million
    - Q1 lowers by $1.1 million

- **Governor discretionary: $0.3 million**
  - DOA Trainings - $0.1 million
  - DOA/DBR Building code work - $0.1 million
  - DOH - Lab Systems - $0.1 million
## Current Year - Changes

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Reappropriation</td>
<td>$10.1</td>
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<td><strong>Total</strong></td>
<td><strong>$66.5</strong></td>
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</tbody>
</table>

* Items different than Budget Office Q1 estimates
Current Year: EOHHS/DHS

- Nov Caseload: $11.7 million more
  - Cash Assistance – $0.1 million less
    - Updated enrollment and monthly cost for disabled individuals receiving a Supplemental Security Income (SSI) payment
      - $77,900
    - Lower monthly costs for general public assistance payment
      - $50,600
Current Year: EOHHS/DHS Caseload

- Nov Caseload: $11.7 million more
  - Medical Assistance - $11.9 million more
    - General revenue savings from
      - Increased federal funds claiming
      - Enrollment declines
    - General revenue cost increases from
      - Unachieved savings
      - Unbudgeted policy changes or interpretations
# Current Year: EOHHS Caseload

<table>
<thead>
<tr>
<th>Agency</th>
<th>Unachieved/Partial Savings</th>
<th>Gen Rev</th>
</tr>
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<tbody>
<tr>
<td>EOHHS</td>
<td>Community First Choice</td>
<td>$3.0</td>
</tr>
<tr>
<td></td>
<td>Non-Emergency Transportation</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Managed Care medical component reduction – implemented as change in risk sharing arrangement between state &amp; the plans</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$5.8</strong></td>
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$ in millions
# Current Year: EOHHS Caseload

<table>
<thead>
<tr>
<th>Agency</th>
<th>New Costs</th>
<th>Gen Rev</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Initiative</td>
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<tr>
<td>EOHHS</td>
<td>Hepatitis C Coverage</td>
<td>$6.1</td>
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<tr>
<td></td>
<td>Hospice Rate Increase – nursing home room &amp; board</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>10% of nursing home claims not eligible for Medicaid match</td>
<td>3.3</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$11.6</strong></td>
</tr>
</tbody>
</table>

$ in millions
Current Year: EOHHS/DHS Caseload

- Hepatitis C protocol
  - Restrictive former policy on who could access costly curative Rx relaxed as of July
    - Threat of legal action received by EOHHS in May
  - Not accounted for in budget – no notice
    - Budgetary impact did not appear to factor into decision to lift the restriction
      - Unclear what other options were considered
    - Policy change impacts DOC protocols when community standard of care changes
  - Over $10 million in FY 2019 including DOC
Hospice Room and Board rates

- FY 2019 budget increased rates for skilled nursing (20%) and other home care services (10%) including hospice
- EOHHS interpreted language for skilled nursing to apply to all components of hospice care payments including room & board
  - Providers receive room & board payment when delivering service in a nursing facility but pass that back to the host facility
  - Inconsistent with intent and budgeted amounts
## Current Year: EOHHS Agencies

<table>
<thead>
<tr>
<th>OMB</th>
<th>General Revenues</th>
</tr>
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<tbody>
<tr>
<td></td>
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<tr>
<td>EOHHS</td>
<td>$982.9</td>
</tr>
<tr>
<td>BHDDH</td>
<td>188.1</td>
</tr>
<tr>
<td>DCYF</td>
<td>161.6</td>
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<tr>
<td>DHS</td>
<td>98.0</td>
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<tr>
<td>DOH</td>
<td>29.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,459.6</td>
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</table>

$ in millions
## Current Year: EOHHS Agencies

<table>
<thead>
<tr>
<th>HFS Estimate</th>
<th>General Revenues</th>
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<tbody>
<tr>
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<td>DOH</td>
<td>29.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,459.6</strong></td>
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$ in millions
## Unachieved Savings - Timeline

- Community First Choice Option – enhanced Medicaid match for certain services to help keep individuals in the community
  - Requirements essentially unchanged since FY 2015

<table>
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<tr>
<th>Period</th>
<th>Status</th>
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<tbody>
<tr>
<td>FY 2015 EOHHS Request/Enacted</td>
<td>In</td>
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<tr>
<td>FY 2016 &amp; FY 2017 Enacted (½ savings)</td>
<td>In</td>
</tr>
<tr>
<td>Nov 2016 CEC</td>
<td>Out</td>
</tr>
<tr>
<td>FY 2019 Enacted</td>
<td>In</td>
</tr>
<tr>
<td>Nov 2018 CEC testimony</td>
<td>Out</td>
</tr>
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</table>
Community First Choice (CFC) Option

**August 2016 EOHHS annual report:** “federal authority requirements would need to include areas that would present a challenge to meeting the MOE requirements and would require RI to restructure the approved 1115 Demonstration Waiver renewal authority”

**November 2018 EOHHS testimony:** “After reviewing all of CMS’ technical assistance documents related to CFC, CMS has concerns about how Rhode Island could apply this State Plan option given our eligibility framework”
Enacted budget assumed receipt of $7.0M from Deloitte for staffing costs
- Revised budgets appear to be counting on more yet none received
  - Design, Contact Center, other consultants
- Unclear if there is a state cost in the absence of these funds
- HFAS estimate assumes increase could be general revenue costs
## UHIP Recovery Restricted Receipts

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2019 Enacted</th>
<th>FY 2019 Revised</th>
<th>Chg. to Enacted</th>
<th>FY 2020 Req.</th>
<th>Chg. to Enacted</th>
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<td>$5.3</td>
<td>$5.3</td>
<td>$7.5</td>
<td>$7.5</td>
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<tr>
<td>DHS</td>
<td>7.0</td>
<td>10.9</td>
<td>4.0</td>
<td>11.1</td>
<td>4.2</td>
</tr>
<tr>
<td>HSRI</td>
<td>-</td>
<td>0.4</td>
<td>0.4</td>
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<td>1.5</td>
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<tr>
<td>Total</td>
<td>$7.0</td>
<td>$16.6</td>
<td>$9.7</td>
<td>$20.1</td>
<td>$13.2</td>
</tr>
</tbody>
</table>

$ in millions
Current Year: BHDDH

BHDDH - $8.9 million

- Division of Developmental Disabilities - $7.6 million
  - Unachieved Savings – $7.1 million
    - Moving individuals out of 24-hour group homes
    - Having a new process to review & approve excess authorizations and validating the assessment tool
  - Budget and Q1 appear to be based on current activity - none of proposed change
    - FY 2018 spending largely on target
    - Corrective actions not quantified
### Current Year: BHDDH Caseload

<table>
<thead>
<tr>
<th>Agency</th>
<th>Unachieved</th>
<th>Gen Rev</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHDDH</td>
<td>Validation of Assessment Tool</td>
<td>$3.6</td>
</tr>
<tr>
<td></td>
<td>Resource Allocations</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>Developmentally disabled adults – shift to less restrictive residential settings</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Home Health Case Management</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$7.1</strong></td>
</tr>
</tbody>
</table>

$ in millions
BHDDH - $8.9 million

- Eleanor Slater Hospital - $0.4 million overspend
  - Includes $2.1 million for a new security contract
    - $1.0 million from general revenues
  - Enacted budget includes $0.4 million/$0.2 million general revenues for security services
  - Offset by other savings

- Other admin expenditures - $0.9 million
Corrective Action - $ no value cited

- Eleanor Slater Hospital
  - Plan includes early implementation of FY 2020 initiatives including maximization of federal revenues at the state hospital if possible
  - Should also include improving third party billing opportunities
    - EOHHS testimony notes that there are 223 individuals over last 12 months between the 2 campuses – 108 have Medicare as the prime insurer
DCYF - $14.9 million

- Baseline Caseload - $6.5 million
  - Similar overspend in FY 2018
  - Despite full funding of Q3 projections
- Unachieved savings - $9.1 million
- Day care and other services - $1.2 million
- Juvenile Corrections savings of $1.9 million
  - Similar savings in FY 2018

No Corrective Action Plan filed

- No savings proposals in FY 2020 request
## Current Year: DCYF Caseload

<table>
<thead>
<tr>
<th>Agency</th>
<th>Unachieved Initiative</th>
<th>Gen Rev</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCYF</td>
<td>Increased Medicaid &amp; Title VI -E Reimbursements</td>
<td>$3.5</td>
</tr>
<tr>
<td></td>
<td>Institutional Services Reduction</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>Congregate Care – less restrictive settings</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>Other Contract Reductions</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$9.1</strong></td>
</tr>
</tbody>
</table>

$ in millions
Current Year: DHS

- DHS - $5.7 million more net of caseload
  - Transportation for Elderly - $1.2 million
    - Consistent with FY 2018 actuals
    - EOHHS holds contract, charges DHS for its portion
    - Contract rebid for savings to EOHHS
      - Included increased rates for elderly
  - Child Support Enforcement - $1.0 million
    - Savings from improving child care collections and Medicaid recoveries not achieved
Current Year: DHS

- DHS Corrective Action - unclear
  - Reduce elderly transportation costs by eliminating 1/3 of services
    - Cut rides to elderly nutrition sites, INSIGHT, and general medical care
    - Appears to be worth $0.9 million
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Reappropriation</td>
<td>$10.1</td>
</tr>
<tr>
<td>Legislature*</td>
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<td>(1.1)</td>
</tr>
<tr>
<td>EOHHS/DHS: Caseload Conference</td>
<td>11.7</td>
</tr>
<tr>
<td>EOHHS/DHS/DCYF/BHDDH: Other*</td>
<td>34.7</td>
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<td>Other *</td>
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<td><strong>Total</strong></td>
<td><strong>$66.5</strong></td>
</tr>
</tbody>
</table>

* Items different than Budget Office Q1 estimates
Current Year: Corrections

- **Corrections** - $7.2 million
  - **RIBCO Contract Settlement** - $1.1 million
    - Above amounts assumed for other employees
    - Pay grade and stipend increases
    - Injured on duty changes NOT reflected in numbers but potential to impact budget
  - **Hep C** - $4.5 million
    - Assumes 180 inmates at $25,000 each
    - In FY 2018 - 21 inmates were treated
    - In FY 2019 – 18 year to date
Current Year: Corrections

- Corrections - $7.2 million
  - Other Costs - $1.6 million
    - Other inmate medical costs consistent with FY 2018
    - Expenses not incurred in FY 2018 shifted to FY 2019
  - Savings in programs that kept FY 2018 in balance are not anticipated in FY 2019
    - Discharge Planning
    - Medication Assisted Treatment

- Corrective Action Plan
  - Constrained hiring and spending
## Current Year - Changes

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
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* Items different than Budget Office Q1 estimates
Closing - Expenditures

- DLT - $3.9 million overspent in FY 2018
  - Spending commitment for unemployment admin against unavailable federal funds including FY 2017 expenses
  - FY 2017 plan to use $2.0 million from special funds in UI trust fund to pay admin costs denied by USDOL; appeal denied in May 2017
    - Typically offsets costs from JDF/Tardy & Interest
    - Funds budgeted for other purposes in FY 2017
  - Receivable booked despite denial
Resource shortfall persisted in FY 2018
- DLT revised budget proposed shifting $1.0 million in costs to TDI & TCI through job sharing
  - Budget adopted the plan but it never happened and charges were made against federal award
- State Controller recognized that federal award is overcommitted
  - No funding is available to cover FY 2017 receivable
  - Charges 2-year deficit to general revenues, $3.9 million overspend
Average UI FTEs vs Average Unemployment Rate
2015 - 2018

2015
42
60
6.0%

2016
37
70
5.2%

2017
40
68
4.5%

2018
34.5
53.5
4.2%

Average Call Center FTEs
Other UI FTEs
UI Rate

0.0%
1.0%
2.0%
3.0%
4.0%
5.0%
6.0%
7.0%

0
20
40
60
80
100
120

2015
2016
2017
2018

Average UI FTEs
Current Year: DLT

- Issue underscores the importance of proper control and management of all sources
  - Errors result in general revenue allocations reducing state resources
- Unclear what additional controls are needed to avoid recurrence
- DLT seeking state funding to help cover current year gap
$2.6 million general revenues

- $2.4 million helps fill projected gap between award for UI & actual staff costs
  - JDF/Tardy & Interest Funds also budgeted to support program
- $0.2 million for centralized service charges based on actual from FY 2018
## Current Year - Changes

<table>
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<td>Other *</td>
<td>0.9</td>
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<td><strong>Total</strong></td>
<td><strong>$66.5</strong></td>
</tr>
</tbody>
</table>

* Items different than Budget Office Q1 estimates
Current Year: Local Aid

- Car tax - actual data requires $1.5 million more than enacted estimate
- Teacher Retirement - $0.6 million more
  - Consistent with FY 2018 shortfall
- Other data and formula adjustments for education aid require $0.2 million
All other projected adjustments to expenditures up $0.9 million

- Includes $1.8 million more to change how expenses related to gaming enforcement are shown
  - Offsetting revenue change in November Estimate
- Savings of $0.8 million in candidate matching funds for elections
- Turnover and operating savings in several agencies
## Full-time Equivalent Positions

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016 Avg.</td>
<td>13,689.6</td>
</tr>
<tr>
<td>FY 2017 Avg.</td>
<td>13,809.6</td>
</tr>
<tr>
<td>FY 2018 Avg.</td>
<td>13,913.2</td>
</tr>
<tr>
<td>FY 2019 Enacted</td>
<td>15,209.7</td>
</tr>
<tr>
<td>Avg. Filled 11/24</td>
<td>13,968.7</td>
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<tr>
<td>Diff. from Enacted</td>
<td>(1,241.0)</td>
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<tr>
<td>Diff. from FY 2018</td>
<td>55.5</td>
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</table>

Total includes 788.8 higher ed. FTE limited to 3rd party funds
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 area
## Current Year – Historical Context

<table>
<thead>
<tr>
<th>Current Fiscal Year</th>
<th>Opening Surplus Change</th>
<th>Nov REC Change</th>
<th>Nov CEC Change</th>
<th>Q1 Overspend</th>
<th>Combined Impact excl. txfer to RDF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>(61.8)</td>
<td>(130.5)</td>
<td>16.3</td>
<td>18.6</td>
<td>(227.1)</td>
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<td>2011</td>
<td>17.9</td>
<td>16.7</td>
<td>22.4</td>
<td>7.9</td>
<td>4.3</td>
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<tr>
<td>2012</td>
<td>3.6</td>
<td>19.4</td>
<td>(1.1)</td>
<td>23.8</td>
<td>0.3</td>
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<tr>
<td>2013</td>
<td>21.7</td>
<td>7.5</td>
<td>(24.3)</td>
<td>5.4</td>
<td>48.0</td>
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<td>2014</td>
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<td>45.6</td>
<td>0.1</td>
<td>5.3</td>
<td>43.9</td>
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<td>2015</td>
<td>8.7</td>
<td>15.8</td>
<td>37.0</td>
<td>15.5</td>
<td>(28.0)</td>
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<tr>
<td>2016</td>
<td>47.8</td>
<td>52.4</td>
<td>14.9</td>
<td>25.9</td>
<td>59.4</td>
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<tr>
<td>2017</td>
<td>43.9</td>
<td>44.8</td>
<td>4.7</td>
<td>19.4</td>
<td>64.7</td>
</tr>
<tr>
<td>2018</td>
<td>14.1</td>
<td>(10.3)</td>
<td>29.3</td>
<td>28.9</td>
<td>(54.4)</td>
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<tr>
<td>2019</td>
<td>14.3</td>
<td>(5.4)</td>
<td>11.7</td>
<td>44.7</td>
<td>(47.8)</td>
</tr>
</tbody>
</table>
Current Year

- Risks and Issues – similar to last year
  - Ability to identify and respond to issues
    - Delayed course correction efforts
      - Financial management reporting?
  - Six months to solve
    - What steps are being taken or considered?
    - Fewer ideas than usual contained in agency budgets or corrective action plans
Budget and Out-years
There are budget year and out-year problems

- FY 2020 was estimated in June to have a gap of approximately $158 million
- Budget Office estimated similar gap in July
  - Revenue and expenditures both higher
- HFAS estimates about $150 million* gap plus current year issue
  - Q1 spending negates revenue gains in FY 2020

*corrected from $110M noted in 11/29 hearing
Budget Year and Out-years

- Gaps largely function of structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
  - Prior gaming revenue losses
  - Dedication of revenues to transportation
- Planned spending increases
  - Medicaid expansion cost sharing
  - Car tax phase out
Budget and Out Years

Revenues vs. Expenditures
June 2018 Estimates

Current Useable Revenues vs. Current Expenditures
Budget and Out Years

Revenues vs. Expenditures
Nov 2018 Estimates

- Current Useable Revenues
- Current Expenditures
<table>
<thead>
<tr>
<th>Item</th>
<th>Est. Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>0.3%</td>
</tr>
<tr>
<td>State Personal Income</td>
<td>4.2%</td>
</tr>
<tr>
<td>Taxes</td>
<td>2.6%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>2.0%</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>2.7%</td>
</tr>
<tr>
<td>Salaries &amp; Benefits – 25% of total</td>
<td>3.2%</td>
</tr>
<tr>
<td>Medicaid – 30% of total</td>
<td>4.0%</td>
</tr>
</tbody>
</table>
All Sources (in millions)

Federal Grants
Personal Income
Sales
University and College
All Other
Business Taxes
UI & TDI
Lottery
Restricted Receipts
Departmental
Other Taxes
Gas Tax
Other Taxes
Restricted Receipts
Departmental
Lottery
UI & TDI
Business Taxes
All Other
University and College
Sales
Personal Income
Federal Grants
General Revenue Sources
($millions)

- Personal Income: 1,400
- Sales: 1,100
- Business Taxes: 450
- Lottery: 400
- Departmental: 400
- Other Taxes: 250
- All Other: 50

0 200 400 600 800 1,000 1,200 1,400 1,600
Uses – All Funds by Function

- Human Svcs. 42.5%
- Education 27.8%
- Public Safety 6.3%
- Transp. 6.3%
- Nat. Res. 1.2%
- Gen. Govt. 16.0%
Uses – All Funds by Category

- Asst., Grants, Benefits: 44.5%
- Local Aid: 14.3%
- Capital: 7.2%
- Operating Xfers: 2.7%
- Personnel & Operating: 31.3%
Uses – General Revenues by Function

- Gen. Govt.: 12.5%
- Human Svcs.: 37.4%
- Nat. Res.: 1.1%
- Public Safety: 12.5%
- Education: 36.4%
Uses – General Revenues by Category

- Personnel & Operating: 29.2%
- Local Aid: 30.6%
- Asst., Grants, Benefits: 33.0%
- Capital: 4.7%
- Operating Xfers: 2.6%
Budget Year and Out-years

- Budget Office Instructions based on $158 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”
Budget Year and Out-years

- Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office
- Agency requests exceed current service estimates by over $79 million
  - Not all same items included
- Do not have all budgets in
  - Sec of State, Governor’s Office, Higher Ed, & Military Staff submissions still outstanding
FY 2020 Budget Requests

- Budget Office also asked for options for reductions
  - 5% adjusted for certain exclusions
    - Equated to $121.3 million
- May agency submissions do not include options to meet targets
  - Total requests off target by over $148 million
    - Significant change in compliance vs prior years
    - Many agencies suggested revenue items
  - Many options not sound
Some agencies significantly delayed in budget submissions

- New budget system continues to present challenges
- Many experienced difficulty using it
  - Discrepancies between what agencies think they included

Adds extra challenge exercising adequate review by executive and legislative staffs
Issues and Risks to the Forecast

- Revenue items
  - Volatile or untested estimates
  - Executing enhanced collections
- Control of current year spending
  - Policy decisions that impact budgets
- Medicaid savings and caseloads
- Potential for cyclical economic event
  - Forecast does not include impacts of possible new tariffs
Summary

- Governor’s Budget expected Jan 17
- Major budget challenges
  - Current year deficit is time sensitive
  - Structural tax and expenditure issues
  - Many competing priorities
    - Fewer options for savings