Budget Status

House Fiscal Staff Presentation to House Finance Committee
December 3, 2019
Introduction

- Governor’s FY 2021 and FY 2020 revised budgets are due January 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 2020
  - Staff estimates for FY 2021 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
Preliminary Closing – Aug 30
Agency budget requests – Oct 1 (due)
Agency Q1 reports – Oct 30 (due)
Caseload estimates – November 5
Revenue estimates – November 8
Budget Office Q1 report – Nov 15
Audited Closing – ???
Governor’s Budget – Jan 16
Agencies Q2 – Jan 30
The state continues to face structural budget problems
- Out-year issues growing to over $200 million
- Third consecutive current year deficit projection
  - Smaller than recent years
  - Uncomfortably high level of uncertainty on large items
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
Economic Forecast

- November forecast slightly more optimistic than May 2019 forecast
- Growth rates in FY 2020 for personal income, wage & salary, personal consumption projected to be somewhat higher
  - Wage & salary also higher for FY 2021
- Consumer spending growth will slow over next few years
Economic Forecast

- Forecast assumptions
  - No new U.S. tariffs
    - Beyond those already implemented or scheduled
  - Fed will cut rates by another 0.25% by December (occurred in November)
    - Will help stock market & homebuilding sector
  - Boeing cleared to resume deliveries of 737 MAX in early 2020
  - Downside risks abroad are avoided
    - “no-deal Brexit” avoided, Saudi oil production restored, other global hot spots don’t worsen
RI’s Sept. unemployment rate 3.6%
  - Historic low but highest in New England
  - Labor force still 19,400 below 12/06 peak
  - 48,100 net new jobs created in past decade
    - 21.8% higher wage (> $65,000)
    - 34.1% mid-wage ($40,000 - $65,000)
    - 44.1% lower wage (< $40,000)
      - Low wage jobs represent 21% of total jobs
  - Manufacturing among weaker sectors
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 2019 were just over anticipated total
    - Some significant missed estimates
  - TCJA added complexity & risk to forecast
  - Sales tax receipts strong
Revenues

- Taxes in FY 2020 = $3,317.3 million
  - $134.4 million or 4.2% above FY 2019 actual
    - Impact of tax changes, cyclical items
  - $38.4 million above the enacted estimate
    - Income, Sales and Inheritance tax increases offset Business tax decreases

- Taxes in FY 2021 = $3,413.0 million
  - 2.9% increase to FY 2020 revised
    - $95.7 million: $101.6 million from Income & Sales
## November 2019
Consensus Revenue Estimates

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<td><strong>Total</strong></td>
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<td><strong>$4,178.8</strong></td>
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<td><strong>$4,241.6</strong></td>
<td><strong>$62.8</strong></td>
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$ in millions
Revenues

- **Other than Taxes**
  - **FY 2020 = $861.5 million**
    - Down $38.3 million from enacted, $35.7 million of that is lottery
  - **FY 2021 = $828.6 million**
    - Down $32.9 million from FY 2020
      - Includes $32.3 million less from lower hospital license fee rate; 2-year fee enacted in 2019
      - Lottery up from revised estimate
      - One time quasi transfers excluded
Revenues

- Lottery – larger impact from Boston resort casino and reduction to sports betting estimate

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<td>Y-O-Y %</td>
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Closing and Current Year
FY 2019 Closing

- As with prior years, FY 2020 budget counted on surplus from FY 2019 to help fund expenses for which there were no current revenues.

- Preliminary FY 2019 data shows $3.7 million gain to that assumption.
  - Subject to audit adjustment before final.
  - Known $1.5 million Medicaid issue.
## FY 2019 Preliminary

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<td><strong>Free Surplus</strong></td>
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Closing – Revenues

- Revenues $2.1 million (0.1%) above
  - Taxes up $9.0 million
    - Income ($9.8M), Sales ($8.1M) covered miss in Business Corp tax (-$9.8M)
    - Business taxes remain difficult to estimate
      - Corp off 6.0%, last year missed by 8.5%
  - All other revenue down $6.9 million (-0.8%)
    - Departmental receipts off by $5.4 million
    - Lottery down $2.8 million
Unachieved savings
Unexpected expenses
Impact on FY 2020 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 to accommodate overages?
General revenue spending $12.0 million (0.7%) below budgeted amounts – but areas of overspending

- 7 agencies overspent total
- Appropriation lines overspent even if agency totals were not
  - 23.7% of general revenue lines were overspent...
    - ongoing pattern
The individual appropriation lines are the governing amount, not the agency bottom line.


- Section 2 of Art. 10 states “Each line appearing in Section 1 of this Article shall constitute an appropriation”
- Language included in appropriations act annually
Closing - Expenditures

- Expense transfers, charges and allocations not in final budget
  - Settlement of decade of audit findings across several agencies showing in Medicaid Caseload expenses
  - Charging DOA for expenses budgeted in other agencies
    - Ombudsman to be covered by Commerce Corp
  - Charging other agencies for Gov. staff costs
  - Impedes transparent analyses
Spending $12.0 million below:

- $10.3 million unspent & re-appropriated
- $1.8* million Medicaid
- $0.7 million RIDE – teacher retirement
- $0.6* million – Dev. Disabilities
- $0.4 million DOR – Turnover savings
- $1.3 million overspent in DOA
  - Unachieved fraud savings, unbudgeted items
- $3.3 million overspent in DCYF

*adjusted for pending audit correction
Closing - Expenditures

- Medicaid - $1.9 million savings
  - Caseload: $7.6 million less
    - $2.5 million from a higher federal match for prior year hospital payments (UPL)
    - $5.5 million less for all other programs
      - Higher drug rebates, lower costs for inpatient & outpatient hospital services
  - Audit settlements: $6.1 million
    - More than half ($3.4 million) relating to disallowed nursing home payments identified in FY 2017
      - Second year of payback of $6.4 million total disallowed
EOHHS notes that settlement resolves with CMS a multitude of audit findings with potential exposure of over $80 million

- Some were over a decade old
- LTC advanced payments – total $6.4 million
  - $3.0 million paid back in FY 2018
## Prior year audit findings FY 2007- FY 2018

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<tr>
<th>Agency</th>
<th>GR Total</th>
<th>Audit Finding</th>
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</thead>
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<tr>
<td>EOHHS/DHS</td>
<td>$3.4</td>
<td>FY 2017: LTC advanced Payments – state only – no Medicaid</td>
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<tr>
<td></td>
<td>1.5</td>
<td>FY 2018: Disallowed higher CHIP Medicaid match</td>
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<td></td>
<td>0.9</td>
<td>FY 2007-13: Medicaid Admin</td>
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<tr>
<td>BHDDH</td>
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<td>FY 2007-FY 2010: Questioned costs for capital projects &amp; other claims lacked documentation</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$6.1</strong></td>
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</table>

$ in millions
The current year has a $6.5 million deficit primarily from unmet expenditure savings outpacing Medicaid enrollment declines and onetime savings.

- Impacts future spending
- Little help from closing surplus or current year revenues
- Potential risks difficult to solve in 6 months
Current Year

- Revenues are up by $0.1 million
- Closing resources increase rainy day transfer by $0.1 million
- Expenditures appear up by $23.1 million net of re-appropriations and November Caseload savings
- Closing surplus down by $7.0 million
## FY 2020

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<tr>
<td>Opening</td>
<td>$25.5</td>
<td>$39.5</td>
<td>$14.0*</td>
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<tr>
<td>Revenues</td>
<td>4,178.7</td>
<td>4,178.8</td>
<td>0.1</td>
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<tr>
<td>Rainy Day</td>
<td>(126.1)</td>
<td>(126.2)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(4,077.6)</td>
<td>(4,098.5)*</td>
<td>(20.9)</td>
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<tr>
<td><strong>Total FY 2020</strong></td>
<td>$ 0.5</td>
<td>$(6.5)</td>
<td>$(7.0)</td>
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*Includes $10.3 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
  - This language still in law but further limitations and requirements added with Article 2
Corrective Action Plans

- Article 2 - enhanced oversight to address administrative adherence to budget control laws
  - Requires monthly report if quarterly report forecasts a deficit
  - Prohibits controller from authorizing payments for additional staff, contracts, or purchases for any agency expected to overspend
    - Exceptions for immediate health and safety
Corrective Action Plans

- OMB issued guidance to agencies interpreting applicability
  - “Agencies projecting a deficit in the current fiscal year based on the Budget Office’s most recently published quarterly report”
  - Corrective action plans must be approved by the Budget Office before official submission to House and Senate
Corrective Action Plans

- Budget Office Q1 identified 4 agencies projected to overspend
  - Notes that OMB began fiscal oversight of those agencies as of November 15, 2019
  - DCYF, Mental Health Advocate, Office of Veterans Services, Ethics
- Not all items may be accounted for
  - Centrally budgeted statewide savings
  - Centralized services
Corrective Action Plans

- 7 agencies submitted quarterly reports projecting an overspend
  - Some include new items that may overstate actual overspend
- No agency has submitted a corrective action plan
  - What efforts have been taken already?
  - Some issues known for months
  - Enhanced article 2 controls did not replace CAP responsibility
## Current Year - Changes

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<td>(12.5)</td>
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<td>EOHHS/DHS/DCYF/BHDDH: Other*</td>
<td>25.7</td>
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<tr>
<td>Providence Place Mall Debt Service</td>
<td>(3.6)</td>
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<tr>
<td>Undistributed Savings*</td>
<td>2.3</td>
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<tr>
<td>Other *</td>
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<td><strong>Total</strong></td>
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</table>

* Items different than Budget Office Q1 estimates
Reappropriation

- Statutory requirement: $9.9 million
  - Legislature - $9.7 million
    - Revised budget lowers by $2.4 million
  - Judiciary - $0.3 million
- Governor discretionary: $0.4 million
  - DOR - $0.1 million
  - EOHHS - $0.1 million
  - Commission on Disabilities - $28,586
  - AG - $23,199
  - Public Safety - $0.2 million
## Current Year - Changes

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</table>

* Items different than Budget Office Q1 estimates
Nov Caseload: $12.5 million less

- Cash Assistance – $1.3 million less
  - Updated annual cost and enrollment for subsidized child care & using available federal funds
    - $0.6 million
  - Updated enrollment and monthly cost for disabled individuals receiving a Supplemental Security Income (SSI) payment
    - $0.5 million
  - Fewer individuals receiving a general public assistance payment at a higher amount
    - $0.1 million
Current Year: EOHHS/DHS Caseload

- Nov Caseload: $12.5 million less
  - Medical Assistance - $11.2 million less
    - General revenue savings from
      - Enrollment declines in managed care plans
      - Pharmacy payments to federal government
    - General revenue cost increases from
      - Long term services and support services
        - Increase in hospice services
      - Non-emergency transportation rate increase for ambulance services - $0.8 million
        - NOT assumed for FY 2021
Notable Caseload issues

- Overall decline and stabilization of RIte Care enrollment
  - Attributed to system improvements
- Continued difficulty estimating Nursing Home payments
  - Advanced payment for pending applications continue
    - Approved applications paid again and then funds requested/schedule for recoupment – not automatic at time of second payment
Current Year: EOHHS/DHS Caseload

- Notable Caseload issues
  - Ambulance Rate increase awarded after budget was adopted shown only in FY 2020 estimate
  - Hospital uncompensated care payments set to decline absent federal action
    - FY 2021 estimate lowered by $30.6 million to match current law
  - RIte Share implementation issues
Rlite Share Premium Assistance Program

- Rlite Care eligible but have access to employer sponsored insurance (ESI)
- State pays employee cost of that plan
  - If cheaper and comparable to full Medicaid benefit
  - Currently: $3,200 for Rlite Care vs $610 for Rlite Share

Enrollment

- FY 2016 – 8,371
- FY 2020 – enrollment of 3,800 through October
  - CEC assumes 4,776
Governor had proposed assessing large employers $1,500 for every Medicaid recipient employee

Assembly instead required EOHHS to revisit existing RIte Share program to maximize enrollment

- Initial plan due by 10/1/2019
- Subsequent enhanced reporting
  - Submitted 10/16/2019
Current Year: EOHHS

- Rlte Share Reporting
  - Added info in monthly Medicaid report:
    - # of individuals with access to ESI
    - # of plans that meet the cost effectiveness criteria
    - Rlte Share enrollment
  - FY 2020 savings from increasing enrollment
    - $2.3 million
      - $1.1 million from general revenues
    - Caseload estimate assumes these savings
      - Testimony suggested significant issues with program
Current Year: EOHHS

- EOHHS plan to increase enrollment:
  - UHIP update from March will allow the RIte Share unit to perform the necessary functions to begin working the employer renewal backlog - 354 to be done by 2/20
  - Continue to review new applications & answer calls from employers & employees
  - Does not include outreach plans
- CEC testimony suggested lack of specific plans and some confusion on process
### Current Year - Changes

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<td><strong>Total</strong></td>
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* Items different than Budget Office Q1 estimates
## Current Year: EOHHS Agencies

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<tr>
<td>DOH</td>
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$ in millions
## Current Year: EOHHS Agencies

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$ in millions
DCYF FY 2019 Closing

- DCYF - $3.3 million overspend
  - Despite full funding of Q3 projections
    - Assembly concurred with all DCYF related budget amendments for FY 2019 and FY 2020
  - Staff unable to get all requested FY 2019 closing detail to analyze
    - DCYF working on its budget which has not been submitted
    - Basic questions lack answers
      - Number of 18-21 year olds served
## DCYF FY 2019

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<td>FY 2019 Assembly Final*</td>
<td>$179.9</td>
</tr>
<tr>
<td>FY 2019 Actual*</td>
<td>$183.2</td>
</tr>
<tr>
<td>Overspend</td>
<td>$3.3</td>
</tr>
</tbody>
</table>

*Adjusted for $2.5M child care block grant funds sub for GR*
Current Year: DCYF

- Received Q1 report on November 7
- DCYF - $21.9 million
  - Mostly unachieved savings - $17.3 million
    - Total caseload through Q1 is similar to enacted budget assumptions
      - Budget assumed youth would be moved to less costly placements
        - Placement cost differential about $80k average
        - Has not occurred
  - Staffing - $5.3 million
    - Despite hiring surge, overtime increasing
    - Hard to analyze without more info
DCYF Hiring Surge

- August 7 – DCYF announced hiring of 23 additional frontline workers
  - Estimated cost would be $3.1 million
  - As of October, 20 positions had been filled

<table>
<thead>
<tr>
<th>Frontline Worker Unit</th>
<th>Additional Number of Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Services Unit</td>
<td>16</td>
</tr>
<tr>
<td>Kinship Licensing Unit</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
</tr>
</tbody>
</table>
Current Year: BHDDH

BHDDH - $1.0 million

- Eleanor Slater Hospital - $0.7 million
  - Physician & security service contracts
  - Continuing difficulty analyzing budget because of disconnect from prior year proposals and budgets
- Staffing reorganization - $0.7 million
  - Moved 23 staff to administrative programs
    - Replaces federal funds with general revenues
- RICLAS & admin savings - $0.4 million
Veterans’ Home - $2.9 million over

- Governor’s budget assumed an operational review by EOHHS would reduce expenses at the Home
  - $1.2 million overtime savings
  - $0.6 million janitorial services
  - $0.8 million medical services

- Assembly concurred
Current Year: Office of Veterans Services

- EOHHS operational review did not occur in FY 2019
  - Veterans’ Home implemented some measures to reduce contract costs
    - Acuity-based model for nursing pool staff
    - Occupational & physical therapy delivery changes
  - Unclear what specific efforts are underway to review overtime and other services
Current Year: Deloitte Settlement

- Disposition of proceeds from Deloitte settlement still not clear after 9 months
  - Budget assumes state keeps at least $33.2 million of $50 million settlement
  - Awaiting federal decision
  - Budget Office & HFAS estimate assume full $33.2 million & no changes to total costs
    - Anything less adds to deficit
    - Bigger state share lowers current year issue
    - Accuracy of total cost estimate in question
Current Year: Deloitte Settlement

- In March, Deloitte contract extended to June 2021
  - $75.0 million in future credits and discounts
  - Fix what is broken
  - $50.0 million cash payment
    - How much can state keep?
      - Federal government has funded nearly 80 percent of the work so far
Enacted budget assumes state keeps $33.2 million to offset general revenue costs
- EOHHS for design & other consultants
- DHS for allowable staffing costs

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2020 Enacted</th>
<th>FY 2020 Revised</th>
<th>Chg. to Enacted</th>
<th>FY 2021 Req.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOHHS</td>
<td>$6.6</td>
<td>$6.5</td>
<td>$(0.1)</td>
<td>$-</td>
</tr>
<tr>
<td>DHS</td>
<td>24.7</td>
<td>24.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>HSRI</td>
<td>1.9</td>
<td>1.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$33.2</td>
<td>$33.1</td>
<td>$(0.1)</td>
<td>$-</td>
</tr>
</tbody>
</table>

$ in millions
## Current Year - Changes

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappropriation</td>
<td>$10.3</td>
</tr>
<tr>
<td>Legislature*</td>
<td>(2.4)</td>
</tr>
<tr>
<td>EOHHS/BHDDH Closing Correction</td>
<td>1.5</td>
</tr>
<tr>
<td>EOHHS/DHS: Caseload Conference</td>
<td>(12.5)</td>
</tr>
<tr>
<td>EOHHS/DHS/DCYF/BHDDH: Other*</td>
<td>25.7</td>
</tr>
<tr>
<td>Providence Place Mall Debt Service</td>
<td>(3.6)</td>
</tr>
<tr>
<td>Undistributed Savings*</td>
<td>2.3</td>
</tr>
<tr>
<td>Other *</td>
<td>(0.4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20.9</td>
</tr>
</tbody>
</table>

* Items different than Budget Office Q1 estimates
Current Year: Debt Service

- Providence Place Mall debt service savings - $3.6 million
  - Payments supported by two-thirds of sales taxes generated at mall
    - Yrs. 1–5: $3.7M and yrs. 6-20: $3.6M
  - Reserve account had sufficient resources to pay off debt
    - Final payment made in October 2019
    - Remaining funds transferred to general fund
- No payment is required in FY 2021
## Current Year - Changes

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappropriation</td>
<td>$10.3</td>
</tr>
<tr>
<td>Legislature*</td>
<td>(2.4)</td>
</tr>
<tr>
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<tr>
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</tr>
<tr>
<td>Providence Place Mall Debt Service</td>
<td>(3.6)</td>
</tr>
<tr>
<td><strong>Undistributed Savings</strong>*</td>
<td>2.3</td>
</tr>
<tr>
<td>Other *</td>
<td>(0.4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20.9</td>
</tr>
</tbody>
</table>

* Items different than Budget Office Q1 estimates
Current Year: Undistributed Savings

- Enacted budget assumes general revenue savings of $4.6 million
  - Budgeted in DOA for later distribution
    - HFAS Q1 assumes only half ($2.3 million) is achieved based on current progress and reporting

<table>
<thead>
<tr>
<th>Savings Proposals</th>
<th>FY 2020 Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud &amp; Waste Detection</td>
<td>$(2.0)</td>
</tr>
<tr>
<td>Injured on Duty</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Overtime</td>
<td>(1.0)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$(4.6)</strong></td>
</tr>
</tbody>
</table>

$ In millions
Fraud and Waste Detection

- Combine data across agencies (DLT, DOR and health and human services)
  - To detect fraud and waste
  - FY 2017 budget assumed $5.0 million in revenue from initiative
    - Net $3.5 million impact
- Governor proposed delaying to FY 2018
  - $8.5 million in total revenues and savings assumed in FY 2018
  - Eventually delayed again to FY 2019
Governor’s Fraud & Waste Detection Initiative

<table>
<thead>
<tr>
<th>Description</th>
<th>Savings in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY 2019 Enacted Savings</td>
<td>$9.6</td>
</tr>
<tr>
<td>Revised Saving Deemed to be Achieved</td>
<td>(6.4)</td>
</tr>
<tr>
<td>FY 2019 Final Savings Assumed</td>
<td>$3.2</td>
</tr>
<tr>
<td>FY 2019 Closing showed savings were not achieved</td>
<td></td>
</tr>
<tr>
<td>FY 2020 Governor’s Recommended Budget</td>
<td>$4.6</td>
</tr>
<tr>
<td>May 2019 Gov. Req. Amendment</td>
<td>(2.2)</td>
</tr>
<tr>
<td>FY 2020 Enacted Savings</td>
<td>$2.0</td>
</tr>
</tbody>
</table>

$ in millions
Injured on Duty

- Enacted budget assumes $1.7 million savings from changes to injured on duty legislation
  - Current recipients had 90 days from July 1, 2019 to apply for accidental disability
    - Otherwise benefits would terminate
  - Applies to state employees only
    - Public Safety: Sheriffs and Capitol Police
    - Military Staff
    - Environmental Management
Injured on Duty

- Savings budgeted in DOA budget
  - Additional details attribute them to
    - $1.4 million – DPS for Sheriffs & Capitol Police
    - $0.2 million – Military Staff for Quonset firefighters
    - $0.1 million – DEM Environmental Police Officers
  - Based on expected status of then-current recipients on July 1, 2019
    - Estimated 24 would have exceeded 18 month
      - 6 have been receiving benefits since prior to 2011
    - Assumes half of current cost retained as savings
Prior to effective date of law change:
injured on duty # dropped to 22
  - Administration indicates that new cases were added and some old ones dropped off
    - Net reduction of 10 cases
    - Has not conducted cost analysis

Impacted agency Q1 reports assume some limited turnover savings
  - Used elsewhere in budget
  - DOA Q1 still assumes full savings
Overtime

- Budget assumes $1.0 million from general revenue savings from overtime
- Administration announced a new overtime policy in June 2019
  - Agencies must develop & submit to OMB:
    - Detailed overtime authorization
    - Approval procedures
    - Quarterly reports of overtime expenses
Overtime – General Revenues

- Distribution of budget cost shows likely targets for savings
  - Agencies not reporting savings

<table>
<thead>
<tr>
<th>Department</th>
<th>FY 2020 Enacted</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrections</td>
<td>$27.3</td>
<td>59.5%</td>
</tr>
<tr>
<td>BHDDH</td>
<td>6.1</td>
<td>13.4%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>5.7</td>
<td>12.4%</td>
</tr>
<tr>
<td>DCYF</td>
<td>2.7</td>
<td>5.9%</td>
</tr>
<tr>
<td>All Other</td>
<td>4.1</td>
<td>8.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$45.8</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

$ in millions
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
- Unresolved issues – will impact FY 2020 and FY 2021
Centralized Services

- Legislation also requires DOA to report fund activities on a quarterly basis

<table>
<thead>
<tr>
<th></th>
<th>Due Date</th>
<th>Date Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan. 15, 2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>April 15, 2019</td>
<td>May 20, 2019</td>
</tr>
<tr>
<td></td>
<td>July 15, 2019</td>
<td>July 31, 2019</td>
</tr>
</tbody>
</table>
Centralized Services

- Transparency concerns persist
  - Current yr. billing rates not yet finalized
  - Agencies still being billed FY 2019 rates
    - Accuracy of Q1 expenditures
    - Impact to FY 2021 budget
- Several agencies are showing changes
  - Some appear valid
  - Some give appearance of meeting enacted budget
    - Unclear how updated billing rates will impact total
## Centralized Services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>$30.8</td>
<td>$34.9</td>
<td>$33.4</td>
<td>$35.2</td>
<td>$0.5</td>
<td>$35.7</td>
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<tr>
<td>Facilities</td>
<td>33.5</td>
<td>36.8</td>
<td>35.2</td>
<td>36.5</td>
<td>(0.2)</td>
<td>36.3</td>
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<tr>
<td>HR</td>
<td>12.3</td>
<td>13.0</td>
<td>12.7</td>
<td>12.9</td>
<td>(0.2)</td>
<td>12.7</td>
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<tr>
<td>Charges</td>
<td>$76.6</td>
<td>$84.6</td>
<td>$81.4</td>
<td>$84.6</td>
<td>$(0.4)</td>
<td>$84.2</td>
</tr>
<tr>
<td>GR Share</td>
<td>$53.2</td>
<td>$62.5</td>
<td>$62.5</td>
<td>$59.7</td>
<td>$0.1</td>
<td>$59.8</td>
</tr>
<tr>
<td>ISF Budget</td>
<td>$78.9</td>
<td>$91.1</td>
<td>$88.7</td>
<td>$99.1</td>
<td>$(1.4)</td>
<td>$97.6</td>
</tr>
</tbody>
</table>

$ in millions

- There appears to be disconnect with budget for ISF services & agency billings expectation
## Current Year - Changes

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappropriation</td>
<td>$10.3</td>
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</tr>
<tr>
<td>Undistributed Savings*</td>
<td>2.3</td>
</tr>
<tr>
<td>**Other *</td>
<td>(0.4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20.9</strong></td>
</tr>
</tbody>
</table>

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

- All other projected adjustments to expenditures down $0.4 million
  - Turnover and operating savings in several agencies
  - Delays in certain programming at DOC
- Assumes most efficiency commission related initiatives are achieved
  - Some risk there
<table>
<thead>
<tr>
<th>item #</th>
<th>Savings Areas</th>
<th>FY 2020</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,7, 9</td>
<td>Inter-departmental Consolidations</td>
<td>$(340,245)</td>
<td>$(403,154)</td>
</tr>
<tr>
<td>4, 6</td>
<td>Local Cost Shift/Recapture</td>
<td>(2,280,492)</td>
<td>(237,236)</td>
</tr>
<tr>
<td>1,2,8, 10,11</td>
<td>Outsourcing &amp; Operational Efficiencies</td>
<td>(614,186)</td>
<td>(1,016,343)</td>
</tr>
<tr>
<td>5</td>
<td>Co-locate OPC and RIDE</td>
<td>(1,000,000)</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$(4,234,923)</strong></td>
<td><strong>$(2,656,733)</strong></td>
</tr>
<tr>
<td>12</td>
<td>Real Estate and Space Utilization Strategy – Land Sales</td>
<td>$6 - $10M land $0.8M operation savings</td>
<td>? $1.9M</td>
</tr>
</tbody>
</table>
Assembly included $4.5 million in savings

<table>
<thead>
<tr>
<th>Savings Areas</th>
<th>FY 2020</th>
<th>On target?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation IT to ITIF (land sale $)</td>
<td>$(2,914,768)</td>
<td>Yes</td>
</tr>
<tr>
<td>Co-locate OPC &amp; RIDE</td>
<td>(1,000,000)</td>
<td>Yes*</td>
</tr>
<tr>
<td>Board of Elections Move</td>
<td>286,272</td>
<td>Yes</td>
</tr>
<tr>
<td>DHS – Lease Savings</td>
<td>(296,337)</td>
<td>Unclear</td>
</tr>
<tr>
<td>Parking Lease: PD &amp; DCYF</td>
<td>(64,594)</td>
<td>No</td>
</tr>
<tr>
<td>DCYF Behav. Health Licensing</td>
<td>(46,112)</td>
<td>Unclear</td>
</tr>
<tr>
<td>State Building Office</td>
<td>(125,839)</td>
<td>Yes</td>
</tr>
<tr>
<td>Price Facility Operations</td>
<td>(358,409)</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$(4,519,787)</strong></td>
<td></td>
</tr>
</tbody>
</table>

*savings not whole concept
Current Year: Other

- **DOC/ESH lab issue**
  - Prior year proposals suggesting changes to ESH lab services led DOC to seek vendor for all services
    - Most were done at no cost through ESH
    - Some specialty tests required outside service
  - Proposals never adopted but service continued to be outsourced at $165k
    - Governor's efficiency process suggested outsourcing ESH work
    - Assembly instead reduced DOC outside contract
Current Year: Other

- **DOC/ESH lab issue**
  - DOC restores funding in its revised request
    - Includes $137K
    - Unhappy with prior service through ESH and lack of medical records interface
  - ESH staff can do most of the work at no additional cost
Q1 has no projections for changes to Local Aid

- RIDE submitted Q1 suggesting need for more for
  - Teacher Retirement - $1.0 million
  - Support for Central Falls - $0.5 million

- Car tax
  - Required $1.5 million add in FY 2019 revised
  - Early data suggest potential for savings in FY 2020
## Full-time Equivalent Positions

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<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 Avg.</td>
<td>14,062.1</td>
</tr>
<tr>
<td>FY 2020 Enacted*</td>
<td>15,074.7</td>
</tr>
<tr>
<td>Avg. Filled 11/23</td>
<td>14,197.7</td>
</tr>
<tr>
<td>Diff. from Enacted</td>
<td>(877.0)</td>
</tr>
<tr>
<td>Diff. from FY 2019</td>
<td>135.6</td>
</tr>
</tbody>
</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 some new spending items 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>
</tr>
<tr>
<td>2011</td>
<td>17.9</td>
<td>16.7</td>
<td>22.4</td>
<td>7.9</td>
<td>4.3</td>
</tr>
<tr>
<td>2012</td>
<td>3.6</td>
<td>19.4</td>
<td>(1.1)</td>
<td>23.8</td>
<td>0.3</td>
</tr>
<tr>
<td>2013</td>
<td>21.7</td>
<td>7.5</td>
<td>(24.3)</td>
<td>5.4</td>
<td>48.0</td>
</tr>
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<td>2014</td>
<td>3.6</td>
<td>45.6</td>
<td>0.1</td>
<td>5.3</td>
<td>43.9</td>
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<tr>
<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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<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>
</tr>
<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>
<tr>
<td>2020</td>
<td>3.7</td>
<td>0.1</td>
<td>(12.5)</td>
<td>23.1</td>
<td>(6.8)</td>
</tr>
</tbody>
</table>
Current Year

- Risks and Issues
  - Deloitte Settlement unresolved
  - DCYF major deficit projection
    - Lack of info for outside analysis/verification
  - Statewide savings
  - Centralized service billings
  - Efficiency Commission savings
Budget and Out-years
There are budget year and out-year problems

- FY 2021 was estimated in June to have a gap of approximately $130 million
- Budget Office estimated $208.6 million in July
  - Expenditures much higher than prior projections
- HFAS estimates about $184 million gap plus current year issue
Budget Year and Out-years

- Gaps largely function of structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
  - Long term 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 2019 Estimates

Current Useable Revenues
Current Expenditures
Budget and Out Years

Revenues vs. Expenditures
Nov 2019 Estimates

Current Useable Revenues
Current Expenditures

FY 2018: $3,400
FY 2019: $3,600
FY 2020: $3,800
FY 2021: $4,000
FY 2022: $4,200
FY 2023: $4,400
FY 2024: $4,600

94
## Uses – Growth Rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Est. Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>0.2%</td>
</tr>
<tr>
<td>State Personal Income</td>
<td>3.9%</td>
</tr>
<tr>
<td>Taxes</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>3.3%</td>
</tr>
<tr>
<td>Salaries &amp; Benefits – 25% of total</td>
<td>3.4%</td>
</tr>
<tr>
<td>Medicaid – 30% of total</td>
<td>~3.5%</td>
</tr>
</tbody>
</table>
All Sources ($ in 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 various sources of revenue with Federal Grants being the highest and Other Taxes being the lowest.
General Revenue Sources
($ in millions)
Uses – All Funds by Category

- Personnel & Operating: 32.0%
- Local Aid: 15.2%
- Asst., Grants, Benefits: 43.4%
- Operating Xfers: 1.8%
- Capital: 7.5%

Personnel & Operating constitutes the largest portion of funds, followed by Asst., Grants, Benefits, and then Local Aid. Operating Xfers and Capital are the smallest portions.
Uses – General Revenues by Function

- Human Svcs.: 36.5%
- Gen. Govt.: 13.6%
- Nat. Res.: 1.1%
- Public Safety: 12.3%
- Education: 36.5%
Uses – General Revenues by Category

- Local Aid: 33.1%
- Personnel & Operating: 28.7%
- Asst., Grants, Benefits: 32.6%
- Capital: 5.1%
- Operating Xfers: 0.6%
Budget Year and Out-years

- Budget Office Instructions based on $208.6 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 significantly different estimates than those used to calculate out-year projections submitted with Governor’s budget
      - Notably Education aid and Medicaid expenses
Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office

Agency requests exceed current service estimates by over $71 million

- Not all same items included

Do not have all budgets in

- DCYF and Higher Ed submissions still outstanding
  - Individual schools submitted drafts
FY 2021 Budget Requests

Budget Office also asked for options for reductions
  ▪ 5% adjusted for certain exclusions
    ▪ Equated to $131.6 million

May agency submissions do not include options to meet targets
  ▪ Total requests off target by over $78 million
    ▪ Many agencies suggested revenue items
  ▪ Many options not sound
    ▪ Cost shifts to other state agencies
Some agencies significantly delayed in budget submissions
- More timely than last year
- New budget system continues to present challenges to agencies
  - Some entering incorrect information
- Adds extra challenge exercising adequate review by executive and legislative staffs
Issues and Risks to the Forecast

- High level of uncertainty on large items
- Control of current year spending
  - Aligning budgeted savings where they occur
  - Policy decisions that impact budgets
- Potential for cyclical economic event
  - Forecast does not include impacts of possible new tariffs
Summary

- Governor’s Budget expected Jan 16
- Major budget challenges
  - DCYF
  - Current year deficit could get worse if Deloitte settlement not as planned
    - Upside potential as well
  - Structural tax and expenditure issues
  - Many competing priorities