

Budget Status

House Finance Committee
December 12, 2012

Introduction

- State budgetary problems persist
- Governor's FY 2014 and FY 2013 revised budgets due Jan 17
- Focus is on overall fiscal situation for current year, budget and out-years
 - Economy
 - Projections

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 as well as offer overview of federal "fiscal cliff"

Introduction

- The state continues its slow recovery from severe economic distress
- Current year surplus expected
- Facing continued budget year and out-year issues growing from about \$69.3 million to over \$400 million

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 2013
 - Staff estimates for FY 2014 and beyond
 - Not all policy issues accounted for
 - Estimates vary – this is HFAS perspective

Introduction

- The *current year* appears balanced with excess but overspending is a problem
- The *budget and out year* gaps are a function of both cyclical economic and continued structural issues

Economic Forecast

Economic Forecast

- Revenue Estimating Conference adopts a consensus economic forecast
 - It takes testimony from Moody's Economy.com
 - The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts

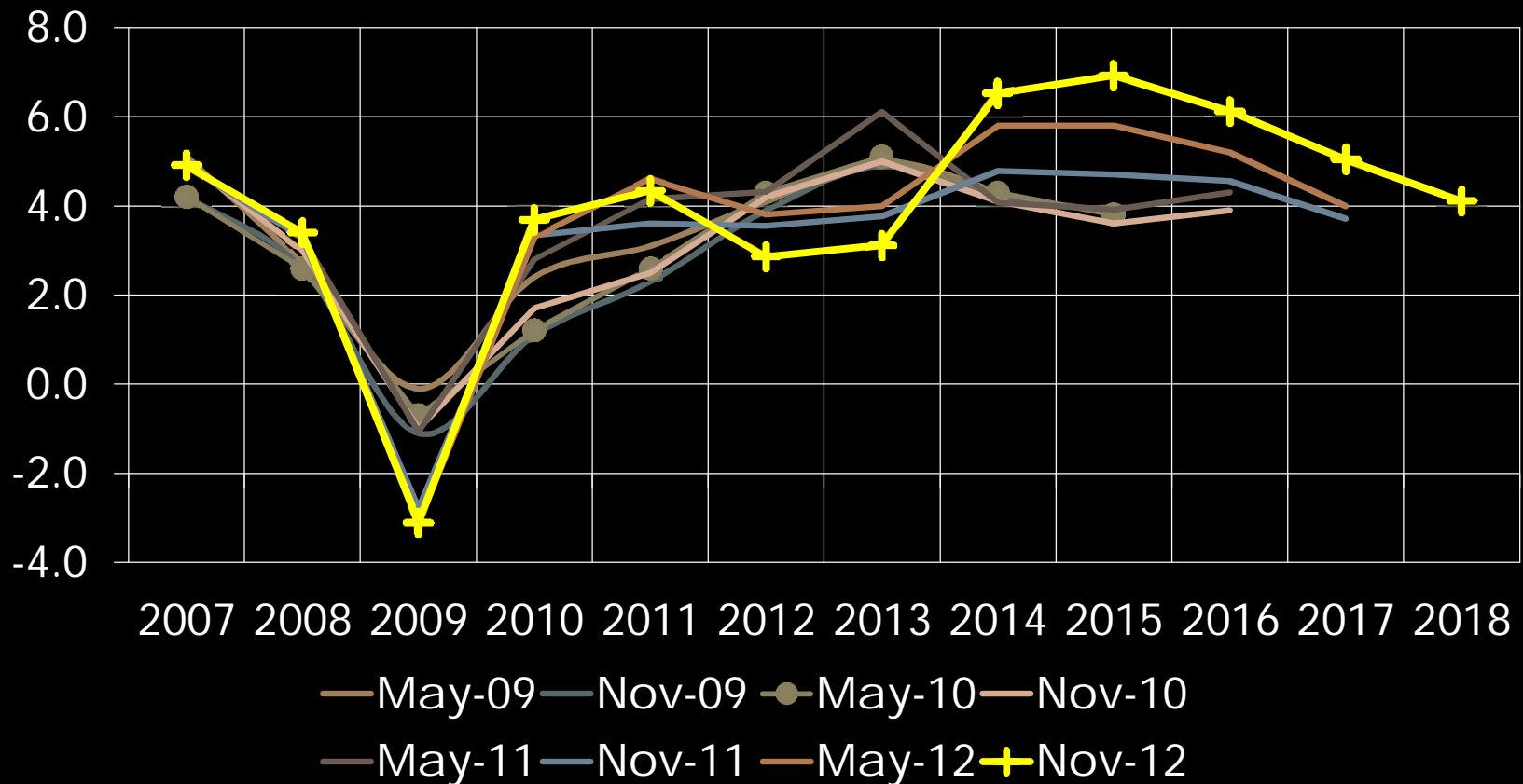
Economic Forecast

November forecast worse than May

- Personal income, jobs, wage & salary growth rates all lower and slower in short term
- RI recovery continues to lag U.S.
- Slower jobs recovery – job losses began in 2007 not regained until 2016
– May forecast was 2015

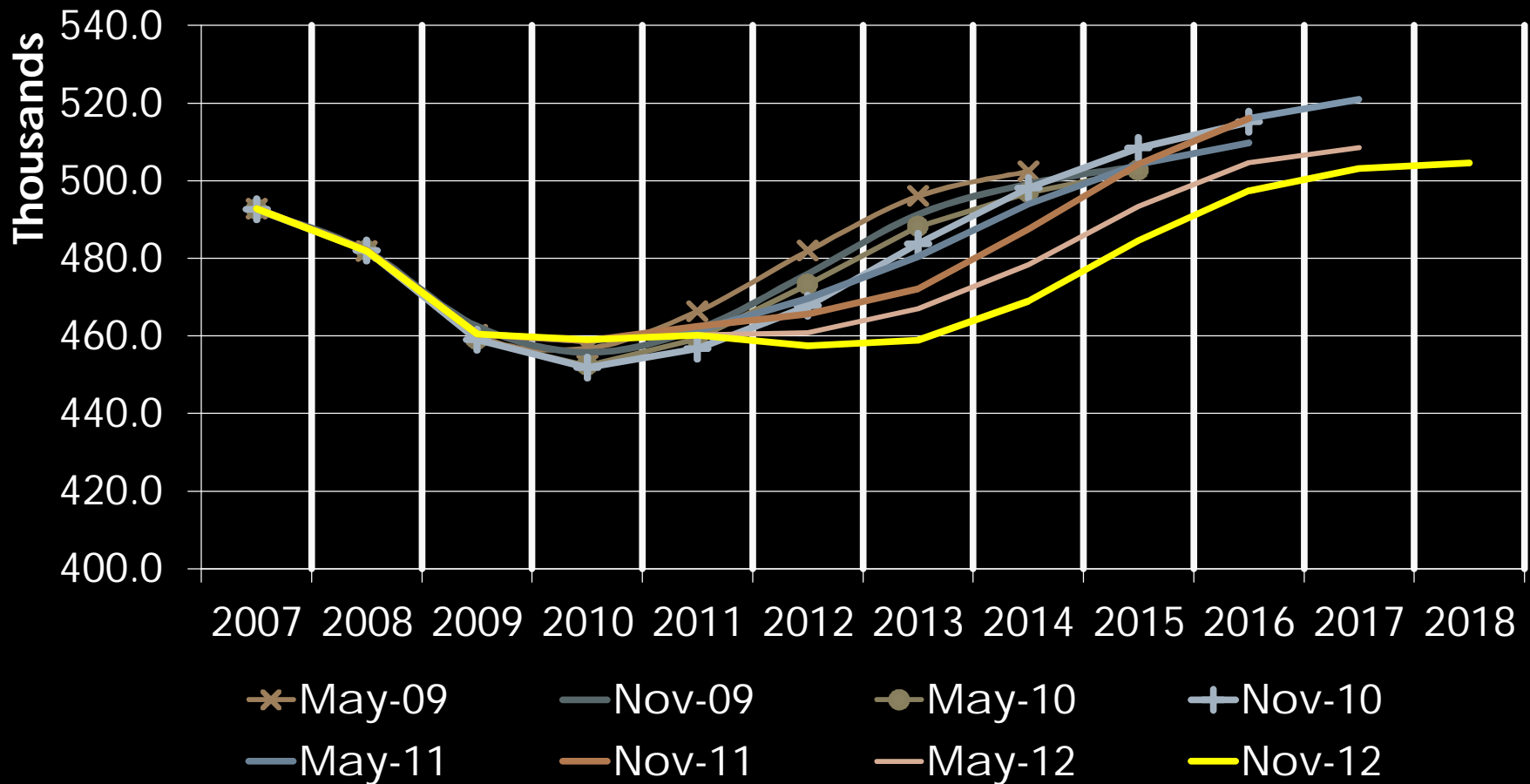
Consensus Economic Forecast

Forecast Differences - Personal Income Growth



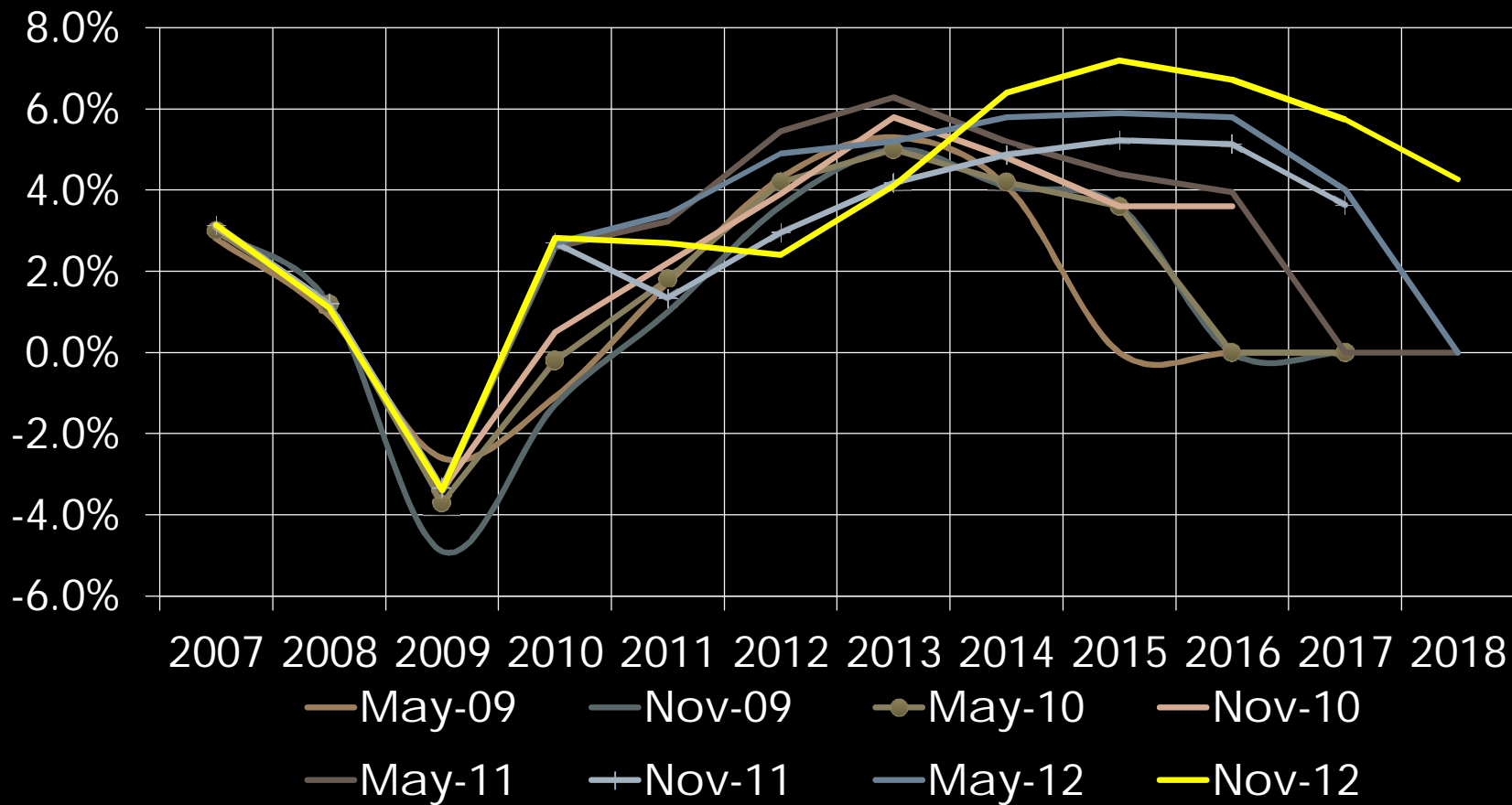
Consensus Economic Forecast

Forecast Differences - Jobs

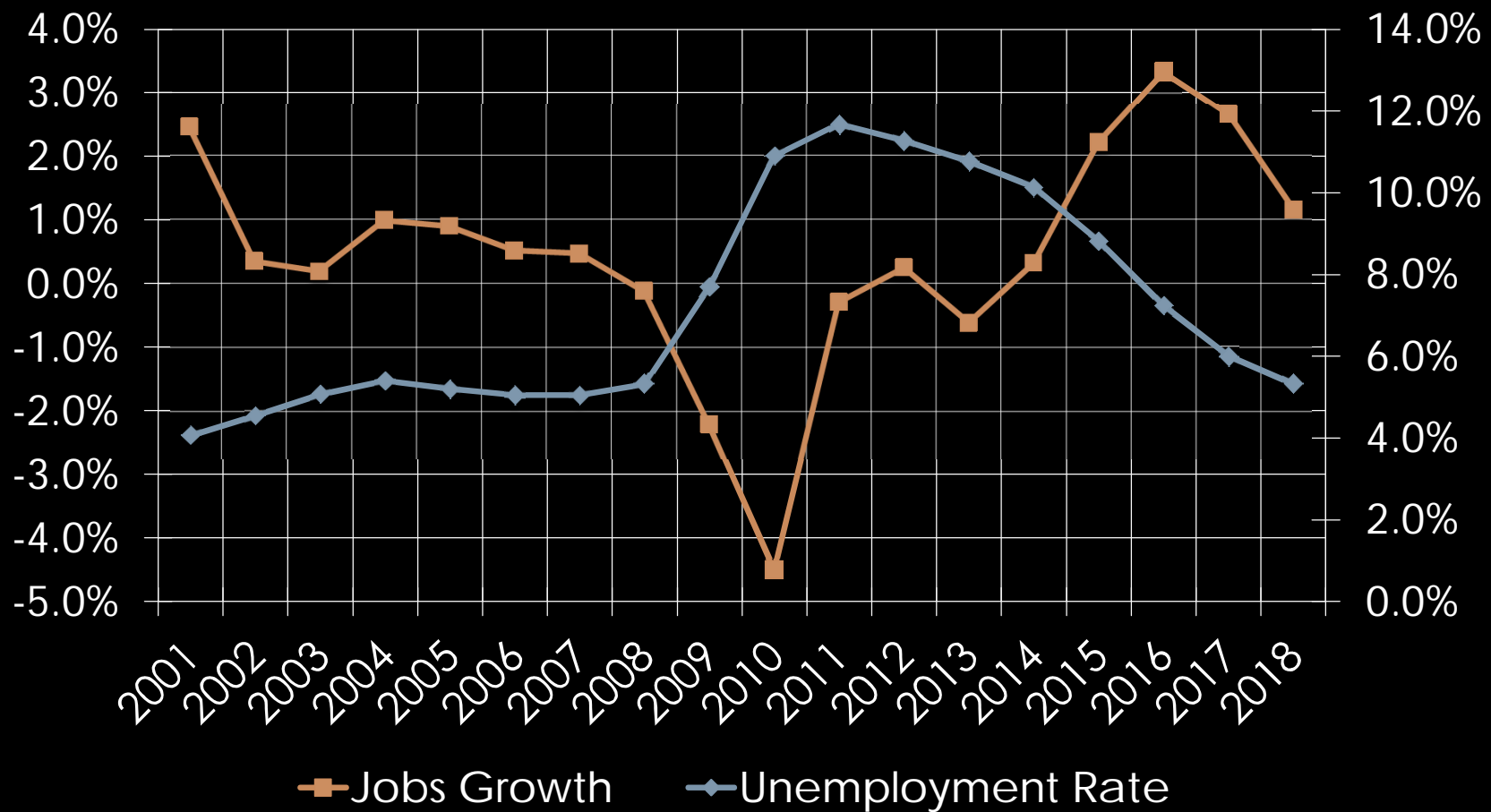


Consensus Economic Forecast

Wage and Salary Income Growth

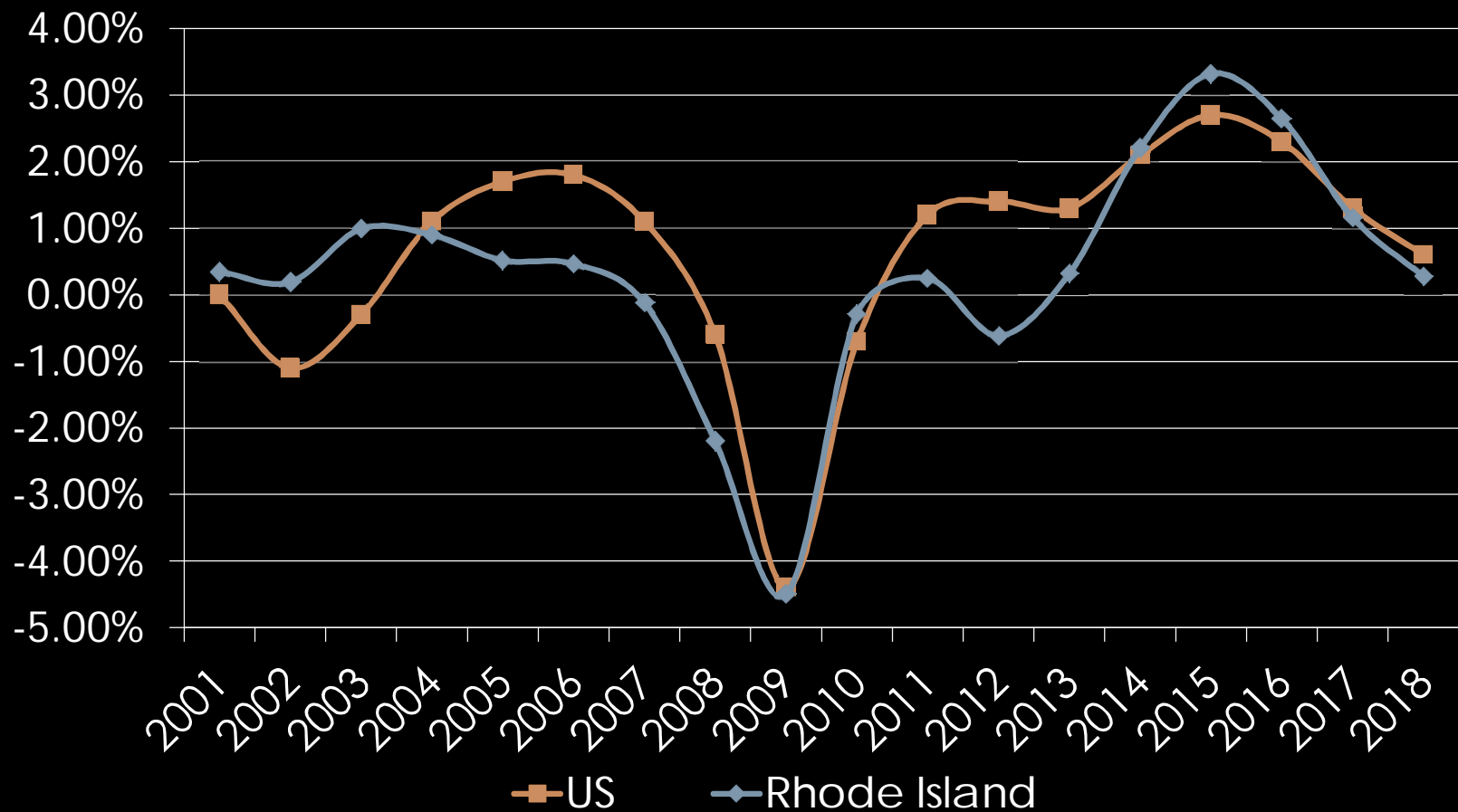


Employment – Unemployment



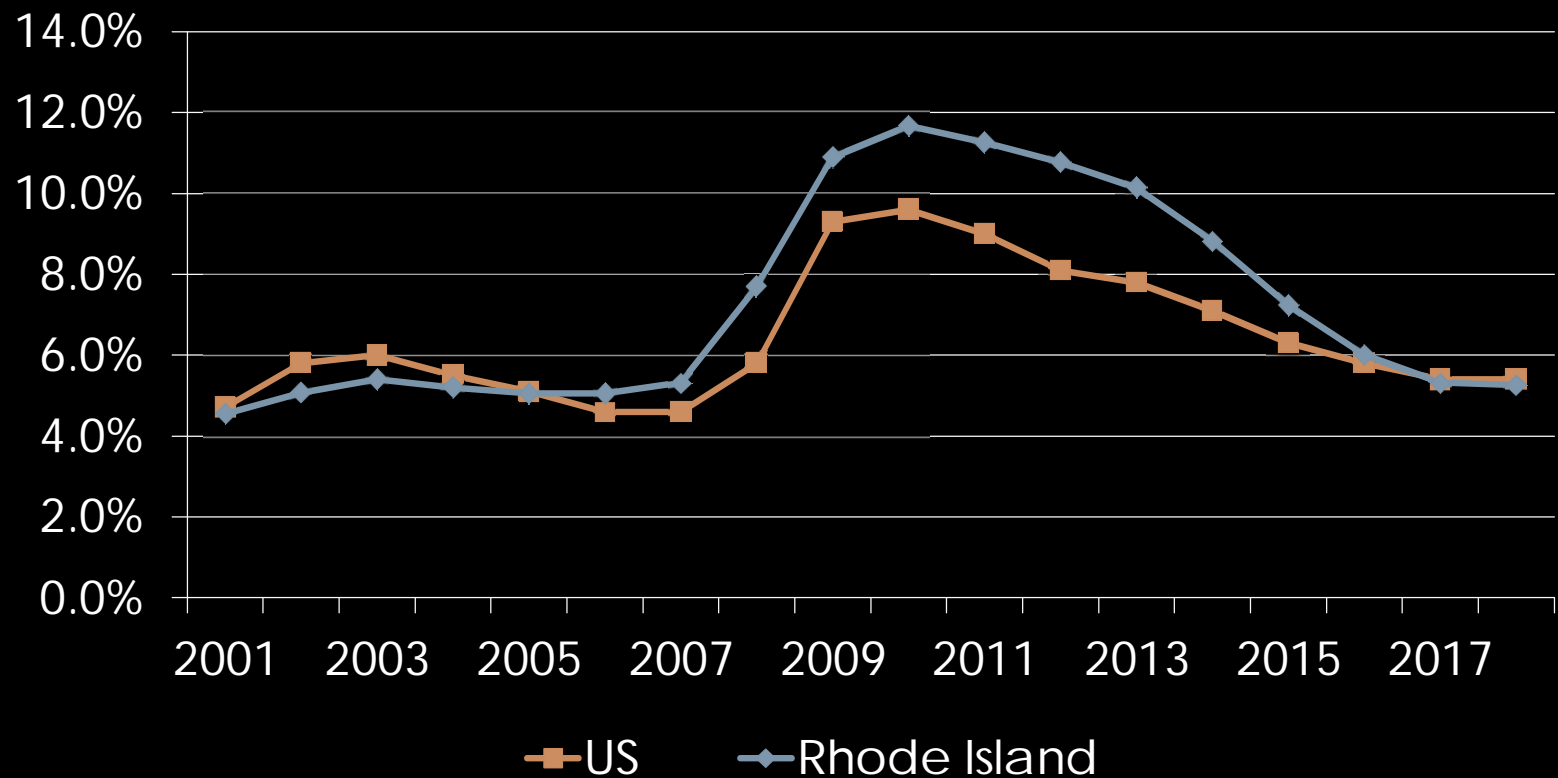
Employment Growth

Jobs Growth - RI Currently Underperforming



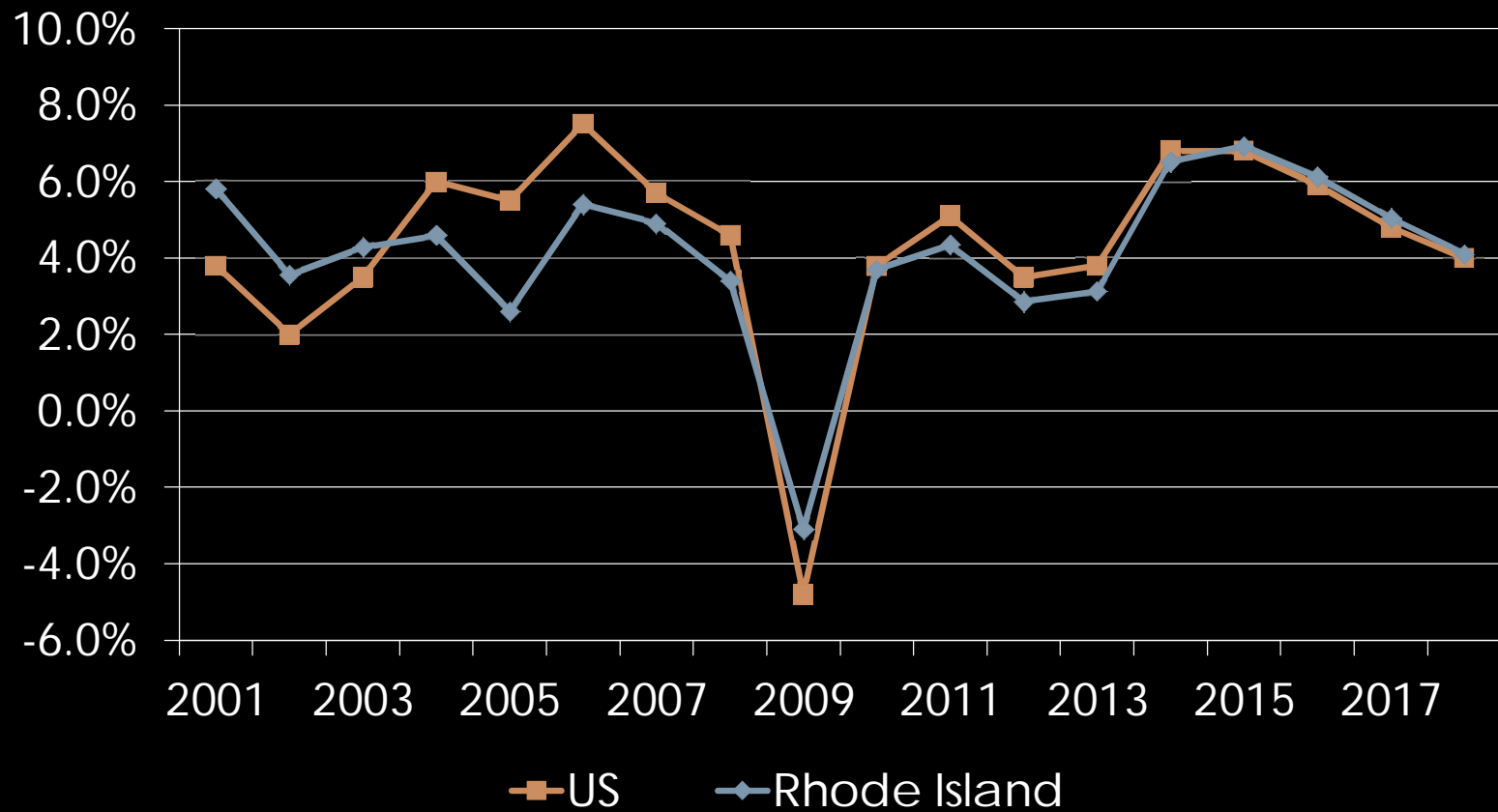
Unemployment Rates

RI has Consistently Higher Unemployment



Revenues

Personal Income Growth - RI Underperforms



Revenue Drivers



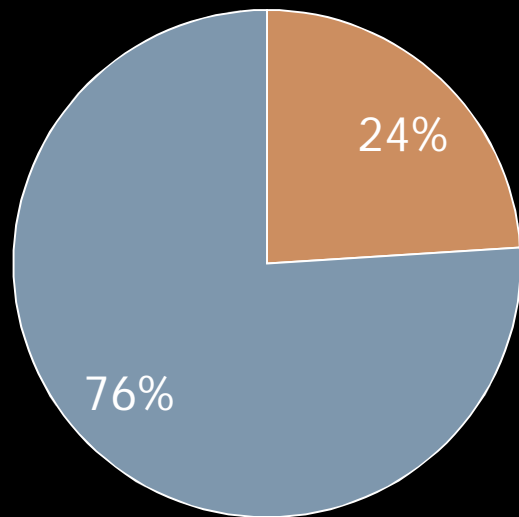
Risks to the Forecast

- Economic Forecast assumes resolution of the “Fiscal Cliff”
 - Half the “sequestration” of federal grants will take place
 - Expiration of Bush Tax Cuts for incomes over \$250K
 - Reinstatement of full payroll tax (2%)

Fiscal Cliff

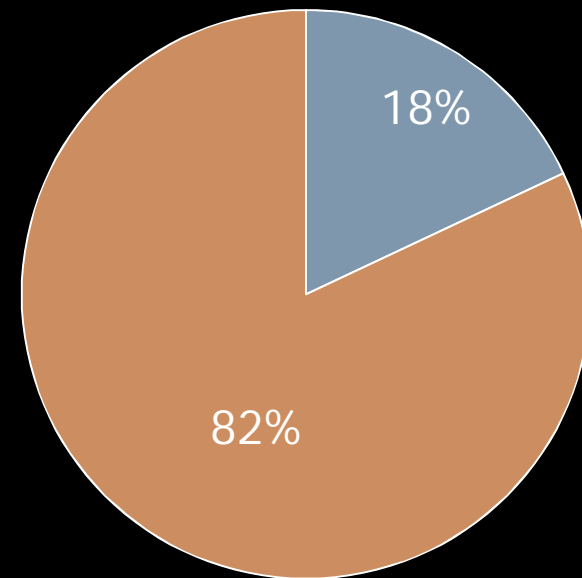
(adapted from Federal Fund Information for States Presentation)

While Most State Grant Programs are Subject to Sequester...



■ Exempt ■ Covered

Most State Grant Funding is Exempt



■ Covered ■ Exempt

Fiscal Cliff

(adapted from Federal Fund Information for States Presentation)

Grant Areas Subject to Sequester	
Budget Function	Funding Covered
Agriculture	100%
Employment and Training	100%
Community Development	100%
Justice	100%
Energy, Environment, Nat. Resources	89%
General Government	89%
Education (Pell Grants Exempt)	54%
Income Security and Social Services	23%
Transportation	4%
Health (MA, CHP, MA Admin exempt)	3%

Fiscal Cliff

(adapted from Federal Fund Information for States Presentation)

The Largest Grants are Mostly Exempt	
Program	FY 2013 CR (in millions)
Medicaid – Vendor (E)	\$251,464
Food Stamp Benefits (E)	69,885
Pell Grants (E)	35,992
National Highway Performance (C/E)	21,752
CHIP (E)	17,406
TANF (E)	17,178
Title I Grants to LEAs (C)	14,605
Special Education (C)	11,649
Medicaid – Admin (E)	11,440
School Lunch (E)	11,263

Fiscal Cliff

(adapted from Federal Fund Information for States Presentation)

The Largest Nonexempt Grants Mostly Benefit Local Governments

Program	FY 2013 CR (in millions)
Title I Grants to LEAs	\$14,605
Special Education	11,649
Head Start	8,017
WIC	6,659
Public Housing Operating Fund	3,986
LIHEAP	3,493
UI State Administration	3,245
Vocational Rehabilitation	3,231
Consolidated Health Centers	3,076
Community Development Block Grant (CDBG)	2,967

Risks to the Forecast

- No current estimates of impact on state revenues from *economic effects* of a different “Fiscal Cliff” resolution
- Many states have tax policy directly linked to federal rules
 - RI tax revenues would increase with:
 - Roll back of EITC expansion and dependent care tax credits and student loan interest deduction
 - Elimination of credits for elementary and secondary teacher expenses and qualified tuition expenses

Risks to the Forecast

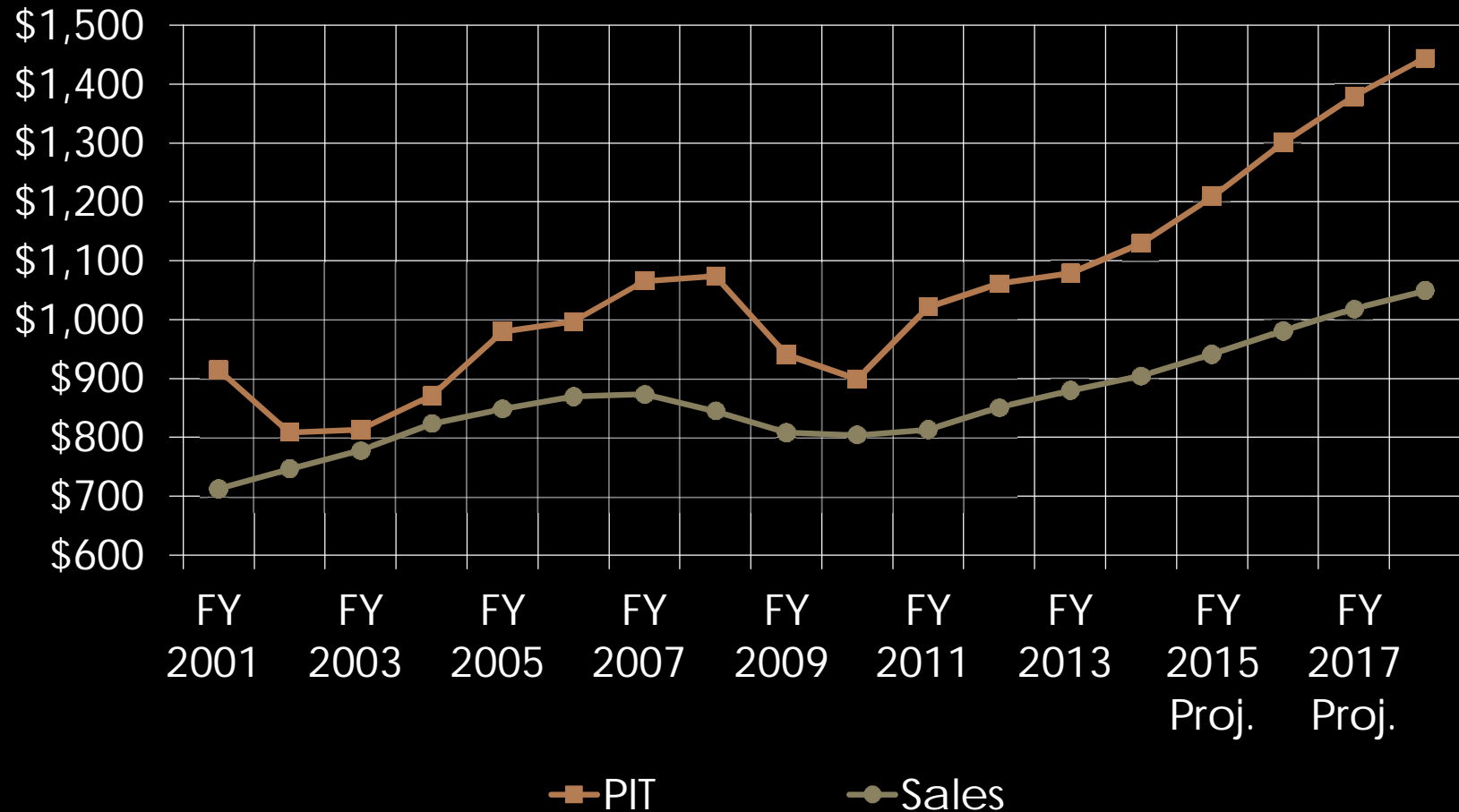
- Too many variables at play in the potential resolution
- Are grant reductions extended to currently exempt programs?
 - Impacts on Medicaid would be a significant issue to states especially with ACA implementation
- Cliff is more like a slope...and federal government has tools to avert certain impacts pending a resolution

Revenues

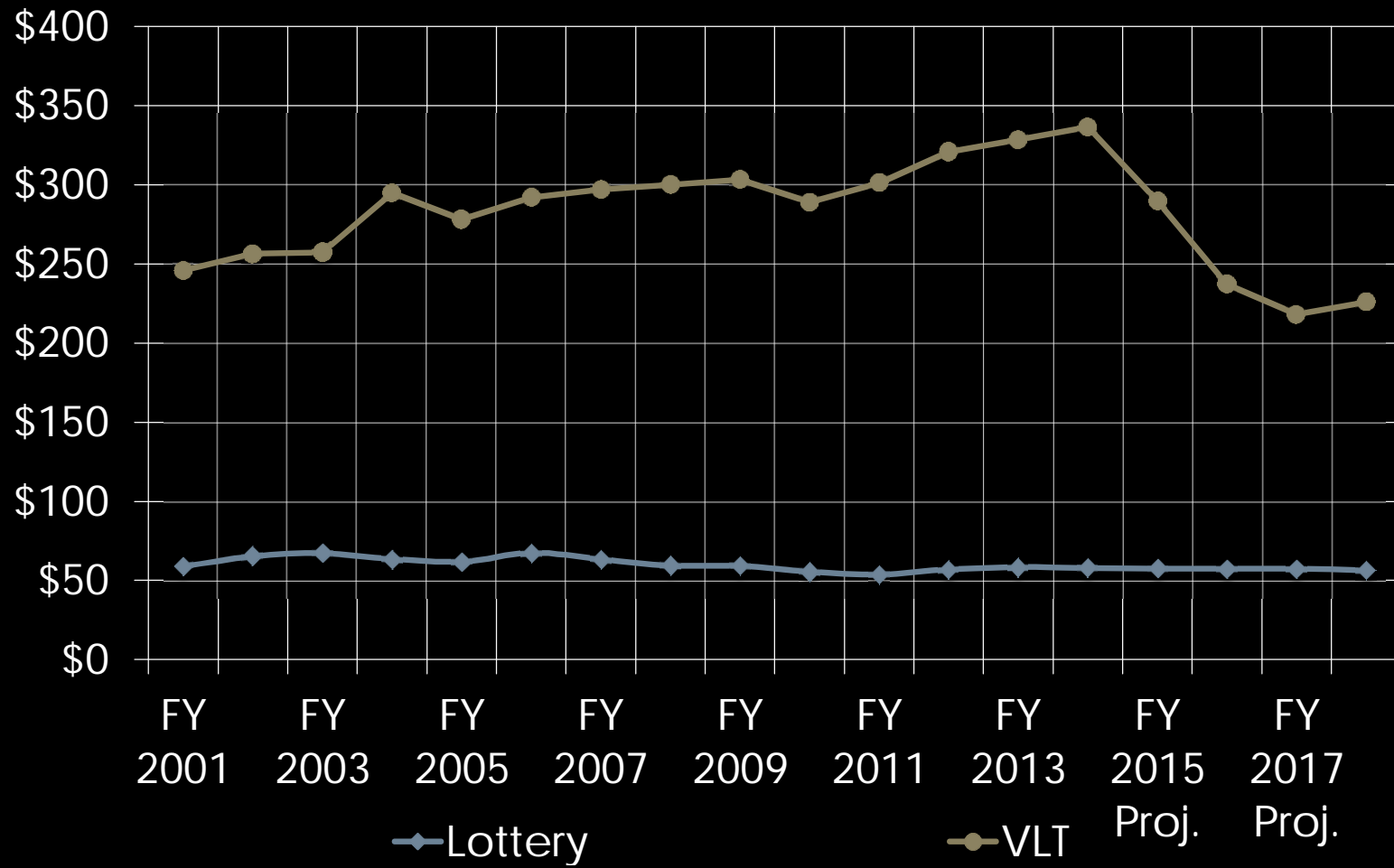
Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
 - FY 2012 were more than anticipated
 - FY 2013 collections ahead/holding
 - FY 2014 consensus estimates close to staff estimates
 - Economic forecast is for slow recovery
 - Staff out-year projections assume affects of gaming in Mass starting in FY 2015

Income and Sales



Lottery



Preliminary Closing

FY 2012 Closing

- State was not facing major current year problem this time last year
- Expenditure reductions and more favorable revenues in May allowed for significant surplus to close major 2013 gap

FY 2012 Preliminary

	Enacted	Current	Diff.
Opening	\$ 68.8	\$ 68.8	\$ 0.0
Revenues	3,257.4	3,270.3	12.9
Rainy Day	(93.0)	(93.4)	(0.4)
Expenditures	(3,139.3)	(3,109.9)	29.4
Xfer Retirement	-	(12.5)	(12.5)
Closing Surplus	\$ 93.9	\$ 123.3	\$ 29.4
Reapprop.	-	(7.7)	(7.7)
Free Surplus	\$ 93.9	\$ 115.5	\$ 21.7

Closing – Revenues

- Revenues \$12.9 million (0.4%) above
 - Taxes up \$14.8 million with personal income tax gains offsetting business taxes
 - Missed business tax estimate to lesser degree than last year
 - Continues to prove difficult to estimate
 - All other revenue down \$1.9 million
 - Departmental receipts down \$5.0 million – unpaid hospital license fees
 - Miscellaneous (one-timers) up \$3.3 million

Closing – Revenues

- Revenues \$12.9 million more
 - Law requires final revenues above estimates be transferred to the Employees' Retirement System to pay down unfunded liability
 - Total Transfer = \$12.5 million
 - \$12.9 million less 3% rainy day contribution (\$0.4 million) leaves \$12.5 million to be transferred as excess

Closing - Expenditures

Total spending \$29.4 million (0.9%)
below budgeted amounts

- \$7.7 million unspent & reappropriated
- \$14.5 million savings from Medical caseloads and impact of risk sharing
- \$3.7 million less for Teacher Retirement
- \$1.5 million DOA centralized utilities and facilities savings
- \$5.6 million overspent in DCYF, BHDDH

Closing - Expenditures

- Total spending \$29.4 million below budgeted amounts – but areas of overspending
 - 6 agencies overspent
- Appropriation lines overspent even if agency totals were not
 - 22% of general revenue lines were overspent
- Unachieved initiatives
- Unexpected expenses

Closing - Expenditures

- BHDDH – overtime and staffing in RICLAS (\$2.2 million) and at Eleanor Slater Hospital (\$0.9 million)
- Developmental Disabilities: \$1.0 million
- Behavioral Healthcare – \$3.2 million more from general revenues
 - fewer services eligible for enhanced Health Homes Medicaid rate
 - Accomplished by shifting savings from other behavioral health programs

Closing - Expenditures

- DCYF – \$1.8 million
 - \$1.9 million personnel savings
 - \$1.1 million family service region billing overlap
 - \$2.6 million other caseload

Closing - Expenditures

- Impact on FY 2013
 - Do savings or higher base expenses in FY 2012 carry to FY 2013?
 - Will delayed purchases require additional funds in current year?
 - Are initiatives being implemented?

Current Year

Current Year

- The *current year* has no deficit but includes unmet expenditure savings that could affect out-years
 - Major shortfall from overspending masked by revenue uptick, additional closing surplus and other savings

FY 2013

- Preliminary Closing – September 1
- Agency Q1 reports – Oct 30
- Caseload estimates – November 4
- Revenue estimates – November 9
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor's Budget – Jan 17
- Agencies Q2 – Jan 30

FY 2013

	Enacted	Current	Diff.
Opening	\$ 93.9	\$ 123.3 *	\$29.4
Revenues	3,320.9	3,328.4	7.5
Rainy Day	(102.4)	(103.3)	(0.9)
Expenditures	(3,295.8)	(3,284.7)*	(11.1)
Xfer to Fleet/IT	(16.4)	(16.4)	-
Total FY 2013	\$ 0.1	\$ 47.3	\$47.2

**Includes \$7.7 million reappropriation*

Current Year

- Revenues are up by \$7.5 million
- Opening free surplus up by \$47.2 million
- Added resources increase rainy day transfer by \$0.9 million
- Expenditures appear up by \$5.4 million net of reappropriations and November Caseload Savings

Current Year

- Staff estimates differ from Budget Office
 - Legislature
 - BHDDH, DCYF
 - Public Safety, Corrections
 - Areas that appear to be new initiatives
 - Refining and revising of estimates continues as more info is available
- Expenses \$5.0 million higher if all Budget Office adds are included w/HFAS

Current Year

Reappropriation	\$ 7.7
Legislature	(3.0)
OHHS Caseload & Programs*	(12.6)
School Construction Aid	(2.5)
Corrections*	2.6
Other Public Safety *	(1.8)
Other *	(1.6)
* Items different than Budget Office Q1 estimates	

Reappropriation

- Statutory requirement: \$6.5 million
 - Legislature = \$6.3 million, revised budget lowers by \$3.0 million
 - Judiciary = \$0.1 million
- Governor discretionary: \$1.3 million
 - Corrections = \$0.5 million
 - OHHS = \$0.4 million
 - DOA, DOR, Treasurer, Ethics, AG and PD combined total = \$0.4 million

Current Year: OHHS Caseload

- Nov Caseload Conference:
 - \$24.3 million in savings
 - Medical Assistance - \$24.3 million less
 - Saving in managed care, Rhody Health, hospital, pharmacy and other services
 - Increases in long term care and Part D payment
 - Cash Assistance – \$59,761 more

Current Year: OHHS Caseload

- Medical Assistance – \$1.5 million in unachieved savings
 - Add back from general revenues for the home and community based clinical review utilization
 - Savings for last six months of fiscal year
 - Enacted budget includes full year savings

Current Year: OHHS Caseload

- BHDDH

- Behavioral Health – Health Homes

- \$4.4 million

- Budget Office showed savings of \$1.7 million that does not appear to be consistent with current activities

- ESH - \$1.2 million

- Developmental Disabilities -\$1.8 million

- OHHS/DHS

- Unified Health Infrastructure Project - \$0.6 million

Current Year: OHHS Caseload

- DCYF - \$6.2 million
 - \$1.3 million to correct Medicaid claiming
 - Recurring issue
 - \$1.8 million for estimated structural budget estimating/shortfall issues
 - \$0.3 million unachieved savings

Current Year

- Corrections -\$2.6 million more
 - Unachieved savings
 - Increased per diem costs
 - Budget Office adds more for staffing
- Public Safety – \$1.8 million less
 - Personnel savings consistent with FY 2012 closing
 - Additional Operating costs
 - Budget Office includes \$1.2 million more for purchases

Current Year

- Other - \$1.6 million less
- All other projected adjustments to agency expenditures
 - IT Expenses
 - Utilities Savings
 - Turnover Savings

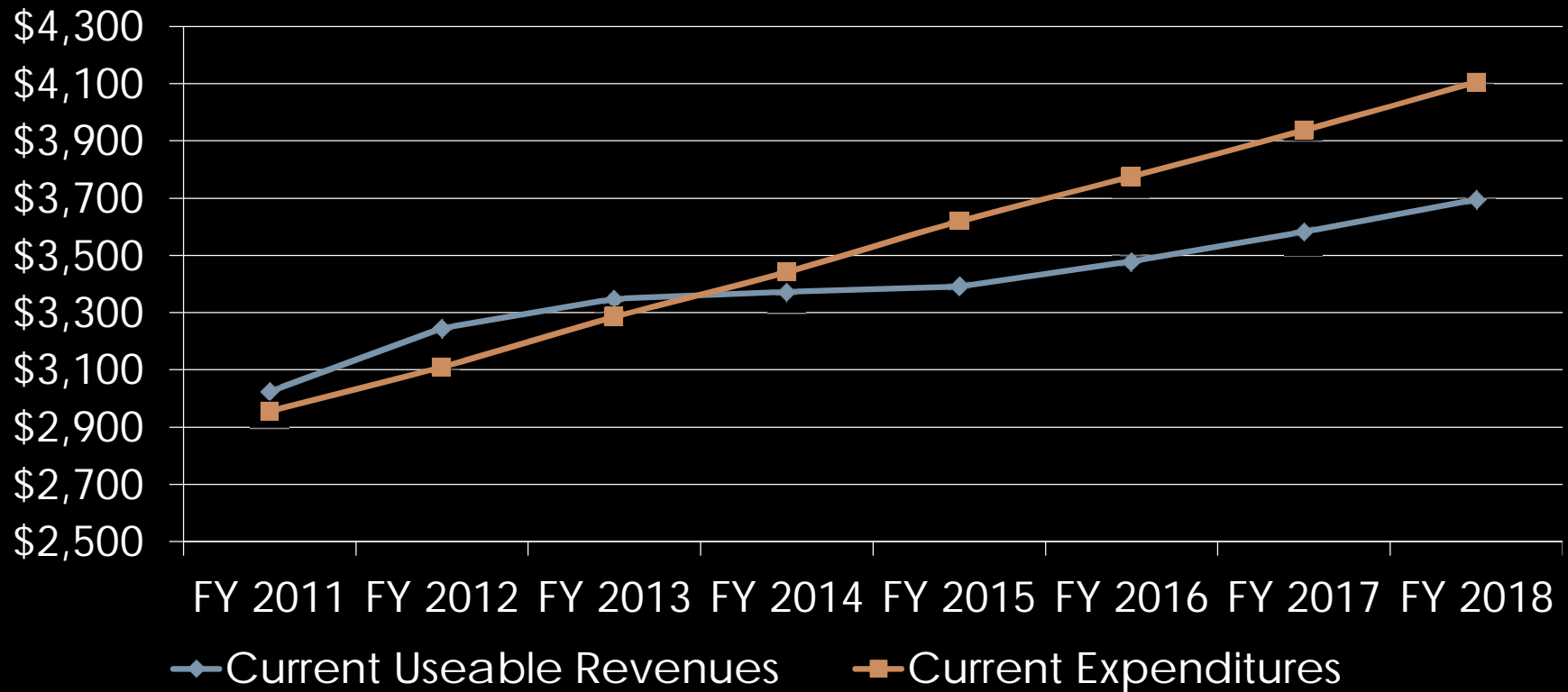
Budget Year and Out-years

Budget Year and Out-years

- There are also *budget year* and *out-year problems*
 - The budget year likely has a gap of \$69.3 million
 - That gap grows in the out years to \$410 million
 - Short term estimates lower than Fiscal Staff estimates in June; Higher surplus and lower caseload expenses
 - Later year similar size as prior estimates

Budget and Out Years

Revenues vs. Expenditures: Current Estimate



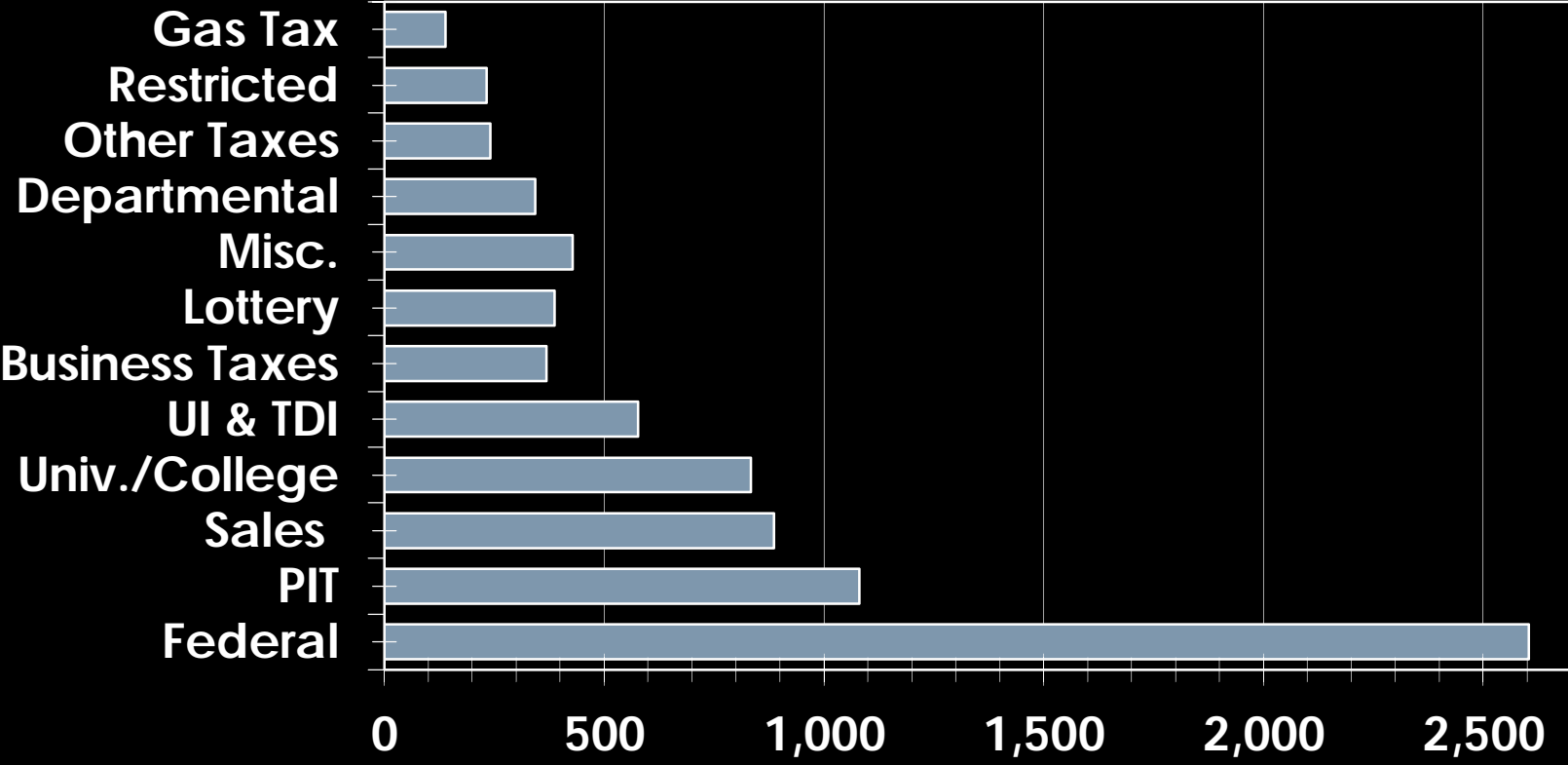
Budget Year and Out-years

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Projected gaming revenue losses grow in later year of forecast

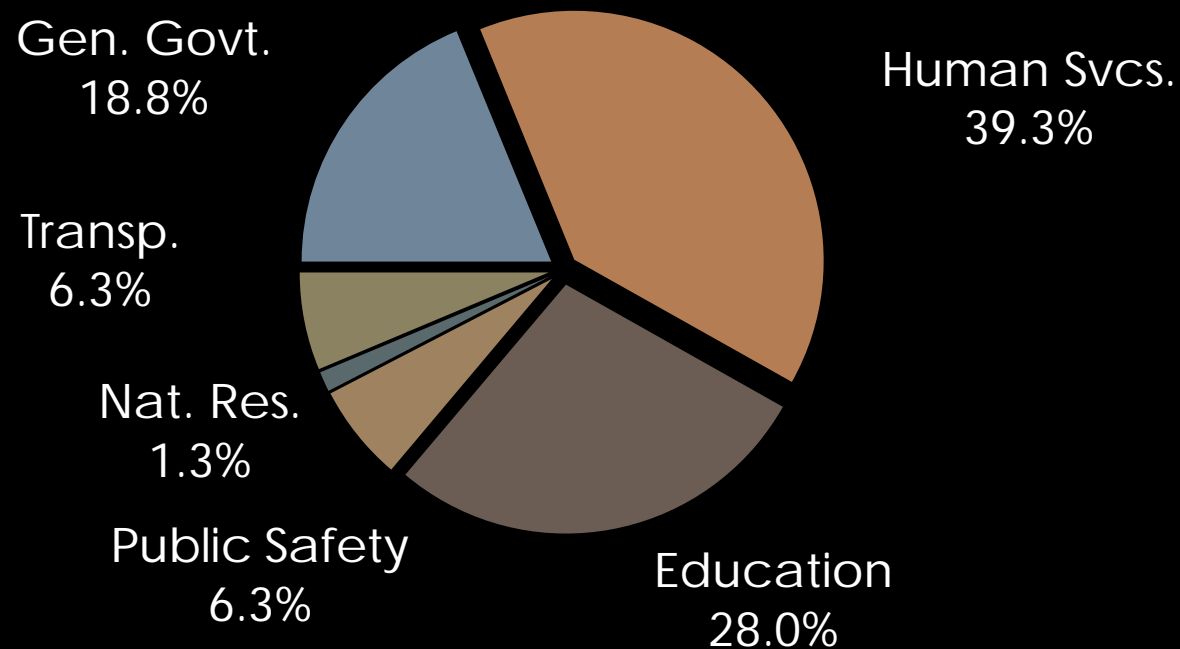
Budget Year and Out-years

- Continued issue of problematic expenditure structure
 - Many enacted structural changes implemented... still others not achieved
 - Growth rates exceeding revenue growth rates

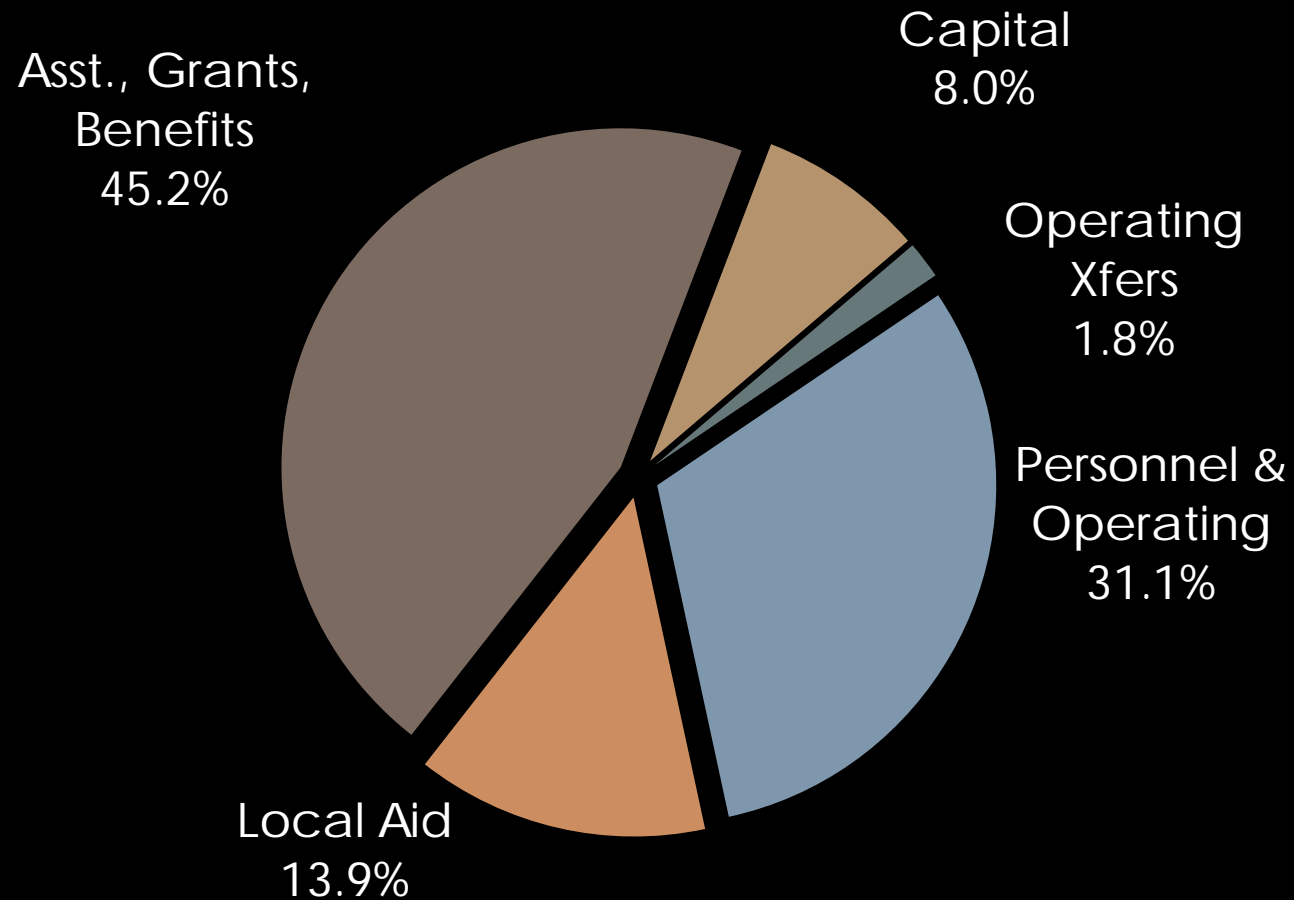
Sources *(millions)*



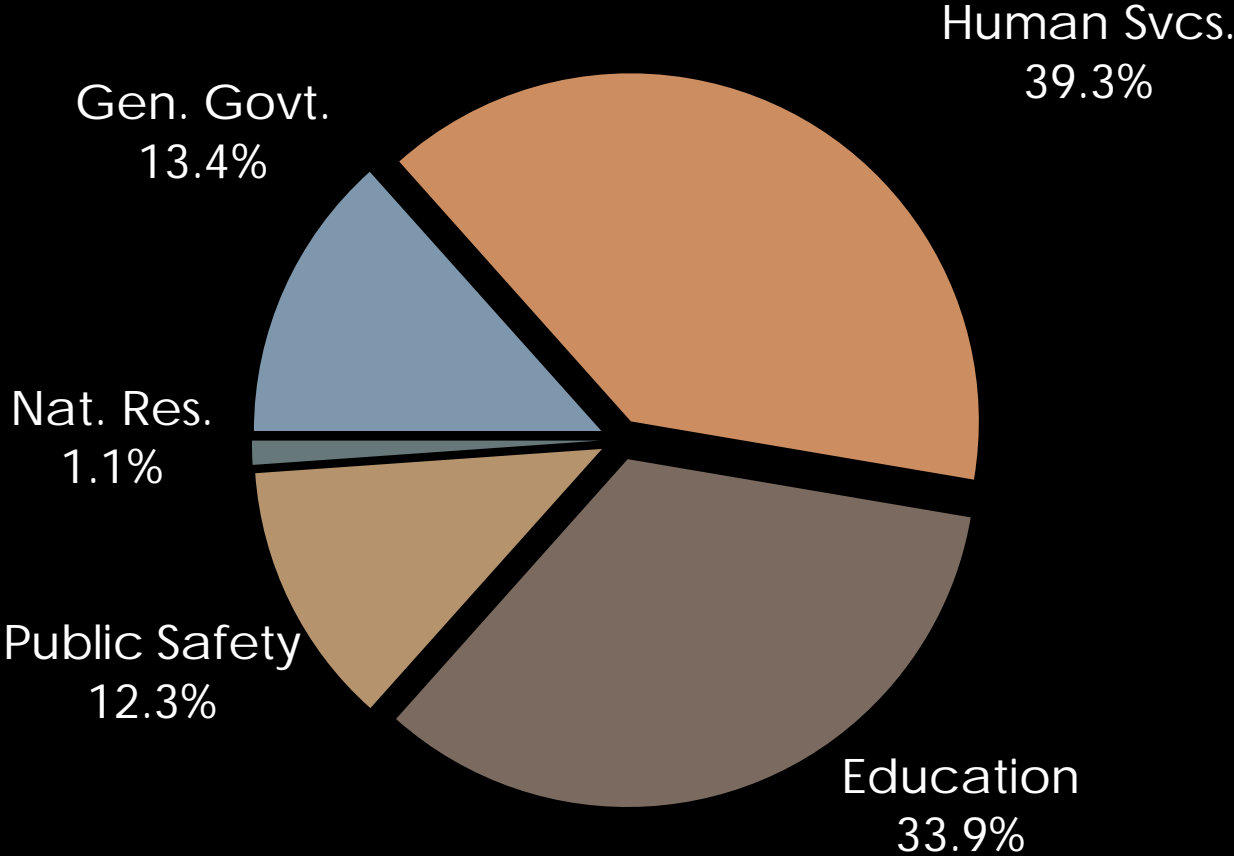
Uses – All Funds by Function



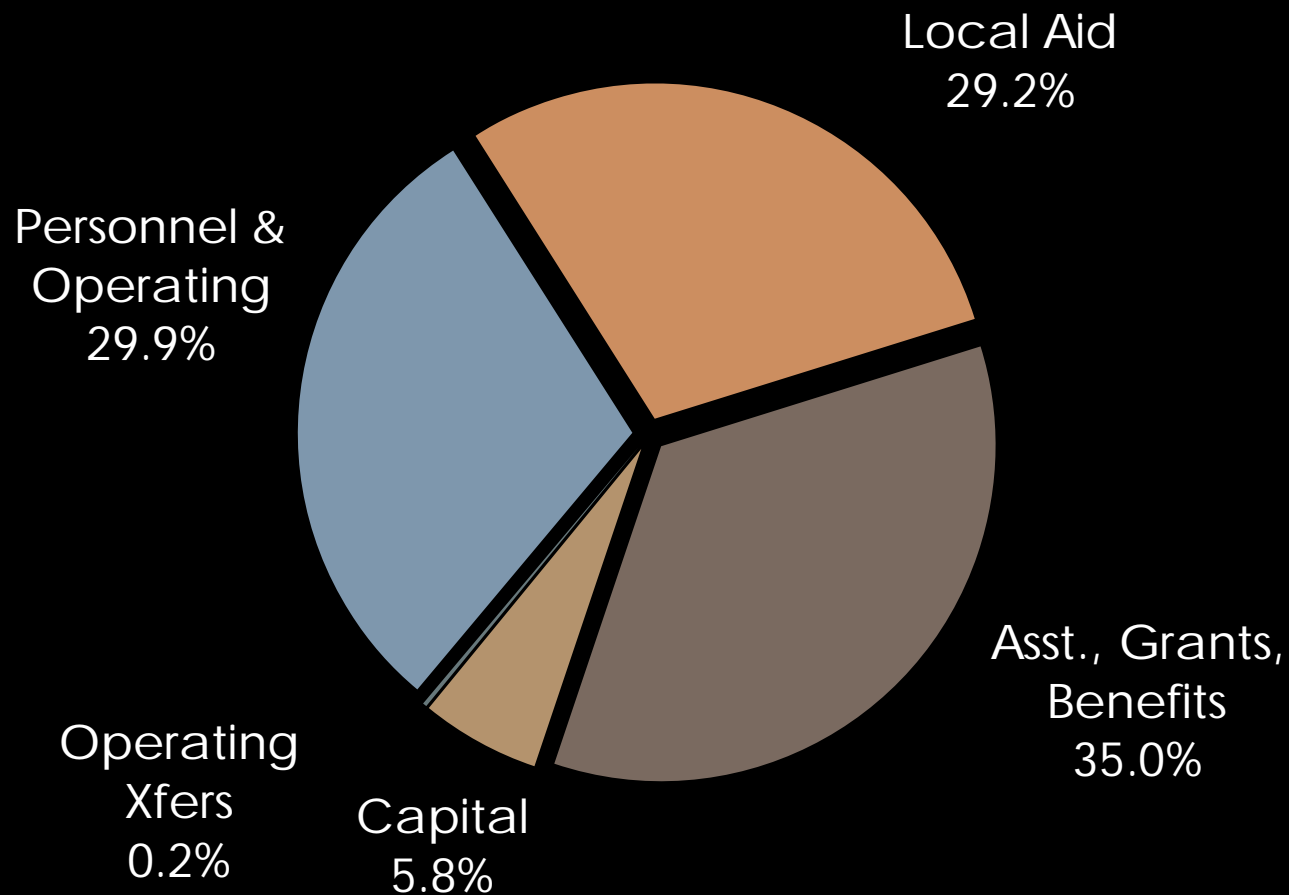
Uses – All Funds by Category



Uses – General Revenues by Function



Uses – General Revenues by Category



Budget Year and Out-years

- Budget Office Instructions based on \$128 million July deficit projection
 - Includes calculation of current service revenues and expenses
 - Some revisions based on more updated data
 - Also includes a number of “policy choices”
 - Increasing PILOT
 - Restoring FY 2013 funding reductions

FY 2014 Current Service Expenditures

- HFAS June estimates has FY 2014 estimated expenditures \$22 million higher than Budget Office July estimates

FY 2014 Budget Office Current Svs.	\$3,444.9
FY 2014 HFAS June Estimate	3,466.9
Difference from Budget Office	(\$ 22.0)

FY 2014 Current Service Expenditures

Differences from earlier estimates

- \$30 million less for human services spending growth: *more accurate data*
- \$8.7 million more for formula education aid: *based on updated data*
- \$8.4 million less by assuming no COLA and greater benefit cost growth *based on more updated rates*
- \$8.6 million to increase PILOT local aid

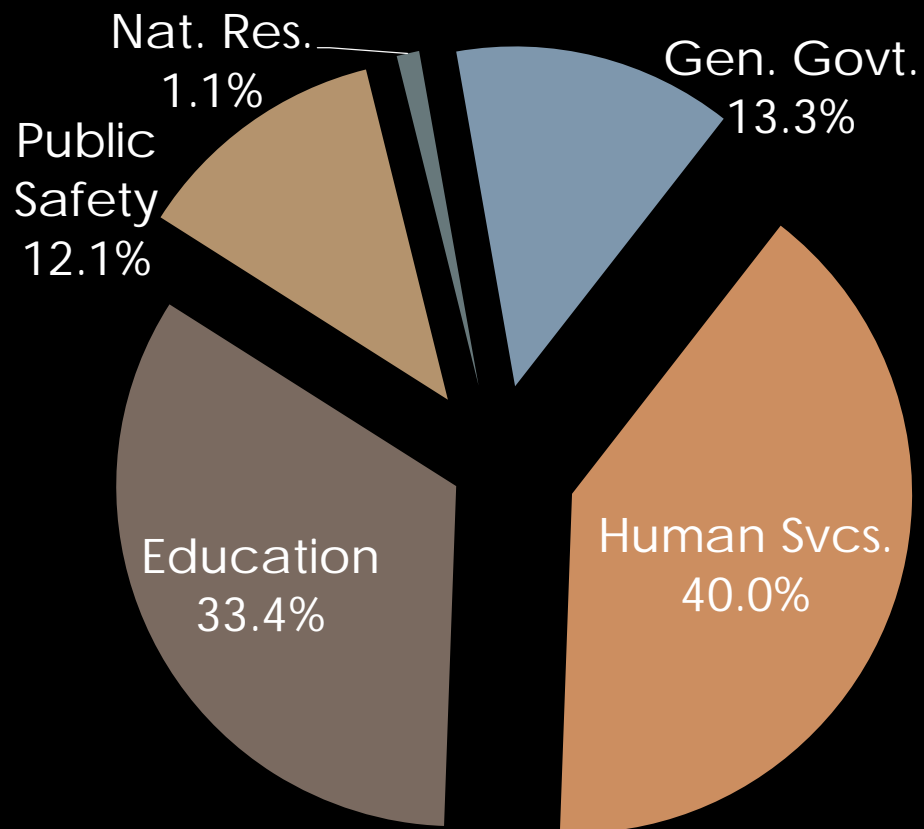
Budget Year and Out-years

- Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office
- Agency requests still exceeded current service estimates by \$21.9 million
 - Not all same items included

FY 2014 Budget Requests

FY 2013 Enacted	\$ 3,295.8
Current Services Adjustment	149.1
FY 2014 Budget Office Current Svs.	3,444.9
FY 2014 Agency Unconstrained Req.	3,466.8
Difference from Budget Office	\$ 21.9
<i>Implied Current Service Need</i>	<i>\$ 171.0</i>

FY 2014 Budget Office Current Serv.



FY 2014 Budget Requests

- Budget Office also asked for options for reductions of 7%, adjusted for certain exclusions
- Those reductions represent \$152.7 million of savings from Budget Office current service estimate

FY 2014 Budget Requests

FY 2014 Budget Office Current Svs.	3,444.9
Target Adjustment	(152.7)
FY 2014 Budget Office Target	3,292.2
FY 2014 Constrained Requests	3,307.3
<i>Difference from Budget Office Target</i>	<i>15.1</i>
Constrained vs. B.O. Current Svs	(137.6)
Constrained vs. Unconstrained Req.	\$ (159.4)

Budget Year and Out-years

- This design gives adequate options when proposals are rejected or softened
- Array of options allows for decision makers to consider all choices and implications
- But major reductions to local aid and other areas limit options

Budget Year and Out-years

- Some proposals may take time for full implementation
- Process should include the five-year forecast
- Are solutions also structurally balanced?
 - Do revenue solutions grow at the same rate as the expenditures they support?

Summary

- Governor's Budget expected Jan 17
- Current year has surplus but areas of overspending that will limit use of surplus for bridging structural solutions
- Major budget and out-year gaps
 - Slow growing economy
 - Structural tax and expenditure issues

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