

# Governor's FY 2014 Budget

Staff Presentation to the House Finance  
Committee  
January 30, 2013

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# Governor's FY 2014 Budget

- January 16 - Governor announced his FY 2014 Budget via televised address
  - Publications provided that day
- Jan 22 - 2013 - H 5127 Introduced and referred to House Finance Committee
  - House was not in session on the Jan 17 due date

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## Budget Briefings, Publications & Hearings

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- Dec 12 – Budget Status
- Jan 22 – Budget at First Glance
- Jan 29 - Expanded Budget at a Glance
- Jan 30 – Governor’s Budget Overview
- Feb 5 – Article hearings begin
- House Fiscal Staff *Budget Analysis*

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## References

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- Materials are on line on the Assembly website - <http://www.rilin.state.ri.us> under House Fiscal Reports
- Includes items prepared by House Fiscal Staff that may be helpful

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## Governor's FY 2014 Budget

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- **FY 2012 Audited Closing**
- FY 2013 Revised Budget
- FY 2014 Revenue-Expenditure Gap
- Governor's Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears

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## FY 2012 Closing

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- 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
- Minor changes from preliminary explained at Dec. 12 Briefing

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## FY 2012 Audited

	Enacted	Current	Diff.
Opening	\$ 68.8	\$ 68.8	\$ 0.0
Revenues	3,257.4	3,270.7	13.3
Rainy Day	(93.0)	(93.4)	(0.4)
<b>Expenditures</b>	<b>(3,139.3)</b>	<b>(3,110.2)</b>	<b>29.0</b>
Xfer Retirement	-	(12.9)	(12.9)
<b>Closing Surplus</b>	<b>\$ 93.9</b>	<b>\$ 122.9</b>	<b>\$ 29.0</b>
Reapprop.	-	(7.7)	(7.7)
<b>Free Surplus</b>	<b>\$ 93.9</b>	<b>\$ 115.2</b>	<b>\$ 21.3</b>

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## Closing – Revenues

- Revenues \$13.3 million more
  - Law requires final revenues above estimates be transferred to the Employees' Retirement System to pay down unfunded liability
  - Total Transfer = \$12.9 million
    - \$13.3 million less 3% rainy day contribution (\$0.4 million) leaves \$12.9 million to be transferred as excess

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## Closing - Expenditures

Total spending \$29.0 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

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## FY 2013 – HFAS Q1

	Enacted	HFAS	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*

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## Current Year: HFAS Q1 Estimated Changes

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

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## FY 2013 – Governor Revised

	Enacted	Governor	Diff.
Opening	\$ 93.9	\$ 122.9 *	\$29.0
Revenues	3,320.9	3,344.2	23.3
Rainy Day	(102.4)	(103.8)	(1.3)
Expenditures	(3,295.8)	(3,267.7)*	(28.2)
Xfer to Fleet/IT	(16.4)	(16.4)	-
Total FY 2013	\$ 0.1	\$79.3	\$79.2

*\*Includes \$7.7 million reappropriation*

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## FY 2013 – Revised Comparison

	HFAS Q1	Gov	Diff.
Opening	\$ 123.3 *	\$ 122.9 *	\$(0.4)
Revenues	3,328.4	3,344.2	15.8
Rainy Day	(103.3)	(103.8)	(0.5)
Expenditures	(3,284.7)*	(3,267.7)*	(17.0)
Xfer to Fleet/IT	(16.4)	(16.4)	-
Total FY 2013	\$ 47.3	\$79.3	\$32.0

*\*Includes \$7.7 million reappropriation*

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## Current Year: Gov. Revised vs. HFAS

<b>Q1 HFAS est. ending surplus</b>	<b>\$47.2</b>
Retirement System Transfer	12.9
Teacher Retirement Experience	2.9
Statewide Debt and Medical	8.1
Unpaid Hospital Fee/Lottery Reg.	2.8
Human Services	11.6
New Initiatives	(8.9)
All Other	2.6
<b>Total Gov Ending Surplus</b>	<b>\$79.3</b>

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## New Initiatives – Rev. Budget

- Adds \$8.9 million for new initiatives:
  - Distressed Communities Aid - \$5.0 million
  - RIPTA Debt Service - \$1.6 million
  - Workforce Investment - \$1.0 million
  - Several new expenses in Administration \$1.3 million

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## New Initiatives – Rev. Budget

- Adds \$1.3 million for DOA initiatives:
  - Personnel study - \$500K
  - DCYF legal costs - \$500K
  - Labor contract negotiations - \$150K
  - RI Ready Project - \$75K
  - University/College Collaborative - \$50K

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## Current Year – Governor

- Concept of no supplemental for any agencies except for:
  - Hurricane Sandy
  - Reappropriations
  - Governor's Initiatives
- Not so for Corrections which has \$1.2 million more net of statewide savings and expenses transferred to DOA

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## 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

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## 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)

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## 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

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## Governor's FY 2013 Budget

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## Governor's Solution

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- Budget contains no new taxes or fees
- Reduces Taxes
- Increases Local Aid
- Uses surplus and other onetime solutions

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## Governor's Solution

FY 2012 Surplus	\$79.2
Debt Service	5.6
Caseload Experience	21.7
Revenue Initiatives	(2.9)
Human Services	19.5
Locals	1.4
All Other	3.5
Total	\$128

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## Governor's Solution

- Revenues
- Human Services
- Locals
- Departments and Agencies
- Statewide Savings

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## Revenues

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### *Revenues*

- Corp. Income Tax Rate Phase down (\$8.0M)
- Jobs Dev. Act Phase down - \$2.4M
- Eliminate Enterprise Zone - \$0.3M
- Special Investigation Tax Unit - \$1.25M

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## Governor's Solution

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- Revenues
- **Human Services**
- Locals
- Departments and Agencies
- Statewide Savings

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## All Human Service Agencies

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*Human Services Solution: \$19.5 million*

- \$14.5 million from provider reductions
- \$0.5 million from program efficiencies
- \$4.4 million from cost shifting
- \$ 0.1 million from changes that impact clients

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## Governor's Solution

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- Revenues
- Human Services
- **Locals**
- Departments and Agencies
- Statewide Savings

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## Education Aid

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- Funds 3<sup>rd</sup> year of formula
  - Adds \$26.5 million based on updated data
  - Includes \$10.2 million for categoricals
    - This is \$2.7 million more than enacted

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## Education Aid

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- Categorical Funds - \$10.2 million
  - \$1.0 million for High Cost Special Ed
  - \$3.5 million for Career & Tech
  - \$2.5 million for Early Childhood
  - \$3.3 million for Transportation

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## Education Aid

- Distributions calculated by Department based on transition guidance in law
- Distributions are subject to change based on updated data due in March
- Assumes 3 new charter schools open for 2013-2014 school year

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## Local Aid

	Enacted	Revised	Rec.
Dist. Communities	\$10.4	\$15.4	\$15.4
PILOT	33.1	33.1	33.1
Library Aid	8.7	8.7	8.7
Car Tax	10.0	10.0	10.0
Municipal Incentive			10.0

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## Local Aid

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- Distressed Communities
  - \$5.0 million more for both FY 2013 and FY 2014
- PILOT = enacted; \$9.9 million less than full funding
- Car Tax = enacted \$10 million

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## Local Aid

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- Library Construction Aid – \$ 2.5 million for full funding
- Property Valuation Reimbursement – \$0.5 million for full funding
- Municipal Incentive Aid -\$10 million
  - Tied to actions on local pension plans
- \$10 million from RICAP Fund to local road repairs

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## Governor's Solution

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- Revenues
- Human Services
- Locals
- **Departments and Agencies**
- Statewide Savings

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## Statewide Savings

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### *Stateside Savings Initiatives*

- Vehicle Ins. Rebate - \$400K
- Dental Contract - \$165K
- Generics for Nexium - \$0.5 million
- Ends coverage to former spouses - \$0.7 million
- FICA Alternative Plan - \$400K
- Medicare Exchange for Retirees -\$0.7 million

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## Other Items

- Adds \$6.0 million for higher ed. and forces no tuition increase through legislation
- Provides \$0.6 million to EDC to promote tourism
- Adds \$3.0 million for Statewide Work Immersion Initiative (\$1.0 m in FY 2013)
- Includes \$2.5 million in debt service relating to 38 Studios default as part of the Job Creation Guaranty

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## Governor's Solution

FY 2012 Surplus	\$79.2
Debt Service	5.6
Caseload Experience	21.7
Revenue Initiatives	(2.9)
Human Services	19.5
Locals	1.4
All Other	3.5
Total	\$128

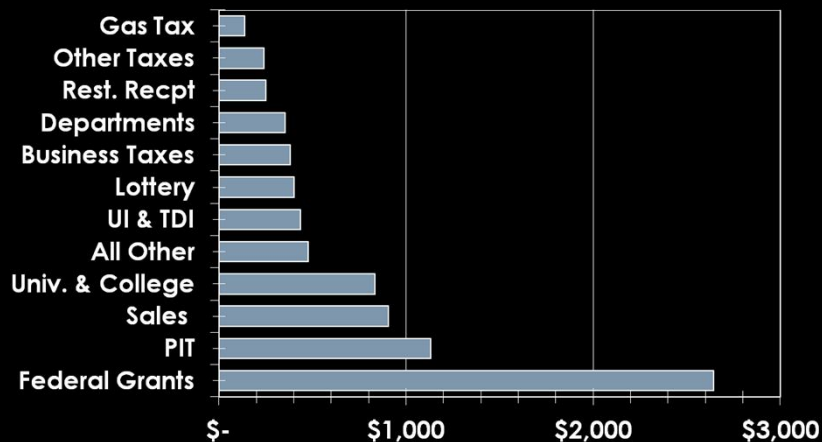
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# Governor's FY 2014 Budget

- FY 2012 Audited Closing
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- Capital Budget Overview
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## Sources: FY 2014 Governor



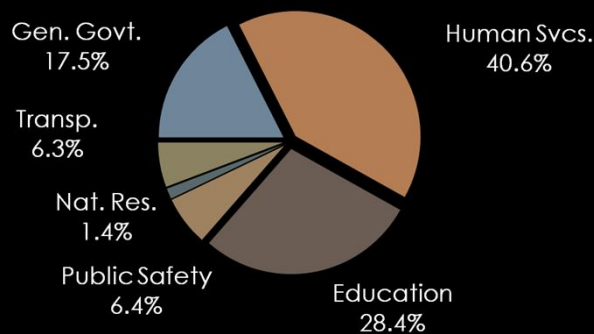
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## Expenditures

	Enacted	Budget	Change
Gen. Rev.	\$3,295.8	\$3,399.2	\$103.3
Federal	2,676.4	2,645.1	(31.3)
Restricted	232.5	252.8	20.2
Other	1,895.2	1,875.5	(19.7)
<b>Total</b>	<b>\$8,099.9</b>	<b>\$8,172.5</b>	<b>\$72.6</b>

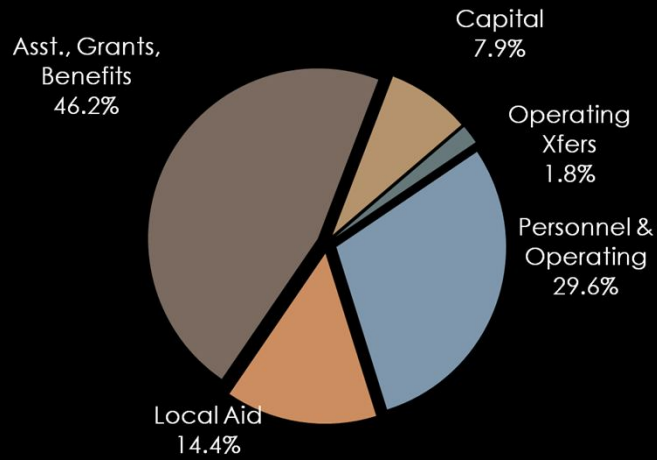
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## All Funds by Function: Governor FY 2014



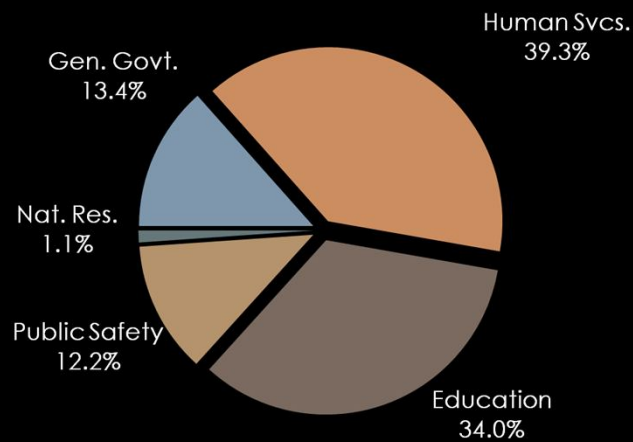
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## All Funds by Category: Governor FY 2014



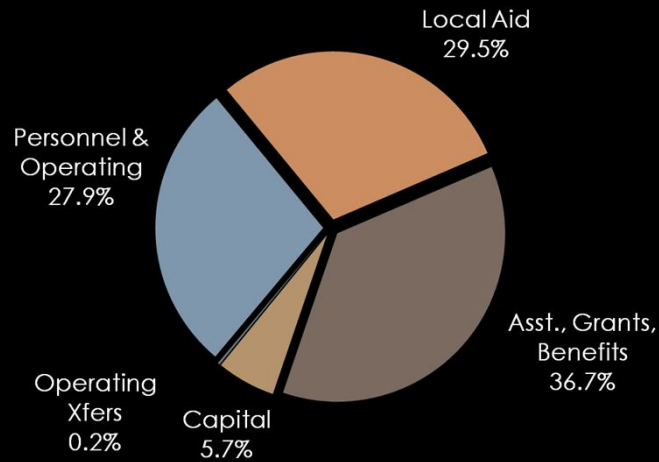
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## General Revenues by Function: Governor FY 2014



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## General Revenues by Category: Governor FY 2014



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## Personnel and Operating

- Personnel Studies
  - FY 2013 revised and FY 2014 budgets include \$1.25 million
  - \$250K for merit system
  - *\$1.0 million to review state's classification system and to make recommendations to streamline*

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## Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2012 Avg.	13,091.4	607.6	13,699.0
FY 2013 Enacted	14,250.1	776.2	15,026.3
FY 2013 Rev.	14,326.3	776.2	15,102.5
<b>Governor FY 14</b>	<b>14,395.4</b>	<b>776.2</b>	<b>15,171.6</b>
<b><i>Jan Filled</i></b>	<b><i>13,072.0</i></b>	<b><i>599.9</i></b>	<b><i>13,671.9</i></b>
Diff from Enacted	(1,178.1)	(176.3)	(1,354.4)
Diff from Gov.	(1,323.4)	(176.3)	(1,499.7)

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## Personnel and Operating

- Contracted Services
  - Increase of 0.9% from enacted
    - General revenues increase 5.1%
    - More than half of the increase is for Google funds budgeted in Office of Attorney General ---plan being developed

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## Personnel and Operating

- Salaries and Benefits
  - Increase of 4.3% from enacted
  - General revenues increase 3.9%
- No COLA
- Most contracts expire at the end of current fiscal year

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## Personnel and Operating

- Operating Costs
  - Decrease 16.5% from enacted
    - 1.9% decrease from general revenues
    - Statewide benefit savings shift to unidentified operating costs
  - Major change in budget presentation for Eleanor Slater Hospital skews comparison

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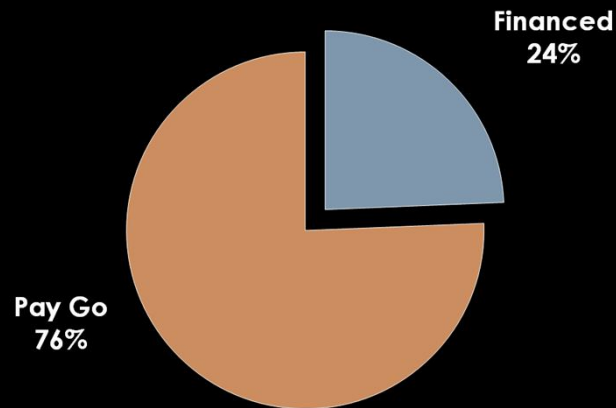
## Capital

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- FY 2014 – FY 2018
- \$3.3 billion outlays
  - Average \$665.2 million per year
  - \$810.3 million from financing proceeds
  - \$2,515.6 million from current revenue

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## Capital Budget Funding



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## Capital

- Includes \$115.5 million under Public Corporation Debt Management Act
- Higher Education
  - CCRI - Athletic Facilities
  - RIC - Student Union
  - URI - Parking Garage, Utility Upgrades, Health and Counseling Center

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## Capital

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- Plan relies on \$167.5 million of new general obligation bonds
  - November 2014 ballot
  - No action until next session
  - Higher Education projects

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## Rhode Island Capital Plan Funds

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- 1990 Assembly set up the "rainy day" fund to ensure adequate cash and budget reserves
- Voter referendum in November 1992
- Largest source of state funded pay-go
- State spending limited to 97.0% of general revenues
  - FY 2013 is end of 5-year move from 98.0%

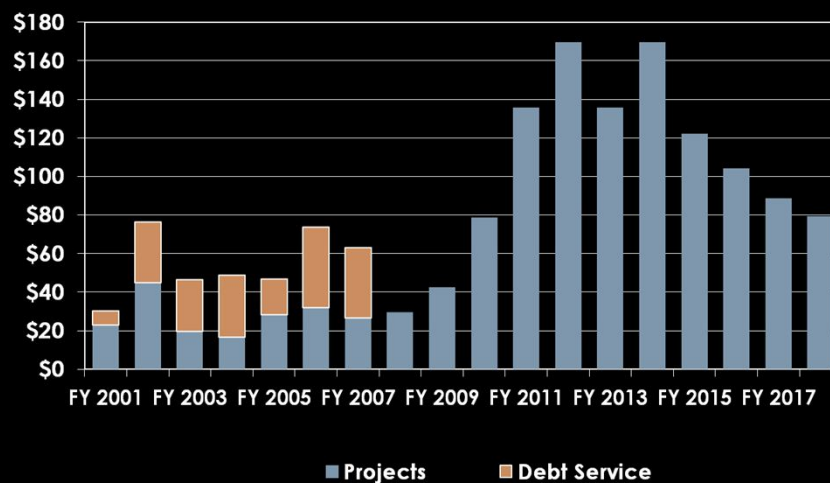
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## Rhode Island Capital Plan Funds

- Remainder goes to Budget Stabilization & Cash Reserve Account
- When account reaches 5.0%, excess flows to the capital account
- Used nearly exclusively for debt service in early part of last decade
- Voters amended constitution in 2006 to limit use for projects only
- Dedication of pay-go sources to capital lessens need to issue debt

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## Rhode Island Capital Plan Funds



## Rhode Island Capital Plan Funds

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- FY 2014 – FY 2018
- \$79.3 million for additional year
- Asset protection projects at various agencies
- Fire Code Compliance Projects
- \$10.0 million for Local Road Program
- \$3.0 million for Hurricane Sandy match

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## Rhode Island Capital Plan Funds

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- Departure from current use of funds
- Funds are traditionally limited to use on physical assets
- Expanded use for
  - Local Aid for Roads
  - Quasi Publics
  - Vehicles and equipment

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## Assembly Role

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- Appropriate Pay-Go (Articles 1 & 10)
- Approve General Obligation Bond Referenda
  - Voters approve or reject
  - Debt service automatic
- Other Financing (Kushner)
  - Approve or reject resolution
  - Generally appropriate debt service

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## Public Corporation Debt Management Act (Kushner Act)

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- Enacted in 1994
- Subsequently amended to increase Assembly's approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner

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## Project Considerations

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- Does the project need to be done
- Is the project ready to be done
  - When will it start
  - Is it well thought through and ready for funding/financing
  - When will it be complete

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## Funding Considerations

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- Should a project be financed or pay-go
  - Rhode Island Capital Plan funds available as pay-go for all or part of project
  - More pay-go equals less future debt service

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## Funding Considerations

- State's overall debt structure
  - Net tax supported debt would decrease by \$274.4 million to \$1,598.2 million
  - Had dropped to \$1.3 billion in FY 2003 after use of tobacco bonds to defease debt
  - Past practice indicates it will be higher as more projects are added

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## Funding Considerations – Debt Ratios

- Debt as a percent of personal income would decrease from 3.9% in FY 2012 to 3.7% in FY 2013
- Would then drop to 2.5% in FY 2018, but likely to be higher based on projects being added
- Had dropped to 3.7% in FY 2004, the lowest level since FY 1991

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## Governor's Solution

FY 2012 Surplus	\$79.2
Debt Service	5.6
Caseload Experience	21.7
Revenue Initiatives	(2.9)
Human Services	19.5
Locals	1.4
All Other	3.5
Total	\$128

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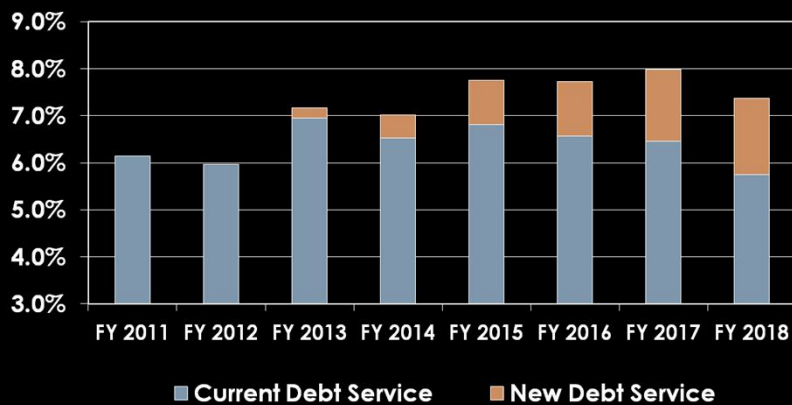
## Funding Considerations – Debt Service

Fiscal Year	Net Tax Supported Debt Service*	Pct. of Revenues
2013	\$233.8	7.2%
2014	\$233.2	7.0%
2015	\$264.1	7.7%
2016	\$266.7	7.7%
2017	\$276.5	8.0%
2018	\$258.6	7.4%

\*Millions

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## Debt Service as Percent of Useable Revenues



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## Source Issues

- If the project is to be financed, what vehicle should be used?
  - General obligation bonds approved by the voters
  - COPS or other mechanism that is subject to appropriation, without voter approval

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## Sources Considerations

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- If COPS or other mechanism
  - Is there a legitimate revenue stream
  - How far removed are revenue streams from state general revenues
  - Should general obligation bonds be considered
  - Should the Kushner resolution be time limited

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## Outyear Projections

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- Five-year projections required by statutes
- Attempt to reflect impact of Massachusetts gaming
  - Accounts for 30 percent of the 2018 deficit

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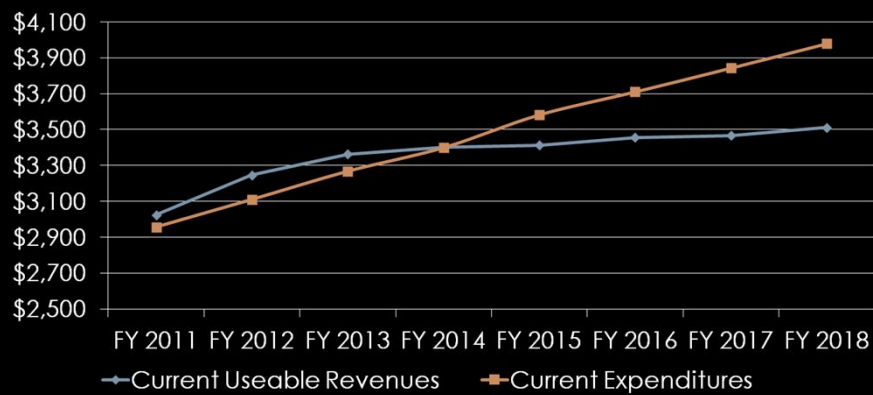
## Out Years Budget Office Deficits Estimates

	Est.	Share Useable Revenues
FY 2015	\$(169.2)	5.0%
FY 2016	\$(254.5)	7.4%
FY 2017	\$(377.8)	10.9%
FY 2018	\$(468.9)	13.4%

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## Budget and Out Years: Governor FY 2014

### Revenues vs. Expenditures



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## Budget Year and Out-years

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- 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

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## Budget Year and Out-years

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

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## Budget Year and Out-years

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- 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?

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## Budget Briefings, Publications & Hearings

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- Feb 5 – Article hearings begin
- House Fiscal Staff *Budget Analysis*
- Subcommittee Hearings on Budgets

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