

# Budget Status

House Finance Committee  
November 20, 2014

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# 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

# Introduction

- State budgetary problems persist and this will be another challenging year
- Governor's FY 2016 and FY 2015 revised budgets are due February 5 – 11 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 2015
  - Staff estimates for FY 2016 and beyond
  - Estimates vary – this is HFAS perspective

# Introduction

- Preliminary Closing – Aug 30
- Agency Q1 reports – Oct 30
- Caseload estimates – November 5
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 17
- Audited Closing – ???
- Agencies Q2 – Jan 30
- Governor's Budget – Feb 5

# Introduction

- The state continues its slow recovery from severe economic distress
- Current year picture is clearer and more challenging than recent years with close to \$30 million shortfall
- Facing continued budget year and out-year issues growing from about \$186.5 million to over \$460 million

# Introduction

- The *current year* has overspending problems
- The *budget and out year* gaps are a function of both cyclical economic and continued and worsening 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
  - Updated in November

# Economic Forecast

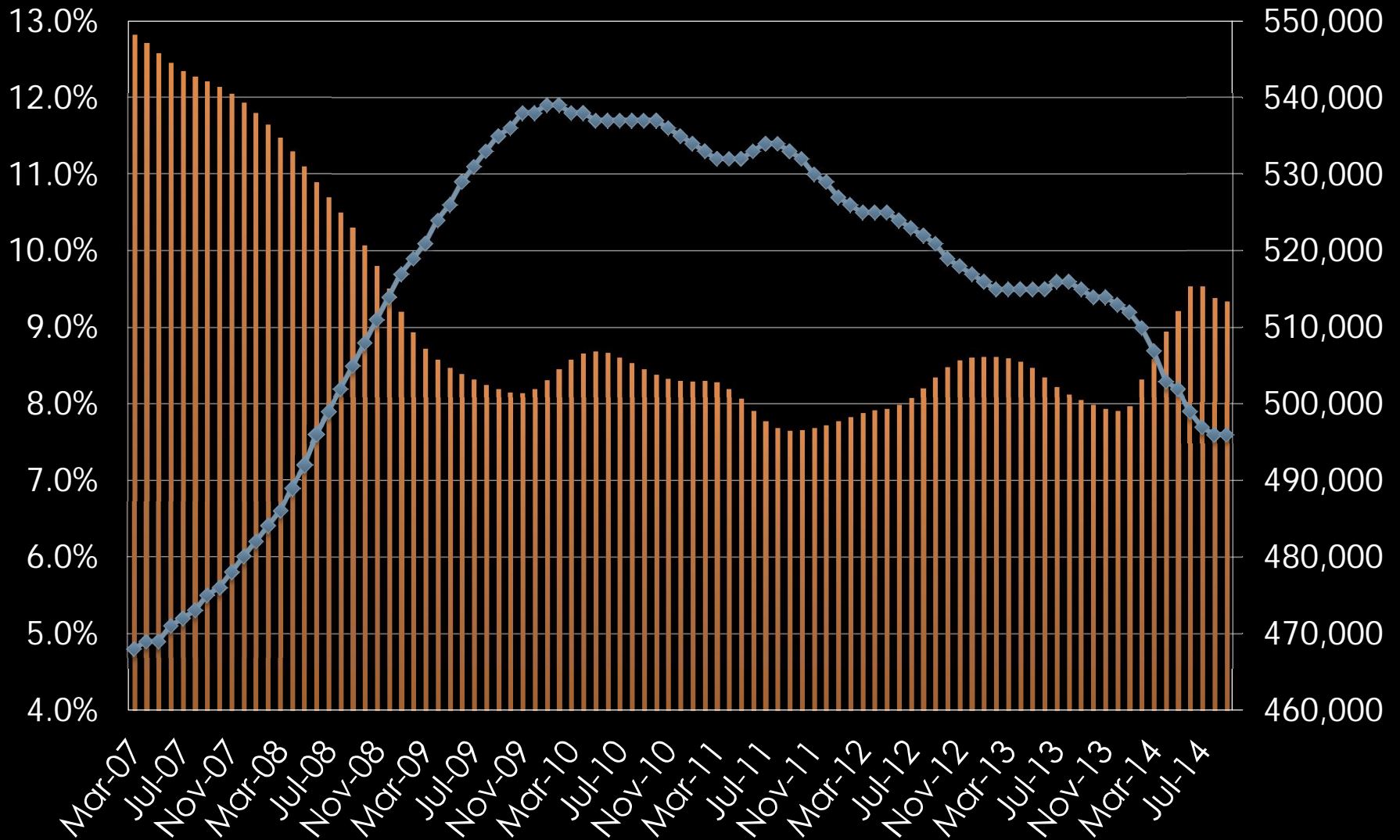
November forecast more pessimistic than May 2014 forecast

- Personal income, jobs, and wage & salary growth rates all projected to slow FY 2015
- RI recovery continues to lag U.S.
- Still significant slack in the labor market

# Jobs

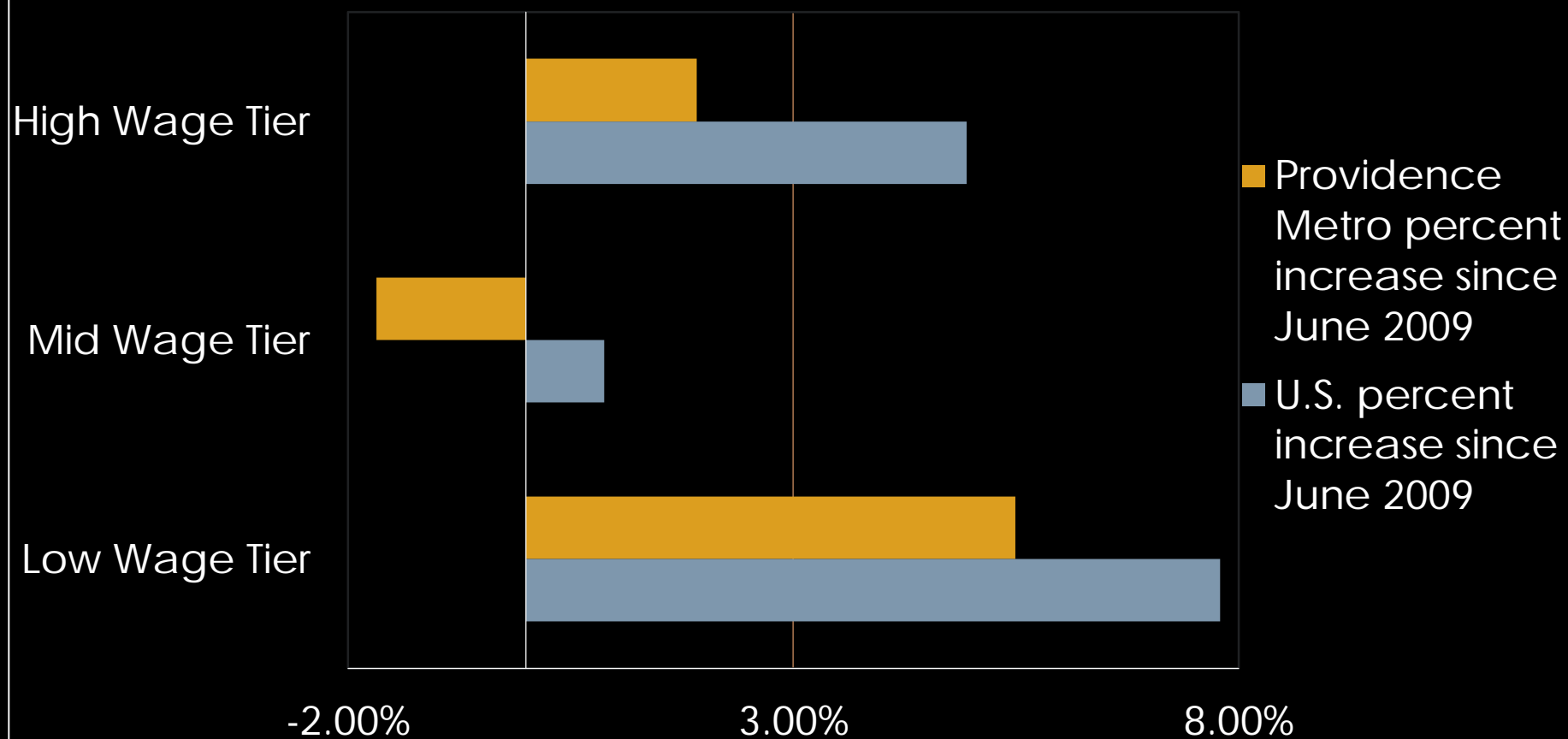
- December 2007 - *574k people in the workforce*
  - 34,256 – 6.0% unemployed
  - 539,342 employed
- March 2010 – 574k in the workforce
  - 68,079 - 11.9% unemployed
  - 505,851 employed
- **September 2014 – 556k in the workforce**
  - 7.6% Unemployment
  - 42,338 unemployed – **8,082 more unemployed** people than at start of Great Recession
  - 513,440 employed - **25,902 fewer employed** people than at start of Great Recession
  - **Jobs regained are not as good as the ones that were lost**

# Unemployment Rate and Total Jobs March 2007 – September 2014



# Economic Forecast

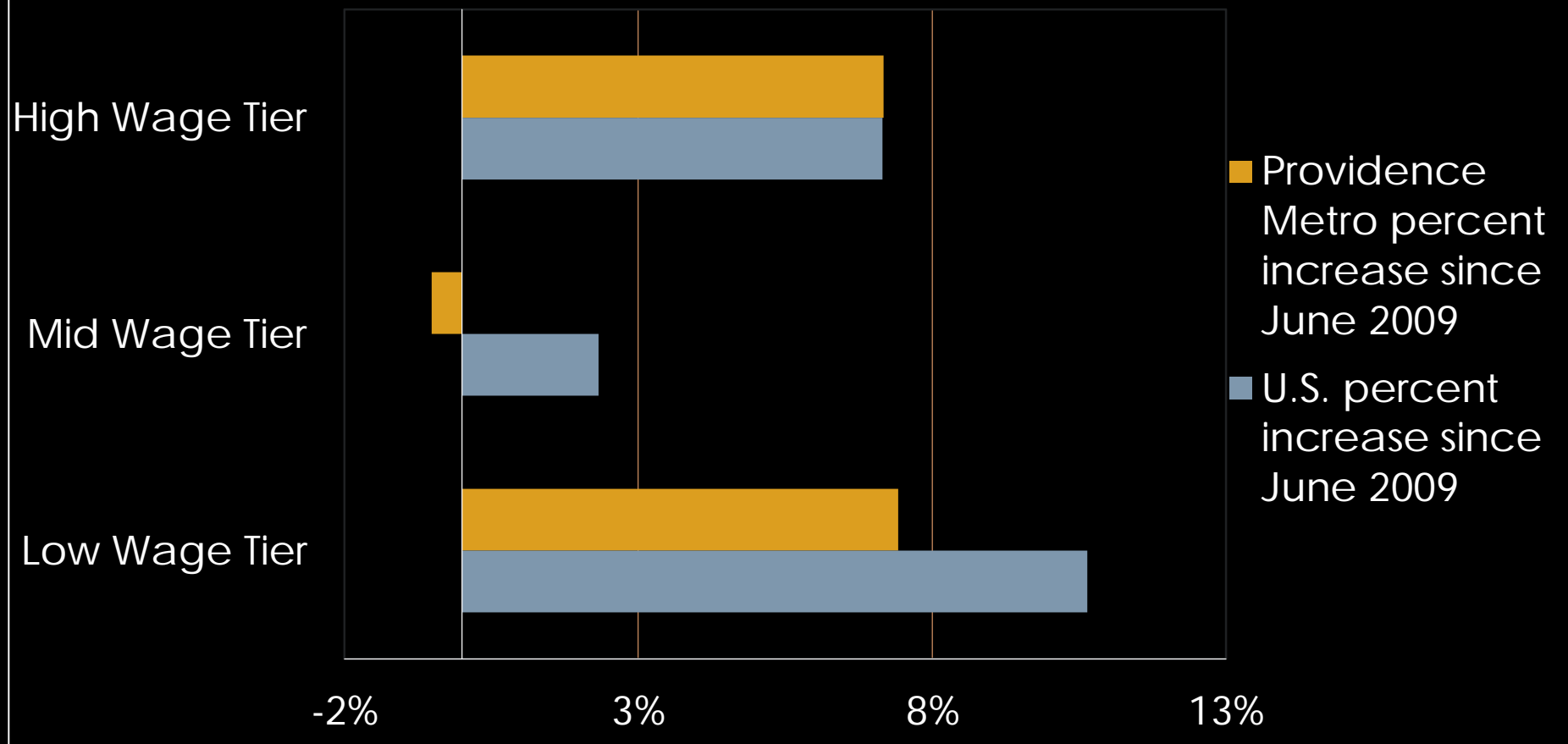
## Recovered Jobs by Wage Tier – Nov 2013 Testimony



Sources: BLS, Moody's Analytics

# Economic Forecast

## Recovered Jobs by Wage Tier Nov 2014 Testimony



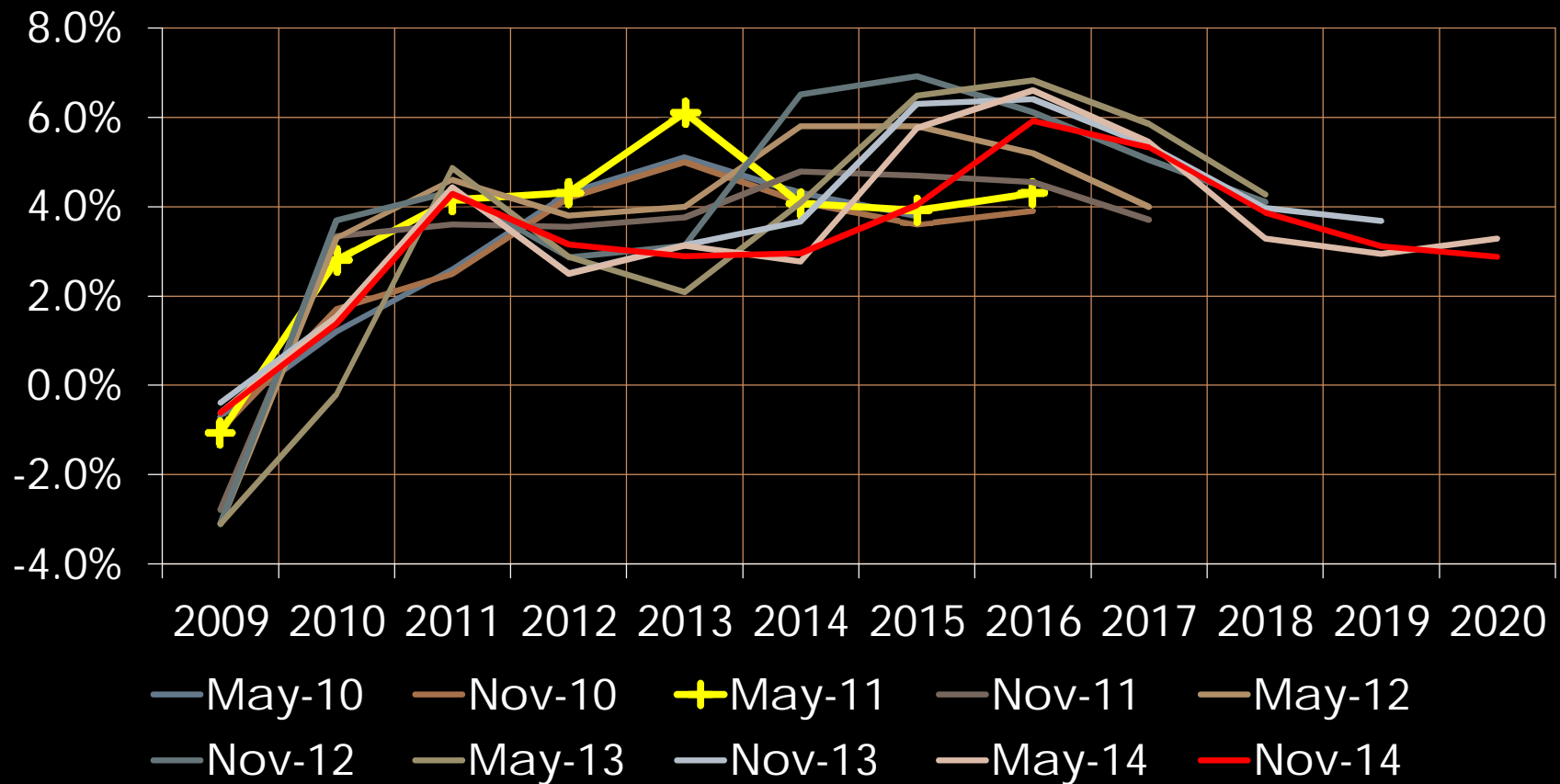
Sources: BLS, Moody's Analytics

# Economic Forecast

- Recovery again slower than prior projections
  - 4th consecutive overall downward revision
- US Economy more structurally impacted by recession than previous estimates
- RI economy continues to under-perform compared to US as a whole and closest neighbors

# Consensus Economic Forecast

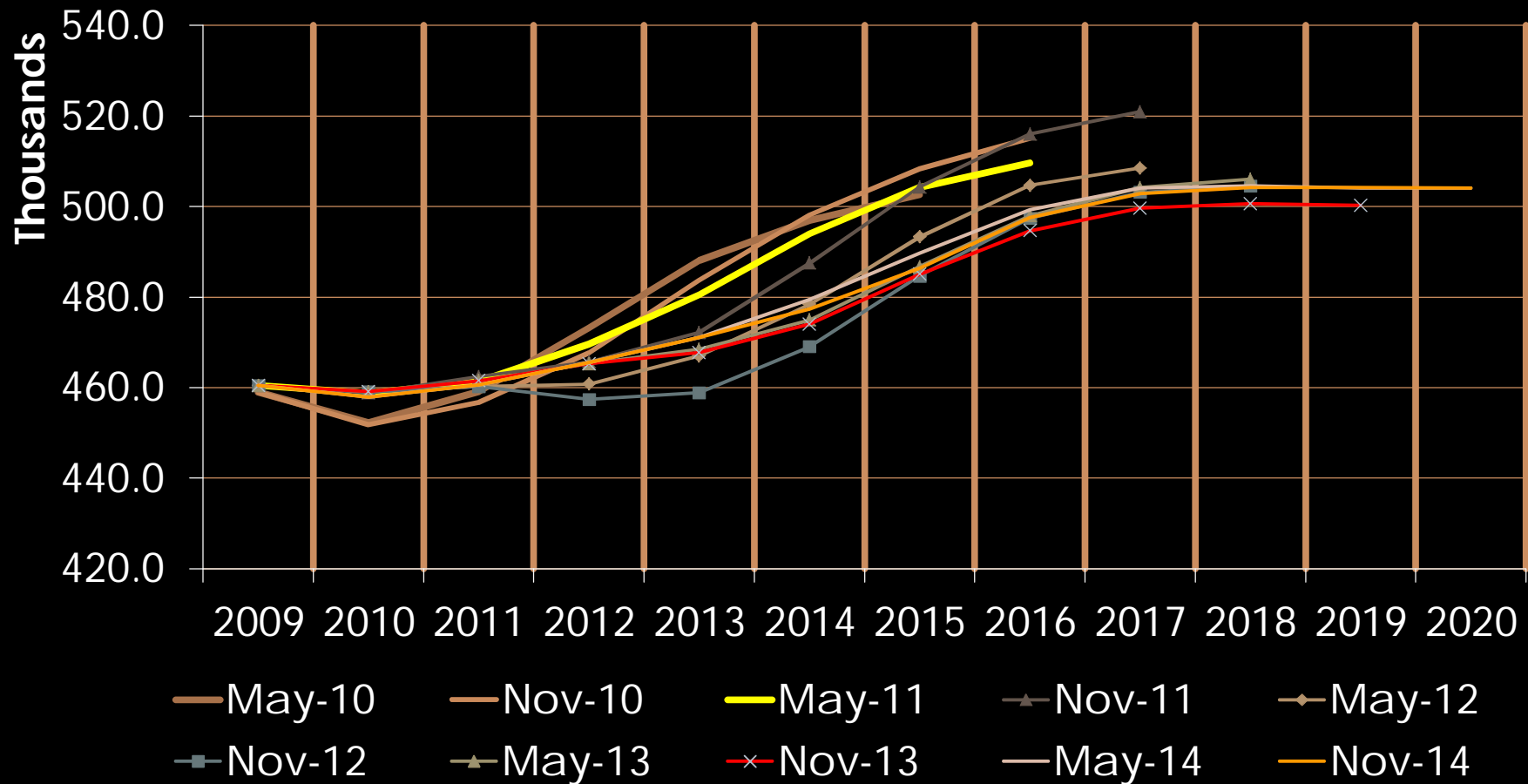
## Forecast Differences - Personal Income Growth





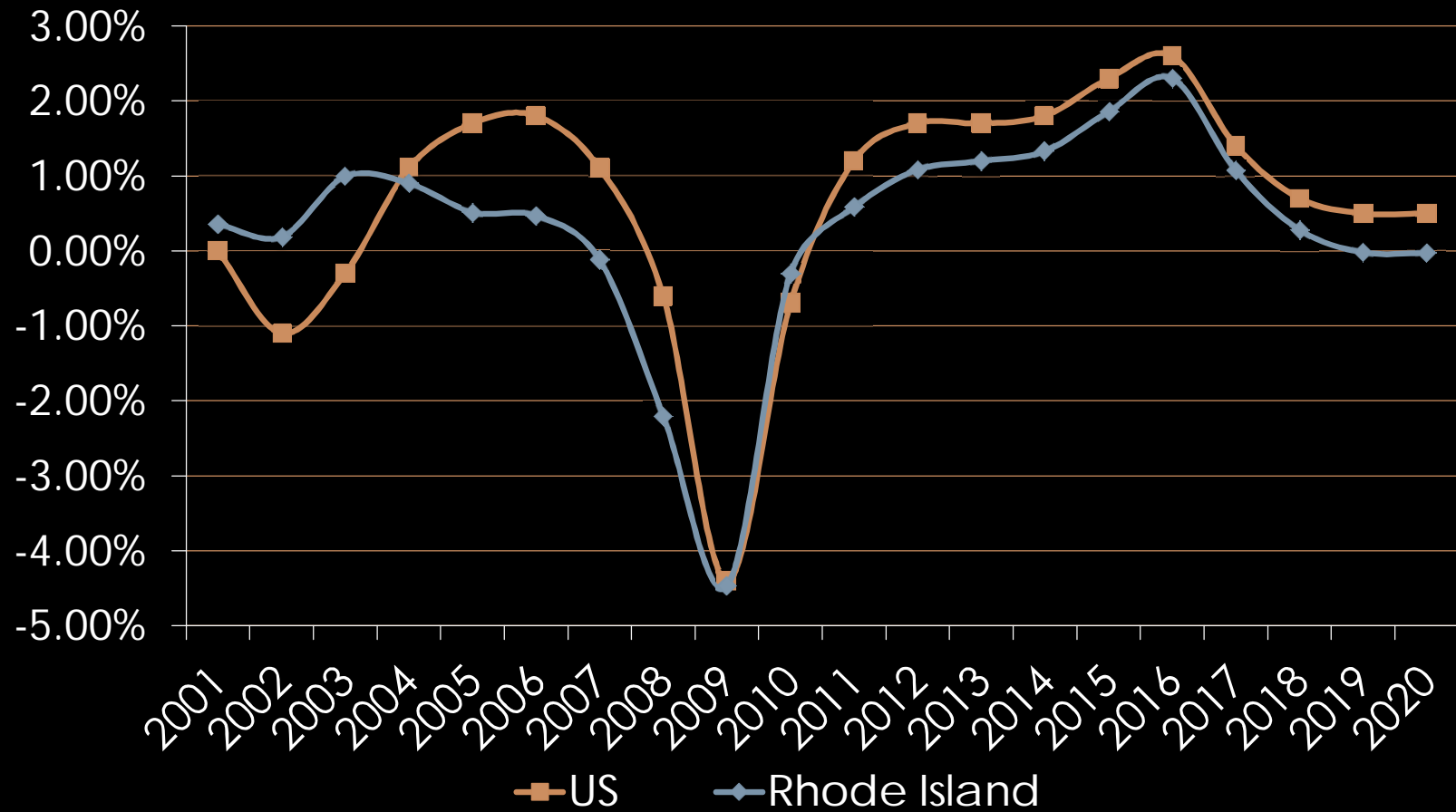
# Consensus Economic Forecast

## Forecast Differences - Jobs



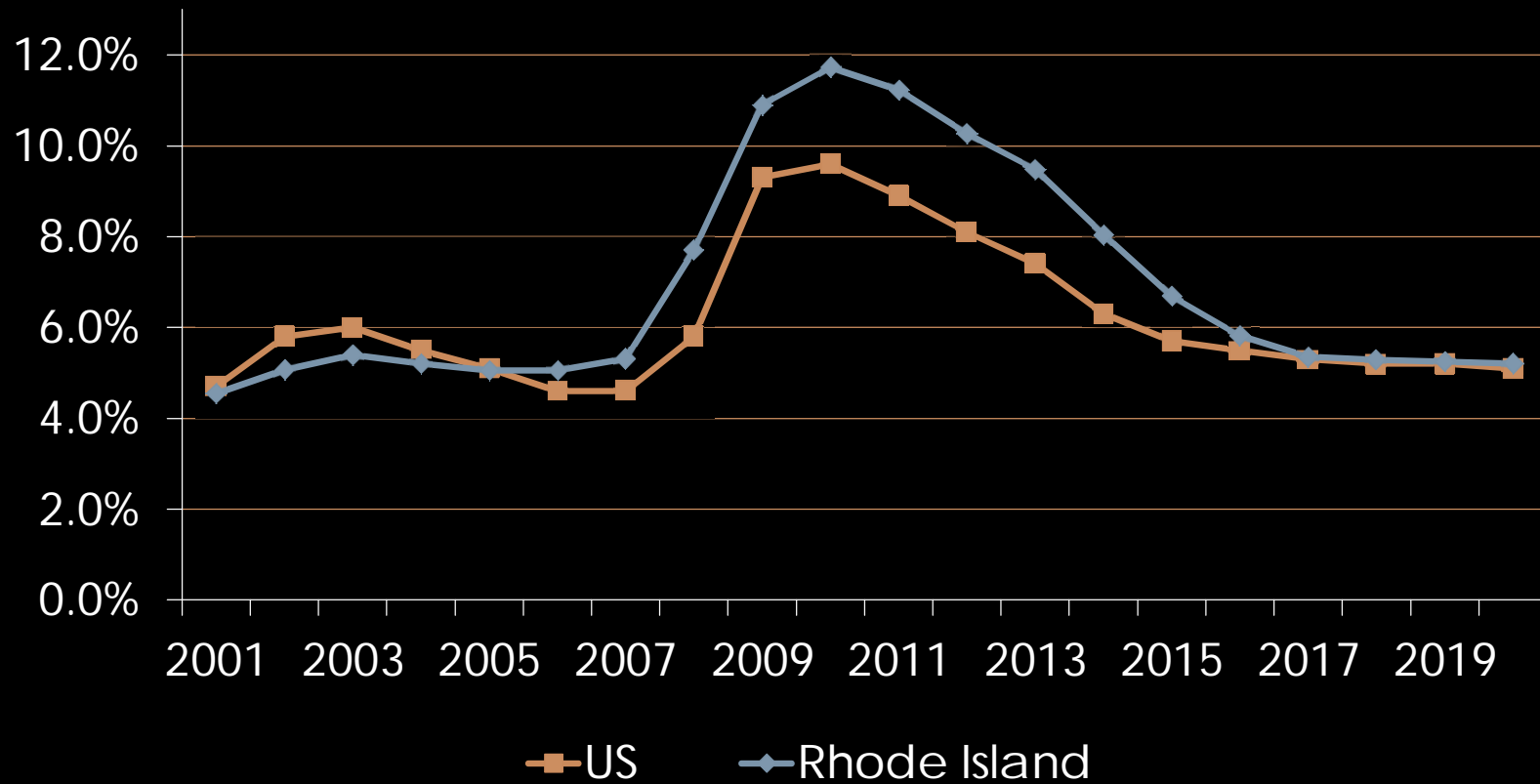
# Employment Growth

## Jobs Growth - RI Underperforming



# Unemployment Rates

RI has Consistently Higher Unemployment



# Revenue Drivers



Projections

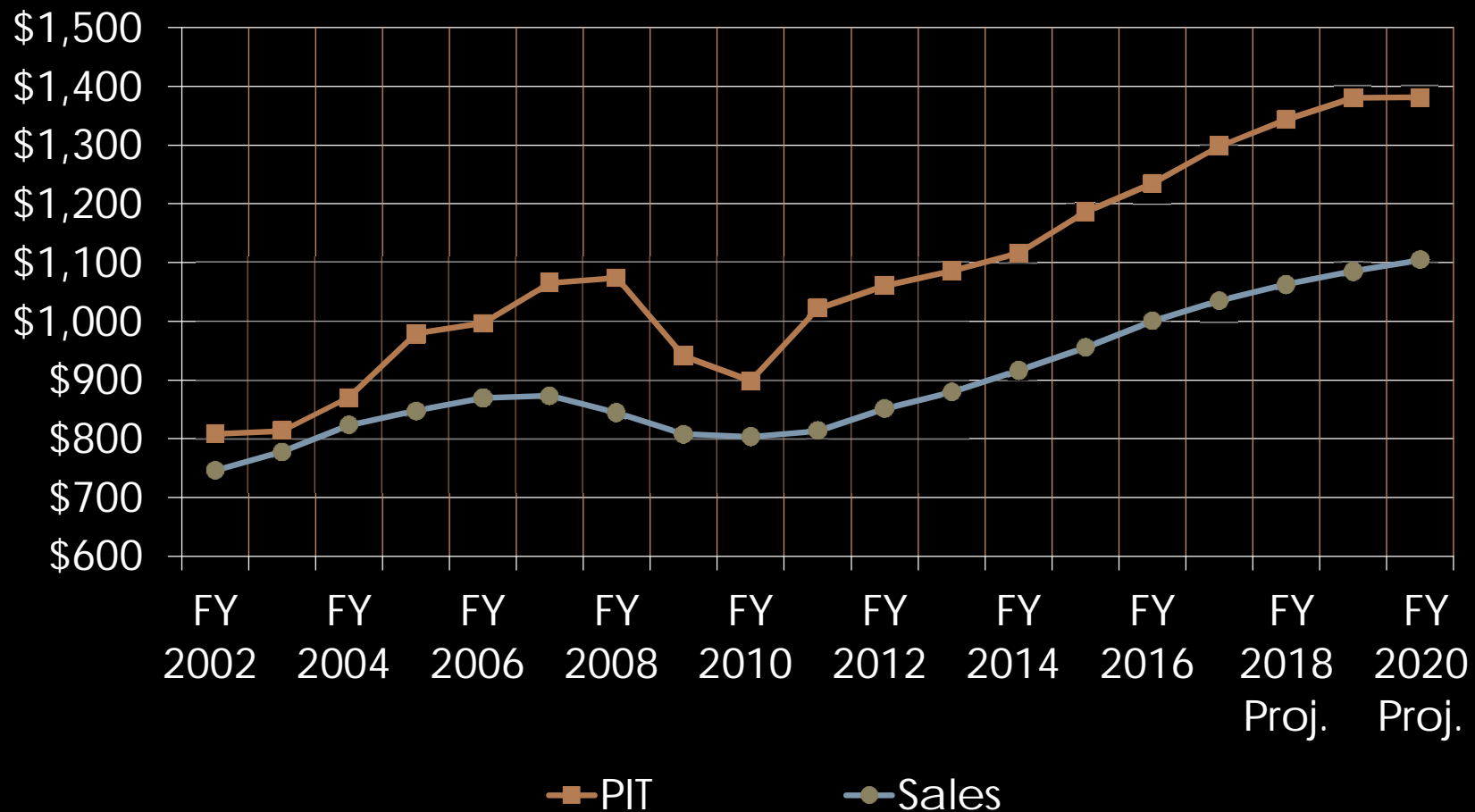
# Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2014 were more than anticipated
    - All excess revenues sent to retirement system
  - Projections assume losses from gaming in Massachusetts in FY 2016

# Revenues

- Taxes in FY 2015 = \$2,757.5 million
  - \$77.0 million or 2.9% above FY 2014 actuals
  - \$18.5 million above the enacted estimate
    - \$25.9 million is from Income and Sales
- Taxes in FY 2016 = \$2,836.9 million
  - 2.9% increase to FY 2015 revised
    - \$79.4 million with \$93.9 million from Income and Sales

# Income and Sales





# November 2014

## Consensus Revenue Estimates

<i>(in millions)</i>	FY 2014 Reported	FY 2015 Rev. Est.	Change to Enacted	FY 2016 Estimate	Change to FY 2015 Rev. Est.
Personal Income	\$1,115.5	\$1,167.7	\$10.6	\$1,216.6	\$48.9
Business Taxes	385.6	391.7	(10.7)	403.4	11.7
Sales & Use Taxes	1,126.7	1,161.2	18.3	1,187.3	26.1
Other Taxes	52.7	36.9	0.3	29.6	(7.3)
<b>Total Taxes</b>	<b>\$2,680.5</b>	<b>\$2,757.5</b>	<b>\$18.5</b>	<b>\$2,836.9</b>	<b>\$79.4</b>
Departmental	360.3	349.3	(2.4)	199.3	(150.0)
Other Misc.	6.4	7.8	0.3	1.1	(6.7)
Lottery	376.3	383.3	(1.2)	334.8	(48.5)
Unclaimed Prop.	12.7	11.0	0.5	8.1	(2.9)
<b>Total</b>	<b>\$3,436.3</b>	<b>\$3,508.9</b>	<b>\$15.8</b>	<b>\$3,380.2</b>	<b>(128.7)</b>

# Revenues

- Other than Taxes
  - FY 2015 = \$772.7 million
    - Down \$2.7 million – Lottery and reduced departmental receipts
  - FY 2016 = \$543.3 million
    - Down \$208.1 million from FY 2015
    - Excludes \$156.1 million hospital license fee but deficit calculations assume reenactment
    - Lottery down \$48.5 million
    - All others down \$3.5 million – mostly impact of one-time revenue

# Revenues

- Lottery Revenues – first major decline has been estimated for FY 2016

	FY 2014	FY 2015	FY 2016
Games	\$ 58.1	\$ 56.5	\$ 56.5
VLT (Slots)	306.5	314.9	266.1
Table Games	11.7	11.9	12.2
Total	\$376.3	\$383.3	\$334.8
Y-O-Y %	(-0.8)%	1.9%	(-12.7)%

# FY 2014 Closing

- FY 2015 budget counted on surplus from FY 2014 to help fund FY 2015
- Preliminary FY 2014 data shows \$8.7 million gain to that assumption
  - Subject to audit adjustment before final

# FY 2014 Preliminary

	Enacted	Current	Diff.
Opening	\$ 111.2	\$111.2	\$ 0.0
Revenues	3,416.0	3,436.3	20.3
Rainy Day	(105.6)	(106.2)	(0.6)
<b>Expenditures*</b>	<b>(3,362.4)</b>	<b>(3,346.3)</b>	<b>16.1</b>
<b>Closing Surplus</b>	<b>59.2</b>	<b>95.0</b>	<b>35.8</b>
Reappropriation	-	(7.4)	(7.4)
<b>Txfer: Retirement</b>		<b>(19.7)</b>	<b>(19.7)</b>
<b>Free Surplus</b>	<b>\$ 59.2</b>	<b>\$ 68.0</b>	<b>\$ 8.7</b>

*\*Includes \$10 million transfer to accelerated depr. fund*

# Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2015
  - Do savings or higher base expenses in FY 2014 carry to FY 2015?
  - Will delayed purchases require additional funds in current year?
  - Are agencies constraining spending?
  - Are initiatives being implemented?

# Closing – Revenues

- Revenues \$20.3 million (0.6%) above
  - Taxes up \$27.7 million with personal income and sales tax gains offsetting business taxes
    - Business taxes have been difficult to estimate
  - All other revenue down \$4.5 million
    - Lottery receipts down \$4.4 million – traditional as well as slots and table games

# Closing – Revenues

- Revenues \$20.3 million more
  - Law requires final revenues above estimates be transferred to the Employees' Retirement System to pay down unfunded liability
  - Prelim transfer = \$19.7 million which is net of 3% transfer to rainy day fund
- Prior year transfers
  - \$0.2 million in FY 2013
  - \$12.5 million in FY 2012



# Closing - Expenditures

- General revenue spending \$16.1 million (0.5%) below budgeted amounts – but areas of overspending
  - 5 agencies overspent when undistributed COLA funding is considered
- Appropriation lines overspent even if agency totals were not
  - 31% of general revenue lines were overspent... Ongoing pattern not completely explained by COLA issue
  - Last year it was 22%

# Closing - Expenditures

Spending \$16.1 million below:

- \$7.4 million unspent & re-appropriated
- \$8.0 million Medicaid savings
- \$3.2 million in BHDDH savings
  
- \$2.5 million overspent in DCYF
- \$1.4 million overspent Public Safety
- \$0.8 million overspent in DOC
- \$0.3 million overspent in DEM

# Closing - Expenditures

- DCYF - \$2.5 million
  - \$2.2 million - System of Care –above additional funding authorized
  - \$0.7 million – Comm. based services
  - \$1.3 million - foster care
  - Offset by other savings in staffing/other operations

# Closing - Expenditures

- OHHS: \$8.0 million Medicaid savings
  - \$16.4 million savings in Rlte Care & Rhody Health Partners managed care programs
    - Higher drug rebates & fewer out of plan services
  - \$8.9 million more in long term care
    - Higher utilization and lower enrollment in Rhody Health Options
  - \$0.5 million in other programs
    - Pharmacy, hospital & other medical services

# Closing - Expenditures

- BHDDH: \$3.2 million savings
  - ESH: \$3.6 million underspent
    - Primarily from year-end adjustment to leverage more Medicaid \$\$
  - Mental Health: \$1.7 million underspent
    - Underspent Medicaid funded services by \$2.2 million
    - \$0.6 million in savings in state only programs
  - Administrative Divisions: \$0.6 million overspent

# Closing - Expenditures

- RICAP
  - \$93.5 million spent in FY 2014 - 74.6% of the appropriation
    - FY 2013: 70%, FY 2012: 64.4% , FY 2011:61.2%
  - Higher spending levels based on efforts to move projects along better
  - Still problems
    - Many slow moving projects

# Current Year

- The *current year* has a projected deficit mainly from unmet expenditure savings that could affect out-years
  - Major shortfall from overspending masked by revenue uptick, debt service and other savings
- Requests for supplemental appropriations exceed \$60 million
- Q1 reports even higher at over \$90 million to include caseloads

# 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

- Most agencies are projecting to spend more than authorized in FY 2015
- None has submitted a corrective action plan
- Budget Office Q1 notes it is working with agencies to resolve deficits
  - *This has generally not been a replacement for the corrective action plan requirement*

# FY 2015

	Enacted	Current	Diff.
Opening	\$ 59.2	\$75.3	\$16.1*
Revenues	3,493.1	3,476.9	15.8
Rainy Day	(106.6)	(107.3)	(0.7)
Expenditures	(3,445.2)	(3,505.1)*	59.9
Total FY 2015	\$ 0.6	(\$ 28.1)	(\$28.7)

*\*Includes \$7.4 million reappropriation*

# Current Year

- Revenues are up by \$15.8 million
- Added resources increase rainy day transfer by \$0.5 million
- Expenditures appear up by \$16.0 million net of re-appropriations and November Caseload increase
- Closing surplus down by \$28.7 million

# Current Year

Reappropriation	\$ 7.4
Legislature	(1.1)
Employee COLAs	20.2
Debt Service	(20.4)
OHHS: Caseload Conference	37.0
OHHS: Other Programs*	11.8
Corrections*	5.0
Other *	-
Total	59.9

\* Items different than Budget Office Q1 estimates

# Reappropriation

- Statutory requirement: \$4.4 million
  - Legislature rev. budget lowers by \$2.0 million
- Governor discretionary: \$3.0 million
  - I-195 = \$0.6 million
  - E-Permitting = \$0.5 million
  - AG Tobacco Litigation = \$0.4 million
  - DLT Jobs programs = \$0.4 million
  - Personnel Study = \$0.3 million
  - DOA, DOR, DOH total = \$0.7 million

# Current Year: *Employee COLAs*

- Governor's FY 2015 budget did not include funding for COLAs
  - Most employee contracts expired at the end of FY 2013
- April 2014, Council 94 agreed to a new 4-year contract
  - July 1, 2013 – June 30, 2017

# Current Year: *Employee COLAs*

- Main provisions of new contract:
  - Increase in co-pays for office visits and prescription drugs
  - Health insurance deductibles of \$250/\$500 for individuals/families
  - COLAs
    - April 6, 2014 – 2%
    - October 5, 2014 – 2%
    - October 4, 2015 – 2%

# Current Year: *Employee COLAs*

- FY 2015 enacted budget assumed COLA would be absorbed through base adjustments to agency budgets
  - Roughly \$24 million from general revenues
- Q1 report assumes COLA for all
  - Some contracts are still not settled
  - Higher Ed not in total - no ask for state funding of COLA in FY 2015 revised budget



# Current Year: *Employee COLAs*

- Impact on out-years
  - Some growth in FY 2016 was assumed from raises but not full impact
    - Full impact estimated at around \$47.4 million from general revenues for all employees
  - Out-year estimates used for deficit projections assumed about ½ would be absorbed, essentially the FY 2015 value

# Current Year: *Debt Service*

- Debt Service - \$20.4 million less
  - Historic Tax issuance delay \$10.3 million
  - Refunding \$5.8 million
  - New Issuance - \$4.3 million

# Current Year: OHHS

- Nov Caseload Conf: \$37.0 million
  - Medical Assistance - \$37.2 million more
    - \$12.3 million treatment for Hepatitis C
    - \$6.9 million for long term care
    - \$6.4 million for managed care
    - \$4.8 million for hospital costs
    - \$4.6 million more for unachieved savings
  - Cash Assistance – \$0.1 million less

# Current Year: OHHS

- Other Programs: \$11.8 million
  - UHIP - \$4.2 million
  - DCYF – \$7.3 million
  - BHDDH – Consent Decree \$0.3 million
    - Oversight
    - Training

# Current Year: OHHS

- OHHS/DHS - \$4.2 million
  - Unified Health Infrastructure Project – UHIP
    - New eligibility system for OHHS agencies integrated with Health Benefits Exchange
    - Shortfall based on updated estimates
    - Match differs based on use
      - Highest match for development costs

# Current Year: OHHS

## UHIP

- In coordination with the Health Benefits Exchange to implement ACA
- Apply through the Exchange & if Medicaid eligible directed to UHIP
- Eventually create one system to apply for medical and cash assistance benefits
  - Opportunity to build a new system with federal match
  - Replace decades old systems that did not “talk” to each other

# Current Year: OHHS

- UHIP Project Cost through 2020 – continues to be updated -
  - July 2013: \$209.4 million; \$51.9 m gen rev
  - July 2014: \$221.9 million; \$51.6 m gen rev
  - Oct 2014: \$229.6 million; \$51.7 m gen rev
- 90% Medicaid match for system development
  - Other services – 75% to 50% match
- Plan requires federal approval

# Current Year: OHHS

- Is this the final cost for project?
  - Updated plan filed October 2014
- What is the net cost when only have one system?
  - Currently funded systems will not be needed – those savings have not been identified
  - Additional program integrity and personnel efficiencies
- Unresolved issue of Exchange funding impacts this



# Current Year: OHHS Caseload

- DCYF - \$7.3 million
  - Still many unknowns and moving parts
  - Agency and Budget estimates appear inflated but there are clearly major issues
  - System of Care related issues -\$5.0 million
  - Foster Care rate Proposal - \$1.7 million
  - Caseworker related - \$1.0 million
  - Other unachieved savings - \$0.3 million
  - Other new expenses - \$0.5 million
  - Offsetting savings – (\$1.3) million

# Current Year: Corrections

- Corrections -\$5.0 million more
  - 44 more inmates than enacted budget
    - Per diem inmate costs – \$0.9 million
    - Hepatitis C estimate - \$1.5 million
    - Staffing expenses - \$4.3 million
  - Unachieved Savings related to correctional industries - \$0.5 million
  - Reduced federal funding -\$0.2 million
  - Other reductions offset \$2.4 million of this

# Current Year: Other

- All other projected adjustments to agency expenditures net to zero
  - Utilities Increases -\$0.8M
  - Elections Public Matching Funds \$0.7M
  - Higher Education Admin Office \$0.8M
  - Education Aid Adjustments - \$0.5M

# Current Year: Other

- All other projected adjustments to agency expenditures net to zero
  - DEM Seasonal/Park & Rec - \$0.6M
  - State Police retirement - \$0.6M
  - Turnover Savings in many agencies partially offsetting COLA – DOA, DOR, DBR

# Current Year

- Difference from Budget Office –
  - Neither is a recommendation, but staff estimates exclude many new spending items included in agency requests
- No estimate for Ebola response included in figures though DOH prelim estimates are \$0.8 million

# Current Year

- Only seven months left to solve and fewer if legislation is required
- Administrative efforts?
  - May memo – constrained spending
  - September memo – hiring freeze
- Filled Positions
  - Staff is monitoring changes
  - Some needed to generate revenue

# Budget Year and Out-years

- There are also *budget year* and *out-year* problems
  - FY 2016 was estimated in July to have a gap of approximately \$122 million
  - Budget Office estimated higher gap - mainly to revenue projection differences and COLA treatment
  - General size of issue in later years not likely to change significantly

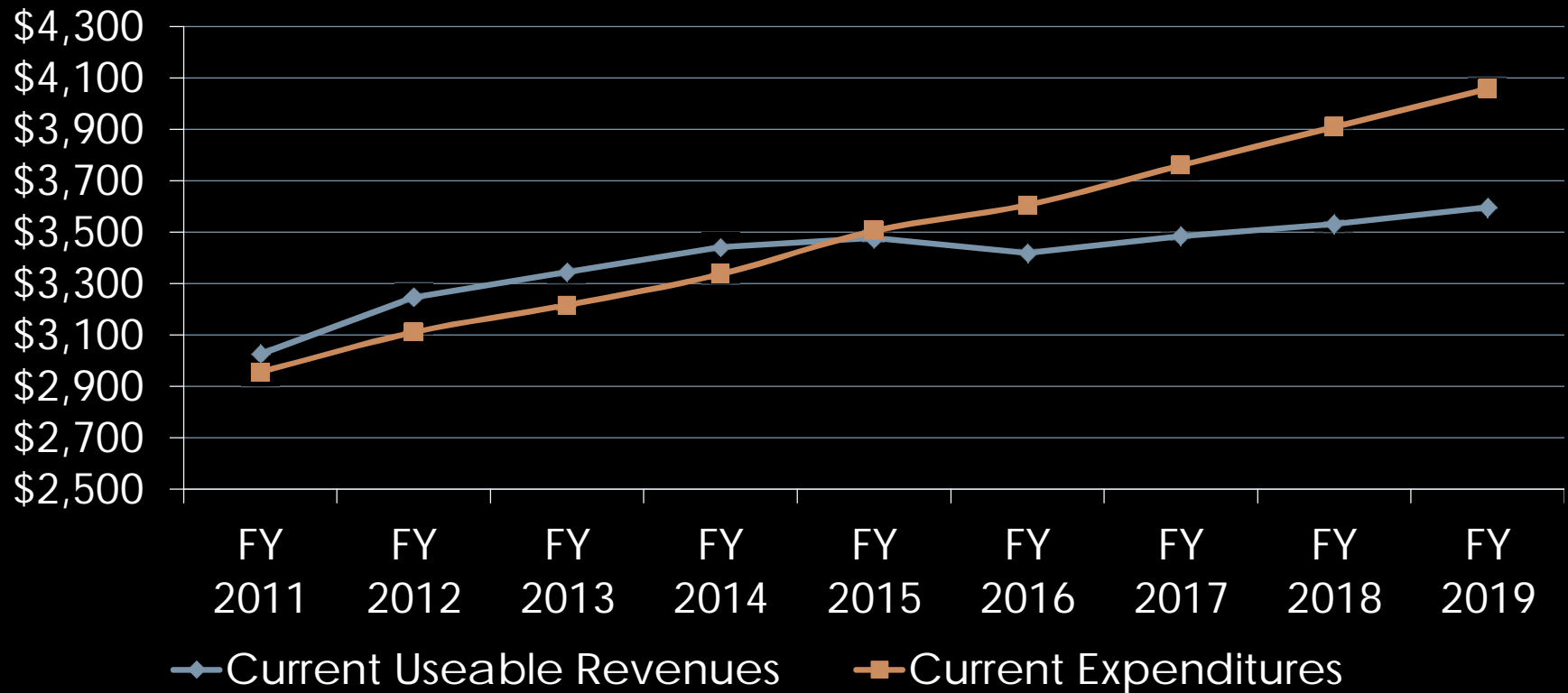
# Issues and Risks to the Forecast

- Economic impact of federal action
- Oil/Gas Prices
- True Hepatitis C costs
- Regional gaming issues
- Sustainable funding for state health benefits exchange
- Control of current year spending to mitigate budget year deficit



# Budget and Out Years

## Revenues vs. Expenditures: HFAS Nov. Estimate



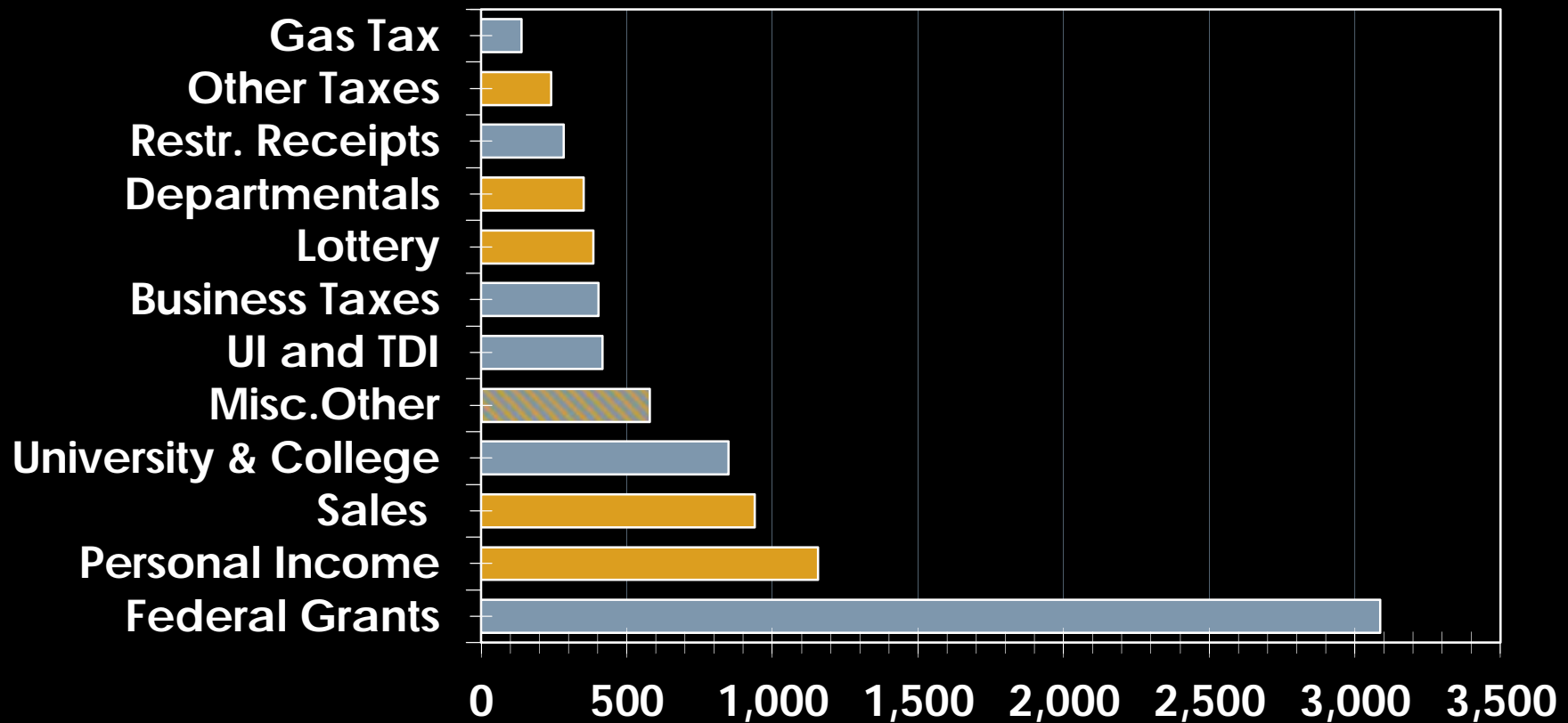
# Budget Year and Out-years

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
  - Gaming revenue losses begin in FY 2016
  - Increasing dedication of revenues to transportation
  - Annualized impact of tax law changes

# Budget Year and Out-years

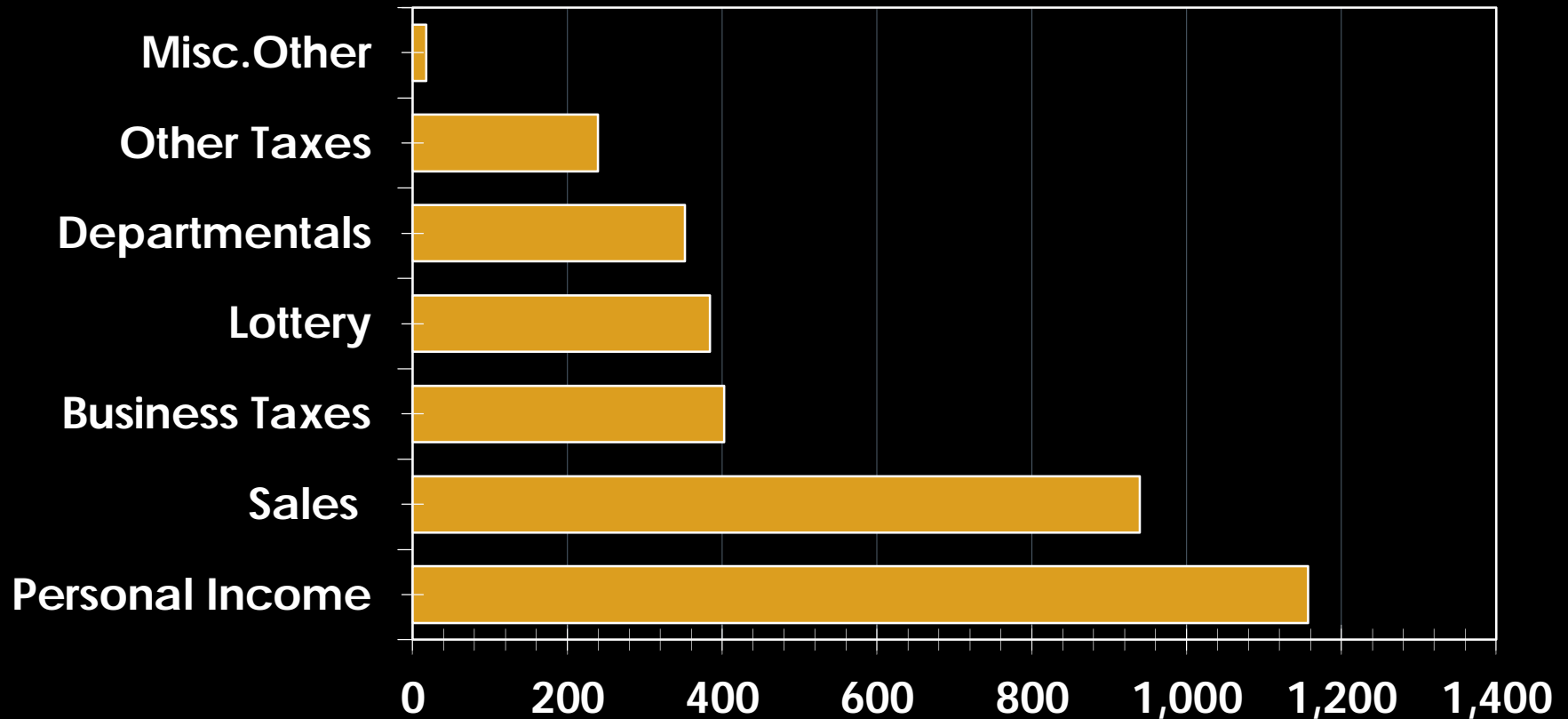
- Continued issue of problematic expenditure structure
  - Many enacted structural changes implemented... still others not achieved
  - Growth rates exceeding revenue growth rates

# All Sources *(millions)*

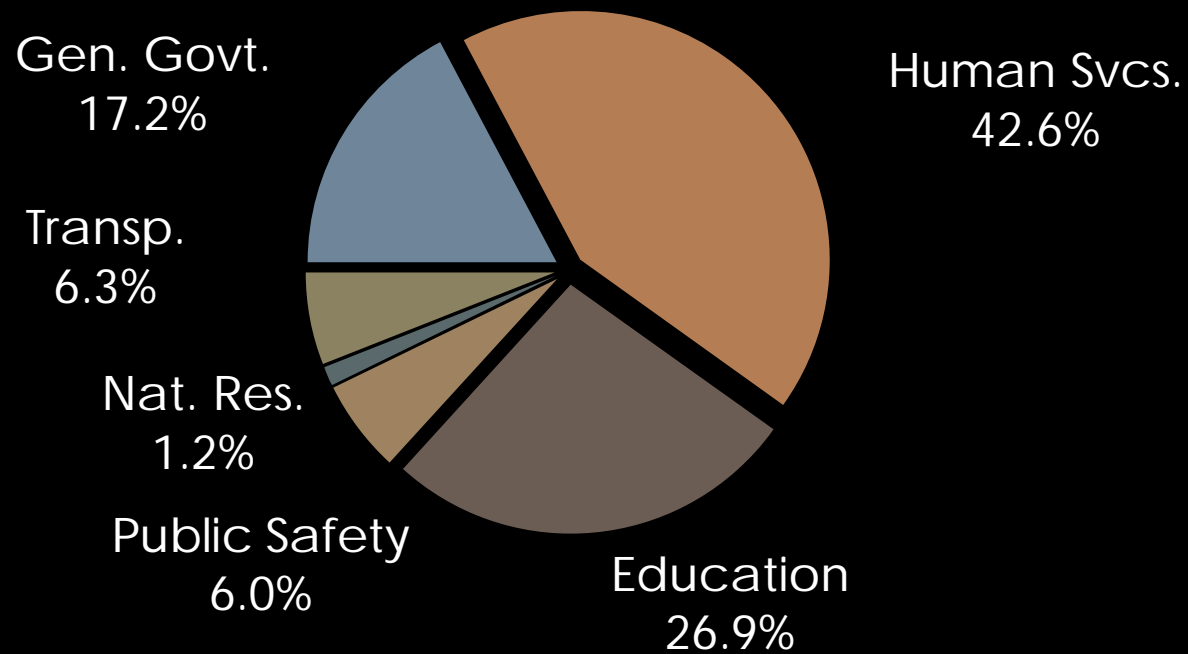


# General Revenue Sources

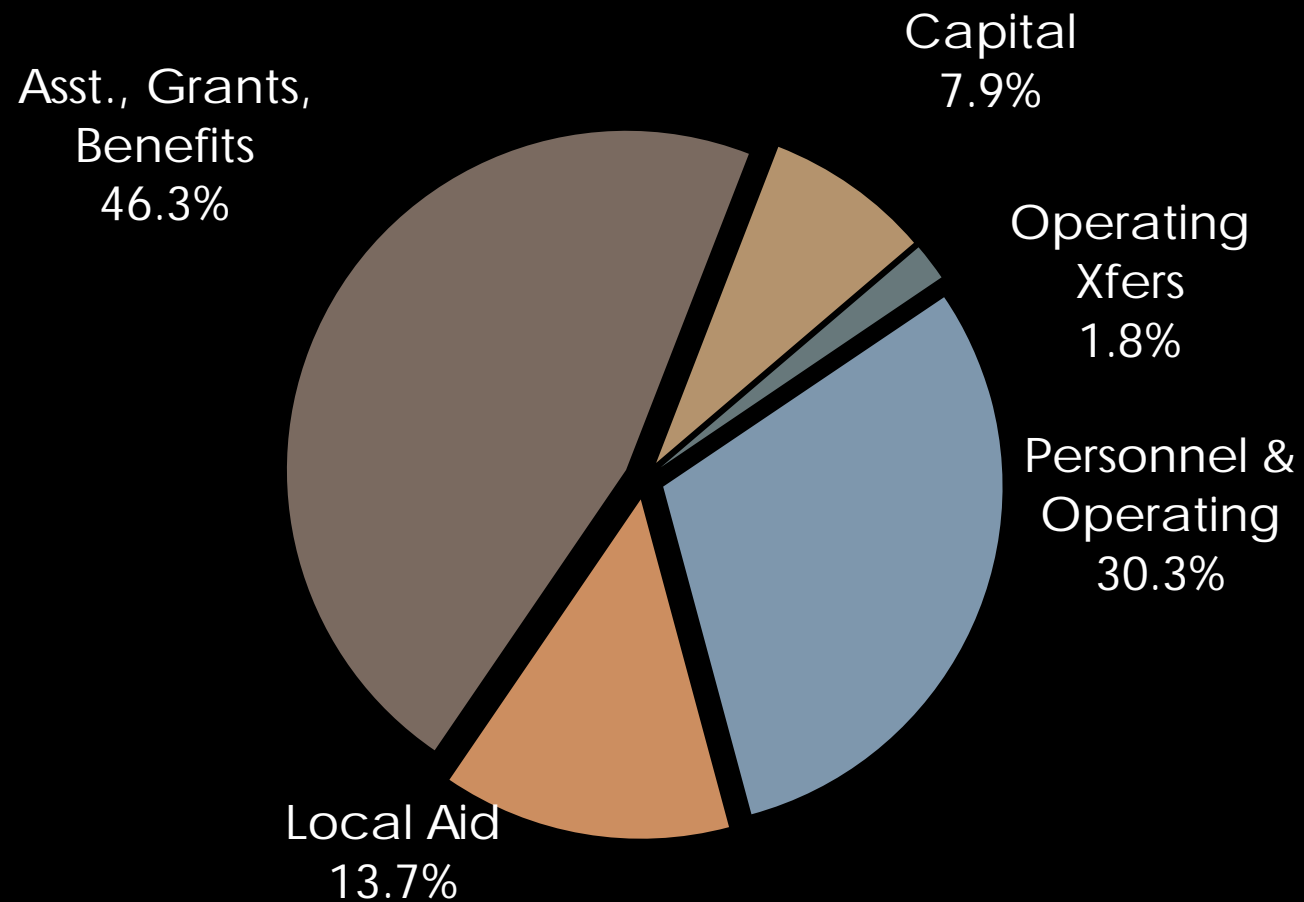
(millions)



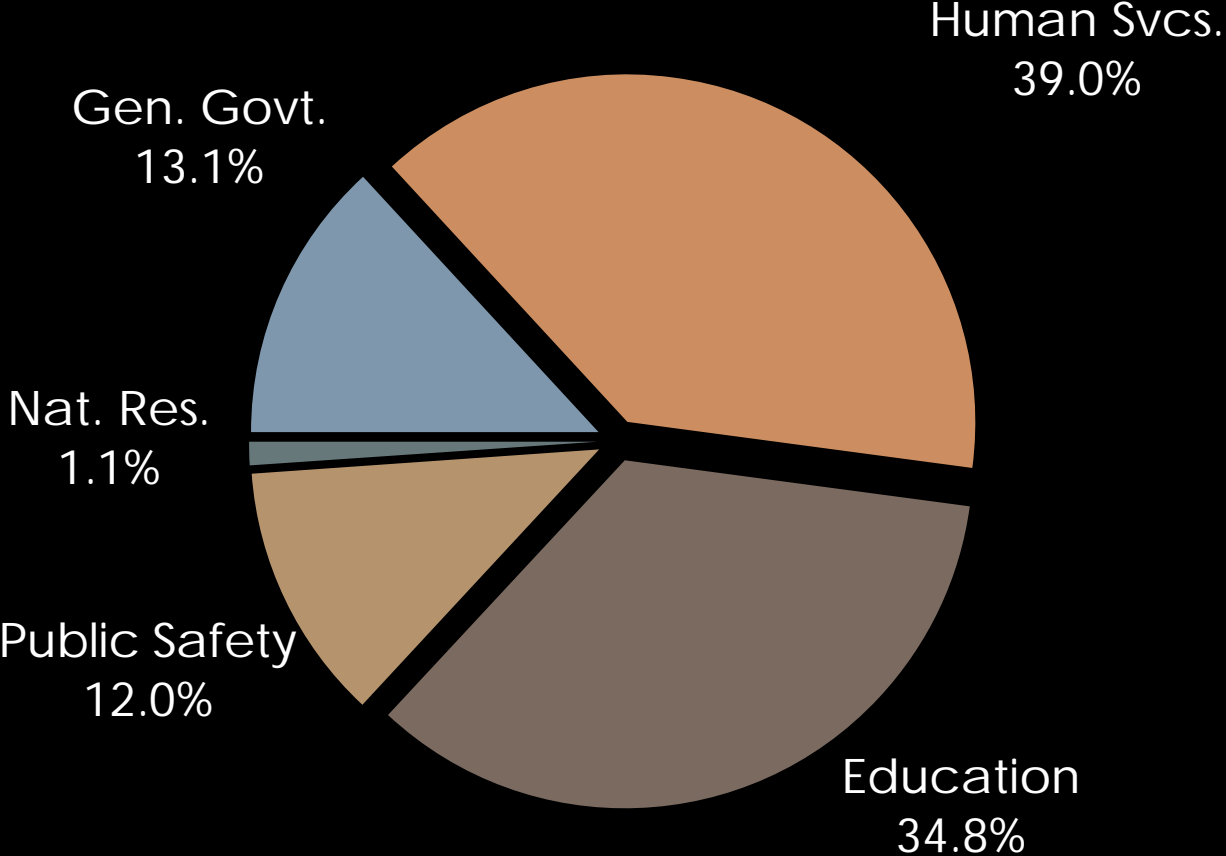
# Uses – All Funds by Function



# Uses – All Funds by Category

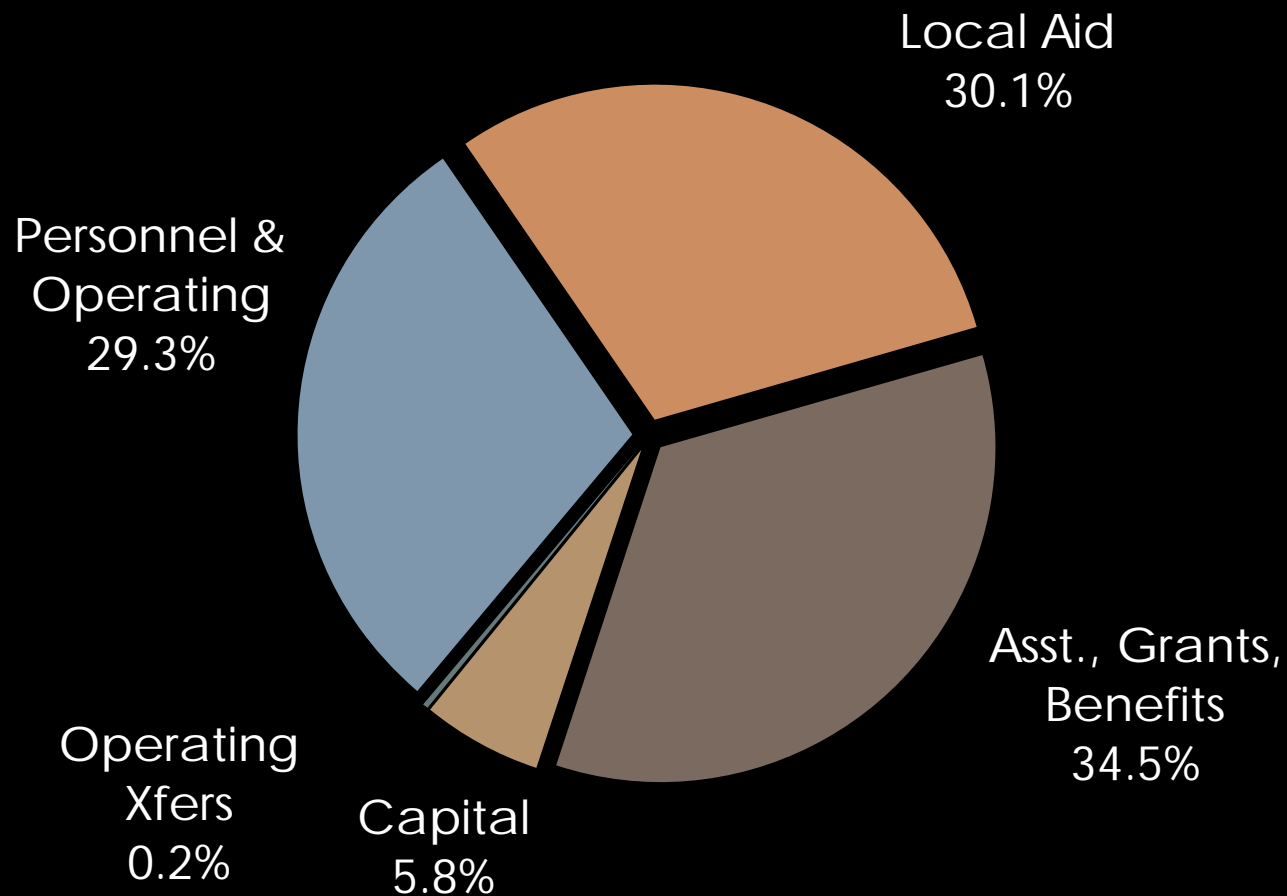


# Uses – General Revenues by Function





# Uses – General Revenues by Category

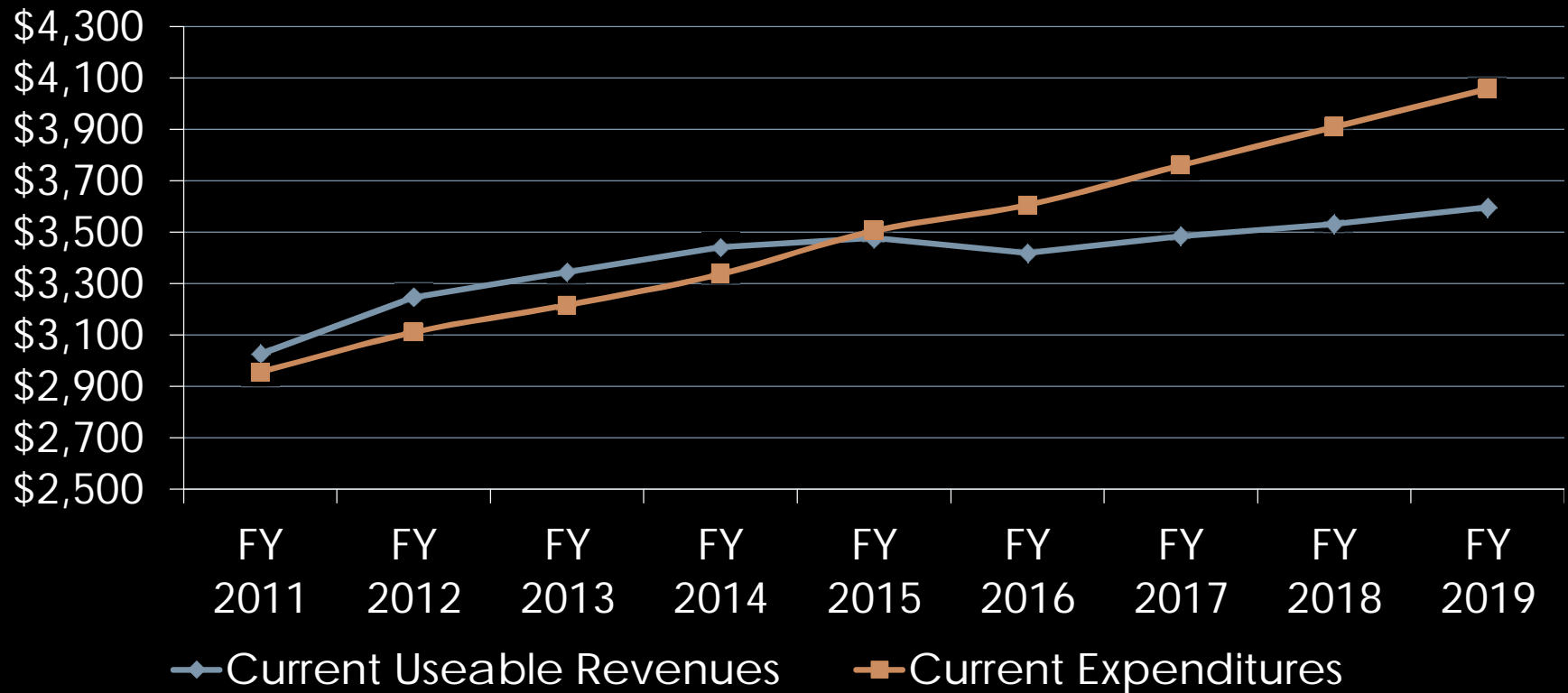


# Uses – Growth Rates

Item	Est. Annual Growth
Jobs	1.2%
State Personal Income	5.1%
Taxes	2.7%
Total Revenues	1.4%
Total Expenditures	4.1%
Salaries & Benefits – 25% of total	3.5%
Medicaid – 31.5% of total	7.0%

# Budget and Out Years

## Revenues vs. Expenditures: HFAS Nov. Estimate



# Structural Deficit

- What is it?
  - When current expenses exceed current revenues
  - Prior year surplus or other one-time resources/cuts cover the gap
- Why does it happen?
  - Short term economic events
  - Spending needs/wants growing faster than revenues

# Structural Deficit

- How do you fix it?
  - Align growth rates of revenues and expenditures
    - Identify areas that are not in alignment
    - Identify highest priorities, greatest impact and measure all decisions against those
  - Sometimes this has to be done over time – meaning onetime fixes can be used to bridge gaps to structural solutions

# Structural Deficit

- What makes it hard to fix?
  - Solutions on both sides of the equation have support and impact many
    - Many competing ideas
  - Pressing need for services or infrastructure investment
    - Need to reverse stagnant growth
  - Budget process may not produce all options

# Budget Year and Out-years

- Budget Office Instructions based on \$166.6 million July deficit projection
  - Includes calculation of current service revenues and expenses
  - Some revisions based on updated data
  - Other revisions reflect different methodology and “policy choices”
  - Fully funds COLA – FY 2015 enacted assumed portion absorbed into base

# 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 \$61 million
  - Not all same items included



# FY 2016 Budget Requests

- Budget Office also asked for options for reductions of 7.5%, adjusted for certain exclusions
- Those reductions represent \$166.6 million of savings from Budget Office current service estimate
- Prior years' targets have been larger than estimated deficit

# Budget Year and Out-years

- That design gives adequate options when proposals are rejected or softened
- Options allow decision makers to consider all choices and implications
- But prior years' actions limit options
- In the past, media have covered these proposals

# Summary

- Governor's Budget expected Feb 5
- Major budget challenges
  - Slow growing economy
  - Structural tax and expenditure issues
    - Deficit fatigue
    - Specific agency issues

# Budget Status

House Finance Committee  
November 20, 2014

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