

Budget Status

House Finance Committee
December 4, 2013

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 2015 and FY 2014 revised budgets due Jan 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 2014
 - Staff estimates for FY 2015 and beyond
 - Not all policy issues accounted for
 - Transportation funding issues
 - Estimates vary – this is HFAS perspective

Introduction

- Preliminary Closing – Aug 30
- Agency Q1 reports – Oct 30
- Caseload estimates – November 4
- Revenue estimates – November 8
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor's Budget – Jan 16
- Agencies Q2 – Jan 30

Introduction

- The state continues its slow recovery from severe economic distress
- Current year picture is clearer
- Facing continued budget year and out-year issues growing from about \$100 million to \$400 million or more depending on assumptions

Introduction

- The *current year* has some overspending problems
- The *budget and out year* gaps are a function of both cyclical economic and continued structural issues

Economic Forecast

Economic Forecast

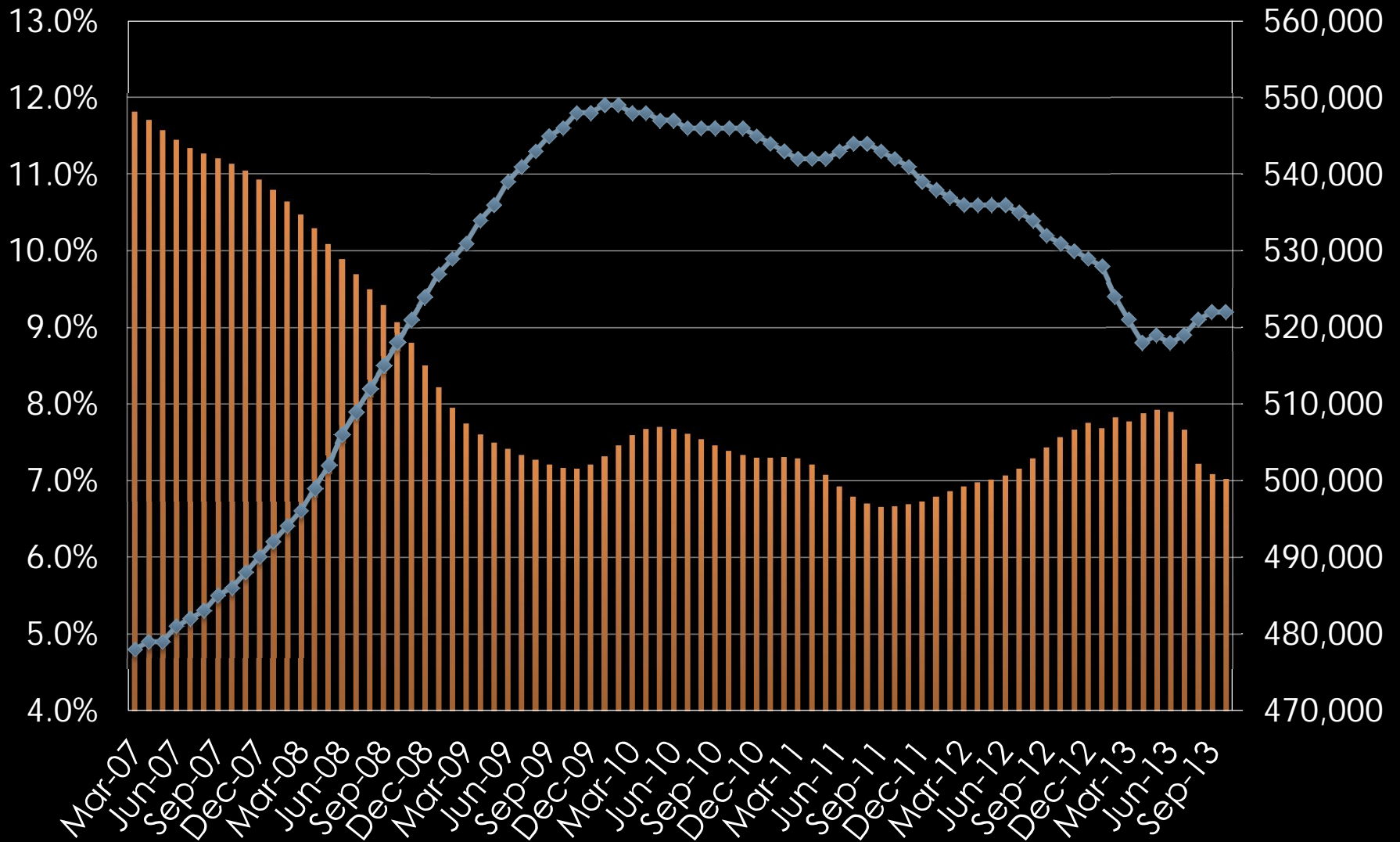
- Revenue Estimating Conference adopts a consensus economic forecast
 - It takes testimony from Moody's Economy.com
 - The firm builds U.S. macroeconomic models from which they derive their Rhode Island forecasts
 - Updated in November

Economic Forecast

November forecast more pessimistic than May

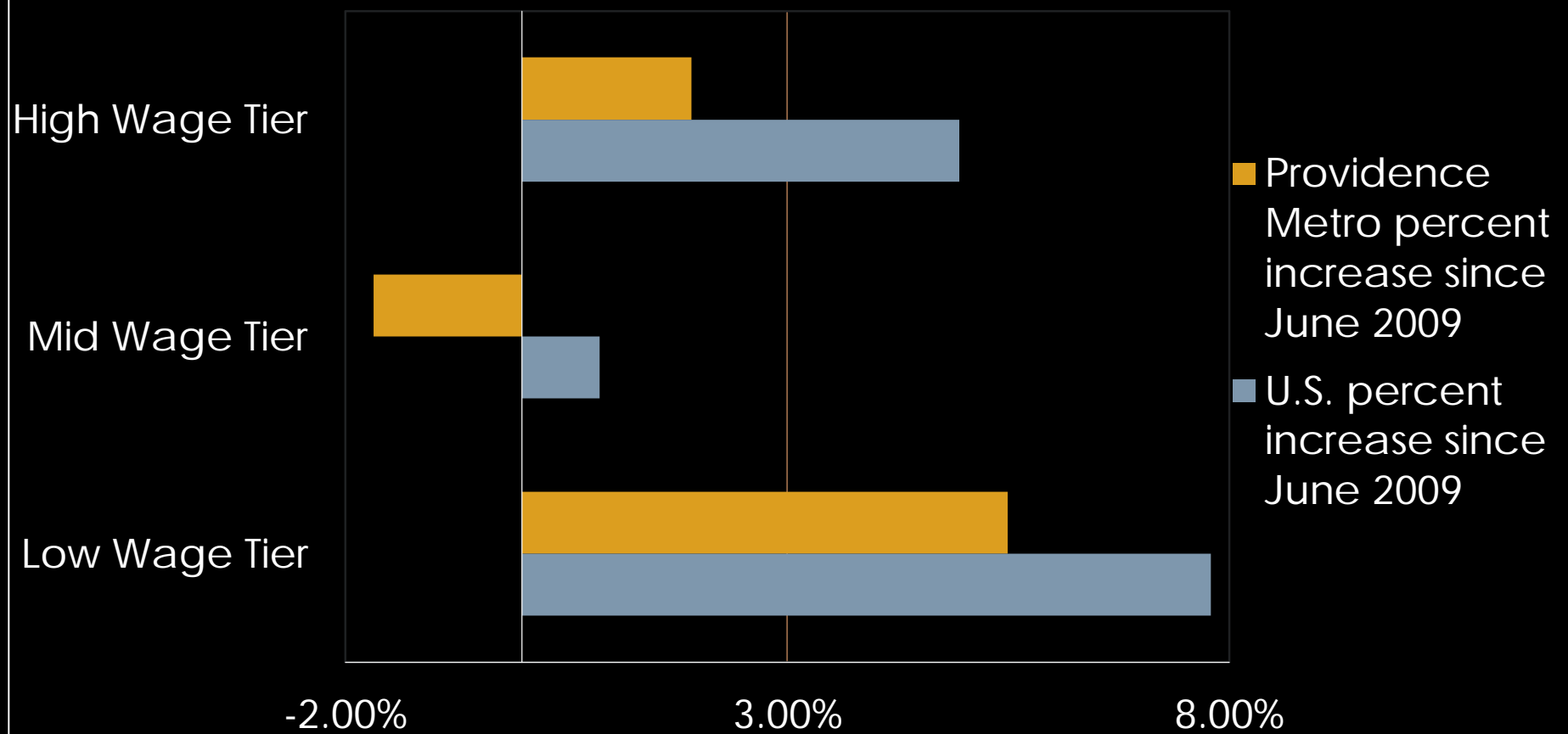
- Personal income is higher because of revisions to the base numbers
- Jobs, wage & salary growth rates all projected to slow from May estimates
- RI recovery continues to lag U.S.
- Job losses began in 2007 – lost jobs will not be regained until 2016

Unemployment Rate and Total Jobs March 2007 – October 2013



Economic Forecast

Recovered Jobs by Wage Tier



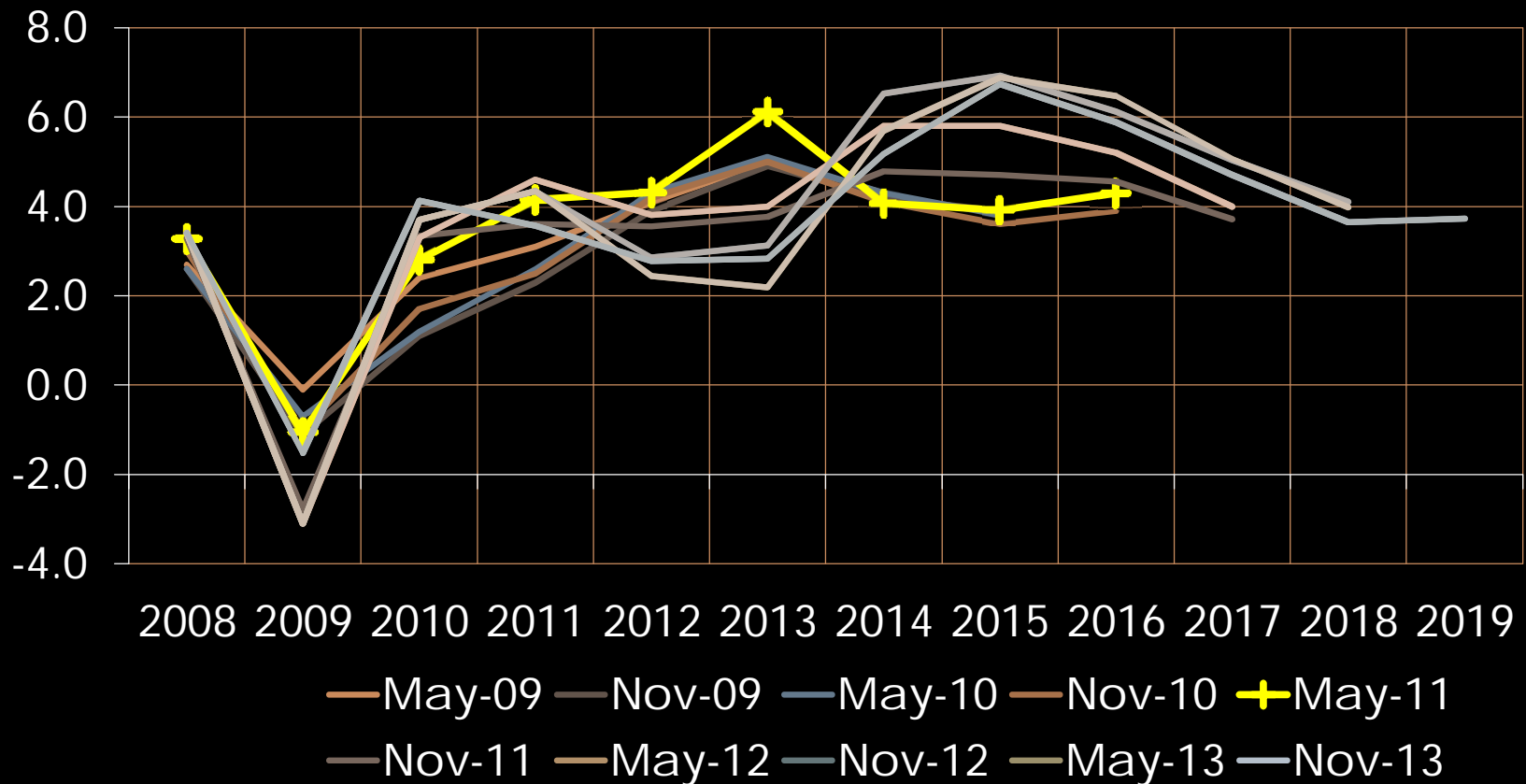
Sources: BLS, Moody's Analytics

Economic Forecast

- The “good news” keeps getting pushed to later years
- Recovery much slower than prior projections
- US Economy hurt by gov't shutdown
- RI economy underperforms compared to US as a whole

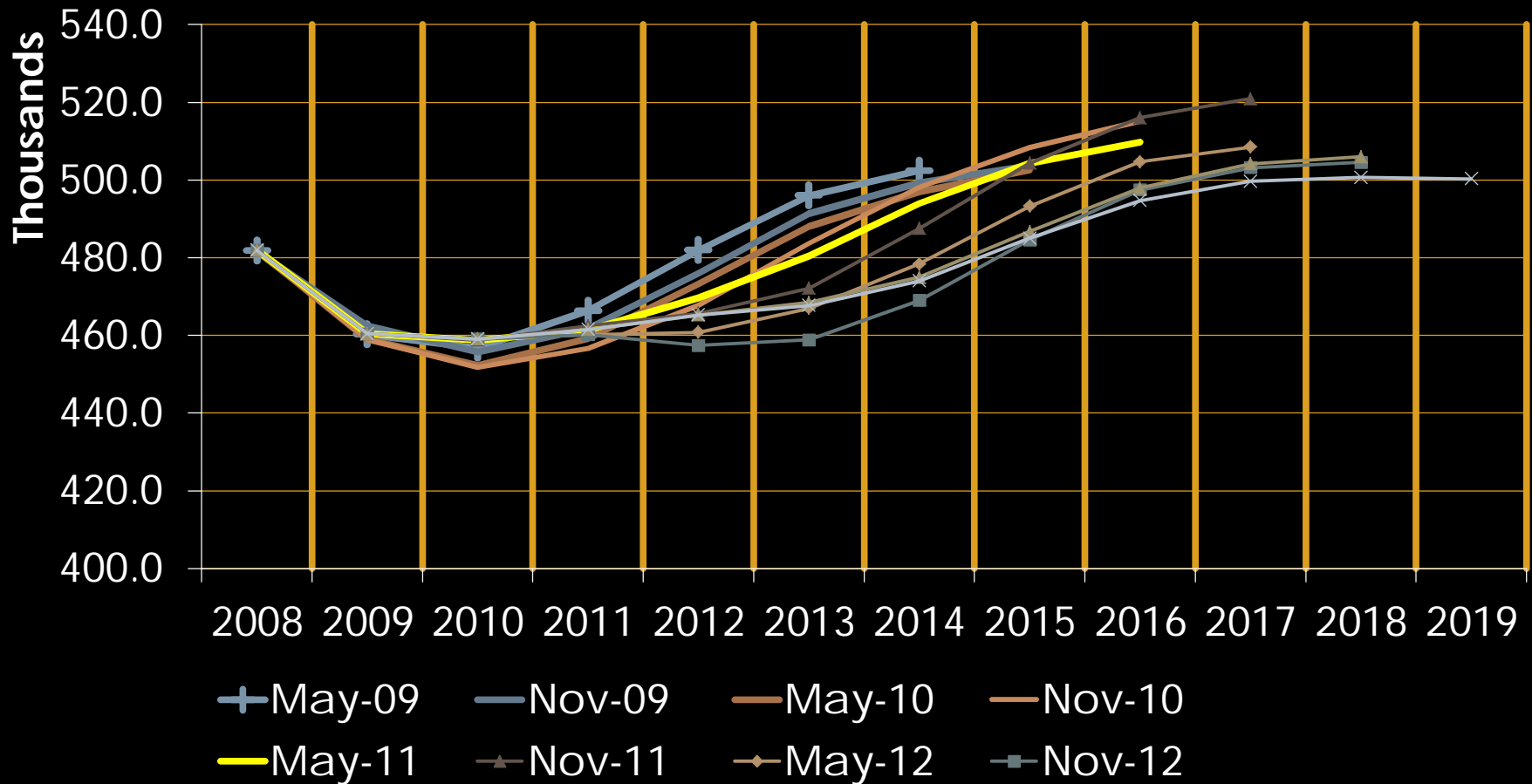
Consensus Economic Forecast

Forecast Differences - Personal Income Growth



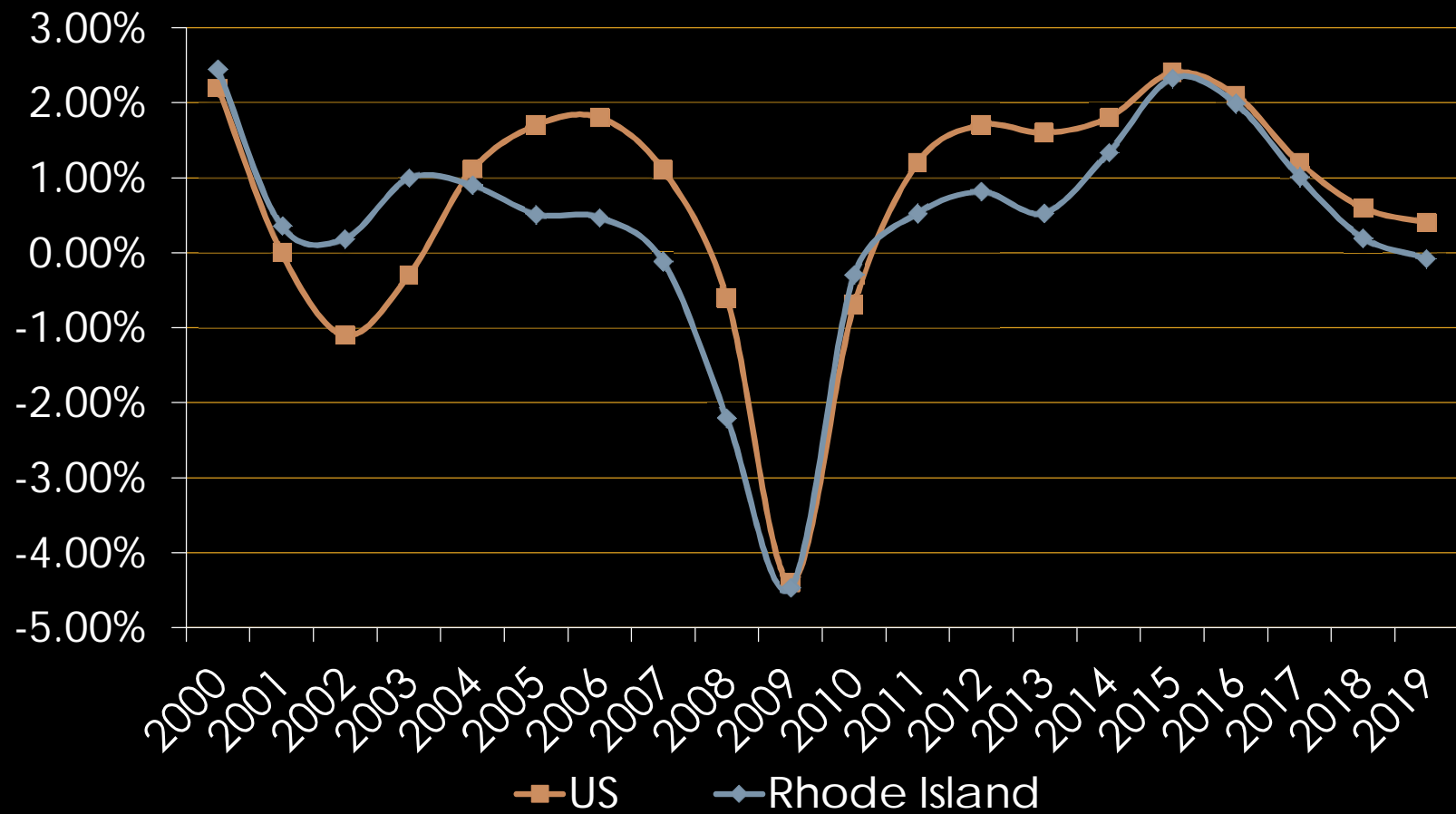
Consensus Economic Forecast

Forecast Differences - Jobs



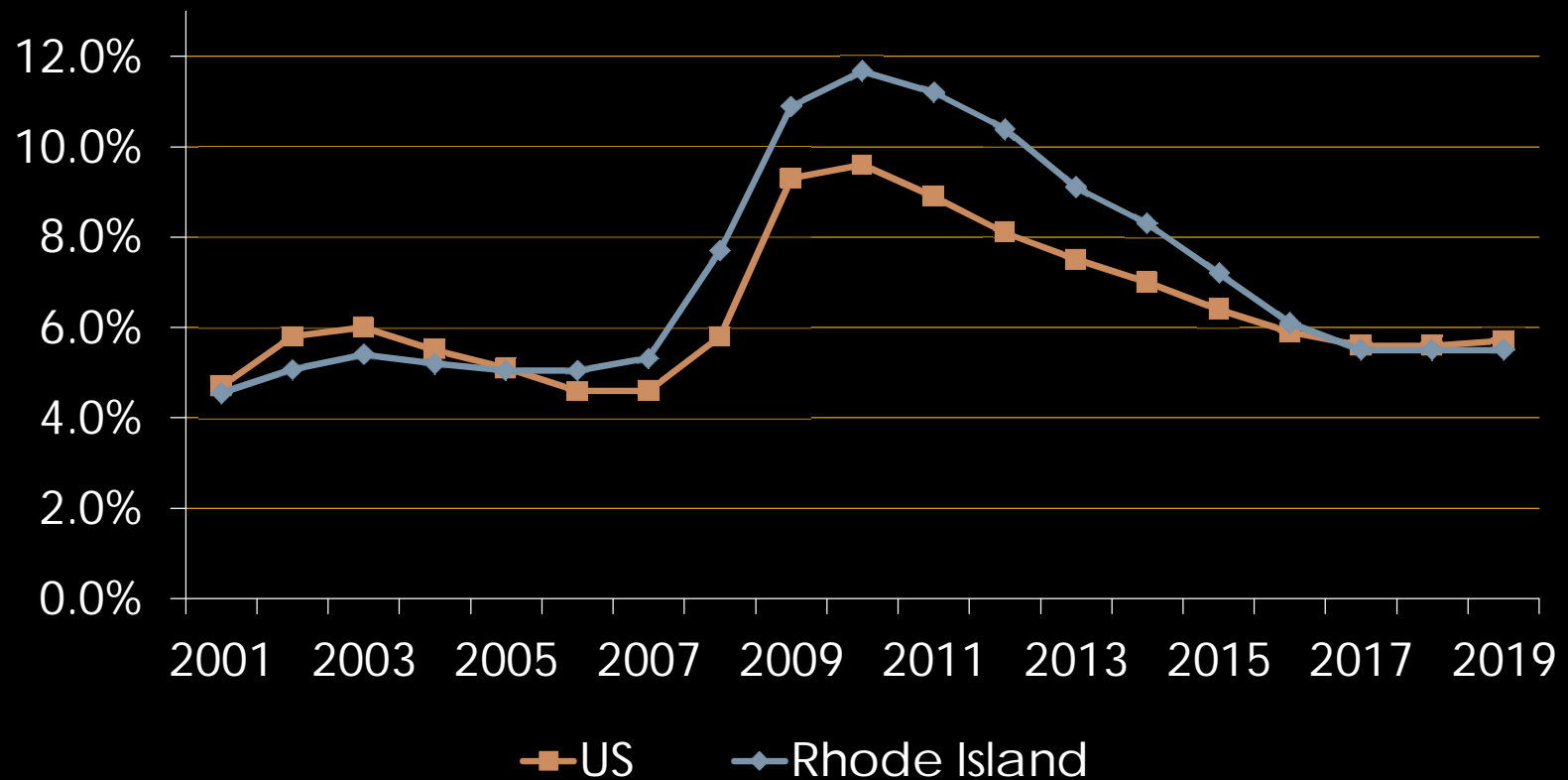
Employment Growth

Jobs Growth - RI Currently Underperforming



Unemployment Rates

RI has Consistently Higher Unemployment



Revenue Drivers



Projections

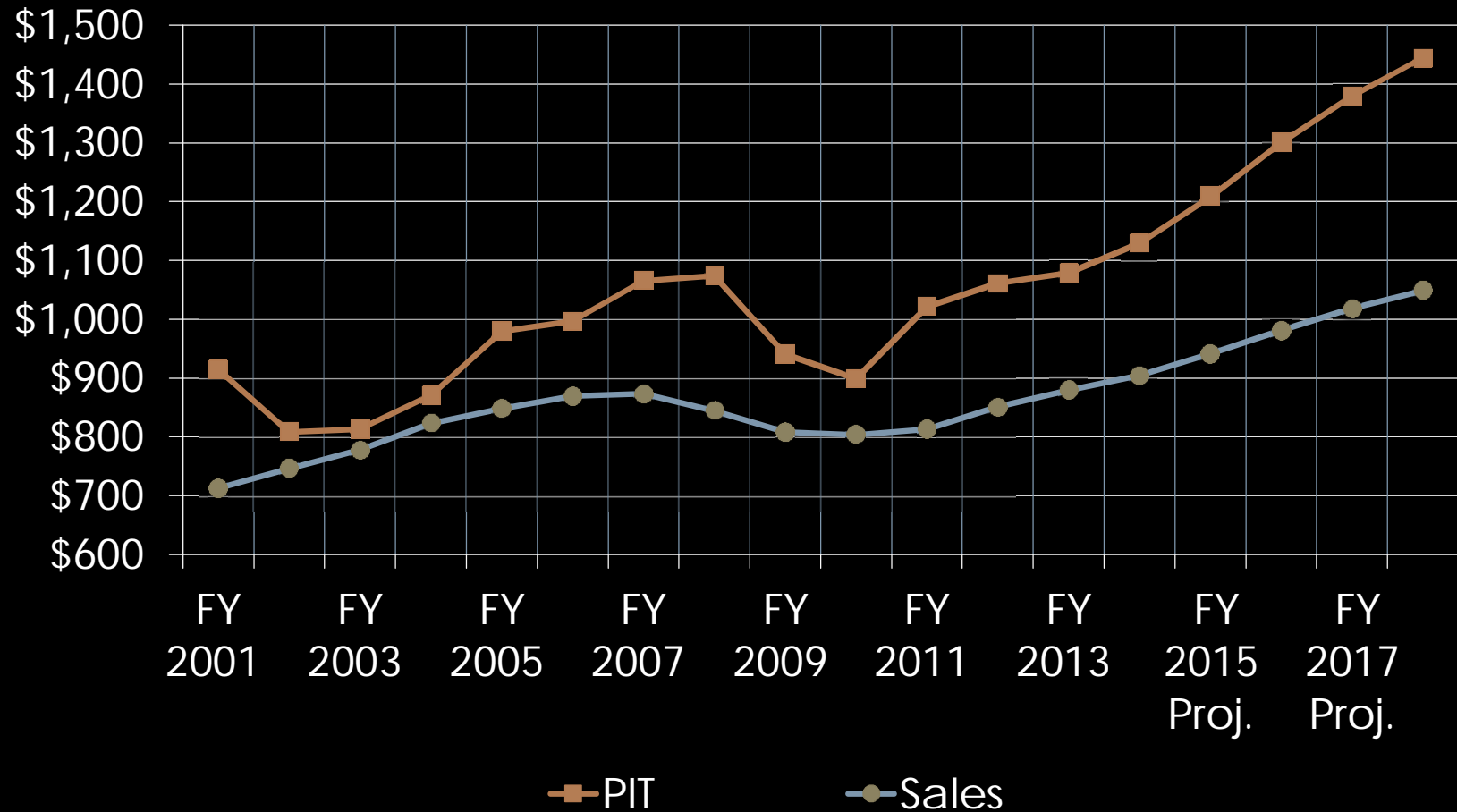
Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
 - FY 2013 were less than anticipated
 - Projections assume no losses from gaming in Massachusetts in FY 2015
 - Staff projects losses beginning in FY 2016

Revenues

- Taxes in FY 2014 = \$2,654 million
 - 3% from FY 2013 actuals
 - \$31 million above the enacted estimate
 - \$28.3 million is from Income and Sales
- Taxes in FY 2015 = \$2,717.8 million
 - 2.4% increase to FY 2014 revised
 - \$63.8 million with \$59.8 million from Income and Sales

Income and Sales



Revenues

- Other than Taxes
 - FY 2014 = \$772.7 million
 - Up \$14.6 million - Primarily recapturing items that were expected in FY 2013
 - FY 2015 = \$620.7 million
 - Down \$152 million from FY 2014
 - Excludes \$141.3 million hospital license fee
 - Deficit calculations assume reenactment
 - All others down \$10.1 million – mostly impact of one-time revenue

FY 2013 Closing

- FY 2014 budget counted on surplus from FY 2013 to help fund FY 2014
- Preliminary FY 2013 data shows \$3.6 million gain to that assumption
 - Subject to audit adjustment before final

FY 2013 Preliminary

	Enacted	Current	Diff.
Opening	\$ 122.9	\$122.9	\$ 0.0
Revenues	3,323.8	3,315.9	(8.0)
Rainy Day	(103.2)	(102.9)	0.2
Expenditures	(3,233.8)	(3,215.4)	18.4
Xfer Fleet/IT	16.4	16.4	-
Closing Surplus	\$ 93.4	\$ 104.1	\$10.7
Reappropriation	-	(7.1)	(7.1)
Free Surplus	\$ 93.4	\$ 97.0	\$ 3.6

Closing - Expenditures

- Unachieved initiatives
- Unexpected expenses
- Impact on FY 2014
 - Do savings or higher base expenses in FY 2013 carry to FY 2014?
 - Will delayed purchases require additional funds in current year?
 - Are initiatives being implemented?

Closing – Revenues

- Revenues \$8.0 million (0.4%) below
 - Taxes up \$9.9 million with personal income tax gains offsetting business taxes
 - Business taxes have been difficult to estimate
 - All other revenue down \$17.9 million
 - Departmental receipts down \$14.7 million – primarily unpaid hospital license fees
 - Largely recaptured in November Revenue estimate

Closing – Revenues

- Revenues \$8.0 million less
 - Law requires final revenues above estimates be transferred to the Employees' Retirement System to pay down unfunded liability
 - No Transfer for FY 2013
 - FY 2012 closing revenues exceeded estimates requiring transfer of \$12.5 million

Closing - Expenditures

- Total spending \$18.4 million (0.9%) below budgeted amounts – but areas of overspending
 - 7 agencies overspent – 5 by less than \$20k
- Appropriation lines overspent even if agency totals were not
 - 22% of general revenue lines were overspent... Ongoing pattern

Closing - Expenditures

Spending \$18.4 million below:

- \$7.1 million unspent & re-appropriated
- \$8.1 million Medicaid/Admin
- \$1.6 million DOA central facilities
- \$1.4 million Public Safety
- \$1.5 million DOR
- Personnel savings in DOA, DOC, DCYF
- \$4.5 million overspent in BHDDH
- \$1.7 million overspent in DHS (TANF penalty)

Closing - Expenditures

- \$1.7 million overspent in DHS – TANF

Penalty

- Eligibility/verification discrepancies not investigated
 - From 2003 audit
 - Not sufficiently corrected in time
-
- Additional \$1.3 million general revenue penalty being appealed

Closing - Expenditures

- BHDDH: \$4.5 million
 - Mental Health : \$1.3 million overspent
 - Overspent Medicaid funded services by \$4.9 million
 - Offset by savings in state only programs
 - ESH: \$0.3 million overspent
 - 3rd quarter report showed \$1.2 million in savings
 - Administrative Divisions: \$0.5 million overspent
 - Not included in the 3rd quarter report

Closing - Expenditures

- Division of Developmental Disabilities :
\$2.3 million overspent
 - RICLAS \$0.8 million overspent
 - Community Based System– overspent \$1.5 million from general revenues
 - 3rd quarter report projected a \$0.4 million deficit
 - Rate increase in 3rd and 4th quarter

Closing - Expenditures

- RICAP
 - \$93.9 million spent in FY 2013 - 81% of the appropriation (70% adjusted for DOT issue)
 - FY 2012: 64.4% , FY 2011:61.2%
 - Higher spending levels based on efforts to move projects better
 - Still problems
 - Many slow moving projects
 - DOT allowed to overspend by \$13.4 million

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
- Requests for supplemental appropriations \$22.3 million
- Q1 reports even higher at \$29 million

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

- 15* agencies are showing a deficit for FY 2014 -
- None has submitted a corrective action plan
 - DOC does reference corrective actions in its 1st quarter report
- Budget Office Q1 notes it is working with agencies to resolve deficits
- (*corrected from prev. version that said 19 agencies)

FY 2014

	Enacted	Current	Diff.
Opening	\$ 93.4	\$104.1	\$10.7*
Revenues	3,381.0	3,426.7	45.6
Rainy Day	(104.2)	(105.7)	(1.5)
Expenditures	(3,359.8)	(3,372.2)*	12.4
Xfer to Depr. Fund	(10.0)	(10.0)	-
Total FY 2014	\$ 0.4	\$ 42.8	\$42.4

**Includes \$7.1 million reappropriation*

Current Year

- Revenues are up by \$45.6 million
- Added resources increase rainy day transfer by \$1.5 million
- Expenditures appear up by \$12.3 million net of reappropriations and November Caseload increase
- Closing surplus up \$42.4 million

Current Year

Reappropriation	\$ 7.1
Legislature	(2.0)
OHHS Caseload & Programs*	12.6
Education Aid Programs	(2.8)
Corrections*	5.7
Judiciary	1.5
Other *	(2.6)
Total	\$19.4
* Items different than Budget Office Q1 estimates	

Reappropriation

- Statutory requirement: \$4.7 million
 - Legislature rev. budget lowers by \$2.0 million
- Governor discretionary: \$2.3 million
 - Corrections = \$0.7 million
 - I-195 = \$0.7 million
 - AG = \$0.3 million
 - GOV = \$0.2 million
 - DOA, DOR, Ethics, Military total = \$0.4 million

Current Year: OHHS

- Nov Caseload Conference:
 - \$0.1 million in added costs
 - Medical Assistance - \$0.2 million less
 - Savings in managed care
 - Shifted existing resources to new Rhody Health Options program
 - Increased Part D Medicare payment
 - Cash Assistance – \$0.3 million more

Current Year: OHHS

- OHHS/DHS - \$7 million
 - Unified Health Infrastructure Project – UHIP
 - New eligibility system for OHHS agencies integrated with Health Benefits Exchange
 - \$7 million shortfall based on updated estimates and federal cost sharing
 - Match differs based on use
 - Highest match for development costs

Current Year: OHHS

- 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

Current Year: OHHS

- \$209.4 million from all sources
 - \$39.1 million from general revenues
- 90% Medicaid match for system development
 - Other services – 75% to 50% match
- FY 2013 spent – \$27.2 million
 - \$16.7 million in OHHS; \$1.8 million from general revenues
 - \$9.6 million in DOA for Exchange
 - \$0.9 million in DHS

Current Year: OHHS

- Is this the final cost for project?
 - Any updates to FY 2014 costs
- What is the net cost when only have one system?
 - Currently funded systems will not be needed
- How will Exchange be funded after January 1, 2015

Current Year: OHHS

- BHDDH - \$2.9 million
 - \$2.3 million Eleanor Slater Hospital staffing
 - \$0.2 million RICLAS and DD admin with large swings in funding among items
 - \$0.4 million other increases
- DD provider rate increase submitted to federal gov't for approval – impact on current and budget year not clear

Current Year - OHHS

- DHS \$1.1 million above enacted:
 - \$0.6 million - new positions, fill vacancies
 - \$0.4 million - restoring unachieved indirect cost recovery
 - \$0.1 million – all other operations

Current Year: OHHS Caseload

- DCYF - \$0.7 million
 - \$0.3 million unachieved savings from not closing the Bristol Family Service office as proposed in enacted budget
 - \$0.3 million in unbudgeted expenses from changing funding arrangement with Groden Center
 - \$0.1 million legal expenses – not funded in the enacted
 - No apparent Medicaid claiming shortfall
 - Had been a recurring issue

Current Year: Education Aid

- Education Aid \$2.8 million savings
 - School Construction Aid -\$2.3 million savings from projects not finished in time for reimbursement
 - Teacher Retirement - \$0.8 million in savings based on the FY 2013 closing
 - Group Homes Aid - \$0.3 million more for new beds

Current Year

- Corrections -\$5.7 million more
 - Staffing expenses - \$4.9 million
 - 40 more inmates than enacted budget
 - Budget Office Q1 has higher \$ for staffing
 - Weapons requalification arbitration ruling \$0.4 million
 - All other adjustments \$0.4 million
 - Software, per diem, SCAAP savings

Current Year

- Other - \$2.6 million less
- All other projected adjustments to agency expenditures
 - Utilities Savings
 - Labor Contract negotiations cost
 - Pay-go pension savings
 - Turnover Savings in several agencies—
DOR, DBR, DPS

Current Year

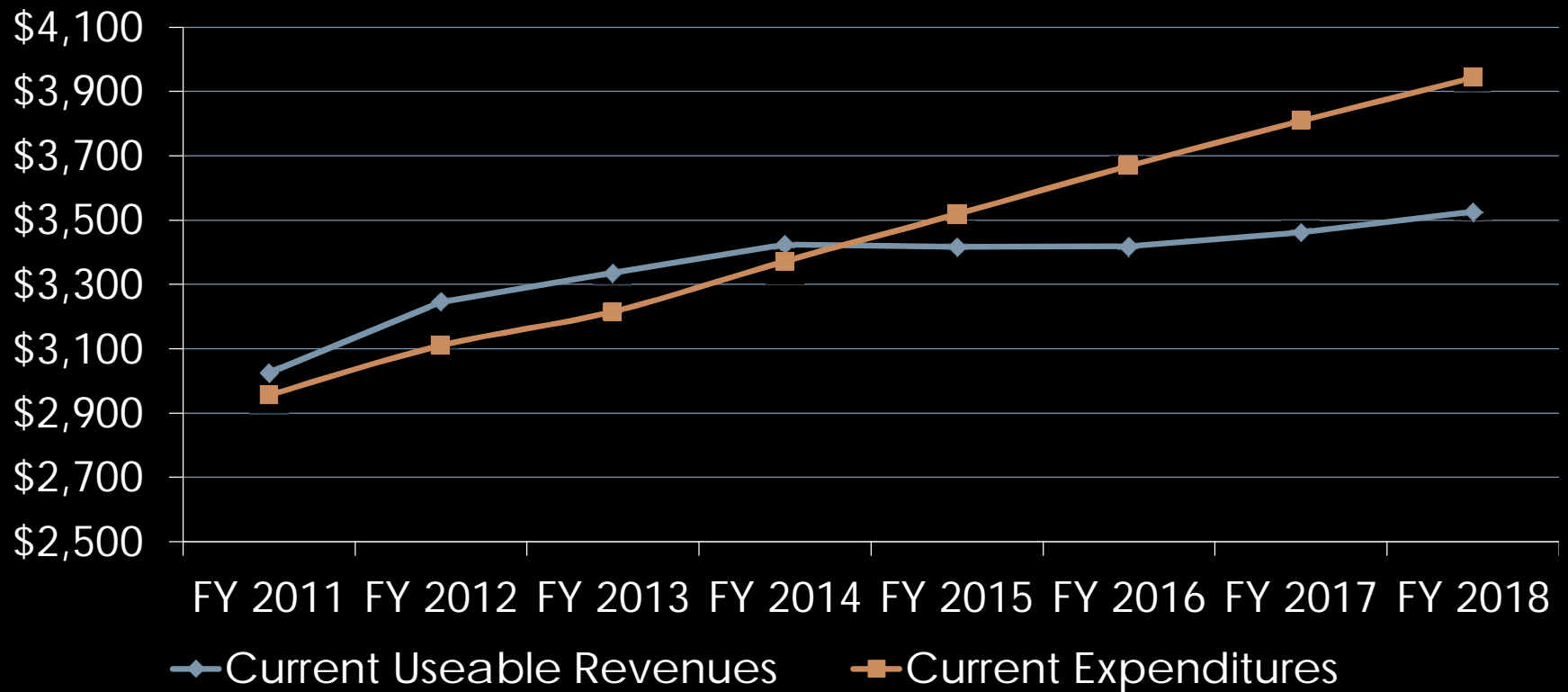
- Difference from Budget Office –
 - Neither is a recommendation, but staff estimates exclude many new spending items included in agency requests
 - Shows Judiciary as requested
 - Other minor adjustments

Budget Year and Out-years

- There are also *budget year* and *out-year* problems
 - FY 2015 was estimated in July to have a gap of approximately \$140 million
 - Budget Office estimates higher gap - mainly to revenue projection differences
 - Current staff estimate is \$100 - \$400 million in out years – almost 12% of revenues

Budget and Out Years

Revenues vs. Expenditures: HFAS Dec. Estimate



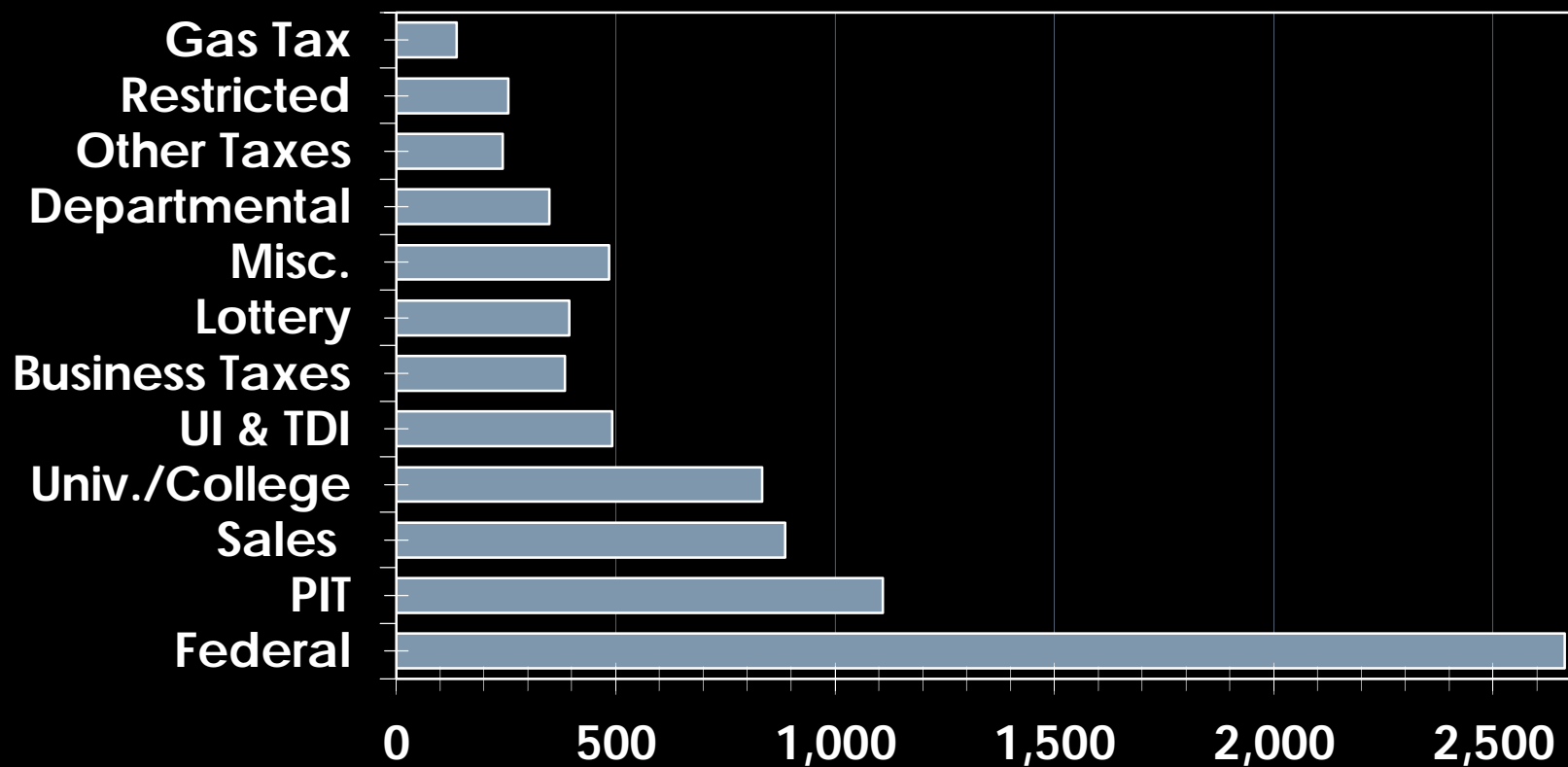
Budget Year and Out-years

- These gaps continue to be a function of both cyclical economic and continued structural issues
- Use of surplus to partially balance budget
- Projected gaming revenue losses begin in FY 2016 and grow in later years of forecast

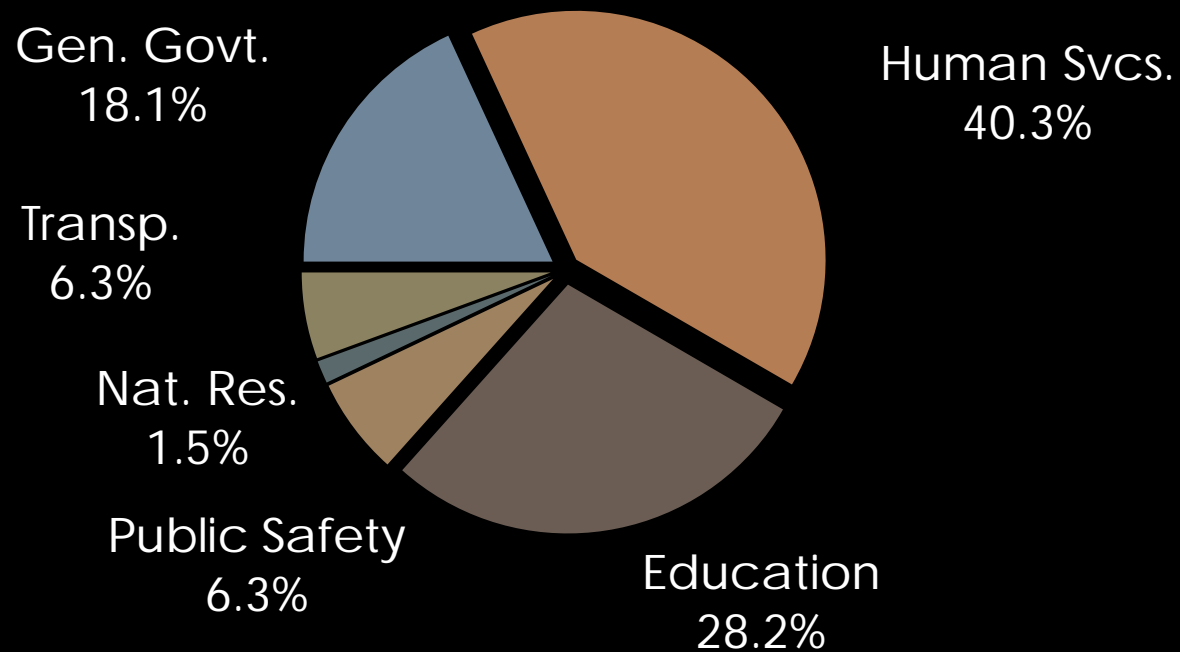
Budget Year and Out-years

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

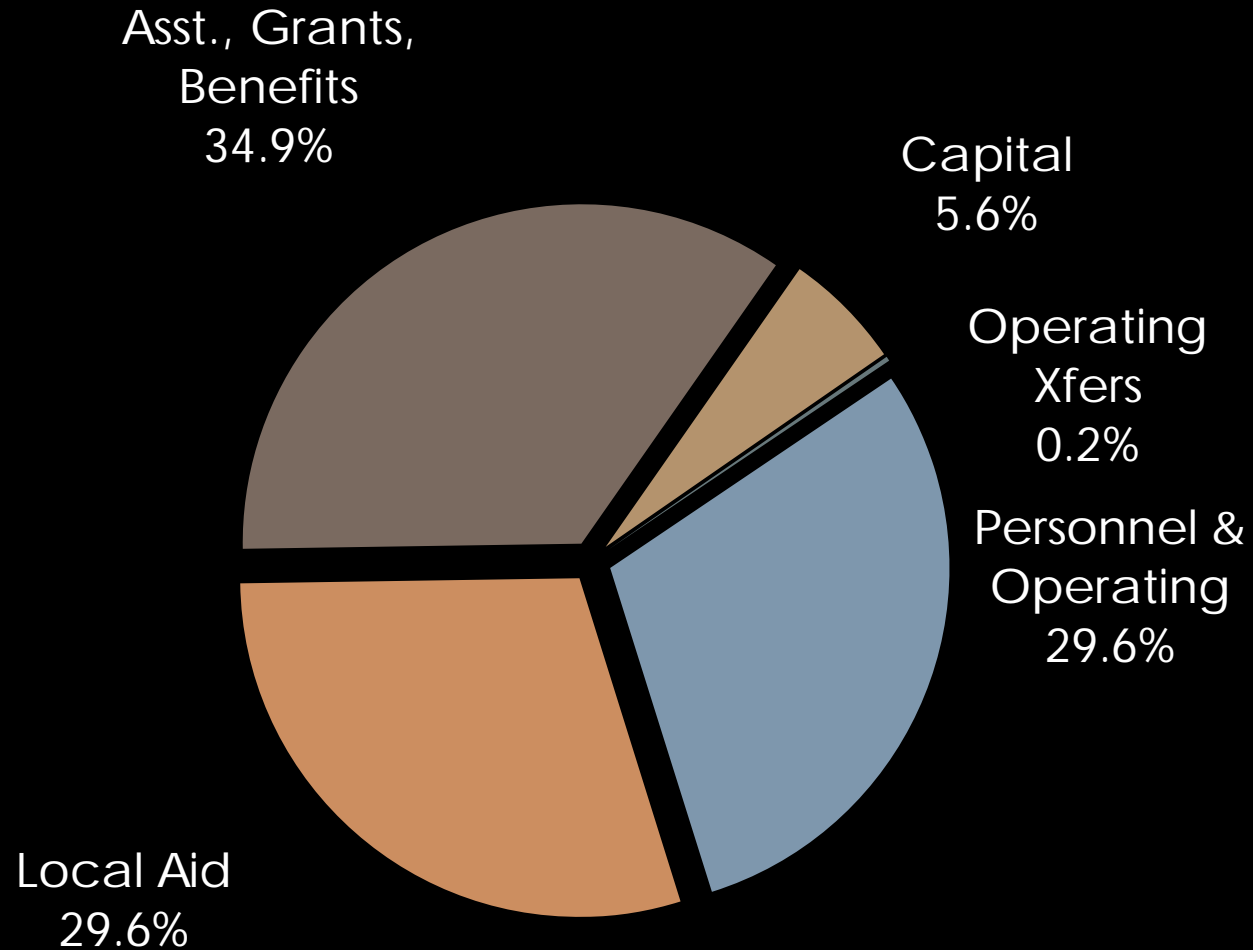
Sources *(millions)*



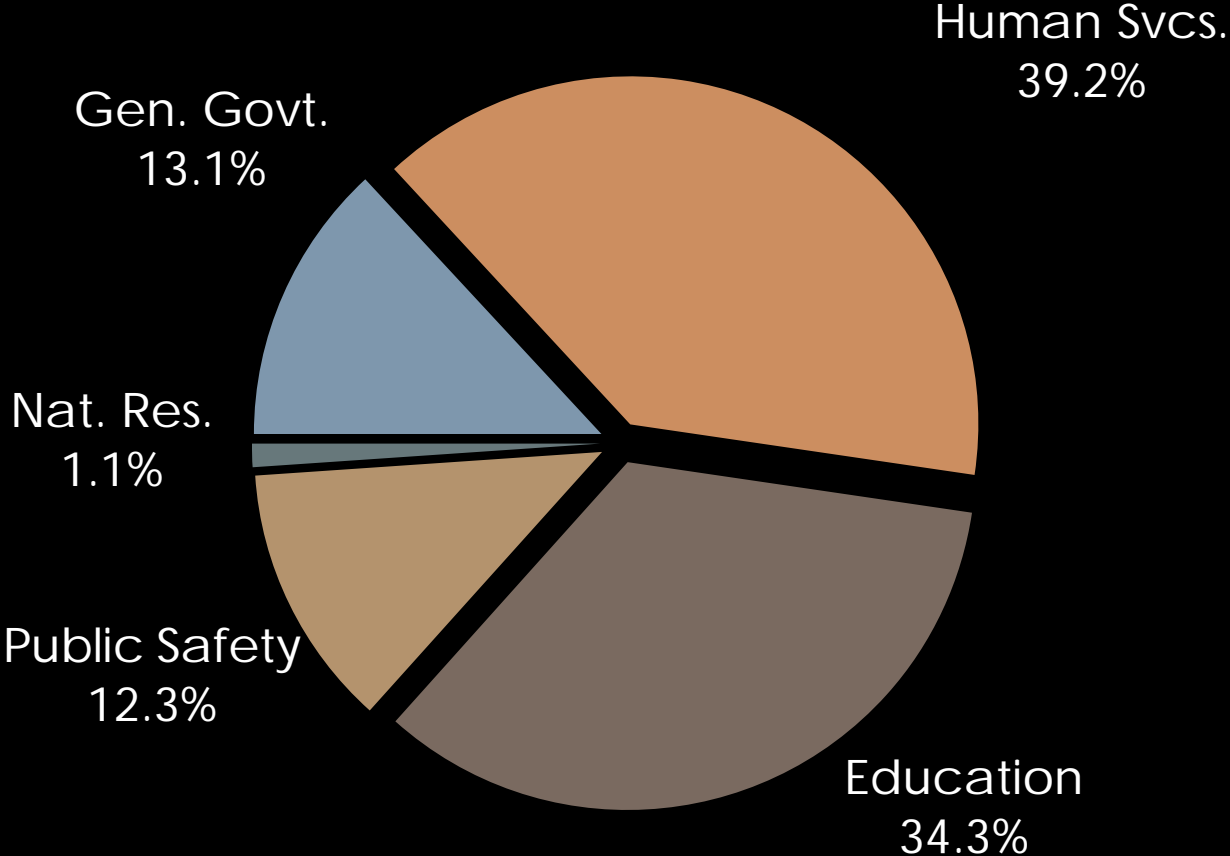
Uses – All Funds by Function



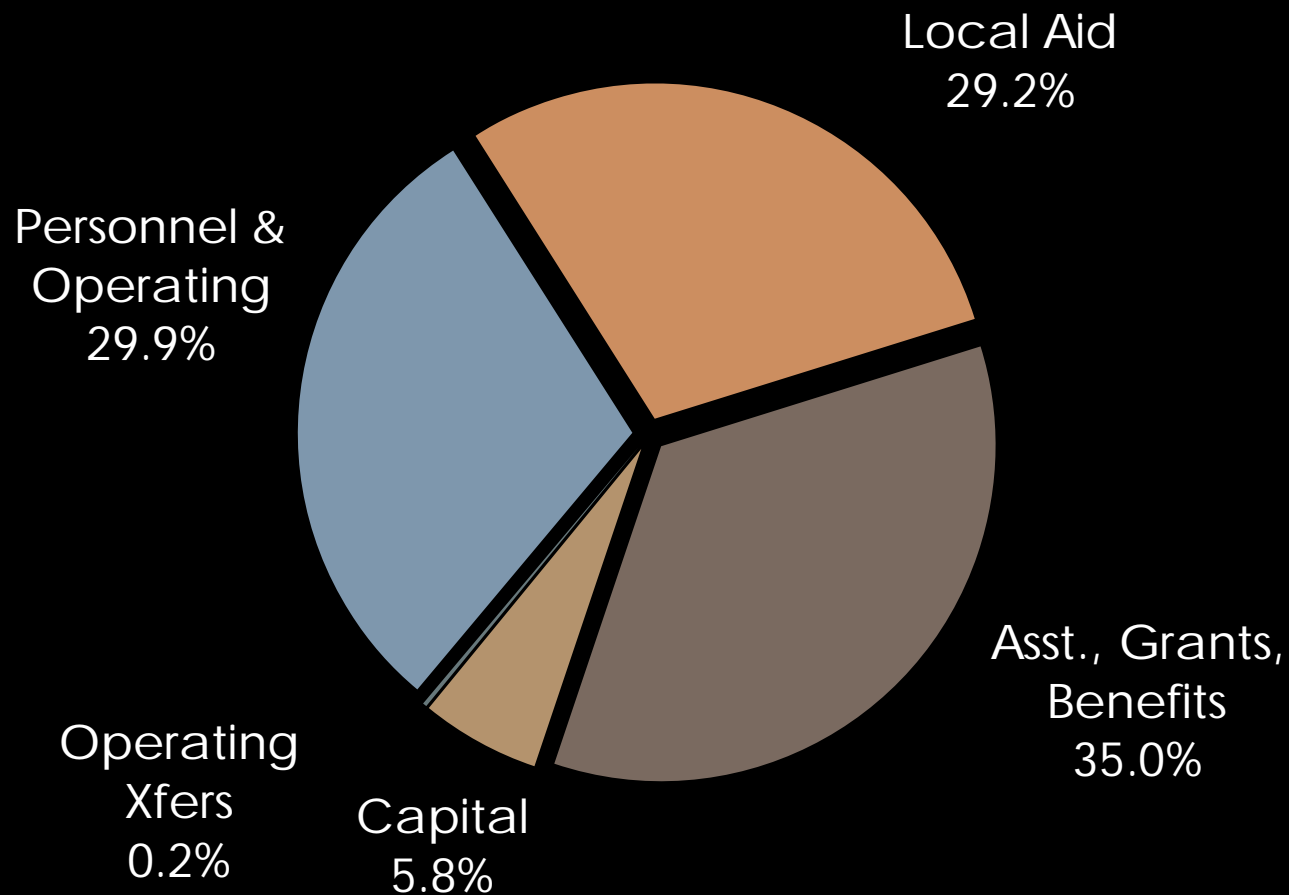
Uses – All Funds by Category



Uses – General Revenues by Function



Uses – General Revenues by Category



Budget Year and Out-years

- Budget Office Instructions based on \$149 million July deficit projection
 - Includes calculation of current service revenues and expenses
 - Some revisions based on more updated data
 - Other revisions reflect different methodology and “policy choices”

Budget Year and Out-years

- Agencies asked to submit budgets that reflect current service “target” as calculated by Budget Office
- Agency requests exceed current service estimates by over \$63.4 million
 - Not all same items included

FY 2015 Budget Requests

- Budget Office also asked for options for reductions of 7%, adjusted for certain exclusions
- Those reductions represent \$152.1 million of savings from Budget Office current service estimate
- Very similar to last year's targets

FY 2015 Budget Requests

FY 2014 Enacted	\$ 3,359.8
Current Services Adjustment	142.8
FY 2015 Budget Office Current Svs.	3,502.6
FY 2015 Agency Unconstrained Req.	3,566.0
Difference from Budget Office	\$ 63.4
<i>Implied Current Service Need</i>	<i>\$ 206.2</i>

FY 2015 Budget Requests

FY 2015 Budget Office Current Svs.	3,502.6
Target Adjustment	(150.5)
FY 2015 Budget Office Target	3,352.1
FY 2015 Constrained Requests	3,377.6
<i>Difference from Budget Office Target</i>	<i>25.5</i>
Constrained vs. B.O. Current Svs	(124.9)
Constrained vs. Unconstrained Req.	\$ (188.3)

Budget Year and Out-years

- 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
- Media have already cover the proposals this fall as in the past

Risks to the Forecast

- Economic impact of new Federal Government budget issues
 - Last year it was "Fiscal Cliff"
- Federal sequestration will continue to impact federal grants and programs
 - Pressure on RI and all states to backfill
- Unemployment numbers going in the wrong direction

Ongoing Issues

- RI infrastructure funding gap
- Sustainable funding for state health benefits exchange
- Control of current year spending to mitigate budget year deficit

Summary

- Governor's Budget expected Jan 16
- Major budget challenges
 - Slow growing economy
 - Structural tax and expenditure issues

Budget Status

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December 4, 2013
