

# Budget Status

House Finance Committee  
December 2, 2015

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# Introduction

- State budgetary problems persist and this will be another challenging year
- Governor's FY 2017 and FY 2016 revised budgets are due January 21 – 7 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 2016
  - Staff estimates for FY 2017 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

# Introduction

- Preliminary Closing – Aug 30
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 4
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 17
- Audited Closing – ???
- Governor's Budget – Jan 21
- Agencies Q2 – Jan 30

# Introduction

- The state continues its slow recovery from severe economic distress
- Current year picture is clearer and overspending eating into unexpected revenues
  - Potentially exacerbating structural issue
- Facing continued budget year and out-year issues growing from about \$50 million to over \$260 million

# Economic Forecast

# Economic Forecast

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



# Economic Forecast

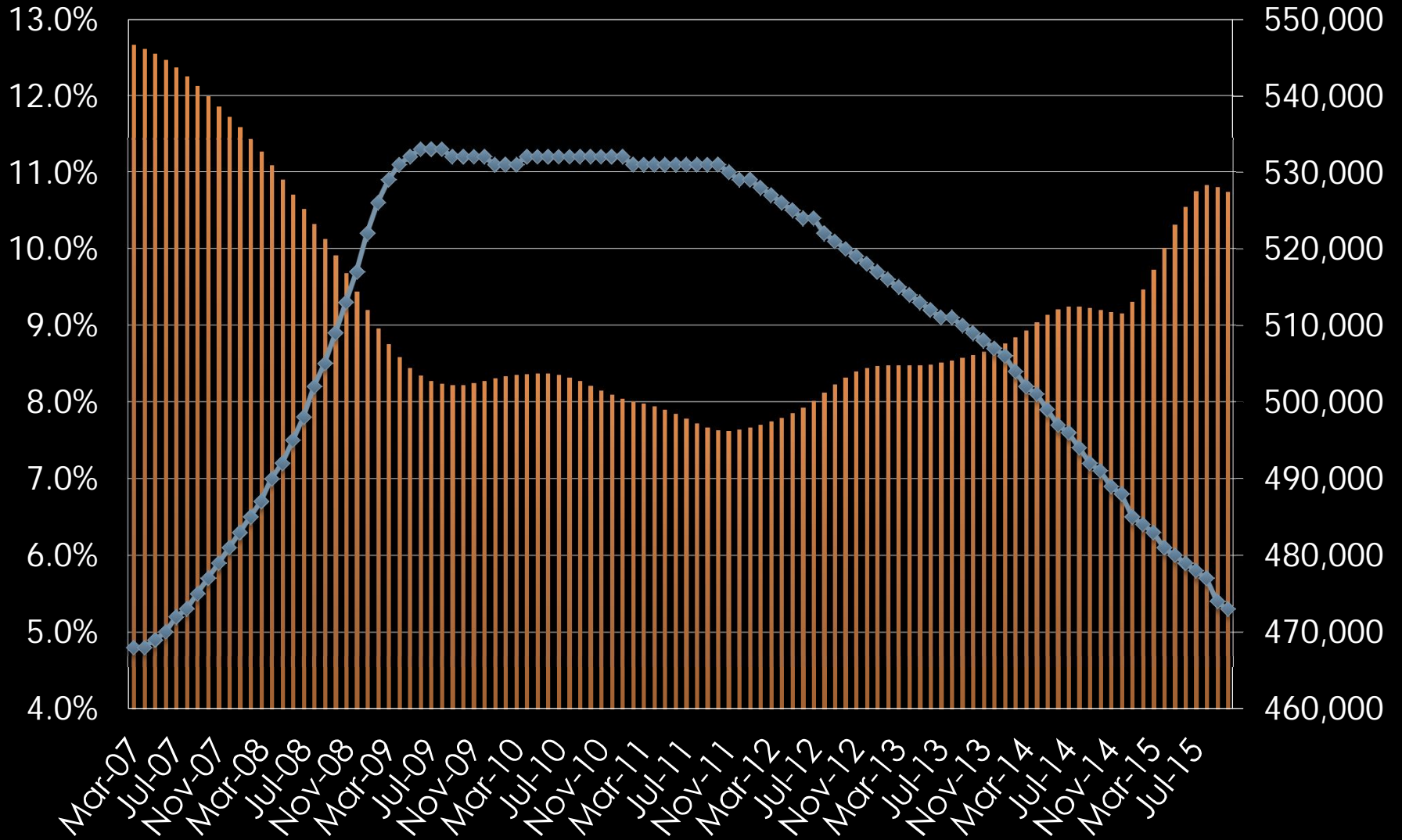
November forecast more pessimistic than May 2015 forecast

- Personal income, wage & salary growth rates all projected to be somewhat lower in FY 2016
  - Growth shifted to later years
- RI recovery continues to lag U.S. and other New England states

# Jobs

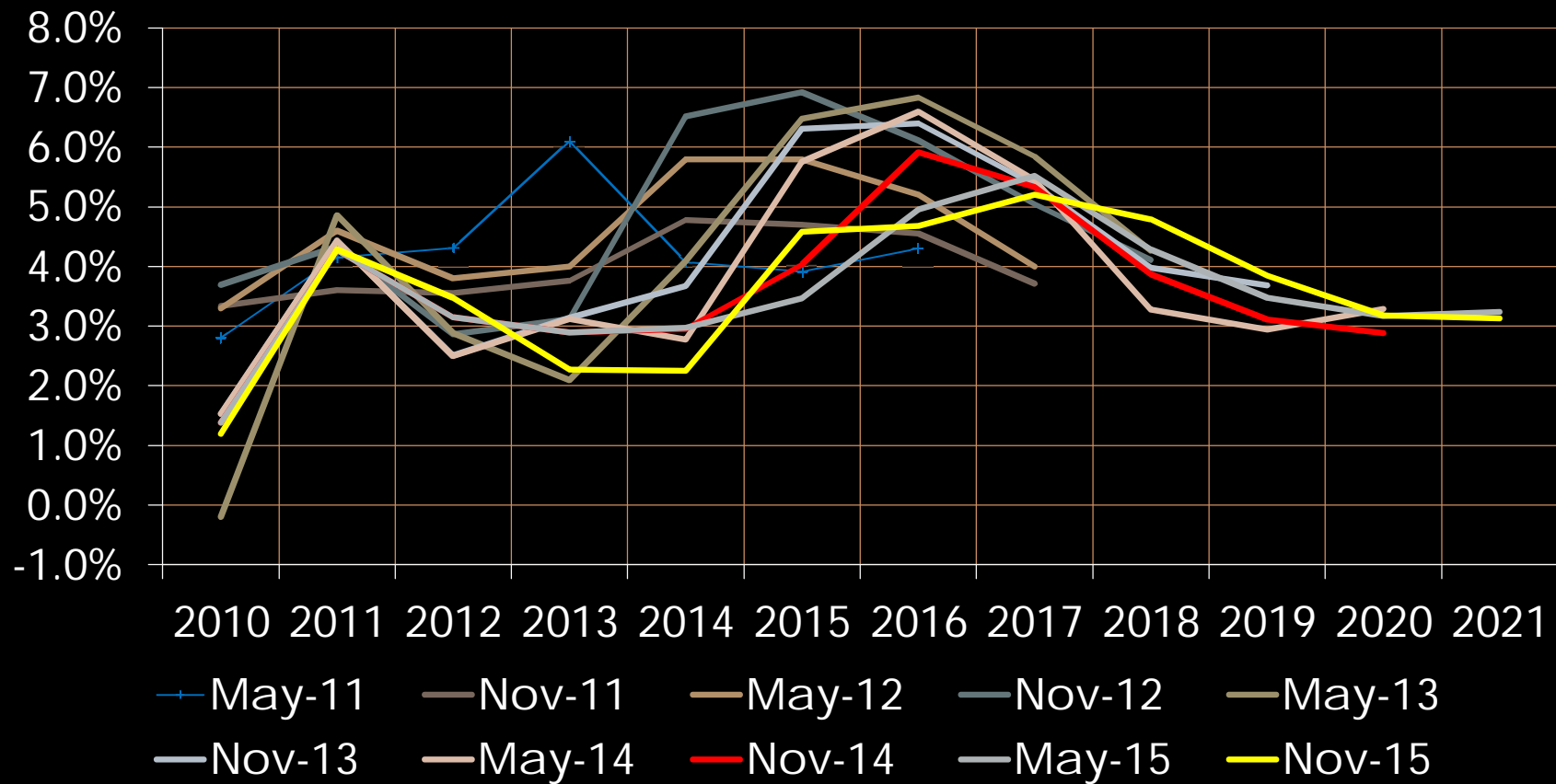
Workforce	Dec 07	Mar 10	Oct 15
Total	572,000	566,600	556,800
<i>Change from 12/07</i>		<i>(5,400)</i>	<i>(15,200)</i>
Employed	537,300	503,500	527,400
<i>Change from 12/07</i>		<i>(33,800)</i>	<i>(9,900)</i>
Jobless	34,700	63,100	29,400
<i>Change from 12/07</i>		<i>28,400</i>	<i>(5,300)</i>
Rate	6.1%	11.1%	5.3%
<i>Change from 12/07</i>		<i>5.0%</i>	<i>-0.8%</i>

# Unemployment Rate and Total Jobs March 2007 – October 2015



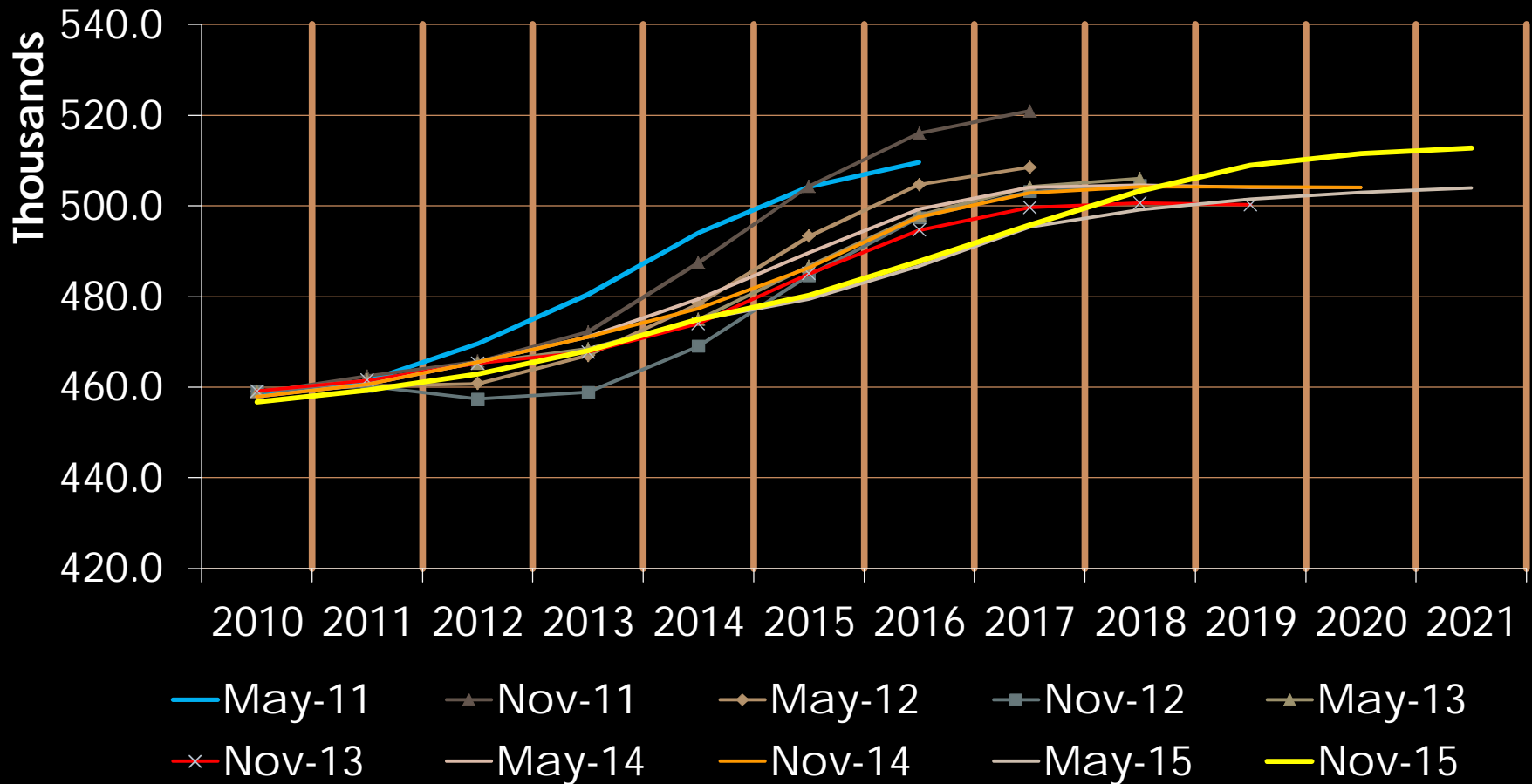
# Consensus Economic Forecast

## Forecast Differences - Personal Income Growth



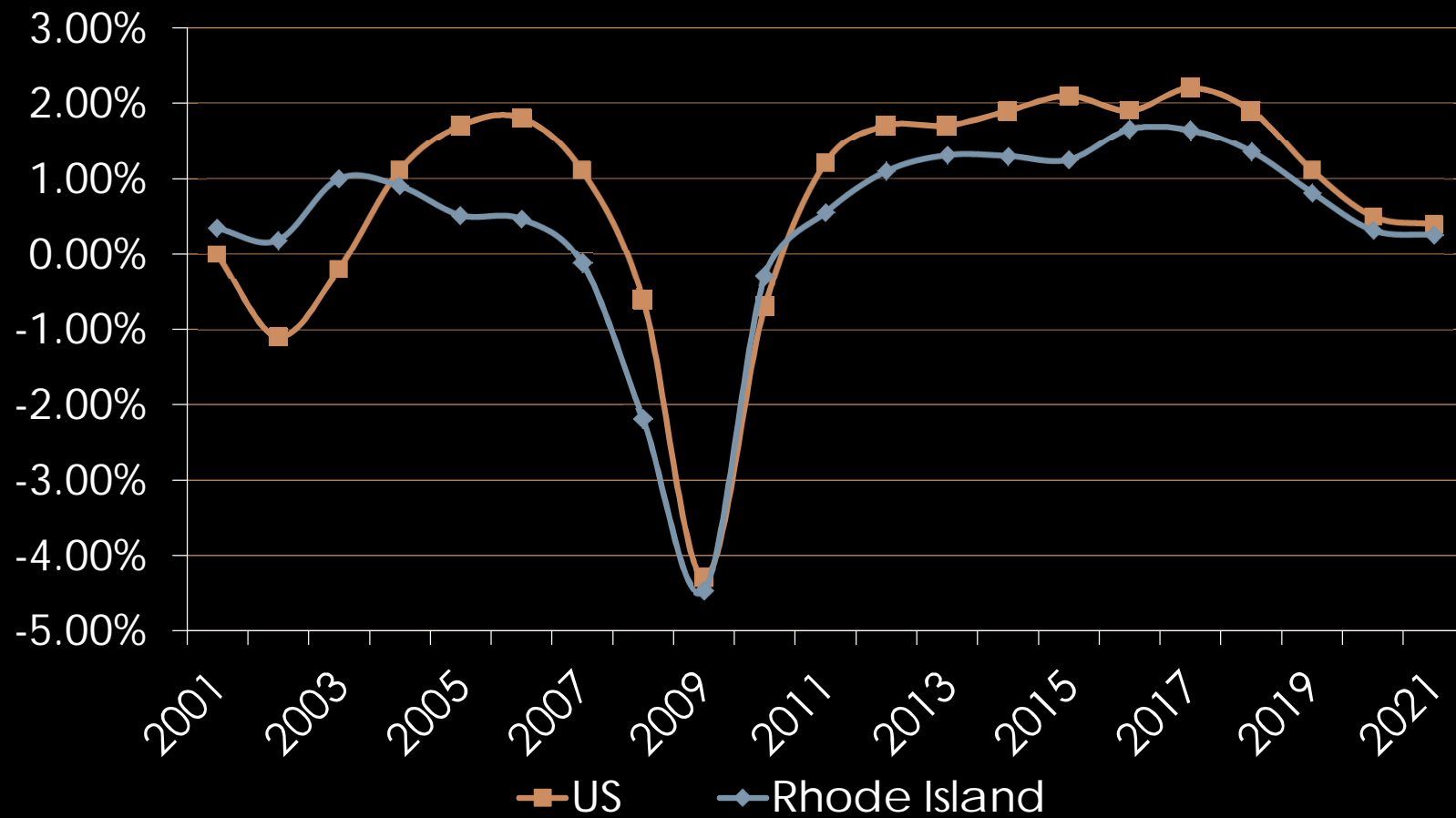
# Consensus Economic Forecast

## Forecast Differences - Jobs



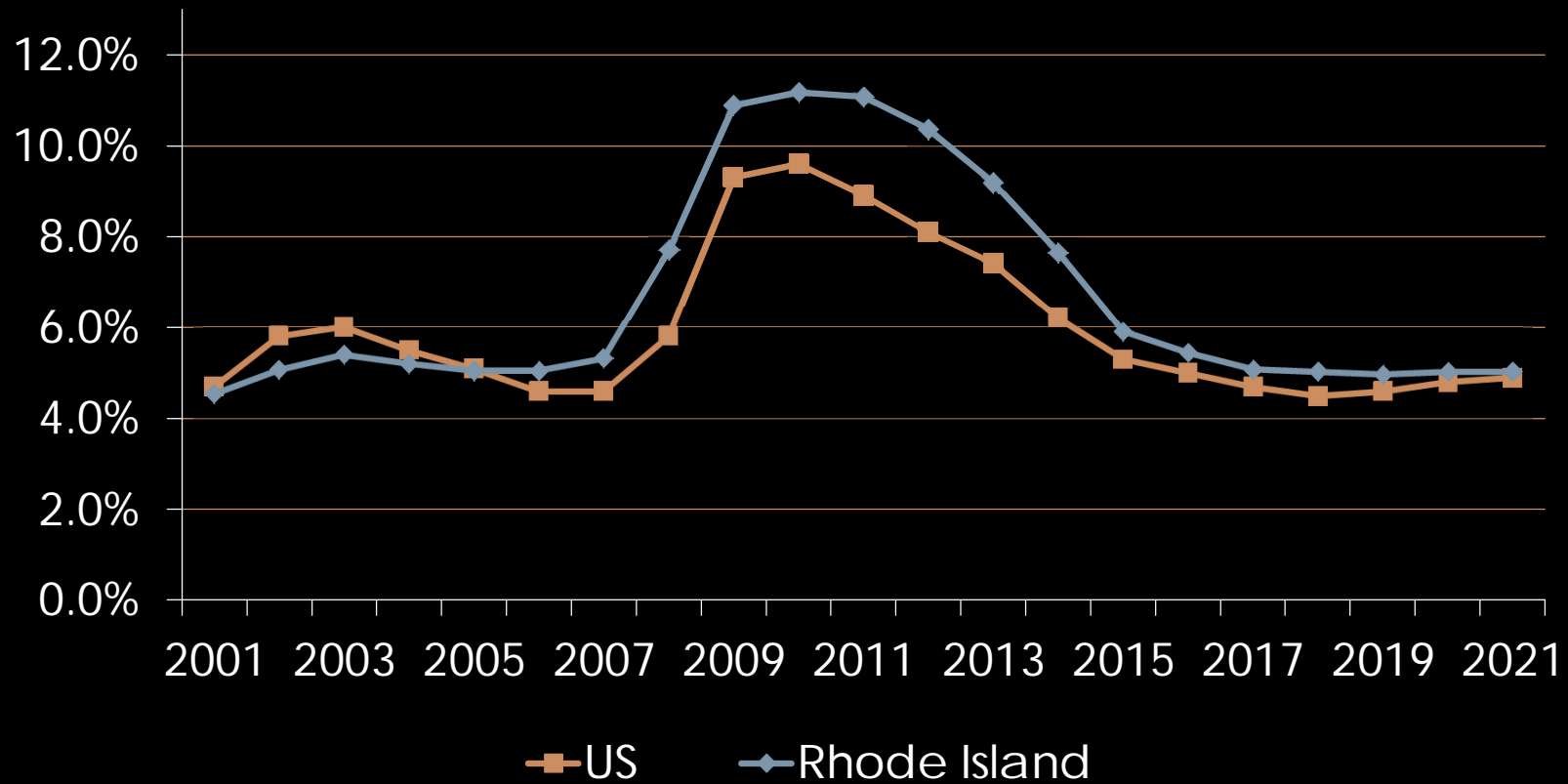
# Employment Growth

## Jobs Growth - RI Underperforming



# Unemployment Rates

RI has Consistently Higher Unemployment



# Revenue Drivers





Projections

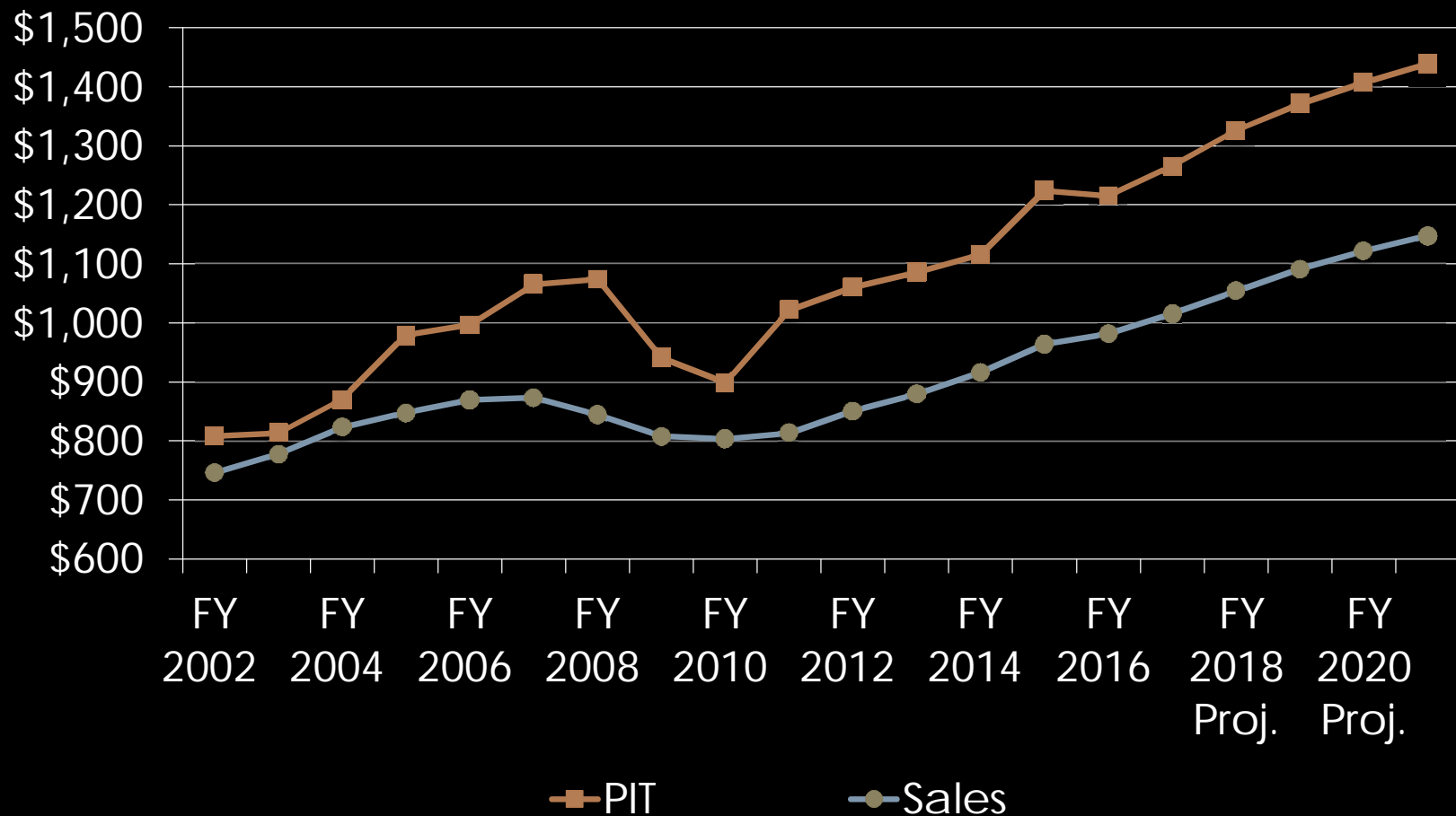
# Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2015 were more than anticipated
  - Projections assume losses from gaming in Massachusetts
    - Losses revised downward from earlier estimates to account for actuals and new projections

# Revenues

- Taxes in FY 2016 = \$2,871.7 million
  - \$10.9 million or 0.4% below FY 2015 actuals
    - Impact of tax changes, cyclical items
  - \$28.3 million above the enacted estimate
    - Nearly all from corporate and sales taxes
- Taxes in FY 2017 = \$2,937.0 million
  - 2.3% increase to FY 2016 revised
    - \$65.3 million with \$84.5 million from Income & Sales
    - Continued shift of revenues to transportation

# Income and Sales



# November 2015

## Consensus Revenue Estimates

<i>(in millions)</i>	FY 2015 Reported	FY 2016 Rev. Est.	Change to Enacted	FY 2017 Estimate	Change to FY 2016 Rev. Est.
Personal Income	\$1,227.6	\$1,214.9	\$(0.8)	\$1,265.4	\$50.5
Business Taxes	441.3	443.9	14.2	454.0	10.1
Sales & Use Taxes	1,168.9	1,178.8	12.6	1,185.8	7.0
Other Taxes	44.8	34.1	2.4	31.8	(2.3)
<b>Total Taxes</b>	<b>\$2,882.6</b>	<b>\$2,871.7</b>	<b>\$28.3</b>	<b>\$2,937.0</b>	<b>\$ 65.3</b>
Departmental	353.7	356.7	(0.5)	191.4	(165.3)
Other Misc.	8.8	0.8	(0.6)	1.1	0.3
Lottery	381.9	356.9	25.2	354.7	(2.2)
Unclaimed Prop.	13.7	10.1	0.1	8.8	(1.3)
<b>Total</b>	<b>\$3,640.7</b>	<b>\$3,596.2</b>	<b>\$52.4</b>	<b>\$3,493.0</b>	<b>\$(103.2)</b>

# Revenues

- Other than Taxes
  - FY 2016 = \$724.5 million
    - Up \$24.1 million – mostly Lottery based on revised loss projections
  - FY 2017 = \$556.0 million
    - Down \$168.5 million from FY 2016
    - Excludes \$169.1 million hospital license fee but deficit calculations assume reenactment
    - Lottery down \$2.2 million
    - All others down \$1.0 million – mostly impact of one-time revenue

# Revenues

- Lottery Revenues – major decline was estimated for FY 2016; actual is less severe

	FY 2014	FY 2015	FY 2016	FY 2017
Games	\$ 58.1	\$ 56.9	\$ 57.0	\$ 57.0
VLT (Slots)	306.5	312.3	285.6	283.2
Tables	11.7	12.8	14.3	14.4
Total	\$376.3	\$381.9	\$356.9	\$354.7
Y-O-Y %	(-0.8)%	1.5%	(6.5)%	(0.1)%

# FY 2015 Closing

- FY 2016 budget counted on surplus from FY 2015 to help fund FY 2016
- Preliminary FY 2015 data shows \$47.8 million gain to that assumption
  - Subject to audit adjustment before final
  - Considerably higher than last year
    - Excess revenues no longer subject to transfer to retirement system



# FY 2015 Preliminary

	Enacted	Current	Diff.
Opening	\$ 75.2	75.2	\$ 0.0
Revenues*	3,616.7	3,640.7	23.9
Rainy Day*	(111.0)	(111.3)	(0.3)
<b>Expenditures</b>	<b>(3,476.6)</b>	<b>(3,455.1)</b>	<b>21.5</b>
<b>Closing Surplus</b>	<b>104.8</b>	<b>149.5</b>	<b>44.7</b>
<b>Audit Adj./Txfers*</b>	<b>13.8</b>	<b>23.8</b>	<b>10.0</b>
Reappropriation	-	(6.9)	(6.9)
<b>Free Surplus</b>	<b>\$ 118.6</b>	<b>\$166.4</b>	<b>\$ 47.8</b>

\*retirement & accelerated depreciation same as enacted -\$23.8 m, but mechanics & amounts subject to 3% differ from enacted treatment

# Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2016
  - Do savings or higher base expenses in FY 2015 carry to FY 2016?
  - Will delayed purchases require additional funds in current year?
  - Are agencies constraining spending?
  - Are initiatives being implemented?

# Closing – Revenues

- Revenues \$23.9 million (0.6%) above
  - Taxes up \$16.7 million with corporate and sales tax gains accounting for most
    - Personal income essentially as estimated
    - Business taxes have been difficult to estimate
  - All other revenue up \$7.2 million
    - Lottery receipts up \$3.3 million

# 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

# Closing - Expenditures

- General revenue spending \$21.5 million (0.6%) below budgeted amounts – but areas of overspending
  - 4 agencies overspent total
    - DEM and CRMC – negligible amts
    - Judiciary and Public safety
- Appropriation lines overspent even if agency totals were not
  - 22.8% of general revenue lines were overspent... Ongoing pattern

# Closing - Expenditures

Spending \$21.5 million below:

- \$6.9 million unspent & re-appropriated
- \$4.1 million DOA – utilities, staffing
- \$8.2 million Medicaid savings
- \$1.1 million DCYF savings
  
- \$0.8 million overspent Public Safety
- \$0.3 million overspent in Courts
- <\$6,000 DEM; \$439 CRMC

# Closing - Expenditures

- OHHS: \$8.2 million Medicaid savings
  - \$7.8 million savings Rhody Health Partners
    - Higher drug rebates & risk share savings
  - \$1.3 million less in long term care
    - Lower enrollment in Rhody Health Options & fewer community based services
  - \$0.9 million in other programs
    - Pharmacy, hospital & other medical services
  - \$1.0 million less in administration expenses

# Closing - Expenditures

- BHDDH - \$35,746 total underspend
  - \$2.1 million more for privately provided services in Division of Dev Disabilities
    - Above supplemental funding added in FY 2015
  - \$1.0 million more for RICLAS
  - \$2.0 million less at state hospital
    - Primarily one-time adjustment
  - Offset by savings in other programs



# 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

- 19 agencies are projecting to spend more than authorized in FY 2016
  - 5 of those are spending their statewide savings
- 9 have submitted a corrective action plan
  - Corrective actions total \$15.9 million

# Corrective Action Plans

- Corrective Action Plans
  - Are savings feasible?
  - Do they require law changes?
- Budget Office Q1 notes it is working with agencies to resolve deficits

# FY 2016

	Enacted	Current	Diff.
Opening	\$ 118.6	\$173.3	\$54.7*
Revenues	3,543.8	3,596.2	52.4
Rainy Day	(109.9)	(112.9)	(3.0)
Expenditures	(3,552.0)	(3,599.7)*	47.7
Total FY 2016	\$ 0.5	\$56.9	\$56.4

*\*Includes \$6.9 million reappropriation*

# Current Year

- Revenues are up by \$52.4 million
- Added resources increase rainy day transfer by \$3.0 million
- Expenditures appear up by \$25.9 million net of re-appropriations and November Caseload increase
- Closing surplus up by \$56.4 million

# Current Year

Reappropriation	\$ 6.9
Legislature*	(1.1)
OHHS: Caseload Conference	14.9
OHHS: Other Programs*	28.8
School Construction	(4.1)
Google Fund Shift - one time	(5.9)
Public Safety/Corrections*	8.6
Other *	(0.5)
Total	\$47.7
* Items different than Budget Office Q1 estimates	

# Reappropriation

- Statutory requirement: \$4.4 million
  - Legislature budget lowers by \$1.1 million
- Governor discretionary: \$2.5 million
  - "...may be reappropriated by the governor to the ensuing fiscal year and made immediately available for the same purposes as the former appropriations..."
  - Not all actions appear to conform to statute

# Reappropriation

- Governor discretionary: \$2.5 million
  - I-195 = \$0.2 million
  - E-Permitting = \$0.5 million
  - **EOHHS= \$0.6 million**
  - DLT Jobs programs= \$0.2 million
  - Personnel Study= \$0.5 million
  - **Governor Contingency=\$0.3 million**
  - DOA, DBR, DOR, Commerce, AG total = \$0.3 million



# Current Year: OHHS

- Nov Caseload : \$14.9 million
  - Medical Assistance - \$15.3 million more
    - \$12.6 million for Rhody Health Options
    - \$5.3 million for Rlte Care & Rhody Health Partners
    - \$2.2 million less for hospital costs
    - \$1.4 million less for long term care
    - \$1.0 million more for other services
  - Cash Assistance – \$0.4 million less

Not all savings initiatives being achieved as proposed

# Current Year: *OHHS*

- Other Programs: \$28.8 million
  - UHIP - \$14.9 million
  - DCYF – \$8.0 million
  - BHDDH – \$5.9 million

# Current Year: OHHS

- OHHS/DHS - \$14.9 million
  - Unified Health Infrastructure Project – UHIP
    - New system for OHHS agencies integrated with HealthSource RI
    - Shortfall based on new July 2015 plan
      - Multiple changes reflected
    - Match differs based on use
      - Highest match for development cost

# Current Year: OHHS

- Is this the final cost for project?
  - July 2015 plan does not include child support enforcement function
- 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

# UHIP

IAPD-U through CY 2020	Gen Rev	All Funds
July 2013	\$51.9	\$209.4
July 2014	\$51.6	\$221.9
October 2014	\$51.7	\$229.6
July 2015	\$76.9	\$364.1
<b>Increase: July 2015 to July 2013</b>	<b>\$25.2</b>	<b>\$154.7</b>
<i>(in millions)</i>		

# UHIP

OHHS/DHS	Gen Rev	All Funds
FY 2016 Enacted	\$5.7	\$37.9
FY 2016 Revised	\$20.6	\$122.8
<i>Revised to Enacted</i>	<i>\$14.9</i>	<i>\$84.9</i>
FY 2017 Request	\$11.4	\$57.2
<i>Req to FY 2016 enacted</i>	<i>\$5.7</i>	<i>\$19.4</i>
<b><i>Two-Year Total</i></b>	<b><i>\$20.6</i></b>	<b><i>\$104.3</i></b>
<i>(in millions)</i>		

# UHIP

- Project Cost Drivers
  - New federal & state requirements
    - \$73.3 million of the increase ?
    - Awaiting further detail on calculation
  - Fully integrated system – now called RI Bridges
    - Integrated worker portal for Health & Human Service Programs
    - Previously 2 separate streams for application and eligibility
    - Includes 1- year delay – July 2016

# UHIP

- Contact Center
  - New plan has \$10.0 million in FFY 2016
    - \$2.5 million from gen revenues
    - Not fully accounted for in prior plan or budget
  - FFY 2017 - \$7.8 million
  - Not accounted for in plan for FFY 2018 through FFY 2020
    - Could impact cost of project



# UHIP

- Potential for operational savings noted in several public documents
- RI UHIP Program Overview - Oct 2015
  - Over \$40.6 m in state savings starting FY 2017
    - Enhanced Program Integrity - \$24.8 million
    - DHS workforce savings - \$3.0 million
    - Contact Center cost reductions- \$2.3 million
  - Calculations and assumptions not provided
  - Not reflected in agency budget requests

# UHIP

- UHIP Extension Executive Briefing  
November 2015 (Senate Briefing)
  - Shows \$65.5 million in state savings starting in FY 2017 to include:
    - Federal & State Compliance- \$34.7 million
    - Operational Efficiencies- \$5.7 million
    - Cost Avoidance - \$25.1 million
  - Unclear how these items compare to prior list

# Current Year: OHHS Caseload

- DCYF - \$8.0 million
  - Still many unknowns and moving parts
  - No budget request
  - Corrective action plan suggests unrealized revenues to offset some problems

# Current Year: Public Safety

- Public Safety-\$2.6 million
  - State Police arbitration settlement - \$1.5 million
  - State Police arbitration back pay (one-time) - \$1.2 million
  - General revenue expenses shifted to Google funds (one-time) - \$5.9 million

# Current Year: Corrections

- Corrections -\$6.0 million
  - Population/Medical – \$0.8 million
    - Per diem inmate costs
    - Mental health/psychiatric services
  - Institutional corrections staffing - \$5.2 million
    - Reason for increase not clear given FY 2015 spending

# Current Year: Other

- All other projected adjustments to agency expenditures down (\$0.5) million

Includes increases for

- Judicial Retirement      \$0.3 million
- Central Coventry      \$0.3 million
- DEM Storm and locals   \$0.8 million

# Current Year

- Difference from Budget Office –
  - Neither is a recommendation
  - Staff estimates exclude many new spending items included in agency requests

# Current Year

- Only seven months left to solve and fewer if legislation is required
- Administrative efforts?
- Filled Positions
  - Staff is monitoring changes
  - Some needed to generate revenue

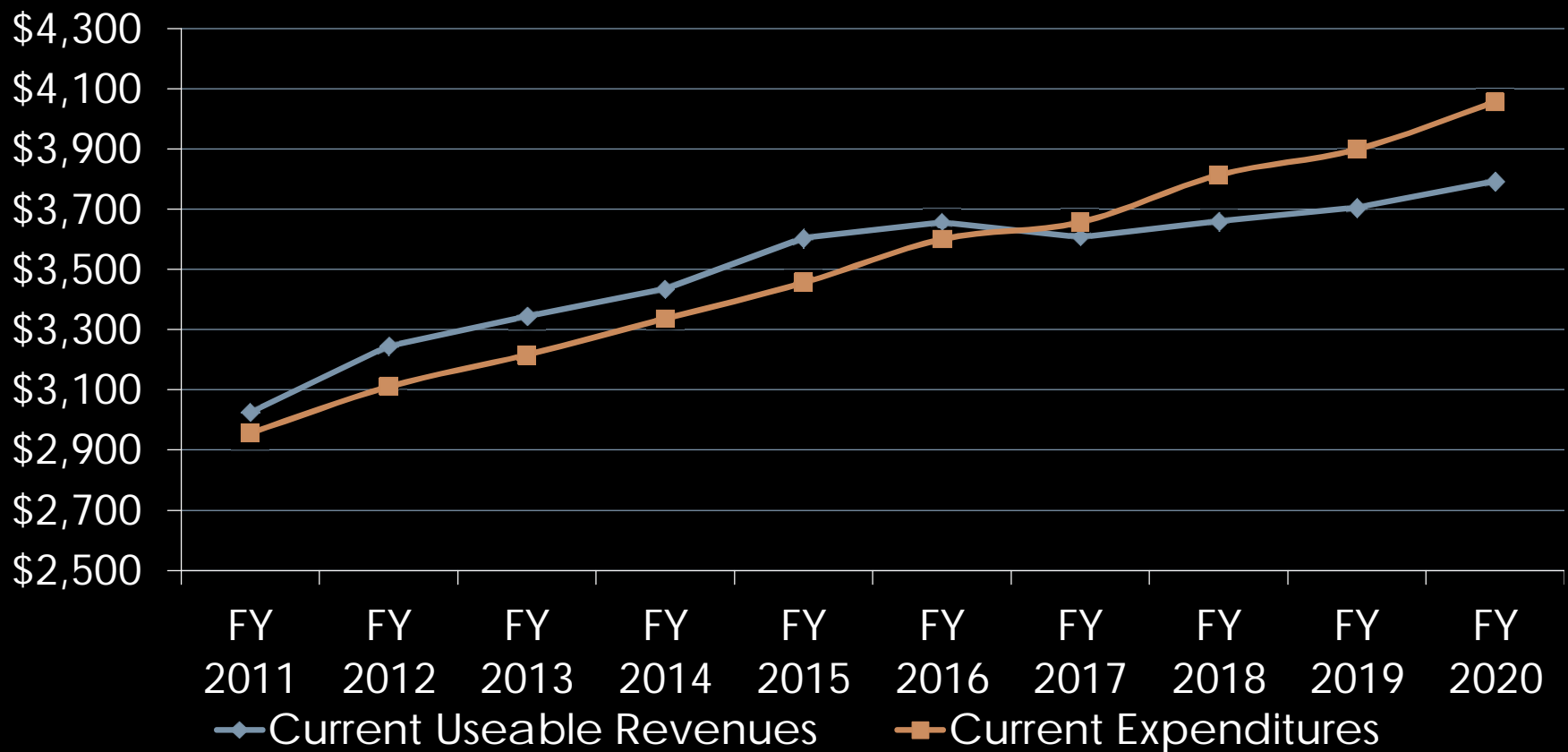


# Budget Year and Out-years

- There are also *budget year* and *out-year* problems
  - FY 2016 was estimated in July to have a gap of approximately \$132 million
  - Budget Office estimated higher gap \$196.5 million
    - revenue projection differences and other adjustments to long term savings

# Budget and Out Years

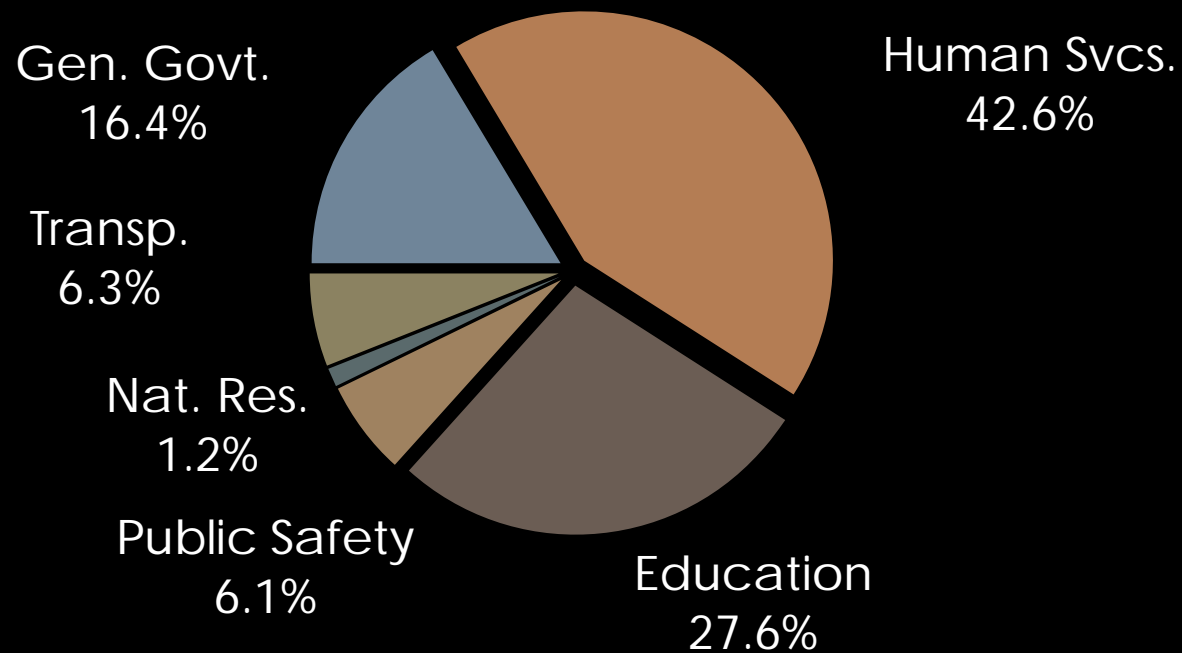
## Revenues vs. Expenditures: HFAS Nov. Estimate



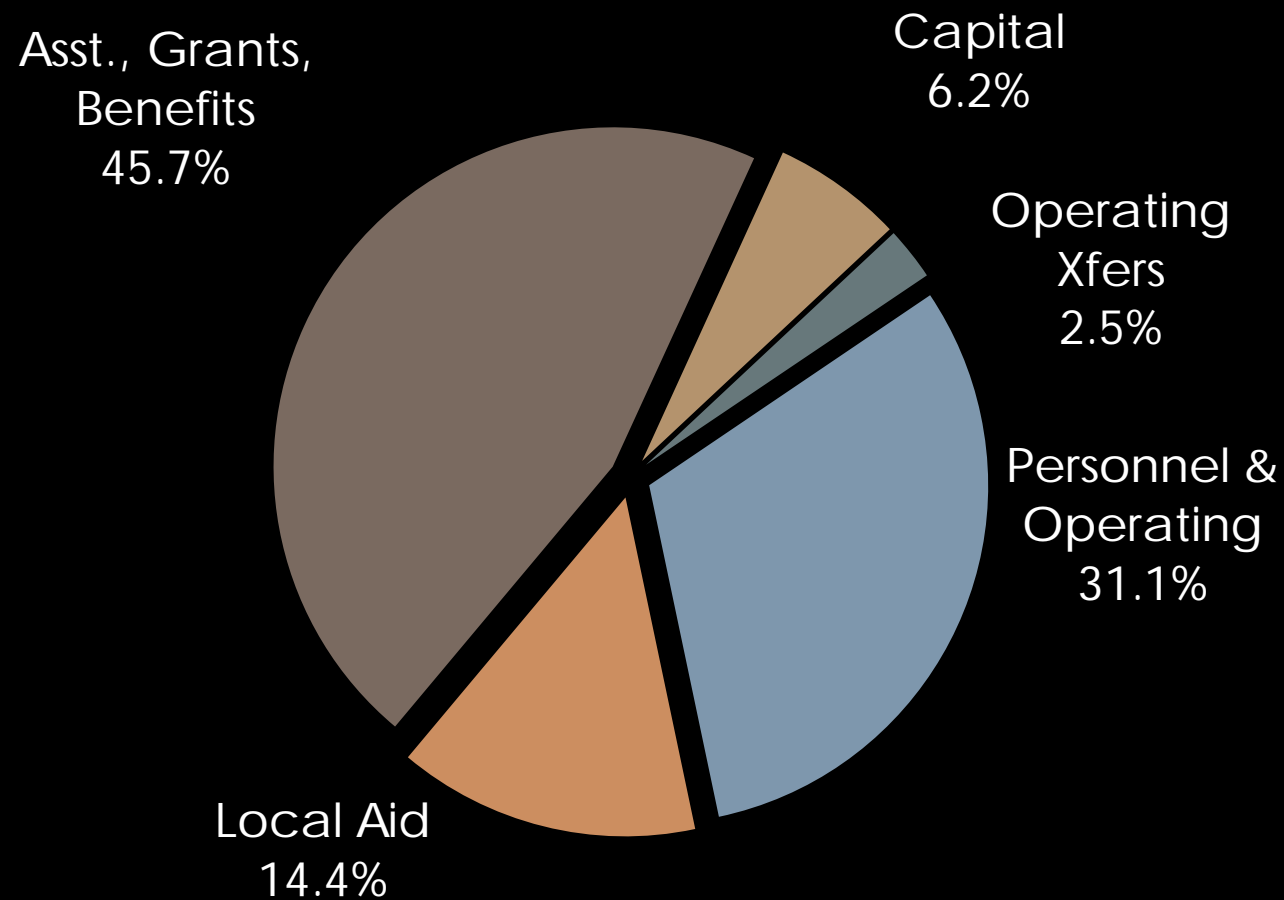
# Budget Year and Out-years

- 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 began in FY 2016
  - Increasing dedication of revenues to transportation
  - Annualized impact of tax law changes

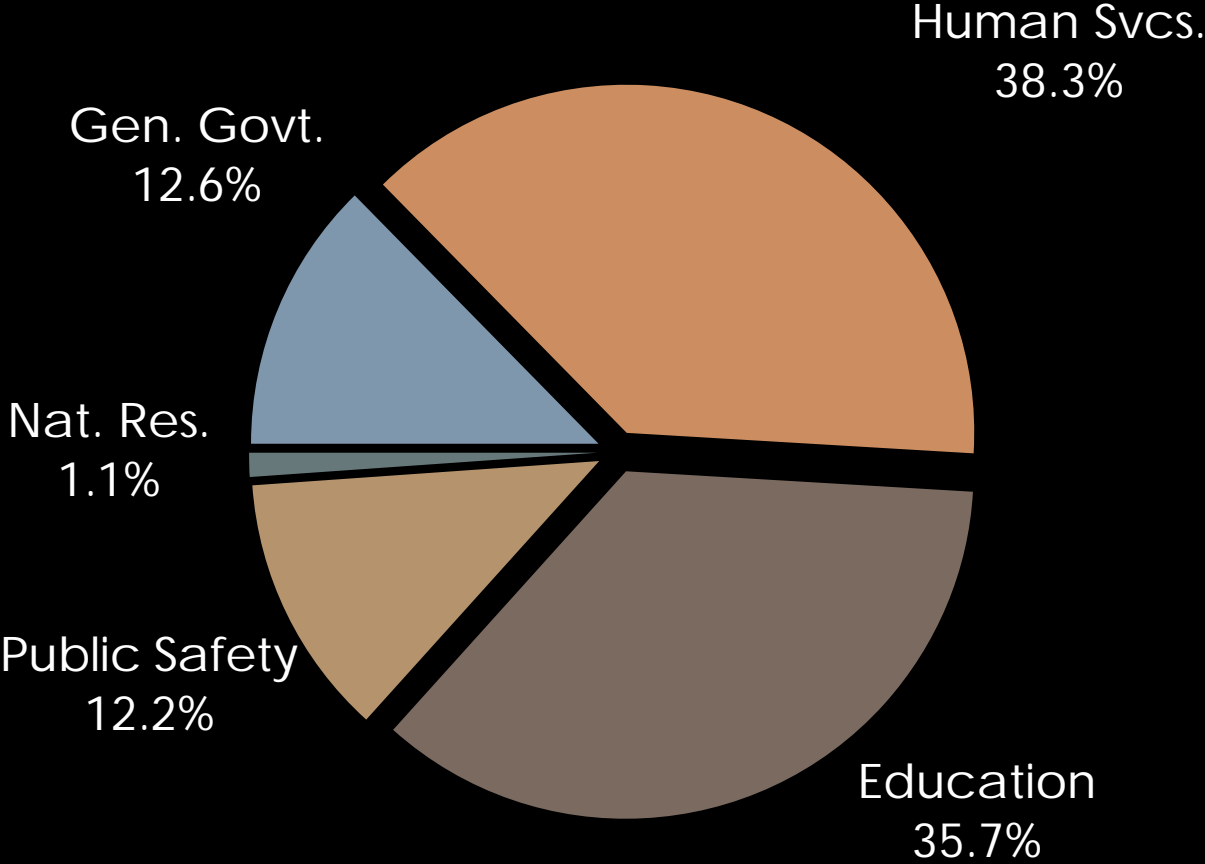
# Uses – All Funds by Function



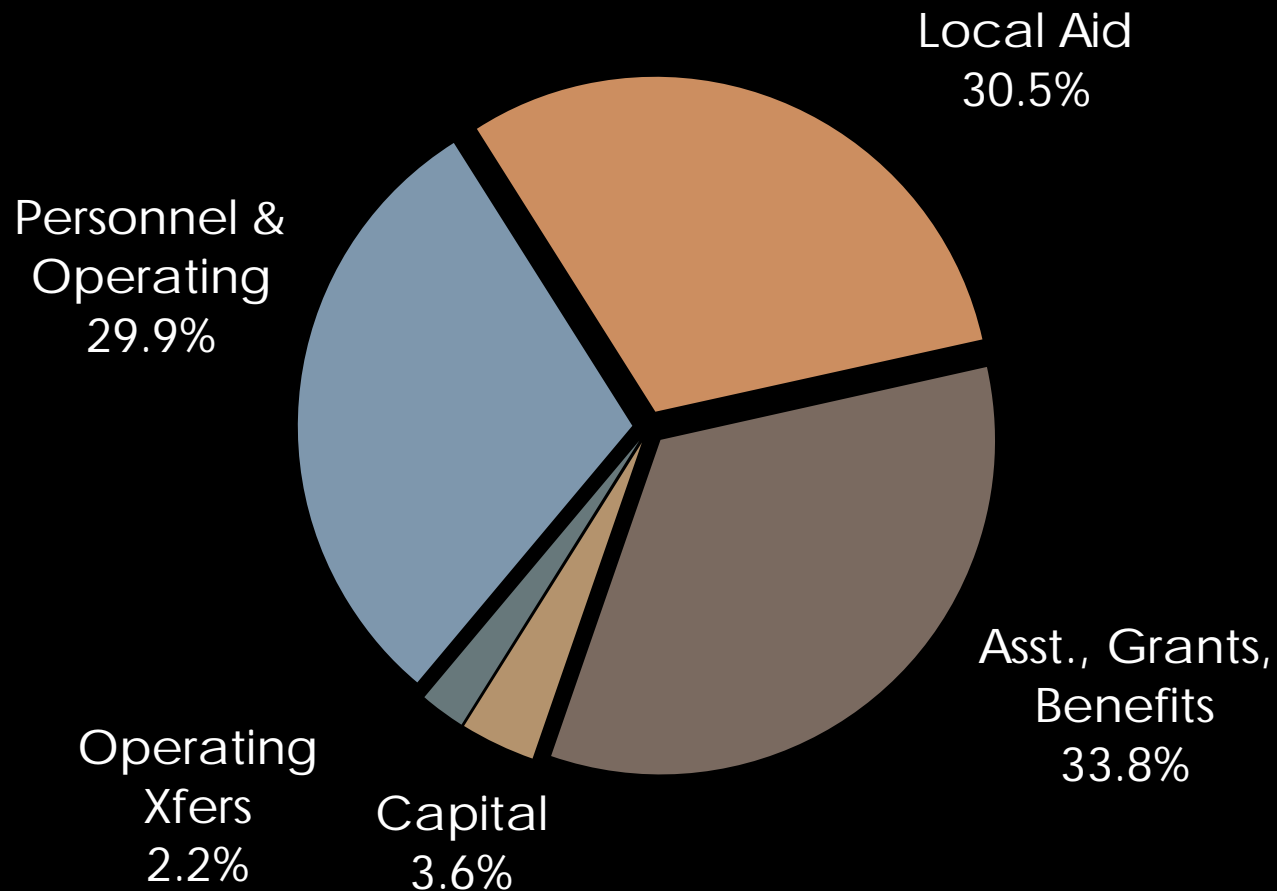
# Uses – All Funds by Category



# Uses – General Revenues by Function



# Uses – General Revenues by Category



# Uses – Growth Rates

Item	Est. Annual Growth
Jobs	1.0%
State Personal Income	4.0%
Taxes	2.6%
Total Revenues	2.1%
Total Expenditures	3.1%
Salaries & Benefits – 25% of total	2.6%
Medicaid – 30% of total	5.0%



# 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 \$196.5 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 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 \$59 million
  - Not all same items included
- Do not have all budgets in

# FY 2017 Budget Requests

- Budget Office also asked for options for reductions of 7.5%, adjusted for certain exclusions
- Agency budget submissions do not all include options to meet targets

# FY 2017 Budget Requests

- Many agencies significantly delayed in budget submissions
  - All still not submitted
- Hampers ability for adequate review by executive and legislative staffs

# Issues and Risks to the Forecast

- Control of current year spending
- Medicaid savings and caseloads
- Regional gaming issues
- Transportation
- Labor contracts



# Summary

- Governor's Budget expected Jan 21
- Major budget challenges
  - Slow growing economy
  - Structural tax and expenditure issues
    - Deficit fatigue
    - Specific agency issues

# Budget Status

House Finance Committee  
December 2, 2015

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