

# Budget Status

House Fiscal Staff Presentation to  
House Finance Committee  
December 5, 2017

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# Introduction

- Governor's FY 2019 and FY 2018 revised budgets are due January 18 – 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 2018
  - Staff estimates for FY 2019 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 – Sept 1
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 6
- Revenue estimates – November 10
- Budget Office Q1 report – Nov 15
- Audited Closing – ???
- Governor's Budget – Jan 18
- Agencies Q2 – Jan 30

# Introduction

- The state continues to face structural budget problems
- *First current year deficit projection since FY 2015*
  - Spending problems no longer masked by unanticipated revenues
  - Potentially exacerbating structural issue
- Facing continued budget year and out-year issues growing from about \$180 million to over \$250 million

# Economic Forecast

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# Economic Forecast

- Revenue Estimating Conference adopts a consensus economic forecast
  - It takes testimony from IHS Economics
  - 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 2017 forecast
- Personal income, wage & salary, and personal consumption growth rates all projected to be somewhat lower in FY 2018 and FY 2019
  - Some structural downgrade to forecast
- Slow population growth
- Unemployment will gradually edge up over next 2 years

# Economic Forecast

- Since March, state's unemployment rate has been between 4.1% & 4.3%
  - Continues to be a problem for teenage boys (30.7%) & young men (15.2%)
- Labor force is up 35,000 since recession low in November 2011 but still down 17,000 from peak in December 2006
  - Working age population has grown little
    - Population is older
  - Participation among younger workers is declining

# Revenue Drivers



# Revenue Projections

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# Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2017 were more than anticipated
    - Unexpected events covered missed estimates
  - Losses from gaming in Massachusetts stabilized
  - New losses mitigated in REC forecast horizon by Tiverton opening

# Revenues

- Taxes in FY 2018 = \$3,021.7 million
  - \$95.0 million or 3.2% above FY 2017 actuals
    - Impact of tax changes, cyclical items
  - \$9.4 million below the enacted estimate
    - Inheritance increase masking PIT, Business and Sales tax decreases
- Taxes in FY 2019 = \$3,104.4 million
  - 2.7% increase to FY 2018 revised
    - \$82.7 million: \$89.4 million from Income & Sales
    - Final shift of revenues to transportation

# November 2017

## Consensus Revenue Estimates

<i>(in millions)</i>	FY 2017 Reported	FY 2018 Rev. Est.	Change to Enacted	FY 2019 Estimate	Change to FY 2018 Rev. Est.
Personal Income	\$1,243.8	\$1,299.3	\$(2.9)	\$1,360.6	\$61.3
Business Taxes	399.4	441.7	(16.7)	457.6	15.9
Sales & Use Taxes	1,184.3	1,226.7	(7.0)	1,241.3	14.6
Other Taxes	99.2	54.0	17.1	44.9	(9.1)
<b>Total Taxes</b>	<b>\$2,926.7</b>	<b>\$3,021.7</b>	<b>\$(9.4)</b>	<b>\$3,104.4</b>	<b>\$ 82.7</b>
Departmental	370.1	387.0	(6.2)	203.0	(184.0)
Other Misc.	12.1	37.9	0.9	1.3	(36.6)
Lottery	362.7	367.2	4.7	363.6	(3.6)
Unclaimed Prop.	12.7	10.6	(0.3)	9.3	(1.3)
<b>Total</b>	<b>\$3,684.4</b>	<b>\$3,824.4</b>	<b>\$(10.3)</b>	<b>\$3,681.6</b>	<b>\$(142.8)</b>

# Revenues

- Other than Taxes
  - FY 2018 = \$802.7 million
    - Down \$0.9 million from enacted
  - FY 2019 = \$577.2 million
    - Down \$225.5 million from FY 2018
    - Excludes \$182.0 million hospital license fee but deficit calculations assume reenactment
    - Lottery down \$3.6 million
    - All others down \$39.9 million – mostly impact of one-time revenue



# Revenues

- Lottery – Declines less steep than initial estimates  
- newer competition delayed, but coming

Type	Fiscal Year					
	2014	2015	2016	2017	2018	2019
Games	\$ 58.1	\$ 56.9	\$ 61.0	\$ 55.9	\$58.5	\$59.1
VLT(Slots)	306.5	312.3	293.2	289.0	289.8	290.0
Tables	11.7	12.8	15.6	17.8	18.9	14.5
Total	\$376.3	\$381.9	\$369.8	\$362.7	\$367.2	\$363.6
Y-O-Y %	(-0.8)%	1.5%	(3.2)%	(1.9)%	1.2%	(1.0%)

# Revenues Risks

## FY 2018

- Tax Amnesty
- Fraud and Waste
- Other Collections enhancement
- Revenue Collection staff

## FY 2019

- Twin River Tiverton
- Capital Gains and Business Tax assumptions
- Hospital Tax

Closing and Current Year

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# FY 2017 Closing

- As with prior years, FY 2018 budget counted on surplus from FY 2017 to help fund expenses for which there were no current revenues
- Preliminary FY 2017 data shows \$14.1 million gain to that assumption
  - Subject to audit adjustment before final

# FY 2017 Preliminary

	Enacted	Current	Diff.
Opening	\$ 167.8	167.8	\$ 0.0
Revenues	3,675.8	3,663.6	8.5
Rainy Day	(115.3)	(115.6)	(0.3)
<b>Expenditures</b>	<b>(3,686.5)</b>	<b>(3,670.3)</b>	<b>16.2</b>
<b>Closing Surplus</b>	<b>49.7</b>	<b>74.2</b>	<b>24.5</b>
Reappropriation	-	(10.3)	(10.3)
<b>Free Surplus</b>	<b>\$ 49.7</b>	<b>\$63.9</b>	<b>\$ 14.1</b>

# Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2017 and structural issues
  - Do savings or higher base expenses repeat?
  - Are initiatives being implemented?
    - Are they just slow or not achievable?
  - Are agencies constraining spending?

# Closing – Revenues

- Revenues \$8.5 million (0.2%) above
  - Taxes up \$13.4 million
    - Inheritance tax unusual activity (\$57.6M) covered misses in income (\$22.8M) and business (\$21.2M) taxes
    - Lack of stability in PIT refund activity accounts for that discrepancy
    - Business taxes remain difficult to estimate
  - All other revenue down up \$4.9 million
    - Dept. receipts down \$6.1 million

# Current Year

- The *current year* has a \$54.3 million deficit primarily from unmet expenditure savings and base spending increases that could affect out-years
  - Major shortfall from overspending no longer hidden by revenue uptick, and other savings
  - Six months left to solve



# Closing - Expenditures

- General revenue spending \$16.2 million (0.4%) below budgeted amounts – but areas of overspending
  - 5 agencies overspent total
    - DOR, Lt Gov., & RIDE negligible amounts
    - BHDDH 2.5%, DPS 0.01%,
  - Appropriation lines overspent even if agency totals were not
    - 23.7% of general revenue lines were overspent... Ongoing pattern

# Closing - Expenditures

Spending \$16.2 million below:

- \$10.3 million unspent & re-appropriated
- \$3.6 million DOA – utilities, staffing
- \$2.9 million Medicaid savings
  
- \$4.4 million *overspent* in BHDDH
- \$0.1 million *overspent* in DPS

# Closing - Expenditures

EOHHS - \$4.7 million below:

- \$2.9 million less for Medicaid - 0.3%
  - \$8.5 million more for long term care
  - \$10.1 million less for managed care programs
    - Change in case mix – with slight increase in enrollment
  - \$1.3 million Hospitals, pharmacy & other
- \$1.8 million in admin savings - most related to UHIP \$1.2 million – reappropriated

# Closing - Expenditures

- BHDDH \$4.4 million overspent
  - \$3.3 million for services to developmentally disabled adults - privately operated system
    - Additional services through reassessments
    - Unachieved savings – residential services & other supports
      - Impact on FY 2018 & FY 2019
  - \$2.0 million for prior years claiming for CNOM - BH
  - \$1.0 million in other program savings

# Closing - Expenditures

- BHDDH - \$4.4 million overspend
  - \$0.4 million less at state hospital
    - \$0.7 million for unachieved savings from collection of 3<sup>rd</sup> party payments
      - Offsetting savings from but shifting expenses to Medicaid for state savings
  - \$0.6 million less for administrative expenses

# 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

- 17 agencies are projecting to spend more than authorized in FY 2018
  - Some include new items that may overstate actual overspend
  - Some restate a revised gap to be solved
- 9 submitted separate plans
  - DBR/OHIC resolution noted in agency Q1
  - Corrective actions total \$17.9 million
    - Includes \$8.6 million from DOC selling land

# Corrective Action Plans

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



# Current Year

- Revenues are down by \$10.3 million
- Closing resources increase rainy day transfer by \$0.1 million
- Expenditures appear up by \$28.9 million net of re-appropriations and November Caseload increase
- Closing surplus down by \$54.5 million
  - Assumes successful achievement of enacted \$25 million of statewide savings

# FY 2018

	Enacted	Current	Diff.
Opening	\$ 49.7	\$74.2	\$24.5*
Revenues	3,834.7	3,824.4	(10.3)
Rainy Day	(116.5)	(116.6)	(0.1)
Expenditures	(3,767.7)	(3,836.2)*	68.5
Total FY 2018	\$ 0.2	\$(54.3)	(\$54.5)

*\*Includes \$10.3 million reappropriation*

# Current Year

- The FY 2018 enacted budget assumed savings of \$25 million from executive branch administrative efficiencies
  - Expected to be recurring/structural
  - Significant but manageable size and scope
    - 5% of exec. branch personnel costs and 1% of consultants and operations
    - Calculation excluded some 24-7 & Higher Ed
- Savings budgeted in Department of Administration for later distribution

# Current Year

- Undistributed Savings - \$25 Million
  - No hiring slowdowns or spending constraints initiated with start of fiscal year
  - Plans to achieve savings announced in early October (second quarter)
    - Relies heavily on retirement incentive to thin personnel ranks
    - Significant share of savings are not administrative

# Current Year

- Undistributed Savings - \$25 Million
  - Significant share of the savings not administrative efficiencies
    - Medical Caseload expenses - \$4.3 million
      - Already backed off - \$0.5 million of the plan
    - Clean Diesel Grant program - \$0.5 million
  - Q1 report assumes all are achieved
    - Full picture not clear, but there are known issues
      - Timing, statutory concerns
      - Many have not been initiated

# Current Year

- Retirement Incentive
  - State employees eligible to retire on/before December 31, 2017
    - Does not apply to all
    - 941 eligible employees
  - Incentive = 2x employee's longevity
    - Capped at \$40,000
  - FY 2018 Savings assumed at \$6.5 million

# Retirement Incentive

- Savings assumptions
  - 45% of eligible employees retire – 426
    - By 1/31/18 for 5 mo. of savings
  - Payouts are from assessed fringe benefit fund
    - Fund generated from all fund sources
  - 60% of vacated positions are filled - 252
    - at 70% of incumbent's cost in first year
    - Refill of positions takes 4 months
      - Funds one month in FY 2018

# Retirement Incentive

FY 2018 Savings Assumptions	
5 months savings employees that retire	\$20.1
1 month cost to refill 60% at reduced cost	(\$1.7)
<b>Gross Savings</b>	<b>\$18.4</b>
Unused Leave Payout	(\$4.8)
2x Longevity Incentive Payment	(\$9.0)
<b>Net Savings All Sources</b>	<b>\$4.6</b>
Allocation of 50% separation costs to AFB Fund	\$6.9
<b>FY 2018 Total Budget Savings</b>	<b>\$11.5</b>
<b>General Revenue Savings – assumes 57%</b>	<b>\$6.5</b>
<i>In millions</i>	



# Retirement Incentive

Impact to Retirement System Based on % Participating				
Participants	40%		60%	
Unfunded Liability	\$12		\$19	
Funded Ratio	(0.1%)		(0.3%)	
Impact on FY 2020 Rates	0.33%	\$1.0	0.49%	\$1.5
Impact on FY 2019 Rates based on 10-yr amortization	0.42%	\$1.6	0.63%	\$2.5
General Revenue Share		\$0.9		\$1.5
<i>Costs in millions</i>				

# Retirement Incentive

- Implemented in stages to allow ERSRI time to process applications
- Savings assumed all retirements by end of January 2018
  - Newly announced change phases retirement deadline based on longevity
    - Least senior retirements have until April 15, 2018
    - Most senior February 15
- Changes to retirement dates likely reduce current year savings

# Current Year - Changes

Undistributed Savings	\$ -
Reappropriation	10.3
Legislature*	(2.1)
EOHHS/DHS: Caseload Conference	29.3
EOHHS/DHS/DCYF/BHDDH: Other*	30.5
Military Staff	0.7
Corrections	0.8
Other *	(1.3)
<b>Total</b>	<b>\$68.5</b>

\* Items different than Budget Office Q1 estimates

# Reappropriation

- Statutory requirement: \$7.1 million
  - Legislature budget lowers by \$2.1 million
- Governor discretionary: \$3.2 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: \$3.2 million
  - *EOHHS* - \$1.6 million
  - DOC – mostly Med. Assisted Treatment - \$0.6 million
  - Personnel Study - \$0.6 million
  - DOA Trainings and other - \$0.2 million
  - *Governor Contingency* - \$0.1 million
  - DLT, Sec of State, Child Advocate, PD - \$0.2 million total

# Current Year - Changes

Undistributed Savings	\$ -
Reappropriation	10.3
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\* Items different than Budget Office Q1 estimates

# Current Year: EOHHS Agencies

OMB	General Revenues			
	Enacted	Q1	Deficit	%
EOHHS	\$964.3	\$992.9	\$25.5	2.6%
BHDDH	176.4	192.3	15.9	9.0%
DCYF	145.9	155.9	10.0	6.9%
DHS	91.1	97.7	6.5	7.2%
DOH	24.9	25.4	0.5	2.0%
Total	\$1,402.6	\$1,464.1	\$61.5	4.4%

*Excludes allocation of undistributed savings & reappropriation*

*(in millions)*

# Current Year: EOHHS Agencies

HFS Estimate	General Revenues			
	Enacted	Q1	Deficit	%
EOHHS	\$964.3	\$992.9	\$28.6	3.0%
BHDDH	176.4	191.5	15.1	8.6%
DCYF	145.9	155.9	10.0	6.9%
DHS	91.1	97.3	6.2	6.8%
DOH	24.9	24.9	-	-%
Total	\$1,402.6	\$1,462.5	\$59.9	4.0%

*Excludes allocation of undistributed savings & reappropriation*

*(in millions)*



# Current Year: *EOHHS/DHS*

- Nov Caseload : \$29.3 million more
  - Cash Assistance – \$0.7 million more
    - Updated projections for enrollment and monthly cost for disabled individuals receiving a Supplemental Security Income (SSI) payment
      - \$0.8 million
    - Lower monthly costs for general public assistance payment
      - \$0.1 million

# Current Year: EOHHS/DHS Caseload

- Nov Caseload : \$29.3 million more
  - Medical Assistance - \$28.6 million more
    - Issues with less than a fully functional UHIP system
      - Impacts enrollment and termination
    - \$7.0 million for expiration of funding through Children's Health Insurance Program (CHIP)
      - Still waiting federal action to extend the program
    - Not all savings initiatives implemented as proposed - \$6.1 million added back

# Current Year: EOHHS Caseload

Agency	Unachieved Savings	
	Initiative	Gen Rev
EOHHS	Nursing Home Census Reduction	\$2.5
	Increase Patient Share Collections	2.4
	Coordination of Benefits – Medicare & Veterans Admin	0.3
	Other Partial Adjustments	\$0.9
	Total	\$6.1
<i>(in millions)</i>		

# Current Year: EOHHS Caseload

- EOHHS Caseload testimony
  - *“..Due to the extended operational timeframe needed to complete the... initiatives and lack of available resources..., it is not anticipated that the... initiatives will be completed by the end of the SFY”*
  - *“...continuing to work towards an operational plan to achieve these program and savings goals in future periods. However, no savings are assumed in EOHHS' FY 2019 forecast”.*

# Current Year: *EOHHS/DHS* *Caseload*

- FY 2018 enacted budget includes \$22.3 million of general revenue savings items
  - \$16.3 million, or 73.4% from rate changes
    - Nursing homes, managed care plans and insurers
  - \$5.9 million from other initiatives, or 26.6%
    - Lowering nursing home census
    - Enhanced collection for patient liability
- Nov CEC added back \$6.1 million
  - \$5.2 million – 84.5 % initiatives
  - \$1.0 million – 15.5 % rate reductions

# Unachieved Savings- Timeline

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Patient Liability Collections – Reinventing Medicaid

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FY 2016 Enacted Budget In

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FY 2016 Revised Governor Rec Out

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FY 2017 Enacted In

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FY 2017 Actual *Not Met*

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FY 2018 Enacted In

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Nov CEC testimony (FY 2018 & FY 2019) Out

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EOHHS & BHDDH FY 2019 budget req. In

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# Unachieved Savings- Timeline

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Medicare & Veterans Administration Coverage–  
Reinventing Medicaid

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FY 2016 Enacted Budget In

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FY 2016 Revised Governor Rec Out

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FY 2017 Gov./Enacted In

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FY 2017 Revised Governor Rec Out

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FY 2018 Gov./Enacted In

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Nov CEC testimony Out

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FY 2019 EOHHS Request In?

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# Current Year: BHDDH

BHDDH - \$15.1 million

- Division of Developmental Disabilities - \$12.1 million
  - Unachieved Savings – \$4.0 million
    - Moving individuals out of 24-hour group homes
    - Having a new process to review & approve excess authorizations and professional supports
    - Budget assumed \$5.1 million



# Current Year: BHDDH

BHDDH - \$15.1 million

- Division of Developmental Disabilities - \$12.1 million
  - SIS – A Assessments - \$8.1 million
    - New system to assess an individual's level of need -started in November 2016
      - New questions added
      - Triggered a higher level of need
      - Increased services and resources

# Current Year: BHDDH

BHDDH - \$15.1 million

- Eleanor Slater Hospital - \$3.2 million
  - Unachieved operations savings - reorganization
- Patient collections appear to be increasing

# Current Year: BHDDH

Agency	Unachieved Savings	
	Initiative	Gen Rev
BHDDH	Developmentally disabled adults –shift to less restrictive residential settings	3.5
	Hospital Reorganization	3.2
	ESH Collections – 3 <sup>rd</sup> party billing	[0.8]
	Total	\$6.7
<i>(in millions)</i>		

# Current Year: BHDDH

Corrective Action - \$5.8 million

- Div. of Developmental Dis. - \$4.5 million
  - Person Centered Planning Grants - \$2.0 million
  - Excess Authorizations - \$1.5 million
  - Residential Rate Reduction - \$0.2 million
  - Other Adjustments - \$0.8 million
    - SIS Corrections - \$0.4 million
    - Adjusting case mix - \$0.4 million

# Current Year: BHDDH

Corrective Action - \$5.8 million

- Eleanor Slater Hospital/RICLAS - \$1.3 million
  - Close Unit at Zambarano- \$0.5 million
  - Shift IT cost to Technology Fund- \$0.3 million
  - Transitioning 6 patients to alternate setting - \$46,000
- ESH/RICLAS - \$0.5 million
  - Worker's compensation plan to actively manage employees out on leave/reduce overtime costs

# Current Year: DCYF

- DCYF - \$9.8 million
  - Unachieved savings - \$8.1 million
  - Foster Care - \$1.9 million
    - Similar overspend in FY 2017
  - Legal Settlement Placeholder - \$1.2 million
  - Turnover & operating (\$1.2 million)
    - \$0.4 million in Juvenile Corrections
    - \$0.6 million in Central Management

# Current Year: DCYF

Agency	Unachieved Savings	
	Initiative	Gen Rev
DCYF	Increased Medicaid Reimbursements	\$4.0
	Congregate Care – less restrictive settings	3.8
	Other Recoveries – SSI payments	0.3
	Total DCYF	\$8.1
<i>(in millions)</i>		

# Current Year: DCYF

- DCYF Corrective Action - \$4.1 million
  - 12.5% reduction to institutional rates - \$2.0 million
  - Direct services contracts - \$1.2 million
  - IV-E claiming- \$0.6 million
  - Maximize use of enhanced Family support services - \$0.3 million



# Current Year: DHS

- DHS - \$5.4 million more net of caseload
  - UHIP/InRhodes extension operations cited elsewhere as about \$3.8 million
    - Funding to support 143 positions provided in the enacted budget
      - Assumption was that other resources would cover this cost – there are some offsetting savings
  - Other administrative expenses - \$1.6 million
  - Staffing request in budget still being evaluated – budget submitted 11/21

# Current Year: DHS

- DHS Corrective Action - \$4.8 million
  - Shift to IT fund - \$2.5 million
  - Possible UHIP related audit adjustment - \$2.2 million

# Current Year - Changes

Undistributed Savings	\$ -
Reappropriation	10.3
Legislature*	(2.1)
EOHHS/DHS: Caseload Conference	29.3
EOHHS/DHS/DCYF/BHDDH: Other*	30.5
Military Staff	0.7
Corrections	0.8
Other *	(1.3)
<b>Total</b>	<b>\$68.5</b>

\* Items different than Budget Office Q1 estimates

# Current Year: Military Staff

- Military Staff -\$0.7 million
  - Many more IOD firefighters than budget assumed
    - No federal reimbursement in these cases
    - Longer term solution sought
  - Corrective Action Plan - no direct savings identified

# Current Year: Corrections

- Corrections -\$0.8 million
  - DOJ Settlement - \$1.4 million
    - New exam
    - Legal fees
    - Additional correctional officers
  - Turnover & Operating – (\$0.6 million)
  - Corrective Action Plan
    - Cost shifting to IT fund \$1.1 million
    - Contract award delay \$0.2 million

# Current Year: Other

- All other projected adjustments to expenditures down \$1.3 million
- Turnover and operating savings in several agencies not attributed to \$25 million solution

# Current Year: Other

- Elementary and Secondary Education  
\$0.4 million
  - School for the Deaf
  - Teacher Retirement
  - Corrective action plan not clear
- Department of Public Safety
  - BO Q1 shows \$1.2 million but issue appears covered by savings in corrective action plan

# Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2015	13,212.7	588.3	13,801.1
FY 2016 Avg.	13,097.9	591.7	13,689.6
FY 2017 Avg	13,190.3	619.3	13,809.6
<b>FY 2018 Enacted</b>	<b>14,420.4</b>	<b>739.8</b>	<b>15,160.2</b>
<b><i>Avg. Filled 11/25</i></b>	<b><i>13,308.3</i></b>	<b><i>655.1</i></b>	<b><i>13,963.4</i></b>
Diff. from Enacted	(1,112.1)	(84.7)	(1,196.8)
Diff. from FY 2017	118.0	35.8	153.8



# Current Year

- Difference from Budget Office –
  - Neither is a recommendation
  - Staff estimates exclude many new spending items included in agency requests
    - Items requested but not funded in enacted budget
    - Items desired because of savings in other areas

# Current Year – Historical Context

Current Fiscal Year	Opening Surplus Change	Nov REC Change	Nov CEC Change	Q1 Over-spend	Combined Impact excl. txfer to RDF
2010	(61.8)	(130.5)	16.3	18.6	(227.1)
2011	17.9	16.7	22.4	7.9	4.3
2012	3.6	19.4	(1.1)	23.8	0.3
2013	21.7	7.5	(24.3)	5.4	48.0
2014	3.6	45.6	0.1	5.3	43.9
2015	8.7	15.8	37.0	15.5	(28.0)
2016	47.8	52.4	14.9	25.9	59.4
2017	43.9	44.8	4.7	19.4	64.7
2018	14.1	(10.3)	29.3	28.9	(54.4)

# Current Year

- Risks and Issues
  - Undistributed savings
  - Ability to identify and respond to issues
    - Delayed course correction efforts
      - Financial management reporting?
  - Six months to solve with sense of urgency not apparent
  - Congressional action on CHIP could relieve \$7.0 million

# Budget and Out-years

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# Budget Year and Out-years

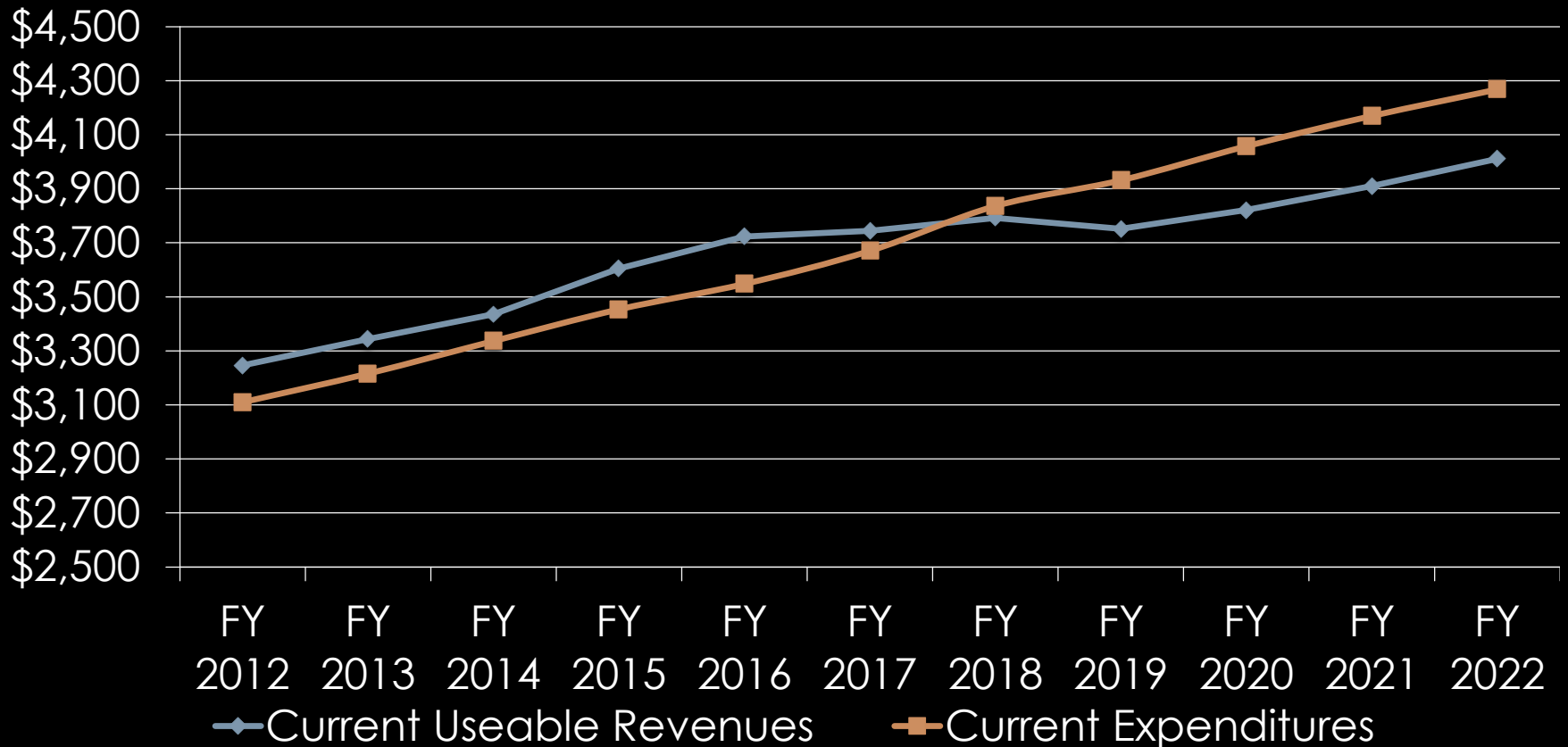
- There are *budget year* and *out-year problems*
  - FY 2019 was estimated in July to have a gap of approximately \$160 million
  - Budget Office estimated higher gap \$237 million in August
    - Revenue projections \$60 million lower
    - Assumes \$25 million is one-time

# Budget Year and Out-years

- Gaps largely function of structural issues
- Use of surplus to close budget gaps
- Expected reductions in revenues
  - Gaming revenue losses began in FY 2016
  - Dedication of revenues to transportation
- Planned spending increases
  - Medicaid expansion cost sharing
  - Car tax phase out

# Budget and Out Years

## Revenues vs. Expenditures: HFAS Nov. Estimate



# Structural Deficit

- When current expenses exceed current revenues
  - Prior year surplus or other one-time resources/cuts cover the gap
  - Spending or revenue reduction initiatives that grow over time – unfunded commitments



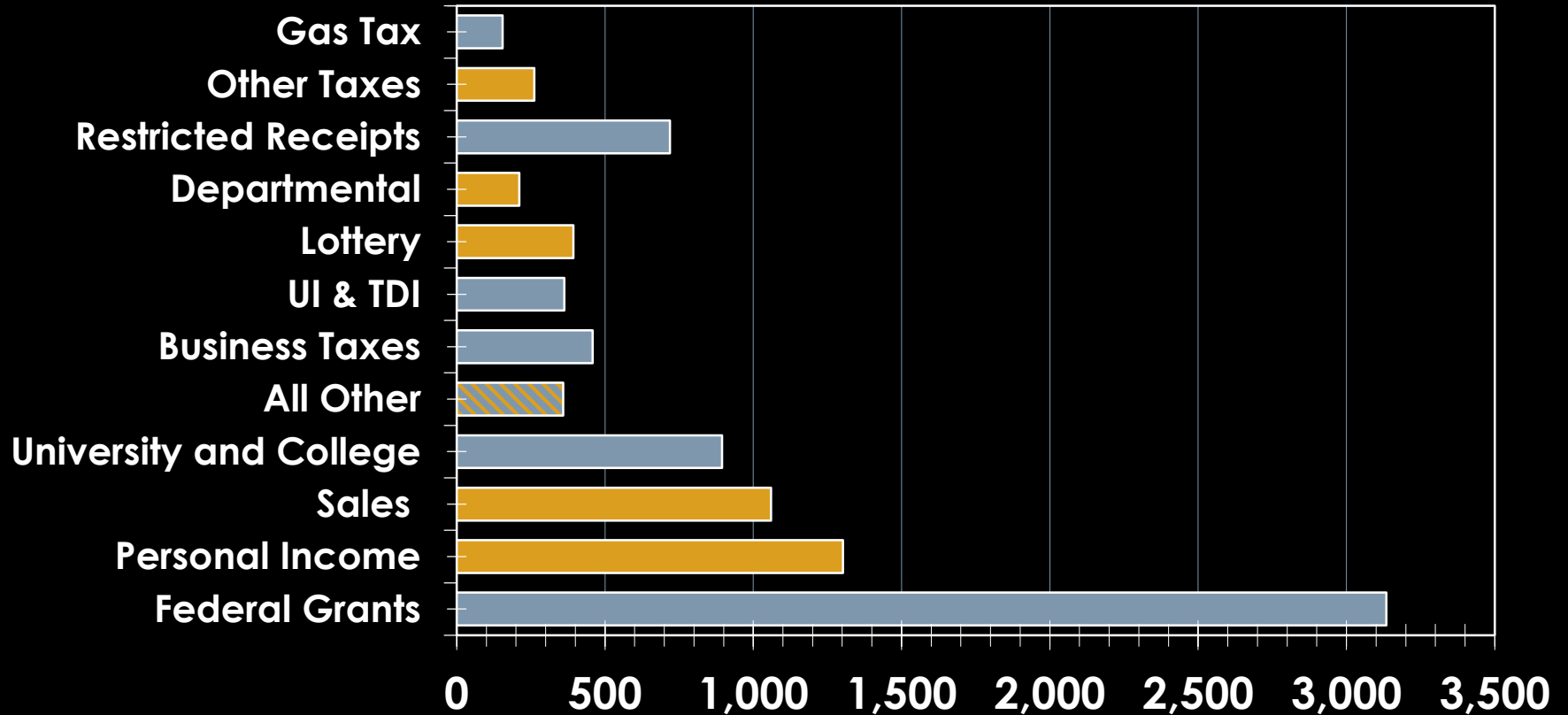
# Structural Deficit

- Aligning growth rates of revenues and expenditures is difficult
  - One-time fixes can be used to bridge gaps to structural solutions
  - Pressing need for services or infrastructure investment
    - Need to reverse stagnant growth
  - Budget process may not produce all options

# Uses – Growth Rates

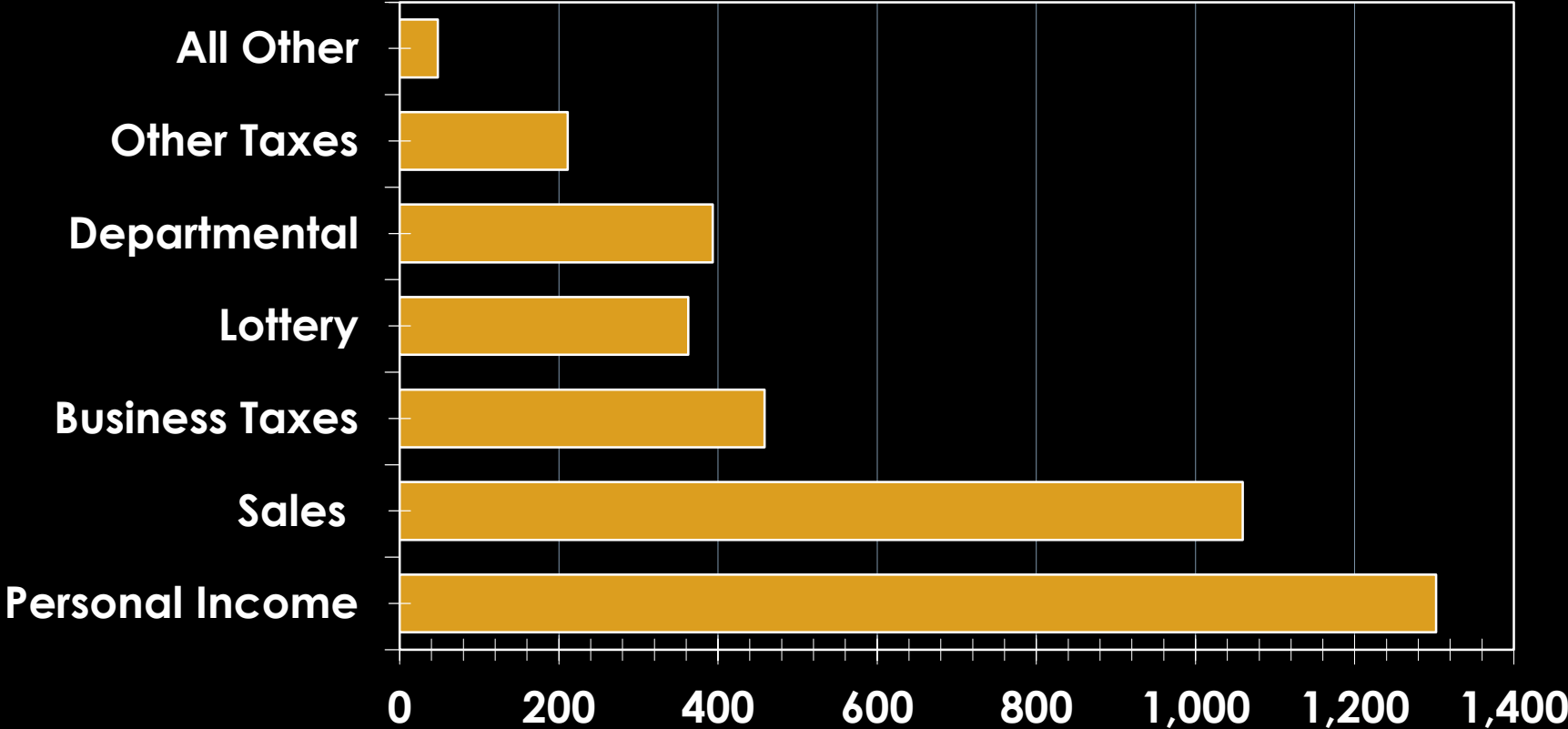
Item	Est. Annual Growth
Jobs	0.3%
State Personal Income	4.2%
Taxes	2.6%
Total Revenues	2.0%
Total Expenditures	2.7%
Salaries & Benefits – 25% of total	3.2%
Medicaid – 30% of total	4.0%

# All Sources (\$millions)

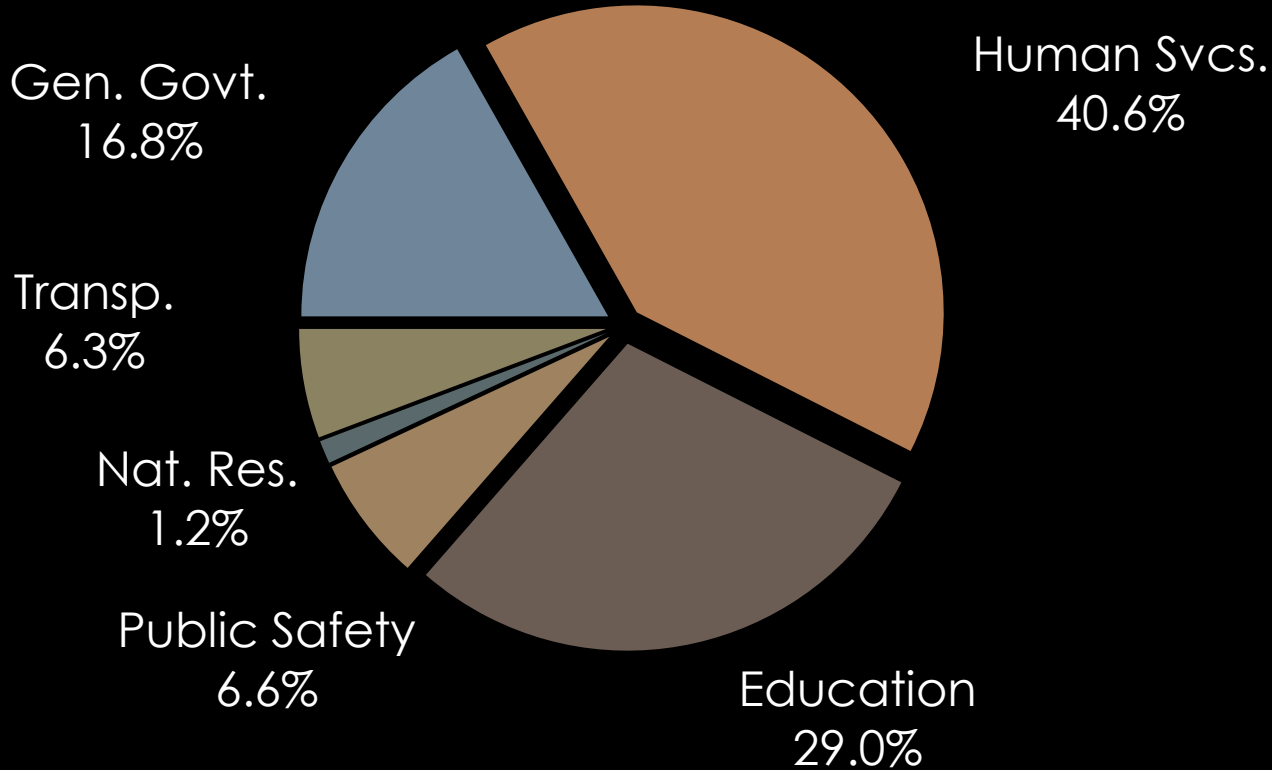


# General Revenue Sources

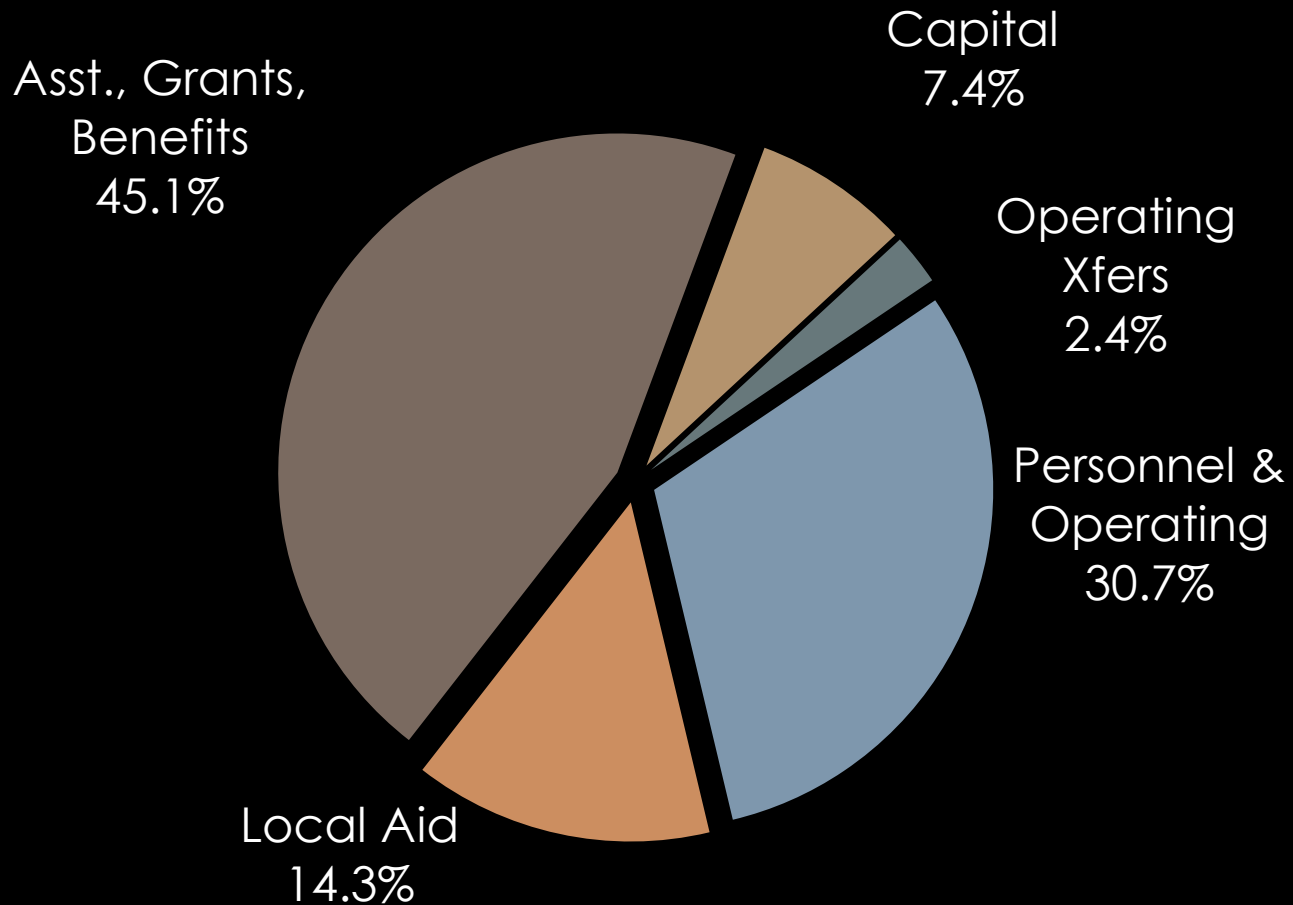
(\$millions)



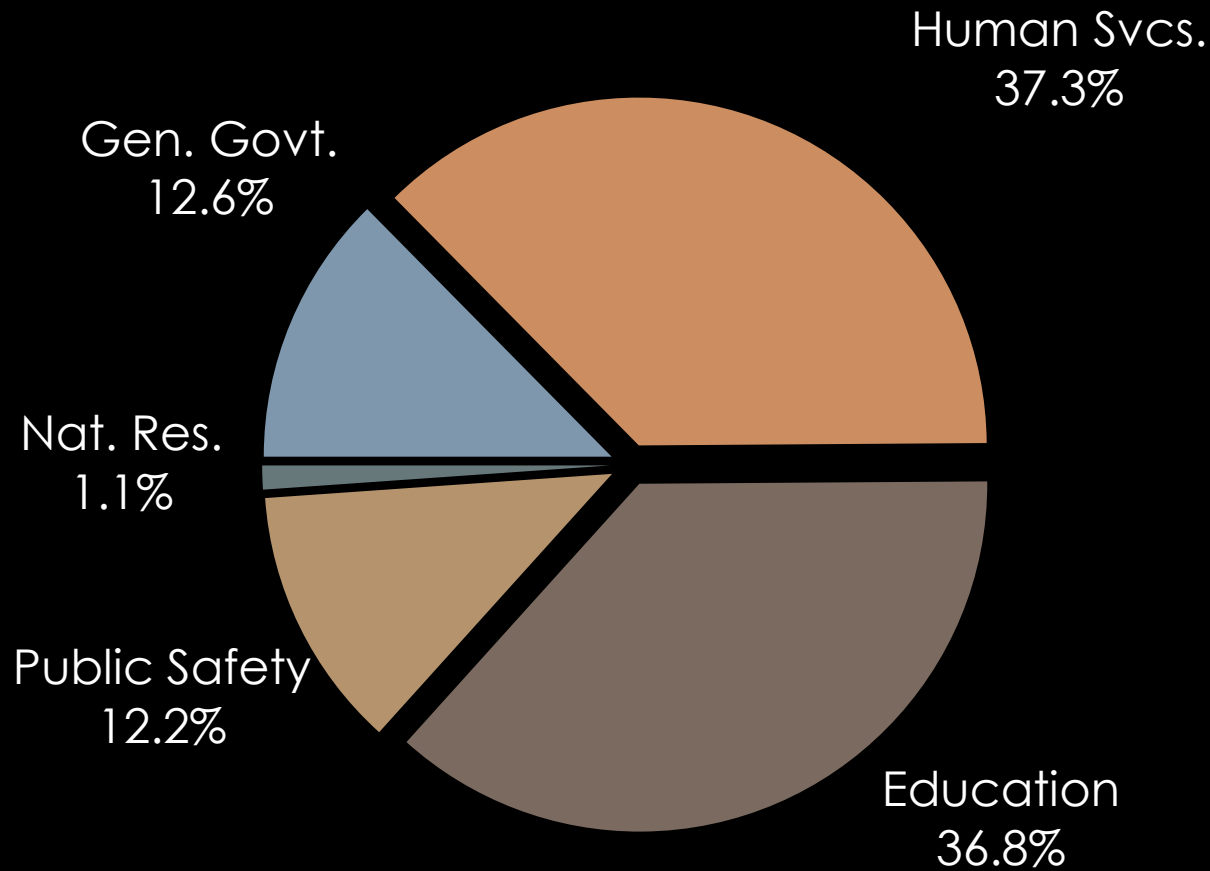
# Uses – All Funds by Function



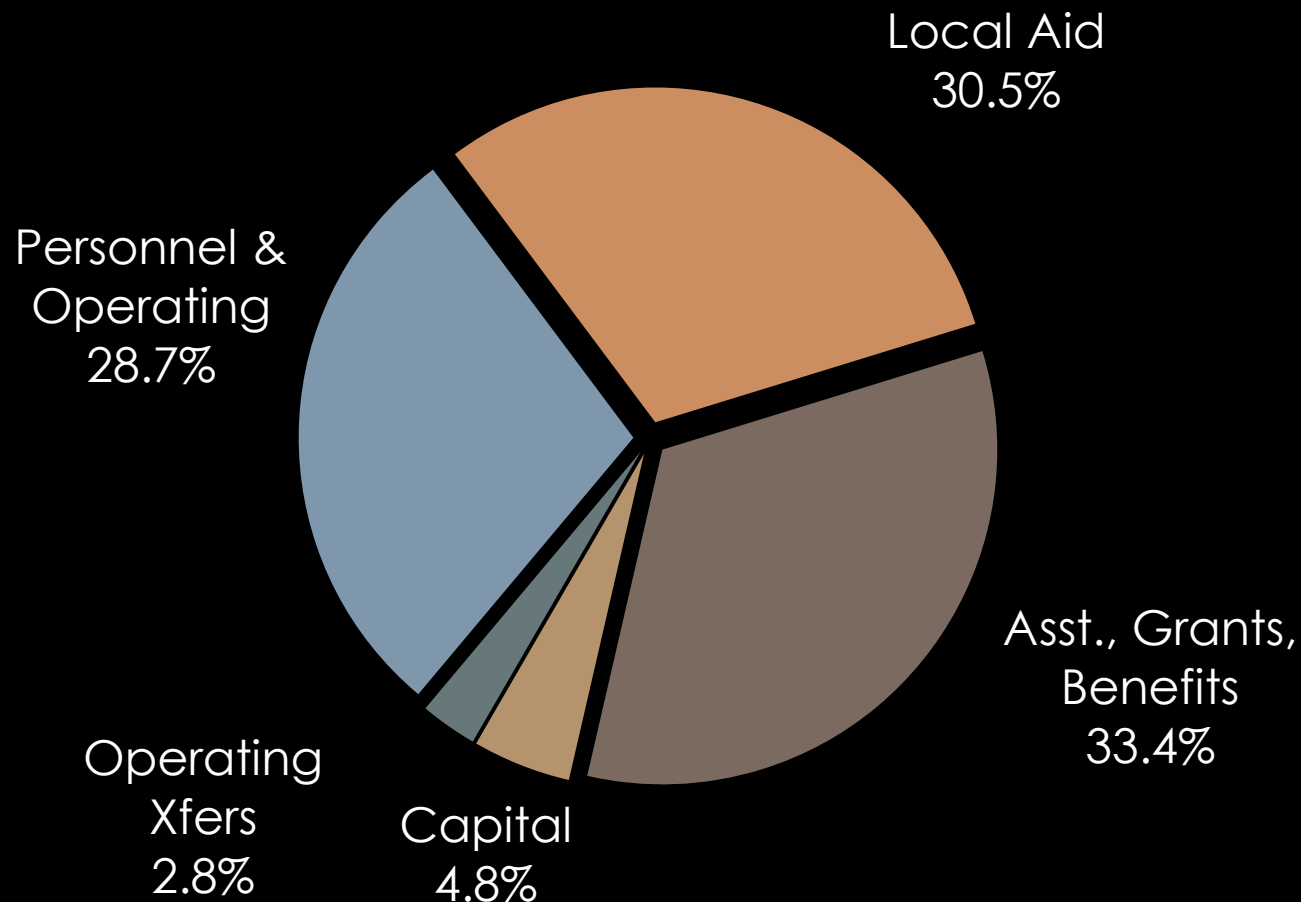
# Uses – All Funds by Category



# Uses – General Revenues by Function



# Uses – General Revenues by Category





# Budget Year and Out-years

- Budget Office Instructions based on \$237 million August 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 \$108 million
  - Not all same items included
- Do not have all budgets in
  - Higher Ed submission still outstanding

# FY 2019 Budget Requests

- Budget Office also asked for options for reductions of 10%, adjusted for certain exclusions
- Agency budget submissions do not all include options to meet targets
  - Off by over \$145 million
    - Significant change from prior years on how many do not meet targets
    - Many agencies suggested revenue items
  - Many options not sound

# FY 2019 Budget Requests

- Some agencies significantly delayed in budget submissions
  - New budget system implemented
  - Many experienced difficulty using it
    - Discrepancies between what agencies think they included
- Adds extra challenge exercising adequate review by executive and legislative staffs

# Issues and Risks to the Forecast

- Control of current year spending
- Execution of retirement incentive
  - Restraint on refill critical if any savings are to be achieved
- Medicaid savings and caseloads
  - UHIP impacts
  - Future federal action
- Potential for cyclical economic event

# Summary

- Governor's Budget expected Jan 18
- Major budget challenges
  - Current year deficit is time sensitive
  - Structural tax and expenditure issues
    - Deficit fatigue
    - Specific agency issues
  - Many competing priorities
    - Fewer options for savings

# Budget Status

House Fiscal Staff Presentation to  
House Finance Committee  
December 5, 2017

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