

# Budget Status

House Fiscal Staff Presentation to  
House Finance Committee  
December 3, 2019

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# Introduction

- Governor's FY 2021 and FY 2020 revised budgets are due January 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 2020
  - Staff estimates for FY 2021 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 budget requests – Oct 1 (due)
- Agency Q1 reports – Oct 30 (due)
- Caseload estimates – November 5
- 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 to face structural budget problems
  - Out-year issues growing to over \$200 million
- *Third consecutive current year deficit projection*
  - Smaller than recent years
  - Uncomfortably high level of uncertainty on large items

# Economic Forecast

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# Economic Forecast

- Revenue Estimating Conference adopts a consensus economic forecast
  - It takes testimony from IHS Markit
  - The firm builds U.S. macroeconomic models from which it derives its Rhode Island forecasts
  - Updated in November



# Economic Forecast

- November forecast slightly more optimistic than May 2019 forecast
- Growth rates in FY 2020 for personal income, wage & salary, personal consumption projected to be somewhat higher
  - Wage & salary also higher for FY 2021
- Consumer spending growth will slow over next few years

# Economic Forecast

- Forecast assumptions
  - No new U.S. tariffs
    - Beyond those already implemented or scheduled
  - Fed will cut rates by another 0.25% by December (occurred in November)
    - Will help stock market & homebuilding sector
  - Boeing cleared to resume deliveries of 737 MAX in early 2020
  - Downside risks abroad are avoided
    - “no-deal Brexit” avoided, Saudi oil production restored, other global hot spots don’t worsen

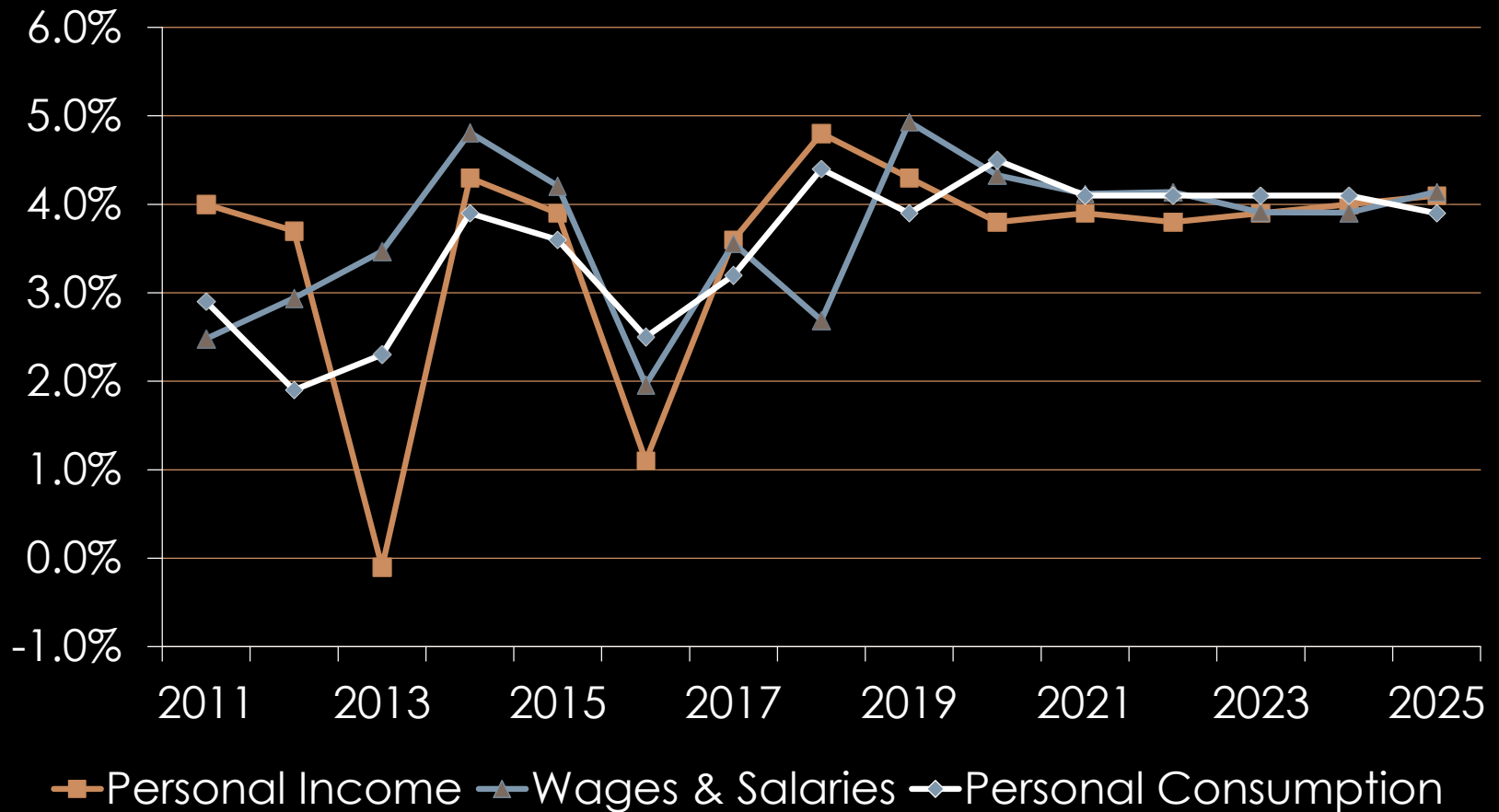
# Economic Forecast

- RI's Sept. unemployment rate 3.6%
  - Historic low but highest in New England
- Labor force still 19,400 below 12/06 peak
- 48,100 net new jobs created in past decade
  - 21.8% higher wage (> \$65,000)
  - 34.1% mid-wage (\$40,000 - \$65,000)
  - 44.1% lower wage (< \$40,000)
    - Low wage jobs represent 21% of total jobs
- Manufacturing among weaker sectors

# Revenue Drivers



# Revenue Drivers



# Revenue Projections

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# Revenues

- Revenue estimates are driven by trends, collections to date, and the economic forecasts
  - FY 2019 were just over anticipated total
    - Some significant missed estimates
  - TCJA added complexity & risk to forecast
  - Sales tax receipts strong

# Revenues

- Taxes in FY 2020 = \$3,317.3 million
  - \$134.4 million or 4.2% above FY 2019 actual
    - Impact of tax changes, cyclical items
  - \$38.4 million above the enacted estimate
    - Income, Sales and Inheritance tax increases offset Business tax decreases
- Taxes in FY 2021 = \$3,413.0 million
  - 2.9% increase to FY 2020 revised
    - \$95.7 million: \$101.6 million from Income & Sales



# November 2019

## Consensus Revenue Estimates

	FY 2019 Reported	FY 2020 Rev. Est.	Change to Enacted	FY 2021 Estimate	Chg. to FY 2020 Rev. Est.
Personal Income	\$1,393.8	\$1,441.8	\$15.0	\$1,495.7	\$53.9
Business Taxes	441.3	445.3	(14.4)	456.2	10.9
Sales & Use Taxes	1,286.0	1,351.4	11.6	1,397.0	45.6
Other Taxes	61.9	78.8	26.2	64.1	(14.7)
<b>Total Taxes</b>	<b>\$3,182.9</b>	<b>\$3,317.3</b>	<b>\$38.4</b>	<b>\$3,413.0</b>	<b>\$95.7</b>
Departmental	416.7	443.5	(5.0)	410.0	(33.5)
Other Misc.	12.4	31.0	2.4	14.7	(16.3)
Lottery	397.3	377.1	(35.7)	395.5	18.4
Unclaimed Prop.	11.6	9.9	-	8.4	(1.5)
<b>Total</b>	<b>\$4,020.9</b>	<b>\$4,178.8</b>	<b>\$0.1</b>	<b>\$4,241.6</b>	<b>\$62.8</b>

\$ in millions

# Revenues

- Other than Taxes
  - FY 2020 = \$861.5 million
    - Down \$38.3 million from enacted, \$35.7 million of that is lottery
  - FY 2021 = \$828.6 million
    - Down \$32.9 million from FY 2020
      - Includes \$32.3 million less from lower hospital license fee rate; 2-year fee enacted in 2019
      - Lottery up from revised estimate
      - One time quasi transfers excluded

# Revenues

- Lottery – larger impact from Boston resort casino and reduction to sports betting estimate

Type	Fiscal Year						
	2015	2016	2017	2018	2019	2020	2021
Games	\$ 56.9	\$ 61.0	\$ 55.9	\$58.0	\$59.8	\$57.0	\$58.6
VLT(Slots)	312.3	293.2	289.0	288.4	314.5	295.6	305.2
Tables	12.8	15.6	17.8	18.6	20.0	15.1	15.7
Sports	-	-	-	-	3.0	9.4	16.0
Total	\$381.9	\$369.8	\$362.7	\$365.0	\$397.3	\$377.1	\$395.5
Y-O-Y %	1.5%	(3.2)%	(1.9)%	0.6%	8.9%	(5.1)%	4.9%

Closing and Current Year

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# FY 2019 Closing

- As with prior years, FY 2020 budget counted on surplus from FY 2019 to help fund expenses for which there were no current revenues
- Preliminary FY 2019 data shows \$3.7 million gain to that assumption
  - Subject to audit adjustment before final
  - Known \$1.5 million Medicaid issue

# FY 2019 Preliminary

	<b>Enacted</b>	<b>Current</b>	<b>Diff.</b>
Opening	\$52.5	\$52.5	\$0.0
Revenues	4,018.9	4,020.9	2.1
Rainy Day	(122.1)	(122.2)	(0.1)
Expenditures	(3,933.8)	(3,921.8)	12.0
Closing Surplus	25.5	39.5	14.0
Reappropriation	-	(10.3)	(10.3)
<b>Free Surplus</b>	<b>\$25.5</b>	<b>\$29.2</b>	<b>\$3.7</b>

# Closing – Revenues

- Revenues \$2.1 million (0.1%) above
  - Taxes up \$9.0 million
    - Income (\$9.8M), Sales (\$8.1M) covered miss in Business Corp tax (-\$9.8M)
    - Business taxes remain difficult to estimate
      - Corp off 6.0%, last year missed by 8.5%
  - All other revenue down \$6.9 million (-0.8%)
    - Departmental receipts off by \$5.4 million
    - Lottery down \$2.8 million

# Closing - Expenditures

- Unachieved savings
- Unexpected expenses
- Impact on FY 2020 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 to accommodate overages?



# Closing - Expenditures

- General revenue spending \$12.0 million (0.7%) below budgeted amounts – but areas of overspending
  - 7 agencies overspent total
  - Appropriation lines overspent even if agency totals were not
    - 23.7% of general revenue lines were overspent... ongoing pattern

# Closing - Expenditures

- The individual appropriation lines are the governing amount, not the agency bottom line
- 2019-H 5151 SubAaa contains the revised appropriations for FY 2019
  - Section 2 of Art. 10 states “Each line appearing in Section 1 of this Article shall constitute an appropriation”
  - Language included in appropriations act annually

# Closing - Expenditures

- Expense transfers, charges and allocations not in final budget
  - Settlement of decade of audit findings across several agencies showing in Medicaid Caseload expenses
  - Charging DOA for expenses budgeted in other agencies
    - Ombudsman to be covered by Commerce Corp
  - Charging other agencies for Gov. staff costs
  - Impedes transparent analyses

# Closing - Expenditures

- Spending \$12.0 million below:
  - \$10.3 million unspent & re-appropriated
  - \$1.8\* million Medicaid
  - \$0.7 million RIDE – teacher retirement
  - \$0.6\* million – Dev. Disabilities
  - \$0.4 million DOR – Turnover savings
  - \$1.3 million overspent in DOA
    - Unachieved fraud savings, unbudgeted items
  - \$3.3 million overspent in DCYF

\*adjusted for pending audit correction

# Closing - Expenditures

- Medicaid - \$1.9 million savings
  - Caseload: \$7.6 million less
    - \$2.5 million from a higher federal match for prior year hospital payments (UPL)
    - \$5.5 million less for all other programs
      - Higher drug rebates, lower costs for inpatient & outpatient hospital services
  - Audit settlements: \$6.1 million
    - More than half (\$3.4 million) relating to disallowed nursing home payments identified in FY 2017
      - Second year of payback of \$6.4 million total disallowed

# Closing - Expenditures

- EOHHS notes that settlement resolves with CMS a multitude of audit findings with potential exposure of over \$80 million
  - Some were over a decade old
  - LTC advanced payments – total \$6.4 million
    - \$3.0 million paid back in FY 2018

# Closing - Expenditures

- Prior year audit findings FY 2007- FY 2018

Agency	GR Total	Audit Finding
EOHHS/ DHS	\$3.4	FY 2017: LTC advanced Payments – state only – no Medicaid
	1.5	FY 2018: Disallowed higher CHIP Medicaid match
	0.9	FY 2007-13: Medicaid Admin
BHDDH	0.4	FY 2007-FY 2010: Questioned costs for capital projects & other claims lacked documentation
<b>Total</b>	<b>\$6.1</b>	

\$ in millions

# Current Year

- The *current year* has a \$6.5 million deficit primarily from unmet expenditure savings outpacing Medicaid enrollment declines and onetime savings
  - Impacts future spending
  - Little help from closing surplus or current year revenues
  - Potential risks difficult to solve in 6 months



# Current Year

- Revenues are up by \$0.1 million
- Closing resources increase rainy day transfer by \$0.1 million
- Expenditures appear up by \$23.1 million net of re-appropriations and November Caseload savings
- Closing surplus down by \$7.0 million

# FY 2020

	<b>Enacted</b>	<b>Current</b>	<b>Diff.</b>
Opening	\$25.5	\$39.5	\$14.0*
Revenues	4,178.7	4,178.8	0.1
Rainy Day	(126.1)	(126.2)	(0.1)
Expenditures	(4,077.6)	(4,098.5)*	(20.9)
<b>Total FY 2020</b>	<b>\$ 0.5</b>	<b>\$(6.5)</b>	<b>\$(7.0)</b>

\*Includes \$10.3 million reappropriation

# 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
  - This language still in law but further limitations and requirements added with Article 2

# Corrective Action Plans

- Article 2 - enhanced oversight to address administrative adherence to budget control laws
  - Requires monthly report if quarterly report forecasts a deficit
  - Prohibits controller from authorizing payments for additional staff, contracts, or purchases for any agency expected to overspend
    - Exceptions for immediate health and safety

# Corrective Action Plans

- OMB issued guidance to agencies interpreting applicability
  - “Agencies projecting a deficit in the current fiscal year based on the Budget Office’s most recently published quarterly report”
  - Corrective action plans must be approved by the Budget Office before official submission to House and Senate

# Corrective Action Plans

- Budget Office Q1 identified 4 agencies projected to overspend
  - Notes that OMB began fiscal oversight of those agencies as of November 15, 2019
  - DCYF, Mental Health Advocate, Office of Veterans Services, Ethics
- Not all items may be accounted for
  - Centrally budgeted statewide savings
  - Centralized services

# Corrective Action Plans

- 7 agencies submitted quarterly reports projecting an overspend
  - Some include new items that may overstate actual overspend
- No agency has submitted a corrective action plan
  - What efforts have been taken already?
  - Some issues known for months
  - Enhanced article 2 controls did not replace CAP responsibility

# Current Year - Changes

<b>Reappropriation</b>	<b>\$10.3</b>
<b>Legislature*</b>	<b>(2.4)</b>
EOHHS/BHDDH Closing correction	1.5
EOHHS/DHS: Caseload Conference	(12.5)
EOHHS/DHS/DCYF/BHDDH: Other*	25.7
Providence Place Mall Debt Service	(3.6)
Undistributed Savings*	2.3
Other *	(0.4)
<b>Total</b>	<b>\$20.9</b>

\* Items different than Budget Office Q1 estimates



# Reappropriation

- Statutory requirement: \$9.9 million
  - Legislature - \$9.7 million
    - Revised budget lowers by \$2.4 million
  - Judiciary - \$0.3 million
- Governor discretionary: \$0.4 million
  - DOR - \$0.1 million
  - EOHHS - \$0.1 million
  - Commission on Disabilities - \$28,586
  - AG - \$23,199
  - Public Safety - \$0.2 million

# Current Year - Changes

Reappropriation	\$10.3
Legislature*	(2.4)
EOHHS/BHDDH Closing Correction	1.5
<b>EOHHS/DHS: Caseload Conference</b>	<b>(12.5)</b>
EOHHS/DHS/DCYF/BHDDH: Other*	25.7
Providence Place Mall Debt Service	(3.6)
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Other *	(0.4)
<b>Total</b>	<b>\$20.9</b>

\* Items different than Budget Office Q1 estimates

# Current Year: *EOHHS/DHS*

- Nov Caseload: \$12.5 million less
  - Cash Assistance – \$1.3 million less
    - Updated annual cost and enrollment for subsidized child care & using available federal funds
      - \$0.6 million
    - Updated enrollment and monthly cost for disabled individuals receiving a Supplemental Security Income (SSI) payment
      - \$0.5 million
    - Fewer individuals receiving a general public assistance payment at a higher amount
      - \$0.1 million

# Current Year: EOHHS/DHS Caseload

- Nov Caseload : \$12.5 million less
  - Medical Assistance - \$11.2 million less
    - General revenue savings from
      - Enrollment declines in managed care plans
      - Pharmacy payments to federal government
    - General revenue cost increases from
      - Long term services and support services
        - Increase in hospice services
      - Non-emergency transportation rate increase for ambulance services - \$0.8 million
        - NOT assumed for FY 2021

# Current Year: EOHHS/DHS Caseload

- Notable Caseload issues
  - Overall decline and stabilization of Rite Care enrollment
    - Attributed to system improvements
  - Continued difficulty estimating Nursing Home payments
    - Advanced payment for pending applications continue
      - Approved applications paid again and then funds requested/schedule for recoupment – not automatic at time of second payment

# Current Year: EOHHS/DHS Caseload

- Notable Caseload issues
  - Ambulance Rate increase awarded after budget was adopted shown only in FY 2020 estimate
  - Hospital uncompensated care payments set to decline absent federal action
    - FY 2021 estimate lowered by \$30.6 million to match current law
  - Rite Share implementation issues

# Current Year: EOHHS

- Rite Share Premium Assistance Program
  - Rite Care eligible but have access to employer sponsored insurance (ESI)
  - State pays employee cost of that plan
    - If cheaper and comparable to full Medicaid benefit
    - Currently: \$3,200 for Rite Care vs \$610 for Rite Share
  - Enrollment
    - FY 2016 – 8,371
    - FY 2020 – enrollment of 3,800 through October
      - CEC assumes 4,776

# Current Year: EOHHS

- Governor had proposed assessing large employers \$1,500 for every Medicaid recipient employee
- Assembly instead required EOHHS to revisit existing Rite Share program to maximize enrollment
  - Initial plan due by 10/1/2019
  - Subsequent enhanced reporting
    - Submitted 10/16/2019



# Current Year: EOHHS

- Rite Share Reporting
  - Added info in monthly Medicaid report:
    - # of individuals with access to ESI
    - #of plans that meet the cost effectiveness criteria
    - Rite Share enrollment
  - FY 2020 savings from increasing enrollment
    - \$2.3 million
      - \$1.1 million from general revenues
    - Caseload estimate assumes these savings
      - Testimony suggested significant issues with program

# Current Year: EOHHS

- EOHHS plan to increase enrollment:
  - UHIP update from March will allow the Rite Share unit to perform the necessary functions to begin working the employer renewal backlog - 354 to be done by 2/20
  - Continue to review new applications & answer calls from employers & employees
  - Does not include outreach plans
- CEC testimony suggested lack of specific plans and some confusion on process

# Current Year - Changes

Reappropriation	\$10.3
Legislature*	(2.4)
EOHHS/BHDDH Closing Correction	1.5
EOHHS/DHS: Caseload Conference	(12.5)
<b>EOHHS/DHS/DCYF/BHDDH: Other*</b>	<b>25.7</b>
Providence Place Mall Debt Service	(3.6)
Undistributed Savings*	2.3
Other *	(0.4)
<b>Total</b>	<b>\$20.9</b>

\* Items different than Budget Office Q1 estimates

# Current Year: EOHHS Agencies

OMB	General Revenues		
	Enacted	Q1	Diff
EOHHS	\$1,002.3	\$991.1	\$(11.2)
BHDDH	196.4	196.4	-
DCYF	165.1	187.0	21.9
DHS (incl. Healthy Aging)	66.7	65.3	(1.4)
Office of Veterans Services	25.5	28.4	2.9
DOH	31.0	31.0	-
<b>Total</b>	<b>\$1,486.9</b>	<b>\$1,499.2</b>	<b>\$12.2</b>

\$ in millions

# Current Year: EOHHS Agencies

HFS Estimate	General Revenues		
	Enacted	Q1	Diff
EOHHS	\$1,002.3	\$991.1	\$(11.2)
BHDDH	196.4	197.4	1.0
DCYF	165.1	187.0	21.9
DHS (incl. Healthy Aging)	66.7	65.3	(1.4)
Office of Veterans Services	25.5	28.4	2.9
DOH	31.0	31.0	-
<b>Total</b>	<b>\$1,486.9</b>	<b>\$1,500.2</b>	<b>\$13.2</b>

\$ in millions

# DCYF FY 2019 Closing

- DCYF - \$3.3 million overspend
  - Despite full funding of Q3 projections
    - Assembly concurred with all DCYF related budget amendments for FY 2019 and FY 2020
  - Staff unable to get all requested FY 2019 closing detail to analyze
    - DCYF working on its budget which has not been submitted
    - Basic questions lack answers
      - Number of 18-21 year olds served

# DCYF FY 2019

	<b>State Funds*</b>
FY 2019 Enacted	\$161.6
FY 2019 Q1 – DCYF	\$176.5
FY 2019 Gov.	\$173.6
FY 2019 Q3 – DCYF	\$179.9
FY 2019 Assembly Final*	\$179.9
FY 2019 Actual*	\$183.2
Overspend	\$3.3

Adjusted for \$2.5M child care block grant funds sub for GR

# Current Year: DCYF

- Received Q1 report on November 7
- DCYF - \$21.9 million
  - Mostly unachieved savings - \$17.3 million
    - Total caseload through Q1 is similar to enacted budget assumptions
      - Budget assumed youth would be moved to less costly placements
        - Placement cost differential about \$80k average
        - Has not occurred
  - Staffing - \$5.3 million
    - Despite hiring surge, overtime increasing
    - Hard to analyze without more info



# DCYF Hiring Surge

- August 7 – DCYF announced hiring of 23 additional frontline workers
  - Estimated cost would be \$3.1 million
  - As of October, 20 positions had been filled

<b>Frontline Worker Unit</b>	<b>Additional Number of Staff</b>
Family Services Unit	16
Kinship Licensing Unit	7
<b>Total</b>	<b>23</b>

# Current Year: BHDDH

BHDDH - \$1.0 million

- Eleanor Slater Hospital - \$0.7 million
  - Physician & security service contracts
  - Continuing difficulty analyzing budget because of disconnect from prior year proposals and budgets
- Staffing reorganization - \$0.7 million
  - Moved 23 staff to administrative programs
    - Replaces federal funds with general revenues
- RICLAS & admin savings - \$0.4 million

# Current Year: Office of Veterans Services

- Veterans' Home - \$2.9 million over
  - Governor's budget assumed an operational review by EOHHS would reduce expenses at the Home
    - \$1.2 million overtime savings
    - \$0.6 million janitorial services
    - \$0.8 million medical services
  - Assembly concurred

# Current Year: Office of Veterans Services

- EOHHS operational review did not occur in FY 2019
  - Veterans' Home implemented some measures to reduce contract costs
    - Acuity-based model for nursing pool staff
    - Occupational & physical therapy delivery changes
  - Unclear what specific efforts are underway to review overtime and other services

# Current Year: Deloitte Settlement

- Disposition of proceeds from Deloitte settlement still not clear after 9 months
  - Budget assumes state keeps at least \$33.2 million of \$50 million settlement
  - Awaiting federal decision
  - Budget Office & HFAS estimate assume full \$33.2 million & no changes to total costs
    - Anything less adds to deficit
    - Bigger state share lowers current year issue
    - Accuracy of total cost estimate in question

# Current Year: Deloitte Settlement

- In March, Deloitte contract extended to June 2021
  - \$75.0 million in future credits and discounts
  - Fix what is broken
  - \$50.0 million cash payment
    - How much can state keep?
      - Federal government has funded nearly 80 percent of the work so far

# Current Year: Deloitte Settlement

- Enacted budget assumes state keeps \$33.2 million to offset general revenue costs
  - EOHHS for design & other consultants
  - DHS for allowable staffing costs

<b>Agency</b>	<b>FY 2020 Enacted</b>	<b>FY 2020 Revised</b>	<b>Chg. to Enacted</b>	<b>FY 2021 Req.</b>
EOHHS	\$6.6	\$6.5	\$(0.1)	\$-
DHS	24.7	24.7	-	-
HSRI	1.9	1.9	-	-
<b>Total</b>	<b>\$33.2</b>	<b>\$33.1</b>	<b>\$(0.1)</b>	<b>\$-</b>

\$ in millions

# Current Year - Changes

Reappropriation	\$10.3
Legislature*	(2.4)
EOHHS/BHDDH Closing Correction	1.5
EOHHS/DHS: Caseload Conference	(12.5)
EOHHS/DHS/DCYF/BHDDH: Other*	25.7
<b>Providence Place Mall Debt Service</b>	<b>(3.6)</b>
Undistributed Savings*	2.3
Other *	(0.4)
<b>Total</b>	<b>\$20.9</b>

\* Items different than Budget Office Q1 estimates



# Current Year: Debt Service

- Providence Place Mall debt service savings - \$3.6 million
  - Payments supported by two-thirds of sales taxes generated at mall
    - Yrs. 1–5: \$3.7M and yrs. 6-20: \$3.6M
  - Reserve account had sufficient resources to pay off debt
    - Final payment made in October 2019
    - Remaining funds transferred to general fund
- No payment is required in FY 2021

# Current Year - Changes

Reappropriation	\$10.3
Legislature*	(2.4)
EOHHS/BHDDH Closing Correction	1.5
EOHHS/DHS: Caseload Conference	(12.5)
EOHHS/DHS/DCYF/BHDDH: Other*	25.7
Providence Place Mall Debt Service	(3.6)
<b>Undistributed Savings*</b>	<b>2.3</b>
Other *	(0.4)
<b>Total</b>	<b>\$20.9</b>

\* Items different than Budget Office Q1 estimates

# Current Year: Undistributed Savings

- Enacted budget assumes general revenue savings of \$4.6 million
  - Budgeted in DOA for later distribution
    - *HFAS Q1 assumes only half (\$2.3 million) is achieved based on current progress and reporting*

<b>Savings Proposals</b>	<b>FY 2020 Enacted</b>
Fraud & Waste Detection	\$(2.0)
Injured on Duty	(1.7)
Overtime	(1.0)
<b>Total</b>	<b>\$(4.6)</b>

*\$ In millions*

# Fraud and Waste Detection

- Combine data across agencies (DLT, DOR and health and human services)
  - To detect fraud and waste
  - FY 2017 budget assumed \$5.0 million in revenue from initiative
    - Net \$3.5 million impact
- Governor proposed delaying to FY 2018
  - \$8.5 million in total revenues and savings assumed in FY 2018
  - Eventually delayed again to FY 2019

# Fraud and Waste Savings

<b>Governor's Fraud &amp; Waste Detection Initiative</b>	
Total FY 2019 Enacted Savings	\$9.6
Revised Saving Deemed to be Achieved	(6.4)
<b>FY 2019 Final Savings Assumed</b>	<b>\$3.2</b>
<b>FY 2019 Closing showed savings were not achieved</b>	
FY 2020 Governor's Recommended Budget	\$4.6
May 2019 Gov. Req. Amendment	(2.2)
<b>FY 2020 Enacted Savings</b>	<b>\$2.0</b>

*\$ in millions*

# Injured on Duty

- Enacted budget assumes \$1.7 million savings from changes to injured on duty legislation
  - Current recipients had 90 days from July 1, 2019 to apply for accidental disability
    - Otherwise benefits would terminate
  - Applies to state employees only
    - Public Safety: Sheriffs and Capitol Police
    - Military Staff
    - Environmental Management

# Injured on Duty

- Savings budgeted in DOA budget
  - Additional details attribute them to
    - \$1.4 million – DPS for Sheriffs & Capitol Police
    - \$0.2 million – Military Staff for Quonset firefighters
    - \$0.1 million – DEM Environmental Police Officers
  - Based on expected status of then-current recipients on July 1, 2019
    - Estimated 24 would have exceeded 18 month
      - 6 have been receiving benefits since prior to 2011
    - Assumes half of current cost retained as savings

# Injured on Duty

- Prior to effective date of law change: injured on duty # dropped to 22
  - Administration indicates that new cases were added and some old ones dropped off
    - Net reduction of 10 cases
    - Has not conducted cost analysis
- Impacted agency Q1 reports assume some limited turnover savings
  - Used elsewhere in budget
  - DOA Q1 still assumes full savings



# Overtime

- Budget assumes \$1.0 million from general revenue savings from overtime
- Administration announced a new overtime policy in June 2019
  - Agencies must develop & submit to OMB:
    - Detailed overtime authorization
    - Approval procedures
    - Quarterly reports of overtime expenses

# Overtime – General Revenues

- Distribution of budget cost shows likely targets for savings
  - Agencies not reporting savings

Department	FY 2020 Enacted	Share
Corrections	\$27.3	59.5%
BHDDH	6.1	13.4%
Public Safety	5.7	12.4%
DCYF	2.7	5.9%
All Other	4.1	8.8%
<b>Total</b>	<b>\$45.8</b>	<b>100%</b>

*\$ in millions*

# Centralized Services

- 2017 Assembly authorized internal service funds for centralized services
  - Information technology, capital asset management & maintenance, & HR
- Costs previously budgeted in DOA
  - Methodology on initial distribution vague
  - Long term impacts and transparency concerns
- Unresolved issues – will impact FY 2020 and FY 2021

# Centralized Services

- Legislation also requires DOA to report fund activities on a quarterly basis

	<b>Due Date</b>	<b>Date Submitted</b>
FY 2019	Oct. 15, 2018	Feb. 19, 2019
	Jan. 15, 2019	
	April 15, 2019	May 20, 2019
	July 15, 2019	July 31, 2019
FY 2020	Oct. 15, 2019	Oct. 31, 2019

# Centralized Services

- Transparency concerns persist
  - Current yr. billing rates not yet finalized
  - Agencies still being billed FY 2019 rates
    - Accuracy of Q1 expenditures
    - Impact to FY 2021 budget
  - Several agencies are showing changes
    - Some appear valid
    - Some give appearance of meeting enacted budget
      - Unclear how updated billing rates will impact total

# Centralized Services

	FY 2018	FY 2019 Final	FY 2019 Spent	FY 2020 Enacted	Rev Chg.	FY 2020 Rev.
IT	\$30.8	\$34.9	\$33.4	\$35.2	\$0.5	\$35.7
Facilities	33.5	36.8	35.2	36.5	(0.2)	36.3
HR	12.3	13.0	12.7	12.9	(0.2)	12.7
<b>Charges</b>	<b>\$76.6</b>	<b>\$84.6</b>	<b>\$81.4</b>	<b>\$84.6</b>	<b>\$(0.4)</b>	<b>\$84.2</b>
GR Share	\$53.2	\$62.5	\$62.5	\$59.7	\$0.1	\$59.8
<b>ISF Budget</b>	<b>\$78.9</b>	<b>\$91.1</b>	<b>\$88.7</b>	<b>\$99.1</b>	<b>\$(1.4)</b>	<b>\$97.6</b>

*\$ in millions*

- There appears to be disconnect with budget for ISF services & agency billings expectation

# Current Year - Changes

Reappropriation	\$10.3
Legislature*	(2.4)
EOHHS/BHDDH Closing Correction	1.5
EOHHS/DHS: Caseload Conference	(12.5)
EOHHS/DHS/DCYF/BHDDH: Other*	25.7
Providence Place Mall Debt Service	(3.6)
Undistributed Savings*	2.3
<b>Other *</b>	<b>(0.4)</b>
<b>Total</b>	<b>\$20.9</b>

\* Items different than Budget Office Q1 estimates

# Current Year: Other

- All other projected adjustments to expenditures down \$0.4 million
  - Turnover and operating savings in several agencies
  - Delays in certain programming at DOC
- Assumes most efficiency commission related initiatives are achieved
  - Some risk there



# Efficiency Commission – Gov.

item #	Savings Areas	FY 2020	FY 2021
3,7, 9	Inter-departmental Consolidations	\$(340,245)	\$(403,154)
4, 6	Local Cost Shift/Recapture	(2,280,492)	(237,236)
1,2,8, 10,11	Outsourcing & Operational Efficiencies	(614,186)	(1,016,343)
5	Co-locate OPC and RIDE	(1,000,000)	(1,000,000)
	<b>Total</b>	<b>\$(4,234,923)</b>	<b>\$(2,656,733)</b>
12	Real Estate and Space Utilization Strategy – Land Sales	\$6 - \$10M land \$0.8M operation savings	? \$1.9M

# Efficiency Savings – Enacted

- Assembly included \$4.5 million in savings

Savings Areas	FY 2020	On target?
Taxation IT to ITIF (land sale \$)	\$(2,914,768)	Yes
Co-locate OPC & RIDE	(1,000,000)	Yes*
Board of Elections Move	286,272	Yes
DHS – Lease Savings	(296,337)	Unclear
Parking Lease: PD & DCYF	(64,594)	No
DCYF Behav. Health Licensing	(46,112)	Unclear
State Building Office	(125,839)	Yes
Price Facility Operations	(358,409)	No
<b>Total</b>	<b>\$(4,519,787)</b>	

\*savings not whole concept

# Current Year: Other

- DOC/ESH lab issue
  - Prior year proposals suggesting changes to ESH lab services led DOC to seek vendor for all services
    - Most were done at no cost through ESH
    - Some specialty tests required outside service
  - Proposals never adopted but service continued to be outsourced at \$165k
    - Governor's efficiency process suggested outsourcing ESH work
    - Assembly instead reduced DOC outside contract

# Current Year: Other

- DOC/ESH lab issue
  - DOC restores funding in its revised request
    - Includes \$137K
    - Unhappy with prior service through ESH and lack of medical records interface
  - ESH staff can do most of the work at no additional cost

# Current Year: Local Aid

- Q1 has no projections for changes to Local Aid
  - RIDE submitted Q1 suggesting need for more for
    - Teacher Retirement - \$1.0 million
    - Support for Central Falls - \$0.5 million
  - Car tax
    - Required \$1.5 million add in FY 2019 revised
    - Early data suggest potential for savings in FY 2020

# Full-time Equivalent Positions

	<b>Total</b>
FY 2017 Avg.	13,809.6
FY 2018 Avg.	13,913.2
FY 2019 Avg.	14,062.1
FY 2020 Enacted*	15,074.7
Avg. Filled 11/23	14,197.7
Diff. from Enacted	(877.0)
Diff. from FY 2019	135.6

\*Total includes 788.8 higher ed. FTE limited to 3<sup>rd</sup> party funds

# Current Year

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

# 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	<b>(227.1)</b>
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	<b>(28.0)</b>
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	<b>(54.4)</b>
2019	14.3	(5.4)	11.7	44.7	<b>(47.8)</b>
2020	3.7	0.1	(12.5)	23.1	<b>(6.8)</b>



# Current Year

- Risks and Issues
  - Deloitte Settlement unresolved
  - DCYF major deficit projection
    - Lack of info for outside analysis/verification
  - Statewide savings
  - Centralized service billings
  - Efficiency Commission savings

# Budget and Out-years

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# Budget Year and Out-years

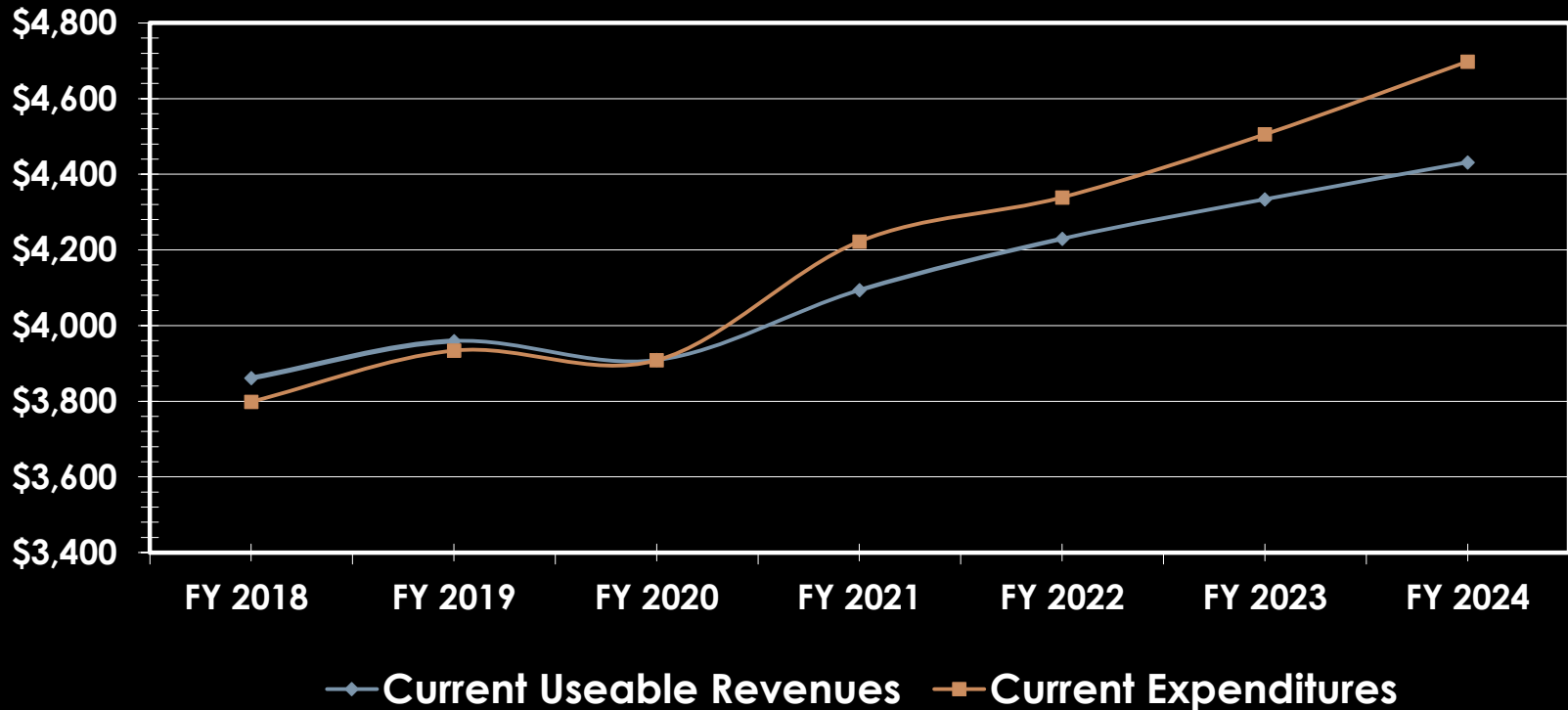
- There are *budget year* and *out-year problems*
  - FY 2021 was estimated in June to have a gap of approximately \$130 million
  - Budget Office estimated \$208.6 million in July
    - Expenditures much higher than prior projections
  - HFAS estimates about \$184 million gap plus current year issue

# Budget Year and Out-years

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

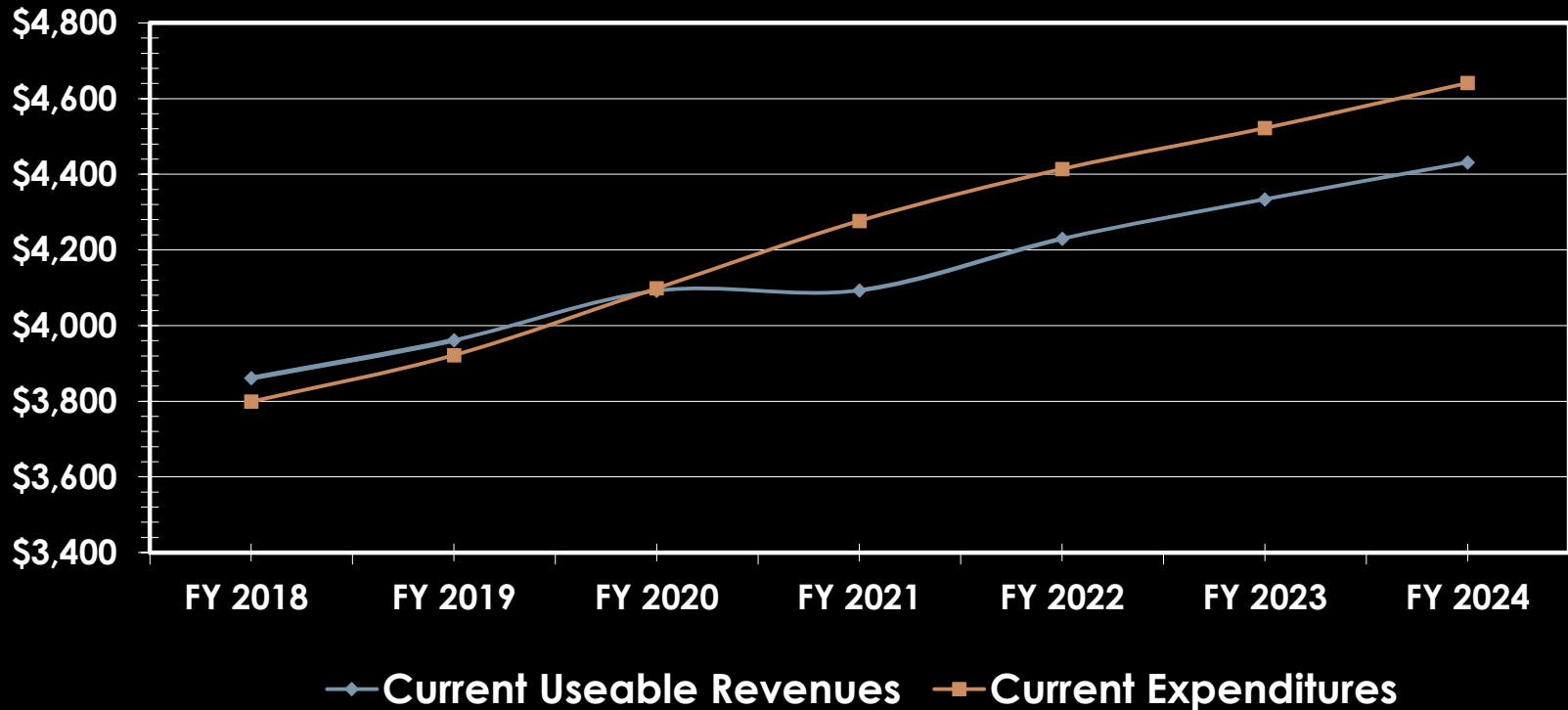
# Budget and Out Years

## Revenues vs. Expenditures June 2019 Estimates



# Budget and Out Years

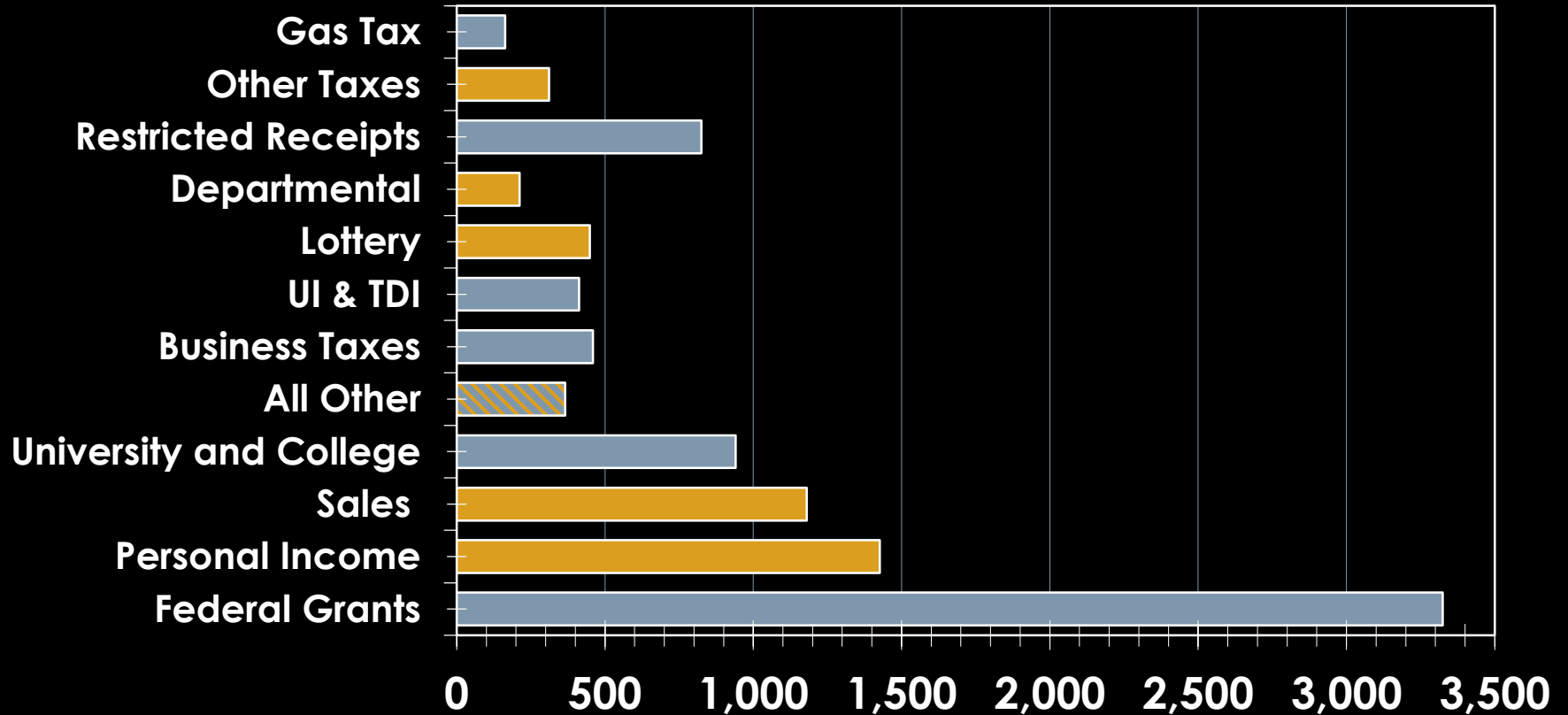
Revenues vs. Expenditures  
Nov 2019 Estimates



# Uses – Growth Rates

Item	Est. Annual Growth
Jobs	0.2%
State Personal Income	3.9%
Taxes	3.0%
Total Revenues	2.4%
Total Expenditures	3.3%
Salaries & Benefits – 25% of total	3.4%
Medicaid – 30% of total	~3.5%

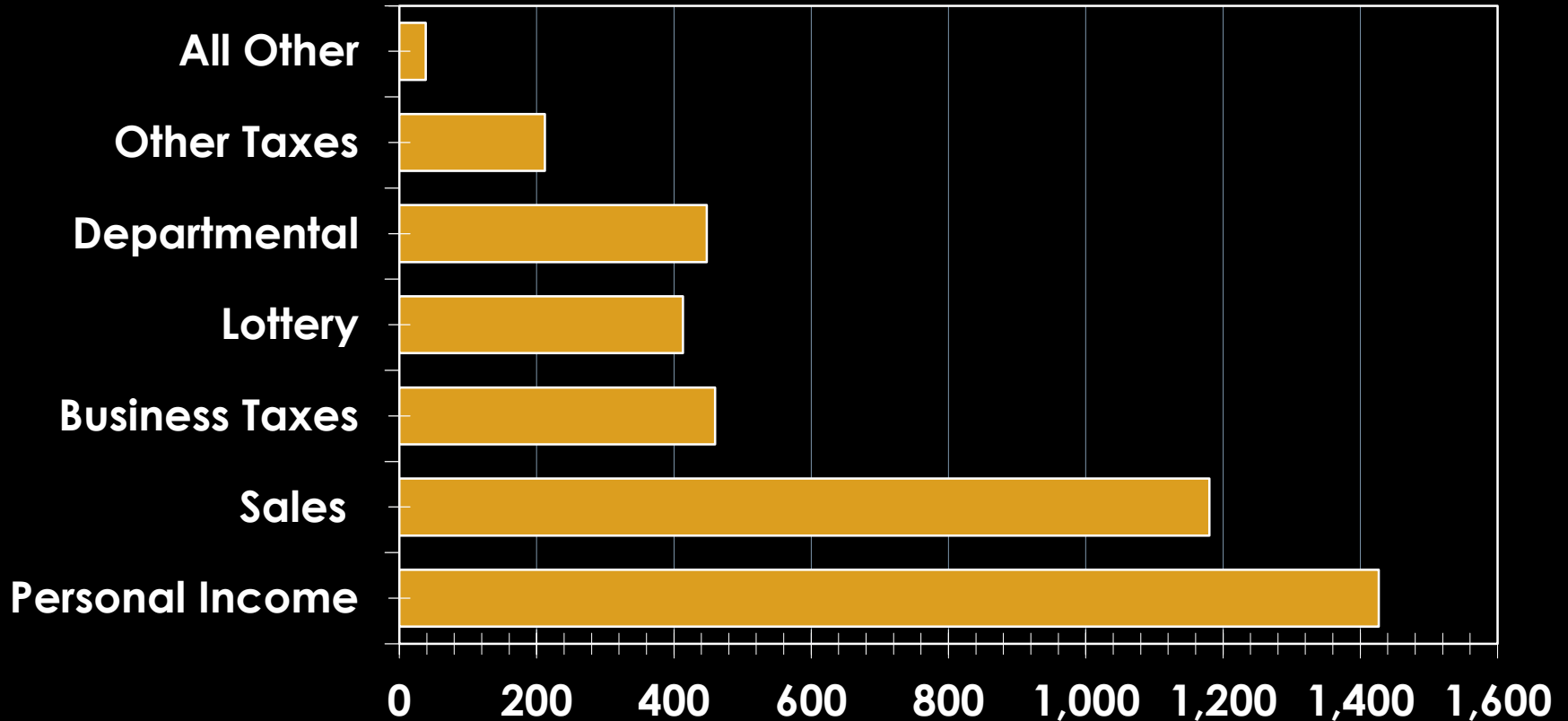
# All Sources *(\$ in millions)*



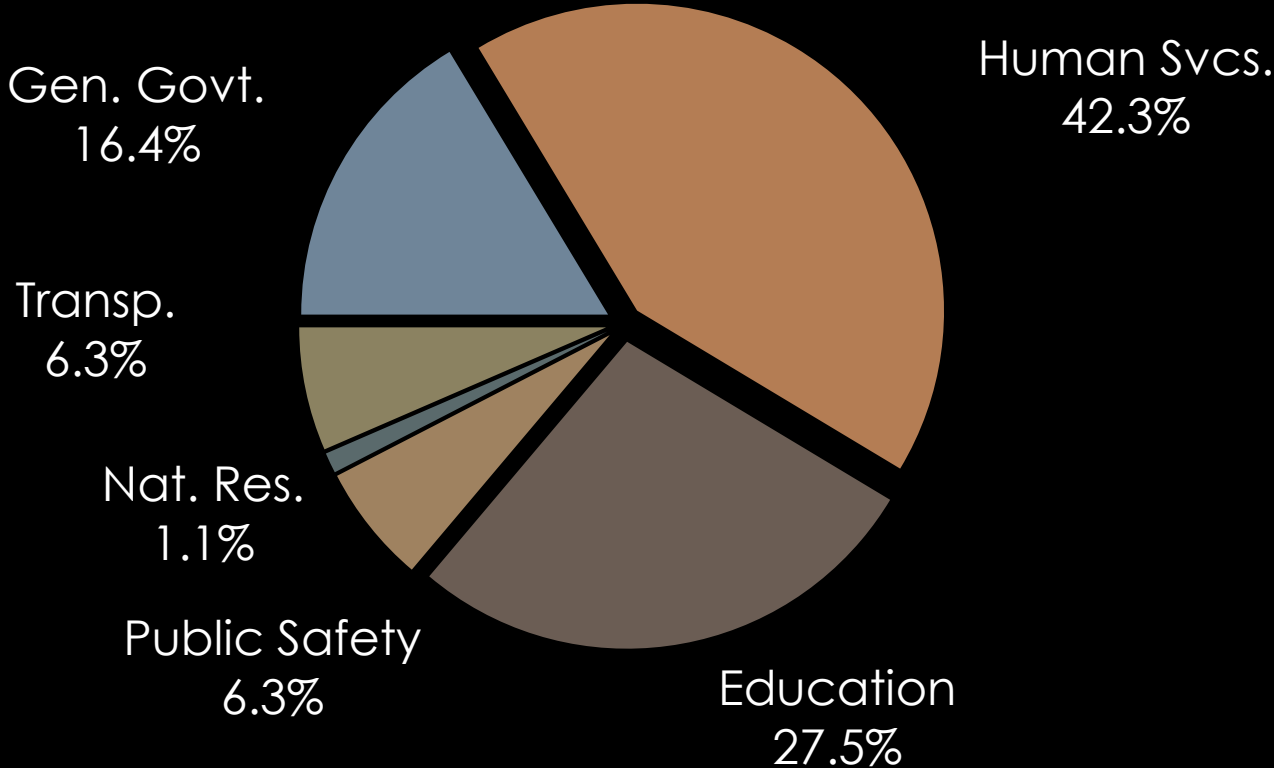


# General Revenue Sources

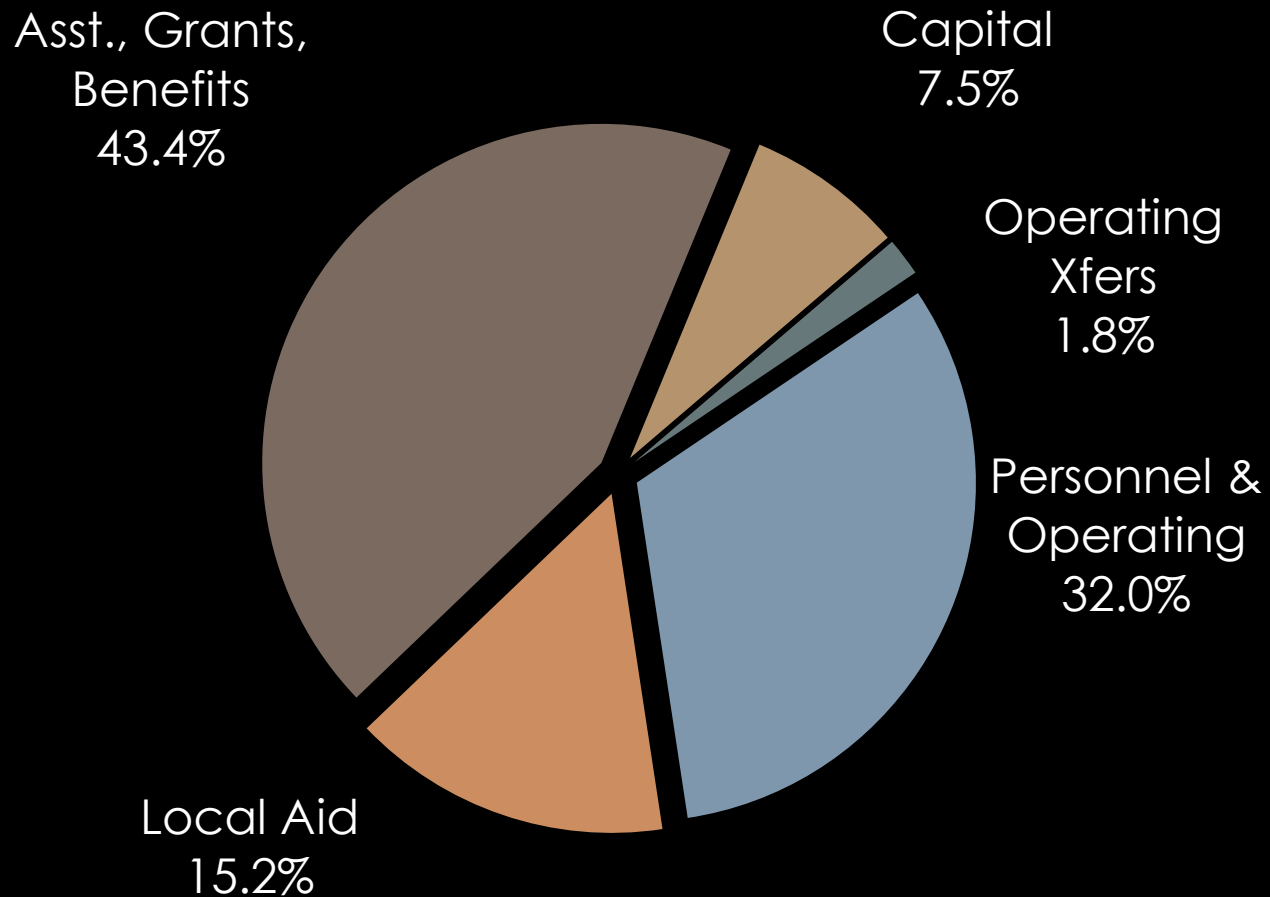
(\$ in millions)



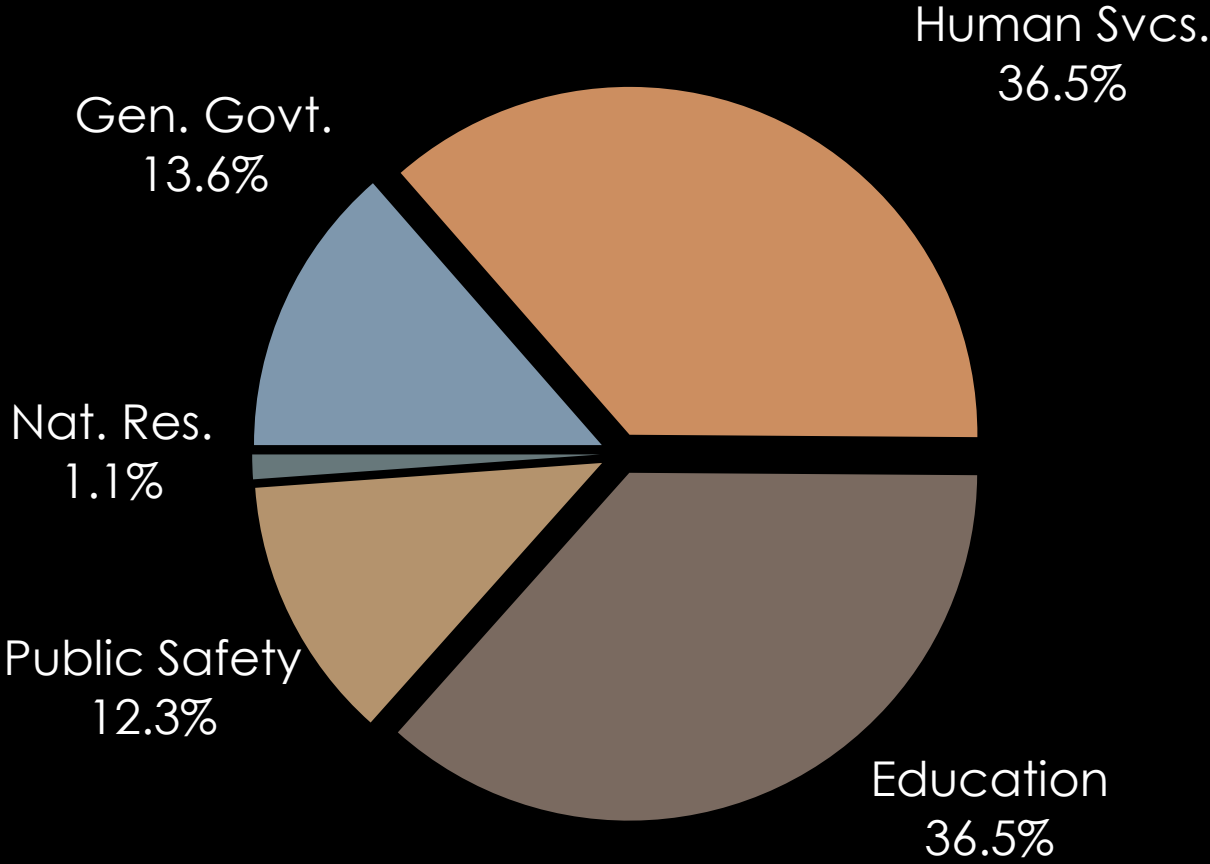
# Uses – All Funds by Function



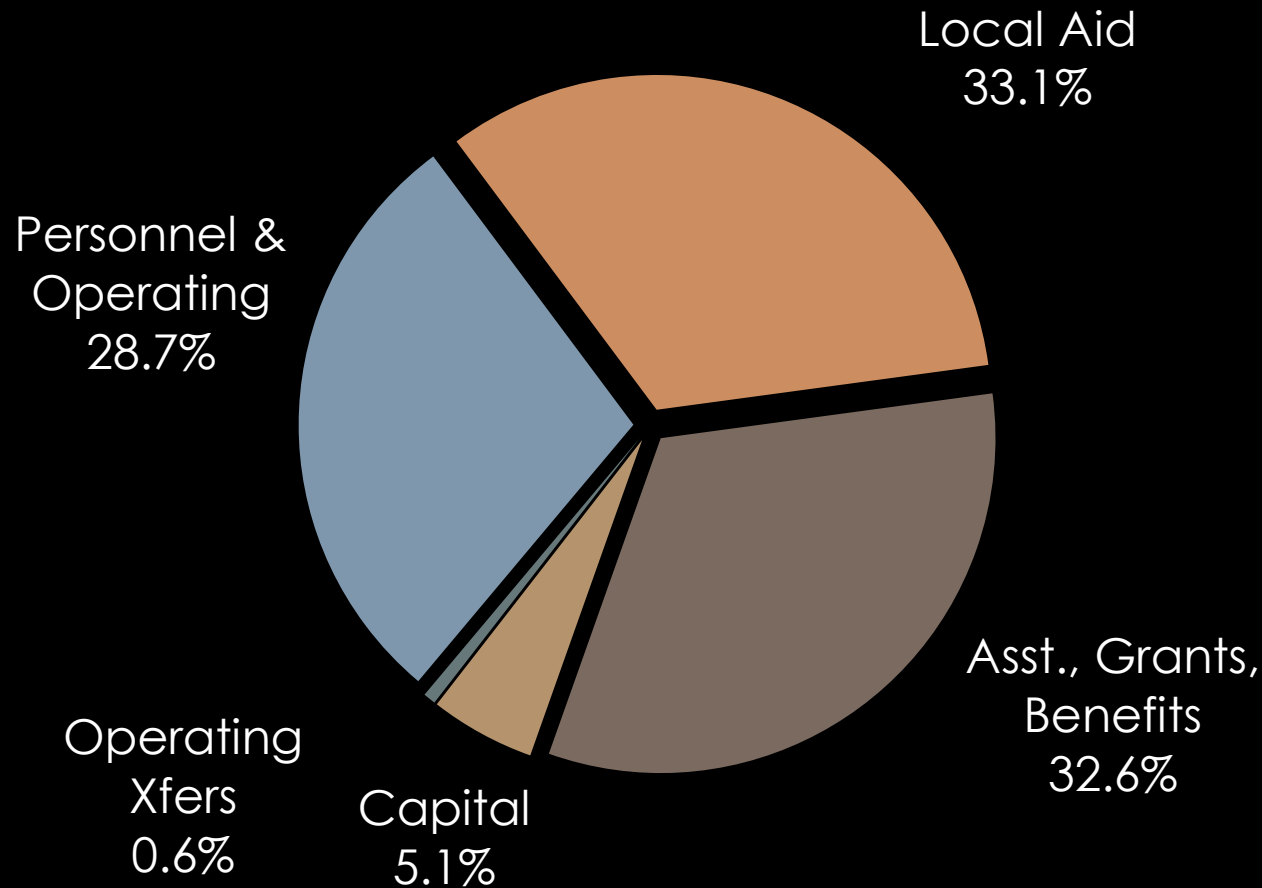
# Uses – All Funds by Category



# Uses – General Revenues by Function



# Uses – General Revenues by Category



# Budget Year and Out-years

- Budget Office Instructions based on \$208.6 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 significantly different estimates than those used to calculate out-year projections submitted with Governor's budget
      - Notably Education aid and Medicaid expenses

# 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 \$71 million
  - Not all same items included
- Do not have all budgets in
  - DCYF and Higher Ed submissions still outstanding
    - Individual schools submitted drafts

# FY 2021 Budget Requests

- Budget Office also asked for options for reductions
  - 5% adjusted for certain exclusions
    - Equated to \$131.6 million
- May agency submissions do not include options to meet targets
  - Total requests off target by over \$78 million
    - Many agencies suggested revenue items
  - Many options not sound
    - Cost shifts to other state agencies



# FY 2021 Budget Requests

- Some agencies significantly delayed in budget submissions
  - More timely than last year
  - New budget system continues to present challenges to agencies
    - Some entering incorrect information
  - Adds extra challenge exercising adequate review by executive and legislative staffs

# Issues and Risks to the Forecast

- High level of uncertainty on large items
- Control of current year spending
  - Aligning budgeted savings where they occur
  - Policy decisions that impact budgets
- Potential for cyclical economic event
  - Forecast does not include impacts of possible new tariffs

# Summary

- Governor's Budget expected Jan 16
- Major budget challenges
  - DCYF
  - Current year deficit could get worse if Deloitte settlement not as planned
    - Upside potential as well
  - Structural tax and expenditure issues
  - Many competing priorities

# Budget Status

House Fiscal Staff Presentation to  
House Finance Committee  
December 3, 2019

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