



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUDGET OFFICE
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Memorandum

To: The Honorable Lincoln D. Chafee
Governor

Richard A. Licht, Director
Department of Administration

From: Thomas A. Mullaney 
Executive Director/State Budget Officer

Date: February 14, 2014

Subject: FY 2014 Second Quarter Report

Section 35-1-5 of the Rhode Island General Laws states that the Director of Administration shall "direct the State Budget Officer to project on a quarterly basis the anticipated year-end balance assuming current trends continue and the typical cyclical expenditure patterns prevail over the course of the year. A consolidated quarterly report incorporating the current status and projections shall be released to the public within forty-five days of the end of each quarter." This report demonstrates compliance with this section of the General Laws.

The second quarter report for FY 2014 primarily reflects the Governor's recommended supplemental budget, as submitted to the General Assembly on January 15, 2014, which contained revised estimates of annual expenditures for each state department or agency, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 4, 2013 and November 8, 2013 Caseload and Revenue Estimating Conferences. The Governor's supplemental budget included a number of recommendations that require legislative approval and thus until such approval is granted, resulting expenditure and/or revenue changes are not incorporated into this second quarter report, as outlined below. The projected fiscal year 2014 balance, based upon these assumptions, is estimated to show a **\$64.7 million surplus**. This is in comparison to the Governor's supplemental budget, which projects a year-end surplus of \$68.9 million.

The Governor's supplemental budget held most agencies at or below their enacted funding levels, with some additional funding provided for unique circumstances, such as costs incurred for the implementation of the Unified Health Infrastructure Project (UHIP). In the second

quarter reports submitted to the Budget Office, a few agencies indicated that they are still projecting deficits when compared to the Governor's supplemental budget. In some of these cases, agencies were projecting expenditures based on enacted funding levels, when in fact they will be controlled to the lower revised budget through the balance of the fiscal year and thus are not expected to end in a deficit position. For other agencies, where projected spending may appear to exceed the recommended supplemental budget, the Budget Office has requested updates to corrective action plans and will be meeting with these agencies on a regular basis to identify areas of overspending and to work with the agency in developing options for curtailing spending wherever possible.

FY 2013 Closing

The State Controller issued his final audited FY 2013 closing report on December 19, 2013. This report reflected a \$104.1 million general fund surplus. General revenue receipts exceeded the final enacted estimates by \$173,820, while general revenue expenditures were lower than final enacted appropriations by \$17.8 million. Under current law, upon issuance of the final audited statements, the State Controller is required to transfer all general revenues received in excess of the estimates adopted for that fiscal year, net of the transfer to the state budget reserve and cash stabilization account, to the employee's retirement system. Based on the final closing report, a transfer of \$168,605 was made for FY 2013.

The projected budget surplus of \$64.3 million for FY 2014 is the result of an opening surplus of \$104.1 million (\$10.7 million more than the enacted opening surplus of \$93.4 million), reappropriations of \$7.1 million, a current year net revenue increase of \$40.1 million, as determined by the November Revenue Estimating Conference, which is offset by a \$1.5 million increase in reserve fund contributions and spending projected below enacted appropriations of \$8.0 million.

General revenue receipts are expected to be \$40.1 million more than enacted as determined by the November Revenue Estimating Conference, adjusted for the accrual of a hospital licensing fee payment to FY 2013. Taxes are expected to exceed the enacted estimates by \$31.0 million, while departmental revenues and other sources, including lottery revenues, are expected to also exceed enacted estimates by \$9.0 million. The November Revenue Estimating Conference estimates that revenues will be \$3,421.1 million, which is \$40.1 million more than the enacted estimate of \$3,381.0 million for FY 2014. The Conference's estimates reflect recent revenue trends and expected collections based upon the economic forecast.

Table 1 demonstrates that available resources, net of reserve fund contributions, have been adjusted upward from the enacted budget by \$56.3 million. This includes the additional balance forward from FY 2013 of \$10.7 million; reappropriations of \$7.1 million; additional revenues estimated at the Revenue Estimating Conference \$40.1 million, offset by additional reserve fund contributions of \$1.5 million. Expenditures decrease by a net of \$8.0 million, including the addition of \$7.1 million for reappropriations from FY 2013.

Table 2 shows the enacted budgets by agency, as contained in Article 1 of the FY 2014 Appropriations Act, and identifies projected expenditure changes for each agency as proposed

by the Governor in his FY 2014 Revised Budget. The following expenditure items requested in the Governor's supplemental budget are not included in this second quarter report:

- Department of Administration Classification Study - \$500,000
- Higher Education Assistance Authority MOE for CACG grant - \$51,597
- Attorney General – Children's Rights Litigation - \$150,000
- Department of Corrections Shift of Overtime to RICAP – (\$750,000)

Revenue Projections

Table 3 displays the revenue estimates of the November 8, 2013 Revenue Estimating Conference, as well as changes included in the Governor's recommended supplemental budget that resulted from audit adjustments by the State Controller, as compared to those contained in the enacted budget. The two new revenue items listed below were proposed by the Governor in the supplemental budget, but are not included in the second quarter report.

- Transfer from Insurance Recovery Restricted Account - \$924,419
- Transfer of Bond Premium - \$3,320,979

Reappropriations

As required under Rhode Island General Law 35-3-15 (a), the Governor recommended the reappropriation of unexpended and unencumbered balances in the general revenue appropriations of the General Assembly and the Judiciary. The total amounts reappropriated were \$4,706,495 for the General Assembly. In addition, the Governor recommended \$2,345,929 in reappropriations for several other agencies, as shown in the following table.

Agency/Major Item	Reappropriation
General Assembly (per RIGL 35-3-15 (a))	\$4,706,495
Governor's Contingency Fund	\$196,428
Attorney General – Tobacco Litigation	\$292,610
Military Staff	\$100,396
Ethics Commission	\$5,762
Department of Administration	\$222,923
I-195 Commission	\$674,679
Department of Revenue	\$152,396
Department of Corrections	\$700,835
Total Reappropriations	\$7,052,524

As stated above, the Budget Office has begun to meet regularly with those agencies that have expressed concerns over their ability to operate within the recommended revised budget and will work with them to take actions to reduce expenditures to the level of resources available to them in FY 2014.

If you have any questions concerning this second quarter report, please feel free to contact me.

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TAM: S/15budget/FY 2014 Revised/Q2/Q2report
Attachments

cc: The Honorable Helio Melo, Chairman
House Finance Committee

The Honorable Daniel DaPonte, Chairman
Senate Finance Committee

Sharon Reynolds Ferland, House Fiscal Advisor

Stephen Whitney, Senate Fiscal Advisor

Peter Marino, Director, Office of Management and Budget

Table 1 - Changes to FY 2014 General Revenue Budget Surplus

	FY 2012 Audited ⁽¹⁾	FY 2013 Audited ⁽²⁾	FY 2014 Enacted ⁽³⁾	FY 2014 Revised	Change From Enacted
Surplus					
Opening Surplus	\$64,229,426	\$115,187,511	\$93,407,399	\$104,119,715	\$10,712,316
Audit Adjustments	-	-	-	-	\$0
Adjustment to Opening Surplus	-	-	-	-	\$0
Reappropriated Surplus	4,532,242	7,726,521	-	7,052,524	\$7,052,524
Subtotal	\$68,761,668	\$122,914,032	\$93,407,399	\$111,172,239	\$17,764,840
General Taxes	\$2,518,449,026	2,577,507,611	2,622,955,876	2,622,955,876	-
Revenue estimators' revision	-	-	-	31,044,124	31,044,124
Changes to Adopted	-	-	-	-	-
Subtotal	\$2,518,449,026	\$2,577,507,611	\$2,622,955,876	\$2,654,000,000	\$31,044,124
Departmental Revenues	339,895,284	356,831,653	348,707,542	348,707,542	-
Revenue estimators' revision	-	-	-	11,392,458	11,392,458
Changes to Adopted	-	-	-	(5,585,024)	(5,585,024)
Subtotal	\$339,895,284	\$356,831,653	\$348,707,542	\$354,514,976	\$5,807,434
Other Sources					
Other Miscellaneous	20,110,214	4,166,214	5,545,000	5,545,000	-
Revenue estimators' revision	-	-	-	1,910,000	1,910,000
Changes to Adopted	-	-	-	-	-
Lottery	377,706,394	379,224,715	394,100,000	394,100,000	-
Revenue estimators' revision	-	-	-	100,000	100,000
Changes to Adopted	-	-	-	-	-
Unclaimed Property	14,555,573	6,268,627	9,700,000	9,700,000	-
Revenue estimators' revision	-	-	-	1,200,000	1,200,000
Subtotal	\$412,372,181	\$389,659,556	\$409,345,000	\$412,555,000	\$3,210,000
Total Revenues	\$3,270,716,491	\$3,323,998,820	\$3,381,008,418	\$3,421,069,976	\$40,061,558
Transfer to Budget Reserve	(93,378,486)	(103,175,590)	(104,232,475)	(105,755,691)	(1,523,216)
Total Available	\$3,246,099,674	\$3,343,737,262	\$3,370,183,343	\$3,426,486,524	\$56,303,182
Actual/Enacted Expenditures	\$3,110,242,012	\$3,216,046,418	\$3,359,755,123	\$3,359,755,123	\$0
Reappropriations	-	-	-	7,052,524	\$7,052,524
Caseload Conference Changes	-	-	-	121,197	\$121,197
Other Changes in Expenditures	-	-	-	(15,137,634)	(\$15,137,634)
Total Expenditures	\$3,110,242,012	\$3,216,046,418	\$3,359,755,123	\$3,351,791,210	(\$7,963,913)
Total Ending Balances	\$135,857,662	\$127,690,844	\$10,428,220	\$74,695,314	\$64,267,095
Transfer to Other Funds ⁽⁴⁾	(\$12,943,629)	(\$16,518,605)	(\$10,000,000)	(\$10,000,000)	\$0
Reappropriations	(7,726,521)	(7,052,524)	-	-	-
Free Surplus	\$115,187,511	\$104,119,715	\$428,220	\$64,695,314	\$64,267,095
Budget Reserve and Cash					
Stabilization Account	\$153,407,512	\$171,959,317	\$173,720,791	\$176,183,127	\$2,462,336

⁽¹⁾ Derived from the State Controller's final closing report for FY 2012, dated January 4, 2013.

⁽²⁾ Derived from the State Controller's final closing report for FY 2013, dated January 6, 2014.

⁽³⁾ Reflects the FY 2014 budget enacted by the General Assembly and signed into law by the Governor on July 3, 2013.

⁽⁴⁾ Reflects restricted General Fund balances transferred to the Information Technology Investment Fund and State Fleet Revolving Loan Fund in FY 2013 and to the Accelerated Depreciation Fund in FY 2014.

Table 2 - Summary of Changes to FY 2014 Enacted General Revenue Expenditures

	FY 2014 Enacted	Reappropriation	Redistribution Medical Benefit Savings	Total Projected Changes	Projected Expenditures	Change From Enacted (Surplus)/Deficit
General Government						
Administration	264,801,211	897,602	823,697	(3,199,540)	261,601,671	(\$3,199,540)
Business Regulation	9,245,878	-	(50,728)	(430,948)	8,814,930	(430,948)
Labor and Training	9,064,061	-	(22,316)	(16,042)	9,048,019	(16,042)
Department of Revenue	102,007,495	152,396	(207,364)	(855,205)	101,152,290	(855,205)
Legislature	36,186,933	4,706,495	(209,428)	2,467,284	38,654,217	2,467,284
Lieutenant Governor	986,890	-	(5,638)	(40,389)	946,501	(40,389)
Secretary of State	6,497,833	-	(30,273)	(20,264)	6,477,569	(20,264)
General Treasurer	2,654,692	-	(11,080)	(37,375)	2,617,317	(37,375)
Board of Elections	1,739,361	-	(7,072)	21,044	1,760,405	21,044
Rhode Island Ethics Commission	1,577,204	5,762	(7,026)	(1,264)	1,575,940	(1,264)
Governor's Office	4,443,513	196,428	(7,555)	170,561	4,614,074	170,561
Commission for Human Rights	1,150,785	-	(6,339)	(4,719)	1,146,066	(4,719)
Public Utilities Commission	-	-	-	-	-	-
Subtotal - General Government	440,355,856	5,958,683	258,878	(1,946,857)	438,408,999	(1,946,857)
Human Services						
Office of Health & Human Services	843,227,650	-	(67,381)	(1,183,393)	842,044,257	(1,183,393)
Children, Youth, and Families	152,976,991	-	(282,349)	(354,316)	152,340,326	(636,665)
Health	24,308,001	-	(122,955)	(313,386)	23,994,615	(313,386)
Human Services	93,479,195	-	(240,007)	3,131,000	96,610,195	3,131,000
Behavioral Health, Developmental Disabilities & Hc	202,091,382	-	(384,931)	(1,156,304)	200,935,078	(1,156,304)
Office of the Child Advocate	608,651	-	(3,534)	(33,174)	575,477	(33,174)
Comm. on Deaf & Hard of Hearing	391,609	-	(2,342)	(2,342)	389,267	(2,342)
RI Developmental Disabilities Council	357,711	-	(1,359)	(1,359)	356,352	(1,359)
Governor's Commission on Disabilities	486,144	-	(3,297)	(2,428)	483,716	(2,428)
Office of the Mental Health Advocate	1,317,927,334	-	(1,108,155)	84,298	1,317,729,283	(198,051)
Subtotal - Human Services						
Education						
Elementary and Secondary	964,706,909	-	(178,760)	(3,579,023)	961,127,886	(3,579,023)
Higher Education - Board of Governors	180,013,795	-	(400,286)	(878,952)	179,134,843	(878,952)
RI Council on the Arts	1,335,630	-	(2,817)	(18,039)	1,317,591	(18,039)
RI Atomic Energy Commission	861,710	-	(4,940)	(4,940)	856,770	(4,940)
Higher Education Assistance Authority	4,281,726	-	-	-	4,281,726	-
Historical Preservation & Heritage Comm	1,357,510	-	(6,967)	(16,714)	1,340,796	(16,714)
Subtotal - Education	1,152,257,280	-	(593,770)	(4,497,668)	1,148,059,612	(4,497,668)
Public Safety						
Attorney General	\$23,656,979	292,610	(\$134,657)	206,815	23,863,794	206,815
Corrections	185,379,198	700,835	(905,773)	1,412,844	186,792,042	1,412,844
Judicial	91,681,359	-	(386,278)	(275,953)	91,405,406	(275,953)
Military Staff	3,869,983	100,396	(10,450)	(229,947)	3,640,037	(229,947)
Public Safety	96,361,799	-	(270,099)	(1,717,110)	94,644,689	(1,717,110)
Office of Public Defender	11,034,686	-	(59,188)	(149,275)	10,885,411	(149,275)
Subtotal - Public Safety	411,984,004	1,093,841	(1,766,445)	(752,626)	411,231,379	(752,626)
Environmental Management						
Coastal Resources Management Council	34,756,318	-	(157,940)	(553,116)	34,203,202	(553,116)
Subtotal - Natural Resources	2,174,331	-	(13,241)	(15,595)	2,158,736	(15,595)
Subtotal - Natural Resources	36,930,649	-	(171,181)	(568,711)	36,361,938	(568,711)
Total	3,359,755,123	7,052,524	(3,380,673)	(7,681,564)	3,351,791,210	(7,963,913)

Table 3 - November 2013 Revenue Estimating Conference Results

	FY 2012	FY 2013 Preliminary	Growth From FY 2012	FY 2014 Enacted	Growth From FY 2013	FY 2014 November 2013 Consensus	Growth From FY 2013	FY 2014 Consensus vs. FY 2014 Enacted	Growth From FY 2014 Consensus vs. FY 2014 Enacted
Personal Income Tax	\$ 1,060,481,684	\$ 1,085,765,261	2.4%	\$ 1,109,154,500	2.2%	\$ 1,120,700,000	3.2%	\$ 11,545,500	1.0%
General Business Taxes									
Business Corporations	123,054,377	131,827,907	7.1%	141,300,000	7.2%	136,000,000	3.2%	(5,300,000)	-3.8%
Public Utilities Gross	100,631,477	99,640,815	-1.0%	94,900,000	-4.8%	95,900,000	-3.8%	1,000,000	1.1%
Financial Institutions	3,557,938	12,594,921	254.0%	4,300,000	-65.9%	4,300,000	-65.9%	-	0.0%
Insurance Companies	89,487,511	92,744,945	3.6%	98,815,832	6.5%	100,600,000	8.5%	1,784,168	1.8%
Bank Deposits	2,000,645	2,877,325	43.8%	2,500,000	-13.1%	2,900,000	0.8%	400,000	16.0%
Health Care Provider	41,922,464	41,568,589	-0.8%	42,610,544	2.5%	42,600,000	2.5%	(10,544)	0.0%
Sales and Use Taxes									
Sales and Use	851,055,730	878,866,074	3.3%	887,201,672	0.9%	904,000,000	2.9%	16,798,328	1.9%
Motor Vehicle	48,391,564	49,431,495	2.1%	51,800,000	4.8%	50,800,000	2.8%	(1,000,000)	-1.9%
Motor Fuel	732,672	438,255	-40.2%	1,000,000	128.2%	700,000	59.7%	(300,000)	-30.0%
Cigarettes	131,085,912	132,516,310	1.1%	130,700,000	-1.4%	136,300,000	2.9%	5,600,000	4.3%
Alcohol	11,873,646	12,176,109	2.5%	18,173,328	49.3%	18,200,000	49.5%	26,672	0.1%
Other Taxes									
Inheritance and Gift	46,411,738	28,489,275	-38.6%	31,800,000	11.6%	31,800,000	11.6%	-	0.0%
Racing and Athletics	1,327,003	1,171,108	-11.7%	1,200,000	2.5%	1,200,000	2.5%	-	0.0%
Realty Transfer	6,434,665	7,399,222	15.0%	7,500,000	1.4%	8,000,000	8.1%	500,000	6.7%
Total Taxes	2,518,449,026	2,577,507,611	2.3%	2,622,955,876	1.8%	2,654,000,000	3.0%	31,044,124	1.2%
Departmental Receipts	339,895,284	348,703,848	n/a	348,707,542	0.0%	354,514,976	1.7%	5,807,434	1.7%
Gas Tax Transfer	-	-	n/a	-	n/a	-	n/a	-	n/a
Other Miscellaneous	20,110,214	4,166,214	-79.3%	5,545,000	33.1%	7,455,000	78.9%	1,910,000	34.4%
Lottery	377,706,394	379,224,715	0.4%	394,100,000	3.9%	394,200,000	3.9%	100,000	0.0%
Unclaimed Property	14,555,573	6,268,627	-56.9%	9,700,000	54.7%	10,900,000	73.9%	1,200,000	12.4%
Total General Revenues	3,270,716,491	3,315,871,014	1.4%	3,381,008,418	2.0%	3,421,069,976	3.2%	40,061,559	1.2%