



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUDGET OFFICE  
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Providence, R.I. 02908-5886

*Memorandum*

**To:** The Honorable Gina M. Raimondo  
Governor

Michael DiBiase, Director  
Department of Administration

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

**Date:** November 15, 2017

**Subject:** FY 2018 First 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 projection 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.

**FY 2017 Closing**

The State Controller issued the preliminary unaudited FY 2017 closing report on September 1, 2017. This report reflected a \$63.9 million general fund surplus. General revenue receipts were above the final enacted estimates by \$8.5 million, and general revenue expenditures were lower than final enacted appropriations by \$16.2 million. The ending surplus was \$14.2 million more than assumed in the final FY 2017 enacted budget.

**FY 2018 First Quarter**

The first quarter report for FY 2018 contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2018 (July 1, 2017 through September 30, 2017), as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 7, 2017 and November 10, 2017 Caseload and Revenue Estimating Conferences. The projected fiscal year 2018 year-end balance, based upon these assumptions, is estimated to show a \$60.2 million deficit. As further explained below, this deficit assumes current law and is significantly impacted by federal budget uncertainty. For

example, the deficit assumes that the Children's Health Insurance Program (CHIP) is not reauthorized by Congress, which results in additional costs to the State. If CHIP is reauthorized as expected, the projected deficit would decrease to \$53.2 million.

There are several agencies forecasting deficits in FY 2018 as of their first quarter reports. These include the Departments of Behavioral Healthcare, Developmental Disabilities and Hospitals; Children, Youth and Families; Human Services; Corrections; Public Safety, Military Staff and the Executive Office of Health and Human Services (Medicaid). The Budget Office is working closely with these agencies to develop corrective action plans to resolve deficits and to identify savings in current year spending plans in other agencies to offset any additional funding needs.

The Budget Office continues to review department and agency FY 2018 revised expenditure plans in conjunction with the FY 2019 budget process and has requested corrective action plans from those agencies projecting deficits compared to FY 2018 enacted appropriations. Any changes recommended by the Governor to the FY 2018 enacted appropriations, or adopted revenues, will be incorporated in the Governor's proposed supplemental appropriations act, which under current law must be submitted to the General Assembly no later than Thursday, January 18, 2018.

#### **FY 2018 Projected Deficit**

The projected budget deficit of \$60.2 million for FY 2018 is the result of an opening surplus of \$63.9 million (\$14.2 million more than the enacted opening surplus of \$49.7 million); reappropriations of \$10.3 million; a current year revenue decrease of \$10.3 million, as determined by the November Revenue Estimating Conference, a \$0.1 million increase in reserve fund contributions; plus the enacted closing surplus of \$0.2 million; and caseload growth and spending of an additional \$74.5 million.

General revenue receipts are expected to be \$10.3 million less than enacted as determined by the November Revenue Estimating Conference. Taxes are expected to be below enacted estimates by \$9.4 million, while departmental revenues and other sources are expected to trail enacted estimates by \$0.9 million. The November Revenue Estimating Conference projected that revenues will be \$3,824.4 million, which is \$10.3 million less than the enacted estimate of \$3,834.7 million for FY 2018.

Table 1 demonstrates that available resources, net of reserve fund contributions, have been adjusted upward from the enacted budget by \$14.0 million. This includes the additional balance forward from FY 2017 of \$14.2 million and reappropriations of \$10.3 million; offset by lower revenues estimated at the November Revenue Estimating Conference of \$10.3 million and additional reserve fund contributions of \$0.1 million. Expenditures increase by a net of \$74.5 million, including \$10.3 million of reappropriations from FY 2017 and \$29.3 million of increased costs estimated by the Caseload Estimating Conference; \$22.2 million if CHIP is reauthorized, as expected.

Table 2 shows the enacted budgets by agency, as contained in Article 1 of the FY 2018 Appropriations Act, and identifies projected expenditure changes for each agency.

**Revenue Projections**

Table 3 displays the revenue estimates of the November 10, 2017 Revenue Estimating Conference, as compared to those contained in the enacted budget.

**Budget Reserve Fund Resources**

Based on the preliminary audit, the Budget Reserve Fund was fully funded at \$192.6 million as of June 30, 2017. The enacted FY 2018 Budget estimated the year-end balance in the Budget Reserve Fund at \$194.2 million. Incorporating the revised revenue estimates for FY 2018, the transfer to the Budget Reserve Fund will increase by \$0.2 million compared to the enacted budget. The balance in the Budget Reserve Fund is projected to be \$194.4 million as of June 30, 2018.

**Projected Expenditures**

Overall, net projected general revenue spending for FY 2018, as compared to the enacted budget, is approximately \$74.5 million more than enacted appropriations. Major expenditure changes include:

<b>Agency/Major Item</b>	<b>(Surplus)/Deficit</b>
Reappropriations	\$10,338,899
November Caseload Estimating Conference – Medical Assistance	\$28,578,351
November Caseload Estimating Conference – Cash Assistance	\$679,929
Department of Children, Youth and Families	\$9,998,816
Dept. of Behavioral Healthcare, Devel. Disabilities and Hospitals	\$15,880,696
Department of Human Services	\$5,860,893
Department of Corrections	\$888,696
Department of Public Safety	\$1,228,255
Military Staff	\$720,793
All Other Changes	\$308,710
<b>Total All Changes</b>	<b>\$74,484,038</b>

**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 totaling \$7.1 million and \$3.2 million in reappropriations for several other agencies, as shown in the following table.

<b>Agency/Major Item</b>	<b>Reappropriation</b>
General Assembly (per RIGL 35-3-15 (a))	\$7,110,437
Governor's Office – Contingency Fund	\$67,089
Office of Health and Human Services	\$1,564,300
Department of Public Safety	\$24,700
Department of Corrections	\$646,309
Child Advocate	\$46,404
Secretary of State	\$44,924

Department of Labor and Training		\$43,817
Department of Administration		\$790,919
<b>Total Reappropriations</b>		<b>\$10,338,899</b>

### **Agency Specific Changes**

#### **November Caseload Estimating Conference**

The November Caseload Estimating Conference convened on November 7, 2017 and adopted revised cash assistance caseloads and medical assistance expenditures for FY 2018. In comparison to the enacted budget, the adopted estimates increased general revenue expenditures by a net of \$29.3 million. It should be noted that increased caseload costs assume that CHIP is not reauthorized by Congress because the Conferees are required to determine estimates based on current law and as of the date of the Caseload Conference no action had been take by Congress. If Congress acts and reauthorizes CHIP, including the associated enhanced federal match, caseload expenditures would decrease by \$7.0 million and the overall projected deficit would be \$53.3 million.

The General Public Assistance (GPA) program is estimated to require \$133,951 less than enacted. This decrease is due to a decline in the number of persons from 364 to 350 and a decrease in the monthly cost per person from \$146.28 to \$137.00.

The Supplemental Security Income (SSI) program is estimated to require \$813,480 more based on an increase in SSI caseload of 715 persons and an increase in the cost per person from \$46.00 to \$47.00.

The Child Care program is estimated to require \$401,334 more in all funds as compared to the enacted budget. This is primarily due to a projected increase in the number of subsidies from 9,422 to 9,612, as a result of more individuals returning to work and requiring child care, and a decline in the projected cost per subsidy from \$7,323 to \$7,220.

Within the Medical Assistance (Medicaid) program, an all funds deficit of \$25.3 million is forecast compared to the enacted budget, which includes \$28.6 million in general revenue. This projection incorporates changes in various components of the Medicaid program, including increases in Managed Care (\$22.5 million), Rhode Health Partners (\$7.6 million), Rhody Health Options (\$12.3 million) and Long Term Care (\$8.3 million). These increases were offset by decreased costs in Hospitals (\$3.8 million) and Medicaid Expansion (\$21.5 million).

#### **Department of Children, Youth and Families**

The Department of Children, Youth and Families is projecting a net deficit of \$10.0 million, with increased expenditures of \$8.3 million in the Child Welfare program, \$1.7 million in the Children's Behavioral Health program and \$0.6 million in Central Management, offset by savings of \$0.5 million in the Juvenile Correctional Services program. The projected increased spending in Child Welfare is due to increased expenditures for congregate care, foster care, adoption/guardianship subsidies and home-based services. Although overall utilization of

congregate care has declined from an average of 365 youth per day last fiscal year to 340 youth per day so far this fiscal year, the average per-diem rate for various types of placements has increased from \$274 per day in FY 2017 to \$346 per day. In addition, the enacted budget assumed the Department would be able to receive additional enhanced Medicaid match totaling \$4.0 million on certain services, above what is already received, but based on a recent review of claims the Department does not believe obtaining this additional federal match will be possible.

#### **Department of Behavioral Healthcare, Developmental Disabilities and Hospitals**

The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals is projecting an overall shortfall of \$15.9 million. The majority of the projected deficit (\$12.0 million) is in the Services of the Developmentally Disabled program. The additional spending reflects increased costs for direct services and is reflective of caseload trends experienced during FY 2017 and continuing into the current fiscal year. Increased costs are in part associated with the November 2016 implementation of a new client assessment tool, known as the SIS-A. The outcomes of these client assessments resulted in many clients moving to higher levels of acuity, thereby requiring additional and more costly services. In addition, several savings initiatives in the enacted budget are not expected to be achieved, including use of appropriate SIS Tiers and professional service approvals. Other savings initiatives including L9 Reviews and Residential Services Rebalancing are expected to be achieved at a lower level compared to the enacted budget.

A deficit of \$4.0 million is also projected in Hospital and Community Rehabilitation Services program, primarily due to increased personnel costs, with \$2.1 million in additional overtime expenses. This deficit is due to the delay in the hospital consolidation project that assumed savings in overtime.

#### **Department of Human Services**

The Department of Human Services is projecting an overall deficit of \$5.9 million, primarily the result of increased staffing related to the RI Bridges/UHIP project. Implementation issues with the new eligibility system have resulted in the need to add staff to address application and termination backlogs. This surge in staffing is intended to be short-term in nature, but due to continuing issues with the system, it is expected the additional staffing will be required for most of the fiscal year.

#### **Department of Corrections**

The Department of Corrections is projecting an overall deficit of \$0.9 million, primarily related to a US Department of Justice lawsuit over Correctional Officer (CO) recruitment practices. Under a settlement with USDOJ, the Department is required to procure a new exam for the recruitment process. The Department has estimated this new exam will cost \$500,000 and must be procured in the current fiscal year to be available for recruitment in FY 2019. The USDOJ has allowed the department to use the existing process for a CO class in FY 2018. The Department's goal is to graduate a class of 70 as opposed to the normal 40-50, but there will be additional costs of approximately \$469,000 associated with this larger class. A larger class will reduce the Department's substantial reliance on overtime. Due to the expected timing for the class to graduate, there is no assumption that overtime expenses will be impacted in the current

fiscal year, but will decrease in FY 2019 due to increased staffing.

**Department of Public Safety**

The Department of Public Safety is projecting a deficit of \$1.2 million, primarily in the State Police program due to higher personnel costs from automatic promotions in accordance with the Trooper contract. The enacted budget did not account for the number of promotions that have occurred so far this fiscal year.

**Military Staff**

The Military Staff is projecting a deficit of \$0.7 million as a result of a shift of personnel costs in the Air National Guard program from federal funds to general revenue. The additional funding is required because the federal National Guard Bureau (NGB) will no longer finance the injured-on-duty (IOD) costs of 8 firefighters. Active firefighters are 100 percent financed with federal funds, but the NGB has notified the Adjutant General that federal funds will no longer be available to finance IOD pay, which provides firefighters who have been injured on the job 100 percent of their salary while they are unable to work.

The Office of Management and Budget is currently reviewing the FY 2018 revised and FY 2019 budget requests submitted by the various state departments and agencies and are working with these agencies to reduce expenditures to meet the enacted budget for FY 2018 and to address the projected FY 2019 current services level deficit.

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

TAM: J:/19budget/FY 2018 Revised/Q1/Q1report  
Attachments

cc: The Honorable Marvin L. Abney, Chairman  
House Finance Committee

The Honorable William J. Conley, Jr., Chairman  
Senate Finance Committee

Sharon Reynolds Ferland, House Fiscal Advisor  
Stephen Whitney, Senate Fiscal Advisor  
Jonathan Womer, Director, Office of Management and Budget

## Table 1 - FY 2018 General Revenue Budget Surplus

	FY 2017 Final Revised <sup>(3)</sup>	FY 2017 Prel. Audit <sup>(4)</sup>	FY 2018 Enacted	FY 2018 First Quarter Report
<b>Surplus</b>				
Opening Surplus	\$167,818,206	\$167,818,206	\$49,716,066	\$63,864,042
Adjustment to Opening Surplus				
Reappropriated Surplus	7,848,853	7,848,853	-	10,338,899
Subtotal	<b>\$175,667,059</b>	<b>\$175,667,059</b>	<b>\$49,716,066</b>	<b>\$74,202,941</b>
<b>General Taxes</b>	2,931,655,618	\$2,926,747,939	3,031,120,059	3,031,120,059
Revenue Est. Conference Changes	(31,255,618)			(9,420,059)
Changes to the Adopted Estimates	(95,511)			
Subtotal	<b>2,900,304,489</b>	<b>2,926,747,939</b>	<b>3,031,120,059</b>	<b>3,021,700,000</b>
<b>Departmental Revenues</b>	361,522,050	370,065,817	393,224,426	393,224,426
Revenue Est. Conference Changes	11,477,950		-	(6,224,426)
Changes to the Adopted Estimates	16,425,500		-	
Subtotal	<b>389,425,500</b>	<b>\$370,065,817</b>	<b>\$393,224,426</b>	<b>\$387,000,000</b>
<b>Other Sources</b>				
Other Miscellaneous	7,065,000	12,122,198	36,978,021	36,978,021
Revenue Est. Conference Changes	4,732,400		-	921,979
Changes to the Adopted Estimates	-		-	-
Lottery	365,300,000	362,696,628	362,500,000	362,500,000
Revenue Est. Conference Changes	(3,100,000)		-	4,700,000
Unclaimed Property	9,200,000	12,725,037	10,900,000	10,900,000
Revenue Est. Conference Changes	2,900,000		-	(300,000)
Subtotal	<b>386,097,400</b>	<b>387,543,863</b>	<b>410,378,021</b>	<b>415,700,000</b>
<b>Total Revenues</b>	<b>\$3,675,827,389</b>	<b>\$3,684,357,619</b>	<b>\$3,834,722,506</b>	<b>\$3,824,400,000</b>
<b>Transfer to Budget Reserve and Cash</b>				
<b>Stabilization Account</b>	<b>(115,309,368)</b>	<b>(115,565,275)</b>	<b>(116,533,157)</b>	<b>(116,647,921)</b>
<b>Total Available</b>	<b>\$3,736,185,081</b>	<b>3,744,459,404</b>	<b>3,767,905,414</b>	<b>3,781,955,019</b>
Actual/Enacted Expenditures	\$3,683,715,867	\$3,670,256,463	\$3,767,715,656	\$3,767,715,656
Reappropriations	7,848,853			10,338,899
Caseload Conference Changes	14,172,738			29,258,280
Other Changes in Expenditures	(19,268,443)			34,886,859
<b>Total Expenditures</b>	<b>\$3,686,469,015</b>	<b>\$3,670,256,463</b>	<b>\$3,767,715,656</b>	<b>\$3,842,199,694</b>
<b>Total Ending Balances</b>	<b>\$49,716,066</b>	<b>\$74,202,941</b>	<b>\$189,758</b>	<b>(\$60,244,675)</b>
Reappropriations	-	(10,338,899)	-	
<b>Free Surplus</b>	<b>\$49,716,066</b>	<b>\$63,864,042</b>	<b>\$189,758</b>	<b>(\$60,244,675)</b>
<b>Budget Reserve and Cash</b>				
<b>Stabilization Account</b>	<b>\$192,182,280</b>	<b>\$192,608,792</b>	<b>\$194,221,929</b>	<b>\$194,413,202</b>

Table 2 - Summary of Changes to FY 2018 Enacted Budget - First Quarter Report

agency	description	FY 2018 Enacted	Balance Forward	Undistributed Savings Adjustments	First Quarter Projection	Surplus/Deficit
068	DEPARTMENT OF ADMINISTRATION	246,279,038	790,919	(2,421,936)	244,832,409	-
068	UNDISTRIBUTED SAVINGS	(30,080,124)		9,467,798	(20,612,326)	-
071	DEPARTMENT OF BUSINESS REGULATION	10,815,093			10,835,898	-
029	EXECUTIVE OFFICE OF COMMERCE	33,057,819		(250,000)	33,118,735	(310,916)
073	DEPARTMENT OF LABOR AND TRAINING	8,094,063	43,817		8,137,880	-
080	DEPARTMENT OF REVENUE	143,622,132		(508,018)	143,114,114	-
011	GENERAL ASSEMBLY	40,522,507	7,110,437		47,632,944	-
013	OFFICE OF LIEUTENANT GOVERNOR	1,084,217			1,084,217	-
065	DEPARTMENT OF STATE	8,911,319	44,924		8,953,690	2,553
067	TREASURY DEPARTMENT	2,698,692			2,653,795	44,897
042	BOARD OF ELECTIONS	1,548,735			1,567,288	-
043	RHODE ISLAND ETHICS COMMISSION	1,665,873			1,694,215	-
012	EXECUTIVE DEPARTMENT	5,397,554	67,089		5,464,643	-
046	RHODE ISLAND COMMISSION FOR HUMAN RIGHTS	1,258,074			1,258,776	-
028	EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES	964,299,956	1,564,300	(4,632,570)	989,810,037	(28,578,351)
079	DEPARTMENT OF CHILDREN, YOUTH, AND FAMILIES	145,855,862			155,854,678	(9,998,816)
075	DEPARTMENT OF HEALTH	24,893,123			25,393,123	-
069	DEPARTMENT OF HUMAN SERVICES	91,113,618		(90,000)	97,564,440	(6,540,822)
076	DEPARTMENT OF BEHAVIORAL HEALTHCARE, DEVELOPMENTAL DISABILITIES AND HOSPITALS	176,448,622			192,329,318	(15,880,696)
045	OFFICE OF THE CHILD ADVOCATE	781,499	46,404		773,316	54,587
023	COMMISSION ON THE DEAF & HARD OF HEARING	498,710			438,660	60,050
022	GOVERNOR'S COMMISSION ON DISABILITIES	454,938			456,563	-
047	OFFICE OF THE MENTAL HEALTH ADVOCATE	549,563			554,114	-
072	ELEMENTARY AND SECONDARY EDUCATION	1,161,071,396			1,161,831,087	(759,691)
085	PUBLIC HIGHER EDUCATION	14,578,459		(343,175)	13,897,755	337,529
086	UNIVERSITY OF RHODE ISLAND	101,229,728			101,229,728	-
087	RHODE ISLAND COLLEGE	53,055,851			53,055,851	-
088	COMMUNITY COLLEGE OF RHODE ISLAND	52,018,555			52,018,555	-
026	RHODE ISLAND COUNCIL ON THE ARTS	1,945,056			1,921,906	23,150
052	RHODE ISLAND ATOMIC ENERGY COMMISSION	982,157			982,157	-
027	HISTORICAL PRESERVATION AND HERITAGE COMMISSION	1,121,134			1,075,834	45,300
066	DEPARTMENT OF ATTORNEY GENERAL	26,194,751			26,194,751	-
077	DEPARTMENT OF CORRECTIONS	218,300,828	646,309	(465,773)	219,370,060	(888,696)
099	JUDICIAL DEPARTMENT - CONSTITUTION	98,964,477			98,964,477	-
014	MILITARY STAFF	2,634,057			3,354,850	(720,793)
016	RHODE ISLAND EMERGENCY MANAGEMENT AGENCY	1,734,470			1,732,967	1,503
081	DEPARTMENT OF PUBLIC SAFETY	100,279,086	24,700	(82,500)	101,449,541	(1,228,255)
049	OFFICE OF PUBLIC DEFENDER	12,043,006			11,868,540	174,466
074	DEPARTMENT OF ENVIRONMENTAL MANAGEMENT	39,304,184		(673,826)	38,647,302	-
050	COASTAL RESOURCES MANAGEMENT COUNCIL	2,487,578			2,469,716	17,862
	<b>Total</b>	<b>3,767,715,656</b>	<b>10,338,899</b>	<b>-</b>	<b>3,842,975,604</b>	<b>(64,145,139)</b>



**Table 3 - November 2017 Revenue Estimating Conference Results**

	<b>FY 2018 Enacted</b>	<b>FY 2018 November 2017 Consensus</b>	<b>FY 2018 Consensus vs. FY 2018 Enacted</b>	<b>Growth From FY 2018 Consensus vs. FY 2018 Enacted</b>
<b>Personal Income Tax</b>	\$ 1,302,188,586	\$ 1,299,300,000	\$ (2,888,586)	-0.2%
<b>General Business Taxes</b>				
Business Corporations	159,124,534	151,200,000	(7,924,534)	-5.0%
Public Utilities Gross	97,832,745	94,500,000	(3,332,745)	-3.4%
Financial Institutions	20,135,012	21,700,000	1,564,988	7.8%
Insurance Companies	134,544,253	127,000,000	(7,544,253)	-5.6%
Bank Deposits	2,500,000	2,700,000	200,000	8.0%
Health Care Provider	44,244,917	44,600,000	355,083	0.8%
<b>Sales and Use Taxes</b>				
Sales and Use	1,059,446,654	1,053,000,000	(6,446,654)	-0.6%
Motor Vehicle	10,307,800	10,300,000	(7,800)	-0.1%
Motor Fuel	-	-	-	0.0%
Cigarettes	143,120,881	143,100,000	(20,881)	0.0%
Alcohol	20,800,000	20,300,000	(500,000)	-2.4%
<b>Other Taxes</b>				
Inheritance and Gift	23,174,677	39,400,000	16,225,323	70.0%
Racing and Athletics	1,100,000	1,100,000	-	0.0%
Realty Transfer	12,600,000	13,500,000	900,000	7.1%
<b>Total Taxes</b>	<b>3,031,120,059</b>	<b>3,021,700,000</b>	<b>(9,420,059)</b>	<b>-0.3%</b>
Departmental Receipts	393,224,426	387,000,000	(6,224,426)	-1.6%
Other Miscellaneous	36,978,021	37,900,000	921,979	2.5%
Lottery	362,500,000	367,200,000	4,700,000	1.3%
Unclaimed Property	10,900,000	10,600,000	(300,000)	-2.8%
<b>Total General Revenues</b>	<b>3,834,722,506</b>	<b>3,824,400,000</b>	<b>(10,322,505)</b>	<b>-0.3%</b>