



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUDGET OFFICE
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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, 2016

Subject: FY 2017 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.

The first quarter report for FY 2017 contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2017 (July 1, 2016 through September 30, 2016), as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 7, 2016 and November 10, 2016 Caseload and Revenue Estimating Conferences. The projected fiscal year 2017 year-end balance, based upon these assumptions, is estimated to show a \$58.7 million surplus.

There are several agencies forecasting deficits in FY 2017 as of their first quarter reports. These include the Departments of Behavioral Healthcare, Developmental Disabilities and Hospitals; Children, Youth and Families; Corrections; Public Safety and the Executive Office of Health and Human Services. 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 2017 revised expenditure plans in conjunction with the FY 2018 budget process and has requested corrective action plans from those agencies projecting overspending compared to FY 2017 enacted appropriations. Any changes recommended by the Governor to the FY 2017 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 19, 2017.

FY 2016 Closing

The State Controller issued the preliminary unaudited FY 2016 closing report on August 31, 2016. This report reflected a \$167.2 million general fund surplus. General revenue receipts were above the final enacted estimates by \$28.6 million, and general revenue expenditures were lower than final enacted appropriations by \$24.0 million.

FY 2017 Projected Surplus

The projected budget surplus of \$58.7 million for FY 2017 is the result of an opening surplus of \$167.2 million (\$43.9 million more than the enacted opening surplus of \$123.3 million); reappropriations of \$7.8 million; a current year revenue increase of \$44.8 million, as determined by the November Revenue Estimating Conference, which is offset by a \$2.7 million increase in reserve fund contributions; plus the enacted opening surplus of \$0.4 million; and spending projected above enacted appropriations of \$35.6 million.

General revenue receipts are expected to be \$44.8 million more than enacted as determined by the November Revenue Estimating Conference. Taxes are expected to exceed the enacted estimates by \$41.4 million, while departmental revenues and other sources, including lottery revenues, are expected to be above enacted estimates by \$3.4 million. The November Revenue Estimating Conference estimates that revenues will be \$3,719.6 million, which is \$44.8 million more than the enacted estimate of \$3,674.7 million for FY 2017. 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 \$94.0 million. This includes the additional balance forward from FY 2016 of \$43.9 million; reappropriations of \$7.8 million; and additional revenues estimated at the November Revenue Estimating Conference of \$44.8 million, offset by additional reserve fund contributions of \$2.7 million. Expenditures increase by a net of \$35.6 million, including \$7.8 million of reappropriations from FY 2016 and \$4.7 million of increased costs estimated by the Caseload Estimating Conference.

Table 2 shows the enacted budgets by agency, as contained in Article 1 of the FY 2017 Appropriations Act, and identifies projected expenditure changes for each agency. The projected changes, which are discussed in more detail below, essentially reflect the extent to which an agency will or will not be able to remain within its enacted budget allotments.

Revenue Projections

Table 3 displays the revenue estimates of the November 10, 2016 Revenue Estimating Conference, as compared to those contained in the enacted budget. The revenue increases reflect a continuing recovery in the Rhode Island economy, with anticipated continued expansion in the workforce, growth in personal income and in personal consumption expenditures, as reported by the IHS economic forecast, which was adopted by the November Revenue Estimating Conference.

Budget Reserve Fund Resources

Based on the preliminary audit, the Budget Reserve Fund was fully funded at \$191.6 million as of June 30, 2016. The enacted FY 2017 Budget estimated the year-end balance in the Budget Reserve Fund at \$189.9 million. Incorporating the revised revenue estimates for FY 2017 and the additional balance forward from FY 2016, the transfer to the Budget Reserve Fund will increase by \$2.7 million compared to the enacted budget. The balance in the Budget Reserve Fund is projected to be \$194.3 million as of June 30, 2017.

Projected Expenditures

Overall, net projected general revenue spending for FY 2017, as compared to the enacted budget, is approximately \$35.6 million more than enacted appropriations. Major expenditure changes include:

Agency/Major Item	(Surplus)/Deficit
Reappropriations	\$7,848,853
November Caseload Estimating Conference – Medical Assistance	\$9,572,151
November Caseload Estimating Conference – SSI	\$3,347
November Caseload Estimating Conference – GPA	\$28,800
November Caseload Estimating Conference – Child Care	(\$4,886,622)
DCYF – Child Welfare Contracts	\$5,785,783
DCYF – Personnel Savings	(\$1,238,757)
BHDDH – Cost Allocation Reimbursements	\$1,121,250
BHDDH – Hospital Personnel/Contract Services	\$3,474,460
Judicial – Costs Associated with Filled Judgeships	\$1,066,625
Corrections – RIBCO Arbitration	\$9,429,402
Corrections – Healthcare Services	\$1,782,917
All Other Changes	\$1,646,285
Total All Changes	\$35,634,494

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 \$6.3 million and \$1.6 million in reappropriations for several other agencies, as shown in the following table.

Agency/Major Item	Reappropriation
General Assembly (per RIGL 35-3-15 (a))	\$6,270,101
Attorney General – Tobacco Litigation/General	\$42,624
Governor’s Office – Contingency Fund	\$292,000
Military Staff	\$25,366
Office of Health and Human Services	\$258,064
Executive Office of Commerce	\$69,116
Board of Elections	\$11,500
Mental Health Advocate	\$2,223
Department of Revenue – Municipal Incentive Aid Program	\$137,340
Department of Business Regulation	\$59,772
Department of Administration	\$680,747
Total Reappropriations	\$7,848,853

Agency Specific Changes

November Caseload Estimating Conference

The November Caseload Estimating Conference convened on November 7, 2016 and adopted revised cash assistance caseloads and medical assistance expenditures for FY 2017. In comparison to the enacted budget, the adopted estimates increased general revenue expenditures by a net of \$4.7 million.

The Supplemental Security Income (SSI) program is estimated to require \$3,347 more based on a decrease in SSI caseload offset by a slight increase in the cost per person relative to the enacted levels. The caseload is anticipated to decrease by 53 persons, from 33,730 to 33,677, while the estimated cost per person was revised from \$45.57 to \$45.65.

The General Public Assistance (GPA) program is estimated to require \$28,800 more than enacted. This increase is due to an increase in the monthly cost per person from \$136.00 to \$142.00.

The Child Care program is estimated to required \$4.9 million less in general revenue as compared to the enacted budget. This is primarily due to a projected decline in the number of subsidies from 9,603 to 9,023 and a decline in the projected cost per subsidy from \$7,274 to \$7,200.

Within the Medical Assistance (Medicaid) program, an all funds deficit of \$88.4 million is forecast compared to the enacted budget, which includes \$9.6 million in general revenue. This projection incorporates changes in various components of the Medicaid program, including increases in Hospitals (\$10.3 million), Managed Care (\$9.1 million), Rhody Health Options (\$9.3 million), Pharmacy (\$2.1 million), Other Medical Services (\$21.5 million) and Medicaid Expansion (\$59.1 million). These increases were offset by decreased costs in Long Term Care (\$12.5 million) and Rhode Health Partners (\$10.6 million).

Department of Children, Youth and Families

The Department of Children, Youth and Families is projecting a net deficit of \$4.8 million, primarily in the Child Welfare program with \$6.1 million in additional expenditures, offset by personnel turnover savings in various programs totaling \$1.2 million. The projected increased spending in Child Welfare is due to costs associated with direct services and placements and are reflective of caseload trends experienced over the last six months. The Department recently concluded a request for proposals process to procure new contract services in the Child Welfare program and are currently in the negotiation stage of this process. The Department anticipates these negotiations and new contracts will result in savings compared to current contracts. With no other firm information upon which to base a forecast, the expenditures assumed in this quarterly report are based on current cost trends, which are expected to decline subsequent to final contract negotiations.

Department of Behavioral Healthcare, Developmental Disabilities and Hospitals

The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals is projecting an overall shortfall of \$5.7 million. The majority of the projected deficit (\$3.5 million) is in the Hospitals and Community Rehabilitative Services Program due to higher than budgeted personnel costs, protracted contractual costs relating to the Applied Management Services (AMS) contract, and pharmaceutical purchases. The FY 2017 Enacted Budget included a savings initiative in this program totaling \$4.1 million, which is not anticipated to be fully achieved due to current patient census levels that are making the consolidation of medical units more difficult than expected. In addition, the Department's cost allocation plan is not achieving the offsets to federal and other funds assumed in the enacted budget, thus requiring an increase of \$1.1 million in general revenue expenditures.

Department of Corrections

The Department of Corrections is projecting an overall deficit of \$10.4 million, including a deficit of \$9.4 million for projected salary and related costs from a recently concluded arbitration with the RIBCO union that resulted in retroactive pay increases that combined will increase Correctional Officer pay by 10.7% through FY 2017. Although the enacted budget, combined with a payable established as part of the FY 2016 closing, included funding of \$21.0 for a COLA equivalent to that which other state employees received, the final arbitration resulted in projected costs totaling \$30.4 through FY 2017. Because the arbitration was concluded during the FY 2016 audit period, it is likely the State Controller and the Auditor General will make the decision to increase the FY 2016 payable by \$5.5 million to account for the retroactive payments attributable to the period through June 30, 2016. This would result in a lower deficit for the Department in FY 2016, but will also result in a reduced carry forward from FY 2016 to FY 2017 as documented in Table 1.

Judiciary

The Judiciary is projecting a deficit of \$1.8 million primarily due to additional costs for personnel (\$1,066,625). The Department attributes this increase to the fact that the Governor has filled a number of judicial vacancies over the past year that the enacted budget did not properly account for in the agency's appropriations.

The Office of Management and Budget is currently reviewing the FY 2017 revised and FY 2018 budget requests submitted by the various state departments and agencies and are working with these agencies to take actions to effectively and efficiently use taxpayer dollars and to develop plans to reduce expenditures to meet the available resources enacted by the General Assembly not only for FY 2017, but also to address the projected FY 2018 current services level deficit.

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

TAM: J:/18budget/FY 2017 Revised/Q1/Q1report
Attachments

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

The Honorable Daniel DaPonte, 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 2017 General Revenue Budget Surplus

	FY 2016 Final Enacted ⁽¹⁾	FY 2016 Preliminary ⁽²⁾	FY 2017 Enacted ⁽³⁾	FY 2017 First Quarter	Change From Enacted
Surplus					
Opening Surplus	\$168,038,072	\$168,038,072	\$123,283,301	\$167,231,519	\$43,948,219
Adjustment to Opening Surplus	-	-	-	-	\$0
Reappropriated Surplus	6,890,273	6,890,273	-	7,848,853	\$7,848,853
Subtotal	\$174,928,345	\$174,928,345	\$123,283,301	\$175,080,372	\$51,797,072
General Taxes	\$2,843,383,194	\$2,907,921,389	2,931,590,617	2,931,590,617	-
November REC Changes	\$28,316,806	-	-	41,444,382	41,444,382
May REC Changes	13,500,000	-	-	-	-
Subtotal	\$2,885,200,000	\$2,907,921,389	\$2,931,590,617	\$2,973,034,999	\$41,444,382
Departmental Revenues	\$357,236,271	\$367,641,395	361,587,050	361,587,050	-
November REC Changes	(\$536,271)	-	-	3,277,950	3,277,950
May REC Changes	7,100,000	-	-	-	-
Subtotal	\$363,800,000	\$367,641,395	\$361,587,050	\$364,865,000	\$3,277,950
Other Sources					
Other Miscellaneous	1,397,000	4,102,234	7,065,000	7,065,000	-
November REC Changes	(614,000)	-	-	124,000	124,000
May REC Changes	3,046,000	-	-	-	-
Lottery	331,740,000	369,760,879	365,300,000	365,300,000	-
November REC Changes	25,160,000	-	-	(1,800,000)	(1,800,000)
May REC Changes	13,200,000	-	-	-	-
Unclaimed Property	10,000,000	14,166,740	9,200,000	9,200,000	-
November REC Changes	100,000	-	-	1,800,000	1,800,000
May REC Changes	2,000,000.0	-	-	-	-
Subtotal	\$386,029,000	\$388,029,853	\$381,565,000	\$381,689,000	\$124,000
Total Revenues	\$3,635,029,000	\$3,663,592,637	\$3,674,742,668	\$3,719,589,000	\$44,846,333
Transfer to Budget Reserve	(114,092,012)	(114,948,921)	(113,940,779)	(116,604,616)	(2,663,837)
Total Available	\$3,695,865,333	\$3,723,572,060	\$3,684,085,189	\$3,778,064,757	\$93,979,568
Actual/Enacted Expenditures	\$3,551,988,738	\$3,548,491,688	\$3,683,715,867	\$3,683,715,867	\$0
Reappropriations	6,890,273	-	-	7,848,853	\$7,848,853
Caseload Conference Changes	9,054,606	-	-	4,717,676	\$4,717,676
Other Changes in Expenditures	4,648,415	-	-	23,076,965	\$23,076,965
Total Expenditures	\$3,572,582,032	\$3,548,491,688	\$3,683,715,867	\$3,719,359,361	\$35,643,494
Total Ending Balances	\$123,283,301	\$175,080,372	\$369,322	\$58,705,396	\$58,336,073
Reappropriations	-	(7,848,853)	-	-	-
Free Surplus	\$123,283,301	\$167,231,519	\$369,322	\$58,705,396	\$58,336,073
Budget Reserve and Cash					
Stabilization Account	\$190,153,354	\$191,581,536	\$189,901,299	\$194,341,026	\$4,439,727

⁽¹⁾ Reflects the final FY 2016 budget enacted by the General Assembly and signed into law by the Governor on June 24, 2016.

⁽²⁾ Reflects the State Controller's Preliminary Audit Report dated August 31, 2016.

⁽³⁾ Reflects the FY 2017 Budget enacted by the General Assembly and signed into law by the Governor on June 24, 2016.

Table 2 - Summary of Changes to FY 2017 Enacted General Revenue Expenditures- First Quarter Report

	FY 2017 Enacted	Reappropriation	Distribution of Statewide Medical Savings	Other Projected Changes	Total Projected Changes	FY 2017 Projected Expenditures	Change From Enacted (Surplus)/Deficit
General Government							
Administration	237,083,518	680,747	-	(354,771)	325,976	237,409,494	325,976
Business Regulation	10,583,452	59,772	-	-	59,772	10,643,224	59,772
Labor and Training	8,212,636	-	-	-	-	8,212,636	-
Department of Revenue	113,893,951	137,340	-	-	137,340	114,031,291	137,340
Legislature	41,052,730	6,270,101	-	-	6,270,101	47,322,831	6,270,101
Lieutenant Governor	1,079,576	-	-	-	-	1,079,576	-
Secretary of State	10,281,051	-	-	(259,556)	(259,556)	10,021,495	(259,556)
General Treasurer	2,736,231	-	-	-	-	2,736,231	-
Board of Elections	1,982,707	11,500	-	75,765	87,265	2,069,972	87,265
Rhode Island Ethics Commission	1,653,383	-	-	(19,448)	(19,448)	1,633,935	(19,448)
Governor's Office	5,091,069	292,000	-	-	292,000	5,383,069	292,000
Commission for Human Rights	1,258,128	-	-	(8,914)	(8,914)	1,249,214	(8,914)
Executive Office of Commerce	55,574,117	69,116	-	11,031	80,147	55,654,264	80,147
Public Utilities Commission	-	-	-	-	-	-	-
Subtotal - General Government	490,482,549	7,520,576	-	(555,893)	6,964,683	497,447,232	6,964,683
Human Services							
Office of Health & Human Services	936,987,012	258,064	-	9,572,151	9,830,215	946,817,227	9,830,215
Children, Youth, and Families	151,773,764	-	-	4,759,137	4,759,137	156,532,901	4,759,137
Health	25,931,822	-	-	2	2	25,931,824	2
Human Services	97,636,314	-	-	(4,149,415)	(4,149,415)	93,486,899	(4,149,415)
Behavioral Healthcare, Developmental Disabilities & Hosp	173,184,239	-	-	5,743,347	5,743,347	178,927,586	5,743,347
Office of the Child Advocate	650,582	-	-	(35,417)	(35,417)	615,165	(35,417)
Comm. on Deaf & Hard of Hearing	477,746	-	-	-	-	477,746	-
Governor's Commission on Disabilities	412,547	-	-	8,629	8,629	421,176	8,629
Office of the Mental Health Advocate	542,009	2,223	-	4,603	6,826	548,835	6,826
Subtotal - Human Services	1,387,596,035	260,287	-	15,903,037	16,163,324	1,403,759,359	16,163,324
Education							
Elementary and Secondary	1,112,847,293	-	-	-	-	1,112,847,293	-
Higher Education	196,357,528	-	-	(219,250)	(219,250)	196,138,278	(219,250)
RI Council on the Arts	1,951,884	-	-	(11,405)	(11,405)	1,940,479	(11,405)
RI Atomic Energy Commission	981,100	-	-	-	-	981,100	-
Historical Preservation & Heritage Comm	1,202,559	-	-	12,182	12,182	1,214,741	12,182
Subtotal - Education	1,313,340,364	-	-	(218,473)	(218,473)	1,313,121,891	(218,473)
Public Safety							
Attorney General	\$25,595,982	42,624	\$0	(297,129)	(254,505)	25,341,477	(254,505)
Corrections	211,700,506	-	-	10,364,198	10,364,198	222,064,704	10,364,198
Judicial	96,606,091	-	-	1,759,152	1,759,152	98,365,243	1,759,152
Military Staff	2,659,719	25,366	-	(1,000)	24,366	2,684,085	24,366
Emergency Management	1,848,876	-	-	-	-	1,848,876	-
Public Safety	99,442,148	-	-	684,363	684,363	100,126,511	684,363
Office Of Public Defender	11,784,382	-	-	70,169	70,169	11,854,551	70,169
Subtotal - Public Safety	449,637,704	67,990	-	12,579,753	12,647,743	462,285,447	12,647,743
Environmental Management	40,206,777	-	-	49,456	49,456	40,256,233	49,456
Coastal Resources Management Council	2,452,438	-	-	36,761	36,761	2,489,199	36,761
Subtotal - Natural Resources	42,659,215	-	-	86,217	86,217	42,745,432	86,217
Total	3,683,715,867	7,848,853	-	27,794,641	35,643,494	3,719,359,361	35,643,494

Table 3 - November 2016 Revenue Estimating Conference Results

	FY 2017 Enacted	FY 2017 November 2016 Consensus	FY 2017 Consensus vs. FY 2017 Enacted	Growth From FY 2017 Consensus vs. FY 2017 Enacted
Personal Income Tax	\$ 1,249,175,346	\$ 1,267,600,000	\$ 18,424,654	1.5%
General Business Taxes				
Business Corporations	164,471,657	167,500,000	3,028,343	1.8%
Public Utilities Gross	101,000,000	104,100,000	3,100,000	3.1%
Financial Institutions	20,300,000	21,000,000	700,000	3.4%
Insurance Companies	126,064,809	139,500,000	13,435,191	10.7%
Bank Deposits	2,400,000	2,500,000	100,000	4.2%
Health Care Provider	45,100,000	42,400,000	(2,700,000)	-6.0%
Sales and Use Taxes				
Sales and Use	1,017,043,806	1,014,200,000	(2,843,806)	-0.3%
Motor Vehicle	13,100,000	13,100,000	-	0.0%
Motor Fuel	-	-	-	0.0%
Cigarettes	139,600,000	137,700,000	(1,900,000)	-1.4%
Alcohol	19,800,000	19,800,000	-	0.0%
Other Taxes				
Inheritance and Gift	21,400,000	31,000,000	9,600,000	44.9%
Racing and Athletics	1,100,000	1,100,000	-	0.0%
Realty Transfer	11,100,000	11,600,000	500,000	4.5%
Total Taxes	2,931,655,618	2,973,100,000	41,444,382	1.4%
Departmental Receipts	361,522,050	364,800,000	3,277,950	0.9%
Other Miscellaneous	7,065,000	7,189,000	124,000	1.8%
Lottery	365,300,000	363,500,000	(1,800,000)	-0.5%
Unclaimed Property	9,200,000	11,000,000	1,800,000	19.6%
Total General Revenues	3,674,742,668	3,719,589,000	44,846,333	1.2%