STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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

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 15, 2013

Subject: FY 2013 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 2013 primarily reflects the Governor's recommended supplemental budget, as submitted to the General Assembly on January 16, 2013, 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 5, 2012 and November 9, 2012 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. The projected fiscal year 2013 balance, based upon these assumptions, is estimated to show a **$73.3 million surplus**.

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 as a result of Hurricane Sandy in October 2012. 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. Is 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 is 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 2012 Closing

The State Controller issued his final audited FY 2012 closing report on December 20, 2012. This report reflected a $115.2 million general fund surplus. General revenues exceeded the final enacted estimates by $13.3 million, while general revenue expenditures were lower than final enacted appropriations by $29.0 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 preliminary closing report, the State Controller estimates this transfer at $12.9 million. The Governor has proposed a change to this statute in his FY 2014 Appropriations Act that would not require this transfer. Since this statutory change requires legislative approval, these additional resources are not assumed to be available in FY 2013 for purposes of this second quarter report.

The projected budget surplus of $73.3 million for FY 2013 is the result of an opening surplus of $115.2 million ($21.3 million more than the enacted opening suplus of $93.9 million), reappropriations of $7.7 million, a current year revenue increase of $10.4 million, which is offset by a $1.0 million increase in reserve fund contributions and spending projected below enacted appropriations of $34.7 million.

General revenue receipts are expected to be $10.4 million more than enacted. Taxes are expected to exceed the enacted estimates by $5.2 million, while departmental revenues and other sources, including lottery revenues, are expected to also exceed enacted estimates by $5.2 million. This latter amount includes two changes recommended by and included in the Governor's supplemental budget. First, an increase of $4.4 million for a portion of a hospital licensing fee receivable and second, a decrease of $1.6 million to account for the projected costs assocaited with new Lottery staff associated with the implementation of table games at Twin River. With these changes, the Govenror's supplemental budget estimates that revenues will be $3,331.3 million, which is $10.4 million more than the enacted estimate of $3,320.9 million for FY 2013.

Table 1 demonstrates that available resources, net of reserve fund contributions, have been adjusted upward from the enacted budget by $38.5 million. This includes the additional balance forward from FY 2012 of $21.3 million, reappropriations of $7.7 million, additional revenues estimated at the Revenue Estimating Conference and in the Governor's supplemental budget of $10.4 million, offset by additional reserve fund contributions of $1.0 million. Expenditures decrease by a net of $34.7 million, including $7.7 million of reappropriations from FY 2012 and $24.3 million in reduced costs estimated by the Caseload Estimating Conference.

Table 2 shows the enacted budgets by agency, as contained in Article 1 of the FY 2013 Appropriations Act, and identifies projected expenditure changes for each agency as proposed by the Governor in his FY 2013 Revised Budget. Several proposed increases in funding for gubernatorial initiatives have not been assumed in this quarterly report including a $5.0 million increase to the Distressed Communities Relief Fund, $1.0 million in new funding for a Workforce Development initiative, $500,000 for a Classification Study and $50,000 for a Public Policy Collaborative proposal under the Economic Development Corporation.

Revenue Projections

Table 3 displays the revenue estimates of the November 9, 2012 Revenue Estimating Conference, as well as changes included in the Governor's recommended supplemental budget that do not require legislative approval, as compared to those contained in the enacted budget. The revenue increases reflect a slow recovery in the economy, with anticipated modest decreases in unemployment through the remainder of FY 2013, as reported by Economy.com's economic forecast, which was adopted by the November Revenue Estimating Conference.

Personnel Vacancies

Although the Administration has not instituted a hiring freeze for FY 2013, the Budget Office has been reviewing all requests to fill vacancies and has restricted hiring to only critical vacancies. The payroll projections included in this second quarter report are based upon the positions recommended and funded in the Governor's supplemental budget.

Overall, net projected general revenue spending for FY 2013, as compared to the enacted budget, is approximately $34.7 million less than appropriated.

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 $6,337,390 and $135,941, respectively. In addition, the Governor recommended $1,253,190 in reappropriations for several other agencies, as shown in the following table.

Agency/Major Item		Reappropriation
General Assembly (per RIGL 35-3-15 (a))		$6,337,390
Judiciary (per RIGL 35-13-15 (a))		$135,941
Attorney General – Tobacco Litigation		$40,401
General Treasurer – 50 Service Avenue Move		$58,300
Department of Administration		$146,432
Department of Revenue		$95,424
Ethics Commission		$4,234
Office of Health and Human Services		$379,593
Department of Corrections		$523,480
Public Defender		$5,326
Total Reappropriations		**$7,726,521**

As stated above, the Budget Office has begun to meet regularly with those agenices 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 2013.

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

TAM: S/14budget/FY 2013 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

Eugene Gessow, Senate Fiscal Advisor

Peter Marino, Director, Office of Management and Budget

Table 1 - FY 2013 General Revenue Budget Surplus

	FY 2013 Enacted [1]	FY 2013 Second Quarter [2]	Change from Enacted
Surplus			
Opening Surplus	$93,870,509	$115,187,511	$21,317,002
Audit Adjustments	-	-	-
Adjustment to Opening Surplus	-	-	-
Reappropriated Surplus	-	7,726,521	7,726,521
Subtotal	**$93,870,509**	**$122,914,033**	**$29,043,524**
General Taxes	2,578,121,440	2,578,121,440	-
Revenue estimators' revision - Nov	-	5,178,560	5,178,560
Governor Changes to Adopted	-	-	-
Subtotal	**$2,578,121,440**	**$2,583,300,000**	**$5,178,560**
Departmental Revenues	342,873,883	342,873,883	-
Revenue estimators' revision - Nov	-	4,626,117	4,626,117
Governor Changes to Adopted	-	4,435,000	4,435,000
Subtotal	**$342,873,883**	**$351,935,000**	**$9,061,117**
Other Sources			
Other Miscellaneous	4,440,000	4,440,000	-
Revenue estimators' revision - Nov	-	175,000	175,000
Lottery	387,553,420	387,553,420	-
Revenue estimators' revision - Nov		(853,420)	(853,420)
Governor Changes to Adopted		(1,600,000)	(1,600,000)
Unclaimed Property	7,900,000	7,900,000	-
Revenue estimators' revision - Nov	-	(1,600,000)	(1,600,000)
Subtotal	**$399,893,420**	**$396,015,000**	**($3,878,420)**
Total Revenues	**$3,320,888,743**	**$3,331,250,000**	**$10,361,257**
Transfer to Budget Reserve	**(102,442,778)**	**(103,393,125)**	**(950,348)**
Total Available	**$3,312,316,474**	**$3,350,770,907**	**$38,454,433**
Actual/Enacted Expenditures	**$3,295,836,490**	$3,295,836,490	$0
Reappropriations	-	7,726,521	7,726,521
Caseload Conference Changes - Nov	-	(24,267,632)	(24,267,632)
FMAP Makeup	-	0	0
Other Changes in Expenditures	-	(18,184,708)	(18,184,708)
Total Expenditures	**$3,295,836,490**	**$3,261,110,671**	**($34,725,819)**
Total Ending Balances	**$16,479,984**	**$89,660,236**	**$73,180,252**
Transfer to Other Funds [5]	**($16,350,000)**	**($16,350,000)**	**$0**
Reappropriations	-		
Free Surplus	**$129,984**	**$73,310,236**	**$73,180,252**

[1] Reflects the FY 2013 budget enacted by the General Assembly and signed into law by the Governor on June 15, 2012.

[2] Reflects the enacted revenues and expenditures adjusted for revenue and caseload estimates adopted at the November 201 Estimating Conferences and adjustments to revenues and expenditures recommended by the Governor.

Table 2 - Summary of Changes to FY 2013 Enacted General Revenue Expenditures

	FY 2013 Enacted	Reappropriation	Total Projected Changes	Projected Expenditures	Change From Enacted (Surplus)/Deficit
General Government					
Administration	272,514,956	292,864	(4,126,797)	268,681,023	(3,833,933)
Business Regulation	9,362,048	-	(161,536)	9,200,512	(161,536)
Labor and Training	7,859,170	-	(30,269)	7,828,901	(30,269)
Department of Revenue	95,342,244	95,424	(496,672)	94,940,996	(401,248)
Legislature	37,217,044	6,337,390	(3,166,201)	40,388,233	3,171,189
Lieutenant Governor	962,955	-	(4,644)	958,311	(4,644)
Secretary of State	6,913,038	-	(19,713)	6,893,325	(19,713)
General Treasurer	2,542,115	58,300	(17,614)	2,582,801	40,686
Board of Elections	1,952,116	-	(30,293)	1,921,823	(30,293)
Rhode Island Ethics Commission	1,557,881	4,234	(11,262)	1,550,853	(7,028)
Governor's Office	4,418,290	-	(17,383)	4,400,907	(17,383)
Commission for Human Rights	1,137,768	-	(4,639)	1,133,129	(4,639)
Public Utilities Commission	-	-	-	-	-
Subtotal - General Government	**441,779,625**	**6,788,212**	**(8,087,023)**	**440,480,814**	**(1,298,811)**
Human Services					
Office of Health & Human Services	825,065,703	379,593	(24,064,526)	801,380,770	(23,684,933)
Children, Youth, and Families	152,586,452	-	(589,366)	151,997,086	(589,366)
Health	24,821,836	-	(100,114)	24,721,722	(100,114)
Human Services	97,023,967	-	(178,701)	96,845,266	(178,701)
Behavioral Health, Developmental Disabilities & Hospitals	193,137,995	-	96,705	193,234,700	96,705
Office of the Child Advocate	611,469	-	(20,805)	590,664	(20,805)
Comm. on Deaf & Hard of Hearing	390,251	-	(8,550)	381,701	(8,550)
RI Developmental Disabilities Council	-	-	-	-	-
Governor's Commission on Disabilities	371,096	-	(13,598)	357,498	(13,598)
Office of the Mental Health Advocate	447,119	-	(86,912)	360,207	(86,912)
Subtotal - Human Services	**1,294,455,888**	**379,593**	**(24,965,867)**	**1,269,869,614**	**(24,586,274)**
Education					
Elementary and Secondary	935,364,061	-	(5,150,660)	930,213,401	(5,150,660)
Higher Education - Board of Governors	172,456,170	-	240,060	172,696,230	240,060
RI Council on the Arts	1,565,813	-	-	1,565,813	-
RI Atomic Energy Commission	876,213	-	(9,463)	866,750	(9,463)
Higher Education Assistance Authority	5,617,064	-	76,603	5,693,667	76,603
Historical Preservation & Heritage Comm	1,361,801	-	(96,384)	1,265,417	(96,384)
Public Telecommunications Authority	799,077	-	(3,591)	795,486	(3,591)
Subtotal - Education	**1,118,040,199**	**-**	**(4,943,435)**	**1,113,096,764**	**(4,943,435)**
Public Safety					
Attorney General	$23,076,324	40,401	(129,354)	22,987,371	(88,953)
Corrections	183,293,277	523,480	730,000	184,546,757	1,253,480
Judicial	89,249,996	135,941	(1,514,501)	87,871,436	(1,378,560)
Military Staff	3,548,775	-	(7,700)	3,541,075	(7,700)
Public Safety	94,790,039	-	(3,334,498)	91,455,541	(3,334,498)
Office Of Public Defender	10,791,226	5,326	(39,138)	10,757,414	(33,812)
Subtotal - Public Safety	**404,749,637**	**705,148**	**(4,295,191)**	**401,159,594**	**(3,590,043)**
Environmental Management	34,546,300	-	(282,676)	34,263,624	(282,676)
Coastal Resources Management Council	2,264,841	-	(24,580)	2,240,261	(24,580)
Subtotal - Natural Resources	**36,811,141**	**-**	**(307,256)**	**36,503,885**	**(307,256)**
Total	**3,295,836,490**	**7,872,953**	**(42,598,772)**	**3,261,110,671**	**(34,725,819)**

Table 3 - Changes to FY 2013 Enacted Revenue Estimates

	Enacted	November Consenus Changes	Changes to Adopted Estimates	Total
Personal Income Tax	$ 1,080,856,603	$ (2,256,603)	$ -	$ 1,078,600,000
General Business Taxes				
Business Corporations	133,251,413	2,648,587	-	135,900,000
Public Utilities Gross	100,100,000	3,900,000	-	104,000,000
Financial Institutions	1,700,000	6,500,000	-	8,200,000
Insurance Companies	89,825,327	2,074,673	-	91,900,000
Bank Deposits	2,100,000	-	-	2,100,000
Health Care Provider	42,206,533	93,467	-	42,300,000
Sales and Use Taxes				
Sales and Use	886,720,059	(7,320,059)	-	879,400,000
Motor Vehicle	47,758,650	941,350	-	48,700,000
Motor Fuel	1,100,000	(100,000)	-	1,000,000
Cigarettes	138,053,896	(353,896)	-	137,700,000
Alcohol	12,200,000	(200,000)	-	12,000,000
Other Taxes				
Inheritance and Gift	35,148,959	(1,348,959)	-	33,800,000
Racing and Athletics	1,200,000	-	-	1,200,000
Realty Transfer	5,900,000	600,000	-	6,500,000
Total Taxes	**$ 2,578,121,440**	**$ 5,178,560**	**$ -**	**$ 2,583,300,000**
Departmental Receipts	$ 342,873,883	$ 4,626,117	$ 4,435,000	$ 351,935,000
Total Taxes and Departmentals	**$ 2,920,995,323**	**$ 9,804,677**	**$ 4,435,000**	**$ 2,935,235,000**
Other Sources				
Gas Tax Transfer	$ -	$ -	$ -	$ -
Other Miscellaneous	4,440,000	175,000	-	4,615,000
Lottery	387,553,420	(853,420)	(1,600,000)	385,100,000
Unclaimed Property	7,900,000	(1,600,000)	-	6,300,000
Other Sources	**$ 399,893,420**	**$ (2,278,420)**	**$ (1,600,000)**	**$ 396,015,000**
Total General Revenues	**$ 3,320,888,743**	**$ 7,526,257**	**$ 2,835,000**	**$ 3,331,250,000**