



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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

Memorandum

To: The Honorable Gina M. Raimondo
Governor

Michael DiBiase, Director
Department of Administration

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

Date: November 16, 2015

Subject: FY 2016 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 2016 contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2016 (July 1, 2015 through September 30, 2015), as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 4, 2015 and November 10, 2015 Caseload and Revenue Estimating Conferences. The projected fiscal year 2016 year-end balance, based upon these assumptions, is estimated to show a \$50.6 million surplus.

There are several agencies forecasting deficits in FY 2016, as of their first quarter reports. These include the Departments of Behavioral Healthcare, Developmental Disabilities and Hospitals; Human Services; Children, Youth and Families; Corrections; Environmental Management and the 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 2016 revised expenditure plans in conjunction with the FY 2017 budget process and has requested corrective action plans from those agencies projecting overspending compared to FY 2016 enacted appropriations. Any changes recommended by the Governor to the FY 2016 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 21, 2016.

FY 2015 Closing

The State Controller issued his preliminary unaudited FY 2015 closing report on August 31, 2015. This report reflected a \$166.4 million general fund surplus. General revenue receipts were above the final enacted estimates by \$23.9 million, and general revenue expenditures were lower than final enacted appropriations by \$21.5 million.

FY 2016 Projected Surplus

The projected budget surplus of \$50.6 million for FY 2016 is the result of an opening surplus of \$166.4 million (\$47.8 million more than the enacted opening surplus of \$118.6 million); reappropriations of \$6.9 million; a current year revenue increase of \$52.4 million, as determined by the November Revenue Estimating Conference, which is offset by a \$3.0 million increase in reserve fund contributions; and spending projected above enacted appropriations of \$54.0 million.

General revenue receipts are expected to be \$52.4 million more than enacted as determined by the November Revenue Estimating Conference. Taxes are expected to exceed the enacted estimates by \$28.3 million, while departmental revenues and other sources, including lottery revenues, are expected to be above enacted estimates by \$24.1 million. The November Revenue Estimating Conference estimates that revenues will be \$3,596.2 million, which is \$52.4 million more than the enacted estimate of \$3,543.8 million for FY 2016. 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 \$104.1 million. This includes the additional balance forward from FY 2015 of \$47.8 million; reappropriations of \$6.9 million; and additional revenues estimated at the November Revenue Estimating Conference of \$52.4 million, offset by additional reserve fund contributions of \$3.0 million. Expenditures increase by a net of \$54.0 million, including \$6.9 million of reappropriations from FY 2015 and \$14.9 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 2016 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, 2015 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 modest decreases in unemployment through the remainder of FY 2016, as reported by Moody's Analytics 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 \$185.4 million as of June 30, 2015. The enacted FY 2016 Budget estimated the year-end balance in the Budget Reserve Fund at \$183.1 million. Incorporating the revised revenue estimates for FY 2016 and the additional balance forward from FY 2015, the transfer to the Budget Reserve Fund will increase by \$3.0 million compared to the enacted budget. The balance in the Budget Reserve Fund is projected to be \$188.1 million as of June 30, 2016.

Projected Expenditures

Overall, net projected general revenue spending for FY 2016, as compared to the enacted budget, is approximately \$54.0 million more than enacted appropriations. Major expenditure changes include:

Agency/Major Item	(Surplus)/Deficit
Reappropriations	\$6,890,273
November Caseload Estimating Conference – Medicaid	\$15,320,745
November Caseload Estimating Conference – SSI	(\$347,478)
November Caseload Estimating Conference – GPA	(\$88,980)
OHHS – Unified Health Infrastructure Project	\$11,430,909
DHS – Unified Health Infrastructure Project	\$2,999,174
DCYF – System of Care	\$4,353,741
DCYF – Other Child Welfare	\$3,578,236
BHDDH – Personnel/Contracts/Operating Costs	\$5,935,499
Education – School Housing Aid	(\$4,098,652)
Corrections – Custody and Security	\$5,865,896
Corrections – Healthcare Services	\$1,616,150
State Police – Personnel/Operating/Pension Costs	(\$3,515,559)
Judiciary – Judges Pensions	\$239,482
Judiciary – Personnel and Operating	\$978,143
DEM – Storm Costs	\$800,000
Net All Other Changes	\$2,315,171
Total All Changes	\$54,033,268

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 \$4.2 million and \$2.5 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))	\$4,367,990
Attorney General – Tobacco Litigation	\$64,465
Governor’s Office	\$252,430
Office of Health and Human Services	\$637,605
Department of Labor and Training	\$164,945
Department of Administration	\$1,022,991
Department of Business Regulation	\$54,900
I-195 Commission	\$188,405
Department of Revenue	\$136,542
Total Reappropriations	\$6,890,273

Agency Specific Changes

November Caseload Estimating Conference

The November Caseload Estimating Conference convened on November 4, 2015 and adopted revised cash assistance caseloads and medical assistance expenditures for FY 2016. In comparison to the enacted budget, the adopted estimates increased general revenue expenditures by a net of \$14.9 million.

The Supplemental Security Income (SSI) program is estimated to require \$347,478 less based on both a decrease in SSI caseload and a slight decrease in the cost per person relative to the enacted levels. The caseload is anticipated to decrease by 201 persons, from 34,101 to 33,900, while the estimated cost per person was revised from \$45.59 to \$45.00.

The General Public Assistance (GPA) program is estimated to require \$88,980 less than enacted. This decrease is primarily due to projected declines in burial expenses and the caseload relative to the enacted levels.

Within the Medical Assistance (Medicaid) program, an all funds deficit of \$10.8 million is projected compared to the enacted budget, which includes \$15.3 million in general revenue. This projection incorporates changes in various components of the Medicaid program, including increases in Long Term Care (\$2.9 million), Managed Care (\$11.9 million), and Rhody Health Options (\$37.4 million), offset by savings in Rhody Health Partners (-\$9.1 million) and Medicaid Expansion (-\$18.1 million).

Office of Health and Human Services/Department of Human Services

Unified Health Infrastructure Project

Contained within both the Executive Office of Health and Human Services and the Department of Human Services is funding associated with the Unified Health Infrastructure Project, which is a multi-agency effort to build a fully integrated and interoperable system of eligibility determination spanning multiple program of public assistance and the Health Benefits

Exchange. Although the project is supported largely with federal resources within both agencies and the Exchange, general revenue matching funds are required. As part of their first quarter reports, each of these agencies is estimating increased general revenue requirements based upon updated planning documents. While the current projected deficit, totaling about \$14.4 million between the two agencies, has been included in the FY 2016 supplemental budget requests, the Office of Management and Budget is working closely with each agency to resolve as much of this shortfall as possible or identify other available resources prior to submission of the Governor's supplemental budget in January 2016.

Department of Children, Youth and Families

The Department of Children, Youth and Families is projecting a deficit of \$7.9 million primarily in the Child Welfare program, including System of Care, Foster Care & Adoption Assistance and Day Care. Although System of Care costs are projected to be lower than FY 2015 actual expenditures due to aggressive utilization management practices, the updated cost projections for FY 2016 are \$4.4 million greater than the enacted budget. In the Foster Care & Adoption Assistance program, an increase of just under \$1.0 million is projected primarily attributable to overestimated Title IV-E matching funds contained in the enacted base. Finally, in the Day Care program the additional costs incorporate the three percent (3.0%) provider rate increase negotiated by the Department of Human Services with Day Care providers.

Department of Behavioral Healthcare, Developmental Disabilities and Hospitals

The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals is projecting an overall shortfall of \$6.0 million. The projected shortfall includes expenditures of \$250,000 for the STOP program, for which funding was appropriated in FY 2015 but not expended. Due to shortfalls elsewhere in the FY 2015 BHDDH budget, a reappropriation of these funds was not possible and thus the department is requesting funding in FY 2016. The majority of the projected deficit (\$5.5 million) is in the Developmental Disabilities Program due to increased utilization as clients are moving away from center-based activities to community integrated activities.

Department of Elementary and Secondary Education

The Department of Elementary and Secondary Education is projecting a surplus of \$4.1 million in the School Construction Aid program as a result of a large number of school districts undertaking bond refinancings this past year. In addition, some communities did not complete planned projects in time to be eligible for FY 2016 aid.

Department of Corrections

The Department of Corrections is projecting an overall deficit of \$7.0 million, including a deficit of \$8.2 million for projected salary and related costs from a expected cost of living adjustment with the RIBCO union prior to the end of this fiscal year. RIBCO is the only remaining union that has not settled its contract, which is now going to arbitration. Although the enacted budget included funding for a COLA equivalent to that which other state employees received, additional staffing costs primarily due to overtime have absorbed this funding, thereby requiring the need for additional resources when the contract is finally resolved. If the contract is not settled this fiscal year, the department will end with a surplus,

but a payable for retroactive payment of the COLA will likely be established by the State Controller.

Department of Public Safety

The Department of Public Safety is projecting a net surplus of \$3.5 million, primarily due to the one-time availability of Google Forfeiture funds to cover the general revenue costs of overtime, software maintenance and staff clothing and uniforms. This funding is intended to offset retroactive pay increases awarded to State Troopers through a recent arbitration settlement that were primarily charged to the FY 2015 budget, thereby resulting in this surplus in FY 2016.

Judiciary

The Judiciary is projecting a deficit of \$1.0 million due to additional costs for Judicial Pensions (\$239,482) and additional personnel and operating costs (\$978,143). The agency contends that restricted receipt resources assumed to be available to offset personnel and operating costs in the enacted budget will not be available for this purpose due to other needs for this funding.

Department of Environmental Management

The Department of Environmental Management is projected a deficit of \$800,000 due to a one-time unexpected expenditure for tree removal and clearing of debris at nine state facilities to address severe damage from the August 4, 2015 macro-burst thunderstorms.

The Office of Management and Budget is currently reviewing the FY 2016 revised and FY 2017 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 2016, but also to address the projected FY 2017 current services level deficit.

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

TAM: J:/17budget/FY 2016 Revised/Q1/Q1report
Attachments

cc: The Honorable Raymond E. Gallison, Jr., 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 2016 General Revenue Budget Surplus

	FY 2015 Final Enacted ⁽¹⁾	FY 2015 Preliminary ⁽²⁾	FY 2016 Enacted ⁽³⁾	FY 2016 First Quarter	Change From Enacted
Surplus					
Opening Surplus	\$67,806,737	\$67,806,737	\$118,565,419	\$166,387,240	\$47,821,821
Adjustment to Opening Surplus	13,794,501	13,794,501	-	-	\$0
Reappropriated Surplus	7,378,665	7,378,665	-	6,890,273	\$6,890,273
Subtotal	\$88,979,903	\$88,979,903	\$118,565,419	\$173,277,513	\$54,712,094
General Taxes	\$2,738,956,476	\$2,882,561,175	2,843,383,194	2,843,383,194	-
Revenue estimators' revision	\$126,943,523	-	-	28,316,806	28,316,806
Changes to the Adopted Estimates	-	-	-	-	-
Subtotal	\$2,865,899,999	\$2,882,561,175	\$2,843,383,194	\$2,871,700,000	\$28,316,806
Departmental Revenues	\$351,671,912	\$353,680,035	357,236,271	357,236,271	-
Revenue estimators' revision	(\$1,871,912)	-	-	(536,271)	(536,271)
Changes to Adopted	785,054	-	-	-	-
Subtotal	\$350,585,054	\$353,680,035	\$357,236,271	\$356,700,000	(\$536,271)
Other Sources					
Other Miscellaneous	7,475,000	8,778,364	1,397,000	1,397,000	-
Revenue estimators' revision	1,610,000	-	-	(614,000)	(614,000)
Changes to Adopted	275,400	-	-	-	-
Lottery	384,500,000	381,935,510	331,740,000	331,740,000	-
Revenue estimators' revision	(5,900,000)	-	-	25,160,000	25,160,000
Changes to Adopted	-	-	-	-	-
Unclaimed Property	10,500,000	13,711,780	10,000,000	10,000,000	-
Revenue estimators' revision	1,800,000	-	-	100,000	100,000
Subtotal	\$400,260,400	\$404,425,654	\$343,137,000	\$367,783,000	\$24,646,000
Total Revenues	\$3,616,745,453	\$3,640,666,864	\$3,543,756,465	\$3,596,183,000	\$52,426,535
Transfer to Budget Reserve	(110,536,566)	(111,254,208)	(109,869,657)	(112,877,107)	(3,007,451)
Total Available	\$3,595,188,790	\$3,618,392,559	\$3,552,452,228	\$3,656,583,406	\$104,131,178
Actual/Enacted Expenditures	\$3,445,169,968	\$3,455,115,046	\$3,551,988,738	\$3,551,988,738	-
Reappropriations	7,378,665	-	-	6,890,273	6,890,273
Caseload Conference Changes	20,139,945	-	-	14,884,287	14,884,287
Other Changes in Expenditures	3,934,793	-	-	32,258,708	32,258,708
Total Expenditures	\$3,476,623,371	\$3,455,115,046	\$3,551,988,738	\$3,606,022,006	\$54,033,268
Total Ending Balances	\$118,565,419	\$163,277,513	\$463,490	\$50,561,400	\$50,097,910
Transfer to/from Other Funds⁽⁴⁾	\$0	\$10,000,000	\$0	\$0	\$0
Reappropriations	-	(6,890,273)	-	-	-
Free Surplus	\$118,565,419	\$166,387,240	\$463,490	\$50,561,400	\$50,097,910
Budget Reserve and Cash					
Stabilization Account	\$184,938,666	\$185,423,680	\$183,116,094	\$188,128,512	\$5,012,418

⁽¹⁾ Reflects the final FY 2015 budget enacted by the General Assembly and signed into law by the Governor on June 30, 2015.

⁽²⁾ Derived from the State Controller's preliminary closing report for FY 2015, dated August 29, 2015.

⁽³⁾ Reflects the FY 2016 budget enacted by the General Assembly and signed into law by the Governor on June 30, 2015.

⁽⁴⁾ Reflects restricted General Fund balances transferred from the Accelerated Depreciation Fund.

Table 2 - Summary of Changes to FY 2016 Enacted General Revenue Expenditures- Third Quarter Report

	FY 2016 Enacted	Reappropriation	Distribution of Statewide Medical Savings	Other Projected Changes	Total Projected Changes	FY 2016 Projected Expenditures	Change From Enacted (Surplus)/Deficit
General Government							
Administration	197,494,291	1,022,991	2,442,538	109,961	3,575,490	201,069,781	3,575,490
Business Regulation	9,236,495	34,900	(22,140)	(285,006)	(252,246)	8,984,249	(252,246)
Labor and Training	8,324,769	164,945	(9,079)	47,585	203,451	8,528,220	203,451
Department of Revenue	113,198,446	136,542	(121,542)	621,106	636,106	113,834,552	636,106
Legislature	39,474,071	4,367,990	(129,341)	-	4,238,649	43,712,720	4,238,649
Lieutenant Governor	1,127,621	-	(2,795)	(99,274)	(102,069)	1,025,552	(102,069)
Secretary of State	6,951,530	-	(18,074)	(3,417)	(21,491)	6,930,039	(21,491)
General Treasurer	2,420,250	-	(5,093)	(2,834)	(7,927)	2,412,323	(7,927)
Board of Elections	1,818,305	-	(4,259)	30,075	25,816	1,844,121	25,816
Rhode Island Ethics Commission	1,644,876	-	(2,491)	33,992	31,501	1,676,377	31,501
Governor's Office	4,903,467	252,430	(9,241)	-	243,189	5,146,656	243,189
Commission for Human Rights	1,252,174	-	(4,283)	(329)	(4,612)	1,247,562	(4,612)
Executive Office of Commerce	60,840,542	188,405	(3,499)	(3,499)	181,407	61,021,949	181,407
Public Utilities Commission	-	-	-	-	-	-	-
Subtotal - General Government	448,686,857	6,188,203	2,110,701	448,360	8,747,264	457,434,101	8,747,264
Human Services							
Office of Health & Human Services	909,994,065	637,605	(31,917)	27,809,262	28,414,950	938,349,015	28,414,950
Children, Youth, and Families	152,587,731	-	(149,123)	7,992,634	7,843,511	160,431,242	7,843,511
Health	25,835,956	-	(61,170)	(81,107)	(142,277)	25,693,679	(142,277)
Human Services	98,271,683	-	(138,260)	2,753,051	2,614,791	100,886,474	2,614,791
Behavioral Healthcare, Developmental Disabilities & Hosp	172,488,711	-	(206,947)	6,190,440	5,983,493	178,472,204	5,983,493
Office of the Child Advocate	672,273	-	(1,509)	-	(1,509)	670,764	(1,509)
Comm. on Deaf & Hard of Hearing	411,883	-	(1,462)	-	(1,462)	410,421	(1,462)
Governor's Commission on Disabilities	383,056	-	(578)	(117)	(695)	382,361	(695)
Office of the Mental Health Advocate	508,251	-	(1,604)	44,539	42,935	551,186	42,935
Subtotal - Human Services	1,361,093,609	637,605	(592,570)	44,708,702	44,753,737	1,405,847,346	44,753,737
Education							
Elementary and Secondary	1,067,719,085	-	(50,198)	(4,098,652)	(4,148,850)	1,063,570,235	(4,148,850)
Higher Education	196,304,956	-	(357,488)	(464,872)	(822,360)	195,482,596	(822,360)
RI Council on the Arts	1,863,052	-	(2,228)	(4,019)	(6,247)	1,856,805	(6,247)
RI Atomic Energy Commission	957,170	-	(2,066)	(66,342)	(68,408)	888,762	(68,408)
Historical Preservation & Heritage Comm	1,380,972	-	(3,551)	69,856	66,305	1,447,277	66,305
Subtotal - Education	1,268,225,235	-	(415,531)	(4,564,029)	(4,979,560)	1,263,245,675	(4,979,560)
Public Safety							
Attorney General	\$25,193,210	64,465	(\$68,607)	(218,631)	(222,833)	24,970,377	(222,833)
Corrections	200,225,250	-	(513,322)	7,522,092	7,008,770	207,234,020	7,008,770
Judicial	96,031,046	-	(198,306)	1,217,625	1,019,319	97,050,365	1,019,319
Military Staff	2,065,434	-	(3,568)	406,148	402,580	2,468,014	402,580
Emergency Management	1,766,002	-	(2,227)	32,899	30,672	1,796,674	30,672
Public Safety	97,060,493	-	(191,384)	(3,288,890)	(3,480,274)	93,580,219	(3,480,274)
Office Of Public Defender	11,621,977	-	(28,753)	(12,736)	(41,489)	11,580,488	(41,489)
Subtotal - Public Safety	433,963,412	64,465	(1,006,227)	5,658,507	4,716,745	438,680,157	4,716,745
Environmental Management	37,586,385	-	(89,415)	887,230	797,815	38,384,200	797,815
Coastal Resources Management Council	2,433,260	-	(6,958)	4,225	(2,733)	2,430,527	(2,733)
Subtotal - Natural Resources	40,019,645	-	(96,373)	891,455	795,082	40,814,727	795,082
Total	3,551,988,738	6,890,273	-	47,142,995	54,033,268	3,606,022,006	54,033,268

Table 3 - November 2015 Revenue Estimating Conference Results

	FY 2016 Enacted	FY 2016 November 2015 Consensus	FY 2016 Consensus vs. FY 2016 Enacted	Growth From FY 2016 Consensus vs. FY 2016 Enacted
Personal Income Tax	\$ 1,215,737,125	\$ 1,214,900,000	\$ (837,125)	-0.1%
General Business Taxes				
Business Corporations	136,380,000	153,500,000	17,120,000	12.6%
Public Utilities Gross	104,700,000	104,000,000	(700,000)	-0.7%
Financial Institutions	16,500,000	17,700,000	1,200,000	7.3%
Insurance Companies	125,249,699	122,400,000	(2,849,699)	-2.3%
Bank Deposits	2,000,000	2,300,000	300,000	15.0%
Health Care Provider	44,915,693	44,000,000	(915,693)	-2.0%
Sales and Use Taxes				
Sales and Use	969,521,947	981,000,000	11,478,053	1.2%
Motor Vehicle	36,538,048	36,200,000	(338,048)	-0.9%
Motor Fuel	500,000	500,000	-	0.0%
Cigarettes	140,779,745	142,100,000	1,320,255	0.9%
Alcohol	18,850,000	19,000,000	150,000	0.8%
Other Taxes				
Inheritance and Gift	20,400,000	23,000,000	2,600,000	12.7%
Racing and Athletics	1,100,000	1,100,000	-	0.0%
Realty Transfer	10,210,937	10,000,000	(210,937)	-2.1%
Total Taxes	2,843,383,194	2,871,700,000	28,316,806	1.0%
Departmental Receipts	357,236,271	356,700,000	(536,271)	-0.2%
Other Miscellaneous	1,397,000	783,000	(614,000)	-44.0%
Lottery	331,740,000	356,900,000	25,160,000	7.6%
Unclaimed Property	10,000,000	10,100,000	100,000	1.0%
Total General Revenues	3,543,756,465	3,596,183,000	52,426,536	1.5%