



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, 2018

Subject: FY 2019 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 2018 Closing

The State Controller issued the preliminary unaudited FY 2018 closing report on August 31, 2018. General revenue receipts were lower than final enacted estimates by \$2.1 million, and general revenue expenditures were lower than final enacted appropriations by \$26.3 million. This report reflected a \$45.5 million general fund surplus, which was \$14.3 million more than assumed in the final FY 2018 enacted budget.

FY 2019 First Quarter

The first quarter report for FY 2019 contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2019 (July 1, 2018 through September 30, 2018), as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 7, 2018 and November 9, 2018 Caseload and Revenue Estimating Conferences. The projected fiscal year 2019 year-end balance, based upon these assumptions, is estimated to show a \$41.9 million deficit.

There are several agencies forecasting deficits in FY 2019 as of their first quarter reports. These include the Departments of Labor and Training, Revenue, Behavioral Healthcare, Developmental Disabilities and Hospitals; Children, Youth and Families; Human Services; Corrections; Education; Public Safety 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 2019 revised expenditure plans in conjunction with the FY 2020 budget process and has requested corrective action plans from those agencies projecting deficits compared to FY 2019 enacted appropriations. Any changes recommended by the Governor to the FY 2019 enacted appropriations, or adopted revenues, to close the deficit 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 17, 2019.

FY 2019 Projected Deficit

The projected budget deficit of \$41.9 million for FY 2019 is the result of an opening surplus of \$45.5 million (\$14.3 million more than the enacted opening surplus of \$31.3 million); reappropriations of \$10.1 million; a current year revenue decrease of \$5.4 million, as determined by the November Revenue Estimating Conference, a \$0.3 million increase in reserve fund contributions; plus the enacted closing surplus of \$0.7 million; caseload growth and spending of an additional \$11.7 million and additional spending among all agencies of \$39.4 million.

General revenue receipts are expected to be \$5.4 million less than enacted as determined by the November Revenue Estimating Conference. Taxes are expected to be below enacted estimates by \$16.9 million, while departmental revenues and other sources are expected to exceed enacted estimates by \$11.5 million. The November Revenue Estimating Conference projected that revenues will be \$3,993.1 million, which is \$5.4 million less than the enacted estimate of \$3,998.5 million for FY 2019.

Table 1 demonstrates that available resources, net of reserve fund contributions, have been adjusted upward from the enacted budget by \$18.7 million. This includes the additional balance forward from FY 2018 of \$14.3 million and reappropriations of \$10.1 million; offset by lower revenues estimated at the November Revenue Estimating Conference of \$5.4 million and increased reserve fund contributions of \$0.3 million. Expenditures increase by a net of \$61.2 million, including \$10.1 million of reappropriations from FY 2018 and \$11.7 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 2019 Appropriations Act, and identifies projected expenditure changes for each agency.

Revenue Projections

Table 3 displays the revenue estimates of the November 9, 2018 Revenue Estimating Conference, as compared to those contained in the enacted budget.

Projected Expenditures

Overall, net projected general revenue spending for FY 2019, as compared to the enacted budget, is approximately \$61.2 million more than enacted appropriations. Major expenditure changes include:

Agency/Major Item	(Surplus)/Deficit
Reappropriations	\$10,057,409
November Caseload Estimating Conference – Medical Assistance	\$11,861,240
November Caseload Estimating Conference – Cash Assistance	(\$128,500)
Department of Children, Youth and Families	\$14,927,567
Dept. of Behavioral Healthcare, Devel. Disabilities and Hospitals	\$9,368,952
Department of Human Services	\$789,323
Department of Corrections	\$7,319,993
Department of Revenue	\$2,359,563
Department of Labor and Training	\$2,588,413
Board of Elections	(\$789,858)
Department of Public Safety	\$1,634,728
Department of Education	\$937,875
All Other Changes	\$155,988
Total All Changes	\$61,211,193

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 for the General Assembly totaling \$7.9 million, for the Judiciary totaling \$1.9 million and for all other agencies totaling \$340,395, as shown in the following table.

Agency/Major Item	Reappropriation
General Assembly (per RIGL 35-3-15 (a))	\$7,853,476
Judicial (per RIGL 35-3-15 (a))	\$1,863,538
Department of Administration	\$130,231
Department of Business Regulation	\$141,164
Department of Health	\$69,000
Total Reappropriations	\$10,057,409

Agency Specific Changes

November Caseload Estimating Conference

The November Caseload Estimating Conference convened on November 7, 2018 and adopted revised cash assistance caseloads and medical assistance expenditures for FY 2019. In comparison to the enacted budget, the adopted estimates increased general revenue expenditures by a net of \$11.7 million.

The General Public Assistance (GPA) program is estimated to require \$100,600 less than

enacted. This decrease is due to a decline in the number of persons from 270 to 210 and an increase in the monthly cost per person from \$137.00 to \$164.00.

The Supplemental Security Income (SSI) program is estimated to require \$77,900 less based on an decrease in SSI caseload of 500 persons and an increase in the cost per person from \$47.00 to \$48.00.

The Child Care program is estimated to require \$1.4 million less in all funds as compared to the enacted budget. This is primarily due to a projected decrease in the number of subsidies from 9,300 to 9,125, but no change in the projected cost per subsidy of \$7,912.

Within the Medical Assistance (Medicaid) program, an all funds deficit of \$29.5 million is forecast compared to the enacted budget, which includes \$11.9 million in general revenue. This projection incorporates changes in various components of the Medicaid program, including increases in Managed Care and Acute Care Services (\$16.5 million), Hospitals (\$3.9 million), Long Term Care (\$5.7 million) and Pharmacy (\$3.3 million).

Current year spending increases are largely attributable to the modification of Medicaid's Hepatitis C pharmaceutical prior authorization policy in July 2018 to comply with federal guidelines to cover treatment for all patients regardless of the stage of the disease. This policy change accounts for \$6.1 million of the \$11.9 million increase in FY 2019 general revenue expenditures in the Medicaid program.

Department of Children, Youth and Families

The Department of Children, Youth and Families is projecting a net deficit of \$14.9 million, with increased expenditures of \$17.0 million in the Child Welfare program, \$1.2 million in the in Central Management, offset by savings of \$3.2 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. The projected increased spending in Child Welfare is due to increased caseloads incurred during FY 2018, when total caseloads increased by almost 350 youths. The current projection for FY 2019 assumes the growth in caseloads will stabilize and plateau but still exceed the level assumed in the enacted budget.

Department of Behavioral Healthcare, Developmental Disabilities and Hospitals

The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals is projecting an overall shortfall of \$9.4 million. The majority of the projected deficit (\$7.6 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 2018 and continuing into the current fiscal year. The Department estimates an approximate 1.5% increase in overall caseload growth based on trends from the last two fiscal years.

Department of Human Services

The Department of Human Services is projecting an overall deficit of \$0.8 million, primarily attributable to increased costs for the Elderly Transportation Program (RIDE), which provides

transportation services to medical appointments for elderly clients and disabled adults. The enacted funding is projected to not be sufficient to cover projected current year costs and demand for rides.

Department of Corrections

The Department of Corrections is projecting an overall deficit of \$7.3 million, primarily attributable to a projected increase in medical/pharmaceutical costs for Hepatitis C treatment for inmates to comply with federal requirements. As with the Medicaid program, the Department modify its policy to cover treatment for all inmates regardless of the stage of the disease. Prior policy only provided maintenance medication for inmates in the early stages of the disease and curative medication for inmates in more advanced stages. Additional personnel costs are projected, particularly in the Institutional Custody and Security program, based on contractual stipend increases approved in the most recent contract with RIBCO that were not accounted for in the cost of living adjustments for which funding was provided in the enacted budget.

Department of Revenue

The Department of Revenue is projecting a deficit of \$2.4 million because of two items. First, personnel funding for the Division of Motor Vehicles was underfunded by approximately \$1.0 million in the enacted budget. Second, is an increase of \$1.5 million for the Motor Vehicle Excise Tax Phase-Out state aid program based on the latest vehicle valuation data received from cities and towns.

Department of Labor and Training

The Department of Labor and Training is projecting a deficit of \$2.6 million. This is primarily in the Unemployment Insurance program and is the result of less federal funding because Rhode Island's unemployment rate has been declining.

Board of Elections

The Board of Elections is projecting a surplus of \$790,000 in the Matching Public Funds program, which provides matching funds to candidates for statewide elected office. Fewer candidates than anticipated took advantage of this program in FY 2019.

Department of Public Safety

A deficit is projected for the Department of Public Safety due to a change adopted at the November Revenue Estimating Conference on how to account for costs of the Gaming Enforcement Unit. The enacted budget accounted for these expenses from a transfer of funds from the Lottery to the State Police. The new method will account for these expenses as a general revenue appropriation, which was not included in the enacted budget and thus will require a supplemental appropriation. The Revenue Conference recognized an offsetting increase in the general revenue transfer from the lottery as a result of this change.

Department of Education

The Department of Education is projecting a deficit of just under \$1.0 million attributable to three areas. First, Education Aid is projected to increase by \$61,100 due to update municipal data received after enactment of the FY 2019 budget. Second, based on actual FY 2018 expenditures,

the Department has updated its projection for the State's share of Teacher Retirement costs and is estimating an increase of \$635,100. Finally, the School for the Deaf is projecting a deficit of \$241,700 due to current staffing and operational expenses.

The Office of Management and Budget is currently reviewing the FY 2019 revised and FY 2020 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 2019 and to address the projected FY 2020 current services level deficit.

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

TAM: J:/20budget/FY 2019 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 2019 General Revenue Budget Surplus

	FY 2017 Audited	FY 2018 Final Enacted	FY 2018 Preliminary	FY 2019 Enacted	FY 2019 First Quarter
Surplus					
Opening Surplus	\$167,818,206	\$61,660,230	\$61,660,230	\$31,264,778	\$45,529,139
Adjustment to Opening Surplus	-	-	-	-	-
Reappropriated Surplus	7,848,853	10,338,899	10,338,899	-	10,057,409
Subtotal	\$175,667,059	\$71,999,129	\$71,999,129	\$31,264,778	\$55,586,548
General Taxes	\$2,926,747,939	3,031,120,059	3,097,875,408	3,183,587,606	3,183,587,606
Revenue Est. Conference Changes		58,479,941	-		(16,887,606)
Changes to the Adopted Estimates		10,400,000	-		
Subtotal	2,926,747,939	3,100,000,000	3,097,875,408	3,183,587,606	3,166,700,000
Departmental Revenues	370,065,817	393,224,426	397,579,143	404,148,229	\$404,148,229
Revenue Est. Conference Changes		3,275,574	-		851,771
Changes to the Adopted Estimates		-	-		
Subtotal	\$370,065,817	\$396,500,000	\$397,579,143	\$404,148,229	\$405,000,000
Other Sources					
Other Miscellaneous	12,122,198	36,978,021	37,054,016	9,349,463	9,349,463
Revenue Est. Conference Changes		1,871,979	-		2,350,537
Changes to the Adopted Estimates		(399,661)	-		
Lottery	362,696,628	362,500,000	364,974,286	391,700,000	391,700,000
Revenue Est. Conference Changes		1,500,000	-		7,900,000
Changes to the Adopted Estimates		612,793	-		
Unclaimed Property	12,725,037	10,900,000	10,901,582	9,700,000	9,700,000
Revenue Est. Conference Changes		-	-		400,000
Subtotal	387,543,863	413,963,132	412,929,884	410,749,463	421,400,000
Total Revenues	\$3,684,357,619	\$3,910,463,132	\$3,908,384,435	\$3,998,485,298	\$3,993,100,000
Transfer to Budget Reserve and Cash					
Stabilization Account	(115,565,275)	(119,163,701)	(119,101,340)	(120,892,502)	(121,158,874)
Total Available	3,744,459,404	3,863,298,560	3,861,282,224	3,908,857,574	3,927,527,674
Actual/Enacted Expenditures	\$3,672,460,275	\$3,832,033,782	\$3,805,695,676	\$3,908,207,061	\$3,908,207,061
Reappropriations (from prior year)					10,057,409
Caseload Conference Changes					11,732,740
Other Changes in Expenditures					39,421,044
Total Expenditures	\$3,672,460,275	\$3,832,033,782	\$3,805,695,676	\$3,908,207,061	\$3,969,418,254
Total Ending Balances	\$71,999,129	\$31,264,778	\$55,586,548	\$650,513	(\$41,890,580)
Reappropriations (to following year)	(10,338,899)	-	(10,057,409)	-	-
Free Surplus	\$61,660,230	\$31,264,778	\$45,529,139	\$650,513	(\$41,890,580)

Table 2 - Summary of Changes to FY 2019 Enacted General Revenue Expenditures

	FY 2019 Enacted	Reappropriation	Distribution of Statewide Medical Savings	Other Projected Changes	Total Projected Changes	FY 2019 Projected Expenditures	Change From Enacted (Surplus)/Deficit
General Government							
Administration	177,080,380	130,231	-	(130,231)	-	177,080,380	-
Business Regulation	17,430,457	141,164	-	(157,503)	(16,339)	17,414,118	(16,339)
Labor and Training	14,464,955	-	-	2,588,413	2,588,413	17,053,368	2,588,413
Department of Revenue	178,831,507	-	-	2,359,563	2,359,563	181,191,070	2,359,563
Legislature	43,691,627	7,853,476	-	-	7,853,476	51,545,103	7,853,476
Lieutenant Governor	1,114,597	-	-	-	-	1,114,597	-
Secretary of State	9,875,734	-	-	-	-	9,875,734	-
General Treasurer	2,973,776	-	-	164,512	164,512	3,138,288	164,512
Board of Elections	5,252,516	-	-	(789,858)	(789,858)	4,462,658	(789,858)
Rhode Island Ethics Commission	1,812,237	-	-	(33,771)	(33,771)	1,778,466	(33,771)
Governor's Office	5,633,047	-	-	-	-	5,633,047	-
Commission for Human Rights	1,335,441	-	-	34,824	34,824	1,370,265	34,824
Executive Office of Commerce	30,289,375	-	-	300,129	300,129	30,589,504	300,129
Public Utilities Commission	-	-	-	-	-	-	-
Subtotal - General Government	489,785,649	8,124,871	-	4,336,078	12,460,949	502,246,598	12,460,949
Human Services							
Office of Health & Human Services	982,916,072	-	-	11,861,240	11,861,240	994,777,312	11,861,240
Children, Youth, and Families	161,614,041	-	-	14,927,567	14,927,567	176,541,608	14,927,567
Health	28,963,829	69,000	-	(69,000)	-	28,963,829	-
Human Services	97,999,785	-	-	789,323	789,323	98,789,108	789,323
Behavioral Healthcare, Developmental Disab	188,091,966	-	-	9,368,952	9,368,952	197,460,918	9,368,952
Office of the Child Advocate	969,922	-	-	(22,120)	(22,120)	947,802	(22,120)
Comm. on Deaf & Hard of Hearing	523,178	-	-	-	-	523,178	-
Governor's Commission on Disabilities	1,002,537	-	-	(17,511)	(17,511)	985,026	(17,511)
Office of the Mental Health Advocate	653,260	-	-	(60,809)	(60,809)	592,451	(60,809)
Subtotal - Human Services	1,462,734,590	69,000	-	36,777,642	36,846,642	1,499,581,232	36,846,642
Education							
Elementary and Secondary	1,188,639,908	-	-	937,875	937,875	1,189,577,783	937,875
Office of Postsecondary the Commissioner	16,288,918	-	-	344,407	344,407	16,633,325	344,407
University of Rhode Island	105,076,256	-	-	-	-	105,076,256	-
Rhode Island College	55,749,666	-	-	-	-	55,749,666	-
Community College of Rhode Island	52,978,860	-	-	-	-	52,978,860	-
RI Council on the Arts	2,007,993	-	-	(895)	(895)	2,007,098	(895)
RI Atomic Energy Commission	1,078,908	-	-	-	-	1,078,908	-
Historical Preservation & Heritage Comm	1,210,054	-	-	251,115	251,115	1,461,169	251,115
Subtotal - Education	1,423,030,563	-	-	1,532,502	1,532,502	1,424,563,065	1,532,502
Public Safety							
Attorney General	\$27,959,192	-	-	-	-	27,959,192	-
Corrections	\$237,063,223	-	-	7,319,993	7,319,993	244,383,216	7,319,993
Judicial	101,994,888	1,863,538	-	(748,608)	1,114,930	103,109,818	1,114,930
Military Staff	3,081,090	-	-	-	-	3,081,090	-
Emergency Management	2,043,945	-	-	395,041	395,041	2,438,986	395,041
Public Safety	103,337,018	-	-	1,634,728	1,634,728	104,971,746	1,634,728
Office Of Public Defender	12,575,531	-	-	(221,822)	(221,822)	12,353,709	(221,822)
Subtotal - Public Safety	488,054,887	1,863,538	-	8,379,332	10,242,870	498,297,757	10,242,870
Natural Resources							
Environmental Management	41,841,215	-	-	-	-	41,841,215	-
Coastal Resources Management Council	2,760,157	-	-	128,230	128,230	2,888,387	128,230
Subtotal - Natural Resources	44,601,372	-	-	128,230	128,230	44,729,602	128,230
Total	3,908,207,061	10,057,409	-	51,153,784	61,211,193	3,969,418,254	61,211,193

Table 3 - November 2018 Revenue Estimating Conference Results

	FY 2019 Enacted	FY 2019 November 2018 Consensus	FY 2019 Consensus vs. FY 2019 Enacted	Growth From FY 2019 Consensus vs. FY 2019 Enacted
Personal Income Tax	\$ 1,385,592,630	\$ 1,380,700,000	\$ (4,892,630)	-0.4%
General Business Taxes				
Business Corporations	177,592,100	154,700,000	(22,892,100)	-12.9%
Public Utilities Gross	101,800,000	100,800,000	(1,000,000)	-1.0%
Financial Institutions	21,800,000	23,300,000	1,500,000	6.9%
Insurance Companies	130,507,236	126,100,000	(4,407,236)	-3.4%
Bank Deposits	2,700,000	3,000,000	300,000	11.1%
Health Care Provider	51,422,610	52,000,000	577,390	1.1%
Sales and Use Taxes				
Sales and Use	1,101,139,430	1,111,000,000	9,860,570	0.9%
Motor Vehicle	3,133,600	3,100,000	(33,600)	-1.1%
Motor Fuel	-	-	-	0.0%
Cigarettes	139,500,000	139,000,000	(500,000)	-0.4%
Alcohol	20,700,000	20,700,000	-	0.0%
Other Taxes				
Inheritance and Gift	32,100,000	34,500,000	2,400,000	7.5%
Racing and Athletics	1,100,000	1,100,000	-	0.0%
Realty Transfer	14,500,000	16,700,000	2,200,000	15.2%
Total Taxes	3,183,587,606	3,166,700,000	(16,887,606)	-0.5%
Departmental Receipts	404,148,229	405,000,000	851,771	0.2%
Other Miscellaneous	9,349,463	11,700,000	2,350,537	25.1%
Lottery	391,700,000	399,600,000	7,900,000	2.0%
Unclaimed Property	9,700,000	10,100,000	400,000	4.1%
Total General Revenues	3,998,485,298	3,993,100,000	(5,385,297)	-0.1%