



OFFICE OF MANAGEMENT & BUDGET

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MEMORANDUM

To: The Honorable Gina M. Raimondo
Governor

Brett Smiley, Director
Department of Administration

From: Jonathan Womer
Director, Office of Management & Budget

A handwritten signature in blue ink, appearing to read "Jonathan Womer".

Date: February 15, 2021

Subject: **FY 2021 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 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 second quarter report for FY 2021 reflects revised estimates of annual expenditures for each state department or agency in conjunction with the FY 2021 general revenue estimates and FY 2020 general revenue closing position incorporated within the FY 2021 budget as passed by the General Assembly on December 18, 2020, and signed by the Governor on December 21, 2020. The projected FY 2021 balance, based upon these assumptions, is estimated to show a \$43.7 million surplus.

FY 2020 Closing

The State Controller issued the preliminary unaudited FY 2020 closing report on September 8, 2020. General revenue receipts were higher than final enacted estimates by \$141.8 million. General revenue expenditures were lower than final enacted appropriations by \$46.1 million. This report reflects a \$180.4 million general fund surplus, which was \$174.7 million more than assumed in the final FY 2020 enacted budget and includes a transfer pursuant to law from the budget reserve and cash stabilization account of \$120.0 million.

Due to various complications largely arising from the COVID-19 pandemic, the State Controller has not yet issued the final audited FY 2020 closing statements. Though issuance of this closing report is expected imminently, this second quarter report will continue to utilize the preliminary FY 2020 unaudited closing statements as the basis for the FY 2020 ending balance, but as adjusted by the General Assembly in the FY 2021 enacted budget. This upward adjustment to the closing balance, totaling \$70.0 million (displayed on Table 1 of this report as an “Adjustment to Opening Surplus”), represented an estimate of the pending reallocations of FY 2020 state-funded payroll expenses to the Coronavirus Relief Fund (CRF) that were unrecognized as of the Controller’s preliminary closing report. The opening FY 2021 free surplus, therefore, totals \$250.4 million in this report, an increase of \$70.0 million relative to the first quarter report.

It must be noted that the final FY 2020 audited closing statements will likely contain material adjustments to the state’s preliminary FY 2020 general revenue closing position, primarily resulting from: (1) Standard audit adjustments to various transactions identified by either the State Controller or the Office of the Auditor General,

as is customary in any audited fiscal closing; and (2) A significant change to the accounting treatment of FY 2020 receivables for projected reimbursements and associated state match from the Federal Emergency Management Agency (FEMA) under the Robert T. Stafford Disaster Relief and Emergency Assistance Act for qualifying pandemic response expenditures.¹

FY 2021 Second Quarter

The second quarter report for FY 2021 contains estimates of annual expenditures based upon analysis of expenditures through the second quarter of FY 2021 (July 1, 2020 through December 31, 2020) as compared to available general revenue resources that were assumed as part of the FY 2021 Appropriations Act. The projected FY 2021 year-end balance, based upon these assumptions, is estimated to show a \$43.7 million surplus.

As displayed in Table 1, the projected surplus of \$43.7 million for FY 2021 is the result of an opening surplus of \$250.4 million; reappropriations of \$5.3 million; current year general revenues of \$4,038.4 million as determined by the November Revenue Estimating Conference and subsequently revised downward by \$18.0 million in the enacted budget; \$128.7 million in reserve fund contributions; and a net downward revision of agency spending totaling \$31.5 million relative to enacted appropriations. The major categories of expenditure adjustments are as follows:

Extension of the FFCRA-Enhanced Federal Medical Assistance Percentage (FMAP) to the fourth quarter of FY 2021

On March 18, 2020, the President signed into law the Families First Coronavirus Response Act (FFCRA), which provided a temporary 6.2 percentage point enhancement to each qualifying state's Federal Medical Assistance Percentage (FMAP) effective January 1, 2020, and extending through the last day of the calendar quarter in which the public health emergency declared by the Secretary of Health and Human Services for COVID-19 terminates. The FMAP is the rate at which the federal government shares in the cost of a state's Medicaid and Title IV-E programs. All else equal, an increase to the FMAP decreases the state's share of the overall funding obligation for these programs.

At the time of the enactment of the FY 2021 Appropriations Act (December 2020), the public health emergency had been extended through January 21, 2021. The FY 2021 enacted budget thus assumed that the FFCRA-enhanced FMAP would be available until March 31, 2021, or for the first three quarters of FY 2021. As such, enacted appropriations for the Executive Office of Health and Human Services' (EOHHS) Medical Assistance (Medicaid) program, as well as other Medicaid-financed programs housed in EOHHS umbrella agencies, reflected three quarter's worth of general revenue savings from the FFCRA-enhanced FMAP.

Effective January 21, 2021, the public health emergency declaration was extended for a period of 90 days, cementing the availability of the FFCRA-enhanced FMAP for the final quarter of FY 2021, and yielding estimated additional savings of \$34.5 million.² While receiving the enhanced FMAP, states are prohibited from terminating an individual's Medicaid enrollment unless they are deceased, move out of state, or request a voluntary termination. The caseload impact of this provision, which dampens the general revenue savings, was accounted for in the formulation of this savings estimate.

FY 2021 Federal Medical Assistance Percentages (FMAPs)

| FY 2021 | Standard FMAP | FFCRA-Enhanced (6.2 pp) |
|----------------|----------------------|--------------------------------|
| Quarter 1 | 52.95% | 59.15% |
| Quarters 2 - 4 | 54.09% | 60.29% |

Please see Table 2 of this report for a delineation of FMAP-related savings by affected agency.

¹ OMB anticipates that certain reimbursement revenues booked as receivable in FY 2020 will instead be recognized in FY 2021.

² Announcement available: <https://www.phe.gov/emergency/news/healthactions/phe/Pages/covid19-07Jan2021.aspx>

Other Projected Expenditure Changes

Department of Administration: Decrease of \$42,000

The Department of Administration maintains the state's Tort Fund, which is funded at \$400,000 in the enacted budget. Anticipated FY 2021 outlays from this fund are currently anticipated at approximately \$600,000, or \$200,000 above enacted levels. This increase is offset by \$242,000 in savings within the debt service program, resulting from available interest earnings and other residual funds on certain debt issuances.

Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals: Increase of \$3,298,192

The FY 2021 enacted budget recognized \$10.0 million in general revenue savings stemming from the anticipated approval of a Medicaid State Plan Amendment (SPA) requesting the reinstatement of federal financial participation for certain classifications of patients at the Eleanor Slater Hospital. Since budget enactment, the Department has downwardly revised this savings estimate to \$6.7 million, due primarily to a change in the applicable census. As a result, the second quarter report contains the restoration of \$3.3 million compared to the enacted budget. This estimate is presently under review by the Office of Management and Budget in conjunction with Department officials, and any refinements deemed appropriate will be reflected in the Governor's FY 2021 Supplemental Appropriations Act.

Department of Children, Youth, and Families: Increase of \$460,000

The Consolidated Appropriations Act, 2021, enacted by Congress in December 2020, included a (unfunded) mandate to provide youth who are aging out of foster care, or have aged out in the prior year, with services and case management. Specifically, states cannot require a child to leave foster care due to years of age (21), thus preserving Title IV-E eligibility even if they are not able to meet the participation (work and school) requirements for extended foster care. States are also required to provide re-entry to foster care to youth who aged out during the pandemic and have not reached age 22, and must facilitate the re-entry process. The Department is now in the process of procuring contracts for these services, the estimated cost of which is \$460,000 in FY 2021.

Department of Human Services: Decrease of \$776,745

The Office of Healthy Aging (OHA) is projecting a general revenue surplus compared to the FY 2021 enacted budget, largely attributable to lower-than-anticipated caseloads identified in the Costs Not Otherwise Matchable (CNOM) programs for adult day and home care (the "At-home" programs). With the onset of COVID-19 vaccinations for the elderly, OHA projects a slight increase in participation in the At-home programs in the fourth quarter of the fiscal year.

Table 2 shows the enacted budgets by agency, and identifies projected expenditure changes for each agency.

Changes not Reflected in this Report

Coronavirus Relief Fund (CRF) Payroll Conversions in Excess of the Enacted Level

On November 16, 2020, the Pandemic Recovery Office issued the most recent update to the *Policy for Charging Public Employee Payroll to the Coronavirus Relief Fund*.³ This policy allows state agencies to charge certain eligible state personnel costs to the state's allocation of the CRF through 12/30/2020.⁴ The FY 2021 Appropriations Act, enacted in December 2020, decreased general revenue and increased federal funds appropriations based on the best available cost estimates of CRF-eligible personnel at the time. Agencies have since accounted for and charged actual personnel costs. Statewide agency-requested charges to CRF related to personnel conversions from general revenue total approximately \$157.7 million, exceeding the enacted level

³Payroll policy available: <http://omb.ri.gov/documents/pandemic/2020-11-16%20CRF%20Payroll%20Policy%20PUBLISHED.pdf>

⁴ Despite the fact that the federal government has extended the deadline for CRF-eligible costs to be incurred to December 31, 2021, the state payroll policy has retained the original deadline of December 30, 2020.

of \$148.6 million by \$9.1 million.⁵ However, this quarterly report limits all agencies to the enacted level of CRF personnel conversions. Whether or not CRF payroll conversions in excess of appropriations will be allowed is expected to be clarified in the Governor's revised FY 2021 budget request based on whether sufficient CRF resources are available to fund these charges.

Expanded FEMA Eligibility

On February 2, 2021, the President issued a *Memorandum on Maximizing Assistance from the Federal Emergency Management Agency*.⁶ This document orders the Federal Emergency Management Agency (FEMA) to increase the reimbursement percentage from 75% to 100% for eligible emergency expenses. This enhanced reimbursement rate applies for work performed from January 20, 2020 through January 20, 2021, so there is expected to be a significant positive impact to the state in both FY 2020 and FY 2021 which would manifest itself as increased federal revenue and corresponding decreases in federal funds and/or general revenue appropriations. Due to the recency of this announcement, its impact is not reflected in this report.

Agency Fiscal Oversight

Despite the projected FY 2021 closing surplus and the statewide favorable variance to enacted appropriations contained within this report, the Office of Management and Budget will continue to vigilantly monitor hiring and discretionary spending on a statewide basis. Though the current budgetary climate for FY 2021 has measurably improved relative to the first quarter report and the fiscal uncertainty caused by the COVID-19 pandemic has somewhat abated, structural issues persist in Rhode Island's long-term budgetary outlook. It therefore remains incumbent upon the Office of Management and Budget to contain non-essential costs at every level of state government.

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

Attachments

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

The Honorable Ryan W. Pearson, Chairman
Senate Finance Committee

Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor

⁵ Additionally, the Department of Behavioral Health, Hospitals, and Developmental Disabilities requested a total of \$32.7 million, of which OMB intends to disallow \$27.8 million, on the grounds that such payroll conversions would result in forgoing federal Medicaid match based on current assumptions regarding the SPA.

⁶ Presidential Memorandum available: <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/02/memorandum-maximizing-assistance-from-the-federal-emergency-management-agency/>

Table 1 - FY 2021 General Revenue Budget Surplus

| | FY 2019 Audited | FY 2020 Preliminary Unaudited | FY 2021 Enacted Budget | FY 2021 Second Quarter |
|--|------------------------|-------------------------------------|------------------------------|---------------------------|
| Surplus | | | | |
| Opening Surplus | \$52,525,379 | \$30,502,912 | \$180,395,600 | \$180,395,600 |
| Adjustment to Opening Surplus | - | | 70,000,000 | 70,000,000 |
| Reappropriated Surplus | 10,057,409 | 10,296,451 | 5,336,652 | 5,336,652 |
| Subtotal | \$62,582,788 | \$40,799,363 | \$255,732,252 | \$255,732,252 |
| General Taxes | 3,186,592,310 | 3,279,993,849 | 3,373,300,000 | 3,373,300,000 |
| Revenue Est. Conference Changes | | | | |
| Changes to the Adopted Estimates | | | | |
| Subtotal | 3,186,592,310 | 3,279,993,849 | 3,373,300,000 | 3,373,300,000 |
| Departmental Revenues | 416,720,527 | \$435,208,268 | \$390,000,000 | \$390,000,000 |
| Revenue Est. Conference Changes | | | | |
| Changes to the Adopted Estimates | | | | |
| Subtotal | \$416,720,527 | \$435,208,268 | \$390,000,000 | \$390,000,000 |
| Other Sources | | | | |
| Other Miscellaneous | 12,367,090 | 52,794,681 | 10,325,000 | 10,325,000 |
| Revenue Est. Conference Changes | | | | |
| Changes to the Adopted Estimates | | | | |
| Lottery | 397,321,087 | 283,870,548 | 254,500,000 | 254,500,000 |
| Revenue Est. Conference Changes | | | | |
| Transfer from Budget Reserve | | 120,000,000 | | |
| Unclaimed Property | 11,578,604 | 12,080,719 | 10,300,000 | 10,300,000 |
| Revenue Est. Conference Changes | | | | |
| Subtotal | 421,266,781 | 468,745,948 | 275,125,000 | 275,125,000 |
| Total Revenues | \$4,024,579,618 | \$4,183,948,065 | \$4,038,425,000 | \$4,038,425,000 |
| Transfer to Budget Reserve and Cash | | | | |
| Stabilization Account | (122,313,150) | (126,433,529) | (128,664,618) | (128,664,618) |
| Total Available | 3,964,849,256 | 4,098,313,899 | 4,165,492,634 | 4,165,492,634 |
| Actual/Enacted Expenditures | \$3,924,049,893 | \$3,912,581,647 | \$4,153,269,709 | \$4,153,269,709 |
| FMAP Enhancement- Q4 | | | | (34,453,546) |
| Other Changes in Expenditures | | | | 2,939,447 |
| Total Expenditures | \$3,924,049,893 | \$3,912,581,647 | \$4,153,269,709 | \$4,121,755,610 |
| Total Ending Balances | \$40,799,363 | \$185,732,252 | \$12,222,925 | \$43,737,024 |
| Reappropriations (to following year) | (10,296,451) | (5,336,652) | | |
| Free Surplus | \$30,502,912 | \$180,395,600 | \$12,222,925 | \$43,737,024 |

Table 2 - Summary of Changes to FY 2021 Enacted General Revenue Expenditure Budget

| | FY 2021 Enacted Budget | Estimated 4th Quarter Enhanced FMAP Savings | Other Projected Changes | Total Projected Changes | FY 2021 Projected Expenditures | Change From Enacted (Surplus)/Deficit |
|--|-----------------------------------|--|--|--|---|--|
| General Government | | | | | | |
| Administration | 313,013,170 | - | (42,000) | (42,000) | 312,971,170 | (42,000) |
| Business Regulation | 17,469,427 | - | - | - | 17,469,427 | - |
| Labor and Training | 14,120,999 | - | - | - | 14,120,999 | - |
| Department of Revenue | 127,228,613 | - | - | - | 127,228,613 | - |
| Legislature | 44,283,435 | - | - | - | 44,283,435 | - |
| Lieutenant Governor | 1,145,231 | - | - | - | 1,145,231 | - |
| Secretary of State | 12,289,333 | - | - | - | 12,289,333 | - |
| General Treasurer | 2,986,194 | - | - | - | 2,986,194 | - |
| Board of Elections | 3,972,921 | - | - | - | 3,972,921 | - |
| Rhode Island Ethics Commission | 1,900,201 | - | - | - | 1,900,201 | - |
| Governor's Office | 6,459,015 | - | - | - | 6,459,015 | - |
| Commission for Human Rights | 1,348,206 | - | - | - | 1,348,206 | - |
| Executive Office of Commerce | 40,293,523 | - | - | - | 40,293,523 | - |
| Public Utilities Commission | - | - | - | - | - | - |
| Subtotal - General Government | 586,510,268 | - | (42,000) | (42,000) | 586,468,268 | (42,000) |
| Human Services | | | | | | |
| Office of Health & Human Services | 974,945,186 | (28,994,310) | - | (28,994,310) | 945,950,876 | (28,994,310) |
| Children, Youth, and Families | 170,860,311 | (1,250,646) | 460,000 | (790,646) | 170,069,665 | (790,646) |
| Health | 110,254,084 | - | - | - | 110,254,084 | - |
| Human Services | 105,775,008 | (131,175) | (776,745) | (907,920) | 104,867,088 | (907,920) |
| Behavioral Healthcare, Developmental Disabilities & Hosp | 248,855,733 | (4,077,415) | 3,298,192 | (779,223) | 248,076,510 | (779,223) |
| Office of the Child Advocate | 1,005,223 | - | - | - | 1,005,223 | - |
| Comm. on Deaf & Hard of Hearing | 507,816 | - | - | - | 507,816 | - |
| Governor's Commission on Disabilities | 1,072,008 | - | - | - | 1,072,008 | - |
| Office of the Mental Health Advocate | 630,982 | - | - | - | 630,982 | - |
| Subtotal - Human Services | 1,613,906,351 | (34,453,546) | 2,981,447 | (31,472,099) | 1,582,434,252 | (31,472,099) |

Table 2 - Summary of Changes to FY 2021 Enacted General Revenue Expenditure Budget

| | FY 2021 Enacted Budget | Estimated 4th Quarter Enhanced FMAP Savings | Other Projected Changes | Total Projected Changes | FY 2021 Projected Expenditures | Change From Enacted (Surplus)/Deficit |
|--|-----------------------------------|--|--|--|---|--|
| Education | | | | | | |
| Elementary and Secondary | 1,282,515,073 | - | - | - | 1,282,515,073 | - |
| Office of Postsecondary the Commissioner | 16,793,746 | - | - | - | 16,793,746 | - |
| University of Rhode Island | 109,533,078 | - | - | - | 109,533,078 | - |
| Rhode Island College | 57,878,556 | - | - | - | 57,878,556 | - |
| Community College of Rhode Island | 53,745,811 | - | - | - | 53,745,811 | - |
| RI Council on the Arts | 2,002,026 | - | - | - | 2,002,026 | - |
| RI Atomic Energy Commission | 1,059,645 | - | - | - | 1,059,645 | - |
| Historical Preservation & Heritage Comm | 1,562,984 | - | - | - | 1,562,984 | - |
| Subtotal - Education | 1,525,090,919 | - | - | - | 1,525,090,919 | - |
| Public Safety | | | | | | |
| Attorney General | 29,581,867 | - | - | - | 29,581,867 | - |
| Corrections | 163,246,644 | - | - | - | 163,246,644 | - |
| Judicial | 103,483,394 | - | - | - | 103,483,394 | - |
| Military Staff | 3,275,354 | - | - | - | 3,275,354 | - |
| Emergency Management | 2,713,353 | - | - | - | 2,713,353 | - |
| Public Safety | 67,430,637 | - | - | - | 67,430,637 | - |
| Office Of Public Defender | 12,680,653 | - | - | - | 12,680,653 | - |
| Subtotal - Public Safety | 382,411,902 | - | - | - | 382,411,902 | - |
| Natural Resources | | | | | | |
| Environmental Management | 42,769,969 | - | - | - | 42,769,969 | - |
| Coastal Resources Management Council | 2,580,300 | - | - | - | 2,580,300 | - |
| Subtotal - Natural Resources | 45,350,269 | - | - | - | 45,350,269 | - |
| Total | 4,153,269,709 | (34,453,546) | 2,939,447 | (31,514,099) | 4,121,755,610 | (31,514,099) |