



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DEPARTMENT OF ADMINISTRATION

OFFICE OF MANAGEMENT & BUDGET

STATE 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, 2019

Subject: FY 2020 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 2019 Closing

The State Controller issued the preliminary unaudited FY 2019 closing report on August 30, 2019. General revenue receipts were higher than final enacted estimates by \$2.1 million, and general revenue expenditures were lower than final enacted appropriations by \$12.0 million. This report reflected a \$29.2 million general fund surplus, which was \$3.7 million more than assumed in the final FY 2019 enacted budget.

FY 2020 First Quarter

The first quarter report for FY 2020 contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of FY 2020 (July 1, 2019 through September 30, 2019), as well as cash assistance and medical assistance expenditure estimates and revenue estimates adopted at the November Caseload and Revenue Estimating Conferences. The projected FY 2020 year-end balance, based upon these assumptions, is estimated to show a \$4.1 million deficit.

As of this first quarter report, the Office of Management and Budget (OMB) is forecasting deficits for the Department of Children, Youth and Families (DCYF); the Office of Veterans Services

(VETS), the RI Ethics Commission and the Office of the Mental Health Advocate in FY 2020. 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. Furthermore, as of November 15, 2019, OMB is commencing enhanced fiscal oversight of these agencies, pursuant to RIGL § 35-3-24 (as amended by Article 2, Section 5 of the FY 2020 Appropriations Act) and the OMB Budgetary Control Policy. This will continue until subsequent FY 2020 quarterly reports do not reveal any deficit relative to enacted FY 2020 general revenue appropriations for the agency in question.

Any changes recommended by the Governor to the FY 2020 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 16, 2020.

FY 2020 Projected Deficit

The projected budget deficit of \$4.1 million for FY 2020 is the result of an opening surplus of \$29.2 million; reappropriations of \$10.3 million; a current year general revenue increase of \$71,329 as determined by the November Revenue Estimating Conference, a \$0.1 million increase in reserve fund contributions; the enacted closing surplus of \$0.5 million; caseload savings of \$12.5 million and \$20.8 million in additional spending.

General revenue receipts are expected to be \$0.1 million more than enacted as determined by the November Revenue Estimating Conference. Taxes are expected to be above enacted estimates by \$38.4 million, while departmental revenues and other sources are expected to be below enacted estimates by \$38.3 million, including a reduction in Lottery transfers of \$35.7 million. The November Revenue Estimating Conference projected that revenues will be \$4,178.8 million, which is \$71,329 more than the enacted estimate of \$4,178.7 million for FY 2020.

Table 1 demonstrates that available resources, net of reserve fund contributions, have been adjusted upward from the enacted budget by \$14.0 million. This includes the additional balance forward from FY 2019 of \$3.7 million, reappropriations of \$10.3 million and increased revenues estimated at the November Revenue Estimating Conference of \$0.1 million, offset by increased reserve fund contributions of \$0.1 million. Expenditures increase by a net of \$18.6 million, including \$10.3 million of reappropriations from FY 2019 and a \$12.5 million decline in costs estimated by the Caseload Estimating Conference.

Table 2 shows the enacted budgets by agency, as contained in Article 1 of the FY 2020 Appropriations Act, and identifies projected expenditure changes for each agency.

Revenue Projections

Table 3 displays the revenue estimates adopted at the November 8, 2019 Revenue Estimating Conference, as compared to those contained in the enacted budget.

Projected Expenditures

Overall, net projected general revenue spending for FY 2020, as compared to the enacted budget, is approximately \$18.6 million more than enacted appropriations. Major expenditure changes include:

Agency/Major Item	(Surplus)/Deficit
Reappropriations	\$10,296,451
November Caseload Estimating Conference – Medical Assistance	(\$11,220,092)
November Caseload Estimating Conference – Cash Assistance	(\$1,272,425)
Department of Administration	(\$3,656,334)
Department of Children, Youth and Families	\$21,861,815
Office of Veterans’ Services	\$2,873,415
All Other Changes	(\$324,618)
Total All Changes	\$18,558,212
Total All Changes (net of Reappropriations)	\$8,261,761

Reappropriations

As required under RIGL § 35-3-15 (a), the Governor recommended the reappropriation of unexpended and unencumbered balances in the general revenue appropriations for the General Assembly totaling \$9.7 million, for the Judiciary totaling \$0.3 million and for all other agencies totaling \$386,141, as shown in the following table.

Agency/Major Item	Reappropriation
General Assembly (per RIGL 35-3-15 (a))	\$9,652,376
Judicial (per RIGL 35-3-15 (a))	\$257,934
Attorney General	\$23,199
Department of Public Safety	\$211,487
Department of Revenue	\$52,920
Executive Office of Health and Human Services	\$69,949
Governor’s Commission on Disabilities	\$28,586
Total Reappropriations	\$10,296,451

November Caseload Estimating Conference

The November Caseload Estimating Conference convened on November 5, 2019 and adopted revised cash assistance caseloads and medical assistance expenditures for FY 2020. In comparison to the enacted budget, the adopted estimates lowered general revenue expenditures by a net of \$12.5 million.

The General Public Assistance (GPA) program is estimated to require \$117,220 less than enacted. This decrease is due to a decline in the number of persons from 162 to 115 and an increase in the monthly cost per person from \$150.00 to \$151.00.

The Supplemental Security Income (SSI) program is estimated to require \$548,818 less based on an increase in SSI caseload of 137 persons and a decrease in the cost per person from \$47.94 to \$46.40.

The Child Care program is estimated to require \$743,040 less in all funds (\$606,387 general revenue) as compared to the enacted budget. This is primarily due to a projected increase in the number of subsidies from 9,240 to 9,294, but a decrease in the projected cost per subsidy from \$7,966 to \$7,840.

Within the Medical Assistance (Medicaid) program, an all funds surplus of \$20.8 million is forecast compared to the enacted budget, which includes \$11.2 million in general revenue. This projection incorporates changes in various components of the Medicaid program, including all-funds decreases in Managed Care (\$28.7 million), Rhody Health Options (\$7.4 million), and Medicaid Expansion (\$2.1 million); offset by all funds increases in Hospitals (\$0.2 million), Long-Term Care (\$12.3 million) and Rhody Health Partners (\$5.6 million).

Current year spending reductions are attributable to fewer individuals receiving the curative treatment for Hepatitis C than assumed in the enacted budget and updated enrollment in managed care plans coupled with increased expenditures in Long-Term Care. Managed Care caseloads have been declining over the past year as functionality in the new RI Bridges eligibility system has improved.

Agency Highlights

Department of Administration

The Department of Administration is projecting a net surplus of \$3.7 million, primarily due to a change in the debt service program. Under current law, the State transfers a share of sales tax revenues generated at the Providence Place Mall (up to a maximum of \$3.56 million per fiscal year) to support the debt service on a portion of the debt issued to build the Mall and Parking Garage. The final payment on this debt was due to be paid in July 2020, but due to available reserve funds, the Commerce Corporation was able to make the final payment in October 2019. This negates the need for this year's sales tax revenue transfer of \$3.56 million.

Department of Children, Youth and Families

The Department of Children, Youth and Families is projecting a net deficit of \$21.9 million, with increased expenditures of \$22.1 million in the Child Welfare program and \$1.3 million in the Juvenile Corrections Services program. This is offset by savings of \$1.4 million in the Central Management program. Across the department, spending for personnel costs is projected to be \$5.3 million higher and spending for assistance and grants is projected to be \$17.4 million higher than enacted appropriations. The projected increase in Child Welfare is due to increased expenditures for congregate care, foster care, adoption/guardianship subsidies and home-based services. Projected spending on assistance and grants in FY 2020 is in line with the expenditure levels observed in FY 2019 at \$115.5 million versus an enacted budget of \$98.2 million. The projected increased spending in Child Welfare assumes overall caseloads will stabilize after the experienced growth in the prior two fiscal years. However, the current projections will still exceed the estimated caseloads upon which

the enacted budget was based. Unachieved savings initiatives and a different case mix than assumed also contribute to the higher spending.

The projected deficit in personnel is due to increases in front-line staffing to address the higher caseloads. In addition, the Department is on pace to expend approximately \$5.0 million on overtime versus an enacted budget of \$2.7 million as it continues to try and address high turnover rates. OMB has placed DCYF under enhanced fiscal oversight

Office of Veterans Services (VETS)

The Office of Veterans Services is projecting an overall deficit of \$2.9 million, primarily due to the cost of operations for the Veterans Home in Bristol. Payroll costs and contracts for services provided by outside vendors to the Home are both exceeding enacted appropriations. The Office has begun to institute savings options to help offset the overall deficit, including implementing an acuity-based staffing model, streamlining food service operations and limiting overtime. OMB has placed VETS under enhanced fiscal oversight.

Department of Elementary and Secondary Education (RIDE)

In its first quarter financial statement, the Department of Elementary and Secondary Education identified three areas of potential overspending in FY 2020. First is the state share for teacher retirement. Based on payroll trends at the end of FY 2019, the Department believes spending in the current fiscal year could exceed the enacted appropriation; however, there have been no actual payments made to date and thus no recent information upon which to base a current year projection. In addition, the General Assembly has authorized a specific appropriation (\$112.3 million) to fund the state share of Teacher Retirement and thus the Department would be limited to making payments up to this appropriated amount.

Second, the Central Falls School District (“CFSD”) has experienced an increase in student enrollment above the number assumed in the calculation of the enacted funding formula. As a result, the CFSD is projecting \$500,000 in additional spending during the current fiscal year. The Department has begun to work with the CFSD to identify options to reduce spending and remain within the enacted appropriation.

Third, the Department has instituted additional controls and oversight at the RI School for the Deaf to eliminate any potential overspending. Based on this analysis and deficit reduction initiatives already under way at RIDE, OMB projects that the Department’s spending projections will be in line with the enacted budget.

Enhanced Fiscal Oversight

In accordance with the newly enacted provisions in RIGL § 35-3-24, OMB has instituted stricter spending controls on those agencies projected in this report to exceed the enacted appropriations. Per the Office’s Budgetary Control Policy, the case-by-case review and approval/denial of new expenditures will begin taking place in regular meetings with deficit-projecting agencies immediately. The Budget Office has notified the appropriate agencies that expenses that do not meet the exemption requirements outlined in the law and in the policy will not be deemed allowable. For example, all existing and future contracts for services – inclusive of any proposed renewals – shall be subject to OMB review and approval during the period of enhanced fiscal oversight in order to comply with the newly enacted law. Agencies have been informed that compliance with the law may result in potential

disruption to services. Until the Budget Office's quarterly projections demonstrate that the agency is not projecting a deficit, enhanced fiscal oversight and rejection of expenditures that do not address immediate health and safety, deficit reduction or are part of a corrective action plan will continue.

Agency Budget Requests

The Budget Office also is currently reviewing the FY 2020 revised and FY 2021 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 2020 and to address the projected FY 2021 current services level deficit.

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

TAM: J:/21budget/FY 2020 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 2020 General Revenue Budget Surplus

	FY 2018 Audited	FY 2019 Final Enacted	FY 2019 Preliminary Unaudited	FY 2020 Enacted	FY 2020 First Quarter
Surplus					
Opening Surplus	\$61,660,230	\$52,525,379	\$52,525,379	\$25,464,117	\$29,165,828
Adjustment to Opening Surplus	-	-			
Reappropriated Surplus	10,338,899	10,057,409	10,057,409	-	10,296,451
Subtotal	\$71,999,129	\$62,582,788	\$62,582,788	\$25,464,117	\$39,462,279
General Taxes	3,097,875,408	3,173,950,000	3,182,941,893	3,278,927,019	3,278,927,019
Revenue Est. Conference Changes	-				38,372,981
Changes to the Adopted Estimates	-				
Subtotal	3,097,875,408	3,173,950,000	3,182,941,893	3,278,927,019	3,317,300,000
Departmental Revenues	397,579,143	422,170,000	\$416,720,537	\$451,451,653	\$451,451,653
Revenue Est. Conference Changes	-				(7,951,653)
Changes to the Adopted Estimates	-				
Subtotal	\$397,579,143	\$422,170,000	\$416,720,537	\$451,451,653	\$443,500,000
Other Sources					
Other Miscellaneous	37,054,016	11,437,185	12,367,080	25,650,000	25,650,000
Revenue Est. Conference Changes	-				5,350,000
Changes to the Adopted Estimates	-				
Lottery	364,974,286	400,100,000	397,321,087	412,800,000	412,800,000
Revenue Est. Conference Changes	-				(35,700,000)
Changes to the Adopted Estimates	-				
Unclaimed Property	10,901,582	11,200,000	11,578,604	9,900,000	9,900,000
Revenue Est. Conference Changes	-				
Subtotal	412,929,884	422,737,185	421,266,771	448,350,000	418,000,000
Total Revenues	\$3,908,384,435	\$4,018,857,185	\$4,020,929,201	\$4,178,728,672	\$4,178,800,000
Transfer to Budget Reserve and Cash Stabilization Account	(119,101,340)	(122,141,477)	(122,203,637)	(126,125,784)	(126,238,975)
Total Available	3,861,282,224	3,959,298,496	3,961,308,352	4,078,067,005	4,092,023,304
Actual/Enacted Expenditures	\$3,798,699,436	\$3,933,834,379	\$3,921,846,073	\$4,077,594,991	\$4,077,594,991
Reappropriations (from prior year)					10,296,451
Caseload Conference Changes					(12,492,517)
Other Changes in Expenditures					20,754,278
Total Expenditures	\$3,798,699,436	\$3,933,834,379	\$3,921,846,073	\$4,077,594,991	\$4,096,153,203
Total Ending Balances	\$62,582,788	\$25,464,117	\$39,462,279	\$472,014	(\$4,129,899)
Reappropriations (to following year)	(10,057,409)	-	(10,296,451)		
Free Surplus	\$52,525,379	\$25,464,117	\$29,165,828	\$472,014	(\$4,129,899)

Table 2 - Summary of Changes to FY 2020 Enacted General Revenue Expenditures

	FY 2020 Enacted	Reappropriation	Distribution of Statewide Medical Savings	Other Projected Changes	Total Projected Changes	FY 2020 Projected Expenditures	Change From Enacted (Surplus)/Deficit
General Government							
Administration	206,638,425	-	-	(3,656,334)	(3,656,334)	202,982,091	(3,656,334)
Business Regulation	17,896,681	-	-	(46,232)	(46,232)	17,850,449	(46,232)
Labor and Training	14,679,932	-	-	-	-	14,679,932	-
Department of Revenue	216,254,237	52,920	-	-	52,920	216,307,157	-
Legislature	43,804,101	9,652,376	-	-	9,652,376	53,456,477	-
Lieutenant Governor	1,147,816	-	-	-	-	1,147,816	-
Secretary of State	9,533,255	-	-	-	-	9,533,255	-
General Treasurer	3,037,551	-	-	-	-	3,037,551	-
Board of Elections	2,748,855	-	-	-	-	2,748,855	-
Rhode Island Ethics Commission	1,845,298	-	-	43,711	43,711	1,889,009	43,711
Governor's Office	6,093,211	-	-	-	-	6,093,211	-
Commission for Human Rights	1,353,591	-	-	-	-	1,353,591	-
Executive Office of Commerce	28,181,129	-	-	-	-	28,181,129	-
Public Utilities Commission	-	-	-	-	-	-	-
Subtotal - General Government	553,214,082	9,705,296	-	(3,658,855)	6,046,441	559,260,523	(3,658,855)
Human Services							
Office of Health & Human Services	1,002,282,411	69,949	-	(11,220,092)	(11,150,143)	991,132,268	(11,220,092)
Children, Youth, and Families	165,124,585	-	-	21,861,815	21,861,815	186,986,400	21,861,815
Health	30,968,921	-	-	-	-	30,968,921	-
Human Services	66,699,938	-	-	(1,350,849)	(1,350,849)	65,349,089	(1,350,849)
Office of Veterans' Services	25,478,689	-	-	2,873,415	2,873,415	28,352,104	2,873,415
Behavioral Healthcare, Developmental Disabilities & Hosp	196,381,240	-	-	-	-	196,381,240	-
Office of the Child Advocate	986,701	-	-	(14,712)	(14,712)	971,989	(14,712)
Comm. on Deaf & Hard of Hearing	533,338	-	-	(17,379)	(17,379)	515,959	(17,379)
Governor's Commission on Disabilities	1,055,069	28,586	-	-	28,586	1,083,655	-
Office of the Mental Health Advocate	602,411	-	-	21,803	21,803	624,214	21,803
Subtotal - Human Services	1,490,113,303	98,535	-	12,154,001	12,252,536	1,502,365,839	12,154,001
Education							
Elementary and Secondary	1,239,252,258	-	-	-	-	1,239,252,258	-
Office of Postsecondary the Commissioner	16,509,011	-	-	-	-	16,509,011	-
University of Rhode Island	115,225,106	-	-	-	-	115,225,106	-
Rhode Island College	58,020,333	-	-	-	-	58,020,333	-

Table 2 - Summary of Changes to FY 2020 Enacted General Revenue Expenditures

	FY 2020 Enacted	Reappropriation	Distribution of Statewide Medical Savings	Other Projected Changes	Total Projected Changes	FY 2020 Projected Expenditures	Change From Enacted (Surplus)/Deficit
Community College of Rhode Island	53,896,408	-	-	-	-	53,896,408	-
RI Council on the Arts	2,004,748	-	-	(10,584)	(10,584)	1,994,164	(10,584)
RI Atomic Energy Commission	1,059,094	-	-	-	-	1,059,094	-
Historical Preservation & Heritage Comm	1,488,293	-	-	(1,756)	(1,756)	1,486,537	(1,756)
Subtotal - Education	1,487,455,251	-	-	(12,340)	(12,340)	1,487,442,911	(12,340)
Public Safety							
Attorney General	28,675,203	23,199	-	-	23,199	28,698,402	-
Corrections	242,088,059	-	-	-	-	242,088,059	-
Judicial	105,213,960	257,934	-	-	257,934	105,471,894	-
Military Staff	3,219,493	-	-	-	-	3,219,493	-
Emergency Management	2,364,647	-	-	-	-	2,364,647	-
Public Safety	105,918,952	211,487	-	(170,385)	41,102	105,960,054	(170,385)
Office Of Public Defender	12,824,871	-	-	(44,074)	(44,074)	12,780,797	(44,074)
Subtotal - Public Safety	500,305,185	492,620	-	(214,459)	278,161	500,583,346	(214,459)
Natural Resources							
Environmental Management	43,623,975	-	-	-	-	43,623,975	-
Coastal Resources Management Council	2,883,195	-	-	(6,586)	(6,586)	2,876,609	(6,586)
Subtotal - Natural Resources	46,507,170	-	-	(6,586)	(6,586)	46,500,584	(6,586)
Total	4,077,594,991	10,296,451	-	8,261,761	18,558,212	4,096,153,203	8,261,761

Table 3 - November 2019 Revenue Estimating Conference Results

	FY 2020 Enacted	FY 2020 November 2019 Consensus	FY 2020 Consensus vs. FY 2020 Enacted	Growth From FY 2020 Consensus vs. FY 2020 Enacted
Personal Income Tax	\$ 1,426,800,000	\$ 1,441,800,000	\$ 15,000,000	1.1%
General Business Taxes				
Business Corporations	164,000,000	143,700,000	(20,300,000)	-12.4%
Public Utilities Gross	103,200,000	104,000,000	800,000	0.8%
Financial Institutions	24,400,000	24,400,000	-	0.0%
Insurance Companies	119,675,238	126,500,000	6,824,762	5.7%
Bank Deposits	3,000,000	3,000,000	-	0.0%
Health Care Provider	45,418,233	43,700,000	(1,718,233)	-3.8%
Sales and Use Taxes				
Sales and Use	1,180,433,547	1,192,100,000	11,666,453	1.0%
Motor Vehicle	3,000,000	1,800,000	(1,200,000)	-40.0%
Motor Fuel	-	-	-	0.0%
Cigarettes	135,000,000	137,300,000	2,300,000	1.7%
Alcohol	21,400,000	20,200,000	(1,200,000)	-5.6%
Other Taxes				
Inheritance and Gift	38,000,000	63,400,000	25,400,000	66.8%
Racing and Athletics	1,100,000	1,200,000	100,000	9.1%
Realty Transfer	13,500,000	14,200,000	700,000	5.2%
Total Taxes	3,278,927,018	3,317,300,000	38,372,982	1.2%
Departmental Receipts	448,451,653	443,500,000	(4,951,653)	-1.1%
Other Miscellaneous	28,650,000	31,000,000	2,350,000	8.2%
Lottery	412,800,000	377,100,000	(35,700,000)	-8.6%
Unclaimed Property	9,900,000	9,900,000	-	0.0%
Total General Revenues	4,178,728,671	4,178,800,000	71,329	0.0%