



# Comments on Your Government

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RIPEC

## Preliminary Analysis of FY 2009 Deficit and Out-year Projections

The Office of Accounts and Control released its preliminary, unaudited year end statements for FY 2009 on August 28, 2009. The statements reflect a projected \$61.8 million deficit for the year ending June 30, 2009. Table 1 shows the preliminary budget statement for the fiscal year that ended June 30, 2009 and the changes to it based on the State Controller's preliminary analysis. Based on these updated numbers, FY 2009 will close with a deficit of \$61.8 million. The deficit is due to a revenue shortfall. One should note that a transfer from the Budget Reserve Fund of \$22.0 million was made to balance the revised FY 2009 budget.

**Table 1**  
**Preliminary Budget Statement**  
**\$ million**

Opening Surplus/Deficit	(\$42.9)
Reappropriation (from prior year)	1.7
General Revenues	3,023.4
Transfer from Budget Reserve	22.0
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Total Available	\$3,004.2
General Revenue Expenditures	\$2,999.0
Reappropriations (carried forward to 2010)	1.0
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Subtotal	\$3,000.0
Net	\$4.2
Transfer to Budget Reserve	(\$66.0)
<b>Closing deficit</b>	<b>(\$61.8)</b>

Source: State Controller

### Revenue changes

Table 2 provides an overview of the revised revenue situation. Overall, when comparing the FY 2009 revised budget and the preliminary audit for FY 2009, revenues have been revised downward by \$65.1 million, to \$3,023.4 million.

**Table 2**  
**General Revenues (Preliminary-Unaudited)**  
**For the Fiscal Year Ended June 30, 2009**

	Final Budget	Actual	Variance	Percent Variance
<b>Personal Income Tax</b>	\$ 970,600,000	\$ 940,513,781	\$ (30,086,219)	-3.1%
<b>General Business Taxes</b>				
Business Corporations	112,000,000	104,436,811	(7,563,189)	-6.8%
Public Utilities Gross Earnings	115,000,000	126,664,890	11,664,890	10.1%
Financial Institutions	4,130,000	2,901,945	(1,228,055)	-29.7%
Insurance Companies	80,400,000	78,016,930	(2,383,070)	-3.0%
Bank Deposits	1,700,000	1,802,796	102,796	6.1%
Health Care Provider Assessment	48,400,000	46,030,570	(2,369,430)	-4.9%
<b>Sales and Use Taxes</b>				
Sales and Use	823,200,000	808,125,293	(15,074,707)	-1.8%
Motor Vehicle	50,800,000	47,925,805	(2,874,195)	-5.7%
Motor Fuel	1,000,000	1,325,034	325,034	32.5%
Cigarettes	131,000,000	130,503,213	(496,787)	-0.4%
Alcohol	10,800,000	10,811,831	11,831	0.1%
<b>Other Taxes</b>				
Inheritance and Gift	30,200,000	28,096,912	(2,103,088)	-7.0%
Racing and Athletics	2,500,000	2,450,809	(49,191)	-2.0%
Realty Transfer Tax	7,500,000	6,811,322	(688,678)	-9.2%
<b>Total Taxes</b>	2,389,230,000	2,336,417,942	(52,812,058)	-2.2%
<b>Departmental Revenue</b>	330,151,170	319,361,734	(10,789,436)	-3.3%
<b>Total Taxes and Departmentals</b>	2,719,381,170	2,655,779,676	(63,601,494)	-2.3%
<b>Other Sources</b>				
Gas Tax Transfer	4,400,000	4,327,710	(72,290)	-1.6%
Other Miscellaneous	18,400,000	17,739,819	(660,181)	-3.6%
Lottery	338,100,000	337,529,754	(570,246)	-0.2%
Unclaimed Property	8,200,000	8,044,126	(155,874)	-1.9%
<b>Total Other Sources</b>	369,100,000	367,641,409	(1,458,591)	-0.4%
<b>Total General Revenues</b>	<b>\$ 3,088,481,170</b>	<b>\$ 3,023,421,085</b>	<b>\$ (65,060,085)</b>	<b>-2.1%</b>

Source: State Controller

The revenue shortfall is mainly attributable to the following:

- A decline in personal income tax revenues in the amount of \$30.1 million;
- A decline in the sales and use tax of \$15.1 million;

- Within general business taxes, a decline of \$7.6 million from business corporations, decline of \$2.4 million from insurance companies, decline of \$2.4 million from health care provider assessments, and a decline of \$1.2 million from financial institutions. This decline has been partially offset by additional revenues through public utilities gross earnings (\$11.7 million). Overall, general business tax revenues declined by \$1.8 million; and
- A decline in lottery revenues of \$0.6 million.

Impact of FY 2009 deficit

In FY 2009, the Budget Reserve Fund had a balance of \$169.0 million. After transferring \$66.9 million to the Capital Fund, a balance of \$102.1 million was left (see Table 3). As stated before, the revised FY 2009 budget included a transfer from the Budget Reserve Fund in the amount of \$22.0 million. This leaves the Budget Reserve Fund with a balance of \$80.1 million.

Balance, beginning	\$102.9
Calculated transfer from General Fund	66.1
<i>Subtotal</i>	<i>\$169.0</i>
Transfer to Capital Fund	\$66.9
<i>Balance</i>	<i>\$102.1</i>
Transfer to FY 2009	\$22.0
<b>Balance, ending</b>	<b>\$80.1</b>
Source: RIPEC calculations based on State Controller Preliminary Audit	

At this point, the State has made no decision on how to address the FY 2009 deficit. If the FY 2009 deficit of \$61.8 million were resolved by taking out additional funds from the Budget Reserve Fund, the Budget Reserve Fund would be left with a balance of \$18.3 million. This would leave the State with almost no cushion if the revenues should fall any further. Another concern is the Capital Fund. If funds were taken from the Budget Reserve Fund to balance FY 2009, no transfers could be made to the Capital Fund in FY 2010.

Furthermore, under current law, any funds taken out of the Rainy Day Fund to balance FY 2009 would have to be paid back from the general revenue fund in FY 2010, in addition to the \$22.0 million that have already been taken from the Rainy Day Fund. However, the recently enacted FY 2010 budget already faces difficult choices. The FY 2010 budget includes \$67.8 million in unspecified savings to balance the Budget. To achieve these

savings, the Governor recently proposed a variety of operational savings and withholding the fourth quarter payment of the vehicle excise tax from cities and towns.

Currently, the Administration and the unions are in negotiations on an agreement to achieve these operational savings. At this point, it is not clear if the proposed savings from withholding the fourth quarter payment of the vehicle excise tax can be implemented since the Governor will need legislative approval for this change.

Future year impact

Further exacerbating the situation are the projected out-year deficits in the State's budget. Table 4 shows projected deficits for FY 2010 to FY 2012, assuming expenditures stay at the level that was previously projected by House Fiscal Staff, and a slight increase in revenues for FY 2011 and FY 2012. Given these assumptions, RIPEC projects a deficit of \$122.3 million in FY 2010, which includes the \$61.7 million prior year deficit. Further, RIPEC projects a deficit of \$244.4 million in FY 2011, and a deficit of \$483.8 million in FY 2012.

Table 4 also shows a cumulative deficit of \$728.2 million in FY 2012. These projections assume that prior year deficits will be addressed in the current fiscal year and new deficits carried forward into the next fiscal year. For example, it assumes that in fiscal year 2010, the FY 2009 deficit of \$61.7 million will be resolved, and the FY 2010 deficit of \$60.6 million rolled into FY 2011. Then, in FY 2011, it is assumed that the FY 2010 deficit will be resolved and the FY 2011 deficit of \$244.4 million carried over into FY 2012. In fiscal year 2012, the cumulative deficit will reach \$728.2 million, which is a combination of the carried forward deficit from FY 2011 in the amount of \$244.4 million and the FY 2012 deficit of \$483.8 million.

	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
General Revenues	\$3,012.0	\$3,021.5	\$3,081.9
Transfer to Budget Reserve	(72.3)	(78.6)	(86.3)
<b>Total Available Revenues</b>	<b>\$2,939.7</b>	<b>\$2,942.9</b>	<b>\$2,995.6</b>
Expenditures	3,000.3	3,187.3	3,479.4
<b>Projected Current Year Deficit</b>	<b>(\$60.6)</b>	<b>(\$244.4)</b>	<b>(\$483.8)</b>
<b>As % of Revenues</b>	<b>-2.1%</b>	<b>-8.3%</b>	<b>-16.2%</b>
Prior Year Deficits	(\$61.7)	(\$60.6)	(\$244.4)
Current Year Deficit	(60.6)	(244.4)	(483.8)
<b>Cumulative Deficit*</b>	<b>(\$122.3)</b>	<b>(\$305.0)</b>	<b>(\$728.2)</b>
<p>*Assumes that in FY 2010 the prior year deficit will be addressed; in FY 2011, the FY 2010 prior year deficit will be addressed, and in FY 2012 the FY 2011 prior year deficit will be addressed            Source: RIPEC projections based on FY 2009 preliminary audit.</p>			

If, however, prior year deficits are not resolved in their respective fiscal years and all deficits are carried forward, this would lead to a cumulative deficit of \$850.6 million in FY 2012.

One should note that the State Department of Revenue recently released a report that compared FY 2010 adjusted cash collections with the FY 2010 expected revenue collections based on the revenue estimates contained in the FY 2010 Enacted budget. The report showed that FY 2010 revenue collections trail the expected revenue collections by \$12.8 million, or -3.3 percent, through the first two months of the current fiscal year. An update on the current revenue situation will be available early October when the Department releases revenue collections for the first quarter of the current fiscal year.

Furthermore, the Revenue and Caseload Estimating Conferences will meet in November. Any decline in revenues will have an impact on the projected deficits.

#### Next steps and issues to be considered

Immediate action is required to address the current and out-year deficits. Therefore, RIPEC recommends:

- Reviewing all expenditure commitments for FY 2010, and assessing if the savings included in the FY 2010 budget can be implemented;
- The General Assembly leadership and Governor work jointly to address questions such as:
  - What options does the State have to balance FY 2009 and what is the impact of these options on the State's overall fiscal situation?
  - What implications does the FY 2009 shortfall have on the FY 2010 budget and out-years?
  - Are the State's ongoing resources adequate to support current operations?
  - Are current obligations appropriately funded?

As the State is working on addressing current year deficits, implications for future year budgets need to be considered. The budget for fiscal year 2012 is especially critical given the fact that revenues from the American Reinvestment and Recovery Act run out that year. Therefore, RIPEC recommends that in conjunction with working on next year's budget, work should begin now on the development of the FY 2012 State budget that will also address areas impacting local governments; and consider changes to FY 2010 that will have long-term structural changes effecting FY 2012 and beyond. Questions around major funding issues include:

- Are expenditure priorities responsive to the needs of citizens?
- What are the State's policy goals and what are the procedures to ensure they are met?
- Has the State assessed and ranked critical functions and developed cost reductions based on this prioritization?
- Is this program/activity mandated by State or federal law?

- If so, what is the level of service that is mandated and should the mandate be maintained?
- Are services being provided in the most cost-effective manner?
- Are department resources being duplicated within the State?
- Can the process or processes be improved or streamlined?
- Would a change result in cost-savings or cost-shifting?
- What is the long-term financial impact?
- How will change impact service delivery?
- What are the actual savings that will be gained in year one and out-years?

Furthermore, it will be necessary for the State to reassess its fiscal situation after the November Revenue and Caseload Estimating Conferences have met to incorporate the updated revenue picture. At that time, the State will need to address if ongoing resources are adequate to support current operations. If needed, the Governor should submit a supplemental budget in early January 2010, allowing the General Assembly to act upon the supplemental budget as soon as possible in order to have sufficient time to implement any additional fiscal control measures.