Office of Fiscal Analysis

FY 18 GENERAL FUND BUDGET PROJECTION January 25, 2018

Summary

We are projecting a FY 18 deficit of $206.1 million once the (volatility adjustment) transfer of $664.9 million from the General Fund to the Budget Reserve Fund is taken into account.

Highlights

Volatility Adjustment

The 2018-2019 Budget permanently requires consensus revenue projections to identify and set aside any amount of the Estimated and Finals portion of the Income Tax greater than $3.15 billion. At the close of each fiscal year, the 2018-2019 Budget requires any amounts received greater than $3.15 billion to be transferred to the Budget Reserve Fund.

Figure 1. General Fund Overview
In Millions of Dollars

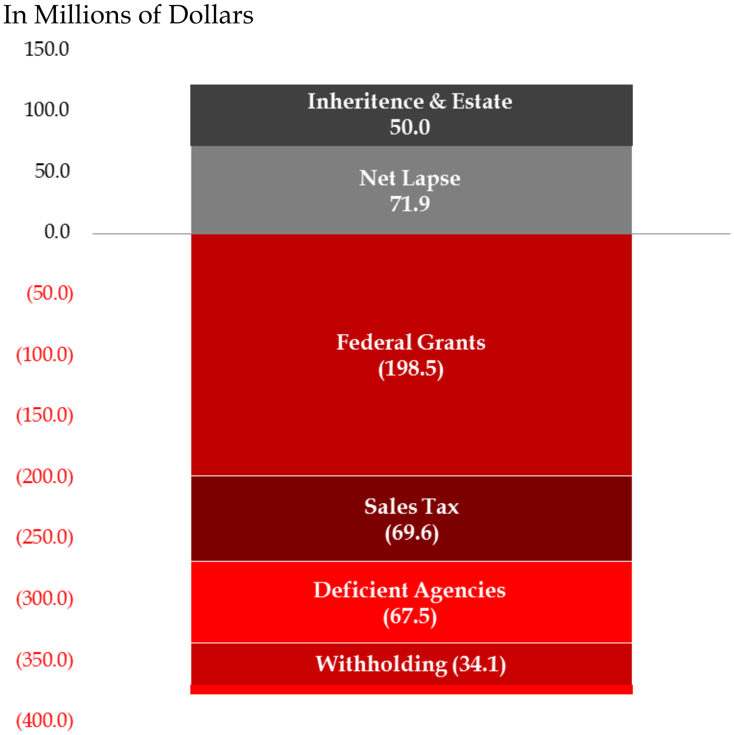
	Budget	January Estimate	Difference from Budget $	Difference from Budget %
Revenues	18,739.3	18,479.6	**(259.7)**	**-1.4%**
Expenditures	18,690.1	18,685.7	**(4.4)**	**0.0%**
Surplus/(Deficit)	**49.2**	**(206.1)**	**(255.3)**	**-1.4%**

Off-Shore Hedge Fund Income Repatriation Produces an Approximate $750 million Windfall

A 2008 federal law requires hedge fund managers to recognize any incentive or management fees charged to an offshore fund and earned and deferred prior to January 1, 2009. The federal deadline for recognition of this deferred compensation was December 31, 2017.

In order to offset ongoing uncertainty in other aspects of Income Tax collections, including the shifting of Estimated and Finals payments from January and April 2018 to December 2017 to realize the full value of the federal state and local tax deduction before it is capped at $10,000 in 2018, only $675 million of the $750 million is recognized in the January 2018 consensus revenue estimates. Given the volatility adjustment requirement described above, only $10 million of this positive variance is available immediately to cover the FY 18 projected deficit in the General Fund.

Figure 2. Major Items Contributing to Surplus/ (Deficit)
In Millions of Dollars



Budgeted Surplus	49.2
Positive Adjustments	
Inheritance and Estate	50.0
Net Lapse	71.9
Subtotal	**121.9**
Negative Adjustments	
Federal Grants	(198.5)
Sales Tax	(69.6)
Deficient Agencies	(67.5)
Withholding	(34.1)
Net Other Revenue	(7.5)
Subtotal	**(377.2)**
Surplus/(Deficit)	**(206.1)**

Notable Revenue Issues

Medicare Savings Program, Medicaid Rate Adjustments and Re-estimates negatively Impact Federal Grants

Federal Grants revenue is below budget by approximately $198.5 million. Major contributing factors include net appropriating Medicaid rate increases for hospitals which removed $48.6 million from the revenue schedule, and lower than anticipated FY 17 finalization awards, which reduced the FY 18 estimate by approximately $50 million. In addition, the state experienced (1) reduced revenue of $30 million associated with retroactive rate adjustments, (2) changes to the Medicare Savings Program resulting in a revenue loss of approximately $25 million, (3) underestimating the federal revenue share of Medicaid expenditures in the March 2018 quarter for the purposes of net budgeting by about $24 million, and (4) reducing FY 18 estimates by $10 million due to drawing the revenue in FY 17. Various minor adjustments to Medicaid, SNAP, and Child Support Enforcement revenue total an additional $11 million.

Various Revenue Adjustments to Reflect Collections Trends Net to a $74.1 Million Decrease

Weakness in collections trends through December have resulted in a cumulative decrease of $136.8 million in estimated revenues, including major downward adjustments in Sales and Withholding taxes ($69.6 million and $34.1 million, respectively). This is partially offset by strength in the Inheritance & Estate Tax, Refunds of Payments, Indian Gaming Payments, and Investment Income, which resulted in a cumulative increase of $62.7 million in estimated revenues.

Notable Expenditure Issues

Adjudicated Claims to continue to negatively impact Budget

The projected shortfall in the Adjudicated Claims account is $22.4 million. The FY 18 – FY 19 Budget did not include an appropriation for the account. Approximately $18.6 million has been expended to date, predominately due to claims payments for the SEBAC v. Rowland Settlement.

Budget targets unmet in the Department of Children and Families

Net costs for 120 additional social work staff and contractual services needed for compliance with the federal, court-ordered Juan F. consent decree are anticipated to exceed available resources by approximately $11.7 million in FY 18.

Budget targets unmet in Department of Correction

Spending is projected to be $11.2 million greater than total available funds, with projected shortfalls of $9.2 million in Personal Services and $2.0 million in Other Expenses. Year-to-date FY 18 spending in Personal Services is 1.2% less than FY 17; in contrast, available funds to Personal Services are 5.4% less than FY 17. Separately, it is anticipated that the DOC will be unable to meet the $2.0 million reduction in available resources as a result of the holdback to the Other Expenses account.

Retirements, overtime in DESPP exceed expectations

The Department of Emergency Services and Public Protection (DESPP) is projected to accumulate a shortfall of $4 million in FY 18. The agency has experienced an unusual number of retirements and personnel changes this year, which has led to a higher than expected cost in paying out employee benefits such as vacation and sick pay ($1.9 million to date). The agency averages 54 retirements per year, but has already experienced 59 as of January 1st.

This change in personnel has been the driver of a 28% increase in overtime costs within the agency's Personal Services account due to the need for officers to cover shifts. These costs are not projected to decrease, as DESPP is currently not able to hire the number of employees necessary to drive down overtime.

Shortfall in Fringe Benefits reflect healthcare and payroll trends

The projected net shortfall of $8.1 million in the fringe benefit accounts of the Office of the State Comptroller reflects shortfalls across various accounts, including, $3.2 million in the Employers' Social Security Tax account, $6.1 million in the State Employees' Health Service Cost account, and $10.1 million in the Retired State Employees' Health Service Cost account due to higher than anticipated healthcare and payroll trends which partially reflect Personnel Services costs in other agencies exceeding budget.

The shortfalls indicated above are partially offset by a $8.8 million lapse in the Higher Education Alternate Retirement Program account (ARP) resulting from greater than anticipated recoveries for non-General Fund supported employees. These recoveries are credited to the General Fund appropriation creating a lapse in the account. In addition, a $2.5 million lapse in the Unemployment Compensation account due to lower than anticipated claims expenditures is predominately attributable to the SEBAC 2017 Agreement.

General Fund support for parks continues regardless of new Passport to Parks Account

PA 17-2, the 2018-2019 Budget, established a new fee and account within the Department of Energy and Environmental Protection (DEEP) to be used as a funding mechanism for parks. The budget bill also requires that moneys be expended for parks pursuant to appropriations. No appropriations were made in PA 17-2, however, as Passport to Parks was established as a separate non-lapsing account. Since park expenses continue to be paid from the Environmental Conservation (EC) account opposed to the newly established Passport to Parks account, the EC account is projected to have a $2.45 million shortfall, net of $1.9 million in lapses and $142,272 in holdbacks.

Medicaid expenditures trending lower offset shortfall in Temporary Family Assistance

In the Department of Social Services, Medicaid expenditures are trending lower than budgeted resulting in an anticipated lapse of $40 million. Expenditure trends in various other accounts result in an additional net lapse of approximately $6.3 million. This is partially offset by a $5 million shortfall in the Temporary Family Assistance (TFA) account. Expenditures have remained relatively flat in FY 18 for TFA compared to previous fiscal years in which they decreased each month. The projected, net agency lapse is $41.3 million.

Revised valuation positively impacts the Teachers' Retirement Board budget

The TRB retirement contribution account will lapse $19.4 million due to the revised valuation of the Teachers' Retirement Fund establishing the state's annual required contribution based on the one percentage point increase in the teachers' mandatory contribution from 6% to 7%, effective January 1, 2018. The TRB adopted the revised valuation of the TRB pursuant to sections 559 and 587 of PA 17-2, JSS.

Budget lapse as Care4Kids program reopens

Within the Office of Early Childhood, program expenditures for Care4Kids are lower than originally anticipated due to the timing of the budget and the ability to process applications and redeterminations as the program is reopened. This results in a lapse of approximately $9 million in FY 18.

Areas of Concern

SEBAC labor savings

The 2018-2019 Budget included $700 million in General Fund labor-management lapse. To date, OPM has allocated holdbacks totaling $692.5 million ($669.7 million in the General Fund and $22.8 million in the other appropriated funds). OPM has not allocated $7.5 million.

It should be noted that the 2018-2019 Budget does not include a provision to allocate labor savings achieved in other funds to the General Fund. Should no mechanism to accrue these savings to the General Fund be identified and the remaining unallocated $7.5 million not be achieved, the General Fund deficiency identified above could increase by up to $30.3 million.

Links

[Deficient Agency Table]
[Expenditure Details Table]
[Revenue Details Table]