



Office of Fiscal Analysis

FY 17 GENERAL FUND BUDGET PROJECTION

October 13, 2016

Summary

We are projecting a deficit of \$77.9 million. Proceeds from the recent settlement agreement with the Royal Bank of Scotland were greater than expected and partially offset weakness in the income and sales taxes during the summer. Projected deficiencies in Debt Service and Adjudicated Claims are driving expenditures above the budget.

Highlights

Income Tax Decreases by \$80 million

Income Tax receipts came in lower than anticipated at the end of last year, which lowered our expectations for this year. Additionally, the achievability of budgeted income tax collections may not be verifiable until January at the earliest.

Savings Targets of \$60.6 million Remain Unidentified

Of the \$209 million in bottom-line savings targets (lapses) budgeted, \$60.6 million remains unidentified. The estimate assumes these savings are achieved in full by the end of the fiscal year.

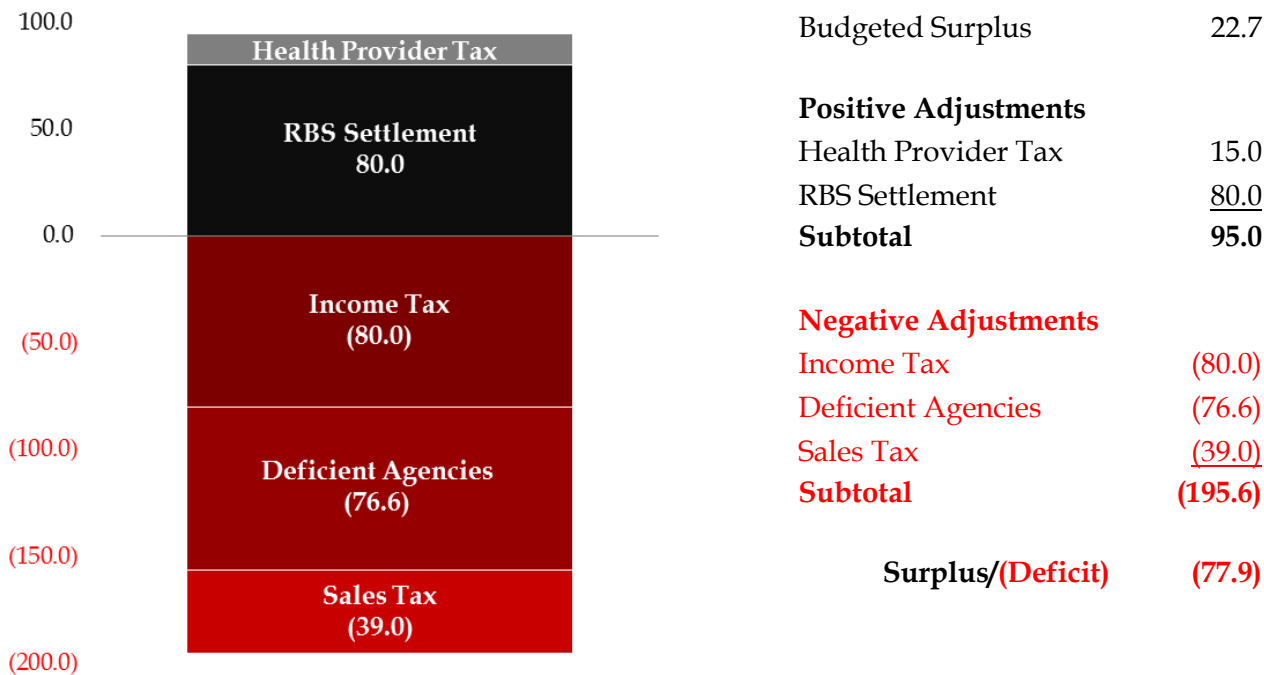
Figure 1. General Fund Overview

In Millions of Dollars

	Budget	October Estimate	Difference from Budget	
			\$	%
Revenues	17,886.7	17,862.7	(24.0)	-0.1%
Expenditures	<u>17,864.0</u>	<u>17,940.6</u>	<u>76.6</u>	<u>0.4%</u>
Surplus/(Deficit)	22.7	(77.9)	(100.6)	-0.6%

Figure 2. Major Items Contributing to Surplus/ (Deficit)

In Millions of Dollars



Notable Issues

Settlement Revenues Exceed Budget by \$80 million

The State recently received \$120 million as part of a consent order between the Department of Banking, Office of the Attorney General, and Royal Bank of Scotland (RBS) Securities to resolve an investigation into its underwriting of residential mortgage-backed securities in the lead-up to the 2008 financial crisis. This amount exceeded the \$40 million budgeted.

Sales Tax Shortfall of \$39 million

Monthly Sales Tax collections for FY 16 ended the year \$39 million below the April 2016 Consensus Revenue estimate. This effectively lowers the base for FY 17 and as such the report reflects a decrease of \$39 million from the FY 17 budgeted estimate of Sales Tax.

Decrease in Tax Credit Usage Improves Health Provider Collections by \$15 million

Health Provider Tax collections outperformed expectations in FY 16, in particular Net Patient Revenue (“Hospital Tax”). This may be associated with a decrease in the use of tax credits by hospitals.¹ The estimate in this report assumes a similar level of tax credit usage will occur in FY 17.

Debt Service Savings Partially Achieved; \$51 million Deficiency Remaining

It is anticipated that the budgeted savings target of \$162 million will be partially achieved, leaving an estimated deficiency of \$51 million. The corresponding FY 16 budgeted savings target produced a deficiency of \$35 million.

Adjudicated Claims Exceeding Budget by \$21 million

The FY 17 Revised Budget did not include an appropriation for the account. Approximately \$18 million of the projected deficiency is for estimated payments for the SEBAC v. Rowland Settlement (\$426,000 has been paid to date this fiscal year). The balance of the projected deficiency includes installment payments for previous settlements against the state.

Potential Deficiency in the Care4Kids Program Looms

The Care4Kids program has undergone significant policy changes over the past several months. These changes were primarily due to the federal Child Care Development Block Grant reauthorization requirements, which essentially lengthened the amount of time a family could be enrolled in the program. While the recent policy changes would result in estimated FY 17 expenditures exceeding the budgeted amount for the program by approximately \$33 million, the agency has limited program enrollment for certain participants in order to mitigate the deficiency. OFA is currently awaiting first quarter cost and caseload information to assess if the policy changes will align expenditures with available appropriations.

^[1] Sec. 89 of PA 15-244, as amended by PA 15-1 DSS, limited the use of tax credits by hospitals. Prior to July 1, 2015, the law placed no limit on the amount of tax credits that hospitals could use.

Links

[Deficient Agency Table](#)

[Expenditure Details Table](#)

[Revenue Details Table](#)