State of Rhode Island and Providence Plantations

Executive Summary

Fiscal Year 2013

Lincoln D. Chafee, Governor

State of Rhode Island and Providence Plantations
State House, Room 224
Providence, Rhode Island 02903
401-222-2080

Lincoln D. Chafee
Governor

January 31, 2012

To the Honorable, General Assembly:

The Fiscal Year 2013 budget I recommend to you builds on the progress we made last year to improve our state by investing in our assets and promoting a climate conducive to economic growth. Working together, in a spirit of cooperation and collaboration, we invested in public education at all levels. We broke our addiction to borrowing to fund needed transportation projects. We shored up the solvency of our unemployment trust fund. We came together to pass historic pension reform legislation that provided retirement security while protecting the Rhode Island taxpayer. We made tough decisions and Rhode Island is on a better course because of it.

We knew, however, that problems decades in the making would not be solved overnight. We have taken the first steps toward a return to prosperity, but many more remain. Difficult decisions lie ahead.

Rhode Island continues to struggle with one of the most challenging economic climates we have ever faced. Rhode Islanders are hurting, struggling to make ends meet. Our unemployment rate remains unacceptably high. Rhode Island is not sharing in the economic recovery that is occurring in our neighboring states and in the rest of the nation. That is why this year's budget is so important. We must maintain, at this critical time, our commitment to investing in Rhode Island's future. We must promote a climate of certainty that encourages businesses to grow and create jobs. The budget that I submit to you does that.

Rhode Island will not achieve economic recovery if our cities and towns are facing fiscal collapse. The loss of \$192 million in state aid in Fiscal Years 2007 to 2011 has led municipalities to slash services and increase property taxes. Our state's high property taxes have been cited by numerous business climate studies as a significant deterrent to economic growth. Meanwhile, cities and towns are struggling to devote the appropriate resources to education, placing Rhode Island students at a disadvantage when competing for jobs in the 21st century. My budget addresses these problems by providing nearly \$28 million to fully fund the second year of the education funding formula, as well as funding for additional school district expenses such as high-cost special education, early learning, vocational programs and training, and transportation. I also recommend an additional \$11 million toward implementation of the formula, devoting \$39 million to state support for education and reducing the financial burden on Rhode Island property taxpayers. These essential investments – tax relief and K-12 education – will be fully paid for by increasing the meals and beverage tax by just two cents on every dollar.

To continue to support higher education in Rhode Island, I propose the creation of a \$20-million scholarship fund that invests in qualified Rhode Island students who wish to pursue their educational goals after high school. This program will be entirely funded through making Rhode Island government more efficient and effective; namely, through merging Rhode Island Higher Education Assistance Authority and the Office of Higher Education and dedicating Rhode Island Higher Education Assistance Authority resources toward this important purpose.

It is no secret that Rhode Island's infrastructure is crumbling. It is also no secret how we have gotten to this point: Rhode Island ranks 49th in the nation for public support of highway transportation. This is evident to any resident who has complained about an unfilled pothole or lengthy bridge repairs. We cannot wait for bridges to fail. We must be proactive about infrastructure improvements to avoid costly repairs in the future. We must pay for it honestly and without borrowing. My budget proposal builds on the reforms passed by the General Assembly last year by advancing the upcoming vehicle registration and driver's license fee increases to take effect in the coming fiscal year. This new source of funds will allow us to responsibly address our state's transportation deficit and provide much-needed revenue for urgent maintenance and repair projects.

To promote economic development, we must ensure that our workforce is skilled, educated, and able to meet the demands of a rapidly changing world economy. We must develop a workforce that can compete for jobs in the new knowledge economy, which could be a tremendous catalyst for growth in our state. My budget increases funding for workforce development programs to provide the training Rhode Islanders need to find good jobs. I also propose reinstating and redesigning the Economic Development Corporation's "Project Status" program, an important initiative that provides tax incentives for businesses that create at least 100 jobs in Rhode Island. These two proposals are integral components in our broader, ongoing efforts to promote job creation and economic development and bring our unemployment rate down.

Government must also demonstrate its commitment to using resources efficiently and effectively. Businesses want to operate in a state that is fiscally responsible and operating within its means. My budget contains approximately $45 million in spending cuts, as well as numerous program eliminations, modifications, and reorganizations. These cuts will have very real, very painful consequences for people across our state. I do not make these decisions lightly. But we continue to face a structural deficit, and we must make difficult choices about those services the state can continue to provide. I have, however, worked hard to preserve the most essential services on which vulnerable Rhode Islanders depend. I will not allow the social safety net to be severed. A civil state should care for those most in need.

Rhode Island government has long had difficulty earning the trust of its citizens. We must work to change that. Rhode Islanders want to know that their hard-earned taxpayer dollars are being spent wisely and resourcefully. Therefore, I propose the creation of a new Office of Management and Budget to promote transparency and efficiency in our government. I have also directed the Office of Health and Human Services to launch a new auditing and programming evaluation to track waste and fraud among entities that provide services to the state. Particularly in these difficult economic times, every taxpayer dollar is scarce; it is our responsibility to ensure that they are not squandered.

Although Rhode Island continues to face daunting challenges, I am confident in our ability to make the needed decisions, no matter how difficult, and to make the forward-looking investments that will bring about a brighter future for our great state.

Sincerely,

Lincoln D. Chafee
Governor of the State of Rhode Island and Providence Plantations

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Introduction

Governor Chafee's *FY 2013 Executive Summary* is the first of eight documents that contain the summaries of revenue and expenditures on a statewide, functional, and departmental basis and also presents statewide expenditure data by *category* or object of expenditure. This same data is presented in the *Budget* in more detail by program.

The *Executive Summary* contains special reports on Education Aid and State Aid to provide a historical perspective on these state expenditures and also contains a "Budget Primer" which is intended to assist the reader of the budget documents in understanding the budget process in Rhode Island. Specific recommendations for FY 2013 for the departments are presented in this document, as well as the five-year financial projection as provided by law. Further detail is provided in the *Technical Appendix*.

The Budget consists of four volumes that provide an overview of state expenditures, as well as an in-depth presentation of the State Budget by program. The financial data presented for state agencies in *The Budget* for the past two fiscal years (FY 2010 and FY 2011) is generally derived from the appropriation accounting and receipt accounting files of the State Controller, as of the time of year-end closing. In the case of the accounts under the jurisdiction of the Board of Governor's of Higher Education, these columns reflect independently audited records.

The financial data for state agencies for the current fiscal year is from the enacted budget, modified in some cases to reflect recommended supplemental appropriations or withdrawals, revised expenditure estimates by category of expenditure or program, and revised estimates of federal grant awards or restricted receipts. In this document, the general revenue balance forward is included at the account level. The proposed changes to the enacted FY 2012 budget are included in the financial data by program for FY 2012. Totals and subtotals often appear to be inaccurate by small amounts or may disagree by small amounts with other budget and financial documents; this is due to differences in rounding procedures. The annual Appropriations Act is the absolute reference for state appropriation amounts.

The Budget also contains both narrative descriptions of Rhode Island's quasi-public agencies, authorities and entities, which are component units of state government for financial reporting purposes, and presents financial data provided by these entities. The Budget Office requests that quasi-public agencies and authorities submit information in the format used by the agency; no attempt is made to conform the financial presentation of the agencies data. In most cases, the FY 2012 and FY 2013 information has not been officially approved by the entities' governing bodies.

The *FY 2013 Budget* reports performance measurements for all programs, as required by legislative mandate to develop performance measurements for use in the budget process. Measurements are reflected on each finance page of the *FY 2013 Budget* and are further explained in detail in each agency's summary. The *Budget* now contains information that was previously presented in the *Personnel Supplement.* The two documents have been merged in FY 2013. The *Budget* document provides information relating to personnel costs by program. It also reflects capital project summary narratives of all capital projects approved by the State Capital Committee.

The *Capital Budget* contains information on the Governor's recommended capital improvement plan and contains individual project expenditures as well as contains the debt service component relating to capital improvements and any "pay-as-you-go" capital, which is financed from current revenues.

The *Budget as Enacted* will be prepared after final enactment by the 2012 General Assembly.

The Budget Process: A Primer

The purpose of this primer is to clarify the annual budget and appropriations processes.

Appropriation Process. According to Article IX Section 16 of the Rhode Island Constitution, and the Rhode Island General Laws Section 35-3-7, the Governor must present spending recommendations to the Legislature. *The Budget* reflects expenditures for both the current and upcoming fiscal year and identifies the sources of financing for those expenditures.

On or before the third Thursday in January, unless delayed by act of the Legislature, the Governor must submit to the General Assembly a budget containing a complete plan of estimated revenues and proposed expenditures, with a personnel supplement detailing the number and titles of positions of each agency, and estimates of personnel costs for the next fiscal year. Commencing with the Governor's FY 2013 budget, this supplementary personnel information has been merged into the multivolume document entitled *Budget.*
The budget is proposed by the Governor and considered by the General Assembly, which may increase, decrease, alter, or strike out any item in the budget, provided that the action would not cause an excess of appropriations over anticipated revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it provides the necessary additional revenue to cover such appropriation. The Governor may veto legislative appropriations, although not on an individual "line item" basis. The Legislature may override any veto by a three-fifths majority vote. Supplemental appropriations measures must be submitted by the Governor to the General Assembly on or before the third Thursday in January. Supplemental appropriations by the General Assembly must also be supported by additional revenues.

The general laws of the state provide that if the General Assembly fails to pass the annual appropriation bill, amounts equal to those appropriated in the prior fiscal year shall be automatically available for expenditure, subject to monthly or quarterly allotments as determined by the Budget Officer. Expenditures for general obligation bond indebtedness of the state shall be made as required regardless of the passage of the annual budget or the amount provided for in the prior fiscal year.

Fiscal Years. It is important when reading the budget to consider which fiscal year is being discussed. The state *fiscal year* runs from July 1 to the following June 30 and is numbered for the calendar year in which it ends (e.g. FY 2012). The *current fiscal year* is the one which ends the coming June. The *actual fiscal year*s are the years which concluded in June of the two previous years. The *budget year* refers to the next fiscal year, which begins the July following the Legislature's adjournment. Finally, *out-year*s refer to any years beyond the budget year.

By law, *The Budget* must record two actual fiscal years of spending, as well as the Governor's revised spending recommendations for the current fiscal year, and the Governor's full recommendations for the budget year.

Revenue Estimates and Caseload Estimates. Receipt estimates for the current year and budget year are those adopted by the State Revenue Estimating Conference, as adjusted by any changes recommended by the Governor.

The State Revenue Estimating Conference was created by the 1990 General Assembly to provide the Governor and the Assembly with estimates of general revenues. It is composed of the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor, with the chair rotating among the three. It must meet no less than twice per year, in November and May, and can be convened at any other time by call of any member, and must reach consensus on revenues. The 1991 Assembly created a Medical Assistance and Public Assistance Caseload Estimating Conference similar to the Revenue Estimating Conference to adopt cash assistance entitlement caseload estimates. The 1998 Assembly amended the Medical Assistance and Public Assistance Caseload Estimating Conference to estimate medical assistance expenditures, upon which the Governor's expenditures budget shall be based, and the appropriations by the assembly shall be made.

The consensus revenue estimate is the official revenue projection for general revenue. Estimates of revenues for federal funds, restricted receipts, and other funds are prepared by individual state agencies, reviewed by the Budget Office, and included in *The Budget*.

Classification of State Spending. The State of Rhode Island classifies state spending by function of government and by category of expenditure.

Function of government classifies expenditures by grouping agencies that make expenditures for similar programs and purposes. There are six functions of government defined in *The Budget:* General Government, Human Services, Education, Public Safety, Natural Resources, and Transportation.

The following explains the six functions of government included in *The Budget*.

General Government includes the administrative and regulatory functions of state government. Certain elected officials (Governor, Lieutenant Governor, General Treasurer, Secretary of State), the Legislature, and the Department of Administration are agencies that perform an administrative function. The Department of Business Regulation, the Department of Labor and Training, and the Public Utilities Commission are examples of agencies that perform a regulatory function. The Department of Revenue coordinates revenue collection activities of several state divisions.

Human Services includes agencies that provide services to individuals. These services provided include: the care of the disabled by the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals; child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Executive Office of Health and Human Services; financial assistance and social services provided by the Department of Human Services; and pharmaceutical assistance and home health care at the Division of Elderly Affairs. The Executive Office of Health and Human Services centrally coordinates the legal, budgetary, and policymaking activities of the Human Services agencies.

The *Education* function provides educational services to Rhode Islanders. The State Board of Regents for Elementary and Secondary Education and the Board of Governors for Higher Education provide direct education services, while services provided by the Rhode Island Telecommunications Authority are indirect in nature.

Public Safety is the function that provides safety and security services to Rhode Island citizens. Agencies in this function include the Department of Corrections, the Judiciary, the Attorney General and the Department of Public Safety.

The *Natural Resources* function protects the natural and physical resources of the state and regulates the use of those resources. Agencies included in this function are the Department of Environmental Management and the Coastal Resources Management Council.

Transportation includes the Department of Transportation, which is the only agency in this function. It is responsible for maintaining and constructing highways in Rhode Island, and for planning and financing all surface transportation modes.

Categories of expenditure classify expenditures by budgeting and accounting objects of expenditure: personnel; state operations; aid to local units of government; assistance, grants, and benefits; and capital. Objects of expenditures define how funds are encumbered and expended.

Personnel includes the salaries, wages, and benefits of state employees, as well as personnel services purchased from outside contractors and vendors.

Operating Supplies and Expenses include expenses incurred while conducting the day-to-day business of state government. This category is often referred to simply as "operating". Operating expenses comprise non-personnel expenditures for operations of state government, including facilities maintenance, program and office supplies, rental of outside property, telecommunications, and insurance.

Aid to Local Units of Government is payments made to governmental units that provide services at the local level. Education Aid to local school districts is an example.

Assistance, Grants and Benefits constitutes payments to individuals and agencies which are not governmental units. Drugs, medicine and nursing facilities for the Medicaid programs, the pharmaceutical assistance program for the elderly, and cash assistance payments for the Rhode Island Works, Supplemental Security Income, and Child Care Assistance entitlements are a few examples.

Capital Purchases and Equipment include capital improvements and new capital construction financed via the Rhode Island Capital Plan Fund (RICAP), general revenues, or federal funds. Please note that the majority of capital improvements, supported by other forms of financing (i.e. state debt instruments), are generally found in the *Capital Budget*.

Debt Service includes payments on short term tax anticipation notes, long term general obligation bonds, Rhode Island Refunding Bond Authority lease payments, certificates of participation payments for the Intake Service Center, Attorney General's administrative office, Information Technology, and the Rhode Island School for the Deaf; and lease payments to the Convention Center Authority.

Operating Transfers include inter-fund and inter-agency transfers of financial resources.

State Employees. A major part of the state operations category of expenditures is salary and wage payments to employees. Public service in state government is divided into the classified service, unclassified service, and non-classified service. The classified service comprises all positions in state service, now existing or to be created, except as specifically provided under R.I.G.L. 36-4-2 for unclassified employees and R.I.G.L. 16-59-7 for Higher Education non-classified employees. The classified service is divided into a competitive branch and a non-competitive branch. Employees hired to fill positions in the classified service must be hired on the basis of merit and fitness. The non-competitive branch includes positions that require the performance of routine tasks, or those that require licenses, certificates, or registrations. These employees are also promoted and discharged on the basis of rules and regulations established and administered by the Rhode Island State Employees Merit System.

Certain positions are specifically designated for inclusion in the unclassified service. These positions are defined to include those in specific agencies, or types of agencies for specific purposes. Examples are employees of the Legislature, elected officials, and employees of the courts. Compensation for unclassified positions is governed by the Unclassified Pay Board and other matters are governed by rules and regulations of the unclassified system.

State service also includes special types of positions. In addition to regular full-time positions, there are *seasonal* positions in the classified service. Such positions may require the employee to work an irregular schedule such that the employee is on call when needed, or for only a portion of the year, and only for a maximum of 925 hours in a 12-month period. Employees of the Department of Environment Management who staff the state's parks, beaches, and wildlands in the summer are an example of seasonal employees.

Financing of State Spending. Frequent reference is made in *The Budget* to "general revenue" expenditures and expenditures from "all funds". Expenditures from all funds include both general revenue expenditures and expenditures from federal funds, restricted receipts, and other or special revenue funds.

General revenue receives the most attention in the budget because it is the largest of the "uncommitted" revenue sources available to the state. It is also the fund to which most general tax receipts are credited. The Legislature may appropriate general revenue dollars for any purpose.

Federal funds, restricted receipts, and other funds, by contrast, are dedicated to specific purposes. For example, the Legislature may not appropriate monies from the Unemployment Insurance Fund to build new prisons. Other funds include the University and College Funds, the Transportation Fund, the Unemployment Insurance Fund, the Temporary Disability Insurance Fund, and the Rhode Island Capital Plan Fund.

Within the budget documents, schedules contain expenditure data for two actual fiscal years, the current fiscal year and the budget year. The schedules display agency data by fund source for All Funds, General Revenue, Federal Funds, Restricted Receipts, and Other Funds.

Rhode Island Capital Plan Funds. On November 7, 2006, Rhode Island voters approved a constitutional amendment limiting state expenditures commencing in FY 2008 such that appropriations do not result in general fund expenditures exceeding 98.0 percent of general fund revenues in FY 2008, and 97.0 percent in FY 2012 and thereafter. This amendment to the Rhode Island Constitution has also restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment increased the budget reserve account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the budget reserve account maximum balance would be gradually increased by increments of 0.4 percent to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2013, the spending is limited to 97.0 percent of revenues and the budget reserve fund is capped at 5.0 percent of resources.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, would be transferred to the State Retirement Fund upon completion of the post audit.

Budget Basis. *The Budget* is prepared on the same basis that the state's year end financial statements, which is a modified accrual basis. Briefly, this means that obligations of the state are budgeted as expenditures if the goods or services are expected to be received during the fiscal year, regardless of whether a cash payment is expected to be made by the state by June 30th of that year. Revenues are estimated on the basis of when they are "earned" by the state. For example, the estimate of gas tax revenues reflects twelve months of revenues. However, due to a one month difference in the time the liability is incurred and the actual cash payment is made by the taxpayer, the revenue estimate reflects cash received from August through July.

The Comprehensive Annual Financial Report (CAFR) shows the status of the state's finances on the basis of "generally accepted accounting principles" (GAAP). Every attempt is made in preparing the budget to ensure that it is consistent with the auditing standards upon which the state's financial position will be determined.

Program Performance Measures. The current administration continues in its effort to develop and track measures of the performance of state agencies and departments. The performance measures included in the FY 2013 budget are derived from the on-going process to identify and refine measures for state decision-makers to evaluate on an annual basis. With few exceptions, all executive branch agencies, and most other government offices, have developed a mature set of program performance measures. These measures are included on the agency and program financing pages in *The Budget*. In some cases where no measures are identified, the process of developing measures continues. Performance measures for general officers and agency central management units are not required, indicated by NA (not applicable).

The Budget Process. Production of a budget is a continuous process. It does, however, have certain discrete phases. In the Executive Branch, the budget process begins as soon as the legislative session ends. At that time the budget staff prepares the *Budget as Enacted* which reflects the budget enacted by the Legislature.

In the spring and early summer, budget instructions and allocations are distributed by the Budget Office to state agencies. At those times, agencies are instructed by the Budget Office to prepare a capital and operating budget. The capital budget contains a five-year capital improvement plan.

Agencies are requested to prepare operating budgets at specified target levels for submission on or before September 15 or as specified by the Budget Officer. Agencies may also be allowed the opportunity to request additional funding through special white papers, separate from the agency's budget request.

The individual budgets submitted by the state agencies show program expenditures, with appropriate funding sources for each program within the agency. These data are shown for the actual year, the current year, and the target for the budget year.

In the fall and early winter, analysts in the Budget Office review agency budget requests. The Budget Office staff prepares recommendations for the Governor. An analysis of items added or reduced from the target request is presented to the Governor. The analysis includes the basis for the agency's request and the Budget Office recommendation and the basis for it. The Governor then makes a budget determination. This process is repeated for all issues in all agencies. These decisions form the Governor's recommendations. The Budget Office compiles the individual recommendations, aggregates them, and prepares *The Budget. The Budget* reflects the revised current year funding plan submitted to the Legislature on the third Thursday in January, as well as the budget year funding plan.

During this same period between September and the start of the legislative session, House and Senate fiscal staffs also have the agency budget requests for analysis. Following receipt of the Governor's recommendations, the legislative fiscal analysts begin their analysis of the recommendations of the Governor.

The Governor's budget recommendations traditionally are incorporated in one omnibus appropriations bill, which normally includes articles containing any statutory changes which would be required to implement the Governor's budget.

The following table summarizes the **budget calendar** during the budget cycle:

Mid-July	Capital Budget Requests due to Budget Office.
Late July	Budget Instructions and Funding Targets distributed to Agencies.
Mid September	Budget requests of Agencies with enacted budget of $7.0 million or less due to Budget Office.
Late Sept./ Early Oct.	Budget requests of Agencies with enacted budget of over $7.0 million due to Budget Office.
Oct./Nov.	Agency Meetings to review Budget Recommendations.
Late Dec./ Early Jan.	Gubernatorial Decisions on current year supplement and budget year recommendations.
3rd Thursday in January	Statutory date for current-year Governor’s Supplemental Appropriation bill submitted to Legislature.
3rd Thursday in January	Statutory date for budget-year Governor’s Budget Recommendation bill submitted to Legislature.

Consideration by House of Representatives and Senate. Appropriation bills are introduced into the House and are first considered by the House Finance Committee. The Senate Finance Committee also begins hearings on the budget bill, as introduced by the Governor. The chairpersons of the committees appoint subcommittees to consider appropriations for various agencies. Subcommittees vary in size, usually between two and five persons. After reviewing the budget requests and the Governor’s budget, the subcommittees recommend adjustments to the full committee for consideration. A committee may adjust the recommendations of its subcommittee. Appropriation bills are reprinted to reflect the recommendations of the full committee. The bill is then presented to the full House, and upon passage is transmitted to the Senate. The process for review of an appropriation bill in the Senate mirrors the steps followed in the House of Representatives. Usually, however, consideration by the Senate occurs in a much shorter span of time. Once the bill is presented and approved by the full Senate, the Governor has three options: 1) sign the bill into law, 2) veto the bill, or 3) allow the bill to become law without signature (after six days, Sundays excepted, the bill automatically becomes law without the Governor’s signature). The General Assembly may overturn the Governor’s veto with a three-fifths vote in each house.

Executive Summary

Overview

Governor Chafee recommends a budget for fiscal year 2013 totaling $7.944 billion from all sources of funds, an increase of $241.5 million, or 3.1 percent, from the recommended all funds FY 2012 enacted budget of $7.702 billion. Of this total, $3.269 billion, or 42.4 percent, is from general revenue, $2.594 billion, or 33.7 percent, is from federal funds, $1.856 billion, or 24.1 percent, is from other sources, and $224.1 million, or 2.9 percent, is from restricted or dedicated fee funds.

Recommended general revenue funding of $3.269 billion represents an increase of $126.7 million, or 4.0 percent, over the FY 2012 enacted budget of $3.142 billion. Federal funds decrease from $2.606 billion in the FY 2012 enacted budget to $2.594 billion in the recommended FY 2013 budget. Other funds increase from $1.763 billion to $1.856 billion.

Performance Management Approach to Budget

Although the projected deficit for FY 2013 was lower than deficits faced in recent fiscal years, previous reductions to and/or elimination of many state programs have left no easy options available to balance the FY 2013 budget. As a result, Governor Chafee directed that a different approach be used in analyzing the budget and determining areas to target for reduction. A performance management program was initiated by the Governor's Policy Office and the Budget Office under which all agencies were required to review their mission statements, define all programs they administer, identify the statutory or regulatory authority mandating those programs, prioritize each activity and provide performance metrics and goals for each activity that could be used in measuring its success going forward. The intent of this effort is to eliminate or modify unnecessary or duplicative programs, as well as focus state government on those areas that are its primary responsibility. Further, the development of new performance metrics will allow agencies to determine which programs are functioning well and which are in need of improvement. The proposals contained in the FY 2013 Budget are the initial results of this new and ongoing initiative.

The Governor's FY 2013 recommended budget was developed with the goal of addressing the state's ongoing structural deficit, but also to provide additional assistance to the state's troubled municipalities, which have experienced large reductions in financial assistance from the state in recent years. In order to address these two goals, the Governor's budget recommends some near-term revenue enhancements to help bridge the gap in revenues as the national and regional economies recover from the Great Recession. Permanent changes to some revenue sources are also proposed as a way to address the continuing gap between expenditure growth and revenue growth. On the expenditure side, the Governor is recommending the elimination or reduction of programs in several departments and agencies, as well as streamlining and reorganizing several departments to make state government leaner and more efficient.

Pension Reform's Impact on the FY 2013 Budget

The initial deficit projected for FY 2013 was approximately $215.0 million and included a major increase in the estimated annual required contribution (ARC) for the pension benefits of state employees and teachers. This increase in the ARC was the result of certain changes approved by the State Retirement Board to the assumed rate of return on investments and mortality rates for retirees. The ARC for state employee pensions was projected to increase from 22.98 percent in FY 2012 to 36.34 percent in FY 2013. This would have required increased general revenue expenditures of almost $52.8 million. Similar increases were forecast for other employee groups, including judges, and State Police troopers, as well as local teachers, for whom the state covers 40 percent of the annual pension liability. As a result of these projected increases in the State's pension liability, the Governor and the General Treasurer worked closely with the General Assembly to enact comprehensive pension reform legislation in the fall of 2011, resulting in new actuarial rates that are significantly lower than those that would have gone into effect on July 1, 2012. As a result of this legislation, projected general revenue spending for FY 2013 was reduced by over $117.9 million. Also included in the pension reform legislation is a new Defined Contribution Plan for state employees and teachers whereby the employer (state and municipalities) will contribute at least one percent (1.0%) of an employee's pay, and the employee's will contribute five percent (5.0%).

Governor's Revenue Proposals

The FY 2013 Budget includes a variety of revenue proposals designed to provide Rhode Island government with needed revenue while minimally impacting the state's economic competitiveness. These proposals, explained further under the *Governor's Revenue Proposals* section of this document, include expansion of the state's sales tax to include clothing and footwear that cost more than $175 per item, which is comparable to the sales tax provisions of Massachusetts. Sales tax would also be applied to taxi and other road transportation services; moving, storage; warehousing and freight services; some pet services; and car washes. Under the Governor's proposals, excise taxes on tobacco products would also change, including an increase in the Cigarette Excise Tax from $3.46 to $3.50 per pack of 20 cigarettes; an increase in the maximum tax assessed per cigar from $0.50 to $1.00; and a change in the definition of little cigars such that the current excise tax on cigarettes would now apply.

In addition to these permanent changes in the sales tax, the Governor recommends several near-term revenue enhancements to provide the state with sufficient resources while the national and regional economy improves. These near-term revenue enhancements include the use of a portion of bond premium received from the issuance of the 2011 Series A general obligation bonds and the transfer of funds from the Narragansett Bay Commission to offset the cost of debt service on bonds issued in prior years by the State on behalf of the Commission. The Governor is also recommending a Tax Amnesty program to run from September 1, 2012 to November 15, 2012 for the purpose of allowing individuals, businesses, and estates the opportunity to pay tax debts owed without penalty and with a reduction in the interest due of 25.0 percent.

The Governor also recommends an increase in the meals and beverage tax from 1.0 percent to 3.0 percent, with the revenues from the first one percent still being returned to the municipality in which the collecting establishment is located, but with the new revenues received by the General Fund to provide the resources needed to fund the substantial increase in education aid described below. Net of the increase associated with the restoration of general revenue financing related to the Education Jobs Fund, total aid to Education increases by over $35.0 million.

FY 2013 Recommended Budget

While available revenues are expected to grow by 3.1 percent, or $93.9 million, over the FY 2012 enacted budget, expenditures post-pension reform, based on the unconstrained requests of state agencies, would grow by 6.8 percent or $212.2 million. Growth in education funding, primarily due to the new funding formula enacted in the 2010 session of the General Assembly, and increases in social service programs (including unfavorable changes in federal Medicaid participation and caseload increases) are the major cost drivers in the FY 2013 budget.

The challenge of balancing the State Budget is more difficult based upon a review of where overall general revenue actually goes. Expenditures from general revenue are projected to total $3.269 billion for FY 2013. By function, Human Services agencies represent the largest share with expenditures totaling $1.286 billion, or 39.3 percent, of the general revenue budget. This supports health care and prescription drug coverage for low-income children, their parents, seniors and the poor, and community residential and treatment programs for the disabled. This is followed by Education, which totals $1.114 billion, or 34.0 percent, and includes local education aid, support for the state university and colleges, and scholarships. General revenue expenditures for General Government and Public Safety comprise $427.4 million (13.0 percent) and $404.9 million (12.4 percent), respectively. General Government includes, along with state operations, state aid to municipalities and direct property tax relief. Public Safety includes the state prisons, Military Staff, State Police, Attorney General and Judicial departments. Finally, expenditures for Natural Resources comprise $36.9 million, or 1.1 percent of total general revenue funding. Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel. The largest component is grants and assistance expenditures of $1.138 billion, comprising 34.8 percent of total general revenue spending. Local aid expenditures of $959.3 million represent 29.3 percent of total spending; personnel expenditures of $841.8 million comprise 26.6 percent of the budget; operating expenditures total $127.2 million, or 3.9 percent of the budget; and capital expenditures, including debt service, total $183.5 million, or 5.6 percent of the total general revenue budget.

Compared to the recommended FY 2012 enacted budget, FY 2013 personnel expenditures increase by $33.6 million or 4.1 percent; operating expenditures decrease by $3.6 million or -2.8 percent; assistance and grants increase by $18.1 million or 1.6 percent, local aid expenditures increase by $65.7 million or 7.3 percent; capital expenditures, including debt service, increase by $13.2 million or 7.8 percent.

Increases to Local Education Aid

General revenue funding for local education aid increases by a net of $67.4 million in FY 2013, as compared to the FY 2012 enacted funding level. The Governor's budget restores $32.0 million of education aid for expiring federal Education Jobs Funding and provides $32.6 million for year two of the new funding formula, including $11.0 million or 50 percent more than required under the current transition plan. Education aid provided to local communities, charter schools, and state schools in FY 2013 will be $913.3 million or $67.4 million more than provided in the FY 2012 enacted budget.

Beginning July 1, 2011, the new education aid formula began to distribute education aid to all local educational agencies (LEA), including districts, charter schools and state schools (with the exception of the School for the Deaf, which will be separately funded). The formula allows for the funding to follow the student and was developed with the following guiding principles: build a strong foundation for all children; improve equity among districts and schools; be transparent; and be financially responsible. The new education aid formula determines the amount of funding each LEA shall receive per year. The Governor's budget includes the best data available at the time of the budget submission; however these calculations will be updated using March 2012 student data, including final charter school lottery data, which is expected to be finalized by April 1, 2012.

The enacted formula legislation also allowed for additional funding from the state to districts for certain categorical programs, including high-cost special education, career and technical education, early childhood programs, certain transportation costs, and a limited two-year bonus for regionalized districts. The Governor's FY 2013 budget recommends fully funding each of these programs at an additional cost of $5.6 million over enacted FY 2012 levels.

Overview

The Governor's budget includes an additional $2.1 million as compared to the FY 2012 enacted funding level for school housing aid and funds the five percent increase in the minimum state share ratio for the school housing aid program. This minimum increased from 30 percent to 35 percent for projects completed in FY 2011 that are eligible for FY 2012 housing aid. Total funding of $74.6 million is recommended for FY 2013. The Governor recommends freezing this rate at 35 percent in FY 2013 and beyond, and not increasing the rate to 40 percent as required under current law.

The State's share of teacher retirement costs decreases by $3.4 million from the FY 2012 enacted levels to $78.2 million. In addition to anticipated payroll growth, the required rate of contribution for the State share decreases as a result of pension reform legislation from 9.09 percent in FY 2012 to 7.88 percent in FY 2013.

Restructuring Human Services Programs

After education aid, the next largest growth area in the FY 2013 budget is in human services programs. The Departments under the Executive Office of Health and Human Services have implemented a number of initiatives authorized in the FY 2012 enacted budget with the goal of addressing the significant and unsustainable growth in this functional area. These efforts will continue in FY 2013 by implementing proposals recommended by the Governor.

In the Medical Assistance program, the Governor recommends an across-the-board reduction of 4.14 percent to all Medicaid managed care capitation rates, effective July 1, 2012, for savings of $14.0 million in general revenues. The fee-for-service segment of the Medical Assistance program will likewise be subject to aggressive cost-containment measures in the Governor's FY 2013 budget. These measures include the elimination of dental services for adults age 21 or older, effective October 1, 2012 and reinstatement of the "lesser of logic" edits for inpatient hospital fee-for-service claims under the Diagnostic Related Groups (DRG) payment system. Combined, these items are projected to save approximately $4.6 million in general revenue expenditures. Under the Home and Community Based Services program, beneficiaries will undergo clinical utilization reviews of their care plans when monthly expenditures reach a set threshold. This initiative seeks to eliminate the provision of medically unnecessary services and achieve general revenue savings of $3.0 million.

Office of Management and Budget

In conjunction with the Governor's performance management initiative, the FY 2013 budget includes the creation of a new Office of Management and Budget, which will replace the current Budget Office within the Department of Administration. This new office will continue to be responsible for the development and oversight of the Governor's budget plan, but will have the added responsibility of overseeing the performance management program and a new federal grants management unit. The goal of this new office is to establish a comprehensive public finance and management system for Rhode Island that manages a data-driven budget process, monitors state departments' and agencies' performance, maximizes the application for and use of federal grants and ensures accountability and transparency to Rhode Island citizens regarding the use of public funds. This new office will also assume responsibilities from the Governor's Office of Economic Reinvestment and Recovery for the oversight of remaining federal stimulus funds, as this office is being phased-out in FY 2013. The proposed budget also includes the elimination of the Bureau of Audits within the Department of Administration, however, some of the functions will be absorbed by the Office of Management and Budget.

Overview

Analysis of Personnel System

The Governor has instructed the Director of Administration to undertake and complete a comprehensive analysis of the State's Personnel System and to recommend alternatives to the current system. The current Merit System was designed and implemented in 1956 with few amendments since that time. Given the tremendous investment the State makes to support its workforce, the Governor believes there are opportunities to modernize the current outdated and cumbersome system and provide more flexibility for the day-to-day hiring and management of personnel, while still maintaining its collective bargaining process. As part of this analysis, the State must consider how it will attract talented individuals to the workforce given recent changes to the pension system and the elimination of longevity bonuses. Funding of $300,000 is recommended in the FY 2012 supplemental budget for this effort. In addition, with the expectation that changes to the current personnel system will begin to be implemented in FY 2013, the Governor recommends significant reductions to the Office of Classification and Examinations in the recommended FY 2013 budget. These reductions include the elimination of ten positions, about half of the current staff. This will have an impact on the ability of the Human Resources program to manage the current merit system, thus the need for the proposed study to be initiated and completed immediately.

Mergers and Reorganizations

The Governor recommends that the Rhode Island Higher Education Assistance Authority (RIHEAA) be merged with the Office of Higher Education (OHE). RIHEAA supports the mission of OHE and the Board of Governors by making college access possible through its flagship programs, including the WaytoGo college and career portal, the CollegeBound fund savings plan, and the student grant, state scholarships, and guaranteed federal loan programs. For the past thirty years, RIHEAA has provided financial support and counseling assistance to students and parents. In 2010, the federal government ended all partnerships with quasi-public lending institutions like RIHEAA to provide guarantees for federal student loans. The wind-down of RIHEAA's guarantee portfolio will significantly reduce the agency's duties in the next three years and all federal loan guarantee activity will end within ten years. As a result, the Governor recommends transferring the remaining responsibilities of RIHEAA to the OHE, which would mirror the organization of higher education assistance in twenty-seven other states.

Reorganizing OHE by consolidating functions with RIHEAA will save operating expenses, salary and overhead costs and ultimately will result in greater efficiencies for OHE and the three public higher education institutions. The Governor recommends redeploying current staff and sharing staff resources to accomplish both agencies' duties and to achieve additional efficiencies.

The Governor recommends that the Office of Energy Resources (OER) be the central location for oversight and administration of state and federal energy programs. Currently, different energy programs are located within the Department of Environmental Management (DEM), Economic Development Corporation (EDC), Energy Efficiency and Resource Management Council (EERMC), and OER. This has resulted in overlapping responsibilities and an inefficient use of state energy resources. The Governor recommends that the administration of the Renewable Energy Fund program be transferred from EDC to OER; the administrative costs of the EERMC transfer to OER; and the oversight and administration of the Regional Greenhouse Gas Annual Allocation Plan transfer from DEM to OER. Centralizing energy programs will provide the State with strong policy leadership for energy procurement and project development. The OER will provide more transparency and offer greater access for individuals, businesses, and municipalities looking for information on energy programs.

The Governor also recommends a review of all environmental management and protection programs in state government agencies and departments, with a goal of improving organizational structure and program efficiency.

Addressing Transportation's Structural Deficit

As the Governor highlighted in his FY 2012 Budget submission, the Department of Transportation is facing the same type of ongoing structural deficits that plague the State as a whole. The failure of the gas tax, upon which the Department relies for all of its operational funding, to keep pace with the growth in expenditures, results in projected annual deficits in the Department for the foreseeable future. A significant contributor to this imbalance is the growth in debt service on general obligation debt issued on behalf of the Department and used for the match to federal highway funds. The General Assembly recognized that this method of providing the State match is not sustainable and in the 2011 session enacted a plan to move the Department off of debt to pay-as-you-go financing for transportation projects.

The General Assembly enacted into law (1) an increase of \$30.00 in biannual motor vehicle registration fees in \$10.00 increments effective July 1st of 2013, 2014 and 2015; (2) an increase of \$15.00 in annual motor vehicle registration fees in \$5.00 increments effective July 1st of 2013, 2014 and 2015; and (3) a \$30.00 increase in operator license fees in \$10.00 increments effective July 1st of 2013, 2014 and 2015. The proceeds from these fee increases are to be used to finance the newly created Rhode Island Highway Maintenance Trust Fund and, combined with a \$20.0 million appropriation from the Rhode Island Capital Plan Fund, should be sufficient to provide the necessary match to federal funds.

Although this plan would have long-term benefits to the Department's operating structural deficit, it does not address the short-term operations and highway maintenance needs. As such, in the FY 2013 recommended budget, the Governor recommends a plan to deal with the operating deficits in both the short and long term, as well as keep to the plan enacted by the General Assembly to address the capital funding side. First, the Governor recommends that the fee increases already enacted by the General Assembly be fully implemented on January 1, 2013, instead of over a three year period beginning in FY 2014. The additional funding derived from this advancement of the fee will go to the Department for operating costs in FY 2013, FY 2014 and FY 2015. As the enacted plan to shift funding from debt to pay-as-you-go funding is implemented in FY 2014, the funding available for operations will diminish. At the same time, the Governor recommends that debt service expenses on transportation debt be moved off of the Department of Transportation's budget and onto the Department of Administration's general revenue funded budget, where most other debt service is budgeted. The plan would involve decreasing debt service expenses on the Transportation budget by \$10.0 million each year until all such costs are being charged to general revenue funds under the Administration budget. Although this will cause more pressure on the general revenue budget and on projected out year deficits, the Governor believes that this is the best way to get the Department of Transportation on to a more sound financial footing and will ultimately lead to additional funding available for state and local infrastructure projects.

Personnel Funding and FTE Levels

State Personnel costs comprise 24.8 percent of total recommended spending in FY 2013. Actual filled positions totaled 13,705.1 FTE as of January 14, 2012, a 531.8 position increase from the 13,173.3 filled position level as of January 15, 2011, but still 1,377.7 FTE below the 15,082.8 FTE level in July 2007. The filled FTE level of 13,705.1 is 1,237.1 FTE less than the enacted cap of 14,942.2 FTE positions.

Overview

In the FY 2012 revised budget, the Governor recommends an FTE level of 14,934.0, a decrease of 8.2 FTE's from the FY 2012 enacted budget. In the FY 2013 budget, the Governor recommends a reduction of 104.3 FTE's from the FY 2012 revised budget, or 14,837.7 FTE positions. The Governor has also instructed the Department of Administration to examine the use of contractors and consultants and develop a plan to convert these positions, where appropriate, to full time state employees.

The budget assumes no cost of living adjustment for state employees in FY 2013, as most employee contracts expire on June 30, 2012, and are subject to renegotiation. Until the contracts are resolved, the Governor's budget assumes no significant personnel cost increases or savings.

Investing in the Future – Technology Infrastructure

As part of the FY 2012 enacted budget, the General Assembly created the Technology Investment Fund. This fund is intended to provide resources to improve State Government information technology through the acquisition of new hardware, software and consulting services, with the goal of more efficient and user friendly systems. The financing source for this fund is the sale of state property. Due to the uncertain nature of such property sales, the Governor recommends a one-time infusion of funds in FY 2012 from the receipt of bond premium on the sale of the 2011 Series A General Obligation bonds. This will provide an initial resource of just over $6.5 million, which will hopefully be replenished in future years with proceeds from property sales, making this fund an ongoing resource for investment in technology.

The Governor is also requesting General Assembly approval for the issuance of Certificates of Participation to fund three major technology projects over the next few years. Due to the limited and uncertain resources in the Technology Investment Fund and because these particular projects require a stable and concrete funding source, the Governor recommends the use of debt as the financing mechanism. The projects proposed are (1) implementation of the remaining modules of the statewide financial information system, focusing first on the Human Resources, Time and Attendance and Payroll modules ($11.5 million); (2) implementation of a new integrated tax system for the Division of Taxation to replace its current antiquated system, which is comprised of disparate databases that do not interconnect ($25.0 million); and (3) installation of wireless infrastructure in classrooms statewide to enable access to online textbooks, resources, assessments and to data platforms that will be used to manage the information needed to track student, teacher and school performance ($20.0 million).

November 2012 Ballot

In addition to the debt authorization for information technology, the Governor is recommending several bond referenda be placed on the November 2012 ballot for consideration by the voters. These include (1) a $65.0 million authorization to construct a new Nursing Education Facility in Providence to be used jointly by the Rhode Island College and University of Rhode Island nursing programs; (2) a $42.0 million authorization to renovate and modernize academic buildings at Rhode Island College; (3) a $20.0 million authorization for Transportation to provide matching funds to federal highway funding (based on the new financing plan for Transportation infrastructure, this will be the last such referendum required for this purpose); (4) a $1.5 million authorization to provide matching funds to the Rhode Island Public Transit Authority for the purchase and/or rehabilitation of buses; (5) a $20.0 million authorization for the Clean Water Finance Agency to finance wastewater infrastructure and drinking water infrastructure projects; (6) a $25.0 million authorization for open space and recreational development; and (7) a $25.0 million authorization to provide funds to promote affordable housing through redevelopment of existing structures, new construction or foreclosure assistance.

The Governor's Revenue Proposals

FY 2012 Growth in General Revenues is 3.8 Percent over FY 2011 Audited General Revenues

The Governor's FY 2012 recommended general revenues total $3.201 billion, an increase of 3.8 percent over FY 2011 final audited general revenues. This increase in revised FY 2012 general revenues are comprised of revenue growth of 3.6 percent adopted at the November 2011 Revenue Estimating Conference (REC) and 0.2 percent revenue growth resulting from the Governor's proposed changes to general revenues. In the revised FY 2012 budget, the Governor proposes general revenue enhancements of $6.0 million, increased restricted receipt revenues of $6.6 million and decreased Rhode Island Capital Plan Fund revenues of $12.6 million.

FY 2013 Growth in General Revenues is 5.1 Percent over FY 2012 Revised General Revenues

The Governor's FY 2013 Budget recommends general revenues of $3.366 billion, an increase of 5.1 percent over revised FY 2012 general revenues. The Governor's recommended FY 2013 general revenue changes of $236.7 million include $143.8 million from the reinstatement of the hospital licensing fee. The hospital licensing fee has been reinstated annually since its enactment by the General Assembly during the 1994 Session. Net of the hospital licensing fee, the Governor recommends general revenue changes of $92.9 million. Thus, the 5.1 percent growth rate for FY 2013 recommended general revenues over FY 2012 revised general revenues can be broken down into a 2.2 percent growth rate based on the general revenue estimates adopted at the November 2011 REC including the proposed hospital licensing fee reinstatement and a 2.9 percent growth rate from the Governor's recommended general revenue changes net of the hospital licensing fee reinstatement. The Governor also proposes a net increase in restricted receipts and other sources of revenue of $14.9 million in FY 2013.

The Governor's FY 2013 recommended budget contains a variety of revenue proposals. These proposals are designed to provide the State with needed revenue while minimally impacting the state's economic competitiveness. The intent is to enhance State revenues in the near-term with the expectation that a strengthening national and regional economy will increase revenue growth to meet the state's resource needs in the future. The Governor's revenue proposals impact various taxes, departmental revenues and other general revenue sources. The revenue changes that permanently enhance the state's revenue stream primarily impact sales and use taxes, tobacco taxes and departmental licenses and fees. The revenue changes that augment the state's near-term revenue collections involve the transfer of funds from other entities and the implementation of a tax amnesty program.

Proposed Changes to the Sales and Use Tax Base

With respect to ongoing revenue proposals, the Governor recommends the modification of the state's sales and use tax exemption for clothing. This modification would remove the current exemption for items of clothing and footwear that cost more than $175 per item. This is the same sales tax exemption threshold that is in place in Massachusetts. The establishment of a sales tax threshold for clothing and footwear will put Rhode Island out of compliance with the Streamlined Sales and Use Tax Agreement and thus no longer obligate signatory companies to collect sales and use taxes on remote sales to Rhode Island residents for remittance to the state. The Governor recommends, however, that all clothing and footwear become fully exempt from the sales and use tax if federal legislation is passed allowing for the collection of sales taxes on taxable items sold in the state by remote sellers. The Governor also proposes to expand the sales and use tax base to a handful of services. These services include taxi and other road transportation services, moving, storage, warehousing and freight services, pet services other than veterinary services and laboratory testing, and car washes. In total, the Governor's proposed changes to the State's sales and use tax are projected to generate $28.1 million in FY 2013

The Governor's Revenue Proposals

The Governor recommends reinstating the Rhode Island Economic Development Corporation's statutory ability to grant sales tax exemptions on the qualifying capital expenditures of businesses that create 100 or more net new jobs in the state. Informally known as project status designation, the Governor's proposal would not allow such a designation for projects that are comprised of retail operations, including but not limited to retail banking operations. Further, the Governor proposes modifying the state's motion picture production tax credit to allow pre- and post production costs to be eligible for the credit, to reduce the minimum state certified production costs needed to be eligible for the credit, and to sunset the credit for productions that have not received initial certification prior to July 1, 2019. The Governor's proposal to reinstate project status reduces revenues in FY 2013 by $1.0 million while the recommendation to modify the motion picture production tax credit has no fiscal impact.

Near-Term Revenue Changes in Anticipation of a Better Economy

The Governor proposes several near-term revenue enhancements to provide the state with sufficient resources until improvement in the national and regional economy provides a further impetus to the state's revenue trajectory. These near-term revenue enhancements affect revenues in both FY 2012 and FY 2013. In FY 2012, the Governor recommends that $12.6 million of bond premium that was received from the issuance of the 2011 Series A general obligation bonds be transferred from the Rhode Island Capital Plan Fund to general revenues and the Technology Investment Fund (TIF). A total of $6.0 million would be transferred to general revenues with the remaining $6.6 million transferred to TIF.

In FY 2013, the Governor proposes to transfer $3.1 million from the Narragansett Bay Commission's excess reserves to cover the FY 2013 debt service payment on general obligation debt issued by the State on behalf of the Commission that was transferred to the Commission upon issuance to finance the Commission's capital projects. Finally, the Governor recommends the administration of a tax amnesty program for the period September 1, 2012 through November 15, 2012 for the purpose of allowing individuals, businesses and estates the opportunity to pay tax debts owed to the State without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on tax debt owed to the State from 18.0 percent to 13.5 percent). Currently, the state's tax receivables exceed $120.0 million with a substantive portion of this amount being accrued during the Great Recession. The tax amnesty will provide individuals, businesses and estates with tax debts the opportunity to repair their balance sheets as the economic recovery takes hold. The FY 2013 budget projects increased revenue collections from the tax amnesty of $10.9 million with $2.8 million of this amount coming in the form of interest paid on overdue taxes.

Tobacco Tax Initiatives and Increased Tobacco Tax Enforcement

The Governor recommends increasing the cigarette excise tax stamp rate from $3.46 to $3.50 per pack of 20 cigarettes. Further, the Governor seeks to change the definition of a little cigar to include all cigars with a cellulose acetate integrated filter that weigh 4.0 pounds or less per thousand cigars and require that cigarette excise tax stamps be affixed to the packs containing these cigars thereby taxing them at the same rate as packs of cigarettes. The Governor also proposes to increase the maximum tax assessed per cigar from $0.50 to $1.00. Finally the Governor's FY 2013 budget calls for the addition of four Tax Investigator positions in the Division of Taxation to fully staff its tobacco enforcement task force. These additional positions will supplement the current Tax Investigator that is responsible for enforcing the state's cigarette and tobacco tax laws. In total, these tobacco tax and enforcement proposals are expected to increase general revenues by $7.2 million in FY 2013.

The Governor's Revenue Proposals

The Governor recommends that the state's meal and beverage tax rate be increased from 1.0 percent to 3.0 percent. The Governor proposes that the additional revenue raised from the tax rate increase be used to fully fund the second year of the funding formula and provide an additional $11.0 million to accelerate implementation. These funds will provide needed resources to the state's underfunded school districts, and the use of the new meal and beverage tax revenues for this purpose will reduce the pressure on municipalities to provide additional financial resources required to improve the state's K-12 education system. The FY 2013 budget also includes the Governor's initiative to expand the lodging tax base to include the rental of vacation homes and the rental of rooms in bed and breakfast inns that have fewer than three bedrooms available for rent and to subject these rentals to the state and local 13.0 percent lodging tax. Revenues raised from the lodging tax expansion will be directed to regional tourism councils, municipalities and the Economic Development Corporation to promote Rhode Island as a tourist destination. The total fiscal impact of these two initiatives is increased revenues of $42.6 million in FY 2013 with $42.0 million of that amount accruing to state and local governments.

Providing "Bridge" Financing for Our Transportation Infrastructure

The Governor's FY 2013 Budget includes the acceleration of the implementation of the motor vehicle registration and operator license fee increases passed by the General Assembly in the 2011 Session. The General Assembly enacted in to law (1) an increase of $30.00 in biannual motor vehicle registration fees in $10.00 increments effective July 1st of 2013, 2014 and 2015; (2) an increase of $15.00 in annual motor vehicle registration fees in $5.00 increments effective July 1st of 2013, 2014 and 2015; and (3) a $30.00 increase in operator license fees in $10.00 increments effective July 1st of 2013, 2014 and 2015. The proceeds from these fee increases are to be used to finance the newly created Rhode Island Highway Maintenance Trust Fund. The Governor proposes to fully implement all three of these fee increases effective January 1, 2013. The estimated revenues from this proposal are $13.6 million. The Governor proposes to deposit these revenues in the Intermodal Surface Transportation Fund for use by the Department of Transportation (DOT) in FY 2013.

Beginning in FY 2014, the revenues that would have been generated from these fee increases under the originally enacted plan will be deposited in the Rhode Island Highway Maintenance Trust Fund as intended by the General Assembly. This will provide additional financing for DOT operations of $13.8 million in FY 2014 and $6.8 million in FY 2015 as new financing for capital projects grows from 7.0 million in FY 2014 to $14.0 million in FY 2015. By FY 2016, the full amount of the estimated revenues from the fee increase, a total of $20.8 million, will go to the Rhode Island Highway Maintenance Trust Fund.

In addition to the proposed revenue enhancements outlined above, the Governor's FY 2013 Budget includes a variety of other tax and fee proposals that total $3.8 million. These items are detailed in the **General Revenues** and the **Restricted Receipts and Other Sources of Revenue** sections of the *Executive Summary*.

The Economy

Introduction

The Consensus Revenue Estimating Conference (REC) convenes at least twice each year, typically within the first ten days of May and November. Historically, the purpose of the conference was confined to forecasting current and budget year revenue estimates. During the 1998 legislative session, the Revenue Estimating Conference statutes were modified to also require the adoption of a consensus economic forecast. Prior to the November 2001 conference, the conferees adopted a forecast for Rhode Island total employment, Rhode Island personal income, and the U.S. consumer price index for all urban consumers (CPI-U) covering the state's prior fiscal year, its current fiscal year, and the budget year.

Beginning with the November 2001 conference, in addition to Rhode Island total employment, Rhode Island personal income and the U.S. CPI-U, forecasts for Rhode Island wage and salary income, Rhode Island dividends, interest and rent, the Rhode Island unemployment rate, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills are also agreed upon at the Revenue Estimating Conference. Finally, the consensus forecast of these economic variables now includes the prior calendar and fiscal years, the current calendar and fiscal years, the budget calendar and fiscal years, and the next five calendar and four fiscal years.

Economic Forecast

This section describes the economic forecast used as an input for the Revenue Estimating Conference's consensus revenue estimates.

During its November 2011 meeting, a forecast of the U.S. and Rhode Island economies was presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends in Rhode Island. The conferees heard the testimony of Zachary Sears, an economist with Moody's Economy.com, and Robert J. Langlais, Assistant Director for DLT's Labor Market Information unit.

The Revenue Estimating Conference adopted the economic forecast shown below on November 4, 2011 through a consensus process informed by the testimony of Mr. Sears and Mr. Langlais. The updated economic forecast made significant changes to the consensus outlook adopted at the May 2011 Revenue Estimating Conference.

As reported at the November 2011 Revenue Estimating Conference, Rhode Island's labor market continued to feel the effects of the "Great Recession". The Rhode Island Department of Labor and Training reported that the unemployment rate decreased to 10.5 percent in September 2011 the lowest rate since May 2009 when it was also 10.5 percent. While Rhode Island's unemployment rate improved one full percentage point since September 2010, private sector gains of 1,700 jobs have been offset by a reduction in government employment of -1,700. Government sector job declines have primarily been in local government.

Rhode Island's unemployment rate for December 2011 stands at 10.8 percent. This is up from 10.5 in November 2011 and is the second straight month over month increase in Rhode Island's unemployment rate.

Rhode Island establishment employment was stagnant over the period September 2010 to September 2011 resulting in no job gains or losses. Certain sectors did see job losses while others saw job gains. The sector breakdown of job losses were as follows: Government, -1,700; Educational Services, -1,000; Financial Activities, -800; Construction, -500; Arts and Entertainment, -200; and Transportation Utilities,

-200. The broad sectors of the Rhode Island economy which added jobs year-over-year in September 2011 were as follows: Retail Trade, 1,600; Accommodation and Food Services, 1,000; Wholesale Trade, 600; Professional and Business Services, 400; Other Services, 100; and Health Care and Social Assistance, 100. Both the Information and Natural Resources and Mining sectors of the Rhode Island economy remain unchanged relative to September 2010. Since the December 2006 peak employment of 496,500 jobs, Rhode Island businesses have shed 39,700 jobs as of September 2011, a decline of 8.0 percent.

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. In FY 2010, total non-farm employment declined by 2.8 percent. In FY 2011, non-farm employment increased by 0.6 percent, the first year of positive growth since FY 2007. Total non-farm employment is projected to increase by an additional 0.8 percent from 464,200 in FY 2011 to 467,900 in FY 2012. The principals of the November 2011 Revenue Estimating Conference anticipate an increase of 3,684 jobs in non-farm employment for FY 2013 and an increase of 10,928 jobs in FY 2014. Over the FY 2015 through FY 2017 period, Rhode Island's economy is expected to add 40,282 jobs. It should be noted that while adopted growth rates indicate a positive trend from FY 2012 through FY 2015, the adopted number for total non-farm employment during these years is below those adopted from FY 2012 to FY 2014 period at the May 2011 Revenue Estimating Conference. It is not until FY 2015 that the estimate for total non-farm employment adopted at the November 2011 Revenue Estimating Conference exceeds the estimate adopted at the May 2011 Revenue Estimating Conference.

The unemployment rate for FY 2012 is projected to decline slightly from 11.3 percent in FY 2011 to 10.5 percent. As recovery takes hold, Rhode Island's unemployment rate is expected to decline rapidly from 10.3 percent in FY 2013 to 5.1 percent in FY 2017. Even at this lower rate, Rhode Island's unemployment rate will be 0.1 percentage points higher than the unemployment rate achieved when the economy peaked in FY 2007.

Personal income growth is expected to be 2.8 percent in FY 2012 down from the 4.4 percent growth in FY 2011. The November 2011 Revenue Estimating Conference estimates for personal income growth suggest a positive upward trend from FY 2012 through FY 2015. It should be noted that for FY 2012 through FY 2014 the adopted estimates for personal income growth are below the adopted estimates from the May 2011 Revenue Estimating Conference for the same period. The FY 2012 projected growth rate for personal income is down from the 3.7 percent growth rate that was adopted in May. For FY 2013 and FY 2014 the adopted November 2011 estimate is 4.1 percent, down from 5.8 percent and 5.1 percent respectively that was adopted in May. The personal income growth rate is expected to increase to 4.9 percent in FY 2015 and remain at or above 4.2 percent throughout the remainder of the forecast period. This projection indicates that personal income growth will take one more year to accelerate than originally projected in May 2011.

Similarly, FY 2012 estimates of dividend, interest and rents are expected to decrease slightly from FY 2011 growth of 6.9 percent before bouncing back considerably in FY 2013 through FY 2017. Wage and salary income growth is forecasted to decrease from FY 2012 to FY 2014 relative to the projected growth adopted in May 2011 but then increase from FY 2015 to FY 2017 again relative to the forecast adopted in May 2011. Wage and salary income growth is expected to improve beginning in FY 2013 with projected growth of 3.7 percent an increase of 2.2 percentage points from FY 2012. The rate of growth accelerates in FY 2015 to 5.1 percent and increases again in FY 2016 to 5.3 percent before decelerating in FY 2017 to 4.4 percent.

The Economy

The U.S. rate of inflation as measured by the Consumer Price Index for all urban consumers (CPI-U) is anticipated to increase to 2.8 percent in FY 2012 from 2.0 percent in FY 2011. The increase is mainly due to the increase in gasoline, fuel oil and natural gas prices combined with the expectation of quantitative easing from the Federal Reserve. The rate of growth in CPI-U is forecasted to decrease slightly in FY 2013 to 2.0 percent before rising to 2.7 percent and 2.8 percent in FY 2014 and FY 2015 respectively. In FY 2016 and FY 2017, inflation is expected to decelerate and settle at 2.1 percent.

From FY 2012 through FY 2014, the interest rate on three month Treasury bills is expected to remain low with rates below 0.1 percent. In FY 2015, the interest rate on three month Treasury bills is expected to rise to 2.3 percent and increase again by 1.0 percentage point to approximately 3.3 percent in FY 2016 before stabilizing at 3.4 percent in FY 2017. The interest rate on ten year Treasury notes is expected to increase slightly from 3.1 percent in FY 2011 to 3.2 percent in FY 2012 but rise substantially to 4.8 percent in FY 2013 and FY 2014. The interest rate on ten year Treasury notes is anticipated to decrease slightly to 4.5 percent in FY 2015 and then increase to 4.8 percent in FY 2016 before peaking at 5.0 percent in FY 2017.

Consistent with the perspective discussed here, the consensus economic forecast reflects initial stages of recovery from the nation's economic crisis in employment, income, and other coincidental economic indicators however momentum has slowed in recent months along with the national economy. In particular weak business and consumer confidence are undermining perceptions of the sustainability of the U.S. recovery. Employment growth is expected to remain positive in FY 2012 through FY 2017 with more rigorous employment growth expected in FY 2015 before the rate of growth declines to more sustainable levels in FY 2016 and beyond. Personal income growth is expected to reach its peak in FY 2015 and follow a pattern similar to that of employment growth over the remaining forecast period.

The Consensus economic forecast for the fiscal years 2012 through 2017 agreed upon by the conferees at the November 2011 Revenue Estimating Conference is shown in the following table.

The November 2011 Consensus Economic Forecast

Rates of Growth	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Non-Farm Employment	0.8	0.8	2.3	3.7	3.0	1.6
Personal Income	2.8	4.1	4.1	4.9	4.6	4.2
Wage and Salary Income	1.5	3.7	4.5	5.1	5.3	4.4
Dividends, Interest and Rent	5.0	6.4	7.0	6.3	5.8	4.9
Nominal Rates						
U.S. CPI-U	2.8	2.0	2.7	2.8	2.1	2.1
Unemployment Rate	10.5	10.3	9.2	7.2	6.0	5.1
Ten Year Treasury Notes	3.2	4.8	4.8	4.5	4.8	5.0
Three Month Treasury Bills	0.0	0.1	0.9	2.3	3.3	3.4

General Revenues

Introduction

The Governor's recommended budget is based on estimated general revenues of $3.201 billion in FY 2012 and $3.366 billion in FY 2013. Annual estimated growth during FY 2012 and FY 2013 is 3.8 percent and 5.1 percent, respectively. Estimated deposits of $91.4 million and $101.1 million will be made to the Budget Reserve and Cash Stabilization Fund during these fiscal years. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.2 percent of estimated revenues in FY 2012 and 97.0 percent of estimated revenues in FY 2013. The revenue estimates contained in the Governor's FY 2012 supplemental and FY 2013 recommended budgets are predicated upon the revenue estimates adopted at the November 2011 Consensus Revenue Estimating Conference (REC) and the Governor's recommended changes to the adopted general revenues.

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

FY 2012 Revised Revenues

The principals of the November 2011 Revenue Estimating Conference adopted revenue estimates that were $19.4 million greater than the enacted FY 2012 revenue estimates, an increase of 0.6 percent. As shown in the *Changes to FY 2012 Enacted Revenue Estimates* table in Appendix A of this document, the Governor's revised FY 2012 Budget recommends an increase of $6.0 million in revenues.

The recommended change to the FY 2012 adopted estimates is attributable to the transfer of $12.6 million in bond premiums deposited in the Rhode Island Capital Plan Fund. Of the $12.6 million, the Governor recommends transferring $6.0 million in bond premiums from the 2011 Series A Bond Issue to other miscellaneous revenue within general revenues.

FY 2012 Revised Revenues vs. FY 2011 Final Revenues

Recommended revenues for FY 2012 are based upon a $117.7 million increase in total general revenues over final FY 2011, or growth of 3.8 percent. Much of this increase can be found in personal income taxes, business corporations and franchise taxes, insurance companies gross premiums taxes, sales and use taxes, the lottery transfer, and other miscellaneous revenues. These increases are partially offset by estimated decreases in inheritance and gift taxes, public utilities gross earnings taxes, cigarette taxes, and financial institutions taxes.

Personal income tax collections continue to be the single largest source of state general revenues in FY 2012 at 32.3 percent for FY 2012. Personal income tax collections are estimated to expand at an annual rate of 1.2 percent or $12.3 million for FY 2012. Much of this increase is due to increased estimated income tax payments of $15.5 million, and increased withholding tax payments of $16.8 million. The overall increase, however, is slightly offset by an estimated decrease in final income tax payments of $12.7 million and an increase in refund payments by $7.3 million

General business tax collections are projected to increase by $62.3 million or 21.2 percent, due primarily to an estimated increase in business corporations taxes of $28.1 million and in insurance companies gross premiums taxes of 38.9 million. The estimated increase in business corporations taxes and insurance companies gross premiums taxes is attributable to a change in FY 2011 of the accrual calculation used by the Office of Accounts and Controls in consultation with the Office of the Auditor General. These revenue increases are partially offset by anticipated decreases in public utilities gross premiums taxes of $4.3 million and financial institution taxes of $1.5 million.

Sales and use tax collections are projected to increase by $32.1 million or 3.9 percent, over final FY 2011 collections. The anticipated increase in sales and use tax revenues is partially attributable to the passage of a sales tax base expansion on four items effective October 1, 2011 in the enacted FY 2012 Budget signed into law on June 30, 2011. Sales and use taxes represent 26.4 percent of total general revenues in FY 2012. For FY 2012 sales and use tax collections are projected to be $845.1 million.

Excise taxes other than the sales and use tax are expected to decrease by $1.9 million or 1.0 percent in FY 2012 over final audited FY 2011 collections due to a projected decrease in cigarette and other tobacco product taxes of $2.6 million. Motor vehicle operator's licenses and registration fees alcohol excise taxes, and motor carrier fuel use tax collections are estimated to increase by $545,466, $116,941 and $45,061 respectively in FY 2012.

Other taxes are projected to decrease by $13.3 million, or 24.3 percent in FY 2012 relative to final audited FY 2011 receipts. Of the total decrease in other taxes, inheritance and gift taxes are expected to decrease by $12.9 million, or 27.4 percent. The expected decrease in inheritance and gift tax collections is attributable to a change in the accrual calculation used by the Office of Accounts and Controls in consultation with the Office of the Auditor General. Realty transfer taxes are anticipated to decline by $270,632 and racing and athletics tax collections are projected to decline by $125,193. Racing and athletic taxes' downward trend is expected to continue as Twin River is no longer required to offer live greyhound racing and now solely relies on simulcast racing for pari-mutuel wagering. Racing and athletics taxes are expected to total $1.2 million in FY 2012 a decrease of 9.4 percent from final FY 2011 collections. Realty transfer taxes are expected to total $6.1 million in FY 2012, a decrease of 4.2 percent from final audited FY 2011 collections.

In the Governor's FY 2012 Budget, departmental receipts are projected at $340.5 million, an increase of $7.8 million from final audited FY 2011 collections, or 2.3 percent. It should be noted that the increase in the departmental receipts is attributable to an increase in expected revenue adopted at the November 2011 Revenue Estimating Conference.

In addition to the above general revenue components, an increase is expected in FY 2012 for the lottery transfer to the general fund of $12.3 million, or 3.5 percent from the final audited FY 2011 transfer. The increased lottery transfer in FY 2012 is due to the results of the November 2011 REC which increased the estimated transfer amount from the video lottery terminals installed at Twin River and Newport Grand by $8.6 million and decreased instant tickets and on-line games by $2.5 million from the enacted FY 2012 Budget signed into law on June 30, 2011. The gas tax transfer to the general fund no longer occurs and the unclaimed property transfer to the general fund is forecasted to increase by $159,538 in FY 2012 or 2.1 percent from final audited FY 2011 revenues. The increase in the unclaimed property transfer is based on the testimony provided by the Office of the General Treasurer at the November 2011 REC.

For FY 2012, other miscellaneous general revenues are projected to increase by $5.9 million. The increase in other miscellaneous general revenues incorporates the Governor's proposal to transfer the bond premium of $6.0 million from the 2011 Series A Bond Issue.

General Revenues

FY 2013 Proposed Revenues

The Governor's recommended FY 2013 budget estimates general revenues of $3.366 billion, an increase of 5.1 percent from the revised FY 2012 level. The Governor's recommendation is comprised of $3.129 billion of revenue estimated at the November 2011 Revenue Estimating Conference and $236.7 million of changes to the adopted estimates. These changes are shown in the schedule *Changes to FY 2013 Adopted Revenue Estimates* located in Appendix A of this document.

The largest source of FY 2013 general revenues is the personal income tax, with estimated receipts of $1.086 billion, $4.4 million more than the November 2011 REC adopted estimate for FY 2013 or growth of 5.1 percent from the revised FY 2012 amount. This revenue increase is partly the result of the Governor's recommendation for the administration of a tax amnesty program for the period September 1, 2012 through November 15, 2012 for the purpose of allowing individuals the opportunity to pay tax debts owed to the State without penalty and with a reduction in interest owed of 25.0 percent (effectively lowering the interest rate on tax debt owed to the State from 18.0 percent to 13.5 percent). The FY 2013 budget projects increased revenue collections of $3.0 million from the tax amnesty program within personal income tax collections. The Governor also proposes to stop providing tax preparation services at no cost to taxpayers. As a result, the Division of Taxation will be able to reallocate two Revenue Agent positions to the office audit staff. This reallocation is expected to increase personal income tax collections by $1.3 million in FY 2013.

General Business taxes are projected to comprise 10.9 percent of total general revenue collections in the FY 2013 Budget. Business corporations tax revenues are expected to yield $117.2 million, an increase of $351,413 from the FY 2013 estimate adopted at the November 2011 REC. This increase is the result of the Governor's recommendation for the administration of the proposed tax amnesty program. The estimated growth rate in business corporations taxes over the FY 2012 revised level is 4.0 percent.

Insurance companies gross premiums taxes are projected to reach $101.4 million in FY 2013. This amount is equal to the revenue estimate for insurance companies gross premiums taxes adopted at the November 2011 Revenue Estimating Conference plus an increase in revenue of $25,327 from the administration of the proposed tax amnesty program. The recommended growth rate in FY 2013 insurance companies gross premiums taxes over the FY 2012 revised estimate is 1.9 percent.

FY 2013 recommended revenues for the public utilities gross earnings tax, the financial institutions tax, and the bank deposits tax are at the same levels as were adopted at the November 2011 REC. The FY 2013 recommended growth rate for public utilities gross earnings tax relative to the FY 2012 revised estimates is 1.6 percent. For financial institution taxes and bank deposit taxes the FY 2013 recommended revenue level is unchanged from the revised FY 2012 estimate.

The health care provider assessment on nursing homes is forecasted to yield $42.6 million, an increase of $6,533 from the estimate that was adopted at the November 2011 REC. This increase can be attributed to the administration of the proposed tax amnesty program from September 1, 2012 through November 15, 2012. The recommended growth rate in FY 2013 health care provider assessment taxes over the FY 2012 revised estimate is 1.9 percent.

Sales and use tax collections are expected to yield $940.9 million in FY 2013, $72.9 million more than was adopted at the November 2011 Revenue Estimating Conference for FY 2013. The Governor proposes to expand the sales tax base to four previous exempt services. These four services include: (1) pet services other than veterinary services including laboratory testing; (2) moving, storage, warehousing, and freight services; (3) car washes; and (4) taxicabs and other providers of road transportation services.

The projected revenue from this expansion of the sales tax base is $16.6 million. The Governor also proposes removing the current exemption for items of clothing and footwear that cost more than $175 per item. The removal of this exemption is anticipated to increase sales and use tax revenues by $13.3 million. With the establishment of a sales tax threshold for clothing and footwear, the state will lose revenues of $1.8 million from becoming non-compliant with the Streamlined Sales and Use Tax agreement. In total, these proposed changes to the State's sales and use tax are projected to generate $28.1 million in FY 2013. The Governor recommends reinstating the Rhode Island Economic Development Corporation's statutory ability to grant sales tax exemptions on the qualifying capital expenditures of businesses that create 100 or more net new jobs in the state. This proposal reduces revenues in FY 2013 by $1.0 million. The Governor further recommends that the state's meal and beverage tax rate be increased from 1.0 percent to 3.0 percent. The additional revenue raised will be used to fully fund the second year of the school funding formula and provide $11.0 million to accelerate its implementation. For FY 2013 the Governor also recommends expanding the hotel tax base to include the rental of vacation homes and the rental of rooms in bed and breakfast inns that have fewer than three bedrooms available for rent. The total fiscal impact of the meal and beverage tax and hotel tax initiatives is increased revenues of $41.2 million. Additionally, the Governor recommends increasing the cigarette excise tax stamp rate from $3.46 to $3.50 per pack of 20 cigarettes. This increase yields additional sales and use taxes of $127,052 in FY 2013. Finally, the FY 2013 budget projects increased revenue collections of $4.4 million from the proposed tax amnesty program within sales and use tax collections. Sales and use taxes are anticipated to contribute 28.0 percent to total general revenues in FY 2013.

Motor vehicle operator license and vehicle registration fees are forecasted to equal $48.3 million in FY 2013, an increase of $58,650 from the amount that was adopted at the November 2011 REC. This increase is due to the Governor's proposal to impose a fee of $100.00 for the re-inspection of any school bus that has previously failed an inspection. Motor Fuel tax revenues are projected to be $1.1 million, the same as the estimate adopted at the November 2011 Revenue Estimating Conference.

Cigarettes tax revenues are expected to total $135.9 million, an increase of $7.1 million from the FY 2013 estimate adopted at the November 2011 REC. The Governor recommends increasing the cigarette excise tax stamp rate from $3.46 to $3.50 per pack of 20 cigarettes. This increase is projected to raise $1.6 million. Further, the Governor seeks to change the definition of a little cigar to include all cigars with a cellulose acetate integrated filter that weigh 4.0 pounds or less per thousand cigars and require that cigarette excise tax stamps be affixed to the packs containing these cigars thereby taxing them at the same rate as packs of cigarettes. The change in the definition of little cigars is expected to increase revenues by $2.1 million. The Governor also proposes to increase the maximum tax assessed per premium cigar from $0.50 to $1.00 to generate increased revenues of $420,166. Finally the Governor's FY 2013 budget calls for the addition of four Tax Investigator positions in the Division of Taxation to fully staff its tobacco enforcement task force. These additional positions will supplement the current Tax Investigator that is responsible for enforcing the state's cigarette and tobacco tax laws. Enhanced toboacco tax enforcement is anticipated to augment cigarette tax collections by $2.9 million. In total, these tobacco tax and enforcement proposals are expected to increase general revenues by $7.1 million in FY 2013.

Alcohol tax revenues are projected to equal $11.9 million. This amount is equal to the revenue estimate for alcohol taxes adopted at the November 2011 Revenue Estimating Conference.

Inheritance and gift taxes are projected to equal $31.2 million, an increase of $248,959 from the amount adopted at the November 2011 REC. This increase is the result of the Governor's recommendation for the administration of a tax amnesty program. Realty transfer taxes are estimated at the same level adopted at the November 2011 Revenue Estimating Conference with anticipated collections of $6.0 million. Racing and athletics taxes are also estimated at the level adopted at the November 2011 REC.

The adopted estimate of $1.1 million for FY 2013 represents a decline of $100,000, or -8.3 percent, from the revised FY 2012 estimate. Other taxes are expected to comprise 1.1 percent of total general revenues in FY 2013.

FY 2013 departmental receipts are expected to generate $5.1 million more than the revised FY 2012 estimate. Inclusive of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $345.6 million in FY 2013, or 10.3 percent of total general revenues. The Governor's FY 2013 recommended budget includes the reinstatement of the hospital licensing fee at the current rate of 5.430 percent applied to the current base of hospital fiscal year 2010 net patient revenues. In addition to the hospital licensing fee reinstatement the FY 2013 recommended departmental revenues figure includes the following proposals:

- An increase of $186,075 from expanding the beverage container and litter participation fee to all beverage containers;
- A decrease of $65,987 from discontinuation of the municipal wastewater treatment testing program;
- An increase of $1.5 million from the restructuring of various licenses and renewal fees administered by the Department of Health;
- An increase of $2.8 million in interest paid on overdue taxes from the administration of the tax amnesty program;
- A decrease of $9,792 from eliminating the Department of Environmental Management's well drilling program;
- An increase of $84,693 from the indirect cost recovery assessment on the Telecommunication Education Access Fund's restructured fees;
- An increase of $47,348 in hotel tax from the administration of the tax amnesty program;
- An increase of $252,398 in the state's share of hotel tax from the rental of vacation homes and the rental of rooms in bed and breakfast inns that have fewer than three bedrooms;

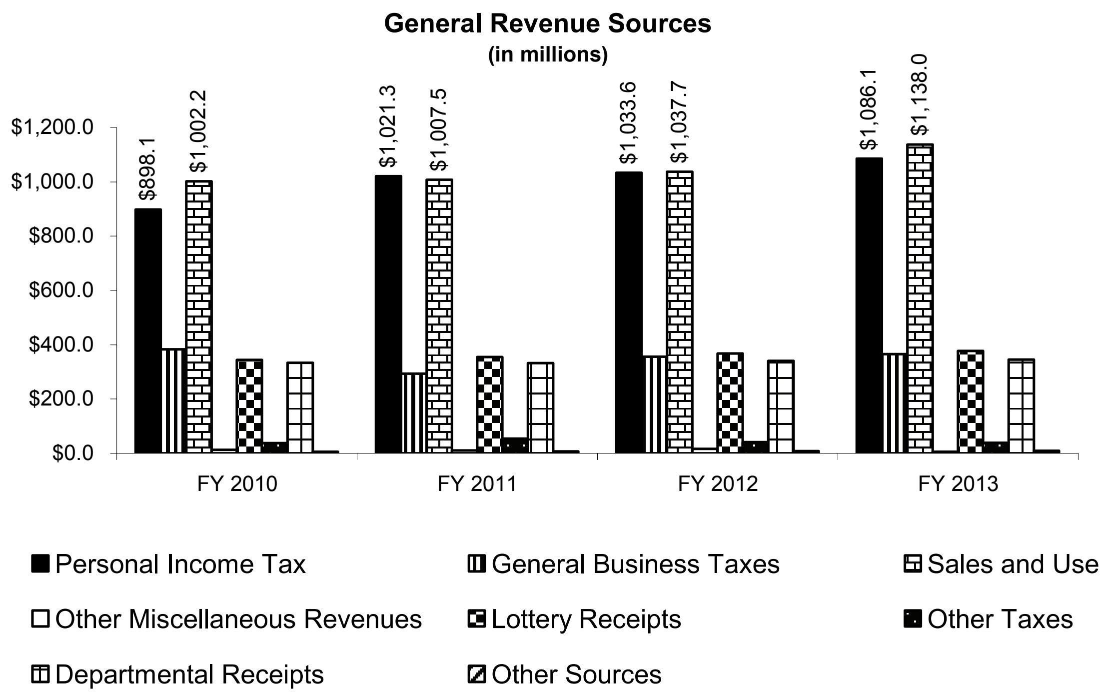
The FY 2013 recommended revenues for the other sources component totals $392.5 million, an increase of $483,000, or 0.1 percent, compared to the revised revenue estimate for FY 2012. Other miscellaneous revenues are anticipated to generate $5.8 million in FY 2013 an increase of $3.1 million from the level adopted at the November 2011 Revenue Estimating Conference. This increase is the result of the Governor's proposal to transfer $3.1 million from the Narragansett Bay Commission (NBC) for the general obligation debt issued by the Sate of Rhode Island on behalf of the NBC.

Within the gas tax transfer component, the Governor's FY 2013 Budget shows no change from the FY 2012 revised estimate. Effective July 1, 2009, the state's general fund no longer receives any of the revenues generated by the state's $0.32 per gallon gas tax.

Within the lottery category, the recommended FY 2013 budget is $9.6 million greater than the revised FY 2012 Budget, an increase of 2.6 percent. The Governor recommends no changes from the November 2011 REC estimate for the lottery transfer. In FY 2013, the lottery transfer is expected to be $376.8 million and comprise 11.2 percent of total general revenues.

The final category of general revenue receipts is the unclaimed property transfer. In FY 2013, this transfer is expected to increase by $2.1 million, or 26.9 percent, from the revised FY 2012 estimate. The unclaimed property transfer is projected to be $9.9 million in FY 2013, and comprises 0.3 percent of all general revenues.

The chart below shows the sources of general revenues for the period FY 2010 – FY 2013. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.



Restricted Receipts and Other Sources of Revenue

Introduction

The Governor's recommended budget proposes changes to revenue sources other than general revenues for FY 2012 and FY 2013. The revenue estimates in the Governor's FY 2012 supplemental budget contains -$6.0 million in restricted receipts adjustments. The FY 2013 recommended budget contains an additional $14.9 million in restricted receipts.

FY 2012 Revised Non-General Revenues

The Governor's FY 2012 supplemental budget proposes to authorize the transfer of the remaining $6.6 million in bond premium received by the Rhode Island Capital Plan Fund to the Technology Investment Fund which was established in the FY 2012 enacted budget.

The Governor also recommends the transfer of the Historic Credit Processing Fee account from the General Fund to the Historic Preservation Tax Credit Trust Fund. The Governmental Accounting Standards Board (GASB) statement which is in effect for periods beginning after June 30, 2012, clarified the definition of special revenues. In particular, the improved definition required the reclassification of the Historic Tax Credit Processing Fee account from a restricted receipt account in the state's General Fund to a restricted receipt account in the Historic Preservation Tax Credit Trust Fund. This reclassification reduced restricted receipts in the general fund by $1.6 million in FY 2011, the cash deposits in the Historic Tax Credit Processing Fee account as of June 30, 2011, and increases restricted receipts within the Historic Preservation Tax Credit Trust Fund by the same amount.

FY 2013 Recommended Non-General Revenues

The Governor's FY 2013 budget proposes enhancing the Intermodal Surface Transportation Fund (ISTF) by accelerating the implementation of the increases in motor vehicle registration and operator license fees included in the FY 2012 enacted budget. In the FY 2012 enacted budget, biannual motor vehicle registration fees were to be increased by $30.00 in $10.00 increments, annual motor vehicle registration fees were scheduled to be increased by $15.00 in $5.00 increments, and operator license fees, which are renewed every five years, were scheduled to be increased by $30.00 in $10.00 increments. Each incremental increase was scheduled for July 1st of 2013, 2014, and 2015. The Governor proposes to fully implement all three of these fee increases effective January 1, 2013 and deposit the proceeds received in FY 2013 into the ISTF for use by the Department of Transportation (DOT). The net result to the Governor's FY 2013 Budget is an increase in other sources of revenue by $13.6 million in FY 2013. The various fees consist of $8.9 million in biannual registrations, $1.8 million in annual registrations, and $488,345 in operator licenses.

The Governor also proposes to subject the rental of vacation homes and rooms at bed and breakfast inns that have fewer than three bedrooms for rent to the state's occupancy tax of 5.0 percent, the local occupancy tax of 1.0 percent and the state sales tax of 7.0 percent. Rentals impacted by this proposal would be those that are for periods of less than 30 consecutive days in duration. The net result that will be passed through to the local governments is an increase in revenue of $540,852. This includes the 1.0 percent local hotel tax portion and 25.0 percent of the state hotel tax that local governments receive.

The Governor recommends a reduction in the Telecommunication Education Access Fee on land line phones from the current monthly surcharge of $0.26 to $0.15 and the application of this reduced fee to wireless phones. These two fee changes are estimated to reduce Telecommunication Education Access receipts from land line phones by $541,376 and increase Telecommunication Education Access receipts from wireless phones by $1.3 million in FY 2013. The net result is an increase in revenue of $762,239 to the Telecommunication Education Access Fund which supports internet access for schools and libraries.

The Governor's recommended FY 2013 budget proposes to reclassify receipts from Department of Health, Chemical Dependency Professionals license and renewal fees from restricted receipt revenues to general revenues. As a result, restricted receipts will decrease by $29,775 and general revenues will increase by the same amount.

All Sources

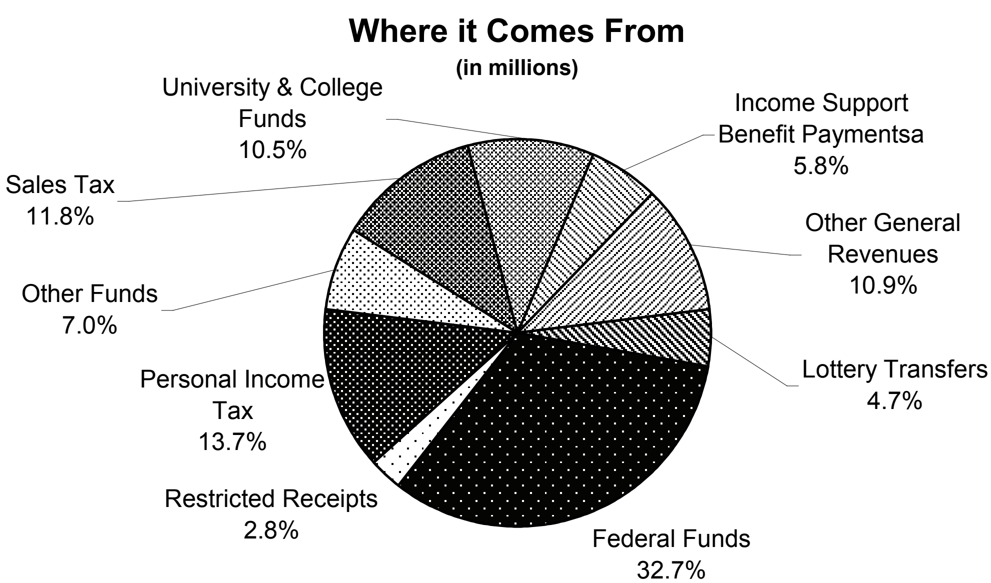
The total budget of $7,943.8 million includes all sources of funds from which state agencies make expenditures.

Federal funds represent 32.7 percent of all funds. Over 70.0 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales Taxes combined represent 25.5 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 10.5 percent, and 5.8 percent of the total, respectively.

Remaining sources include: Other General Revenues, 10.9 percent; the Lottery Transfer, 4.7 percent; Restricted Receipts, 2.8 percent; and Other Funds 7.0 percent.



All Expenditures

The Governor's FY 2011 Budget recommendation is $7,512.9 million all funds comprised of six functional units of state government: human services, education, general government, public safety, transportation, and natural resources.

Approximately thirty-nine percent of all expenditures are for human services, comprised of agencies that engage in a broad spectrum of activities including income support, client subsidies, case management and residential support, and medical regulation, prevention, treatment, and rehabilitation services. The FY 2011 recommended budget for all human service agencies is $2,960.1 million.

Approximately twenty-eight percent of all expenditures are for education, which includes the Department of Elementary and Secondary Education, Public Higher Education, the Rhode Island State Council on the Arts, the Rhode Island Atomic Energy Commission, the Rhode Island Higher Education Assistance Authority, the Historical Preservation and Heritage Commission, and the Rhode Island Public Telecommunications Authority. The FY 2011 recommended budget for education is $2,110.1 million.

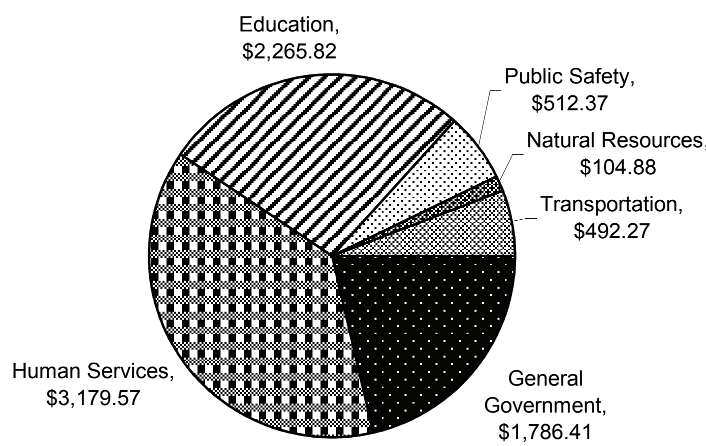
Approximately twenty percent of all expenditures are for general government, which includes agencies that provide general administrative services to all other state agencies, and those that perform state licensure and regulatory functions. The FY 2011 recommended budget for all general government agencies is $1,466.7 million.

Approximately six percent of all expenditures are for public safety, which is the system that provides law enforcement, adjudicates justice, protects life and property, and handles emergencies impacting Rhode Island's citizens. The FY 2011 recommended budget for the public safety system is $453.6 million.

Approximately six percent of all expenditures are for transportation, which provides for the state's maintenance and construction of a quality transportation infrastructure. The FY 2011 recommended budget for transportation is $424.8 million.

Approximately one percent of all expenditures are for natural resources, which includes the Department of Environmental Management, the State Water Resources Board and the Coastal Resources Management Council. The FY 2011 recommended budget for natural resources is $97.6 million.

Where it Goes FY 2012
(in millions)

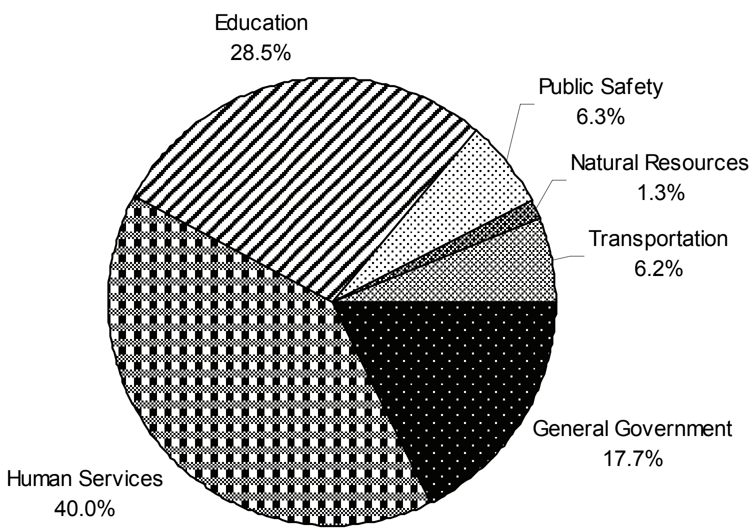


Expenditure Summary

All funds expenditures for FY 2013 are $7.944 billion. Of this total, $3.269 billion, or 41.2 percent, is from general revenue, $2.594 billion, or 32.7 percent, from federal funds, $1.856 billion, or 23.4 percent, from other sources, and $224.1 million, or 2.8 percent, is from restricted or dedicated fee funds.

On a functional basis, the largest percentage of expenditures is made in the Human Services area, which comprises $3.180 billion, or 40.0 percent of the total budget. This is followed by spending for Education of $2.266 billion, which comprises 28.5 percent of all spending, and expenditures for General Government of $1.404 billion, equaling 17.7 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling $1.094 billion, or 13.3 percent of the total budget.

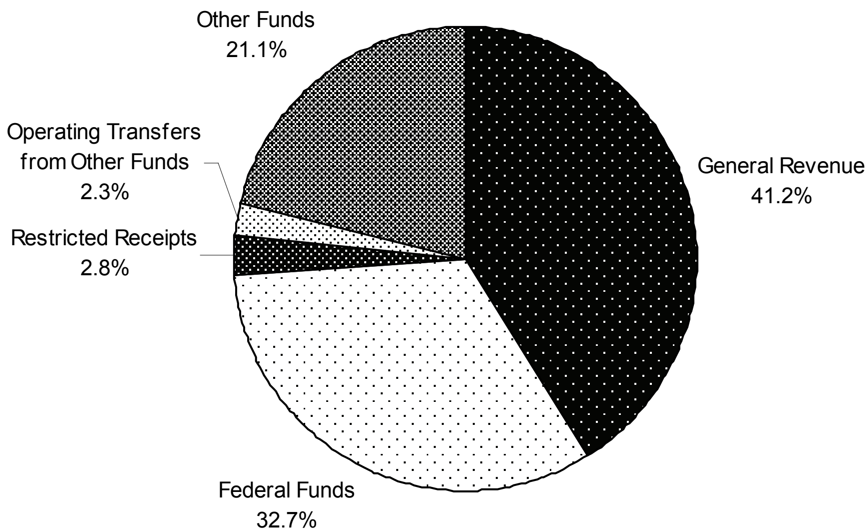
Expenditures by Function



The second way to view expenditures is by major category. On this basis, the largest share of the FY 2013 budget is for assistance, grants and benefits equaling $3.541 billion or 44.6 percent of the total. This is followed by personnel expenditures, which comprise 22.5 percent, or $1.785 billion, and local aid expenditures, which make up 14.2 percent, or $1.126 million of the total budget. Expenditures for capital purchases and debt service total $632.0 million or 8.0 percent, with the balance of spending used to finance operating expenditures and operating transfers of $860.2 million, or 10.8 percent of the total.

Expenditure Summary

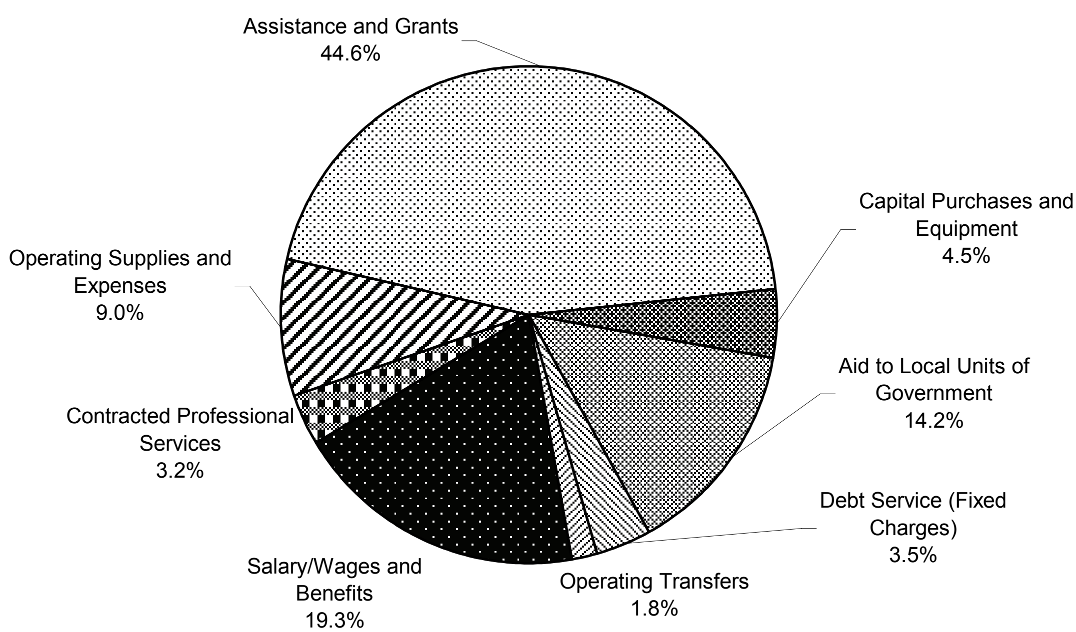
Expenditures by Source



Expenditures from general revenue total $3.269 billion for FY 2013. By function, spending by Human Service agencies represents the largest share with expenditures, totaling $1.286 billion, or 39.3 percent of the general revenue budget. This is followed by spending for Education, which totals $1.114 billion, or 34.1 percent. General revenue expenditures for General Government and Public Safety comprise $427.4 million (13.1 percent) and $404.9 million (12.4 percent), respectively. Expenditures for Natural Resources comprise $36.9 million, or 1.1 percent of total general revenue spending. Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel.

Expenditures Statewide



Expenditure Summary

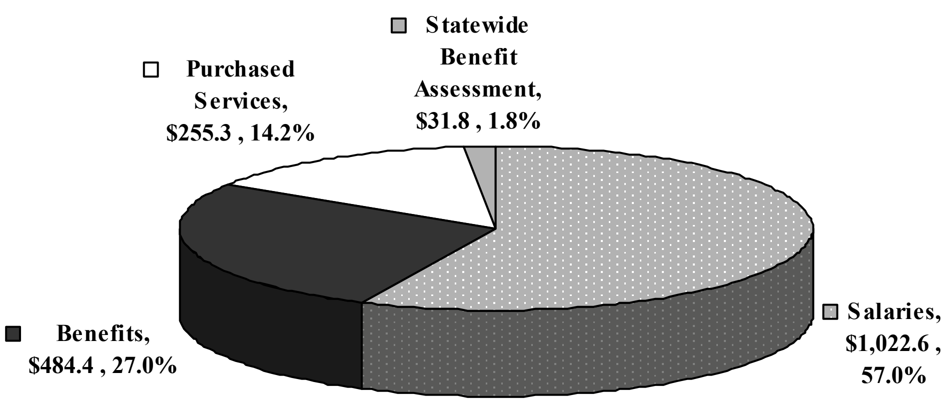
The largest component is assistance, grants, and benefit expenditures of $1.138 billion, comprising 34.8 percent of total general revenue spending. Local Aid expenditures of $959.3 million represent 29.3 percent of total spending; personnel expenditures of $855.6 million comprise 26.2 percent of the budget; operating expenditures and operating transfers total $133.5 million, or 4.0 percent of the budget; and, capital expenditures and debt service total $182.5 million, or 5.6 percent of the total general revenue budget.

Personnel Summary

The Governor's FY 2013 recommended budget finances personnel at $1.79 billion. This includes $1.5 billion for salary and benefits (84.0 percent), $255.3 million for purchased services (14.2 percent), and $31.9 million (1.8 percent) for such statewide benefits as severance, unemployment and workers compensation that are funded by a statewide assessment. This total includes expenditures financed from general revenues, federal grants, restricted receipts, other funds, and internal service funds. General revenue finances 47.0 percent of FY 2013 personnel expenditures. Federal funds finance 23.2 percent, Other Funds (primarily college tuition funds) and Internal Service Funds finance 25.1 percent, and restricted receipts finance the remaining 4.7 percent. The personnel supplements provided in the budget volumes contain all expenditures for personnel, including those of the internal service funds, as noted above. Since internal service fund positions are financed through charges to state agencies categorized as operating expenses, totals shown will differ in some cases from personnel costs shown in complementary documents of the FY 2013 Budget. After adjusting to reflect internal service fund personnel expenditures in the personnel category rather than as an operating expense, personnel expenditures constitute approximately 21.5 percent of the state budget, the second largest category of spending (after assistance, grants and benefits).

FY 2013 Personnel Expenditures

(in millions)



Personnel expenditures recommended for FY 2013 increase by only $45,357 from the FY 2012-revised budget, and by $74.9 million from the FY 2012 enacted budget. From the enacted budget, direct salaries increase by 3.9 percent. overtime decreases by 11.2 percent. fringe benefits increase by 4.5 percent overall, with retiree health and retirement decreasing slightly. Medical benefits (including the medical waiver bonus) increase by 9.2 percent.

Constrained Hiring

The Governor recommends that State Government continue to operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. Rhode Island state government experienced significant attrition from retirements in FY 2009. Between May 1, 2008 and October 1, 2008, 1,396 state employees, who were members of the Employees Retirement System, retired. Overall, state employee full time equivalent positions have been reduced from the FY 2008 final enacted level of 15,688.7 to 14,942.2 in the FY 2012 enacted budget, a reduction of 746.5 positions. In the FY 2012 revised budget, the Governor recommends an FTE level of 14,934.0, a decrease of 8.2 FTE's from the FY

2012 enacted budget. In the FY 2013 budget, the Governor recommends a reduction of 104.3 FTE's from the FY 2012 revised budget, or 14,837.7 FTE positions.

Government Reorganizations
The Governor's recommended budget for FY 2013 includes the following transfers of FTE's:

- EOHHS Reorganization: The Governor recommends a further personnel reorganization within the Human Services function involving the transfer of positions into the Executive Office of Health and Human Services. 4.0 FTE's are transferred from the Department of Health, and 1.0 FTE is transferred from the Department of Human Services.

- Heating Assistance: The Governor recommends the transfer of 9.0 positions from the Office of Energy Resources to the Department of Human Services as part of the legislatively mandated transfer of the Low Income Home Energy Assistance Program (LIHEAP).

- Higher Education Assistance Authority: The Governor recommends the merger of the Higher Education Assistance Authority with the Office of Higher Education, including the transfer of 41.6 FTE positions.

- Office of Management & Budget: The Governor recommends the creation of a new unit in the Department of Administration to coordinate budgetary, federal grant management, and performance management functions. The reorganization involves the addition of 11.0 FTE.

Current Retiree Health Benefit Structure
In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, eligibility requirements and co-share percentages for retiree health were modified in the 2008 session of the General Assembly. The new plan provided that employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service in order to be eligible for retirement and therefore also eligible for retiree health. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

Funding of Retiree Health Unfunded Liability
The Governor's recommended budget includes previously added provisions requiring that the State fund retiree health benefits on an actuarial basis and amortize the unfunded liability over a thirty year period. This funding mechanism will provide transparency with respect to the true cost of the benefit offered to state employees after employment. In compliance with GASB Statements 43 and 45, "Other Post Employment Benefits," in July 2007, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. Pursuant to GASB Statement 45, "Other Post Employment Benefits" the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits for the period ending

June 20, 2009. The unfunded liability as of June 30, 2009 was determined to be approximately $774.7 million, including $673.6 million for State employees, $67.1 million for State Police, $11.8 million for Legislators, and $8.7 million for Judges, and $13.5 million for the State's share for teachers. This was calculated using an investment rate of return of 5.0% and assumes that future funding will be on an actuarial basis. The annual required contribution as a percentage of payroll in FY 2013 is budgeted at 6.86%, 33.18%, 46.35% and 7.19% (no rate for teachers), respectively. Prior to FY 2011, the State had not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted that would require the State to fund on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities. During the 2009 Session of the General Assembly, this actuarial funding requirement was delayed until FY 2011.

Beginning with the first pay period of FY 2011, the state began providing the resources necessary to the OPEB trust fund to finance retiree health benefit costs on an actuarial basis, which will be used to pay current benefits and hold assets for investment.

Because a new actuarial study had not been completed at the time, the FY 2013 current services targets assumed that retiree health rates would remain the same as in FY 2012. A new actuarial study based on fiscal year ending June 30, 2011 data is expected to be completed in February 2012.

Statewide Cost of Living Adjustment

Most current labor contracts expire June 30, 2012. Without a negotiated cost of living adjustment, no accommodation has been made in the FY 2013 Budget for any such increase.

State of Rhode Island Earns Gold Level Well Workplace Designation

In July 2009, the State of Rhode Island earned a Gold Level Well Workplace designation by the Wellness Councils of America (WELCOA). The designation is in place for three years until the end of FY 2012. Gold Well Workplaces are organizations that have successfully built comprehensive worksite wellness initiatives and are demonstrating and documenting concrete outcomes. By achieving this level of excellence in workplace wellness programming, the State of Rhode Island demonstrates its commitment to protecting and enhancing the health and well-being of its employees. Through its partnership with United Healthcare, the State has offered employees onsite activities and health screenings, annual health risk assessments, stress management and nutrition seminars and physical activity programs. Previously, the State of Rhode Island held a Silver Level designation. Based in Omaha, Nebraska, WELCOA is a national non-profit membership organization that is dedicated to promoting healthier lifestyles for all Americans, especially through health promotion initiatives at the worksite. The State's initiative helps employees stay healthy, get healthy or live better with an existing illness, at the same time detecting and preventing illness which could result in lower medical benefit claims costs. These claims costs are born by the State and the employees through the medical benefit co-share. Participation in pre-determined wellness programs and screenings allows eligible employees to earn up to $500 in credit toward their health insurance co-shares.

Employee Medical Benefits

The FY 2012 enacted budget for health benefit costs was predicated upon a planning value of $15,722 based on a weighted average of the three cost components, consisting of medical, dental, and vision rates for both individual and family plans. The currently active rates for FY 2012, which are the rates used in the revised FY 2012 budget as recommended, are revised to a new weighted average of $15,651. This is a decrease of approximately 0.5 percent from the enacted level.

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For FY 2013, the budget instructions contained an estimated planning value equal to $16,956, an approximate increase of 7.8 percent from the original FY 2012 planning value of $15,722. This is the increase upon which the statewide target adjustment was based.

Health Benefits Cost		FY 2012 Enacted	FY 2012 Revised SWP	FY 2013 Planning SWP
Medical		$ 6,563	$ 6,559	$ 7,117
Vision		87	84	$ 87
Dental		374	350	$ 371
Individual		**$ 7,024**	**$ 6,993**	**$ 7,575**
Medical		18,399	18,386	$ 19,949
Vision		184	177	$ 184
Dental		1,046	978	$ 1,037
Family		**$ 19,629**	**$ 19,541**	**$ 21,170**
Weighted Average Annual Cost Per FTE Position - All Plans				
Medical		$ 14,730	$ 14,720	$ 15,971
Vision		$ 154	$ 148	$ 154
Dental		$ 838	$ 783	$ 831
Total		**$ 15,722**	**$ 15,651**	**$ 16,956**

Most employees pay a co-share for medical benefits based on a percentage of premiums. The negotiated schedule provides for sliding co-shares based upon salary level, as shown in the following chart:

	Health Co-Shares		
	FY 2012 and FY 2013		
Family Plans co-Share – Percent of Premium			
Salary Range			
Below $47,741			15.0%
$47,741 - $95,481			20.0%
Over $95,481			25.0%
Individual Plans Co-Share – Percent of Premium			
Salary Range			
Below $95,481			20.0%
Over $95,481			25.0%
Part-Time Employees (percentages apply to both individual and family coverage)			

Personnel Summary

Salary Range			
Below $90,000			20.0%
Over $90,000			35.0%

Full-Time Equivalent Positions (FTE)
The FY 2012 enacted budget contained 14,942.2 full-time equivalent (FTE) positions, including 785.0 FTEs that are federal/sponsored research positions in Higher Education. In order to both maintain an acceptable level of critical services and to constrain hiring due to financial constraints, the Governor recommends 14,934.0 FTE in the revised FY 2012 budget, a decrease of 8.2 FTEs from the enacted level, primarily in federal and other funds. In FY 2013, the Governor recommends a total FTE level of 14,837.7, including 776.2 Higher Education federal/sponsored research positions, a net decrease of 96.3 FTE's from the revised FY 2012 level and a 104.5 decrease from the FY 2012 enacted level.

In **General Government**, the Governor recommends a net decrease of 113.3 FTE positions in FY 2013 from the FY 2012 enacted budget. The decrease is centered in the Department of Labor & Training (105.8), the federal funding for which has ended. There is also a 29.0 FTE reduction in the Department of Administration due to program reductions in the Bureau of Audits (12.0), Human Resources (12.0), Planning (1.0), and Information Technology (12.0), as well as an increase of 11.0 FTE's in the new Office of Management & Budget. There are additional reductions in Business Regulation (2.0) and the Board of Elections (1.0), and an additional position in the consumer unit of the Public Utilities Commission. In the Department of Revenue, the Governor recommends 23.5 additional positions, 13.5 net in the Division of Motor Vehicles, 6.0 investigative auditors in Municipal Finance, and 4.0 tax investigators in the Division of Taxation.

In **Human Services**, the Governor recommends a net decrease of 17.5 FTE in FY 2013 from the FY 2012 enacted FTE cap. In addition to the transfers discussed above, this includes a reduction of 22.0 positions in the Supplemental Nutrition Assistance Program (SNAP) in the Department of Human Services, as well as a reduction of 35.0 FTE's in FY 2012, reflecting a delay in the proposed expansion of the Veteran's Home in the enacted budget; and an additional 9.0 FTE's in FY 2013. In the Executive Office of Health and Human Services, the Governor recommends an additional 14.0 FTE's, including 5.0 program additions and 5.0 positions for audit oversight. In the Department of Health, the Governor recommends 6.0 additional food inspectors and a reduction of 8.0 in the laboratory. The Governor recommends 5.0 additional positions in the Substance Abuse program in the Department of Behavioral Healthcare Developmental Disabilities, and Hospitals. Finally, the Governor recommends additional FTE's due to the Race to the Top federal grant in the Departments of Children, Youth and Families (3.0), Health (3.0), and Human Services (2.5).

In **Education**, the Governor recommends a net increase of 30.4 FTEs in FY 2013 from the FY 2012 enacted budget. This includes a net increase of 7.0 FTE's in Elementary and Secondary Education, 14.0 in the federal Race to the Top grant, offset by a reduction of 6.0 federally-funded school-based coordinators that will be transferred to school districts. Public Higher Education includes an increase of 66.0 FTE's, 42.0 due to the Higher Education Assistance Authority merger, as well as 14.0 new faculty members at the University of Rhode Island, and 8.0 new faculty members and 2.0 staff at Rhode Island College. There is also a 1.0 FTE program reduction in the Public Telecommunications Authority

In **Public Safety**, there is a net decrease of 0.6 FTEs in FY 2013 from the FY 2012 enacted budget. The Governor recommends an additional 2.0 federally funded fingerprint operators in the Office of the Attorney General and 3.0 additional fire safety inspectors and investigators in the Department of Public Safety. The

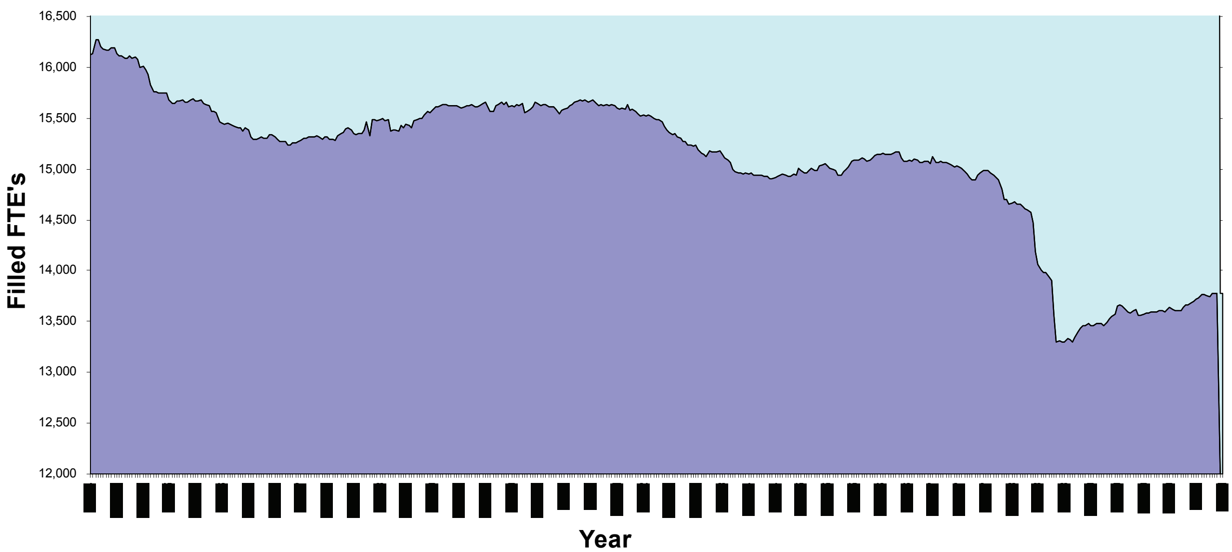
Personnel Summary

Governor also recommends a reduction of 1.0 FTE in the Office of the Public Defender due to the loss of federal funds, and a reduction of 5.0 FTE's in the Military Staff, 4.0 maintenance FTE's in the National Guard program and 1.0 FTE in Emergency Management.

In **Natural Resources**, there is reduction of 3.5 FTE's. The Governor recommends reductions in the Department of Environmental Management of 3.0 FTE's due to the loss of federal funds. In the Coastal Resources Management Council, the Governor recommends a reduction of 1.0 FTE due to the loss of federal funds, and an additional 0.5 FTE for a staff attorney.

In **Transportation**, the Governor recommends no change from the enacted levels of 772.6, in both FY 2012 and FY 2013.

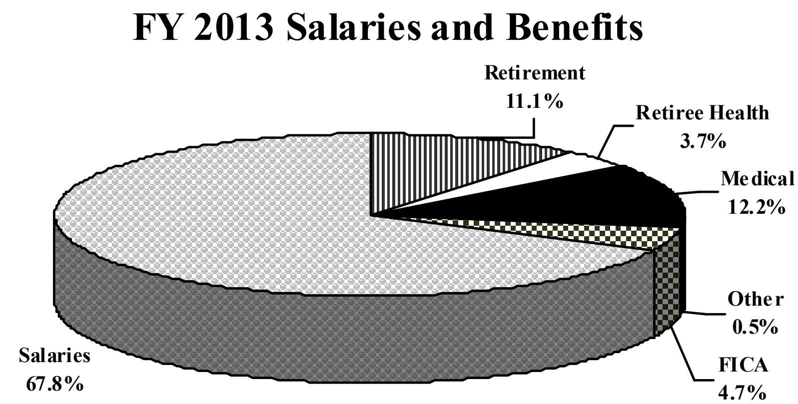
As directed by the Governor, the overall filled FTE level must be constrained through careful management by cabinet directors and other agency heads of existing and upcoming vacancies. Actual filled positions totaled 13,705.1 as of January 14, 2012, a 531.8 position increase from the 13,173.3 filled position level as of January 15, 2011, but still 1,377.7 below the 15,082.8 in July 2007. The filled level is 1,237.1 FTEs less than the enacted cap of 14,942.2. Because of resource constraints, as reflected in the Governor's recommended turnover across most agencies, there are FTE's in the roster that will not be filled in FY 2012 or FY 2013.



Salaries and Benefits

The largest category of personnel expenditures is for salaries and benefits. Salaries and benefits (including temporary and seasonal) represent $1,507.0 billion or 84.0 percent of total personnel costs. Salaries, including payroll accrual, overtime, holiday, and other salary-related items, equal $1.022.6 billion and fringe benefits equal $484.4 million. Fringe benefit payments include $167.8 million for retirement costs, $183.2 million for medical benefits (including $181.7 million for benefit plans and $1.5 million for medical benefits-salary disbursements), $55.3 million for retiree health benefits, $70.8 million for FICA, and $7.3 million for other benefits, including group life insurance and other contract stipends. In addition, the statewide benefit assessment is included to finance severance, unemployment, employee assistance, workers' compensation payments and administrative costs, and DLT employer assessments, and totals $31.8 million.

Direct Salaries (including uncompensated leave days) increase by 5.8 percent in the FY 2012 Revised Budget over FY 2011 (audited expenditures), but decreases by 0.2 percent in FY 2013 over FY 2012 revised. When adjusted for overtime, which decreases in the FY 2012 revised and FY 2013 budgets, the respective salary change is an 8.2 percent increase in FY 2012 and a 1.5 percent growth in FY 2013. The FY 2013 budget includes no longevity increases for non-union personnel and for union personnel whose contracts end June 30, 2012, as these were abolished in the FY 2012 enacted budget.



Fringe benefit adjustments increase by 10.0 percent in FY 2012 revised over FY 2011 actual expenditure and increase by 4.5 percent in FY 2013 over FY 2012 enacted. Most benefits increase only marginally. **Retirement** decreases by 0.6 percent from the enacted budget in FY 2013 and by 3.3 percent from the FY 2012 revised budget. This includes a one percent defined contribution addition of $6.7 million. Within state agency budgets, state employer retirement contributions are budgeted at 22.98 percent of payroll for FY 2012 enacted and revised, but at 21.18 percent in FY 2013. **FICA** increases by only 1.5 percent in FY 2013 from the enacted budget but decreases by 0.6 percent from the revised budget. **Retiree Health** decreases by 0.3 percent in FY 2013 from the FY 2012 enacted budget. The rate remains at 6.86 percent in FY 2012 and FY 2013 for state employees, which assumes a transition to actuarial-based funding and amortization of the unfunded liability over a thirty year period.

The largest fringe benefit increase is in **medical benefits.** The recommended budget for FY 2012 revised of $167.2 million includes an overall increase of 2.3 percent over FY 2011 actual expenditure levels. For FY 2013, the recommendation of $183.2 million in medical benefits is an increase of 10.2 percent from the recommended revised budget amount for FY 2012. Part of this increase is due to a medical holiday included in the enacted FY 2012 budget that will not occur in FY 2013.

Workers' compensation costs budgeted directly in the agencies in FY 2012 and FY 2013 are $100,546 and are funded in the Department of Corrections.. These amounts reflect the continuation of wages in excess of those amounts received as a result of the Workers' Compensation statute (primarily as a result of assault cases). Since FY 2001, all workers' compensation costs, as well as unemployment insurance and unused leave severance payments, have been paid from a separate Assessed Fringe Benefits Administrative Fund. The fund is financed by a statewide benefit assessment of a fixed percentage of direct salaries that is charged to every department and agency in this document. The FY 2012 revised budget includes a small decrease in the **assessed fringe benefit** rate from the initial planning value of 4.0 percent to 3.75 percent for regular state employees. However, certain agencies and/or certain employee classifications are not assessed the full rate because they do not receive worker's compensation benefits. Also, certain higher education employees do not receive severance payments. The assessed fringe benefit rate is applied to all direct salaries, except overtime. Expenditures from the fund have grown from $31.1 million in FY 2008 to $43.1 million FY 2009, but decreased in FY 2010 to $28.8 million. The surge in severance payments was due to the large number of employees that retired prior to changes in retiree health benefit provisions, which became effective October 1, 2008. The FY 2012 revised budget is $32.1 million, an increase of 3.3 percent from FY 2011 actual expenditure. The budget in FY 2013 is $31.8 million, a decrease of 0.7 percent from the revised recommendation.

The Assessed Fringe Benefit Fund is used to fund the following: services provided by the Donley Center; services of the Workers' Compensation Court; the Division of Workers' Compensation administrative costs related to workers' compensation activities; workers' compensation benefit payments to employees; payments to workers' compensation providers; unemployment compensation payments; severance payments to employees for unused leave upon termination from state service; and Cornerstone Program administrative costs for the Flexible Health savings account.

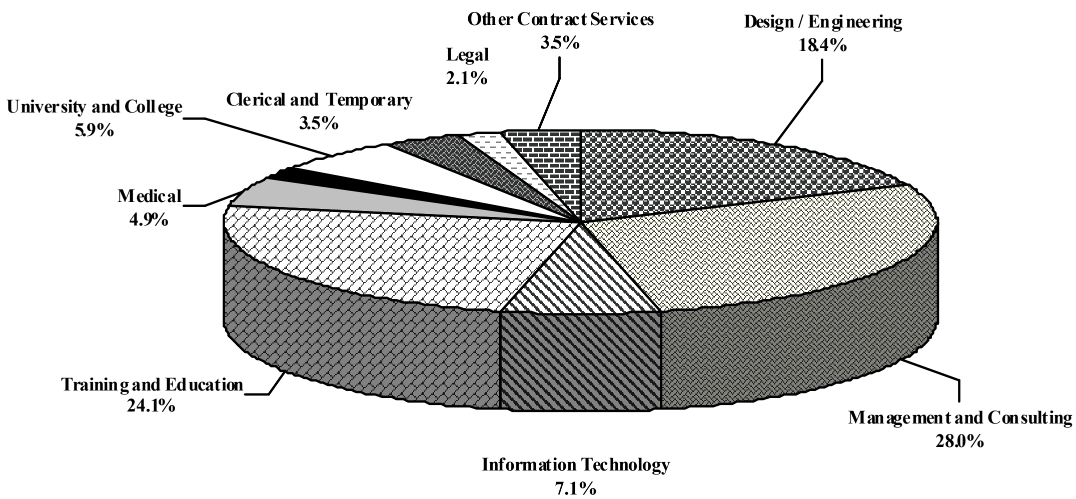
Purchased Services

Purchased Services costs in the FY 2013 Budget are $255.3 million, and represent 14.2 percent of total personnel costs. Expenditures in this category are for services provided by outside contractors in cases where special expertise is needed or where it would be less effective to hire full-time employees. Major categories of expenditure are management and consulting services (comprising 28.0 percent of the total), design and engineering services (comprising 18.4 percent), training and education services (comprising 24.1 percent), and information technology services (7.1 percent).

Recommended expenditures in FY 2012 revised are $32.9 million more than FY 2012 enacted expenditure, an 8.0 percent increase in spending for services, including training and education services ($7.2 million), management services ($8.6 million), university/college services ($10.5 million), and information technology services ($6.3 million). Recommended expenditures in FY 2013 are $13.9 million less than FY 2012 revised. The greatest decreases are in university and college services, design and engineering services, and information technology services. A major reason for the decline is the finalization of project work in FY 2011, particularly in the areas of university/college services, information technology and design and engineering services, and the policy goal to reduce contract employee services.

Personnel Summary

FY 2013 Purchased Services



For each department or agency of state government, the Budget volumes contain an agency summary of personnel costs. For each program, the Budget volumes display all positions and their respective costs. Footnotes will assist readers in understanding variances between the years. Additionally, there are a number of terms used that are not part of every day usage. A Glossary with extended explanations is included in the back of the Technical Appendix. For more information on the codes used to identify the pay scales, refer to the Glossary. Pay scales are provided on the State's Human Resources web site under the Compensation and Classification section.