

FY 2014 Budget Plan Overview

Governor Lincoln D. Chafee



**EMBARGOED UNTIL
7:00 PM JANUARY 16, 2013**

Governor Chafee's Budget Principles



- **Get Back to Basics:**

- **Submit balanced budget on time – January 16, 2013**
- **Hold all agencies accountable – no supplemental appropriations for personnel and operating**
- **Hold the line on taxes – no increases in taxes, fees or charges**
- **Improve the long term outlook**

- **Invest in:**

- **Make Rhode Island more competitive**
- **Get Rhode Islanders back to work**
- **Invest in our public education systems**
- **Assist our struggling municipalities**
- **Maintain and improve our infrastructure**

Governor Chafee's Budget Principles



- **Build on our success:**
 - **Finished FY 2012 with a surplus of \$115.2 million - \$21.3 million more than expected**
 - **Propose to finish FY 2013 with a projected surplus of \$79.3 million, representing the third year in a row where we finish with a strong surplus**
 - **Each department and agency is projected to spend general revenues at or below enacted levels**
 - **For the second year in a row, the State will not issue Tax Anticipation Notes, reflecting improved fiscal management**

Governor Chafee's Budget Principles



- **Build on our success:**

- **Revamped the Personal Income tax to improve the State's competitive position**
- **Reformed our State pension systems to ensure that they are affordable to taxpayers and sustainable for employees**
- **Restructured transportation financing to replace costly borrowing with pay as you go funding for State match**
- **Invested \$79.3 million in education funding since FY 2011 to ensure a successful implementation of a new funding formula**

Governor Chafee's Budget Principles



- **Improving Rhode Island's Competitive Position**
 - **Ensures no increases in any taxes, fees or charges**
 - **Reduces the State's corporate tax rate from 9.0 percent to 7.0 percent over the next three years**
 - **Invests \$600,000 more in our tourism marketing efforts**
 - **Invests \$500,000 in I-195 Commission for Knowledge District**
 - **Adds \$150,000 to help establish an ongoing economic analysis arm in concert with the State's higher education institutions**

Governor Chafee's Budget Principles



- **Enhancing our Education and Workforce Systems**
 - **Fully funds the third year of our new school aid formula and categorical programs with an additional \$30.3 million**
 - **Invests \$6.0 million of new funding to ensure there are no tuition increases in the State's higher education institutions**
 - **Invests \$3.0 million to support workforce development initiatives and expand internships throughout the State**
 - **Initiates a Pilot program to provide an enhanced child-care subsidy, coupled with subsidized employment using Federal funds, to help low income Rhode Islanders get back to work**

Governor Chafee's Budget Principles



- **Supporting our Struggling Cities and Towns**
 - **Fully funds the third year of our new school aid formula with an additional \$30.3 million**
 - **Adds \$5.0 million in FY 2013 and \$5.0 million in FY 2014 to increase Distressed Community Relief Aid to \$15.4 million annually**
 - **Creates new \$10.0 million incentive aid program in FY 2014 allocated by population to encourage communities to begin improving local pension plans**

Governor Chafee's Budget Principles



- **Investing and Maintaining our Infrastructure**
 - **Advances \$11.0 million in RICAP projects to move projects quickly to get Rhode Islanders back to work**
 - **Modifies Historic Tax Credit to provide access to abandoned tax credits to entice investment in our urban centers**
 - **Allocates \$10.0 million of RICAP to local roads & streetscapes to assist cities and towns improve their communities**
 - **Invests \$2.5 million in RICAP funding to make improvements to Rocky Point so it is accessible to all**

FY 2013 Revised Budget Plan



**Provide a government taxpayers can afford
by holding all agencies accountable for
current year spending**

Overview – FY 2013 Revised Budget



FY 2012 Closing

Summary

- FY 2012 Audited Closing shows expenditures \$29.1 million less than enacted and revenues \$13.3 million more than enacted.
- Net Surplus was \$21.3 million more than anticipated.

	Enacted	Current	Change
Opening	\$68.8	\$68.8	\$0.0
Revenues	3,257.4	3,270.7	13.3
Rainy Day	(93.0)	(93.4)	(0.4)
Expenditures	(3,139.3)	(3,110.2)	29.1
Trans. to Retirement	-	(12.9)	(12.9)
Closing Surplus	\$93.9	\$122.9	\$29.0
Re-appropriation	-	(7.7)	(7.7)
Free Surplus	\$93.9	\$115.2	\$21.3

Overview – FY 2013 Revised Budget



FY 2013 Highlights

Summary

- Governor Chafee’s revised FY 2013 general revenue spending plan is \$28.1 million **less** than enacted.
- All departments and agencies’ general revenue spending are at or below enacted levels - any increases relate to FY 2012 re-appropriated funds or Hurricane Sandy related expenditures.
- Projected FY 2013 surplus of \$79.3 million.

	Enacted	Governor	Change
Opening	\$93.9	\$135.9	\$42.0
Revenues	3,320.9	3,331.2	10.3
Rainy Day	(102.4)	(103.8)	(1.3)
Expenditures	(3,295.8)	(3,267.7)	28.1
Trans. to Retirement/Other	(16.4)	(16.4)	0.0
Closing Surplus	\$0.1	\$79.3	\$79.1

Overview – FY 2013 Revised Budget

Revenue Summary

- Governor's revenue plan is \$10.3 million more than Enacted.
- Budget includes an additional \$7.5 million due to November REC.
- Includes \$4.4 million in anticipated hospital payment.
- Includes transferring \$1.6 million to prepare for table games.

	FY 2013 Enacted	FY 2013 Governor	Change
Enacted	\$3,320.9	\$3,320.9	-
November REC		7.5	7.5
Governor			
- Hospitals		4.4	4.4
- Table Gaming		(1.6)	(1.6)
Total	\$3,320.9	\$3,331.2	\$10.3



Overview FY 2013 Revised

All agencies spend at or below the enacted level, and are implementing corrective actions plans.

Includes \$24.3 million less in caseload obligations due to CEC.

Includes \$7.7 million in re-appropriations from FY 2012.

Includes nearly \$1.1 million in costs associated with Hurricane Sandy not reimbursable.

Expenditures - General Revenues	FY 2013 Enacted	FY 2013 Governor	Change
General Government	\$441.8	\$447.0	\$5.2
Human Services	1,294.5	1,269.9	(24.6)
Education	1,118.0	1,113.1	(4.9)
Public Safety	404.7	401.2	(3.5)
Environment	36.8	36.5	(0.3)
Total	\$3,295.8	\$3,267.7	(\$28.1)

General Government increase includes \$5.0 million in new Distressed Community Relief Aid, \$1.0 million for Workforce Initiative and other changes to debt service expenditures.



Overview FY 2013 Revised

Governor Chafee has proposed adding \$5.0 million in FY 2013 for Distressed Aid to assist our struggling urban centers, increasing the fund to \$15.4 million.

The Governor has proposed to continue the Distressed Aid program at \$15.4 million in FY 2014 and thereafter.

Local Aid	FY 2013 Enacted	FY 2013 Governor	Change
PILOT	\$33.1	\$33.1	-
Distressed	10.4	15.4	5.0
Library	11.2	11.2	-
Motor Vehicle	10.0	10.0	-
Total	\$64.7	\$69.7	\$5.0

Distressed Community Relief Aid targets those cities and towns that are struggling the most.

FY 2014 Budget Plan



**Hold the line on taxes and target investments
to improve the State's competitive position
and its educational infrastructure**

Overview – Economic Forecast Summary



Percent Change	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Inflation (CPI)	1.9	2.5	2.6	2.4	2.3	2.3
Personal Income	2.6	5.1	7.0	6.5	5.7	4.4
Wages and Salaries	2.6	5.7	7.0	7.0	6.4	4.8
Nonfarm Employment	-0.4	1.2	3.0	3.2	1.9	0.6
Unemployment Rate	10.4	9.7	7.9	6.6	5.5	5.3

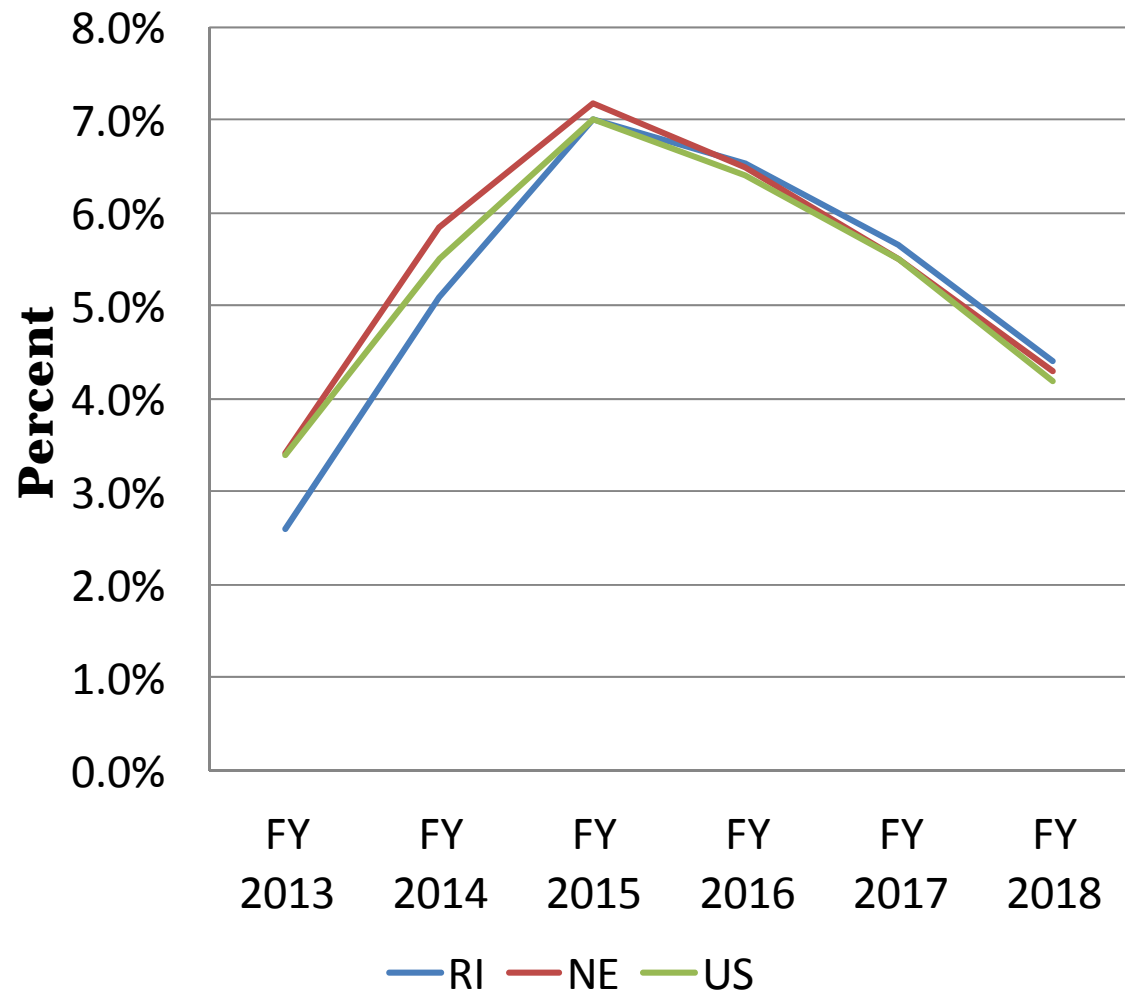


Economic Forecast

State continues its slow recovery from a severe and prolonged recession.

Personal income, wages and salaries and other economic indicators will continue to grow modestly and show continuous improvement, yet lag the region and the U.S.

Personal Income Growth

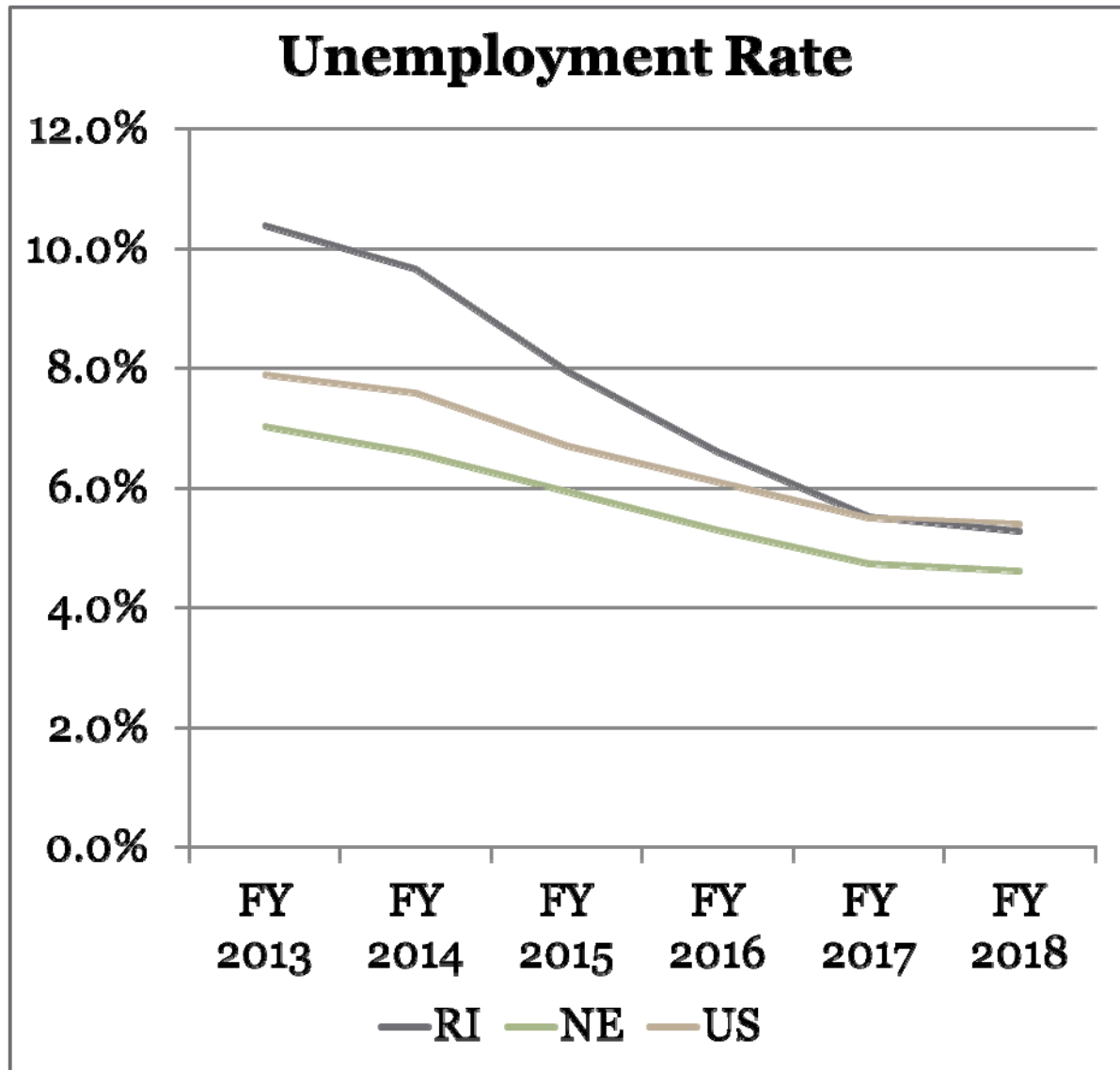




Economic Forecast

November 2012
Economic Forecast
provided by Moody's
was less optimistic than
the prior May.

Risks to the forecast
include uncertainty in
Washington actions
that may be taken to
resolve "fiscal cliff" and
European economies
continue to struggle.



Overview – FY 2014 Budget Plan



FY 2014 Budget Statement

General Revenues

- Opening Surplus of \$79.3 million is \$14.0 million less than what was built into the FY 2013 Enacted Budget (\$93.3 million).
- FY 2014 General Revenue expenditures are projected to increase by \$131.5 million, or 4.0% over FY 2013 revised spending.
- Resolves a projected \$128.0 million deficit.

	FY 2013 Revised	FY 2014 Governor	Change
Opening	\$135.9	\$79.3	(\$56.6)
Revenues	3,331.2	3,426.4	95.2
Rainy Day	(103.8)	(105.2)	(1.4)
Expenditures	(3,267.7)	(3,399.2)	(131.5)
Trans. to Other Funds	(16.4)	0.0	16.4
Closing Surplus	\$79.3	\$1.3	(\$78.0)

Overview – FY 2014 Budget Plan

Providing Government Taxpayers can Afford

All Funds Summary

- FY 2014 All Funds Budget of \$8,172.5 million is \$92.8 million, or 1.2% more than the FY 2013 Revised Plan.
- Human Services continues to represent the largest portion of spending, representing nearly 40.6% of the total State budget.
- The State will spend more than \$2.3 billion in support of its education efforts in FY 2014.

	FY 2013 Revised	FY 2014 Governor	Change
General Gov't	\$1,537.1	\$1,430.7	(\$106.4)
Human Services	3,162.8	3,316.7	153.9
Education	2,280.8	2,318.8	38.0
Public Safety	526.8	524.6	(2.2)
Environment	104.9	111.7	6.8
Transportation	467.3	469.9	2.6
Total	\$8,079.7	\$8,172.5	\$92.8

Overview – FY 2014 Budget Plan

Providing Government Taxpayers can Afford

- General Revenues increase by \$131.5 million, or 4.0%, over FY 2013 Revised Plan.
- Budget resolves a projected \$128.0 million deficit without increasing any broad based taxes.
- Includes over \$40.0 million in Gubernatorial initiatives, including funds for education, local aid and tax relief.

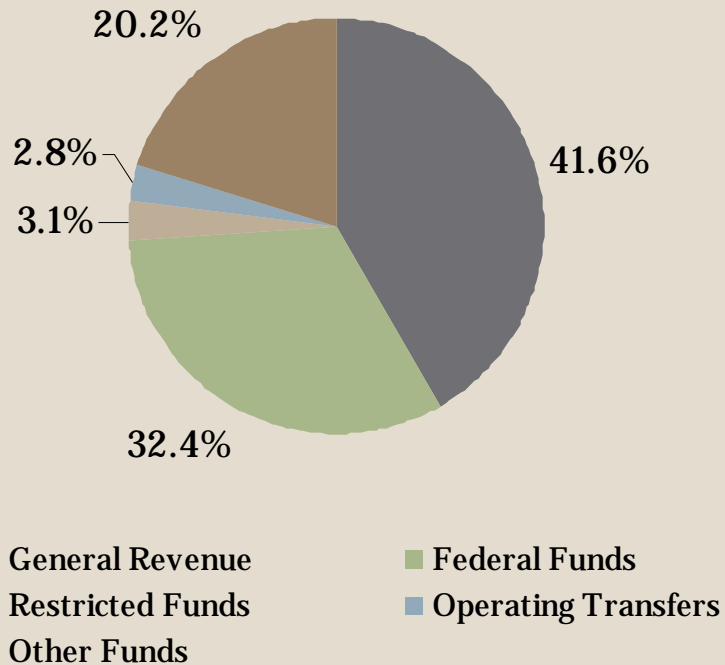
General Revenue Summary

	FY 2013 Revised	FY 2014 Governor	Change
General Gov't	\$447.0	\$456.6	\$9.6
Human Services	1,269.9	1,336.9	67.0
Education	1,113.1	1,154.3	41.2
Public Safety	401.2	414.2	13.0
Environment	36.5	37.2	0.7
Total	\$3,267.7	\$3,399.2	\$131.5

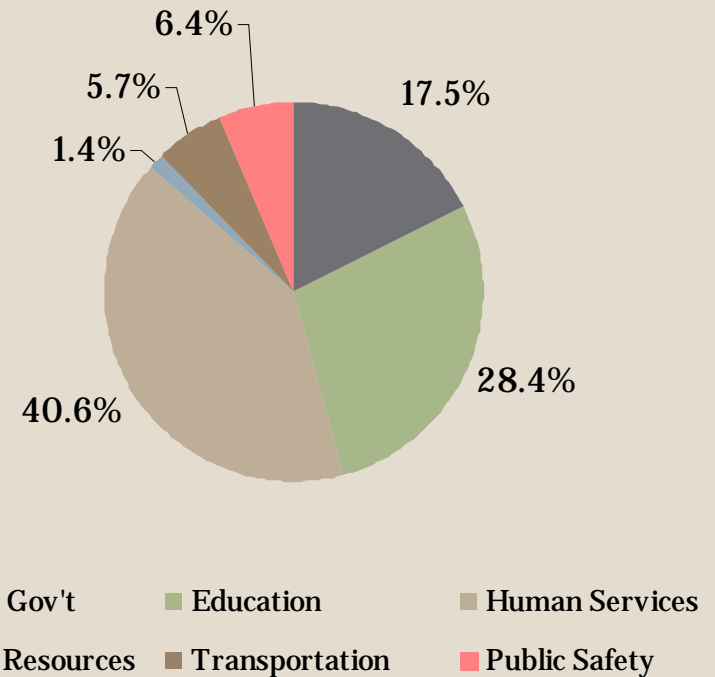
Overview – FY 2014 Budget Plan



Where Does it Come From?



Where Does it Go?



Overview – FY 2014 Budget Plan

Holding the Line on Taxes

- Governor Chafee’s FY 2014 budget plan does not increase any taxes, fees or charges to support spending.
- Plan is based on \$3,429.4 million in projected revenue based on the November Revenue Conference.
- Assumes \$8.9 million less in revenue based on the Governor’s initiatives.

Revenue Summary

	FY 2014 Governor
November REC (with HLF)	\$3,429.4
Corporate Tax Rate Reduction	(5.3)
Table Gaming Transfer	(4.3)
Enhance Taxation's Investigations Unit and Out of State Collections	2.0
Eliminate Hazardous Substances Right to Know Fee	(0.4)
Hospital Payments	5.6
Other Changes	(0.6)
Total	\$3,426.4

Overview – FY 2014 Budget Plan

Reducing the Corporate Tax Rate to 7.0 percent

- Governor Chafee proposes to reduce the corporate tax rate from 9.0% to 7.0% over three years;
- Revenue losses are partially offset by reducing the Jobs Development Tax Act by 50.0% & eliminating the Enterprise Zone Credit.
- Alaska, Illinois, Iowa, Minnesota, New Jersey and Pennsylvania have equal or higher corporate tax rates than Rhode Island.

*CT rate to decrease to 7.5% on 1/1/14 under current law.

Corporate Tax Rankings (Tax Foundation)

	Current Rate	Rank	Reformed Rate	Rank
CT*	9.0	43	9.0	44
ME	8.9	42	8.9	43
MA	8.0	34	8.0	35
NH	8.5	37t	8.5	38t
RI	9.0	43	7.0	26
VT	8.5	37t	8.5	38t
US	7.6	-	7.35	-

Overview – FY 2014 Budget Plan



To enhance the State's business climate, Governor Chafee proposes to reduce the RI Corporate Tax rate from 9.0% to 7.0% over three years:

- Year one – to 8.0%
- Year two – to 7.5%
- Year three – to 7.0%
- Thereafter – 7.0%

Proposed Corporate Tax Changes	TY 2014	TY 2015	TY 2016	TY 2017
Proposed Corporate Tax Rate	8.00	7.50	7.00	7.00
Reduce the Jobs Development Tax Act	25.0%	50.0%	50.0%	50.0%
Eliminate the Enterprise Zone Credit	100.0%	100.0%	100.0%	100.0%
Fiscal Year Impact	FY 2014	FY 2015	FY 2016	FY 2017
Estimated Revenue Loss	(\$5.3)	(\$12.9)	(\$20.1)	(\$25.2)

Overview – FY 2014 Budget Plan



Getting Rhode Islanders back to work

- Governor Chafee's budget invests \$3.0 million for workforce development (\$1.0 million in FY 2013 and \$2.0 million in FY 2014).
- Budget uses \$3.0 million in TANF funds to pilot an enhanced child care subsidy coupled with subsidized employment to help get low-income Rhode Islanders back to work.

\$3.0 Million Workforce Development Initiative

- Invests \$2.5 million to create a statewide internship program
- Reimburses business for 50% of the internship, as long as they provide no less than 100% minimum wage.
- Up to 425 internships in FY 2013.
- Up to 1,050 internships in FY 2014
- Invests \$500,000 to encourage the eight GWB Industry to engage private sector in the state's economic recovery.

Overview – FY 2014 Budget Plan

Supporting Cities and Towns

Summary

- Governor Chafee adds \$20 million in local aid - \$5.0 million in FY 2013 and \$15.0 million in FY 2014.
- \$10.0 million is in additional Distressed Aid, of which \$5.0 million would be allocated in FY 2013 and \$5.0 million in FY 2014.
- \$10.0 million is incentive aid distributed based on population to incentivize communities to improve local pension plans.

Local Aid	FY 2013 Enacted	FY 2014 Governor	Change
PILOT	\$33.1	\$33.1	-
Distressed	10.4	15.4	5.0
Library	11.3	11.3	-
Motor Vehicle	10.0	10.0	-
Incentive Aid	-	10.0	10.0
Total	\$64.7	\$79.7	\$15.0

Overview – FY 2014 Budget Plan

Improving our infrastructure

- Governor Chafee's FY 2014 budget shifts \$10.0 million in gas tax supported debt service to general revenue to free up funding for transportation.
- Includes \$1.0 million annually to purchase heavy equipment for the Department of Transportation.
- Includes \$17.2 million over five year plan to repair vocational schools across the State.
- Includes \$1.9 million in FY 2014 for asset protection costs for the Dunkin Donuts Center and the Convention Center.
- Invests \$2.5 million in RICAP funds to remediate and clean up Rocky Point to ensure all have access to this state asset.
- Includes \$5.2 million in general revenues over two years to invest in the Unified Health Infrastructure Project (UHIP).



Higher Education

Budget includes \$6.0 million in additional State support to ensure no tuition increase at any of the three public higher education institutions.

Each institution is responsible for balancing their budgets through additional operating savings.

RICAP funding has been moved up to ensure fire code compliance at facilities.

General Revenue	FY 2013	FY 2014	Change
University of Rhode Island	\$78.2	\$85.7	\$7.5
Rhode Island College	41.7	42.8	1.1
Community College of Rhode Island	46.8	46.4	(0.4)
Total	\$166.8	\$174.9	\$8.2

(Includes \$1.6 million in debt service adjustments)

The State's FY 2014 capital budget also includes approximately \$88.9 million in State support through General Obligation Bonds, pay-as-you-go funding, and other support to invest in the State's Higher Education facilities to ensure their useful lives extend to future generations of Rhode Islanders.



Education

Governor Chafee has included \$30.3 million in additional school aid to support the new funding formula and all categorical funding.

Both FY 2013 and FY 2014 include \$400,000 for the State's E-Rate match for federal funds.

Governor Chafee has included \$400,000 in grant support to the Telecommunications Authority to move them to private ownership.

School Aid	FY 2013 Revised	FY 2014 Governor	Change
Formula Aid (ex. State schools)	\$722.8	\$750.5	\$27.7
Categorical Aid			
- Transportation	2.2	3.3	1.1
- Regionalization Bonus	0.4	0.0	-0.4
- High Cost Special Ed	0.5	1.0	0.5
- Career and Technical	3.0	3.5	0.5
- Early Childhood	1.5	2.5	1.0
Subtotal	\$7.6	\$10.3	\$2.7
Total School Aid	\$730.4	\$760.8	\$30.3



Human Services

Governor Chafee preserved core human services programs ensuring a strong and viable safety net for our most vulnerable citizens.

The November Caseload Estimating Conference reduced projected medical assistance expenditures by \$24.3 million in FY 2013 and by \$21.9 million in FY 2014. expenses.

Cash and Medicaid	FY 2013 Enacted	FY 2013 Nov.	Change	FY 2014 Nov.
Cash Assistance	\$30.2	\$30.3	\$0.06	\$30.6
Medical Assistance				
- Managed Care	\$386.3	\$362.2	(\$24.1)	\$391.1
- Long Term Care	209.9	213.5	3.6	229.4
- Hospitals	107.3	106.1	(1.2)	110.0
- Pharmacy	52.4	52.2	(0.2)	55.4
- Other Services	43.8	41.4	(2.4)	49.1
Subtotal- Medical	\$799.6	\$775.3	(\$24.3)	\$834.9
Total	\$829.9	\$805.6	(\$24.3)	\$865.6

Overview – FY 2014 Budget Plan



- **Other Human Services Changes**

- The Budget eliminates COLAs for nursing homes and hospitals saving \$9.1 million in general revenue
- Budget reduces growth for managed care providers to 1.6%, saving \$4.4 million in general revenue
- Budget achieves savings through Federal matching opportunities in the Affordable Care Act totaling \$4.2 million
- Budget saves \$1.1 million by closing the Zambarano Group Home and expanding the Housing and Employment First programs in Department of Behavioral Health, Developmentally Disabled and Hospitals

Overview – FY 2014 Budget Plan



- **Public Safety Changes**

- Budget includes \$1.7 million to conduct a State Trooper class of 40 candidates. Also, includes \$2.1 million in salary & benefit costs for these troopers when they graduate and join the force.
- Budget includes \$700,000 in both FY 2013 and FY 2014 to support two Corrections Officer Classes of 40 candidates in each year.
- Budget includes \$1.9 million to operate the Rhode Island Statewide Communications Network (RISCON), including 1.0 additional FTE position.
- Budget includes \$3.0 million in RICAP funding to match FEMA funding for Hurricane Sandy-related clean-up and repair work.

Overview – FY 2014 Budget Plan



Environment

- Governor Chafee invests \$2.5 million in RICAP funding to prepare Rocky Point for public use.
- Budget includes \$3.2 million in RICAP funding for Galilee which will leverage \$2.9 million in federal matching funds.
- Governor included \$100,000 for an agricultural initiative to market Rhode Island agricultural products and local seafood.

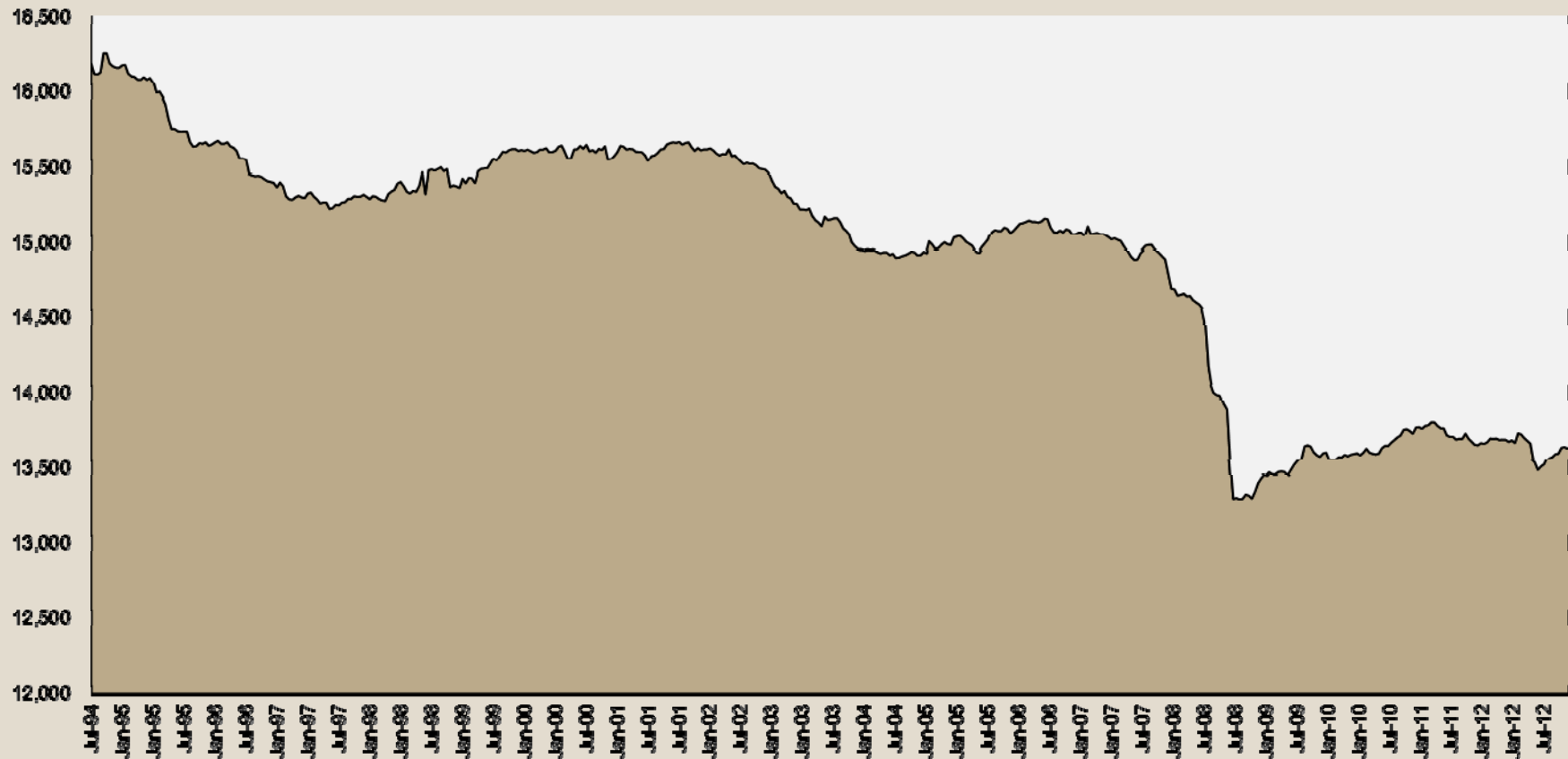
Transportation

- Budget shifts \$10.0 million in gas-tax supported debt service from DOT to the General Fund to free up resources for transportation.
- Budget includes \$3.3 million over two years to shift debt service from RIPTA to the general fund to relieve operating deficit
- Budget allocates \$10.0 million in RICAP funding to improve local roads and streetscapes.

Overview – FY 2014 Budget Plan



Filled FTE Positions



Overview – FY 2014 Budget Plan



How was the deficit resolved?

FY 2013 Revised Budget	(in millions)
Enacted Surplus	\$0.1
FY 2012 Closing Surplus	33.3
November REC/CEC	31.6
Proposed Revenue Changes	2.7
Expenditure Changes	
Governor's Initiative – Workforce Development	(1.0)
Governor's Initiative – Distressed Communities Aid	(5.0)
Debt Service Adjustments	3.2
Hurricane Sandy	(1.1)
Legislature Reduced Reappropriation	3.0
Education Aid Categories	4.9
Agency Savings	7.6
Projected Closing Balance	\$79.3

Overview – FY 2014 Budget Plan



How was the deficit resolved?

FY 2014 Governor's Recommended Budget	(in millions)
Current Services Projected Deficit	(\$128.3)
November REC/CEC (net of RDF transfer)	31.2
FY 2013 Closing Surplus (net of RDF transfer)	<u>77.0</u>
	(20.1)
Revenue Proposals	
Lottery Gaming Expenses	(4.2)
Corporate Tax Changes	(5.1)
Hazardous Substances Right to Know Fee	(0.4)
Taxation Initiatives (Investigations Unit/Out of State Collections)	1.9
Managed Care/Nursing Home COLA	(0.6)
Hospital Licensing Fee Receivable	<u>5.4</u>
	(2.9)
Net Deficit after Revenue Proposals	(23.0)

Overview – FY 2014 Budget Plan



How was the deficit resolved?

Expenditure Proposals	
Governor's Initiative – Workforce Development	(2.0)
Governor's Initiative – Distressed Communities Aid	(5.0)
Governor's Initiative – Municipal Incentive Aid	(10.0)
Governor's Initiative – Tourism (EDC)	(0.6)
Governor's Initiative – Higher Education Tuition Freeze	(6.0)
Level Fund PILOT/Library Aid	10.0
Debt Service Adjustments	5.6
DOA Benefits Initiatives	2.2
OHHS Proposals	19.2
Education Aid Categories	3.6
Other Agency Savings	<u>7.4</u>
Projected Ending Balance	\$1.4



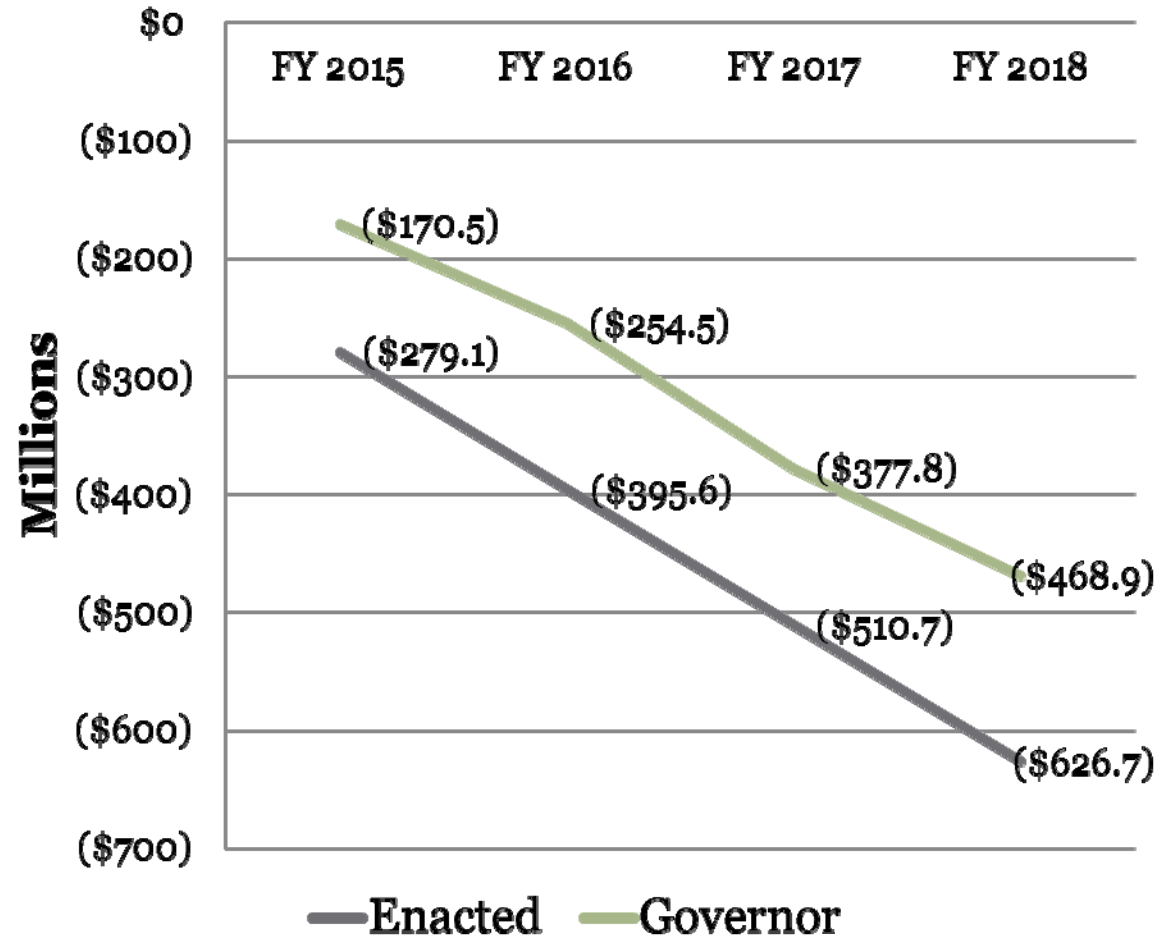
Projected Out - Year Forecast

Governor Chafee has worked to curtail spending and identify savings to improve the long-term outlook.

Projections prior to Governor action showed a deficit of \$279.1 million in FY 2015.

Governor Chafee's budget improves the out-year forecast, reducing the FY 2015 deficit to \$170.5 million.

General Revenue Out-year Estimates



Governor Chafee's FY 2014 Budget Plan



- **Governor's Budget focuses on fiscal discipline:**
 - All departments and agencies are being managed to budgets at or below the enacted levels in current year
 - Budget improves the out-year projections without relying on any tax increases
 - Budget is funded at a level Rhode Islanders can afford

- **Governor's Budget invests in:**
 - Keeps tuition affordable and invests in workforce training
 - Invests in schools and struggling municipalities
 - Addresses infrastructure needs throughout the state, extending the useful life of our State assets