State of Rhode Island and Providence Plantations

Executive Summary

Fiscal Year 2015

Lincoln D. Chafee, Governor

Dedication

This year's budget documents are dedicated to the
Memory of William V. Golas, Jr.
Sr. Budget Analyst 1987 - 2013

The image on the cover of this year's budget document is a Winter Scene of the State House from Artist **John Pitocco** ***of Providence and is reproduced by permission of the artist in collaboration with the Rhode Island State Council on the Arts.***

Appendix F
Five-Year Financial Projection

FY 2015 – FY 2019 Overview

Summary

This Five-Year Financial Projection has been prepared pursuant to Section 35-3-1 of the Rhode Island General Laws, which requires that, the Budget Officer:

> (6) Prepare a five-year financial projection of anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas, which projection shall be included in the budget submitted to the general assembly pursuant to subsection 35-3-7.

The five-year financial projection includes tables that present anticipated revenues and expenditures for the five fiscal years ending in June 2019. Also included are tables that provide detail on the planning values used in these projections. The planning values reflect policy assumptions, as well as economic and demographic forecasts.

The purpose of the five-year forecast is to provide a baseline fiscal outlook for the State of Rhode Island. Although the forecast may be used as a benchmark in assessing the affordability and desirability of alternative policy options, caution should be exercised in the interpreting of the forecast. Forward-looking estimates, such as those made in this forecast, are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially and adversely from those projected. Many of these risks, such as national economic and business conditions, political or legal impediments, are beyond the control of the State. The estimates and forecasts made here are as of the date they were prepared and will change as factors used in the forecasts change.

From the FY 2015 budget base, expenditures will exceed revenues in each of the out-years projected through FY 2019. The operating deficits by fiscal year are as follows: $151.1 million in FY 2016, $256.7 million in FY 2017, $330.5 million in FY 2018, and $419.3 million in FY 2019. In percentage terms, the deficits are projected to range from 4.2 percent of spending in FY 2016 to 10.4 percent of spending in FY 2019. The expenditure-side of the budget is estimated to increase at an average annual rate of 4.1 percent from the FY 2015 base to FY 2019. Inflation, however, as measured by the United States consumer price index for all urban consumers (CPI-U), is expected to grow at an average annual rate of 2.4 percent over this same period. A number of factors are responsible for the rate of growth above inflation, as discussed in detail below.

The expected opening of gaming facilities in Massachusetts in the coming years is projected to significantly impact out year revenues. Lottery transfers to the State general fund are projected to diminish by a total of $422.1 million over the five year forecast period, due to the increased competition to Rhode Island's gaming facilities in Lincoln and Newport. Without this impact on Rhode Island's revenues, the five year forecast would show deficits of $104.2 million in FY 2016, $157.2 million in FY 2017, $207.0 million in FY 2018 and $279.9 million in FY 2019. In FY 2016, the deficit would be 2.9 percent of expenditures, as opposed to the 4.2 percent under the current forecast, or a total of $103.4 million less. By FY 2019, the deficit would be 6.9 percent of expenditures, as opposed to the 10.4 percent under the current forecast, or a total of $139.4 million less.

The five year projection anticipates average annual general revenue growth of approximately 1.7 percent beyond the budget year, based upon the adopted November 2013 Revenue Estimating Conference forecast for the Rhode Island economy and the Governor's recommended changes to adopted revenues. The forecasts underlying the five year projection assumes that the recovery in the Rhode Island economy, which started in FY 2011, will pick up steam especially in FY 2015 through FY 2017. The underlying forecasts in FY 2015 anticipate significant growth for wage and salaries and personal income of 6.7 percent and 6.3 percent, respectively, while the FY 2016 forecast assumes acceleration in non-farm employment growth of 1.9 percent and a decrease in the unemployment rate to 6.6 percent.

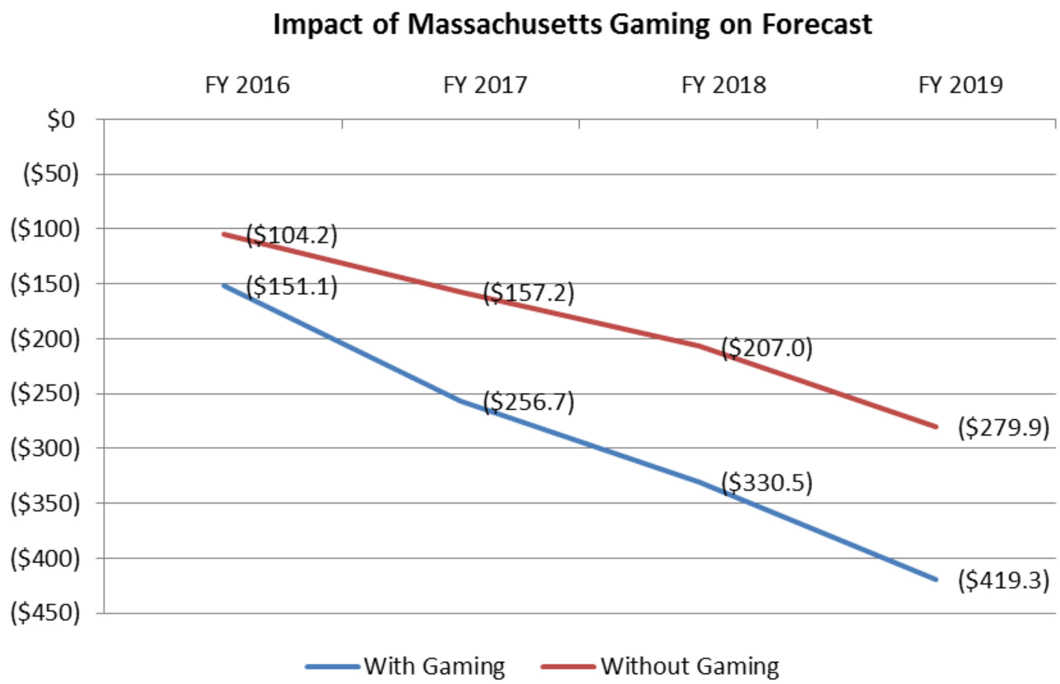
While FY 2015 shows a slight decline in general revenue growth when compared to FY 2014 from 3.0 percent to 2.0 percent, the Rhode Island economy is expected to begin a more robust recovery in FY 2015. General revenue growth remains positive for the FY 2016 to FY 2019 period at rates above 1.6 percent annually, as increased gaming competition in Massachusetts takes hold, starting in FY 2016. The impact of Massachusetts-based gaming facilities is significant as, absent their establishment, average general revenue growth in the FY 2016 through FY 2019 period would be 2.7 percent versus the 1.7 percent average annual growth rate currently projected.

Personal income is forecasted to grow at an average annual rate of 5.1 percent over the FY 2015 – FY 2019 period. Nonfarm employment is anticipated to grow at an average annual rate of 1.3 percent and wage and salary disbursements at an average annual rate of 5.5 percent over the same period. Dividends, interest and rent payments are forecasted to grow at an average annual rate of 6.3 percent over the FY 2015 – FY 2019 period, the strongest growth of any personal income component.

There are several risks to the revenue forecast. First, the economic forecast is a “graceful transition” to a higher interest rate regime as the Federal Reserve tapers its Quantitative Easing program. The “wild card” in the forecast is the impact that this transition to a higher interest rate regime has on the housing market. In particular, if the Federal Reserve’s taper from its Quantitative Easing program is too rapid and results in sharp increases in interest rates, then these sharp increases in interest rates may cause a steep decline in the demand for housing and the current economic forecast will likely be too optimistic. Conversely, if the Federal Reserve’s taper from its Quantitative Easing program is too slow and results in slight increases in interest rates, then these slight increases in interest rates may cause an increase in the demand for housing and the current economic forecast will likely be too pessimistic. Given housing’s pivotal role in the U.S. economy, unforeseen changes in housing demand will impact overall economic conditions and the nation’s economic recovery. Given Rhode Island’s position as a small open economy in what is effectively a common currency market, changes in the national housing market could have outsized effects on Rhode Island’s economic recovery and the State’s general revenues.

Second, the Rhode Island economy faces unique risks outside of those that impact the U.S. economy as a whole. Specifically, Rhode Island’s high concentration of defense procurement contracts per capita make the state’s economy vulnerable to federal decisions regarding defense spending and weapons procurement. Delays in the appropriation of defense spending will likely more adversely impact Rhode Island’s economy than those of other northeastern states and also reduce the rate of growth in important revenue sources such as the personal income tax. Further, Rhode Island’s aging and poor quality infrastructure and its weak human capital assets will continue to be a drag on the state’s economy and the state’s revenues absent the development of a cohesive long-term strategy to address not only these two areas but also Rhode Island’s relatively expensive energy costs.

Finally, the expansion of gaming in Massachusetts will impact the state’s general revenues via the lottery transfer. Two items are important in this regard. One is the timing of the opening of gaming facilities in Massachusetts. If Massachusetts’ gaming facilities become operational earlier than is estimated in the forecast, then general revenue growth will weaken sooner than is currently forecast. If Massachusetts’ gaming facilities become operational later than is estimated in the forecast, then general revenue growth will be stronger than is currently forecast. Second is the location of the gaming facilities in Massachusetts. The five year revenue projection assumes the Likely Case for the location of the racino and the three resort casinos in Massachusetts, as determined in the *Gaming Study and Economic Impact Analysis* prepared for the state by Christiansen Capital Advisors. If the locations of the Massachusetts gaming facilities are closer to the state's two gaming facilities, then a larger negative impact on general revenue growth will likely occur. If the locations of the Massachusetts gaming facilities are farther from the state's two gaming facilities, then a smaller negative impact on general revenue growth would be expected.



Highlights

The Governor does not recommend any major revenue enhancement initiatives in the FY 2015 budget that would seriously impact revenue forecasts in the FY 2016 – FY 2019 period. The provision of a use tax safe harbor for Rhode Island residents on the personal income tax return should provide the state some buffer against further rapid growth in purchases of taxable goods or services from remote sellers by Rhode Island consumers. Also, the addition of 10 revenue officers should provide for increased compliance with the state's tax code and result in increased revenues over the FY 2016 through FY 2019 period than would otherwise have been realized.

Economic Forecast and Revenues

The economic forecast was developed by the principals of the November 2013 Revenue Estimating Conference with input from the consulting economist at Moody's Analytics and respective staff. This forecast is derived from the U.S. macroeconomic model and the State of Rhode Island economic model that Moody's Analytics has developed. A detailed analysis of the conferees near-term economic forecast for the State is contained in The Economy section of the Executive Summary. In that section, particular attention is paid to how the state fared relative to the past year with respect to non-farm employment and personal income growth. In addition, a brief explanation of the actual economic performance of the State against the economic forecast contained in the FY 2014 budget is undertaken. Finally, the economic forecast is presented for the out-years through FY 2019.

FY 2015 – FY 2019 Overview

The biggest risk to the economic forecast is the sustainability of current trends of vital economic indicators for the United States and Rhode Island. Rhode Island's economic momentum has grown modestly over the year along with the national economy and strengthening business and consumer confidence could cause national and state economic growth to continue trending upward in the near-term. If Rhode Island's economy experiences stagnant growth relative to that of the U.S., then personal income, employment, and wage and salary growth will be reduced in the near-term and likely be pushed out toward the end of the forecast horizon contained in this document.

In particular, employment growth rates are expected to be positive for the FY 2015 – FY 2018 period and eventually drop to minimal growth for FY 2019. Rhode Island employment growth is estimated to be positive for the FY 2015 – FY 2018 period, with reduced but positive rates of growth projected in FY 2017 and FY 2018. In FY 2017, Rhode Island employment growth slows to 1.5 percent, a rate nearly three times FY 2013's growth rate of 0.5 percent. FY 2019 total non-farm employment is expected to eclipse 500,500 jobs which would be the highest level of employment in the last 20 years. In FY 2019, employment growth, however, slows to a rate of less than 0.1 percent, which would be the lowest growth rate since the depths of the Great Recession. Rhode Island personal income growth is expected to accelerate through FY 2016 before moderating each year for the FY 2017 – FY 2019 period. Personal income growth is projected to reach its peak in FY 2016 at a growth rate of 6.4 percent and then tick downward to an average annual growth rate of 4.3 percent for the FY 2017 – FY 2019 period.

The revenue projections contained in the five year forecast incorporate the Governor's proposed FY 2015 general revenue changes to estimates adopted at the November 2013 Revenue Estimating Conference. Overall revenues are expected to grow from $3.495 billion in FY 2015 to $3.744 billion in FY 2019. This is growth of $249.1 million, reflecting average annual growth of 1.7 percent. This revenue forecast includes the expected impact that the opening of gaming facilities in Massachusetts will have on the state's general revenues. Absent the opening of these facilities, the projected general revenues for FY 2019 would be $3.887 billion, an increase of $392.8 million over FY 2015 recommended revenues. This results in an annual average growth rate of 2.7 percent.

The FY 2015 five year revenue projection without the onset of gaming competition in Massachusetts but with tables games in operation at Twin River forecasts total general revenues of $3.887 billion in FY 2019. For the FY 2015 through FY 2019 period, the average annual rate of growth is 2.7 percent excluding the impact of Massachusetts gaming competition on Rhode Island. The current five year forecast, which incorporates the establishment of gaming competition in Massachusetts and the implementation of table games at Twin River, projects $3.744 billion of general revenue by FY 2019, resulting in $139.4 million less in resources than was projected without gaming competition in Massachusetts. The resulting average annual growth rate for the FY 2015 through FY 2019 period is 1.7 percent or slightly more than two-thirds of the FY 2015 through FY 2019 average annual growth rate without gaming competition in Massachusetts.

Expenditures

Expenditure side risks must also be noted within the five-year projection. There are initiatives contained in the Governor's FY 2015 budget that set the expenditure base at a lower level and therefore a risk to the forecast is the passage of those proposals and their successful implementation. Conversely, as described above, if revenues are better than forecast in the near or long-term, adjustments could, and likely would, be made to some of the Governor's expenditure proposals thus impacting out year projections.

A recurring risk to the five-year forecast relates to medical services inflation, utilization, and technological change. Beneficial changes in medical technology and the resultant change in utilization of medical services are especially difficult to forecast. These factors are particularly influential, since a significant part of the budget is driven by medical costs and since costs have been accelerating at a rapid rate. This impacts both the costs incurred for the clients the state services and its employees. While costs for medical care will continue to be an underlying driver of state personnel costs in the forecast, it is assumed that growth for state employee health benefit costs will average 5.9 percent annually through FY 2019. The forecast also assumes that state employees will continue to share in the cost of medical insurance premiums and costs will moderate due to proposed plan design changes.

Another expenditure side risk involves demographic shifts such as the aging of the baby-boomer population which will present a greater need to enhance and expand the infrastructure for elderly care towards the end of the five year horizon. Also of concern is the implementation of the Affordable Care Act and the impact this will have on state expenditures for medical services to Medicaid eligible citizens.

Personnel and Other Operations

The wage projections contained in the personnel estimates assume no cost of living adjustment (COLA) in FY 2015, as none has been negotiated with the state employee unions. As a proxy for any negotiated COLAs and step and educational incentive increases, increases using CPI have been included for FY 2015 and thereafter. In FY 2015, salary costs are projected to grow 2.54 percent, followed by increases of 2.44 percent, 2.75 percent, 2.78 percent and 2.81 percent in each fiscal year through FY2019.

The forecast reflects employee cost sharing that is expected to offset health insurance costs in FY 2015 and throughout the forecast period. Average employee cost sharing of 20.0 percent of medical premium cost in FY 2015 and thereafter is projected. This compares with average employee cost sharing of just 11.0 percent in FY 2009. Gross medical cost increases for health care premiums are expected to grow 5.9 percent annually on average in the forecast.

Pension reform legislation enacted in the fall of 2011 continues to have a major impact on the growth in benefits costs. According to actuarial projections by Gabriel, Roeder, Smith and Company, the annual required contribution rate for state employees is expected to increase from 24.33 percent in FY 2015 to a high of 24.79 percent in FY 2019. These rates are substantially lower than those projected at the time of enactment of the FY 2012 budget. At that time, the annual required contribution rate was projected to increase from 22.98 percent in FY 2012 to 36.34 percent in FY 2013 and 44.62 percent by FY 2017. Based upon projected payroll growth and the forecasted retirement contribution rates, the general revenue funded contribution for state employee members would grow from a projected $92.0 million in FY 2015 to $103.0 million in FY 2019, reflecting growth of $11.0 million in retirement costs, an average increase of 2.9 percent a year. As a result of lawsuits filed in opposition to the pension reform legislation, the Court has ordered mediation. Any mediated solution to these lawsuits could have an impact on out year pension costs.

Personnel and operating costs continue to be constrained during FY 2015. The current five year forecast assumes $1.026 billion of personnel and operating costs in FY 2015 and an average growth of 2.7 percent over the five year interval, resulting in an estimated cost of $1.039 billion in FY 2019, an increase of $113.2 million. This estimate incorporates the impact of a number of initiatives or other changes that will impact out year expenses. These include annualized savings from several initiatives included in the Governor's FY 2015 Recommended Budget.

Grants and Benefits

Grants and Benefits are projected to increase by an average of 5.2 percent annually from FY 2015 to FY 2019. This growth rate results in an increase of $265.1 million in this category of spending over the five year horizon. The growth rates used in the five year forecast were derived from state-specific Medicaid expenditure projections released by the Centers for Medicaid and Medicare Services (CMS) in June 2013. As these are national projections, they may or may not be valid for Rhode Island, but lacking more regionally applicable data, the State Budget Office selected these growth rates for use in this year's five year projections. Several projections under this section also use the CPI-U, particularly with respect to programs of (non-Medicaid) cash assistance.

The forecast for grants and benefits under the Office of Health and Human Services and the Department of Human Services is based on the assumption that the Federal Temporary Assistance to Needy Families Cash Assistance Program (TANF), known as the Rhode Island Works program (formerly FIP), and the Child Care Assistance Program will meet their stated objectives during the forecast period, that federal block grants will continue at current levels, and that Medicaid matching rates (FMAP) will remain close to those in effect for FY 2015.

The forecast assumes that eligibility and economic influences on RI Works/Child Care caseloads will result in increases in costs of approximately 2.4 percent annually. These exclusively reflect continuing additions for child care subsidies, which are extended to low-income families even after cash assistance clients gain access to unsubsidized employment. Federal block and matching grant resources are assumed to be insufficient to finance these incremental costs throughout the forecast period, and, therefore, general revenue dollars are added. No additional effects from the implementation of the new RI Works program are recognized in the estimates, and it is assumed that federal TANF resources will remain sufficient to meet the entire cost of the RI Works program throughout the forecast horizon. Supplemental Security Income (SSI) and non-medical General Public Assistance (GPA) payments are likewise forecasted to grow at an average rate of 2.4 percent throughout the five-year period.

The managed care forecast assumes that base costs will inflate on average at 5.7 percent per year until FY 2019. Incorporated into the FY 2015 expenditure base for managed care is a proposal in the Governor's Budget to reduce all Medicaid managed care capitation (i.e. monthly cost per member) rates, effective July 1, 2014, for savings totaling $10.8 million in general revenue. Rates will be negotiated so as to reduce average annual growth in these rates by 2.95 percentage points relative to the increases assumed at the November 2013 CEC. The Governor further recommends freezing (to FY 2013 levels, for one additional year) payment rates for inpatient and outpatient hospital services, yielding $3.0 million in general revenue savings within the managed care segment of the Medical Assistance program Savings attributable to other FY 2015 budgetary initiatives, which are detailed in the Health and Human Services section of the Executive Summary, are also embedded in the out-year projections for both managed care and the various other categories of Medicaid expenditure.

Similarly, cost trends in institutional long term care include an average annual growth rate of 6.3 percent from FY 2015 through FY 2019. For home and community based long-term care, the growth rate over the forecast horizon is estimated at 7.9 percent. The FY 2015 expenditure base includes savings of $3.7 million for the suspension of the rate increase to nursing facilities scheduled for October 1, 2014.

Pharmacy inflation is assumed on average at 6.0 percent annually. Five-year estimates also reflect a schedule increasing federal "clawback" assessment charges for Part D Medicare benefits to dually eligible Medicaid clients.

The five year financial projection for Medical Assistance expenditures now incorporates the out-year implications of a key provision of the Patient Protection and Affordable Care Act (PPACA): the expansion of Medicaid coverage to non-pregnant adults without dependent children with incomes up to 138 percent of Federal Poverty Level, commencing on January 2014. Under PPACA, full federal financing of Medicaid services for the expanded eligibility population elapses on December 31, 2016, after which the federal matching rate declines incrementally until reaching 90 percent for 2020 and thereafter. Commencing in FY 2017, the forecast includes general revenue totaling $58.0 million spanning the projection period to accommodate the loss of 100 percent federal financing.

The general revenue expenditures within the Services for the Developmentally Disabilities Private System are projected to increase from $91.7 million in FY 2015 to $107.9 million in FY 2019, which equates to an average annual growth rate of 4.2 percent over the five-year period. There are several factors that could significantly impact expenditures during the forecast period. These include general economic conditions that negatively impact Rhode Islanders; the aging of caregivers; the aging of the existing population; and greater public awareness of the availability and, therefore, the utilization of services. Efforts to restructure the network of providers serving persons with developmental disabilities and efforts to increase shared living arrangements over and above those contained in the Governor's FY 2015 Budget could serve to constrain growth below those contained in the projection. It should be noted that the expenditures only reflect the residential, day program, respite and supported employment services. Medical costs under the Medicaid program are reflected in the Executive Office of Health and Human Services' grant costs.

Behavioral Healthcare Services also increase from FY 2015 through FY 2019. This five-year projection includes a general revenue increase of $5.8 million from the FY 2015 recommended level of $32.8 million in Mental Health Services and a general revenue increase of $0.5 million from the FY 2015 recommended level of $3.1 million in Substance Abuse Services. This equates to an average annual growth rate of 4.2 percent for each program over the five-year period.

Cost trends for general revenue state match expenditures to the Medicaid, Title IV-E, and other grant programs in the Department of Children Youth and Families are projected to grow from $90.8 million to $106.9 million between FY 2015 and FY 2019. This increase of $16.0 million over the five year period is based on the projected growth rate for Medicaid Services, which equates to a growth rate of 4.2 percent over the five-year period.

Local Aid

Local aid expenditures include education aid, the Motor Vehicle Excise Tax Reimbursement, aid to local libraries comprised of Library Resource Sharing and Library Construction Aid, the Payment in Lieu of Taxes (PILOT) program, the Property Revaluation program, the Distressed Communities Relief program and the Governor's new Municipal Incentive Aid program. The Motor Vehicle Excise Tax Reimbursement, Distressed Communities, and PILOT are level funded over the period; Motor Vehicle Excise Tax at $10.0 million, Distressed Communities at $15.4 million, and PILOT at $35.1 million. Growth in Library Resource Sharing, Library Construction Aid and the Property Revaluation program are forecasted based on proposed schedules from the responsible programs. The Municipal Incentive Aid program is budgeted at $5.0 million in FY 2015 and FY 2016.

In dollar terms, the largest driving force behind local aid expenditure growth from FY 2015 to FY 2019 is Education Aid programs, which are expected to increase by a total of $143.6 million from the FY 2015 base level of $1,009.6 million. This growth is a direct result of the new education aid funding formula which contains a ten year transition period. Districts that stand to gain money will do so over a seven year period, while losing districts will gradually lose funding over the full ten years. In general, because of how the transition rules are structured, districts losing money are given more time to adjust, causing the early years of the transition period to cost more. Formula aid for the purposes of the five year forecast includes aid to districts, charter schools, Central Falls and the Met School.

The funding formula is primarily data driven. As a result, changes may occur in the core instruction amount, the state share calculation, increases or decreases in student populations, changes in median family income, student movement between charter schools or state schools, as well as increases or decreases in free and reduced lunch students. To plan for these changes, a 5.0 percent annual growth rate has been included within the five year forecast. The five year estimate also includes financing for five education aid categorical funds. These categorical funds are projected to increase by $19.4 million, from $13.3 million to $32.7 million over the five years.

State contributions for teachers' retirement increase by $13.9 million, from $89.8 million in FY 2015 to $103.7 million in FY 2019. Projections for future required employer contributions to the teachers' retirement fund reflect a 2.0 percent teacher payroll growth and increased state contribution rates from 9.19 percent in FY 2015 to 9.84 percent in FY 2019. Housing aid, which reimburses communities for part of the debt incurred for new school construction is projected to increase by $2.5 million, from $67.9 million to $70.4 million, assuming the minimum state share ratio remains at 35.0 percent over the next five years.

Capital

The projection of capital project disbursements and debt service costs reflects updated debt service projections as included in the FY 2015 – FY 2019 Capital Improvement Plan. General revenue funded debt service on all tax supported obligations is projected to increase from $214.9 million in FY 2015 to $247.0 million in FY 2018, an increase of $32.1 million. The increase is attributable to the issuance of debt for the Historic Tax Credit program, and including funding for debt service on the $75.0 million issuance under the Commerce Corporation Job Creation Guaranty program, which adds approximately $12.5 million annually beginning in FY 2015. Also included in the five year projections is continuation of the Governor's proposal to shift financing of transportation debt service from the Intermodal Surface Transportation Fund to general revenue over a five year period which began with the General Assembly shifting $8.0 million to general revenue funding in the FY 2013 enacted budget. The Governor's FY 2015 budget increases this shift by $10 million to $19.3 million and the five year projections assume this increases by $10 million annually until all such debt service is moved. This adds over $38.0 million in general revenue expenditures by FY 2019.

The five year forecast is based upon outstanding debt and projected new debt contained in the Governor's recommended FY 2015 - 2019 Capital Budget. Interest rates for fixed rate general obligation bonds to be issued to fund projects are projected at between 4.5 percent and 5.0 percent. Interest rates for issuance of twenty-year fixed rate certificates of participation are estimated at 5.0 percent. Historic Tax Credit debt is projected to be issued at 4.5 percent over nine years in 2014, 2016 and 2018. Projected amortization schedules are found in the exhibits contained in Appendix C of the Capital Budget document.

Amortization of existing debt combined with new debt issuance, results in increased general revenue appropriations for debt service of $32.1 million from FY 2015 to FY 2019. Disbursements for capital projects are reflected as Rhode Island Capital Plan Fund expenditures, not general revenue, and therefore are not reflected in the five-year report as operating costs. Between FY 2015 and FY 2018, there is an increase of $10.5 million for debt for the Historic Tax Credit stabilization program, which decreases by $14.5 million in FY 2019 as the first issuance of this debt is paid off. General obligation debt, which includes the assumption of debt service from DOT over this period, increases by $36.0 million. Performance based obligations remain at $7.0 million over the five year period. Debt service on certificates of participation increase by $1.2 million from $30.6 million in FY 2015 to $31.9 million in FY 2019. This includes issuance for new COPS authorization for an integrated tax system and an LEA Technology program and for two new proposals contained in the Governor's FY 2015 Budget. Convention Center debt service declines by $1.4 million over the five year period.

The projected general revenue requirements for debt service are dependent upon the allocation of debt service costs to other sources of funds. As stated above, however, the Governor recommends that debt service on transportation debt, which is currently funded with gas tax proceeds, be shifted to general revenue financing over a five year period, which began with a shift of $8.0 million in FY 2013. As a result of the financing plan enacted by the General Assembly in the 2011 session, the use of debt to provide matching funds for federal highway funding will be discontinued by FY 2016 and thus no new debt will be issued for this purpose after that time. The five year forecast reflects the transition of debt service from gas tax financing to general revenue financing beginning in FY 2013 at a cost of $8.0 million and increasing to $9.25 million in FY 2014 and by an additional $10.0 million each year until all transportation debt service is financed from general revenues by FY 2018. As part of the FY 2014 revised and FY 2015 budgets, the Governor recommends that debt service on general obligation bonds issues on behalf of the Rhode Island Public Transit Authority be moved to general revenue funding to assist the Authority in addressing an operating deficit. This transfer to general revenue, however, is not recommended to continue past FY 2015 and thus is not incorporated into the five year projections.

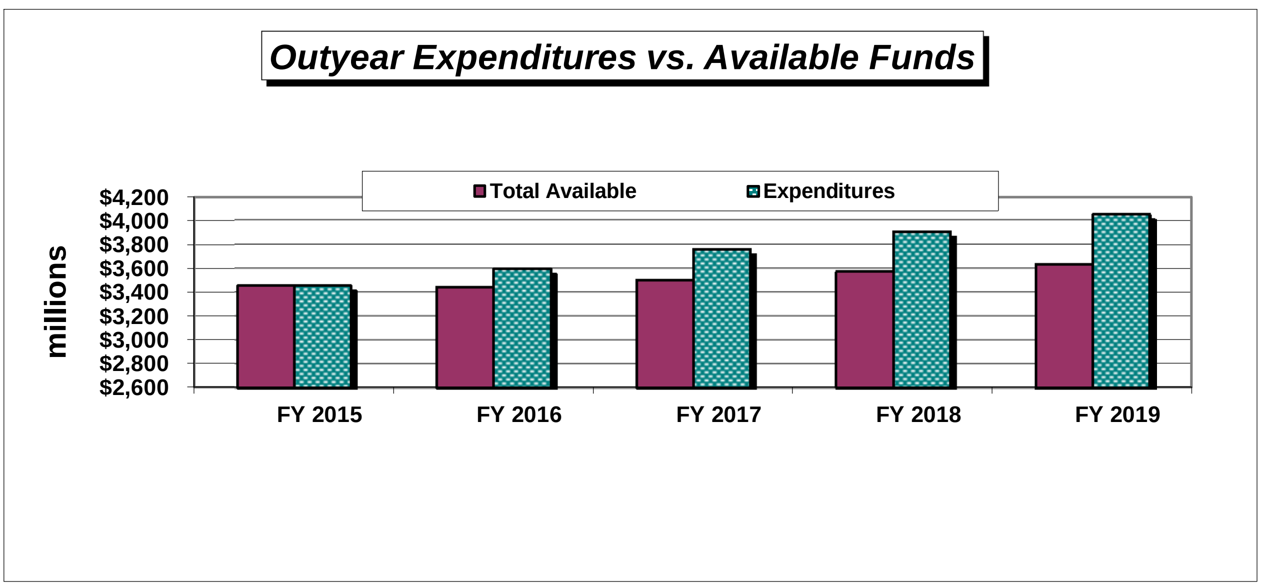
The obligations arising from performance based contracts between the Rhode Island Commerce Corporation and private entities are projected to require the same amount of state appropriations due to the projected achievement of performance targets. Fidelity job rent credits are expected to result in a state obligation of $3.5 million through the forecast period. The FY 2014 obligation reflects projected payments of $2.488 million on Phase I, plus $0.9 million due on Phase II. The forecast assumes no requirement for the Bank of America (Fleet) obligation transaction, which if earned would total approximately $0.3 million. The Providence Place Mall sales tax is expected to continue to fund the maximum $3,560,000 debt service.

Other

The projection also assumes that capital disbursements from general revenues would be $4.4 million in FY 2015 and thereafter. This includes all expenditures that would be subject to fixed assets recording.

General Revenue Outyear Estimates FY 2015 - FY 2019

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Opening Surplus [1]	**$68.9**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Plus:					
Taxes and Departmentals	3,082.0	3,182.8	3,290.0	3,381.8	3,445.0
Other Sources (incl. Lottery)	412.5	368.7	320.3	304.6	298.6
Budget Stabilization Fund	(106.9)	(106.5)	(108.3)	(110.6)	(112.3)
Total Available	**3,456.5**	**3,444.9**	**3,501.9**	**3,575.8**	**3,631.3**
Minus Expenditures	**3,456.1**	**3,596.1**	**3,758.6**	**3,906.3**	**4,050.6**
Equals Ending Balance	**$0.4**	**($151.1)**	**($256.7)**	**($330.5)**	**($419.3)**
Operating Surplus or Deficit	***($68.5)***	***($151.1)***	***($256.7)***	***($330.5)***	***($419.3)***
Budget & Cash Stabilization Balance	$178.2	$176.9	$179.8	$183.5	$186.5
RI Capital Fund Balance	$24.3	$6.5	$1.6	$10.5	$31.5
Rhode Island Capital Fund					
Capital Projects Disbursements	*$152.3*	*$125.1*	*$100.0*	*$97.4*	*$88.0*



[1] *Under the Rhode Island Constitution, the budget must be balanced each year, thus deficits in any given fiscal year cannot be carried forward to the ensuing fiscal year.*

General Revenue Outyear Estimates

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Personal Income Tax	**$ 1,158,300,000**	**$ 1,215,330,000**	**$ 1,277,000,000**	**$ 1,320,520,000**	**$ 1,344,740,000**
General Business Taxes:					
Business Corporations	133,910,000	141,030,000	153,700,000	164,910,000	176,530,000
Public Utilities	97,500,000	98,110,000	99,490,000	100,750,000	102,010,000
Financial Institutions	4,500,000	5,070,000	6,020,000	6,220,000	4,960,000
Insurance Companies	107,740,000	112,090,000	117,630,000	122,080,000	124,900,000
Bank Deposits	2,900,000	3,040,000	3,190,000	3,330,000	3,470,000
Health Care Provider	43,860,000	44,880,000	46,100,000	47,490,000	48,890,000
General Business Taxes	**$ 390,410,000**	**$ 404,220,000**	**$ 426,130,000**	**$ 444,780,000**	**$ 460,760,000**
Sales and Use Taxes:					
Sales and Use	937,510,000	970,590,000	997,550,000	1,024,280,000	1,050,910,000
Motor Vehicle	50,800,000	50,850,000	51,400,000	53,440,000	52,350,000
Motor Fuel	700,000	930,000	910,000	940,000	930,000
Cigarettes	133,150,000	129,010,000	124,850,000	120,780,000	117,030,000
Alcohol	17,000,000	13,110,000	13,430,000	13,750,000	14,060,000
Controlled Substances	-	-	-	-	-
Sales and Use Taxes	**$ 1,139,160,000**	**$ 1,164,490,000**	**$ 1,188,140,000**	**$ 1,213,190,000**	**$ 1,235,280,000**
Other Taxes:					
Inheritance and Gift	31,800,000	32,230,000	32,770,000	33,800,000	35,110,000
Racing and Athletics	1,100,000	1,040,000	990,000	940,000	870,000
Realty Transfer Tax	8,400,000	8,330,000	8,230,000	8,230,000	8,430,000
Other Taxes	**$ 41,300,000**	**$ 41,600,000**	**$ 41,990,000**	**$ 42,970,000**	**$ 44,410,000**
Total Taxes	**$ 2,729,170,000**	**$ 2,825,640,000**	**$ 2,933,260,000**	**$ 3,021,460,000**	**$ 3,085,190,000**
Total Departmental Receipts	352,870,000	357,100,000	356,690,000	360,300,000	359,770,000
Taxes and Departmentals	**$ 3,082,040,000**	**$ 3,182,740,000**	**$ 3,289,950,000**	**$ 3,381,760,000**	**$ 3,444,960,000**
Other Sources					
Gas Tax Transfers	-	-	-	-	-
Other Miscellaneous	2,480,000	2,270,000	2,270,000	2,270,000	2,270,000
Lottery Commission Receipts	399,900,000	356,130,000	307,470,000	291,530,000	285,290,000
Unclaimed Property	10,100,000	10,310,000	10,560,000	10,800,000	11,040,000
Other Sources	**$ 412,480,000**	**$ 368,710,000**	**$ 320,300,000**	**$ 304,600,000**	**$ 298,600,000**
Total General Revenues	**$ 3,494,520,000**	**$ 3,551,450,000**	**$ 3,610,250,000**	**$ 3,686,360,000**	**$ 3,743,560,000**

General Revenue Outyear Estimates - Percentage Changes

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Personal Income Tax	**3.4%**	**4.9%**	**5.1%**	**3.4%**	**1.8%**
General Business Taxes:					
Business Corporations	-1.5%	5.3%	9.0%	7.3%	7.0%
Public Utilities	1.7%	0.6%	1.4%	1.3%	1.3%
Financial Institutions	4.7%	12.7%	18.8%	3.3%	-20.2%
Insurance Companies	7.1%	4.0%	5.0%	3.8%	2.3%
Bank Deposits	0.0%	5.0%	4.7%	4.5%	4.3%
Health Care Provider	3.0%	2.3%	2.7%	3.0%	3.0%
General Business Taxes	**2.1%**	**3.5%**	**5.4%**	**4.4%**	**3.6%**
Sales and Use Taxes:					
Sales and Use	3.7%	3.5%	2.8%	2.7%	2.6%
Motor Vehicle	0.0%	0.1%	1.1%	4.0%	-2.0%
Motor Fuel	0.0%	33.2%	-2.8%	3.5%	-1.4%
Cigarettes	-2.3%	-3.1%	-3.2%	-3.3%	-3.1%
Alcohol	-6.6%	-22.9%	2.5%	2.4%	2.3%
Controlled Substances					
Sales and Use Taxes	**2.6%**	**2.2%**	**2.0%**	**2.1%**	**1.8%**
Other Taxes:					
Inheritance and Gift	0.0%	1.4%	1.7%	3.1%	3.9%
Racing and Athletics	-8.3%	-5.5%	-4.4%	-5.4%	-7.3%
Realty Transfer Tax	5.0%	-0.8%	-1.3%	0.0%	2.5%
Other Taxes	**0.7%**	**0.7%**	**0.9%**	**2.3%**	**3.4%**
Total Taxes	**2.8%**	**3.5%**	**3.8%**	**3.0%**	**2.1%**
Total Departmental Receipts	**-0.5%**	**1.2%**	**-0.1%**	**1.0%**	**-0.1%**
Taxes and Departmentals	**2.4%**	**3.3%**	**3.4%**	**2.8%**	**1.9%**
Other Sources					
Gas Tax Transfers	n/a	n/a	n/a	n/a	n/a
Other Miscellaneous	-78.8%	-8.3%	0.0%	0.0%	0.0%
Lottery Commission Receipts	1.4%	-10.9%	-13.7%	-5.2%	-2.1%
Unclaimed Property	-7.3%	2.1%	2.4%	2.3%	2.2%
Other Sources	**-1.0%**	**-10.6%**	**-13.1%**	**-4.9%**	**-2.0%**
Total General Revenues	**2.0%**	**1.6%**	**1.7%**	**2.1%**	**1.6%**

General Revenue Outyear Expenditure Estimates

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
State Operations					
Personnel	$887,700,000	$909,400,000	$934,400,000	$960,400,000	$987,400,000
Other State Operations	138,700,000	141,800,000	145,300,000	148,800,000	152,200,000
Impact of Initiatives/Other Changes	-	1,264,389	1,686,969	(92,045)	-
Subtotal	**$1,026,400,000**	**$1,052,464,389**	**$1,081,386,969**	**$1,109,107,955**	**$1,139,600,000**
		2.5%	2.7%	2.6%	2.7%
Grants and Benefits					
Executive Office of Health and Human Services & Department of Human Services					
Hospitals	16,640,000	17,500,000	18,470,000	19,300,000	20,410,000
Managed Care	536,990,000	567,250,000	596,090,000	629,060,000	669,140,000
Nursing Care	83,710,000	88,220,000	93,600,000	99,860,000	106,700,000
Home Care (HCBS)	18,690,000	20,040,000	21,670,000	23,450,000	25,350,000
Other Medicaid	46,020,000	49,450,000	54,740,000	59,330,000	64,050,000
Pharmacy	700,000	730,000	790,000	830,000	880,000
DEA Medicaid	3,540,000	3,800,000	4,110,000	4,440,000	4,800,000
Cash Assistance- RIW/CCAP/GPA	11,330,000	11,590,000	11,880,000	12,160,000	12,440,000
Cash Assistance - SSI	18,640,000	19,060,000	19,530,000	20,000,000	20,450,000
Clawback	50,440,000	51,580,000	52,850,000	54,120,000	55,350,000
DSH	65,440,000	66,790,000	61,480,000	61,480,000	61,480,000
HIV Care Program/ADAP	470,000	510,000	560,000	600,000	650,000
ACA- MA Population Expansion	0	0	9,030,000	21,520,000	27,460,000
Department of Children Youth & Families					
Children & Family Services	90,820,000	94,200,000	98,650,000	102,780,000	106,870,000
Department of Behavioral Healthcare, Developmental Disabilities & Hospitals					
Developmental Disabilities-Private	91,680,000	95,090,000	99,580,000	103,750,000	107,880,000
Integrated Mental Health	32,820,000	34,040,000	35,650,000	37,140,000	38,620,000
Substance Abuse	3,080,000	3,190,000	3,350,000	3,490,000	3,620,000
Other Grants and Benefits	102,760,000	105,090,000	107,680,000	110,270,000	112,770,000
Subtotal	**$1,173,770,000**	**$1,228,130,000**	**$1,289,710,000**	**$1,363,580,000**	**$1,438,920,000**
		4.6%	5.0%	5.7%	5.5%
Local Aid					
Education Aid	964,230,000	1,008,620,000	1,054,670,000	1,102,170,000	1,152,190,000
Municipal Incentive Aid	5,000,000	5,000,000	0	0	0
Motor Vehicle Tax Reimbursements	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
PILOT	35,080,000	35,080,000	35,080,000	35,080,000	35,080,000
Distressed Communities	10,380,000	10,380,000	10,380,000	10,380,000	10,380,000
Fiscal Oversight Reimbursement	130,000	150,000	150,000	150,000	150,000
Library Aid	11,100,000	11,440,000	11,340,000	11,260,000	11,100,000
Property Revaluation Prgm	630,000	1,980,000	620,000	920,000	1,770,000
Subtotal	**$1,036,550,000**	**$1,082,650,000**	**$1,122,240,000**	**$1,169,960,000**	**$1,220,670,000**
		4.4%	3.7%	4.3%	4.3%
Capital					
Debt Service					
General Obligation	91,180,000	90,940,000	100,790,000	103,728,106	107,678,198
Transportation Debt to General Revenue	19,250,000	29,250,000	39,250,000	39,771,894	38,731,802
Historic Tax Credit Program	31,670,000	31,670,000	42,130,000	42,250,000	27,790,000
EDC Job Creation Guaranty	12,330,000	12,500,000	12,450,000	12,380,000	12,350,000
COPS/Other Leases	30,640,000	34,060,000	36,790,000	32,550,000	31,870,000
Convention Center	22,980,000	22,970,000	22,470,000	21,570,000	21,570,000
Performance Based	6,880,000	7,000,000	7,000,000	7,000,000	7,000,000
TANS	-	-	-	-	-
Capital Improvements					
Other Projects	4,420,000	4,420,000	4,420,000	4,420,000	4,420,000
Subtotal	**$219,350,000**	**$232,810,000**	**$265,300,000**	**$263,670,000**	**$251,410,000**
		6.1%	14.0%	-0.6%	-4.6%
Total	**$3,456,070,000**	**$3,596,054,389**	**$3,758,636,969**	**$3,906,317,955**	**$4,050,600,000**
Difference		**$139,984,389**	**$162,582,580**	**$147,680,986**	**$144,282,045**
		4.05%	**4.52%**	**3.93%**	**3.69%**

General Revenue Outyear Planning Values

Estimates and Growth	FY2015	FY2016	FY2017	FY2018	FY2019
Personal Income (billions) [1]	$53.9	$57.3	$60.4	$62.8	$65.1
Change	*6.3%*	*6.4%*	*5.4%*	*4.0%*	*3.7%*
Nonfarm Employment (thousands) [1]	479.3	490.4	497.8	500.4	500.6
Change	*1.9%*	*2.3%*	*1.5%*	*0.5%*	*0.0%*
Personal Income Tax [15]	3.0%	5.0%	5.1%	3.4%	1.8%
Business Corporation Tax [16]	-2.1%	5.3%	9.0%	7.3%	7.1%
Provider Tax [3]	4.0%	2.3%	2.7%	3.0%	3.0%
Sales Tax [20]	2.9%	3.5%	2.8%	2.7%	2.6%
Gasoline Tax					
Real Consumption [4]	3.9%	2.4%	1.2%	0.8%	0.7%
Other Taxes and Departmentals [14]	-0.7%	0.5%	0.4%	0.9%	0.1%
CPI-U (U.S.) [1]	2.0%	2.3%	2.5%	2.4%	2.3%
Salaries and Fringe Benefits					
Salary COLA - [10], CPI-U [1]	2.0%	2.3%	2.5%	2.4%	2.3%
Steps and Longevity Increases [15]	0.0%	0.0%	0.0%	0.0%	0.0%
Medical Benefits Costs [8]	6.9%	5.6%	5.1%	5.5%	6.4%
Retiree Health Costs [11]	6.75%	6.75%	6.75%	6.75%	6.75%
State Employees Retirement Costs [12]	23.33%	23.64%	23.62%	23.66%	23.79%
Home Health Care					
Expenditure Growth [5]	6.5%	7.2%	8.1%	8.2%	8.1%
Nursing Home Care					
Expenditure Growth [6]	4.8%	5.4%	6.1%	6.7%	6.8%
Managed Care/State Employee Plan					
Expenditure Growth [8]	6.9%	5.6%	5.1%	5.5%	6.4%
Other Medicaid					
Expenditure Growth [7]	7.5%	7.4%	9.4%	8.4%	7.9%
BHDDH- Mental Health					
Expenditure Growth [7]	7.5%	7.4%	9.4%	8.4%	7.9%
DCYF Services					
Expenditure Growth [7]	7.5%	7.4%	9.4%	8.4%	7.9%
BHDDH- MR/DD					
Expenditure Growth [7]	7.5%	7.4%	9.4%	8.4%	7.9%
Pharmacy					
Expenditure Growth [9]	5.6%	5.2%	7.5%	5.9%	5.2%
Hospital Care					
Expenditure Growth [13]	4.5%	5.2%	5.5%	4.5%	5.8%

[1] November 2013 Revenue Estimating Conference Consensus Economic Forecast., FY 2014 - FY 2020.

[2] RI Corporate/Franchise Tax Payments Growth as inflator (previously used U.S. Corporate Profits Before Tax as inflator)

[3] State of Rhode Island Budget Office Estimate

[4] Moody's Economy.com Quarterly U.S. Economic Forecast November 2013, Real Gasoline and Oil Consumption.

[5] CMS National Health Expenditures Historical and Projections June 2013, Home Health Care: State and Local Government

[6] CMS National Health Expenditures Historical and Projections June 2013, Nursing Home Care: State and Local Government

[7] CMS National Health Expenditures Historical and Projections June 2013, Physician as Proxy: State and Local Government

[8] CMS National Health Expenditures Historical and Projections January 2013, 1965-2022, Total Health Expenditures: Private Insurance as proxy

[9] CMS National Health Expenditures Historical and Projections June 2013, Prescription Drugs: State and Local Government

[10] Based on adopted CPI-U from November 2013 Revenue Estimating Conference

[11] State of Rhode Island Budget Office Estimate consistent with actuarial rate. Growth reflects changes in personnel costs.

[12] Estimate of actuarially required contribution based upon a % of payroll (GRS analysis of RI Retirement Security Act, Nov. 2011)

[13] CMS National Health Expenditures Historical and Projections June 2013, Hospital Care: State and Local Government

[14] State of Rhode Island Budget Office Estimate, All Other Taxes plus Departmentals minus Personal Income, Business Corporation, Health Care Provider Assessment, Sales and Use Taxes and Other Sources

[15] State of Rhode Island Budget Office Estimate after base growth and adjustments (bottom-line blended growth of components)

[16] State of Rhode Island Budget Office Estimate after base growth and adjustments