State of Rhode Island and Providence Plantations

Budget

Fiscal Year 2016

Executive Summary

Gina M. Raimondo, Governor

Appendix F
Five-Year Financial Projection

FY 2016 – FY 2020 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 2020. 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 2016 budget base, expenditures will exceed revenues in each of the out-years projected through FY 2020. The operating deficits by fiscal year are as follows: $75.2 million in FY 2017, $211.8 million in FY 2018, $285.9 million in FY 2019, and $376.7 million in FY 2020. In percentage terms, the deficits are projected to range from 2.1 percent of spending in FY 2017 to 9.6 percent of spending in FY 2020. The expenditure-side of the budget is estimated to increase at an average annual rate of 3.1 percent from the FY 2016 base to FY 2020. 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 2.6 percent over this same period.

The revenue projections contained in the five-year forecast incorporate the Governor's proposed FY 2016 general revenue changes to the estimates adopted at the November 2014 Revenue Estimating Conference. Overall revenues are expected to grow from $3.597 billion in FY 2016 to $3.676 billion in FY 2020. This is an increase of $78.9 million, or 2.2 percent more revenues than in the FY 2016 recommended budget. Lottery transfers to the State general fund are projected to diminish by a total of $426.3 million over the five-year forecast period, comprised of a $45.6 million revenue loss in FY 2016, a $45.3 million revenue loss in FY 2017, a $87.1 million revenue loss in FY 2018, a $125.1 million revenue loss in FY 2019 and a $123.1 million revenue loss in FY 2020 due to the increased competition from Massachusetts gaming facilities 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 $31.2 million in FY 2017, $127.3 million in FY 2018, $164.5 million in FY 2019 and $257.3 million in FY 2020. In FY 2020, the deficit would be 6.5 percent of expenditures, as opposed to the 9.6 percent under the current forecast, or a total of $123.1 million less.

The five-year projection anticipates average annual general revenue growth of approximately 0.5 percent over the FY 2017 through FY 2020 period, based upon the adopted November 2014 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 2016 through FY 2018. The underlying forecasts in FY 2016 anticipate significant growth for nominal wage and salaries and nominal personal income of 6.9 percent and 5.9 percent respectively, while the forecast assumes non-farm employment growth of 2.4 percent in FY 2016 and 1.7 percent in FY 2017 and a decrease in the unemployment rate from 7.3 percent in FY 2015 to 6.2 percent in FY 2017 with a further decline to 5.5 percent in FY 2017.

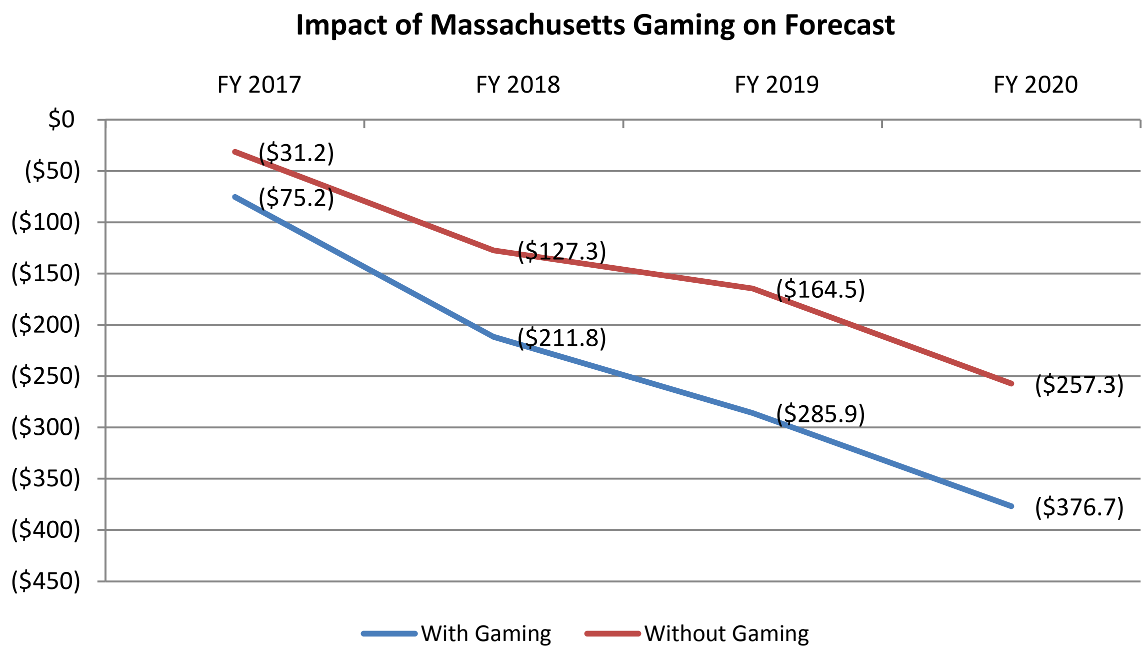
While FY 2016 shows a slight increase in general revenue growth when compared to FY 2015 from 2.3 percent to 2.5, the Rhode Island economy is expected to slow down considerably in FY 2017. General revenue growth remains positive but moderates for the FY 2017 to FY 2020 period at 0.5 percent annually, 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 2020 period would be 1.6 percent versus the 0.9 percent average annual growth rate currently projected. It should be noted that the net impact of the Governor's proposals to spark the comeback of the Rhode Island economy also lowers the growth in general revenues over this time period.

Personal income is forecasted to grow at an average annual rate of 4.2 percent over the FY 2016 – FY 2020 period. Non-farm employment is anticipated to grow at an average annual rate of 0.9 percent and wage and salary disbursements at an average annual rate of 4.7 percent over the same period. Dividends, interest and rent payments are forecasted to grow at an average annual rate of 5.8 percent over the FY 2016 – FY 2020 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 Quantitative Easing program is now complete. The "wild card" in the forecast is the impact that this transition to a higher interest rate regime has on the housing market. 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 expansion. 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 expansion and the State's general revenue fund. In addition, growth in the housing market is dependent on projected wage growth triggering the release of pent-up demand for household formation which, if unachieved, will make the forecast overly optimistic.

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. Potential 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 low quality infrastructure and its relatively weak human capital assets vis-à-vis its contiguous neighboring states will continue to be a drag on the state's economy and general revenue growth 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' resort casinos become operational earlier than is estimated in the forecast, then general revenue growth will weaken sooner than is currently forecast. If Massachusetts' resort casinos 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 southeastern Massachusetts resort casino. The five-year revenue projection assumes that this resort casino is located in Fall River, the location which would have the greatest negative impact on Rhode Island's gaming facilities. If the location of the southeastern Massachusetts resort casino is not in Fall River, then a less negative impact on general revenue growth will likely occur.



Highlights

The Governor recommends numerous major revenue enhancement initiatives in the FY 2016 budget that will impact general revenues over the FY 2017 – FY 2020 forecast horizon. In the Governor's FY 2016 recommended budget, an initiative is set forth to increase the allowable percentage of the federal earned income tax credit to 12.5 percent in TY 2016 and further increase the allowable percentage to 15.0 percent in TY 2017. It is expected that this initiative will increase the refunds and adjustments component of personal income tax by $12.7 million in FY 2017 and increase further to $13.6 million by FY 2020. The Governor also puts forth the proposal to exempt taxable social security benefits for federal adjusted gross income of not more than $50,000 for those income tax filers classified as single, married separate, or head of household and for federal adjusted gross income of not more than $60,000 for those income tax filers classified as married joint or qualifying widow(er). It is estimated that this initiative will lower the final payments component of personal income tax by $8.1 million in FY 2017 with an increasing revenue loss up to $8.7 million by FY 2020. In addition, the Governor recommends phasing in the exemption of the sale of electricity, natural gas and heating fuels to non-manufacturing commercial users from the 7.0 percent sales and use tax in equal increments over the FY 2016 through FY 2020 period. This initiative is expected to reduce sales and use tax revenues by $9.9 million in FY 2017 and steadily increase to a revenue loss of $26.2 million by FY 2020. Further, the Governor recommends imposing the 7.0 percent sales tax on (i) the rental of vacation homes and bed and breakfast inns with less than three rooms to rent, (ii) the final retail price for on-line room resellers and (iii) unlicensed rentals of lodging accommodations. These three initiatives set forth in the Governor's FY 2016 recommended budget are expected to augment sales and use tax revenues by $7.3 million in FY 2017 with an increasing revenue gain of up to $7.4 million by FY 2020.

Furthermore, the Governor's FY 2016 recommended budget proposes the establishment of a state property tax on non-owner occupied residential premises and vacant residential land with a total assessed value of $1.0 million or more at a rate of $2.50 per $1,000 of total assessed value. It is expected that the proposed state property tax will generate $12.2 million in FY 2017 with further increases throughout the forecast horizon up to $13.8 million in FY 2020. Additionally, the Governor recommends increasing the cigarette excise tax rate by $0.25 per pack of 20 cigarettes to $3.75 starting in August of FY 2016. This initiative is expected to increase general revenue by $6.9 million in FY 2017 and exhibit a diminishing level of additional revenues through FY 2018 to FY 2020 yielding $6.2 million in additional revenue in FY 2020. Moreover, as part of the Governor's FY 2016 recommended budget, the initiative to add analytical support to the Department of Revenue's Division of Taxation is put forth with the intent of enhancing taxpayer compliance rates. This initiative is estimated to augment general revenue by $2.0 million in FY 2017 and increase to $3.5 million by FY 2020. Also, the Governor recommends phasing out the 2.0 percent imaging services and outpatient health care facility surcharges in 0.5 percentage point increments each year over the next four fiscal years. This phase out is expected to reduce departmental receipt revenues by $1.1 million in FY 2017 with growth in revenue losses to $2.3 million by FY 2020.

The Governor also recommends the establishment of the Rebuild Rhode Island Tax Credit, a refundable tax credit similar in structure to the state's previous historic structures tax credit and is designed to provide financial incentives to developers to rehabilitate Rhode Island's historic buildings and develop new commercial and industrial spaces. The Rebuild Rhode Island Tax Credit is expected to reduce personal income tax final payments, business corporations tax, insurance companies gross premiums tax and financial institutions tax revenues starting in FY 2017 dependent on the successful implementation of the tax credit. In FY 2017 general revenues are reduced by a total of $7.14 million with an increasing total general revenue loss reaching $25.12 million in FY 2020. These general revenue losses are static losses and do not reflect the increased economic activity and associated revenues that are expected to be engendered by the tax credit.

The final major revenue enhancement proposed in the Governor's FY 2016 recommended budget is the transfer of the state's share of the 5.0 percent state hotel tax and the Statewide tourism district's share of hotel tax revenues to the Rhode Island Commerce Corporation to finance state level tourism promotion and location marketing. It is expected that general revenue will decline by $3.7 million in FY 2017 and reach $3.8 million in general revenue losses by FY 2020. The transfer of general revenues to the Rhode Island Commerce Corporation for state tourism promotion and location marketing are supplemented by the reallocation of state hotel tax revenues from most of the state's regional tourism districts to the Rhode Island Commerce Corporation.

It is estimated that all the major revenue proposals as shown above in the Governor's FY 2016 recommended budget will reduce general revenue by $14.2 million in FY 2017 and increasingly reduce general revenues over the FY 2018 to FY 2020 period resulting in $48.8 million less in general revenues in FY 2020. Outside of the changes mentioned above, the Governor also proposes to suspend the 25.0 percent transfer of all motor vehicle operator license and vehicle registration fees scheduled for FY 2016 under current law but maintain the scheduled transfer of 75.0 percent in FY 2017 and 100.0 percent in FY 2018 of these general revenue licenses and fees.

FY 2016 – FY 2020 Overview

Economic Forecast and Revenues

The economic forecast was developed by the principals of the November 2014 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 2015 budget is undertaken. In this section, the economic forecast is presented for the FY 2017 through FY 2020 period.

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 2016 – FY 2019 and eventually drop to slightly negative growth in FY 2020. Rhode Island employment growth is estimated to be positive for the FY 2016 – FY 2019 period, with reduced but positive rates of growth projected in FY 2017 through FY 2019. In FY 2018, Rhode Island employment growth slows to 0.58 percent, a rate nearly equal to FY 2011's growth rate of 0.57 percent which was the first year of positive growth after the Great Recession. FY 2019 total non-farm employment is expected to eclipse 504,000 jobs marking the highest level of employment in the last 20 years. In FY 2020, employment growth, however, slows to a negative rate of -0.1 percent, which would be the lowest growth rate since the depths of the Great Recession. This negative growth is primarily attributable to a shrinking labor force as Rhode Island's population continues to age out of the labor market. It should be noted however, that Moody's Analytics projects non-farm employment to grow by 11,500 jobs between FY 2016 and FY 2020 or at an average annual amount of 2,878 jobs over this period. Rhode Island personal income growth is expected to accelerate through FY 2016 before moderating each year for the FY 2017 – FY 2020 period. Personal income growth is projected to reach its peak in FY 2016 at a rate of 5.9 percent and then tick downward to an average annual growth rate of 3.8 percent for the FY 2017 – FY 2019 period.

The revenue forecast includes the expected impact that the opening of gaming facilities in Massachusetts will have on the state's general revenues. The FY 2016 five-year revenue projection without the onset of gaming competition in Massachusetts but with table games in operation at Twin River forecasts total general revenues of $3.799 billion in FY 2020. This is an increase of $202.0 million over FY 2016 recommended revenues, or 5.6 percent more revenues than in the FY 2016 recommended budget. In the current five-year forecast, a cumulative loss of $426.3 million in casino gaming revenues is projected over the FY 2016 through FY 2020 period with the onset of casino gaming in Massachusetts and the operation of table games at Twin River. The onset of casino gaming in Massachusetts reduces the average annual growth rate for the FY 2016 through FY 2020 period to 0.9 percent — slightly more than half of the FY 2016 through FY 2020 average annual growth rate of 1.6 percent 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 2016 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 substantial risk to the out-year forecast is the outcome of pending litigation on prior year pension reforms. If any of the reforms are overturned, expenditures for pension costs would increase substantially and would have to be address through increased revenues or additional expenditure reductions. This five-year forecast assumes the pension reforms are upheld. In addition, 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 5.5 percent annually through FY 2020. The forecast also assumes that state employees will continue to share in the cost of medical insurance premiums, and that 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. As part of the FY 2016 Budget, the Governor is laying the foundation to reinvent Medicaid and address the high per enrollee costs experienced in Rhode Island. A Working Group to Reinvent Medicaid was established through Executive Order by the Governor with the task of fostering innovation and improving Medicaid so those who need these services most receive the best care at lower costs.

Personnel and Other Operations

The wage projections contained in the personnel estimates include the cost of living adjustments (COLA) negotiated with employee unions in 2014. In addition, as a proxy for step and educational incentive increases and potential pay adjustments in year subsequent to current collective bargaining contracts, increases using CPI have been included for FY 2017 and thereafter. In FY 2016, salary costs are projected to grow just under 1.0 percent due to $22.0 million in proposed personnel reform savings. This is followed by increases of 2.77 percent, 2.96 percent, 2.95 percent and 2.82 percent in each fiscal year through FY 2020.

The forecast reflects employee cost sharing that is expected to offset health insurance costs in FY 2016 and throughout the forecast period. Average employee cost sharing of 20.0 percent of medical premium cost in FY 2016 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 5.5 percent annually on average in the forecast.

Pension reform legislation enacted in the fall of 2011 continues to have a major impact on personnel costs. According to actuarial projections by Gabriel, Roeder, Smith and Company, the annual required contribution rate for state employees is expected to decrease from 23.64 percent in FY 2016 to 22.91 percent in FY 2020.

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 $96.0 million in FY 2016 to $103.5 million in FY 2020, reflecting growth of $7.5 million in retirement costs, an average increase of 1.9 percent a year.

Personnel and operating costs continue to be constrained during FY 2016. The current five-year forecast assumes $1.103 billion of personnel and operating costs in FY 2016 and an average growth of 2.2 percent over the five-year interval, resulting in an estimated cost of $1.162 billion in FY 2020, an increase of $59.3 million. This estimate incorporates the impact of a number of initiatives or other changes that will impact out-year expenses.

Grants and Benefits

Grants and Benefits are projected to increase by an average of 5.0 percent annually from FY 2016 to FY 2020. This growth rate results in an increase of $251.4 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 2014, as well as CPI-U projections for medical services. 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 2016.

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 forecasted to grow at an average rate of 1.0 percent throughout the five-year period.

The managed care forecast assumes that base costs will inflate on average at 5.0 percent per year until FY 2020. Incorporated into the FY 2016 expenditure base for managed care are various proposals in the Governor's recommended FY 2016 Budget. In the Medical Assistance program, the Governor recommends an $88.1 million reduction to the Caseload Estimating Conference's (CEC) adopted funding level. This is achieved through various policy actions designed to contain the Medicaid program's expenditure growth in both FY 2016 and subsequent years. First, the Governor recommends reductions to all Medicaid managed care capitation (i.e. monthly cost per member) rates, effective July 1, 2015, for savings totaling $2.7 million in general revenue. Rates will be negotiated so as to reduce average annual growth in these rates by 0.9 percent relative to the increases assumed at the November 2014 CEC.

Similarly, cost trends in institutional long term care include an average annual growth rate of 6.2 percent from FY 2016 through FY 2020. For home and community based long-term care, the growth rate over the forecast horizon is estimated at 8.0 percent.

Pharmacy inflation is assumed on average at 7.4 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 $138.3 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 $89.9 million in FY 2016 to $108.8 million in FY 2020, which equates to an average annual growth rate of 4.9 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 2016 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.

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 $89.6 million to $108.5 million between FY 2016 and FY 2020. This increase of $18.8 million over the five-year period is based on the projected growth rate for Medicaid Services, which equates to a growth rate of 4.9 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 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 2016 and then is anticipated to sunset.

In dollar terms, the largest driving force behind local aid expenditure growth from FY 2016 to FY 2020 is

Education Aid programs, which are expected to increase by a total of $77.4 million from the FY 2016 base level of $1,023.0 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 4.0 percent annual growth rate has been included within the five-year forecast. The five-year estimate also includes financing for four education aid categorical funds.

State contributions for teachers' retirement increase by $9.4 million, from $90.9 million in FY 2016 to $100.3 million in FY 2020. Projections for future required employer contributions to the teachers' retirement fund reflect a 2.5 percent teacher payroll growth and declining state contribution rates from 9.25 percent in FY 2016 to 8.4 percent in FY 2020. Housing aid, which reimburses communities for part of the debt incurred for new school construction is projected to decrease by $2.0 million, from $72.8 million to $70.9 million, assuming the minimum state share ratio remains at 35.0 percent over the next five years. This does not include the new School Building Authority Capital Fund proposal.

Capital

The projection of capital project disbursements and debt service costs reflects updated debt service projections as included in the FY 2016 – FY 2020 Capital Improvement Plan. General revenue funded debt service on all tax supported obligations is projected to increase from $123.0 million in FY 2016 to $203.0 million in FY 2020, an increase of $79.9 million. The primary driver of the increase is a proposed restructuring of general obligation bond debt in FY 2016 that will result in $64.5 million in lower debt service than currently scheduled. This restructuring will result in additional savings of approximately $19.4 million in FY 2017, but then will increase debt service costs above what they would have been by over $15.0 million beginning in FY 2020 through FY 2025. Other debt service increases are attributable to the issuance of debt for the Historic Tax Credit program, and annual issuance of voter approved general obligation bonds.

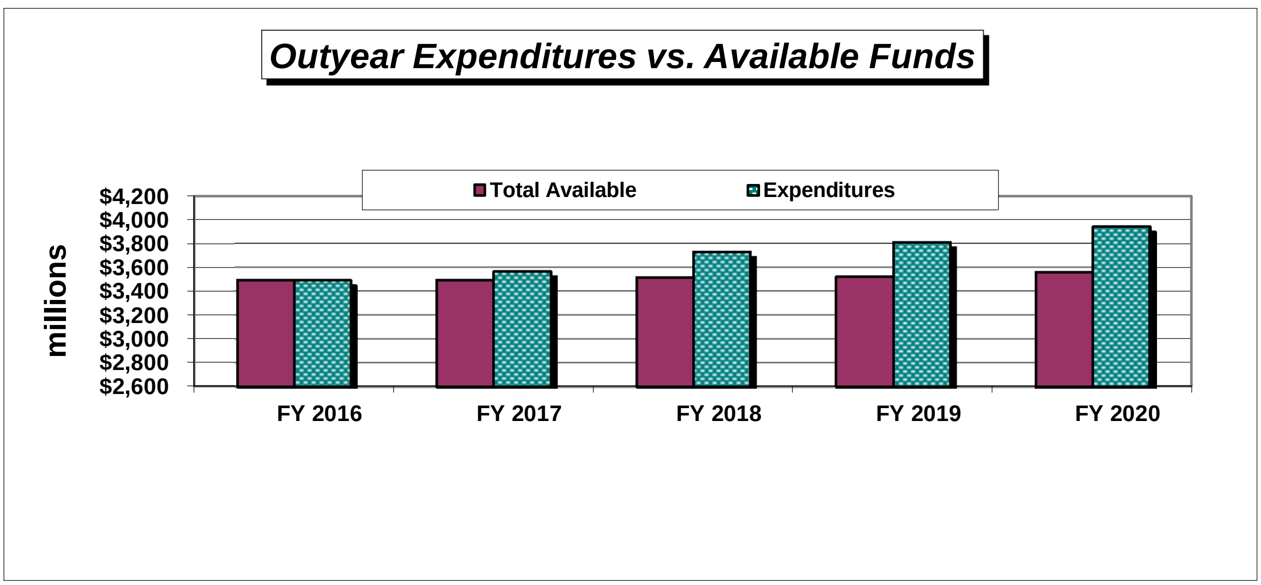
The five-year forecast is based upon outstanding debt and projected new debt contained in the Governor's recommended FY 2016 - 2020 Capital Budget. Interest rates for fixed rate general obligation bonds to be issued to fund projects are projected at between 4.0 percent and 5.0 percent. Historic Tax Credit debt is projected to be issued at 3.75 percent over nine years in 2015 and at 4.5 percent in 2017. Projected amortization schedules are found in the exhibits contained in Appendix C of the Capital Budget document.

Amortization of existing debt, restructuring of current general obligation bonds, combined with new debt issuance, results in increased general revenue appropriations for debt service of $79.9 million from FY 2016 to FY 2020. Disbursements for many capital projects are funded from the Rhode Island Capital Plan Fund, not general revenue, and therefore are not reflected in the five-year report as operating costs. Between FY 2016 and FY 2019, there is an increase of $9.9 million for debt for the Historic Tax Credit stabilization program, which decreases by $11.3 million in FY 2019 as the first issuance of this debt is paid off. General obligation debt service increases by $98.4 million, of which $79.5 million is a result of the restructuring of debt. Performance-based obligations remain at $7.0 million over the five-year period. Debt service on certificates of participation decreases by $5.3 million from $31.1 million in FY 2016 to $25.8 million in FY 2020. Current debt service includes full issuance of all COPS authorization, including those for the integrated tax system and an LEA Technology program. There are no new appropriation backed debt authorizations anticipated during the forecast period. Convention Center debt service declines by $1.4 million over the five-year period.

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 2016 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.

General Revenue Outyear Estimates FY 2016 - FY 2020

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Opening Surplus [1]	**$3.1**	**$0.6**	**$0.0**	**$0.0**	**$0.0**
Plus:					
Taxes and Departmentals	3,213.4	3,260.0	3,327.1	3,376.7	3,418.9
Other Sources (incl. Lottery)	383.7	342.9	298.7	258.2	257.1
Budget Stabilization Fund	(108.0)	(108.1)	(108.8)	(109.0)	(110.3)
Total Available	**3,492.2**	**3,495.3**	**3,517.0**	**3,525.8**	**3,565.8**
Minus Expenditures	**3,491.6**	**3,569.9**	**3,728.8**	**3,811.7**	**3,942.5**
Equals Ending Balance	**$0.6**	**($74.6)**	**($211.8)**	**($285.9)**	**($376.7)**
Operating Surplus or Deficit	***($2.5)***	***($75.2)***	***($211.8)***	***($285.9)***	***($376.7)***
Budget & Cash Stabilization Balance	$180.0	$180.2	$181.3	$181.8	$183.9
RI Capital Fund Balance	$36.1	$12.9	$1.8	$2.5	$16.7
Rhode Island Capital Fund					
Capital Projects Disbursements	*$147.5*	*$131.2*	*$118.8*	*$107.9*	*$94.1*



[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 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Income Tax	**$ 1,210,669,294**	**$ 1,249,513,961**	**$ 1,291,725,519**	**$ 1,320,038,622**	**$ 1,334,788,447**
General Business Taxes:					
Business Corporations	119,456,347	129,362,359	134,416,153	141,943,387	145,459,534
Public Utilities	105,000,000	107,235,786	108,816,300	110,396,815	111,977,330
Financial Institutions	16,500,000	17,519,295	17,682,105	16,964,287	15,375,578
Insurance Companies	115,128,416	117,684,760	118,470,302	118,801,111	117,562,927
Bank Deposits	2,500,000	2,519,460	2,545,186	2,583,576	2,625,777
Health Care Provider	43,276,416	44,168,253	45,184,708	46,188,762	47,229,995
General Business Taxes	**$ 401,861,179**	**$ 418,489,914**	**$ 427,114,755**	**$ 436,877,940**	**$ 440,231,142**
Sales and Use Taxes:					
Sales and Use	1,003,373,471	1,043,138,100	1,067,702,477	1,087,517,922	1,104,089,229
Motor Vehicle	50,229,883	13,412,523	-	-	-
Motor Fuel	500,000	743,778	738,133	791,031	762,313
Cigarettes	140,685,281	135,804,827	131,320,720	127,237,681	123,408,380
Alcohol	13,000,000	13,425,714	13,770,517	14,079,735	14,359,019
Controlled Substances	-	-	-	-	-
Sales and Use Taxes	**$ 1,207,788,635**	**$ 1,206,524,942**	**$ 1,213,531,847**	**$ 1,229,626,369**	**$ 1,242,618,941**
Other Taxes:					
Inheritance and Gift	19,200,000	17,216,744	16,853,589	17,581,517	17,997,859
Racing and Athletics	1,100,000	1,084,882	1,060,315	1,021,715	965,484
Realty Transfer Tax	9,995,970	9,660,038	9,206,876	9,930,850	10,672,635
Statewide Property Tax	11,761,679	12,232,146	12,721,432	13,230,289	13,759,501
Other Taxes	**$ 42,057,649**	**$ 40,193,810**	**$ 39,842,212**	**$ 41,764,371**	**$ 43,395,480**
Total Taxes	**$ 2,862,376,757**	**$ 2,914,722,626**	**$ 2,972,214,333**	**$ 3,028,307,302**	**$ 3,061,034,009**
Total Departmental Receipts	351,034,350	345,249,661	354,868,342	348,406,235	357,879,693
Taxes and Departmentals	**$ 3,213,411,107**	**$ 3,259,972,287**	**$ 3,327,082,675**	**$ 3,376,713,536**	**$ 3,418,913,702**
Other Sources					
Other Miscellaneous	40,811,000	1,262,015	1,236,487	1,207,109	1,179,027
Lottery Commission Receipts	334,800,000	333,306,344	288,945,241	248,203,540	246,971,271
Unclaimed Property	8,100,000	8,300,483	8,534,313	8,761,632	8,971,418
Other Sources	**$ 383,711,000**	**$ 342,868,841**	**$ 298,716,041**	**$ 258,172,281**	**$ 257,121,716**
Total General Revenues	**$ 3,597,122,107**	**$ 3,602,841,128**	**$ 3,625,798,716**	**$ 3,634,885,817**	**$ 3,676,035,418**

General Revenue Outyear Estimates - Percentage Changes

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Income Tax	**3.7%**	**3.2%**	**3.4%**	**2.2%**	**1.1%**
General Business Taxes:					
Business Corporations	5.9%	8.3%	3.9%	5.6%	2.5%
Public Utilities	1.4%	2.1%	1.5%	1.5%	1.4%
Financial Institutions	3.1%	6.2%	0.9%	-4.1%	-9.4%
Insurance Companies	1.3%	2.2%	0.7%	0.3%	-1.0%
Bank Deposits	0.0%	0.8%	1.0%	1.5%	1.6%
Health Care Provider	0.2%	2.1%	2.3%	2.2%	2.3%
General Business Taxes	**2.6%**	**4.1%**	**2.1%**	**2.3%**	**0.8%**
Sales and Use Taxes:					
Sales and Use	5.1%	4.0%	2.4%	1.9%	1.5%
Motor Vehicle	0.7%	-73.3%	-100.0%	n/a	#DIV/0!
Motor Fuel	0.0%	48.8%	-0.8%	7.2%	-3.6%
Cigarettes	2.8%	-3.5%	-3.3%	-3.1%	-3.0%
Alcohol	-31.6%	3.3%	2.6%	2.2%	2.0%
Controlled Substances					
Sales and Use Taxes	**4.0%**	**-0.1%**	**0.6%**	**1.3%**	**1.1%**
Other Taxes:					
Inheritance and Gift	-28.9%	-10.3%	-2.1%	4.3%	2.4%
Racing and Athletics	0.0%	-1.4%	-2.3%	-3.6%	-5.5%
Realty Transfer Tax	13.6%	-3.4%	-4.7%	7.9%	7.5%
Statewide Property Tax					
Other Taxes	**14.0%**	**-4.4%**	**-0.9%**	**4.8%**	**3.9%**
Total Taxes	**3.8%**	**1.8%**	**2.0%**	**1.9%**	**1.1%**
Total Departmental Receipts	**0.6%**	**-1.6%**	**2.8%**	**-1.8%**	**2.7%**
Taxes and Departmentals	**3.4%**	**1.4%**	**2.1%**	**1.5%**	**1.2%**
Other Sources					
Gas Tax Transfers	n/a	n/a	n/a	n/a	n/a
Other Miscellaneous	350.2%	-96.9%	-2.0%	-2.4%	-2.3%
Lottery Commission Receipts	-12.7%	-0.4%	-13.3%	-14.1%	-0.5%
Unclaimed Property	-26.4%	2.5%	2.8%	2.7%	2.4%
Other Sources	**-4.9%**	**-10.6%**	**-12.9%**	**-13.6%**	**-0.4%**
Total General Revenues	**2.5%**	**0.2%**	**0.6%**	**0.3%**	**1.1%**

General Revenue Outyear Expenditure Estimates

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
State Operations					
Personnel	$908,000,000	$929,300,000	$954,800,000	$980,800,000	$1,006,100,000
Other State Operations	195,490,000	134,500,000	138,400,000	142,200,000	145,700,000
Subtotal	**$1,103,490,000**	**$1,063,800,000**	**$1,093,200,000**	**$1,123,000,000**	**$1,151,800,000**
		-3.6%	2.8%	2.7%	2.6%
Grants and Benefits					
Executive Office of Health and Human Services & Department of Human Services					
Hospitals	25,630,000	27,210,000	28,700,000	30,310,000	32,550,000
Managed Care	542,930,000	560,430,000	577,240,000	598,600,000	628,330,000
Nursing Care	91,320,000	96,920,000	103,170,000	109,780,000	116,550,000
Home Care (HCBS)	33,340,000	35,960,000	38,790,000	41,810,000	45,160,000
Other Medicaid	43,350,000	45,390,000	47,770,000	50,190,000	52,460,000
Pharmacy	2,870,000	3,090,000	3,320,000	3,530,000	3,790,000
DEA Medicaid/CNOM	3,190,000	3,440,000	3,710,000	4,000,000	4,320,000
Cash Assistance- RIW/CCAP/GPA	11,320,000	11,620,000	11,960,000	12,290,000	12,590,000
Cash Assistance - SSI	18,710,000	18,890,000	19,080,000	19,270,000	19,460,000
Clawback	52,010,000	53,370,000	54,940,000	56,450,000	57,840,000
DSH	69,150,000	70,970,000	70,970,000	70,970,000	70,970,000
ACA- MA Population Expansion	0	14,070,000	31,890,000	39,090,000	53,210,000
Department of Children Youth & Families					
Children & Family Services	89,640,000	93,850,000	98,770,000	103,770,000	108,460,000
Department of Behavioral Healthcare, Developmental Disabilities & Hospitals					
Developmental Disabilities-Private	89,900,000	94,130,000	99,060,000	104,070,000	108,780,000
Other Grants and Benefits	91,620,000	94,020,000	96,780,000	99,450,000	101,900,000
Subtotal	**$1,164,980,000**	**$1,223,360,000**	**$1,286,150,000**	**$1,343,580,000**	**$1,416,370,000**
		5.0%	5.1%	4.5%	5.4%
Local Aid					
Education Aid	1,022,520,000	1,032,980,000	1,071,100,000	1,085,920,000	1,099,890,000
Municipal Incentive Aid	5,000,000	0	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	156,000	140,000	140,000	58,000	58,000
Library Aid	11,440,000	11,340,000	11,260,000	11,100,000	10,850,000
Property Revaluation Prgm	1,780,000	560,000	820,000	1,640,000	780,000
Central Falls New Pension Plan	0	330,000	300,000	290,000	290,000
Subtotal	**$1,096,356,000**	**$1,100,810,000**	**$1,139,080,000**	**$1,154,468,000**	**$1,167,328,000**
		0.4%	3.5%	1.4%	1.1%
Capital					
Debt Service					
General Obligation	17,590,000	72,560,000	107,350,000	99,640,000	115,960,000
Historic Tax Credit Program	31,330,000	31,460,000	31,580,000	20,290,000	20,290,000
EDC Job Creation Guaranty	13,000,000	13,100,000	13,080,000	12,350,000	12,320,000
COPS/Other Leases	31,140,000	31,370,000	25,790,000	25,810,000	25,830,000
Convention Center	22,970,000	22,470,000	21,570,000	21,570,000	21,560,000
Performance Based	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Capital Improvements					
Other Projects	$3,770,000	4,000,000	4,000,000	4,000,000	4,000,000
Subtotal	**$126,800,000**	**$181,960,000**	**$210,370,000**	**$190,660,000**	**$206,960,000**
		43.5%	15.6%	-9.4%	8.5%
Total	**$3,491,626,000**	**$3,569,930,000**	**$3,728,800,000**	**$3,811,708,000**	**$3,942,458,000**
Difference		**$78,304,000**	**$158,870,000**	**$82,908,000**	**$130,750,000**
		2.24%	**4.45%**	**2.22%**	**3.43%**

General Revenue Outyear Planning Values

Estimates and Growth	FY2016	FY2017	FY2018	FY2019	FY2020
Personal Income (billions) [1]	$55.6	$58.6	$60.8	$62.7	$64.5
Change	*5.9%*	*5.3%*	*3.9%*	*3.1%*	*2.9%*
Nonfarm Employment (thousands) [1]	492.5	500.9	503.8	504.4	504.0
Change	*2.4%*	*1.7%*	*0.6%*	*0.1%*	*-0.1%*
Personal Income Tax					
Wages and Salaries [2]	6.9%	6.0%	4.2%	3.4%	2.8%
Business Corporation Tax [3]	5.6%	3.4%	1.0%	1.8%	3.1%
Provider Tax [15]	2.5%	2.2%	2.4%	2.3%	2.4%
Sales Tax [2]	4.7%	4.6%	2.9%	2.5%	2.1%
Gasoline Tax					
Real Consumption [4]	4.1%	2.2%	0.6%	0.8%	1.7%
Other Taxes and Departmentals [13]	1.1%	-5.4%	-1.1%	-1.2%	0.3%
CPI-U (U.S.) [2]	2.2%	2.6%	2.9%	2.8%	2.5%
Salaries and Fringe Benefits					
Salary COLA - [9], CPI-U [1]	2.2%	2.6%	2.9%	2.8%	2.5%
Steps and Longevity Increases [14]	0.00%	0.03%	0.03%	0.03%	0.03%
Medical Benefits Cost Growth [17]	4.5%	5.4%	5.6%	5.9%	6.5%
Retiree Health Rates [10]	6.75%	6.75%	6.75%	6.75%	6.75%
State Employees Retirement Rates [11]	23.64%	23.76%	23.32%	23.04%	22.91%
Home Health Care					
Expenditure Growth [5]	7.6%	7.8%	7.9%	7.8%	8.0%
Nursing Home Care					
Expenditure Growth [6]	5.4%	6.1%	6.4%	6.4%	6.2%
Managed Care					
Expenditure Growth [8]	4.0%	2.9%	3.0%	3.7%	4.1%
Other Medicaid					
Expenditure Growth [7]	4.0%	4.7%	5.2%	5.1%	4.5%
DCYF Services					
Expenditure Growth [7]	4.0%	4.7%	5.2%	5.1%	4.5%
BHDDH- MR/DD					
Expenditure Growth [7]	4.0%	4.7%	5.2%	5.1%	4.5%
Pharmacy					
Expenditure Growth [12]	6.9%	7.7%	7.5%	6.3%	7.3%
Hospital Care					
Expenditure Growth [16]	5.9%	6.2%	5.5%	5.6%	7.4%

***[1]** Moody's Analytics Quarterly U.S. Economic Forecast November 2014.*

***[2]** Growth in Estimates for FY 2016 as Adopted at the November 2014 REC, Budget Office Estimated Growth for FY 2017 - FY 2020*

***[3]** Growth in Estimates for FY 2016 as Adopted at the November 2014 REC, Budget Office Estimated Growth for FY 2017 - FY 2020*

***[4]** Moody's Analytics Quarterly U.S. Economic Forecast November 2014, Real Gasoline and Oil Consumption.*

***[5]** CMS National Health Expenditure Projections, September 2014, Home Health Care: State Medicaid*

***[6]** CMS National Health Expenditure Projections, September 2014, Nursing Home Care: State Medicaid*

***[7]** CPI-U: Medical Care, 2010-2014 Average Applied to Budget Office Estimated CPI-U Growth for FY 2017 - FY 2020*

***[8]** CMS National Health Expenditure Projections, September 2014, Total Health Expenditures: Private Health Insurance as proxy, adjusted for anticipated policy-based trend reduction.*

***[9]** Based on CPI-U.*

***[10]** State of Rhode Island Budget Office Estimate consistent with actuarial rate.*

***[11]** Estimate of actuarially required contribution based upon a % of payroll (GRS analysis of RI Retirement Security Act, Dec. 2013)*

***[12]** CMS National Health Expenditure Projections, September 2014, Prescription Drugs: State Medicaid*

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

***[14]** Step increases only; longevity increases no longer apply.*

***[15]** State of Rhode Island Budget Office Estimate for Health Care Provider Assessment*

***[16]** CMS National Health Expenditure Projections, September 2014, Hospital Care: State Medicaid*

General Revenue Outyear Planning Values

Estimates and Growth	FY2016	FY2017	FY2018	FY2019	FY2020

[17] CMS National Health Expenditure Projections, September 2014, State and Local Government, Employer contributions to private health insurance premiums.