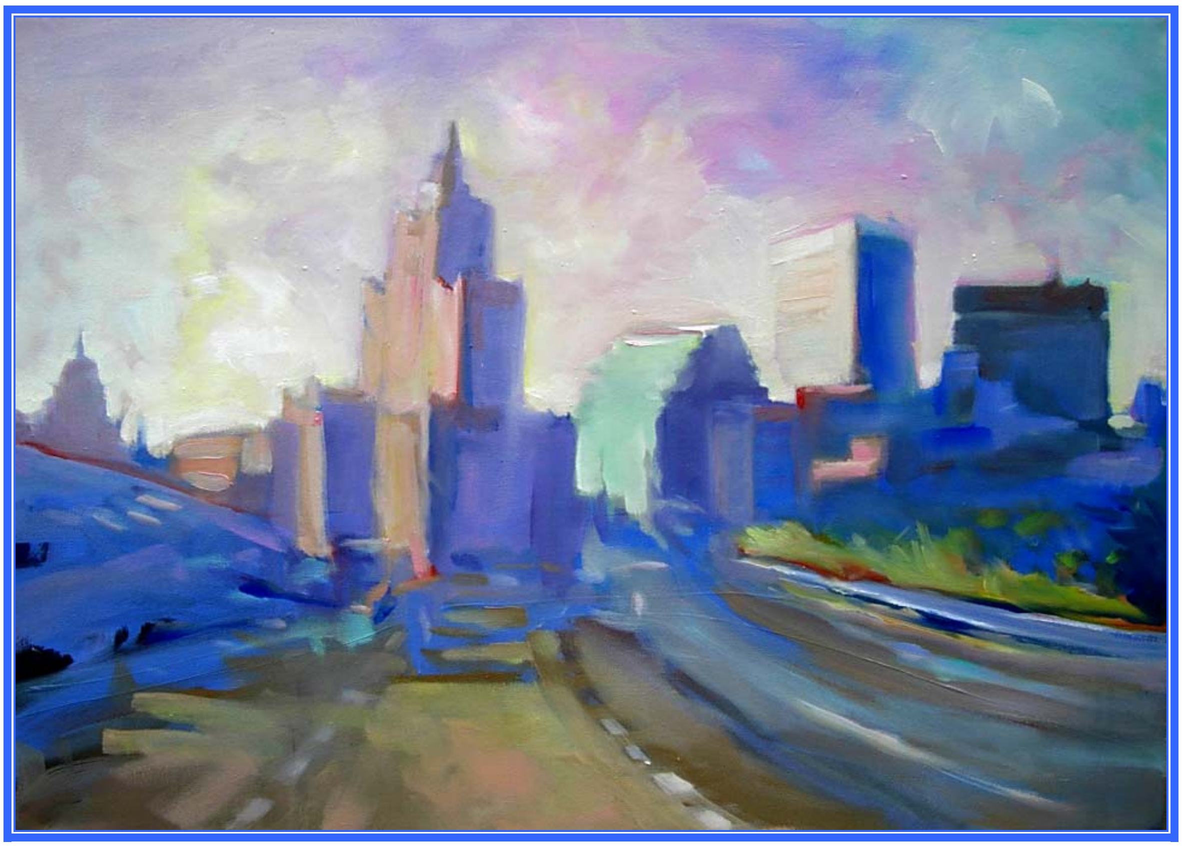
State of Rhode Island and Providence Plantations

Budget



Fiscal Year 2009

Donald L. Carcieri, Governor

Five-Year Financial Projection

FY 2009 – FY 2013 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 projection includes tables that present anticipated revenues and expenditures during the five fiscal years ending in June 2013. Tables which detail planning values are also included. 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 utilized as a benchmark in assessing the affordability and desirability of alternative policy options, caution should be exercised in the interpretation of the forecast.

From the FY 2009 budget base, expenditures will exceed revenues in each of the out-years projected through FY 2013. The operating deficits range from $17.0 million in FY 2010, $1.6 million in FY 2011, $20.8 million in FY 2012, and $12.3 million in FY 2013. In percentage terms, the deficits are projected to approach 0.3% of spending or less than 1 % by the end of the forecast horizon. Although these trends have to be of concern, we would note that the projected deficits are far below the deficits in excess of $300 million projected in last year's forecast, which were in excess of 10% of spending in every year. The expenditure-side of the budget is estimated to increase at an average annual rate of 3.3 percent from the FY 2009 base to FY 2013. Inflation however, as measured by the CPI, is expected to grow at an annual rate of 2.1 percent. A number of factors are responsible for the rate of growth above inflation. A brief explanation is provided below, followed by a more detailed discussion for each of the major categories of expenditure.

The largest dollar increase in overall spending is anticipated to occur in the category of grants and benefits. Expenditures for grants and benefits are expected to expand by $156.2 million, driven primarily by growth in Human Services Managed Care and Medicaid Services. The percentage growth in this total category of expenditure is projected to average 3.6 % and is largely driven by increases in Managed Care of over 5.6% percent a year over the five year period. Growth in this area moderates from previous five year projections (FY2008- FY2012) when the growth was projected to be $296 million. This moderation is a result of the Governor's proposed Medicaid reform. Overall spending increases for state operations are estimated at $140.7 million, and overall spending increases for local aid are estimated at $132.5 million.

The five-year projection anticipates average annual revenue growth of approximately 3.4 percent beyond the budget year, based upon the adopted November 2007 Revenue Estimating Conference forecast for the Rhode Island economy and the Governor's recommended changed to adopted revenues. The forecasts used here assume the immediate downward swing in the economy will mostly impact FY 2009 before recovering in FY 2010 and beyond. Personal income is forecast to grow at an average annual rate of 4.3 percent, employment at 0.9 percent, and wage and salary disbursements at 3.9 percent. A risk to the revenue forecast is the inability to accurately estimate the impact of motion picture tax credits. The outyear revenue estimate includes only those projects which are identified by the administering agency as completed projects with credits that have not yet been claimed in tax returns and active projects for which credits have not yet been issued. Furthermore, the assumptions on historic tax credits is modified by application of the proposed cap on exercising these credits, and provides more certainty over the forecast period.

Highlights

The FY 2009 – FY 2013 Five Year Forecast prepared by the State Budget Office projects an improved, but not yet balanced fiscal position in the outyears.

The forecast takes into account four major initiatives included in the Governor's FY 2009 budget which impact the revenue and expenditure estimates – historic tax credit caps, Medicaid reform, corrections options, and personnel savings as a result of discussions underway with the unions. The historic tax credit cap of $40 million in FY 2009 and thereafter provides near term relief from the projected offsets to state revenues of $21 million, $45 million, $42 million, and $2.7 million in FY 2009 – FY 2012. However, in FY 2013 through FY 2015, the imposition of the cap in earlier years results in $27 million, $35 million, $38 million, and $35 million more credits than would otherwise be expected. The recommended cap, as intended, spreads the impact of the historic credits over time, pushing them out to later years.

Reforms proposed for the Department of Corrections which are intended to reduce the number of inmates housed in the state's correctional facilities, have a positive impact on the outyear expenditure forecast. The inmate population is still expected to rise by an average of 1.0% per year over the forecast period from 3,848 in FY 2009 to 4,102 in FY 2013. The forecast takes into account reduced population projections as a result of corrections options.

The forecast also reflects the significant impact that Medicaid reform will have on expenditure growth. Medicaid expenditures totaled $826.5 million ($1.72 billion from all funds) in FY 2007 and comprised 26% of the general revenue budget. The unabated projected growth in Medicaid over the forecast period, according to CMS projections, would be 8.1% annually, outpacing the average projected annual revenue growth of 3.4%. The projected annual growth for Medicaid costs included in the forecast is 4.0% over the forecast period. The lower growth is based upon the premise that serving clients in less restrictive settings will cost less, provide incentives for efficiencies, and increase competition amongst providers.

In the category of personnel costs, the Governor's FY2009 budget assumed savings totaling $33.4 million from wages and benefits which are under discussion with the unions, as well as savings from a proposal submitted to the General Assembly to change retiree health benefits and fund them on an actuarial basis in FY2009 and thereafter. An upward adjustment of $11.4 million is made in FY 2010 to restore furlough day savings included in the FY 2009 budget. It is assumed that the medical benefit component of those statewide savings continue through the planning horizon, and that the actuarially determined contribution rate for the retiree health remains constant through the forecast period. State personnel and operations are expected to increase $106.7 million over the forecast horizon, while the previous five year forecast predicted growth of $134.0 million.

FY 2009 – FY 2013 Overview

Forecast and Revenues

The economic forecast was developed by the principals of the November 2007 Revenue Estimating Conference with input from the consulting economists at *Moody's Economy.com* and *Global Insight* and respective staff. This forecast serves as a "best guess" as to the future path of the Rhode Island economy since no formal economic model was employed by the conferees in arriving at the forecast. A detailed analysis of the conferees near-term economic forecast for the State is contained in ***The Economy*** section of this document. 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 2009 budget is undertaken. Finally, the economic forecast is presented for the out-years through FY 2013.

The fallout from the housing market and energy prices present the greatest risk to the economic forecast. Of particular note, the performance of the U.S. economy in general appears to be following the performance of the Rhode Island economy. As the U.S. economy continues to feel the pinch from the housing market downturn, in depressed personal incomes, rising unemployment, and volatile share prices, among other repercussions, the Rhode Island economy remains vulnerable. In particular, dampened employment growth rates are expected to improve in the FY 2008 – FY 2010 period. During FY 2011 – FY 2013 period, Rhode Island employment growth rates are expected to remain below the 1.1 percent growth rate expected in FY 2010. In FY 2010, Rhode Island employment growth should peak at 1.1 percent, followed by a gradually decline. Growth in Rhode Island personal income is expected to be strong over the FY 2009 – FY 2013 period with growth hovering at 4.3 % over the forecast period. Finally, energy prices remain a risk to both the U.S. macroeconomic and Rhode Island forecasts. As an energy importer, Rhode Island's economy is very vulnerable to sharp increases in energy prices, particularly if higher prices are sustained over the long term. Further, deceleration in the real estate market has already impacted job growth in Rhode Island. Slackening in infrastructure project construction due to budgetary reprioritization will also prove a downside risk to statewide employment growth.

The five-year projection does include the revenue impact of the Governor's proposal to cap the aggregate amount of Historic Structures Tax Credits taxpayers may use in a given tax year. The Historic Structures Tax Credit cap is estimated to increase revenues by $21.0 million in total, with personal income tax revenues enhanced by $18.2 million, insurance gross earnings tax revenues by $2.1 million, financial institutions tax revenues by $400,000 and business corporate tax revenues by $300,000 in FY 2009. It is important to note that the $20.0 million cap in Tax Year 2007 and $40.0 million cap in Tax Year 2008 through Tax Year 2017 shifts about half of the burden expected from decreased revenues resulting from the Historic Structures Tax Credit program for the next five years into the following three years. Estimated and forecasted savings are based on projects that are currently on the list of active and completed projects maintained by the Historical Preservation and Heritage Commission. No inflator is used to project additional projects that could potentially be proposed.

The five-year forecast accounts for the impact of the State's Historic Structures Tax Credit program. This program became effective in tax year 2002 but the initial impacts of the issuance of tax credit certificates did not surface until tax year 2003 (i.e., FY 2004). The Budget Office based the estimate of revenues foregone from the issuance of historic structures tax credits on the $450.4 million in credits already issued or eligible to be issued as estimated by the Historic

Preservation and Heritage Commission (HP&HC) as of the November 2007 Revenue Estimating Conference. The $450.4 million figure reported by the HP&HC was $4.2 million lower than the amount of potential eligible credits HP&HC reported in May 2007. It should be noted that the volume of potential eligible credits would likely continue to grow in the future were no reform introduced. The Budget Office estimated the spread of these credits across personal income taxes, business corporations taxes, insurance companies gross premiums taxes, and financial institutions taxes for the FY 2003 – FY 2013 period in order to determine the potential savings to the State by instituting a cap of $20.0 million in Tax Year 2007 and $40.0 million in the following Tax Years through 2017. The Budget Office estimates $45.8 million less in revenue in these four categories in FY 2008 and FY 2009 if no reform is enacted. The following table shows the spread of the uncapped credits across tax categories as estimated by the Budget Office as well as the savings projected from the cap and the amount of credits cumulatively carried over into each new fiscal year.

Budget Office Jan 08 Estimate	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Personal Income	$37.4	$38.8	$52.8	$73.7	$70.4	$36.9	$11.2
Business Corporations	1.8	1.8	2.4	3.5	3.3	1.7	0.5
Insurance Companies	3.7	3.8	5.2	7.3	7.0	3.7	1.1
Financial Institutions	0.5	0.4	0.6	0.9	0.9	0.4	0.1
Total	**$43.4**	**$44.8**	**$61.0**	**$85.4**	**$81.6**	**$42.7**	**$12.9**
Cap	**0.0**	**20.0**	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**
Savings from Cap	**$0.0**	**$24.8**	**$21.0**	**$45.4**	**$41.6**	**$2.7**	**$(27.1)**
Carry-forward	**$0.0**	**$24.8**	**$45.8**	**$91.2**	**$132.8**	**$135.5**	**$108.4**

The Governor's proposal to adjust the November 2007 Revenue Estimating Conference FY 2009 estimate for the expected Financial Institutions tax refund - so as not to double count the $19.0 million liability recorded for the FY 2007 audited closing - has been accounted for in the five-year projection and is not treated as a recurring pattern. The reduction in the nursing home reimbursement rate has been included in the five year projection using the estimated impact of $(275,000) beginning in FY 2009 and will be revised upon determination of a more accurate estimate. Additionally, the Governor's proposal to pay motor carrier single state registration directly out of receipts has been incorporated into the five-year projection, decreasing FY 2009 motor vehicle registrations and licenses by $132,452. The five-year projection also includes the reinstitution of the hospital licensing fee at $78.0 million in FY 2009 and its expansion to 4.94 percent of hospital net patient revenue resulting in an increase of $32.7 million in FY 2009. The lottery estimates assume 3.0% growth in video lottery terminal revenues, and does not factor in the impact of expanded gaming hours, or new competition in neighboring states.

In addition, the five-year projection includes the Governor's proposal in the FY 2009 Budget to include bottled water as a beverage subject to the $0.04 per case beverage container and litter fee which is expected in increase departmental revenues by $611,919 in FY 2009. The five-year projections include the impact from the Governor's proposal to require court costs in lieu of fines for good driving dismissals. This expected increase in fee collections is forecast to create $1.1 million in additional departmental revenues in FY 2009. Further, the recommended conversion of the newborn hearing and screening fee is included in the five-year forecast, decreasing the FY 2009 estimate by $1.7 million. Converting various energy grants to restricted receipts is also part of the five-year projection, decreasing FY 2009 departmental revenues by $2.1 million. The $4.0 million transfer from Resource Recovery proposed by the Governor for FY 2009 is not included in the five-year projection as it is non-recurring. Several other transfers proposed for the FY 2008 supplemental budget also do not recur and are thus not reflected in the FY 2009 proposed budget. The proposal to fine drivers for using their handheld mobile phones is also included in the five-year projection but at the preliminary estimate of $350,000 in FY 2009. This estimate will be revised upon agreement with the House Fiscal Staff and Senate Fiscal Staff and will require a revision to the five-year projection.

In the previous five year forecast, the estimated revenues were projected to be $3.787 billion by FY 2012, the last year of the forecast, reflecting average annual growth of over 3.4%. The current five year forecast projects $3.691 billion of revenues by FY 2012, resulting in $96.0 million less resources than previously projected.

Expenditures

Expenditure side risks must also be noted within the five-year projection. As previously discussed, there are three major initiatives in the Governor's FY 2009 budget which 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. These include personnel savings, corrections options, and Medicaid reform. One of the greatest expenditure side risks 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. While costs for medical care will continue to be an underlying driver of state personnel costs in the forecast, it is assumed that there will be a deceleration in the rate of growth for state employee health benefit costs through fiscal 2013 from 8.5% in 2009 to 6.5% in 2013. 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. The forecast incorporates the Governor's Medicaid reform which promotes serving clients into the least restrictive setting which reduces nursing home care estimates by approximately $6.0 million from the last year of the previous five year forecast.

The growth in the prison population also poses substantial risks for both operations costs and capital infrastructure needs. In FY 2007, the average inmate population rose by 7.5 percent to 3,771. A further 4.0 percent growth is anticipated for FY 2008, for a base estimate of 3,925 if no reform is enacted. The projection assumes that future inmate population growth will decelerate to reflect the Earned Good Time initiative proposed by the Governor after consultation with legislative and judicial leaders. This initiative is intended to shorten the length of incarceration for certain inmates by increasing the earned good time rate for inmates of less than one year and for inmates who participate in rehabilitation programs. The FY 2009 inmate population is projected to be 3,848, and is projected to grow by an average of 1.0 percent (to 4,102) by FY 2013. The per capita inmate cost for this projected population increase is reflected in the forecast and results in an addition of $1.0 million by FY 2013. The reintegration Center, a new facility designed to house up to 175 inmates who are within six months of release is not reflected as an additional cost in the forecast. To fully staff the facility, approximately 77 full time equivalent positions would be needed, and the projected first year cost when opened would be $10.9 million. It is assumed that the facility would be opened when the benefit of opening the facility is documented from a cost/benefit analysis. While the goal of the facility is to reduce recidivism, the population projections do not account for the impact that the separate facility will have on population growth.

Personnel and Other Operations

The wage projections contained in the personnel estimates assume that there will be no cost of living increase (COLA) adjustments in FY 2009 or FY 2010. Step increases, longevity increases and educational incentives will add 1.7 percent annually to the estimated salary and fringe benefit costs and have been incorporated into the analysis. COLA's reflecting the CPI are included for FY 2011 and thereafter. The FY 2009 base for correctional officers compensation assumes inclusion of a negotiated pay increase prior to the beginning of the year.

The forecast reflects medical benefit cost and modified plan design which is expected to offset health insurance costs in FY 2009 and throughout the forecast period. As noted above, successful reforms relating to the retirement plan still result in significant employer contribution rates. For the state employees retirement system contributions are anticipated to remain level at 21.13 percent of payroll over the forecast period. The actuarial required rate would decline through FY 2013; however, the retirement reform legislation requires that the amount generated by declines in rates would be dedicated to reducing the unfunded liability of the system. Thus, retirement contribution costs are expected to increase from $78.9 million in fiscal 2009 to $91.5 million by fiscal 2013 due to projected cost of living adjustments which impact the rate of payroll contributions, as well as all rate relief being dedicated to reduce the unfunded liability.

Due to the rising costs for medical care for retirees and the adopted reporting standards issued by the Governmental Accounting Standards Board (GASB) for Other Post Employment Benefits (OPEB), the state commissioned an actuarial study in July 2007 evaluating the accrued actuarial unfunded costs for the retiree health benefits program. Under the new reporting requirements the state will be required to reflect any accrued actuarial unfunded costs on its financial statements by fiscal year 2008. The Governor has recommended that the state fund retiree health benefits on an actuarial basis commencing in FY 2009 and amortize the unfunded liability over a thirty year period. This funding mechanism will provide transparency with respect to the true cost of the benefit offered to state employees after employment.

In order to address this unfunded liability and reduce the ongoing cost to the taxpayer, the Governor recommends modifying eligibility requirements and co-share percentages for retiree health. Employees retiring after June 30, 2008 would be eligible for retiree health coverage through the state if they are age 59 or over with a minimum of 20 years of service, resulting in a rate of payroll of 3.86 percent. For purposes of the five year forecast, the percent of payroll derived from the Governor's proposed changes was used. The requirement for FY 2009 is estimated to be $17.7 million, and this would increase to $20.5 million by FY 2013.

As shown in the state operations expenditure tables, additional staffing is assumed to be required due to estimated caseload growth and the opening of the reintegration center at the Department of Corrections. This increases the overall state personnel requirements in order to finance these additional staffing needs.

The forecast includes increases in debt service of $7.2 million between FY2009 and FY 2010 relating to the recommended issuance of certificates of participation for energy conservation projects in FY 2009 which would yield energy consumption related savings in FY 2010 and thereafter. Savings on previous energy conservation projects is built into the energy cost base in FY 2009. There is an adjustment required for FY 2010 to capture the energy cost savings which will be equal to at least the amount of debt service, potentially more. The debt service in FY 2010 for the second University of Rhode Island tranche, and the Pastore/Zambarano projects proposed in the FY2009 budget is $2.6 million and $4.6 million respectively. Therefore energy costs are reduced by these amounts. Also, the Governor's FY 2009 budget recommends the issuance of certificates of participation to renovate the Forand and Virks buildings at the Pastore campus. It is assumed in the five year forecast that the DMV project will be complete in FY2010, providing for approximately $1.0 million rental savings at the Pawtucket facility which is currently occupied by the DMV. The five year forecast does not factor in future savings from movement of other agency personnel into the Department of Administration Building upon completion of the new DOIT facility at the former Training School. It is not known at this time which agencies will occupy the significant vacant space in the Department of Administration building which will become available.

The Governor's proposed FY 2009 budget includes $140.2 million less in personnel and operating than were projected for FY2009 in the previous five year forecast. Additionally, the previous five year forecast assumed cost of living increases in every year during the forecast. The current forecast assumes no cost of living increase in FY 2009 and FY 2010, and a cost of living increase equivalent to CPI in FY 2011 through FY 2013. The compounded savings from no COLAs in FY 2009 and FY 2010 results in approximately $14.8 million in savings. In the previous five year forecast, the estimated cost for personnel and operating was $1.244 billion by FY 2012 reflecting average annual growth of 5.1%. The current five year forecast assumes $969.6 million in FY 2009 and an average growth of 4.0% over the five year interval, resulting in an estimated cost of $1.076 billion, an improvement of $167.5 million.

Grants and Benefits

Grants and Benefits are projected to increase by an average of 3.6 percent annually, reflecting the impact of the Governor's Medicaid reform. Most of this growth is reflected in the Department of Human Services budget, since this department is responsible for managing the state's Medicaid program.

The forecast for Department of Human Services grants and benefits is based on the assumption that the Federal Temporary Assistance to Needy Families Cash Assistance Program (TANF) and the Rhode Island Family Independence Program (FIP) will meet their stated objectives during the forecast period, and that federal block grants and Medicaid matching grants will continue at current levels.

The forecast assumes that eligibility and economic influences on FIP caseloads will result in reductions of approximately four percent of cases annually. Baseline FY 2009 expenditures assume elimination of FIP eligibility for children after sixty months of cash assistance; this revision in eligibility is proposed in the FY 2008 supplemental budget act. Savings in cash assistance will be offset by continuing additions for child care subsidies, which are extended to the working poor even after entry of cash assistance clients to unsubsidized employment. Child care slots are assumed to increase marginally through the forecast period, and include adjustments for increased utilization by clients exhausting cash assistance. Growth in slots is assumed at one percent annually. Pursuant to the Governor's proposal to eliminate the automatic biennial provider rate adjustment, no price inflation is included in the estimate in the forecast period. The offsetting trends for cash assistance and child care are roughly in equilibrium, and the block grant resources are assumed to be sufficient to finance all incremental costs throughout the forecast period. Therefore, zero growth in general revenue costs is projected. Conversely, the estimate recognizes that general revenue maintenance of effort floors for federal TANF funds are achieved in the FY 2009 recommendation, and therefore no additional reduction in general revenue support can be realized in the forecast period. No effects from the Governor's Work First initiative to replace FIP are recognized in the estimate; again, due to maintenance of effort requirements, any savings will accrue to the federal block grant, and can be reserved for future periods or reinvested in future years for optional or increased benefits or support services. In the previous five year forecast, the estimated cost for TANF/Child Care/MOE was $34.4 million in FY 2012; the current five year forecast assumes $19.2 million in the FY 2009 budget and thereafter.

SSI caseloads will increase slightly, as both the elderly and disabled population components are forecast to increase marginally over the five-year period. Cost of living adjustments of 1.2 percent annually are assumed after a one year suspension ending January 1, 2010.

DHS Medicaid projections reflect proposed reforms in service delivery systems, such as reduced institutional care and greater participation in independent living and treatment arrangements, and reform of the purchasing model from reimbursement-based to client-based. The first year savings from this Medicaid reform initiative are included in the FY 2009 baseline totaling $66.7 million in general revenue savings. Continuing results from the initiative are recognized in the outyears as well.

Pharmacy inflation is assumed at 5.2 percent annually. Pharmacy estimates also reflect a schedule reducing federal "clawback" assessment percentages for Part D Medicare benefits to dually eligible Medicaid clients.

The managed care forecast assumes that base costs will inflate at seven percent in 2010 and 9.5 percent annually thereafter. Proposals in the Governor's Budget for Medicaid reform including contracting accountability and care management are projected to continue to reduce out-year costs by 1.1 percent in FY 2010 and by 3.7 percent annually thereafter. The Governor's proposed FY 2009 budget includes $52.0 million of reductions relating to managed care. In the previous five year forecast, the estimated cost for managed care was $372.1 million by FY 2012 reflecting average annual growth of over 9.0%. The current five year forecast assumes $238.4 million in FY 2009 and an average growth of 5.8% over the five year interval, resulting in a $90.7 million improvement.

Similarly, cost trends in institutional long term care include an annual provider rate adjustment of four percent throughout the forecast, offset by accelerating savings from the Medicaid reform diversion initiative of three percent annually. Other categories for Department of Human Services Medicaid costs are estimated to inflate by 6.2 percent annually; downward adjustments from the effects of Medicaid reform range from 1.1 percent to 2.6 percent.

The forecasted expenditures within the Developmental Disability system of $87.0 million in FY 2009 to $98.7 million in FY 2013 indicate an average growth rate of approximately 5.1 percent per year; downward adjustments from the effects of Medicaid reform are estimated at 1.8 percent annually. 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 Department of Human Services' grant costs. Although the growth in expenditures in the Developmental Disability system has been relatively stable over the past few years, there are several factors that could significantly impact expenditures during the forecast period. These include greater public awareness of the availability and, therefore, the utilization of services; the aging of caregivers; and the aging of the existing population. In the previous five year forecast, the estimated cost for the developmentally disabled system was $119.8 million in FY 2012, reflecting 4.8% average growth. The current five year forecast assumes $87.0 million in FY 2009 and average growth of 3.2% over the forecast interval, resulting in a $24.4 million improvement.

Cost trends for all Medicaid benefits at the Department of Children Youth and Families, and for mental health benefits in MHRH are estimated to inflate by 7 percent in FY 2010, 6.6 percent in FY 2011, 6.2 percent in FY 2012, and 6.1 percent in FY 2013. Downward adjustments from the effects of Medicaid reform are estimated only for the DCYF projection, at an annual rate of 0.8 percent. In the previous five year forecast, the estimated cost for DCYF services was $65.1 million as a result on an inflator of 2%. The current five year forecast assumes $56.4 million in FY 2009 and average net growth of 5.6 % over the forecast period resulting in a cost estimate of $66.7 million by FY 2012, exceeding the previous estimate by $1.6 million despite Medicaid reforms.

Local Aid

Local aid expenditures include Education Aid, Aid to Local Libraries, the PILOT program, Aid to Distressed Communities, Police and Fire Incentive payments, the Motor Vehicle Excise Tax Reimbursement, General Revenue Sharing and the Property Revaluation program. Growth in these programs is assumed to average 2.8 percent over the projection period. The forecast assumes that the reimbursed exemption for motor vehicles will remain at $6,000 per vehicle while payments will be discounted to 98% of the exemption value. The values of motor vehicles have fluctuated significantly from one year to the next. The forecast assumes growth in values of 3.2 % each year and is based upon historical growth rates in the number of taxable vehicles.

The General Revenue Sharing program is assumed to grow at CPI rates from the FY 2009 budget proposal. The forecast does not assume that GRS will be restored to 3% of state general revenues in FY 2010 and thereafter, requiring an amendment to the legislation in the Governor's proposed FY 2009 budget. The distressed community program will grow from $10.4 million to $11.5 million. The payment in lieu of taxes (PILOT) program is anticipated to add $5.8 million in expenditures over the forecast period while the Library Aid program including the construction reimbursement program will add $2.4 million to the forecasted base.

In dollar terms, the largest driving force behind expenditure growth from FY 2009 to FY 2013 is accounted for by Education Aid programs, which are expected to increase by a total of $100.0 million from the FY 2009 base level, an average of 2.7 percent per annum. This aggregate growth rate reflects an increase in general unrestricted education aid assumed to grow at CPI and other aid categories which are level funded. Several aid components such as Housing Aid, Teachers Retirement, Direct Aid to Charter Schools, and the Metropolitan School are estimated with discrete models. Charter school aid increases by $9.9 million, from $29.8 million in FY 2009 to $39.7 million in FY 2013. Projections for future required employer contribution rates to the teacher's retirement fund reflect no further contribution rate increases. State contributions for teacher's retirement increase from $80.2 million in fiscal 2009 to $111.9 million by fiscal 2013, or 4.25% annually. Housing aid, which reimburses communities for part of the debt incurred for new school construction is projected to increase from $57.0 million to $81.0 million or an average of 9.2% annually. The Governor's proposed FY 2009 budget for education aid reflects $30.6 million less than reflected in the previous five year forecast for FY 2009, due to level funding in the enacted FY 2008 budget and the assumption in last year's five year forecast that distributed school aid would increase in FY 2009 by 3.0%. In the previous five year forecast, the estimated cost for distributed aid was $1.008 billion by FY 2012, the current five year forecast assumes $965.0 million in FY 2012, an improvement of $43.0 million. The change in assumptions from using 3% growth to CPI growth strictly on unrestricted aid offsets increases in other areas, such as the state's contribution for teacher retirement.

Capital

The projection of capital project disbursements and debt service costs reflects updated debt service projections as included in the FY 2009 – FY 2013 Capital Improvement Plan. General revenue funded debt service on all tax supported obligations are projected to rise from $157.5 million in FY 2009 to $183.5 million in FY 2013. The increase is attributable largely to the issuance of general obligation debt, which increases by $44.6 million and is offset by reductions in other categories as described below.

The five year forecast is based upon outstanding debt and projected new debt contained in the Governor's recommended FY 2009-2013 Capital Budget. Interest rates for fixed rate general obligation bonds to be issued to fund FY 2009 projects are projected at 5.0 percent. Interest rates for issuance of twenty-year fixed rate certificates of participation are estimated at 5.5 percent. Division of Motor Vehicles debt is assumed to be issued at 4.5% and amortized over seven years. Innovative Technology Bonds are assumed to be issued at 4.5% and amortized over ten years. Projected amortization schedules are found in the exhibits contained in Appendix C of the State's Capital Budget.

FY 2008 Innovative Technology - $13.41 million
FY 2008 School for the Deaf - $31.2 million
FY 2008 DMV System - $6.775 million
FY 2009 General Obligation Bonds $122.1 million
FY 2009 URI Energy Conservation - $11.365 million
FY 2009 Pastore/Zambarano Energy Conservation - $53.43 million
FY 2009 EDC – Motor Fuel Bonds - $14.9 million
FY 2009 DMV/Virks Buildings - $23.93 million
FY 2010 General Obligation Bonds $134.0 million
FY 2010 DMV System - $6.225 million
FY 2011 General Obligation Bonds -$89.0 million
FY 2012 General Obligation - $110.2 million
FY 2013 General Obligation - $94.9 million

Amortization of existing debt combined with new debt issuance, results in increased general revenue appropriations for debt service of $25.9 million from FY 2009 to FY 2013. 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. Debt service on certificates of participation decreases from $39.3 million in FY2009 to $38.9 million in FY2012. Convention Center debt service remains unchanged at $23.1 million, and performance based obligations increase from $6.1 million to $7.0 million. The obligations for the RI Refunding Bond Authority (former Public Building Authority) decline from $19.1 million in FY 2009 to zero in FY 2011.This is offset by an increase of $44.6 million in general obligation debt

The projected general revenue requirements for debt service are dependent upon the allocation of debt service costs to other sources of funds. It is assumed that the Department of Transportation general obligation bond issuance in FY 2009 through FY 2013 will total $45.0 million, $42.0 million, $42.0 million, $41.9 million and $42.0 million It is assumed that the two cents of the gas tax dedicated to Motor Fuel bonds issued by EDC is equal to approximately $9.37 million annually. It is assumed that the Rhode Island Public Transit Authority debt issuance funded by gas tax revenues in FY 2009 through FY 2013 will total $3.2 million in FY 2010, and $1.5 million in FY 2011 and $3.0 million in 2012.

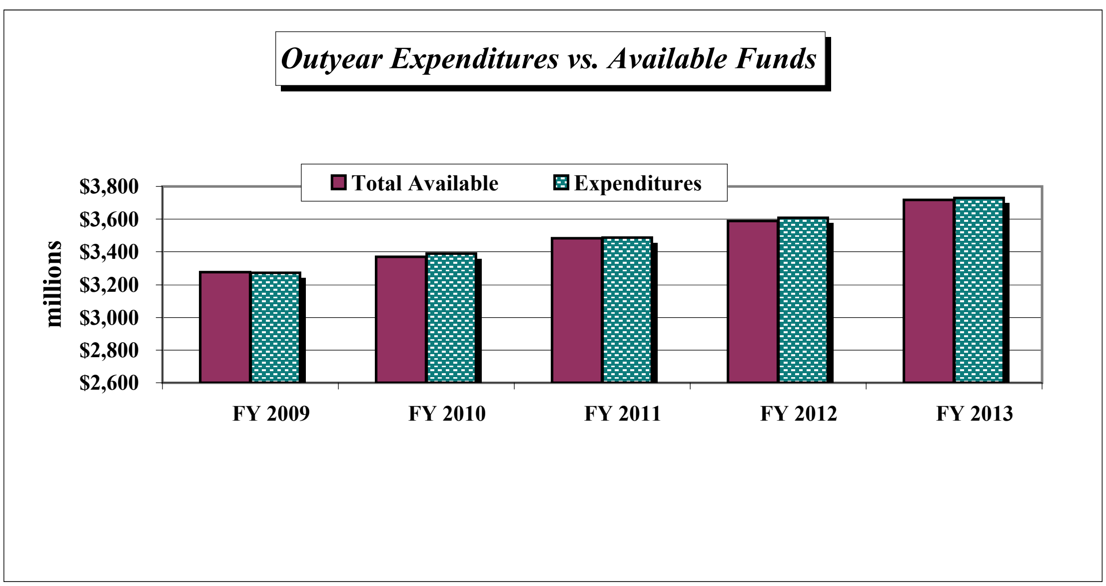
The obligations arising from the performance based contracts between the Rhode Island Economic Development Corporation and private entities are projected to result in state appropriations due to the projected achievement of performance targets. In FY 2009, it assumes the Fidelity Phase I is $2.5 million and Providence Place Mall obligations are $3.6 million. For FY2009 and thereafter, it is assumed that the State pays $2.5 million on Fidelity Phase I and $100,000 on the Fidelity Phase II transaction. In FY2010 and thereafter, the forecast assumes payment of $2.5 million on Fidelity I and $0.9 million on Fidelity II. The forecast assumes no requirement for the Bank of America obligation transaction, which if earned would total approximately $0.3 million.

Other

The projection also assumes that capital disbursement from general revenues would be $9.8 million in FY 2009, and thereafter. This includes all expenditures which would be subject to fixed assets recording.

General Revenue Outyear Estimates FY 2009 - FY 2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Opening Surplus	**$0.7**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Plus:					
Taxes and Departmentals	2,952.9	3,051.2	3,159.0	3,254.2	3,377.2
Other Sources	394.6	403.3	419.3	436.3	454.4
Budget Stabilization Fund	(73.7)	(82.9)	(93.0)	(103.3)	(114.9)
Total Available	**3,274.5**	**3,371.6**	**3,485.3**	**3,587.2**	**3,716.7**
Minus Expenditures	**3,272.7**	**3,388.6**	**3,486.9**	**3,608.0**	**3,729.0**
Equals Ending Balance	**$1.8**	**($17.0)**	**($1.6)**	**($20.8)**	**($12.3)**
Operating Surplus or Deficit	***$1.1***	***($17.0)***	***($1.6)***	***($20.8)***	***($12.3)***
Rhode Island Capital Fund					
Budget Stabilization Balance	$113.8	$131.3	$150.3	$169.8	$191.6
Capital Fund Balance	3.1	0.6	9.8	26.1	52.3
Capital Projects Disbursements	*79.4*	*67.9*	*64.8*	*57.8*	*40.8*



General Revenue Outyear Estimates

	FY 2010	FY 2011	FY 2012	FY 2013
Personal Income Tax	$1,147,200,000	$1,200,500,000	$1,250,100,000	$1,312,200,000
General Business Taxes:				
Business Corporations & Franchise	167,600,000	174,100,000	180,500,000	188,100,000
Public Utilities	96,300,000	98,700,000	101,000,000	103,400,000
Financial Institutions	200,000	300,000	300,000	300,000
Insurance Companies	79,500,000	84,800,000	83,100,000	81,300,000
Bank Deposits	1,700,000	1,800,000	1,800,000	1,800,000
Health Care Provider	56,000,000	59,000,000	62,100,000	65,400,000
General Business Taxes	**$401,300,000**	**$418,700,000**	**$428,800,000**	**$440,300,000**
Sales and Use Taxes:				
Sales and Use	933,800,000	970,300,000	1,004,500,000	1,042,100,000
Motor Vehicle	46,600,000	47,800,000	49,000,000	50,200,000
Motor Fuel	1,200,000	1,200,000	1,200,000	1,200,000
Cigarettes	111,900,000	106,300,000	100,400,000	103,500,000
Alcohol	11,100,000	11,300,000	11,400,000	11,500,000
Controlled Substances	0	0	0	0
Sales and Use Taxes	**$1,104,600,000**	**$1,136,900,000**	**$1,166,500,000**	**$1,208,500,000**
Other Taxes:				
Inheritance and Gift	31,500,000	32,800,000	34,200,000	35,600,000
Racing and Athletics	2,400,000	2,300,000	2,100,000	2,000,000
Realty Transfer Tax	11,800,000	11,900,000	12,200,000	12,400,000
Other Taxes	**$45,700,000**	**$47,000,000**	**$48,500,000**	**$50,000,000**
Total Taxes	**$2,698,800,000**	**$2,803,100,000**	**$2,893,900,000**	**$3,011,000,000**
Total Departmental Receipts	**352,400,000**	**355,900,000**	**360,300,000**	**366,200,000**
Taxes and Departmentals	**$3,051,200,000**	**$3,159,000,000**	**$3,254,200,000**	**$3,377,200,000**
Other Sources				
Gas Tax Transfers	4,700,000	4,700,000	4,800,000	4,800,000
Other Miscellaneous	12,000,000	12,000,000	12,000,000	11,700,000
Lottery Commission Receipts	378,400,000	394,300,000	411,100,000	428,400,000
Unclaimed Property	8,200,000	8,300,000	8,400,000	9,500,000
Other Sources	**$403,300,000**	**$419,300,000**	**$436,300,000**	**$454,400,000**
Total General Revenues	**$3,454,500,000**	**$3,578,300,000**	**$3,690,500,000**	**$3,831,600,000**

General Revenue Outyear Estimates

	FY 2010	FY 2011	FY 2012	FY 2013
Personal Income Tax	4.3%	4.6%	4.1%	5.0%
General Business Taxes:				
Business Corporations	4.5%	3.9%	3.7%	4.2%
Public Utilities	-7.4%	2.5%	2.4%	2.3%
Financial Institutions	-37.8%	10.1%	9.1%	8.4%
Insurance Companies	5.8%	6.7%	-2.1%	-2.1%
Bank Deposits	2.0%	2.0%	2.1%	2.1%
Health Care Provider	5.3%	5.3%	5.3%	5.3%
General Business Taxes	**1.7%**	**4.3%**	**2.4%**	**2.7%**
Sales and Use Taxes:				
Sales and Use	5.1%	3.9%	3.5%	3.7%
Motor Vehicle	0.8%	2.5%	2.5%	2.4%
Motor Fuel	0.1%	0.8%	0.8%	0.9%
Cigarettes	-4.6%	-5.0%	-5.6%	3.1%
Alcohol	1.2%	1.2%	1.2%	1.2%
Controlled Substances				
Sales and Use Taxes	**3.8%**	**2.9%**	**2.6%**	**3.6%**
Other Taxes:				
Inheritance and Gift	4.5%	4.3%	4.2%	4.2%
Racing and Athletics	-6.5%	-6.7%	-6.5%	-6.5%
Realty Transfer Tax	0.9%	1.1%	2.1%	2.0%
Other Taxes	**2.9%**	**2.9%**	**3.2%**	**3.2%**
Total Taxes	**3.7%**	**3.9%**	**3.2%**	**4.1%**
Total Departmental Receipts	**0.9%**	**1.0%**	**1.2%**	**1.6%**
Taxes and Departmentals	**3.3%**	**3.5%**	**3.0%**	**3.8%**
Other Sources				
Gas Tax Transfers	0.1%	0.8%	0.8%	0.9%
Other Miscellaneous	-27.9%	-0.1%	0.1%	-2.0%
Lottery Commission Receipts	4.0%	4.2%	4.3%	4.2%
Unclaimed Property	-12.9%	1.2%	1.4%	13.4%
Other Sources	**2.2%**	**4.0%**	**4.0%**	**4.2%**
Total General Revenues	**3.2%**	**3.6%**	**3.1%**	**3.8%**

General Revenue Outyear Expenditure Estimates

	FY 2010	FY 2011	FY 2012	FY 2013
State Operations				
Personnel	$839,400,000	$872,300,000	$907,100,000	$943,100,000
Other State Operations	141,400,000	144,200,000	147,200,000	150,300,000
DOC Inmate Growth		200,000	600,000	1,000,000
Subtotal	**$980,800,000**	**$1,016,700,000**	**$1,054,900,000**	**$1,094,400,000**
	2.9%	3.7%	3.8%	3.7%
Grants and Benefits				
DCYF Services	$59,900,000	$63,300,000	$66,700,000	$70,200,000
TANF Cash/Child Care/MOE	19,200,000	19,200,000	19,200,000	19,200,000
SSI Cash	27,000,000	27,800,000	28,700,000	29,600,000
Home Health Care-DEA	7,500,000	8,100,000	8,700,000	9,300,000
Nursing Home Care	157,200,000	158,600,000	160,000,000	161,400,000
MHRH MR\DD	89,800,000	92,700,000	95,400,000	98,700,000
Mental Health	35,400,000	37,700,000	40,100,000	42,500,000
Other DHS Medicaid	267,800,000	276,300,000	285,400,000	294,800,000
Managed Care	251,400,000	265,900,000	281,400,000	297,700,000
Other Grants and Benefits	141,100,000	143,900,000	146,900,000	150,000,000
Subtotal	**$1,056,300,000**	**$1,093,500,000**	**$1,132,500,000**	**$1,173,400,000**
	3.8%	3.5%	3.6%	3.6%
Local Aid				
Education Aid	916,000,000	940,100,000	965,000,000	989,800,000
General Revenue Sharing	55,700,000	56,800,000	58,000,000	59,200,000
GRS - VLT	500,000	500,000	500,000	600,000
Motor Vehicle Tax Reimbursements	144,100,000	148,700,000	153,400,000	158,300,000
PILOT	29,200,000	30,700,000	32,100,000	33,600,000
Distressed Communities	9,800,000	10,000,000	10,200,000	10,400,000
Distressed - VLT	900,000	1,000,000	1,000,000	1,100,000
Library Aid	12,800,000	13,100,000	13,800,000	13,900,000
Property Revaluation Prgm	1,100,000	700,000	1,200,000	1,000,000
Subtotal	**$1,170,100,000**	**$1,201,600,000**	**$1,235,200,000**	**$1,267,900,000**
	3.1%	2.7%	2.8%	2.6%
Capital				
Debt Service				
General Obligation	$84,300,000	$87,600,000	$100,900,000	$112,500,000
Refunding Bond Authority	6,300,000	0	0	0
COPS/Other Leases	48,900,000	45,600,000	42,600,000	38,900,000
Convention Center	23,100,000	23,100,000	23,200,000	23,200,000
Performance Based	7,000,000	7,000,000	7,000,000	7,000,000
TANS	1,900,000	1,900,000	1,900,000	1,900,000
Capital Improvements				
Other Projects	9,900,000	9,900,000	9,800,000	9,800,000
Subtotal	**$181,400,000**	**$175,100,000**	**$185,400,000**	**$193,300,000**
	8.4%	-3.5%	5.9%	4.3%
Total	**$3,388,600,000**	**$3,486,900,000**	**$3,608,000,000**	**$3,729,000,000**
Difference	**$115,900,000**	**$98,300,000**	**$121,100,000**	**$121,000,000**
	3.54%	**2.90%**	**3.47%**	**3.35%**

General Revenue Outyear Expenditure Estimates

	FY 2010	FY 2011	FY 2012	FY 2013
State Operations				
Personnel	4.13%	3.92%	3.99%	3.97%
Other State Operations	-3.55%	1.98%	2.08%	2.11%
DOC Inmate Growth				
DOC Reintegration Center				
Subtotal	**2.95%**	**3.66%**	**3.76%**	**3.74%**
Grants and Benefits				
DCYF Services	6.21%	5.68%	5.37%	5.25%
TANF Cash/Child Care/MOE	0.00%	0.00%	0.00%	0.00%
SSI Cash	2.66%	2.96%	3.24%	3.14%
Home Health Care-DEA	7.14%	8.00%	7.41%	6.90%
Nursing Home Care	0.83%	0.89%	0.88%	0.88%
MHRH MR\DD	3.22%	3.23%	2.91%	3.46%
Other Medicaid	4.73%	3.17%	3.29%	3.29%
Managed Care	5.45%	5.77%	5.83%	5.79%
Other Grants and Benefits	2.02%	1.98%	2.08%	2.11%
Subtotal	**3.84%**	**3.52%**	**3.57%**	**3.61%**
Local Aid				
Education Aid	2.94%	2.63%	2.65%	2.57%
General Revenue Sharing	2.01%	1.97%	2.11%	2.07%
Motor Vehicle Tax Reimbursements	3.22%	3.19%	3.16%	3.19%
PILOT	5.04%	5.14%	4.56%	4.67%
Distressed Communities	2.08%	2.04%	2.00%	1.96%
Distressed - VLT	12.50%	11.11%	0.00%	10.00%
Library Aid	11.30%	2.34%	5.34%	0.72%
Property Revaluation Prgm	-15.38%	-36.36%	71.43%	-16.67%
Subtotal	**3.06%**	**2.69%**	**2.80%**	**2.65%**
Capital				
Debt Service				
General Obligation	24.15%	3.91%	15.18%	11.50%
Refunding Bond Authority	-66.84%	0.00%	0.00%	0.00%
COPS/Other Leases	24.11%	-6.75%	-6.58%	-8.69%
Convention Center	0.00%	0.00%	0.43%	0.00%
Performance Based	12.90%	0.00%	0.43%	0.00%
TANS				
Capital Improvements				
Other Projects	0.00%	0.00%	-1.01%	0.00%
Subtotal	**8.36%**	**-3.47%**	**5.88%**	**4.26%**
Total	**3.54%**	**2.90%**	**3.47%**	**3.35%**
CPI-U	**2.0%**	**2.0%**	**2.1%**	**2.1%**

General Revenue Outyear Planning Values

Estimates and Growth	FY 2010	FY 2011	FY 2012	FY 2013
Personal Income (billions) [1]	$47.1	$49.0	$51.0	$52.9
Change	*4.1%*	*4.0%*	*4.1%*	*3.8%*
Nonfarm Employment (thousands) [2]	511.5	515.8	519.7	523.6
Change	*1.1%*	*9.0%*	*8.0%*	*8.0%*
Personal Income Tax				
Wages and Salaries [2]	4.0%	3.9%	3.8%	3.7%
Elasticity [3]	1.3	1.3	1.3	1.3
Business Corporation Tax [4]	5.3%	5.1%	4.8%	4.7%
Provider Tax [3]	5.4%	5.2%	4.9%	4.9%
Sales Tax				
Wages and Salaries [1]	4.0%	3.9%	3.8%	3.7%
Gasoline Tax				
Real Consumption [5]	-0.2%	1.0%	0.9%	0.9%
Other Taxes and Departmentals [3]	1.7%	2.2%	2.2%	2.8%
CPI-U (U.S.) [1]	2.0%	2.0%	2.1%	2.1%
Salaries and Fringe Benefits				
Salary COLA - [12], CPI-U [1]		2.0%	2.1%	2.1%
Steps and Longevity Increases [3]	1.7%	1.7%	1.7%	1.7%
Medical Benefits Costs [12], [11]	7.1%	6.9%	6.7%	6.5%
Retiree Health Costs [13]	3.86%	3.86%	3.86%	3.86%
State Employees Retirement Costs [14]	21.13%	21.13%	21.13%	21.13%
Corrections Population, Including INS Detainees [3]	**3,819**	**3,893**	**4,003**	**4,102**
Change	*13.7%*	*1.9%*	*2.8%*	*2.5%*
Home Health Care				
Expenditure Growth [7]	7.9%	7.5%	7.4%	7.3%
Nursing Home Care				
Expenditure Growth [3]	4.0%	4.0%	4.0%	4.0%
Medicaid Reform Deflator [9	-3.0%	-3.0%	-3.0%	-3.0%
Managed Care				
Expenditure Growth [9]	7.0%	9.5%	9.5%	9.5%
Medicaid Reform Deflator [9]	-1.1%	-3.7%	-3.7%	-3.7%
Other DHS Medicaid				
Expenditure Growth [10]	6.2%	6.2%	6.2%	6.2%
Medicaid Reform Deflator [9]	-1.1%	-2.6%	-2.5%	-2.5%
MHRH- Mental Health				
Expenditure Growth [8]	7.0%	6.6%	6.2%	6.1%

General Revenue Outyear Planning Values

Estimates and Growth	FY 2010	FY 2011	FY 2012	FY 2013
DCYF Services				
Expenditure Growth [8]	7.0%	6.6%	6.2%	6.1%
Medicaid Reform Deflator [9	-0.8%	-0.8%	-0.8%	-0.8%
MHRH- MR/DD				
Expenditure Growth [3]	5.1%	5.1%	5.1%	5.1%
Medicaid Reform Deflator [9]	-1.8%	-1.8%	-1.8%	-1.8%

[1] Moody's Economy.com Fiscal Year Forecast of the Rhode Island Economy, July 2007, Nominal Personal Income.
[2] November 2007 Revenue Estimating Conference Consensus Economic Forecast., FY 2007 - FY 2013.
[3] State of Rhode Island Budget Office Estimate.
[4] Moody's Economy.com Calendar Year Forecast of the U.S. Economy,July 2007, Corporate Profits Before Tax.
[5] Moody's Economy.com Calendar Year Forecast of the U.S. Economy, July 2007, Nondurables: Gasoline and Oil.
[6] Moody's Economy.com Fiscal Year Forecast of the R.I.. Economy, July 2007, Growth in Population Ages 65+.
[7] HCFA (CMS) National Health Care Expenditures Projections 2001-2016, Home Health.
[8] HCFA (CMS) National Health Care Expenditures Projections 2001-2016, Physician and Clinical.
[9] RI Department of Human Services Estimate.
[10] November 2007 CEC estimates and DHS Fiscal Year FY 2009 Forecast.
[11] HCFA (CMS) National Health Care Expenditures Projections 1965-2016, Personal Health Care.
[12] FY 2011 and thereafter - CPI.
[13] Reflects Compliance with GASB rules beginning with Fiscal 2009.
[14] Actuary % of payroll.