State of Rhode Island and Providence Plantations

Executive Summary

Fiscal Year 2014

Lincoln D. Chafee, Governor

Appendix F
Five-Year Financial Projection

FY 2014 – FY 2018 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 2017. 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 interpretation 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 2014 budget base, expenditures will exceed revenues in each of the out-years projected through FY 2018. The operating deficits by fiscal year are as follows: $170.5 million in FY 2015, $254.5 million in FY 2016, $377.8 million in FY 2017, and $468.9 million in FY 2018. In percentage terms, the deficits are projected to range from 4.8 percent of spending in FY 2015 to 11.8 percent of spending in FY 2018. The expenditure-side of the budget is estimated to increase at an average annual rate 4.0 percent from the FY 2014 base to FY 2018. 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 2.43 percent over this same period. A number of factors are responsible for the rate of growth above inflation, as discussed in detail below.

As described further below, projected out year revenues are significantly impacted by the expected opening of gaming facilities in Massachusetts in the coming years. Lottery transfers to the State general fund are projected to diminish by a total of $307.6 million over the five year forecast period, due to the increased competition to Rhode Island's gaming facilities in Lincoln and Newport. Without this impact on Rhode Island's revenues, the five year forecast would show deficits of $170.5 million in FY 2015, $200.8 million in FY 2016, $264.4 million in FY 2017 and $328.4 million in FY 2018. In FY 2018, the deficit would be 8.3 percent of expenditures, as opposed to the 11.8 percent under the current forecast, or a total of $140.6 million less.

The five year projection anticipates average annual general revenue growth of approximately 1.4 percent beyond the budget year, based upon the adopted November 2012 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 regain momentum in FY 2014 and FY 2015. The underlying forecasts in FY 2014 anticipate significant growth for wage and salaries and personal income, while the FY 2015 forecasts assumes acceleration in non-farm employment growth and a decrease in the unemployment rate.

While FY 2015 shows a slight decline in general revenue growth when compared to FY 2014 from 2.9 percent to 2.7 percent, the primarily factor is the Governor's recommendation to reduce the corporate tax rate, not the underlining trend in the economy. Any gains associated with a more competitive corporate tax have not been incorporated into the forecast. General revenue growth remains positive for the FY 2016 to FY 2018 period but at rates below 1.5 percent annually, as increased gaming competition in Massachusetts takes hold. The impact of Massachusetts-based gaming facilities is significant as, absent their establishment, average general revenue growth in the FY 2016 through FY 2018 period would be 3.9 percent versus the 1.0 percent average annual growth rate currently projected.

Personal income is forecasted to grow at an average annual rate of 5.7 percent over the FY 2014 – FY 2018 period. Nonfarm employment is anticipated to grow at an average annual rate of 2.0 percent and wage and salary disbursements at an average annual rate of 6.2 percent over the same period. Dividends, interest and rent payments are forecasted to grow at an average annual rate of 8.0 percent over the FY 2014 – FY 2018 period, the strongest growth of any personal income component.

There are several risks to the revenue forecast. First, the timing of the national and regional economic recovery will impact the growth in general revenues. If the recovery takes hold sooner than forecast, then the out-year growth rates, particularly in employment, could be lower. The tradeoff, of course, is that near-term revenue estimates would likely be better than currently estimated. Conversely, if the economic recovery takes hold later than forecast, then the out-year growth rates could be too optimistic and both the near-term and the out-year revenue forecasts may be overstated.

Second, the behavior of consumers as the economy recovers will also impact general revenue growth. Consumer spending has historically comprised two-thirds of total spending. If consumer spending after the Great Recession does not rebound to pre-Great Recession levels, then the out-year revenue forecasts are likely to be overstated. Furthermore, European financial instability and unrest in the Middle East could negatively impact U.S. consumer spending. The United States has recently seen an increase in exports, which may be short-lived if the European financial crisis deepens. Recent turmoil in the Middle East has put significant upward pressure on energy prices, particularly oil, and a sustained increase in the price of oil could dampen consumer spending as income is diverted from discretionary purchases to gasoline and heating fuel.

Finally, the expansion of gaming in Massachusetts will impact the state's general revenues via the lottery transfer. Two items are important in this regard. One is the timing of the opening of gaming facilities in Massachusetts. If Massachusetts' gaming facilities become operational earlier than is estimated in the forecast, then general revenue growth will weaken sooner than is currently forecast. If Massachusetts' gaming facilities become operational later than is estimated in the forecast, then general revenue growth will be stronger than is currently forecast. Second is the location of the gaming facilities in Massachusetts. The five year revenue projection assumes the Likely Case for the location of the racino and the three resort casinos in Massachusetts.[1] If the locations of the Massachusetts gaming facilities are closer to the state's two gaming facilities, then a larger negative impact on general revenue growth will likely occur. If the locations of the Massachusetts gaming facilities are farther from the state's two gaming facilities, then a smaller negative impact on general revenue growth would be expected.

[1] See *Gaming Study and Economic Impact Analysis*, pg 25 for a description of the Likely Case and for the location of gaming facilities in Massachusetts.

FY 2014 – FY 2018 Overview

Highlights

The Governor recommends no major revenue enhancement initiatives and recommends phase-down of the business corporation tax from 9.0 percent to 7.0 percent over the next three calendar years. This will result in a reduction in revenues from this tax of $8.0 million in FY 2014. This revenue loss is offset in part by the Governor's proposal to reduce the exemption provided under the Job Development Act and to sunset the Distressed Areas Economic Revitalization act credit. Combined, these will offset the loss from the business corporation tax reduction by approximately $2.7 million.

Economic Forecast and Revenues

The economic forecast was developed by the principals of the November 2012 Revenue Estimating Conference with input from the consulting economist at Moody's Economy and respective staff. This forecast is derived from the U.S. macroeconomic model and the State of Rhode Island economic model that Moody's Economy.com 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 2013 budget is undertaken. Finally, the economic forecast is presented for the out-years through FY 2018.

The biggest risk to the economic forecast is the sustainability of the current economic recovery underway in the United States and Rhode Island. Rhode Island's economic momentum has slowed in recent months along with the national economy and weak business and consumer confidence could cause national and state economic growth to stall in the near-term. If Rhode Island' s economic recovery slows significantly 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 in FY 2014 after a slight contraction in FY 2012 and FY 2013. Rhode Island employment growth is expected to be tepid in FY 2014 before achieving its peak in FY 2016 at 3.2 percent for the forecasted period. In FY 2017, Rhode Island employment growth declines to 1.9 percent, a rate nearly four times FY 2011's growth rate. FY 2018 total non-farm employment is expected to eclipse 504,000 jobs which would be the highest level of employment in the last 20 years. In FY 2018, employment growth, however, slows to a rate of 0.6 percent, a rate slightly higher than the growth rate in FY 2011. Rhode Island personal income growth is expected to slow in FY 2013 and then return to a more normal growth rate in FY 2014. Personal income growth is projected to reach its peak in FY 2015 at a growth rate of 7.0 percent and then tick downward to an average annual growth rate of 5.5 percent for the FY 2016 – FY 2018 period.

The revenue projections contained in the five year forecast incorporate the Governor's proposed FY 2014 general revenue changes to estimates adopted at the November 2012 Revenue Estimating Conference. Overall revenues are expected to grow from $3.426 billion in FY 2014 to $3.619 billion in FY 2018. This is growth of $192.7 million, reflecting average annual growth of 1.7 percent. This revenue forecast includes the expected impact that the opening of gaming facilities in Massachusetts will have on the state's general revenues. Absent the opening of these facilities, the projected growth in general revenues would be $337.6 million yielding an average annual growth rate of 3.5 percent.

FY 2014 – FY 2018 Overview

The Governor's recommended FY 2014 Budget business corporation tax rate reduction impact on general revenues is included in the five year estimate. The Governor has proposed to reduce the business corporation tax rate from 9.0 percent to 7.0 percent over a three year period, reduce the value of the Jobs Development Act, and the sunset of the "Distressed Areas Economic Revitalization Act", as described in "General Revenues" section of the Executive Summary. The FY 2014 general revenue impact for all three reductions is an estimated decrease in revenues of $5.3 million. For FY 2015 through FY 2018 the average annual impact from this proposal is a decrease in general revenue of $21.1 million. It should be noted that no offset for increase business activity is included in the out year forecast as a result of a lower business corporation tax rate.

The FY 2014 five year revenue projection without the onset of gaming competition in Massachusetts but with tables games in operation at Twin River forecasts total general revenues of $3.764 billion in FY 2018. For the FY 2014 through FY 2018 period, the average annual rate of growth is 3.5 percent excluding the impact of Massachusetts gaming competition on Rhode Island. The current five year forecast, which incorporates the establishment of gaming competition in Massachusetts and the implementation of table games at Twin River, projects $3.619 billion of general revenue by FY 2018, resulting in $144.9 million less in resources than was projected without gaming competition in Massachusetts. The resulting average annual growth rate for the FY 2014 through FY 2018 period is 1.7 percent or slightly less than half the FY 2014 through FY 2018 average annual growth rate without gaming competition in Massachusetts.

Expenditures

Expenditure side risks must also be noted within the five-year projection. There are initiatives contained in the Governor's FY 2014 budget that set the expenditure base at a lower level and therefore a risk to the forecast is the passage of those proposals and their successful implementation. Conversely, as described above, if revenues are better than forecast in the near or long-term, adjustments could, and likely would, be made to some of the Governor's expenditure proposals thus impacting out year projections.

A recurring risk to the five-year forecast relates to medical services inflation, utilization, and technological change. Beneficial changes in medical technology and the resultant change in utilization of medical services are especially difficult to forecast. These factors are particularly influential, since a significant part of the budget is driven by medical costs and since costs have been accelerating at a rapid rate. This impacts both the costs incurred for the clients the state services and its employees. While costs for medical care will continue to be an underlying driver of state personnel costs in the forecast, it is assumed that growth for state employee health benefit costs will average 6.1 percent annually through FY 2018. The forecast also assumes that state employees will continue to share in the cost of medical insurance premiums and costs will moderate due to proposed plan design changes.

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

FY 2014 – FY 2018 Overview

Personnel and Other Operations

The wage projections contained in the personnel estimates assume no cost of living adjustment (COLA) in FY 2014, as none has been negotiated with the state employee unions. As a proxy for any negotiated COLAs and step and educational incentive increases, increases using CPI have been included for FY 2014 and thereafter. In FY 2014, salary costs are projected to grow 2.65, followed by increases of 2.39 percent, 2.29 percent, and 2.29 percent in each fiscal year through FY2018.

The forecast reflects employee cost sharing that is expected to offset health insurance costs in FY 2014 and throughout the forecast period. Average employee cost sharing of 20.0 percent of medical premium cost in FY 2014 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 6.1 percent annually on average in the forecast.

Pension reform legislation enacted in the fall of 2011 will have a major impact on the growth in benefits costs. According to actuarial projections by Gabriel, Roeder, Smith and Company, the annual required contribution rate for state employees is expected to increase from 24.05 percent in FY 2014 to a high of 24.94 percent in FY 2016 and then begin decreasing to 23.11 percent in FY 2018. These rates are substantially lower than those projected at the time of enactment of the FY 2012 budget. At that time, the annual required contribution rate was projected to increase from 22.98 percent in FY 2012 to 36.34 percent in FY 2013 and 44.62 percent by FY 2017. Based upon projected payroll growth and the forecasted retirement contribution rates, the general revenue funded contribution for state employee members would grow from a projected $88.8 million in FY 2014 to $94.0 million in FY 2018, reflecting growth of $5.2 million in retirement costs, an average increase of under 1.0 percent a year.

Personnel and operating costs continue to be constrained during FY 2014. The current five year forecast assumes $956.3 million of personnel and operating costs in FY 2014 and an average growth of 2.9 percent over the five year interval, resulting in an estimated cost of $1.070 billion in FY 2017, an increase of $113.8 million. This estimate incorporates the impact of a number of initiatives or other changes that will impact out year expenses. These include annualized savings from several initiatives included in the Governor's FY 2014 recommended Budget.

Grants and Benefits

Grants and Benefits are projected to increase by an average of 5.7 percent annually from FY 2014 to FY 2018. This growth rate results in an increase of $310.0 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 2012. 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 2014.

FY 2014 – FY 2018 Overview

The forecast assumes that eligibility and economic influences on RI Works/Child Care caseloads will result in increases in costs of approximately 4.6 percent annually. These exclusively reflect continuing additions for child care subsidies, which are extended to low-income families even after cash assistance clients gain access to unsubsidized employment. Federal block and matching grant resources are assumed to be insufficient to finance these incremental costs throughout the forecast period, and, therefore, general revenue dollars are added. No additional effects from the implementation of the new RI Works program are recognized in the estimates, and it is assumed that federal TANF resources will remain sufficient to meet the entire cost of the RI Works program throughout the forecast horizon. Supplemental Security Income (SSI) and non-medical General Public Assistance (GPA) payments are likewise forecasted to grow at an average rate of 4.6 percent throughout the five-year period. Given recently observed general revenue growth patterns within these categories of public assistance, which are somewhat suppressed due to the availability of residual TANF funding, these represent fairly conservative estimates.

The managed care forecast assumes that base costs will inflate at 6.2 percent on average per year until FY 2018. Incorporated into the FY 2014 expenditure base for managed care is a set of proposals in the Governor's Budget to reduce all Medicaid managed care capitation (i.e. monthly cost per member) rates, effective July 1, 2013, for savings totaling $4.4 million in general revenue. Rates will be negotiated so as to limit average annual growth in these rates to 1.6 percent, as opposed to the 3.0 percent increase assumed at the November 2012 CEC. The Governor further recommends freezing (for one year) FY 2013 payment rates for inpatient and outpatient hospital services, yielding $4.0 million in general revenue savings within the managed care segment of the Medical Assistance program.

Projections of fee-for-service hospital expenditures, which are projected to grow at an average annual rate of 5.8 percent, also reflect FY 2014 savings of $1.2 million in general revenue for the FY 2014 hospital payment rate freeze.

Similarly, cost trends in institutional long term care include an average annual growth rate of 5.0 percent from FY 2014 through FY 2018. For home and community based long-term care, the growth rate over the forecast horizon is estimated at 8.5 percent. The FY 2014 expenditure base includes savings of $3.9 million for the suspension of the rate increase to nursing care and hospice facilities scheduled for October 1, 2013.

Pharmacy inflation is assumed at 7.9 percent annually on average. 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 two key provisions of the Patient Protection and Affordable Care Act (PPACA): (1) The expansion of Medicaid coverage to non-disabled, childless adults up to 138 percent of Federal Poverty Level, commencing January 2014 and (2) The increase of both fee-for-service and managed care Medicaid payment rates for primary care physicians (offering certain specified services) to align with those of the federal Medicare program. Under PPACA, full federal financing of Medicaid services for the expanded eligibility population elapses in January 2017, after which the federal matching rate declines incrementally until reaching 90 percent for 2020 and thereafter. Furthermore, full federal funding for the enhancement of primary care payment rates is only available for calendar years 2013 and 2014. Commencing in FY 2015, then, the forecast includes general revenue totaling $50.6 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 $89.1 million in FY 2014 to $105.3 million in FY 2018, which equates to an average annual growth rate of 4.3 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 2014 Budget should serve to constrain growth below those contained in the projection. It should be noted that the expenditures only reflect the residential, day program, respite and supported employment services. Medical costs under the Medicaid program are reflected in the Executive Office of Health and Human Services' grant costs.

Behavioral Healthcare Services also increases from FY 2014 through FY 2018. This five-year projection includes a general revenue increase of $5.1 million from the FY 2014 recommended level of $32.9 million in Mental Health Services and a general revenue increase of $1.0 million from the FY 2014 recommended level of $8.4 million in Substance Abuse Services. This equates to an average annual growth rate of 3.5 percent and 2.7 percent, respectively over the five-year period.

Cost trends for general revenue state match expenditures to the Medicaid, Title IV-E, and other grant programs in the Department of Children Youth and Families are projected to grow from $93.5 million to $113.1 million between FY 2014 and FY 2018. This increase of $19.6 million over the five year period is based on the projected growth rate for Medicaid Services, which equates to a growth rate of 4.5 percent over the five-year period. This increase also includes an additional $500,000 from FY 2015 through FY 2017 to phase in the new funding methodology for educational costs related to youth who are in the custody of the Department and placed in an educational setting outside of the home school district, as determined by the Rhode Island Department of Elementary and Secondary Education.

Local Aid

Local aid expenditures include education aid, the Motor Vehicle Excise Tax Reimbursement, aid to local libraries comprised of Library Resource Sharing and Library Construction Aid, the Payment in Lieu of Taxes (PILOT) program, the Property Revaluation program, the Distressed Communities Relief program and the Governor's new Municipal Incentive Aid program. The Motor Vehicle Excise Tax Reimbursement, Distressed Communities, and PILOT are level funded over the period; Motor Vehicle Excise Tax at $10.0 million, Distressed Communities at $15.4 million, and PILOT at $33.1 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 $10.0 million in FY 2014, FY 2015 and FY 2016.

In dollar terms, the largest driving force behind local aid expenditure growth from FY 2014 to FY 2018 is Education Aid programs, which are expected to increase by a total of $107.0 million from the FY 2014 base level of $922.2 million. This drastic rise 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 anticipate for these changes, a three percent annual growth rate has been included within the five year forecast. The five year estimate also includes financing for five education aid categorical funds. These categorical funds are projected to increase by $17.4 million, from $10.2 million to $27.6 million over the five years.

State contributions for teachers' retirement increase by $7.4 million, from $82.5 million in FY 2014 to $89.9 million in FY 2018. Projections for future required employer contributions to the teachers' retirement fund reflect a two percent teacher payroll growth and increased state contribution rates from 8.42 percent in FY 2014 to 9.17 percent in FY 2016 before declining to 8.45 percent in FY 2018. Housing aid, which reimburses communities for part of the debt incurred for new school construction is projected to decrease by $11.3 million, from $71.1 million to $59.8 million, assuming the minimum state share ratio remains at 35.0 percent over the next five years.

Capital

The projection of capital project disbursements and debt service costs reflects updated debt service projections as included in the FY 2014 – FY 2018 Capital Improvement Plan. General revenue funded debt service on all tax supported obligations are projected to rise from $192.6 million in FY 2014 to $253.8 million in FY 2018, an increase of $61.2 million. The increase is attributable to the issuance of debt for the Historic Tax Credit stabilization program, which increases by $18.9 million, and the inclusion of funding for debt service on the $75.0 million issuance under the EDC Job Creation Guaranty program, which adds approximately $12.5 million annually beginning in FY 2015. Also included in the five year projections is continuation of the Governor's proposal to shift financing of transportation debt service from the Intermodal Surface Transportation Fund to general revenue over a five year period which began with the General Assembly shifting $8.0 million to general revenue funding in the FY 2013 enacted budget. The Governor's FY 2014 budget increases this shift to $10 million and the five year projections assume this increases by $10 million annually until all such debt service is moved. This adds over $40.0 million in general revenue expenditures by FY 2018.

The five year forecast is based upon outstanding debt and projected new debt contained in the Governor's recommended FY 2014 - 2018 Capital Budget. Interest rates for fixed rate general obligation bonds to be issued to fund projects are projected at between 3.5 percent and 5.0 percent. Interest rates for issuance of twenty-year fixed rate certificates of participation are estimated at 5.0 percent. Historic Tax Credit debt is projected to be issued at 4.5 percent over nine years in 2014 and 2016. The lower general obligation bond issuance in the out years reflects the enactment by the General Assembly of a plan to reduce the reliance on debt issues for the Department of Transportation to provide state match for federal funds. Projected amortization schedules are found in the exhibits contained in Appendix C of the Capital Budget document.

Amortization of existing debt combined with new debt issuance, results in increased general revenue appropriations for debt service of $61.2 million from FY 2014 to FY 2018. Disbursements for capital projects are reflected as Rhode Island Capital Plan Fund expenditures, not general revenue, and therefore are not reflected in the five-year report as operating costs. Between FY 2014 and FY 2018, there is an increase of $18.9 million for debt for the Historic Tax Credit stabilization program, and a $32.7 million increase for general obligation debt, which includes the assumption of debt service from DOT over this period. Performance based obligations increase remains at $7.0 million. Debt service on certificates of participation decreases by $155,000 from $32.5 million in FY 2014 to $32.4 million in FY 2018. This includes issuance for new COPS authorization for an integrated tax system and an LEA Technology program. Convention Center debt service remains at $23.1 million.

FY 2014 – FY 2018 Overview

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

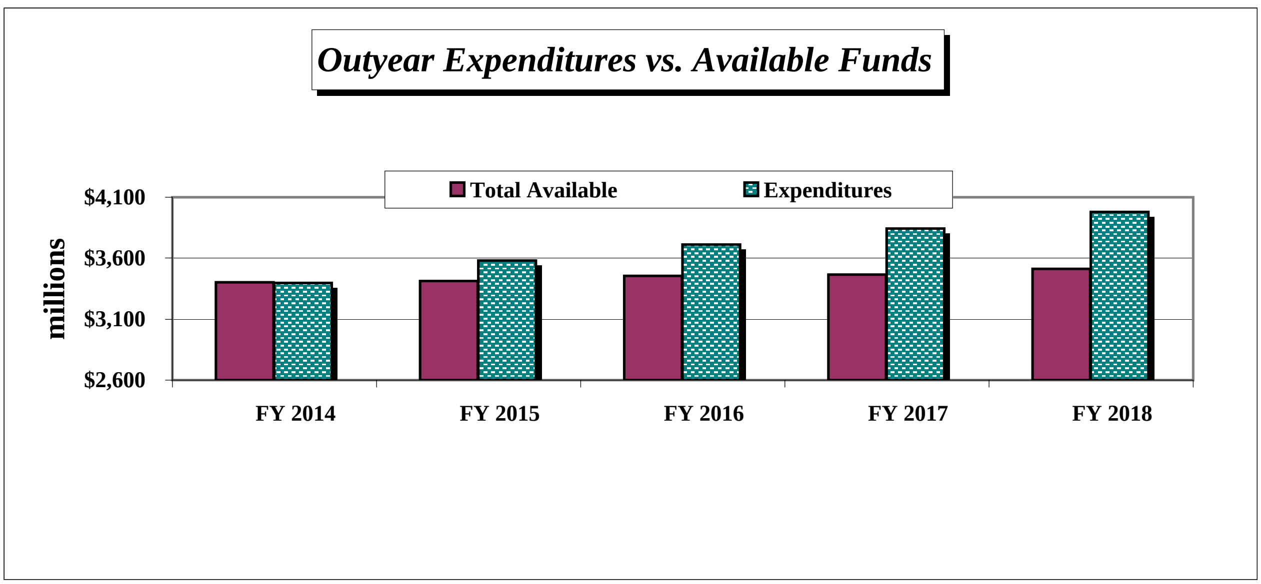
The obligations arising from performance based contracts between the Rhode Island Economic Development Corporation and private entities are projected to require the same amount of state appropriations due to the projected achievement of performance targets. Fidelity job rent credits are expected to result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

Other

The projection also assumes that capital disbursements from general revenues would be $6.8 million in FY 2014 and thereafter. This includes all expenditures that would be subject to fixed assets recording.

General Revenue Outyear Estimates FY 2014 - FY 2018

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Opening Surplus [1]	**$79.3**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Plus:					
Taxes and Departmentals	3,013.6	3,097.3	3,188.4	3,251.2	3,316.4
Other Sources	412.8	420.1	374.4	321.7	302.6
Budget Stabilization Fund	(105.2)	(105.5)	(106.9)	(107.2)	(108.6)
Total Available	**3,400.5**	**3,411.8**	**3,455.9**	**3,465.7**	**3,510.5**
Minus Expenditures	**3,399.0**	**3,582.3**	**3,710.4**	**3,843.6**	**3,979.4**
Equals Ending Balance	**$1.5**	**($170.5)**	**($254.5)**	**($377.8)**	**($468.9)**
Operating Surplus or Deficit	***($77.8)***	***($170.5)***	***($254.5)***	***($377.8)***	***($468.9)***
Budget & Cash Stabilization Balance	$175.3	$175.8	$177.9	$178.6	$180.8
RI Capital Fund Balance	$17.0	($0.1)	$0.2	$25.2	$52.2
Rhode Island Capital Fund					
Capital Projects Disbursements	*$169.8*	*$122.1*	*$104.3*	*$81.5*	*$79.3*



[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 2014	FY 2015	FY 2016	FY 2017	FY 2018
Personal Income Tax	1,130,750,000	1,190,710,000	1,248,690,000	1,289,510,000	1,319,880,000
General Business Taxes:					
Business Corporations	135,120,000	134,370,000	132,990,000	132,440,000	136,280,000
Public Utilities	102,400,000	103,760,000	105,270,000	106,780,000	108,280,000
Financial Institutions	3,100,000	3,770,000	3,960,000	3,600,000	3,170,000
Insurance Companies	96,820,000	103,490,000	108,080,000	110,650,000	113,840,000
Bank Deposits	2,200,000	2,270,000	2,340,000	2,420,000	2,490,000
Health Care Provider	43,070,000	44,070,000	45,620,000	47,160,000	48,700,000
General Business Taxes	**$ 382,710,000**	**$ 391,730,000**	**$ 398,260,000**	**$ 403,050,000**	**$ 412,760,000**
Sales and Use Taxes:					
Sales and Use	904,300,000	925,960,000	948,330,000	969,760,000	991,680,000
Motor Vehicle	48,700,000	48,880,000	50,600,000	49,060,000	49,050,000
Motor Fuel	1,000,000	960,000	980,000	980,000	1,040,000
Cigarettes	137,400,000	133,060,000	128,900,000	124,700,000	120,580,000
Alcohol	12,200,000	12,450,000	12,640,000	12,840,000	13,060,000
Controlled Substances	0	0	0	0	0
Sales and Use Taxes	**$ 1,103,600,000**	**$ 1,121,310,000**	**$ 1,141,450,000**	**$ 1,157,340,000**	**$ 1,175,410,000**
Other Taxes:					
Inheritance and Gift	35,400,000	36,360,000	37,400,000	38,450,000	39,490,000
Racing and Athletics	1,100,000	1,130,000	1,170,000	1,220,000	1,280,000
Realty Transfer Tax	6,700,000	6,830,000	6,900,000	7,330,000	7,750,000
Other Taxes	**$ 43,200,000**	**$ 44,320,000**	**$ 45,470,000**	**$ 47,000,000**	**$ 48,520,000**
Total Taxes	**$ 2,660,260,000**	**$ 2,748,070,000**	**$ 2,833,870,000**	**$ 2,896,900,000**	**$ 2,956,570,000**
Total Departmental Receipts	353,290,000	349,200,000	354,570,000	354,300,000	359,850,000
Taxes and Departmentals	**$ 3,013,550,000**	**$ 3,097,270,000**	**$ 3,188,440,000**	**$ 3,251,200,000**	**$ 3,316,420,000**
Other Sources					
Other Miscellaneous	2,430,000	2,430,000	2,430,000	2,430,000	2,430,000
Lottery Commission Receipts*	400,800,000	407,780,000	361,900,000	308,990,000	289,700,000
Unclaimed Property	9,600,000	9,840,000	10,060,000	10,270,000	10,500,000
Other Sources	**$ 412,830,000**	**$ 420,050,000**	**$ 374,390,000**	**$ 321,690,000**	**$ 302,630,000**
Total General Revenues	**$ 3,426,380,000**	**$ 3,517,320,000**	**$ 3,562,830,000**	**$ 3,572,890,000**	**$ 3,619,050,000**

* The five-year general revenue projection assumes the opending of a racino in Massachusetts in FY 2016 and three casinos with hotels in FY 2017. The location of these gaming facilities are assumed to be as indicated in the Likely Case sceanario contained in the report titled *Gaming Study and Economic Impact Analysis* prepared by Christainsen Capital Advisors, LLC for the Rhode Island Department of Revenue.

General Revenue Outyear Estimates - Percentage Changes

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Personal Income Tax	**4.8%**	**5.3%**	**4.9%**	**3.3%**	**2.4%**
General Business Taxes:					
Business Corporations	-0.6%	-0.6%	-1.0%	-0.4%	2.9%
Public Utilities	-1.5%	1.3%	1.5%	1.4%	1.4%
Financial Institutions	-62.2%	21.7%	4.9%	-9.0%	-12.2%
Insurance Companies	5.4%	6.9%	4.4%	2.4%	2.9%
Bank Deposits	4.8%	3.3%	3.2%	3.1%	3.0%
Health Care Provider	1.8%	2.3%	3.5%	3.4%	3.3%
General Business Taxes	**-0.4%**	**2.4%**	**1.7%**	**1.2%**	**2.4%**
Sales and Use Taxes:					
Sales and Use	2.8%	2.4%	2.4%	2.3%	2.3%
Motor Vehicle	0.0%	0.4%	3.5%	-3.0%	0.0%
Motor Fuel	0.0%	-3.7%	1.9%	-0.2%	5.8%
Cigarettes	-0.2%	-3.2%	-3.1%	-3.3%	-3.3%
Alcohol	1.7%	2.1%	1.5%	1.7%	1.7%
Controlled Substances					
Sales and Use Taxes	**2.3%**	**1.6%**	**1.8%**	**1.4%**	**1.6%**
Other Taxes:					
Inheritance and Gift	4.7%	2.7%	2.9%	2.8%	2.7%
Racing and Athletics	-8.3%	2.5%	3.5%	4.4%	5.0%
Realty Transfer Tax	3.1%	1.9%	1.0%	6.2%	5.8%
Other Taxes	**4.1%**	**2.6%**	**2.6%**	**3.4%**	**3.2%**
Total Taxes	**3.0%**	**3.3%**	**3.1%**	**2.2%**	**2.1%**
Total Departmental Receipts	**0.4%**	**-1.2%**	**1.5%**	**-0.1%**	**1.6%**
Taxes and Departmentals	**2.7%**	**2.8%**	**2.9%**	**2.0%**	**2.0%**
Other Sources					
Other Miscellaneous	-47.3%	-0.2%	0.0%	0.0%	0.0%
Lottery Commission Receipts	4.1%	1.7%	-11.2%	-14.6%	-6.2%
Unclaimed Property	52.4%	2.5%	2.2%	2.2%	2.2%
Other Sources	**4.2%**	**1.7%**	**-10.9%**	**-14.1%**	**-5.9%**
Total General Revenues	**2.9%**	**2.7%**	**1.3%**	**0.3%**	**1.3%**

General Revenue Outyear Expenditure Estimates

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
State Operations					
Personnel	$825,200,000	$857,600,000	$884,500,000	$904,700,000	$925,900,000
Other State Operations	131,100,000	134,600,000	137,800,000	141,000,000	144,200,000
Impact of Initiatives/Other Changes	-	(2,522,325)	4,125,734	-	-
Subtotal	**$956,300,000**	**$989,677,675**	**$1,026,425,734**	**$1,045,700,000**	**$1,070,100,000**
		3.5%	3.7%	1.9%	2.3%
Grants and Benefits					
Executive Office of Health and Human Services & Department of Human Services					
Hospitals	45,520,000	47,950,000	50,760,000	54,100,000	57,090,000
Managed Care	382,610,000	409,520,000	435,920,000	461,900,000	486,190,000
Nursing Care	186,090,000	194,030,000	202,940,000	213,380,000	225,840,000
Home Care (HCBS)	39,380,000	42,830,000	46,310,000	50,480,000	55,100,000
Other Medicaid	49,040,000	52,880,000	57,190,000	63,110,000	68,750,000
Pharmacy	2,150,000	2,310,000	2,450,000	2,680,000	2,910,000
DEA Medicaid	7,830,000	7,430,000	8,040,000	8,760,000	9,560,000
Cash Assistance- RIW/CCAP/GPA	11,400,000	11,860,000	12,440,000	13,040,000	13,650,000
Cash Assistance - SSI	18,790,000	19,550,000	20,500,000	21,490,000	22,500,000
Clawback	53,220,000	55,370,000	58,060,000	60,860,000	63,710,000
DSH	63,310,000	65,860,000	65,860,000	65,860,000	65,860,000
HIV Care Program/ADAP	1,930,000	1,570,000	1,690,000	1,870,000	2,040,000
ACA- MA Population Expansion	-	-	-	4,510,000	10,820,000
ACA- Primary Care Rate Increase	-	4,540,000	9,660,000	10,240,000	10,780,000
Department of Children Youth & Families					
Children & Family Services	93,500,000	97,940,000	102,440,000	108,270,000	113,110,000
Department of Behavioral Healthcare, Developmental Disabilities & Hospitals					
Developmental Disabilities-Private	89,070,000	92,130,000	95,880,000	100,840,000	105,350,000
Integrated Mental Health	32,870,000	33,170,000	34,520,000	36,310,000	37,930,000
Substance Abuse	8,370,000	8,140,000	8,470,000	8,910,000	9,310,000
Other Grants and Benefits	162,610,000	169,180,000	177,400,000	185,960,000	194,670,000
Subtotal	**$1,247,690,000**	**$1,316,260,000**	**$1,390,530,000**	**$1,472,570,000**	**$1,555,170,000**
		5.5%	5.6%	5.9%	5.6%
Local Aid					
Education Aid	922,220,000	948,350,000	976,700,000	999,390,000	1,029,180,000
Municipal Incentive Aid	10,000,000	10,000,000	10,000,000	-	-
Motor Vehicle Tax Reimbursements	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
PILOT	33,080,000	33,080,000	33,080,000	33,080,000	33,080,000
Distressed Communities	15,380,000	15,380,000	15,380,000	15,380,000	15,380,000
Library Aid	11,270,000	11,720,000	11,630,000	11,520,000	10,880,000
Property Revaluation Prgm	520,000	980,000	1,960,000	960,000	1,800,000
Subtotal	**$1,002,470,000**	**$1,029,510,000**	**$1,058,750,000**	**$1,070,330,000**	**$1,100,320,000**
		2.7%	2.8%	1.1%	2.8%
Capital					
Debt Service					
General Obligation	89,330,000	98,270,000	95,170,000	99,420,000	90,000,000
Transportation Debt to General Revenue	8,000,000	10,000,000	20,000,000	30,000,000	40,000,000
Historic Tax Credit Program	23,330,000	31,670,000	33,640,000	42,130,000	42,250,000
EDC Job Creation Guaranty	2,500,000	12,510,000	12,500,000	12,450,000	12,380,000
COPS/Other Leases	32,525,000	35,580,000	36,590,000	34,130,000	32,370,000
Convention Center	23,140,000	23,080,000	23,080,000	23,070,000	23,070,000
Performance Based	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
TANS	-	-	-	-	-
Capital Improvements					
Other Projects	6,730,000	6,750,000	6,750,000	6,750,000	6,750,000
Subtotal	**$192,555,000**	**$224,860,000**	**$234,730,000**	**$254,950,000**	**$253,820,000**
		16.8%	4.4%	8.6%	-0.4%
Total	**$3,399,015,000**	**$3,582,307,675**	**$3,710,435,734**	**$3,843,550,000**	**$3,979,410,000**
Difference		**$183,292,675**	**$128,128,059**	**$133,114,266**	**$135,860,000**
		5.39%	**3.58%**	**3.59%**	**3.53%**

General Revenue Outyear Planning Values

Estimates and Growth	FY2014	FY2015	FY2016	FY2017	FY2018
Personal Income (billions) [1]	$50.4	$53.9	$57.5	$60.7	$63.4
Change	*5.1%*	*7.0%*	*6.5%*	*5.7%*	*4.4%*
Nonfarm Employment (thousands) [1]	462.8	476.7	491.8	501.1	504.0
Change	*1.2%*	*3.0%*	*3.2%*	*1.9%*	*0.6%*
Personal Income Tax					
Wages and Salaries [1]	5.7%	7.0%	7.0%	6.4%	4.8%
Business Corporation Tax [2]	4.8%	9.5%	6.4%	2.8%	3.4%
Provider Tax [3]	1.8%	2.3%	3.5%	3.4%	3.3%
Sales Tax					
Wages and Salaries [1]	5.7%	7.0%	7.0%	6.4%	4.8%
Gasoline Tax					
Real Consumption [4]	3.8%	2.8%	2.0%	2.1%	1.6%
Other Taxes and Departmentals [16]	0.2%	0.2%	1.3%	-0.1%	0.9%
CPI-U (U.S.) [1]	2.5%	2.6%	2.4%	2.3%	2.3%
Salaries and Fringe Benefits					
Salary COLA - [11], CPI-U [1]	2.5%	2.6%	2.4%	2.3%	2.3%
Steps and Longevity Increases [3]	0.0%	0.0%	0.0%	0.0%	0.0%
Medical Benefits Costs [8]	6.0%	7.0%	6.4%	6.0%	5.3%
Retiree Health Costs [13]	7.80%	7.80%	7.80%	7.80%	7.80%
State Employees Retirement Costs [14]	24.05%	24.33%	24.94%	23.88%	23.11%
Home Health Care					
Expenditure Growth [5]	7.4%	7.6%	8.1%	9.0%	9.2%
Nursing Home Care					
Expenditure Growth [6]	4.0%	4.3%	4.6%	5.1%	5.8%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
Managed Care/State Employee Plan					
Expenditure Growth [8]	6.0%	7.0%	6.4%	6.0%	5.3%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
Other DHS Medicaid					
Expenditure Growth [7]	7.8%	8.4%	8.1%	10.4%	8.9%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
BHDDH- Mental Health					
Expenditure Growth [8]	3.9%	4.2%	4.1%	5.2%	4.5%
DCYF Services					
Expenditure Growth [7]	7.0%	7.0%	7.0%	7.8%	7.2%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
BHDDH- MR/DD					
Expenditure Growth [7]	7.0%	7.0%	7.0%	7.8%	7.2%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
Pharmacy					
Expenditure Growth [9]	10.6%	7.4%	6.1%	9.6%	8.3%
Hospital Care					
Expenditure Growth [15]	5.3%	5.3%	5.8%	6.6%	5.5%

[1] November 2012 Revenue Estimating Conference Consensus Economic Forecast., FY 2013 - FY 2018.
[2] Moody's Economy.com Quarterly U.S. Economic Forecast November 2012, Nominal Corporate Profits Before Tax.
[3] State of Rhode Island Budget Office Estimate; assumed to be covered under salary and wage growth.
[4] Moody's Economy.com Quarterly U.S. Economic Forecast November 2012, Real Gasoline and Oil Consumption.
[5] CMS National Health Expenditures Historical and Projections June 2012, Home Health Care: State and Local Government
[6] CMS National Health Expenditures Historical and Projections June 2012, Nursing Home Care: State and Local Government
[7] CMS National Health Expenditures Historical and Projections June 2012, Total Health Expenditures: State and Local Government
[8] CMS National Health Expenditures Historical and Projections January 2012, 1970-2021, Total Health Expenditures: One half of Private Insurance as proxy
[9] CMS National Health Expenditures Historical and Projections June 2012, Prescription Drugs: State and Local Government
[10] No extraordinary decrease in expenditures unique to RI is forecasted in this five year forecast.
[11] Based on CPI.
[13] Reflects funding on an actuarial basis beginning with Fiscal 2011. Pending actuarial analysis as of June 30, 2011 could impact thses rates.
[14] Estimate of actuarially required contribution based upon a % of payroll (GRS analysis of RI Retirement Security Act, Nov. 2011)
[15] CMS National Health Expenditures Historical and Projections June 2012, Hospital Care: State and Local Government
[16] 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