

State of Rhode Island and Providence Plantations

Budget



Fiscal Year 2016

Executive Summary

Gina M. Raimondo, Governor



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
OFFICE OF GOVERNOR GINA M. RAIMONDO

GINA M. RAIMONDO, GOVERNOR

March 12, 2015

To the Honorable General Assembly:

The budget I am presenting to you is rooted in the belief that every hardworking family deserves the chance to make it in Rhode Island.

Despite beginning with a nearly \$200 million deficit, this is a balanced budget. It sets us on a path to eliminate our structural deficit, contains no broad based tax increases, and calls for significant investments in economic growth and education.

From my first conversations with House Speaker Nicholas Mattiello and Senate President Teresa Paiva Weed after the November election, we agreed that our first priority was jumpstarting our economy and creating jobs. I could not ask for better partners in this effort.

The lagging economy not only hurts Rhode Island families, but also harms our state budget. Without enough people working, we can't generate sufficient revenue to invest in the things we care about, like quality schools, better roads and bridges, and public safety.

Every year, our struggling economy forces us into our all-too-familiar budget crunch, where budget writers scramble to find enough cuts to cobble together a final proposal. We can't continue on this path. We need a new direction.

As we chart a new course together, let's expand opportunity so that we can grow the pie -- so everyone gets a bigger piece.

Build-Attract-Innovate

This budget is designed to spark Rhode Island's comeback. It focuses on three things:

- 1) Helping Rhode Islanders **build the skills** they need to compete in the 21st century by investing in K-12 education, making college more affordable, and better coordinating our workforce development programs.

To The Honorable General Assembly
March 12, 2015
Page Two

2) **Attracting entrepreneurs** and investment by making Rhode Island more competitive. We are putting Rhode Island back in the economic development game by offering a robust set of programs to spur job growth. We will implement these initiatives with rigorous accountability provisions, but we need to be aggressive about growing and attracting jobs.

3) Fostering **innovation**, including in our state government, to enhance accountability and deliver value to taxpayers. If we do not take action now, our structural deficit will continue to grow to unacceptable levels.

These principles -- and an unwavering focus on creating jobs and expanding opportunity -- guided every decision we made in assembling this budget.

The people of Rhode Island are counting on us to deliver. Our friends and neighbors are struggling. People are losing faith in government. They expect us to put our personal politics aside and make the right decisions to put Rhode Island on a path to jobs and opportunity.

I know you are aware of these challenges.

This a tough hill to climb, but together we will climb it. We can again make Rhode Island a place of opportunity, where everyone who works hard has a chance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gina Raimondo".

Gina M. Raimondo
Governor

FY 2016 Budget Documents

Governor Raimondo's *FY 2016 Executive Summary* is the first of eight documents that contain the summaries of revenue and expenditures on a statewide, functional, and departmental basis and also presents statewide expenditure data by *category* or object of expenditure. This same data is presented in the *Budget* in more detail by program.

The *Executive Summary* contains special reports on Education Aid and State Aid to provide a historical perspective on these state expenditures and also contains a "Budget Primer" which is intended to assist the reader of the budget documents in understanding the budget process in Rhode Island. Specific recommendations for FY 2016 for the departments are presented in this document, as well as the five-year financial projection as provided by law. Further detail is provided in the *Technical Appendix*.

The Budget consists of four volumes that provide an overview of state expenditures, as well as an in-depth presentation of the State Budget by program. The financial data presented for state agencies in *The Budget* for the past two fiscal years (FY 2013 and FY 2014) is generally derived from the appropriation accounting and receipt accounting files of the State Controller, as of the time of year-end closing. In the case of the accounts under the jurisdiction of The Office of Postsecondary Education, these columns reflect independently audited records.

The financial data for state agencies for the current fiscal year is from the enacted budget, modified in some cases to reflect recommended supplemental appropriations or withdrawals, revised expenditure estimates by category of expenditure or program, and revised estimates of federal grant awards or restricted receipts. In this document, the general revenue balance forward is included at the account level. The proposed changes to the enacted FY 2015 budget are included in the financial data by program for FY 2015. Totals and subtotals often appear to be inaccurate by small amounts or may disagree by small amounts with other budget and financial documents; this is due to differences in rounding procedures. The annual Appropriations Act is the absolute reference for state appropriation amounts.

The Budget also contains both narrative descriptions of Rhode Island's quasi-public agencies, authorities and entities, which are component units of state government for financial reporting purposes, and presents financial data provided by these entities. The Budget Office requests that quasi-public agencies and authorities submit information in the format used by the agency; no attempt is made to conform the financial presentation of the agencies data. In most cases, the FY 2015 and FY 2016 information has not been officially approved by the entities' governing bodies.

The *FY 2016 Budget* reports performance measurements for most programs, as required by legislative mandate to develop performance measurements for use in the budget process. Measurements are provided after each programs financing and personnel supplement pages. The *Budget* now contains information that was previously presented in the *Personnel Supplement*. The two documents have been merged. The *Budget* document provides information relating to personnel costs by program. It also reflects capital project summary narratives of all capital projects approved by the Governor as recommended by the Capital Development, Planning and Oversight Commission.

The *Capital Budget* contains information on the Governor's recommended capital improvement plan and contains individual project expenditures as well as contains the debt service component relating to capital improvements and any "pay-as-you-go" capital, which is financed from current revenues.

The *Budget as Enacted* will be prepared after final enactment by the 2015 General Assembly.

Executive Summary

Table of Contents

	<u>Page</u>
Introduction	1
Overview	14
The Economy	20
General Revenues, Restricted Receipts and Pass Through Revenues	26
All Sources	36
All Expenditures.....	37
Expenditure Summary.....	38
Personnel Summary	44
General Government	52
Health and Human Services.....	73
Education.....	98
Public Safety	109
Natural Resources	127
Transportation	133
Appendix A - Schedules	
General Revenue Budget Surplus Statement.....	A-1
Expenditures from All Funds.....	A-2
Expenditures from General Revenues	A-4
Expenditures from Federal Funds.....	A-6
Expenditures from Restricted Receipts.....	A-8
Expenditures from Other Funds.....	A-10
Full-Time Equivalent Positions	A-12
General Revenues as Recommended	A-14
Changes to FY 2015 Enacted Revenue Estimates.....	A-15
Changes to FY 2016 Adopted Revenue Estimates.....	A-16
General Revenue Changes to Adopted Estimates	A-17
Other Revenue Enhancements	A-19
Appendix B - Changes to FY 2014	
Changes to FY 2015 General Revenue Budget Surplus.....	B-1
Changes to FY 2015 Enacted Agency General Revenue Expenditures	B-2
Changes to FY 2015 Enacted General Revenue Expenditures	B-17
Appendix C – Aid to Cities and Towns	
Formula Aid to Cities and Towns.....	C-1
Summary of Formula Aid to Cities and Towns.....	C-3
Fiscal Year 2015 Enacted State Aid to Cities and Towns.....	C-4
Fiscal Year Enacted 2015 Pass Through Aid to Cities and Towns.....	C-5
Fiscal Year 2015 Revised State Aid to Cities and Towns.....	C-6
Fiscal Year 2015 Revised Pass Through Aid to Cities and Towns.....	C-7
Change in Formula Aid – FY 2015 Revised vs. FY 2015 Enacted	C-8
Changes in Pass Through and All Aid – FY 2015 Revised vs. FY 2015 Enacted	C-9
Fiscal Year 2016 State Aid to Cities and Towns	C-10
Fiscal Year 2016 Proposed Pass Through Aid to Cities and Towns.....	C-11
Change in Formula Aid – FY 2016 vs. FY 2015 Revised	C-12
Changes in Pass Through and All Aid – FY 2016 vs. FY 2015 Revised	C-13

Appendix D – Aid to Schools

Education Aid to Local Units of Government..... D-1

Appendix E – Statewide Personnel Supplement..... E-1

Appendix F – Five-Year Financial Projection

FY 2016 – FY 2020 OverviewF-1
General Revenue Out-year Estimates FY 2016 – FY 2020.....F-12
General Revenue Out-year Estimates.....F-12
General Revenue Out-year Estimates Percent Changes.....F-13
General Revenue Expenditure EstimatesF-14
General Revenue Out-year Planning Values.....F-15

Appendix G – The Budget Process

The Budget Process: A Primer G-1

Introduction

As Fiscal Year 2016 approaches, Rhode Island needs bold change. At the time of this budget's introduction, Rhode Island remains among the last states in the nation in unemployment and in job growth.

Families in Rhode Island are struggling, and the economy is not doing enough to create middle class jobs. To make matters worse, Rhode Island has suffered for years with a structural deficit. As a result, each year budget writers scramble to find enough cuts or revenues to fill that year's hole, and without sufficient attention devoted to investing in long-term economic growth.

Governor Raimondo's Fiscal Year 2016 budget is designed to stop the decline and spark a comeback.

To succeed, the state must focus its collective efforts on three main areas:

- Build the skills for our students and workers need to compete in the 21st century;
- Attract entrepreneurs and investment in industries that play to Rhode Island's strengths, to stimulate our economy and create jobs; and
- Innovate, including in our state government, to enhance accountability and deliver value to taxpayers.

The Governor developed the budget around those three guiding principles to ensure that all components of state government are united and moving Rhode Island forward.

The state budget cannot ignore the difficult economic challenges facing state residents. Rhode Islanders should be rewarded for hard work, and the state must support efforts to create economic development opportunities for all. To support Rhode Island working families, the Governor is advocating for an increase in the minimum wage. In addition, her budget invests aggressively in education and workforce development, expands the Earned Income Tax Credit, reduces the tax burden for low-income seniors, maintains the state's commitment to affordable health care, and promotes economic empowerment.

Finally, the Governor's budget request makes important progress toward closing the state's structural deficit. Without swift action, the state's budget deficit is projected to reach \$255.5 million in FY 2017 and \$496.3 million by FY 2019. Structural deficits create an unstable business climate and discourage investment. If residents and business are concerned about future tax increases, they will be reluctant to invest in the economy by hiring new workers, renovating property, or making large purchases. To close the structural deficit, the state must constrain costs to match expected revenue growth levels, as well as create the conditions to foster economic growth and improve revenues. The Governor's budget focuses on both.

Building Skills for the 21st Century

Commitment to K-12 Education

Rhode Island must provide a world-class education so that its students are prepared to compete for good-paying jobs in the industries the state hopes to attract and expand. The Governor's budget continues the state's commitment to providing necessary resources for our K-12 public education system, investing an additional \$35.5 million to provide full funding for the fifth year of the state's education funding formula. It includes an increase of \$1.0 million to support special education services for high-need students, as well as \$1.0 million for early childhood programs, which will leverage additional federal funds to expand the number of high-quality state sponsored pre-kindergarten classrooms from 17 to 60 by 2019.

Introduction

At the same time the State expands access to pre-K classes, some communities still do not offer full-day kindergarten. The Governor has noted the importance of providing quality full-day kindergarten in all of our communities. Her budget includes an additional \$1.4 million to expand full-day kindergarten to children in every city and town by August 2016. Finally, to ensure that our teachers reflect the growing diversity of Rhode Island's children, the budget includes \$250,000 in grant funding to recruit and train more diverse teachers.

School Building Modernization

Several years ago, the Rhode Island General Assembly enacted a moratorium on the state's school construction financing program in an effort to constrain costs and guarantee that state funds were invested wisely. Scheduled to expire in 2015, the moratorium has limited state financing for school construction projects to those previously authorized and to improvements addressing immediate health and safety needs.

The Governor's budget includes an additional \$20.0 million from state debt refinancing proceeds to create a capital fund to help address school facility needs. To promote the prudent use of state dollars and address overcapacity issues, the budget establishes a School Building Authority within RIDE to oversee distribution of school modernization funds. The School Building Authority will take a performance-based approach to distributing state school modernization funds, targeting facilities in greatest need and promoting operational efficiencies whenever possible.

Lifting the moratorium and setting the annual construction aid appropriation at \$80.0 million starting in FY 2017 will create fiscal stability with predictable funding and allows for projects to be prioritized. Creating a dedicated capital fund will reduce reliance on interest and remove administrative hurdles for districts to execute urgent improvements. These steps will provide every public school district the equitable opportunity to address their immediate needs.

Improved Access to Higher Education

Strengthening the state's education system also requires improving the accessibility and affordability of higher education. Employers frequently require that job applicants have technical certification or higher education degrees, and Rhode Island must prepare its workforce with the skills needed to succeed. To promote access to higher education, the Governor's budget includes \$1.3 million for Prepare RI, a dual and concurrent enrollment initiative. This early college program will allow qualified and eligible high school students to earn credit at their high school and at our state's public colleges and universities at no cost to the student. Whether a student wants to go to college or start a career right after high school, Prepare RI will make their path to a degree or industry certification more affordable and more attainable.

To build partnerships between students, educators and employers in key sectors, the Governor's budget includes \$900,000 to lay the groundwork for a program to connect high schools, community colleges, and businesses. Modeled on the Pathways in Technology (P-TECH) initiatives in other states, the program will allow qualifying high school students to pursue a five- or six-year path to a high school diploma, an associate's degree, and ultimately a job. Conducted with industry partners, the program will promote skills development and provide access to mentors, internship opportunities and employment. These partnerships will also provide reliable pipelines of talented, trained workers.

Introduction

In addition to improving access to college, the Governor has emphasized the importance of keeping higher education affordable to Rhode Islanders. Higher education affordability is particularly important to lower-income students and families, for whom a college education can develop necessary job skills and provide a path to upward economic mobility. The Governor's budget restructures existing higher education grant programs and creates a last-dollar scholarship program for Rhode Island students. In its first year, the program will invest \$10.1 million of state funds in students with proven academic performance but for whom higher education might be otherwise unattainable.

The budget also creates a college loan forgiveness program for young workers starting as entrepreneurs and innovators in Rhode Island. The Wave Maker Fellowship program will offer up to four years of loan forgiveness for approximately 100 recent graduates pursuing careers and starting businesses in technology, engineering, design, and other key sectors. With two-thirds of the awards intended for Rhode Island students, the Wave Maker program will encourage graduates to remain in the state, attract young innovators, and promote new businesses and economic activity.

Focused, Demand-Driven Workforce Development Programs

The Governor is also reorienting Rhode Island's workforce training system to be more demand-driven and performance-based. This effort will align workforce training efforts with the needs of key employers and sectors. Under the leadership of the Department of Labor and Training, the state will align training efforts with the needs of employers who are looking to hire, yielding a more responsive workforce development system. As a result, our workforce development efforts will be focused on training for jobs that currently exist. This program will require no new funding, but will redirect existing funds to the most effective programs, using performance measurement to optimize the investment of workforce development dollars.

Making Rhode Island Attractive to Business

On March 1, 2015, the Boston Globe wrote, "Boston is in the midst of a building spree whose enormity, pace, and geographic sweep are redefining the skyline faster than any period since the early Industrial Age." Yet Rhode Island's economy continues to underperform, a number of our municipal entities are suffering financial distress, and the I-195 land remains potential that is yet to be realized.

The Governor's budget reflects the urgent need to spur economic growth and create jobs in Rhode Island. The budget seeks to improve Rhode Island's business climate: it maintains stability in the tax climate, reduces the cost of doing business, eliminates unnecessary professional licenses, creates new economic development tools, and maximizes state dollars to create jobs.

Better Business Climate

In recent years, Rhode Island has made important progress in improving the state's tax structure to enhance competitiveness. Income tax reform in 2010 simplified the state income tax system by eliminating numerous deductions and credits and lowering the top income tax bracket rate from 9.9 percent – then one of the highest in the country – to 5.99 percent. In 2014, the state lowered its corporate tax rate from 9.0 percent to 7.0 percent – from the highest top rate in New England to the lowest – while adopting a combined reporting requirement to ensure that multistate corporations pay appropriate taxes. To maintain stability in the state's tax climate and encourage investment, the Governor's budget includes no broad-based tax changes.

Introduction

Despite these recent improvements, Rhode Island's taxes remain uncompetitive in several areas and raise the cost of doing business. In addition to a levying a gross earnings tax on public utility companies, Rhode Island charges sales tax on energy to commercial users while exempting residential and manufacturing users. This double layer of taxation contributes to high commercial energy costs and places Rhode Island businesses at a disadvantage with their peers in other states. The Governor proposes phasing out this commercial energy sales tax over five years, providing \$4.9 million in tax relief to businesses in FY 2016.

The Governor also proposes to eliminate certain "nuisance" taxes that make Rhode Island an outlier. Rhode Island is the only state in the Northeast that places a surcharge on net patient revenues from imaging services, such as X-rays, ultrasounds, and magnetic resonance imaging (MRI). It is also one of two states in the Northeast that place a net patient revenue surcharge on outpatient services. The state should encourage the use of imaging and outpatient services as an alternative to more costly hospital services. To help contain health care costs and promote job creation in the health care industry, the Governor recommends phasing out both of these 2.0 percent surcharges over four years.

As the state improves its business climate, it must continue to focus on improving the regulatory landscape. Current regulations and underlying laws have erected barriers preventing innovation and investment in our state. The Governor issued an executive order earlier this year to improve our regulatory process and make it easier to conduct business in Rhode Island. One notable area identified by the Office of Regulatory Reform for improvement is professional licensing. The state requires licenses for more than 300 professions. While many of these licenses protect the public by requiring minimum standards for education or professional experience, others may be burdensome and prevent people from pursuing professional paths. As a result, the Governor's budget proposes repealing more than 30 professional licenses identified by the Office of Regulatory Reform as burdensome, duplicative, or unnecessary.

Enhanced Government Partnership with Businesses

The Governor's budget increases Rhode Island's investment in economic development functions within government. The budget includes approximately \$950,000 to support the new Executive Office of Commerce, which will coordinate Rhode Island's efforts in economic development, business regulation, to and housing. The Governor also proposes \$3.85 million in new personnel and operational support for the Commerce Corporation, which has experienced funding reductions over the past several years. The new investment will restore funding in our principal economic development organization to the highest level since 2001, allowing the Commerce Corporation develop stronger relationships with Rhode Island companies and those looking to locate to the state. The Commerce Corporation funding would establish a one-stop service to help businesses navigate red tape and approval processes at the state and local levels, as well as connect businesses with state programs and services to help them grow. Additional resources will also support the Governor's initiative to develop a statewide tourism campaign, described below.

Targeted investment toward innovation, research and development can yield significant dividends by developing new technologies and creating jobs in Rhode Island. The Governor's budget would appropriate \$500,000 for an innovation voucher program. This competitive program would allow small and midsize businesses to earn vouchers for research and development assistance from colleges, universities, and other institutions throughout the region. This R&D initiative would enable businesses to innovate, while connecting them with world-class

Introduction

research institutions. The budget also recommends adding \$500,000 to double the available state match under the federal Small Business Innovation Research program.

Effective Tax Tools

The Governor has emphasized the importance of using taxpayer dollars effectively, particularly in the area of economic development. Rhode Island must be proactive to get companies to invest here. Many states already have a strong toolkit to support business growth. Without competitive programs, Rhode Island is at a disadvantage. Competitive tax packages must clearly result in job growth and promote economic development, with strong provisions to monitor outcomes and demonstrate that targets are achieved. The Governor's budget proposes several new tax programs to spur economic growth.

- Job Creation Tax Initiative – There is strong support in the General Assembly for a competitive tax initiative to incentivize employers to create new jobs. The Governor will work with leaders in the General Assembly to enact a package to promote job creation in Rhode Island. Any such initiative must include rigorous accountability provisions and a requirement that the investments' benefits outweigh their costs.
- Anchor Tax Credit – This tax credit incentivizes our largest employers —the anchors of our economy — to attract their suppliers and affiliates to Rhode Island. These employers will benefit from proximity to their suppliers, while the state gains new jobs and develops industry clusters.
- Real Estate Tools – A package of real estate tax incentives will encourage construction of job-producing projects, with a focus on development near transit hubs and historic structures. The package includes Rebuild Rhode Island tax credits, tax increment financing, and partial assistance for local tax stabilization agreements that will make investing in construction and development in Rhode Island a compelling proposition.

The Governor's budget also recommends rescinding the Enterprise Zone Wage Tax Credit. Enterprise zones were originally intended to encourage investment in lower-income areas, but have since been expanded so broadly to other areas that the incentive is no longer targeted.

Targeted Short-Term Investments

In addition to the ongoing economic development programs and tax credits noted above, the Governor's budget proposes limited-duration initiatives supported by the proceeds of a proposed restructuring of the state's debt. The restructuring plan takes advantage of low interest rates and provides resources to invest in needed priorities.

- I - 195 Development Fund – The I-195 Fund would provide the state with additional tools to attract new world-class institutions, employers and other assets to the I-195 land. The budget includes \$25.0 million to support infrastructure improvements and other incentives to promote this important economic development resource. Funds will not be used for a stadium or sport-related complex.
- Small Business Assistance Initiative – Unlike its neighboring states, Rhode Island lacks a state-backed small business loan fund. The Governor proposes \$5.2 million to capitalize loan programs and other forms of assistance for small businesses. This fund will leverage private sources of funding to create a sustainable source of capital for Rhode Island small businesses.
- Innovation Initiative – The budget recommends \$1.0 million over two years to support promising companies in areas as advanced industries, technology, and other strategically important sectors. The Innovation Initiative will support the creation of incubator space and other forms of assistance for innovative young companies.

Introduction

- First Wave Fund – The budget includes \$5.0 million to provide state economic development officials with flexibility when working with businesses interested in locating to or expanding in Rhode Island. The First Wave Fund will allow officials to make critical investments, resolve complex negotiating issues and obtain technical and legal support when closing transactions.
- Affordable Housing – The budget proposes \$3.0 million to finance the production and preservation of affordable housing for young workers, seniors and other residents. Projects will be prioritized if they can move to construction quickly and leverage federal affordable housing tax credit dollars.

Statewide Tourism & Marketing

Unlike other New England states, Rhode Island does not have a robust statewide tourism program. In FY 2014, the state collected \$15.7 million in revenue from the state hotel tax. More than half of those funds were distributed to regional tourism and economic development entities, with little coordination of their efforts. With tourism as a major contributor to the state's economy, Rhode Island must maximize use of existing tourism dollars and invest new funds to promote the Ocean State as a destination. This rising tide of tourism investment will lift all boats, with each region of the state benefiting from greater awareness and statewide branding.

The Governor's budget modifies the distribution of lodging tax dollars to provide a greater share to statewide tourism efforts. These resources will support a major state tourism marketing campaign, promoting Rhode Island as a vacation and leisure destination across the region and country. The Commerce Corporation will work with top-notch advertising talent to devise a compelling brand for the state and use new and traditional media to boost awareness about the beauty and attractions of Rhode Island. Part of this campaign will involve a business attraction effort – ensuring coordinated images and messaging.

To provide sufficient resources for this initiative, the Governor's budget establishes new revenue sources dedicated to tourism promotion. The budget proposes expanding sales and lodging taxes to online resellers of lodging accommodations, who currently pay no taxes on their markup over the wholesale prices. The budget also closes an existing loophole that exempts vacation houses and small bed and breakfasts from paying the sales and lodging taxes. Finally, the budget would apply sales and local lodging taxes to unlicensed rentals, which have increasingly become an alternative to hotels, bed and breakfasts and other licensed lodging. Further, the Governor proposes redirecting a greater portion of the state hotel tax to dedicate more funds to statewide tourism, marketing, and economic development at the Commerce Corporation. The net effect of changes to the tourism funding formula and new revenue sources is an additional \$6.4 million annually.

Promote Infrastructure Improvements & Maximize State Capital Investments

The state can encourage economic growth by investing in the infrastructure required to transport goods and services. In recent years, Rhode Island has made additional investments in transportation funding at both the state and municipal levels. These improvements have allowed the state to reduce its reliance on debt financing as the state match to the Federal Highway Trust Fund. Despite these improvements, Rhode Island's roads and bridges need additional investment to bring them into a state of good repair. The Governor's budget includes a net increase of \$6.8 million in capital funds for transportation projects that can be started early in FY 2016.

The state government contributes to the Rhode Island economy through its capital budget of approximately \$150.0 million. In recent years, as much as \$30.0 million in capital funding has gone unspent because of project planning and management challenges. Earlier this year, representatives of the Office of Management and Budget,

Introduction

Executive Office of Commerce, and executive branch agencies reviewed all of the projects in the five-year capital plan and endeavored to prioritize projects that may be completed quickly, thereby maximizing economic development potential.

To prevent future delays in capital project management, the Governor’s budget proposes consolidating construction, property and asset management functions in numerous departments within the Department of Administration. The consolidation supports the Governor’s efforts to provide greater oversight of capital assets and projects, as well as to develop a more strategic approach to project planning and management, as well as overall asset management.

As previously noted, refinancing the state’s debt provides an opportunity to invest in important, high-impact initiatives. The Governor’s budget recommends \$2.0 million in debt refinancing proceeds to support a Rhode Island Infrastructure Bank to fund energy efficiency and renewable energy projects. An idea developed with the Office of the General Treasurer, the Infrastructure Bank would expand the Clean Water Finance Agency’s existing authority to support municipalities with clean water and transportation infrastructure projects. The Infrastructure Bank would provide a sustainable funding source for energy improvements undertaken by municipalities, school districts and commercial users. It will spur investment in projects such as building retrofits and renewable energy installation, encouraging employment in those fields. By leveraging federal, state and private-sector funds to maximize impact, the Infrastructure Bank will help create jobs, conserve energy, and reduce costs in Rhode Island.

Additionally, the Governor’s budget includes \$2.0 million over two years to support streetscape improvements in our cities and towns. The Main Street RI Fund will provide funds on a matching basis to municipalities seeking to upgrade streetscapes in their business districts including such elements as lighting, street furniture, and medians. These improvements will create environments more hospitable to business and will attract customers to the commercial corridors in our cities and towns.

Summary of Projects Supported by State Debt Refinancing

Restructuring the state’s debt is estimated to yield \$64.5 million in FY 2016 and \$19.4 million in FY 2017. These funds will be used exclusively to advance economic development priorities.

Project	FY 2016	FY 2017	Purpose
School Construction Capital Fund	\$20,000,000	\$0	Create a capital fund to address school facility needs. Funds will be overseen by a new School Building Authority, which will take a performance-based approach to distributing state school modernization funds, targeting facilities in greatest need and promoting operational efficiencies.
First Wave: Tax Credits	\$0	\$12,700,056	Encourage construction of job-producing projects, especially strengthening development near transit hubs and involving historic structures throughout our state. Package includes refundable tax credits, tax increment financing, and assistance for local tax stabilization agreements.

Introduction

Summary of Projects Supported by State Debt Refinancing (cont.)			
Project	FY 2016	FY 2017	Purpose
First Wave: Closing Fund	\$5,000,000	\$0	Provide state economic development officials with flexibility when working with businesses interested in locating to or expanding in Rhode Island. The First Wave Fund will allow officials to make critical investments, resolve complex negotiating issues and obtain technical and legal support when closing transactions.
First Wave: 195 Development Fund	\$25,000,000	\$0	Provide the state with additional tools to attract new world-class institutions, employers and other assets to the I-195 land. Funding will support infrastructure improvements and other incentives to promote this economic development resource.
Innovation: Innovation Initiative	\$500,000	\$500,000	Support promising companies in areas as advanced industries, technology, and other strategically important sectors. The Innovation Initiative will support incubator space and other forms of assistance for innovative young companies.
Innovation: Competitive Cluster Grants Pilot	\$750,000	\$1,250,000	Catalyze stronger partnerships among companies in key industry clusters. This program would foster new clusters where they do not yet exist and strengthen clusters where they do, using Rhode Island's size to maximum advantage and equipping key sectors to grow.
Infrastructure: Affordable Housing Fund	\$3,000,000	\$0	Through Rhode Island Housing, finance the production and preservation of affordable housing for young workers, seniors, and other residents. Projects will be prioritized if they can move to construction quickly and leverage federal affordable housing tax credit dollars.
Infrastructure: Main Street RI Streetscape Improvements	\$1,000,000	\$1,000,000	Provide funds to upgrade streetscapes in local business districts, including such elements as lighting, street furniture, and medians. These improvements will help create an environment more hospitable to business and attract customers to the commercial corridors of cities and towns.
Infrastructure: Rhode Island Infrastructure Bank	\$2,000,000	\$0	Provide a sustainable funding source for energy efficiency and renewable energy improvements. By leveraging federal, state and private-sector funds to maximize impact, the Infrastructure Bank will help create jobs, conserve energy, and reduce costs in Rhode Island.
Small Business Assistance Program	\$5,220,699	\$0	Expand access to capital for small and growing businesses to thrive and expand. Unlike its neighboring states, Rhode Island lacks a state-backed small business loan fund.
Anchor Institution/ Consortium Tax Credits	\$1,750,000	\$3,943,222	Incentivizes our largest employers – the anchors of our economy – to attract suppliers and affiliates to Rhode Island. These employers will benefit from proximity to their suppliers, while the state gains new jobs and develops industry clusters.
Total Refinancing Proceeds	\$64,220,699	\$19,393,278	

Introduction

Promoting Innovation in Government

With the state facing structural deficits, Rhode Island must transform state and municipal government to be more innovative, nimble, and responsive to the needs of taxpayers. The state needs to streamline the way it delivers services to our customers, maximizing the use of technology, shared services and intergovernmental collaboration whenever possible. State government must also develop a culture of innovation and continuous improvement, always striving to improve the way it operates.

Information Technology Investments

Investments in information technology will improve state operations, promote data-driven decision-making and enhance the transparency and accountability of government. The Governor's budget recommends several IT-related improvements to departmental operations, including the following:

- The Executive Office of Health and Human Services (EOHHS) is developing a system to prevent and control waste, fraud, and abuse. The predictive modeling system will be integrated into the existing Medicaid payment system to analyze claims data, provide real-time risk scoring, determine patterns, and avoid unnecessary payments. EOHHS expects its predictive modeling system to save \$1.0 million in FY 2016.
- The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) proposes an Electronic Visit Verification (EVV) system to confirm third-party reports of home- and community-based services provided to individuals with developmental disabilities. EOHHS will also implement an EVV system to verify services by personal care attendants for Medicaid recipients. These two improvements are expected to reduce total service costs at BHDDH and EOHHS by \$2.9 million.
- The Division of Information Technology will work with the Department of Children, Youth and Families to facilitate use of laptops or tablets to permit offsite data access and entry by social caseworkers, group home inspectors, and other staff. These efficiencies will reduce staff transportation and overtime costs by an estimated \$150,000.

Efficient Government Operations

Responding to the Governor's charge to make government more efficient and cut costs, departments and agencies have proposed the following improvements to business practices, purchasing, and operations:

- The Executive Office of Health and Human Services (EOHHS) will aggressively pursue recoupment of funds to payment opportunities for expenses that may be covered by Medicare but erroneously billed to Medicaid. EOHHS estimates this effort will save \$1.0 million.
- The Department of Corrections currently operates a food purchasing and warehousing operation that supplies food to the state prison system and other government users. By participating in Corrections' food purchasing and waste reduction efforts, the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals expects to reduce its food costs by 20.0 percent for general revenue savings of \$150,000.
- The Office of Energy Resources (OER) will establish a competitive procurement program for the state's electricity supply. OER expects that additional savings may be attained through energy efficiency initiatives, for a combined reduction of \$1.0 million in state energy costs.
- The Division of Purchases will conduct a review of recent and current commodity and deliverable-based contracts to determine whether the state has achieved all attainable savings. The Division projects savings of \$2.0 million.

Introduction

- The budget includes \$100,000 for the Office of Management and Budget to support Lean process improvement projects in government. The Department of Environmental Management, Division of Human Resources, and the Division of Purchases have used Lean techniques to streamline application and permit processes, reduce backlogs and improve customer service. Additional funds will encourage other departments to use Lean to improve operational efficiency.

The need to improve government efficiency extends beyond state government to cities and towns as well. In February 2015, the Governor signed Executive Order 15-06, directing the Office of the Lieutenant Governor to work with municipalities to regionalize and/or consolidate their services. To encourage innovation and support implementation of initiatives stemming from this effort, the Governor's budget includes \$100,000 in competitive grant funding to municipalities.

Agency Reorganization

The Governor's budget also recommends the reorganization of several government functions to improve efficiency and encourage collaboration among programs with similar goals. The budget includes the following changes:

- Merge functions of the Rhode Island Higher Education Assistance Authority (RIHEAA) with the Office of Post-Secondary Education – RIHEAA currently serves as the state's loan guaranty agency, though changes in federal law have gradually reduced RIHEAA's role in loan management. With RIHEAA's revenues and staffing projected to decline with the phase-out of loan guaranty functions, the Governor recommends transferring its remaining staff and functions to the Office of Post-Secondary Education and the Office of the Treasurer.
- Establish an Office of Advocacy – State government has several agencies charged with advocating for and protecting the rights of individuals – the Governor's Commission on Disabilities, the Commission on Deaf and Hard of Hearing, the Office of the Child Advocate, and the Office of the Mental Health Advocate. In many cases, low staffing levels limit the ability of these agencies to provide legal support, coordinate services, and conduct public and legislative advocacy. Consolidating these agencies under the Executive Office of Health and Human Services will facilitate shared services and permit the transfer of best practices.
- Consolidate boards for non-prescribing health professionals in the Department of Health – Conduct and licensing requirements for numerous medical and health care professions are established by appointed professional boards, which are supported by Department of Health staff. The budget includes language to consolidate 25 boards overseeing non-prescribing professionals, leading to more than \$200,000 in personnel savings.

Improved Transparency & Accountability

An effective government must be responsive to the needs of citizens and taxpayers. Rhode Islanders deserve an outcome-oriented government that is transparent and accountable to the people. The Governor's budget reflects the need to tie new investments to improvements in outcomes. As noted earlier, economic development tax credits and workforce development programs will undergo more rigorous review to guarantee that public funds are used to maximum effect. Additionally, to improve the customer experience at the Division of Motor vehicles, the budget recommends \$248,000 to hire part-time employees to enhance staffing at peak volume times. DMV expects that the additional staff will significantly reduce average wait times.

Introduction

The state must also promote public access to information. State law currently mandates that state and municipalities post legal and public notices in print media, but does not allow for electronic publication to fulfill the public notification requirement. With an increasing number of Rhode Islanders obtaining information and conducting transactions online, the state needs to make information available where people are likely to encounter it. To promote transparency, the budget includes a provision allowing required public and legal notices to be posted on the state's transparency portal as an option to fulfill public notification requirements.

As part of the FY 2016 budget submission, the state will implement a new budget data research and visualization tool. This enhanced functionality will allow users to review budget information in a variety of formats, showing detail about funding sources, categories, and recipients, as well as expenditure trends over time. Users may access the site at <http://openbudget.ri.gov>.

Making Work Pay

Rhode Islanders have been hit disproportionately hard during the recent recession, with the state still experiencing one of the highest unemployment rates in the nation. Governor Raimondo's budget recognizes the challenges facing working families and senior citizens and invests in programs to provide financial support.

The budget includes a provision increasing the allowable percentage of the federal Earned Income Tax Credit amount that may be used as a credit against RI personal income tax liability. The proposal would increase Rhode Island's deduction from the current rate of 10.0 percent to 12.5 percent, with the ultimate goal of attaining 15 percent.

For lower-income senior citizens, Social Security benefits often represent the majority of a fixed income. To protect the state's most vulnerable senior citizens, the Governor's budget proposes exempting Social Security benefits from state personal income tax for single filers with Federal Adjusted Gross Income less than \$50,000 and for married filers with Federal AGI less than \$60,000. This proposal would place Rhode Island on an equal footing with Connecticut.

The Governor's budget also maintains Rhode Island's commitment to affordable health insurance coverage. In the last year, the state's health insurance exchange, HealthSource RI, has helped more than 22,000 Rhode Islanders receive a federal health coverage tax credit. The Governor's budget maintains state control of the health exchange and reduces operating costs to a level no greater than if the state were to switch to the federal health exchange.

Finally, the Governor's budget proposes \$300,000 to create an Office of Economic Empowerment. This office would link workers with state and federal supports for education, job training, financial stability, and employment opportunities. With many Rhode Islanders not taking full advantage of programs available to them, the Office of Economic Empowerment will establish one-stop shops for accessing federal and state benefits, ranging from the earned income tax credit (EITC) to job training. The goal is to help unemployed, underemployed, and low-income families build household wealth.

Reducing the Structural Deficit

In developing the budget, Governor Raimondo has emphasized the importance of addressing the state's structural deficit. In most instances, states seek to close a structural deficit by either constraining costs to match expected revenue growth levels, or expanding revenue to match expected costs. Those approaches, while straightforward,

Introduction

are difficult to implement in Rhode Island because of the confluence of the following factors: (1) the state's weak economy; (2) the size of the structural deficit; (3) the fact that numerous expenditure cuts have already been implemented in recent years; and (4) the challenge of expanding revenue in any significant way without adversely affecting the state's economic competitiveness. It is impractical to claim that spending cuts are not needed or that new revenues should not be explored – both options will be required in the short term to address projected deficits. However, in order to combat the structural deficit effectively, the state must create the conditions to foster economic growth and improve revenues. To accomplish that goal, the state must attract companies to invest in Rhode Island, and encourage the state's existing businesses to expand and grow. For those reasons, the budget includes numerous initiatives and investments to promote economic development, described earlier, all of which are essential for Rhode Island to grow out of its structural deficit situation.

As previously noted, structural deficits harm the business climate by creating uncertainty and discouraging investment. Governor Raimondo's budget demonstrates a commitment to addressing the key cost drivers in government in order to reduce expenditure growth over time. One such driver is Medicaid, which represents approximately one-third of general revenue spending. Rhode Island has the second-highest cost per enrollee in the United States — approximately 60.0 percent higher than the national average. The Governor's executive order to reinvent Medicaid (15-08) is intended to improve service delivery and constrain Medicaid cost growth. In February 2015, the Governor appointed a diverse group of health care professionals, patient advocates, business people and other policy leaders to a Medicaid Working Group to address the structural challenges facing Rhode Island's Medicaid system.

The Governor's budget includes \$45.1 million in identified Medicaid savings for FY 2016. Additionally, the Executive Office of Health and Human Services and the Medicaid Working Group have begun reviewing programs, services and financing mechanisms to find additional areas for improvement. They have identified potential areas for recommended reforms, including managed care contracts; program oversight; value-based purchasing; high-cost users; and inpatient behavioral health. Based on this initial review, the budget projects an additional \$46.0 million in additional savings from the working group's recommendations in April 2015.

Similarly, the Governor's budget addresses structural costs associated with state employees and benefits. The personnel system, in many instances, is governed by archaic laws, which in some cases hinder the efficient operations of the state and limit opportunities for state employees. Further, personnel costs have been rising faster than inflation – even as the number of state employees has declined. This cost growth contributes to the state's structural deficit. The state needs to modernize the personnel system so that it can secure cost savings without pursuing significant layoffs. The state needs thoughtful and targeted personnel reform to attract top talent; control rising costs; provide more opportunities and options for employees; and create a government that is flexible, innovative, and responsive to Rhode Islanders.

While the personnel system needs long-term transformation, the current situation is urgent and challenging. The prior Administration negotiated collective bargaining agreements with most state employee unions that run through June of 2017, setting terms and conditions for employee benefits and job protections. Moreover, the cost of living salary raises included in those labor agreements were not budgeted, resulting in deficits of approximately \$25.0 million in the current fiscal year and \$37.0 million in Fiscal Year 2016. The Governor's budget proposes achieving savings of \$22.0 million related to personnel and employee benefits -- Administration officials will work with state employees and their representatives to find the savings while avoiding significant layoffs. The

Introduction

budget also includes legislative proposals to provide state government with greater flexibility in hiring and managing personnel.

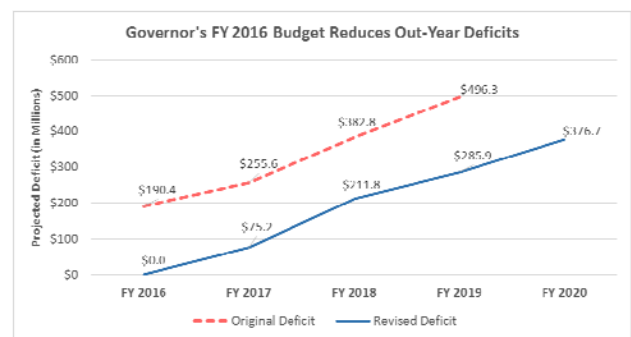
Expenditure reductions in Medicaid and personnel will begin to put the state budget on a more sustainable path. However, until some of the reforms are fully implemented – and, given the size of the structural deficit – additional revenues may be necessary. As previously noted, the Governor’s budget does not include broad-based tax changes. Revenue options were specifically chosen to minimize impact on working Rhode Islanders. The Governor proposes establishing a statewide property tax for non-owner occupied residences (for example, vacation homes, second residences) and vacant residential land valued at greater than \$1.0 million. This effort will provide \$11.8 million to fund important priorities while limiting the impact to a relatively small number of wealthy taxpayers.

Additionally, the Governor’s budget proposes the following additional revenues:

- Increasing the state’s cigarette excise tax by \$0.25 per pack, from \$3.50 to \$3.75 per pack – This increase will raise \$7.1 million in FY 2016 while discouraging smoking and improving health outcomes.
- Conducting pay-for-performance audits –The Division of Taxation’s Integrated Tax System allows for greater data analysis, but the Division needs additional analytical support to improve compliance rates. This proposal will allow the Division of Taxation to raise \$1.8 million through benefit-based funding or contingent fee contracts to implement new compliance programs.
- Authorizing self-audits – This proposal would allow the Division of Taxation to enter into agreement with businesses to perform self-audits. The businesses would receive reduced interest and penalties on any underpaid sales and use tax, and the Division expects to recover \$500,000 in unpaid taxes through this program.
- Closing a real estate loophole – The budget closes an existing loophole that allows the buyer and seller in a real estate transaction to avoid real estate transfer fees by selling the real estate holding company that owns the property. Addressing this issue will increase revenues by nearly \$700,000.

The Governor’s budget successfully closes the projected FY 2016 deficit of \$190.4 million through a combination of expenditure reductions, new revenues, and transfers and other operating changes. In an effort to keep Rhode Island’s business climate competitive, the Governor’s budget recommends only \$14.3 million in net new taxes and fees – 7.5 percent of the amount required to close the deficit. Reflecting the need to contain costs to reduce the structural deficit, the Governor’s budget includes net spending reductions of \$118.1 million, or 61.8 percent of the total deficit amount. Finally, fund transfers and other operating changes represent \$58.5 million, or 30.7 percent of the deficit.

Finally, the Governor’s budget reduces projected out-year deficits. Structural changes decrease the projected FY 2017 deficit by 70.6 percent from \$255.6 million to \$75.2 million, with the FY 2019 deficit declining 42.4 percent to \$285.9 million. Additional revenues from a better business climate may improve the outlook further. While more work remains to be done, the Governor’s budget makes substantial progress in closing Rhode Island’s structural deficit.



Overview

The FY 2016 Recommended Budget addresses a projected operating deficit of nearly \$190.4 million while investing in key areas to improve the State's overall financial outlook. The FY 2016 Budget reflects ongoing improvements in the State's overall financial condition over the past several years. FY 2014 closed with a surplus of \$67.8 million, representing the fifth year in a row the State has closed with a strong surplus. An additional indicator of cost control is that the FY 2014 surplus was primarily achieved through controlling spending – spending was \$16.0 million less than the enacted appropriation. The FY 2015 Recommended Budget assumes a \$67.8 million opening surplus from FY 2014. The following outlines the FY 2015 Revised and the FY 2016 Recommended Budgets as proposed by Governor Raimondo on March 12, 2015.

FY 2016 Recommended Budget: Governor Raimondo recommends an all funds budget totaling \$8,627.6 million for FY 2016, a decrease of \$211.9 million, or 2.4 percent, from the FY 2015 Revised Budget of \$8,839.4 million. Of the \$211.9 million decrease, there is an increase of \$3.2 million in general revenue, with reductions in federal funds of \$137.4 million, in restricted receipts of \$38.8 million, and in other funds of \$38.9 million. Of the \$8,627.6 million budget, \$ 3,491.6 million, or 40.5 percent, is from general revenue, \$3,003.1 million or 34.8 percent is from federal funds, \$1,893.5 million, or 22.0 percent, is from other sources, and \$239.4 million, or 2.8 percent, is from restricted or dedicated fee funds. The Governor's FY 2016 Recommended Budget includes 15,119.4 authorized FTE positions, which is 18.7 FTE positions greater than what is included in the Governor's FY 2015 Revised Budget Plan and 33.4 FTE positions more than what was included in the FY 2015 Enacted Budget.

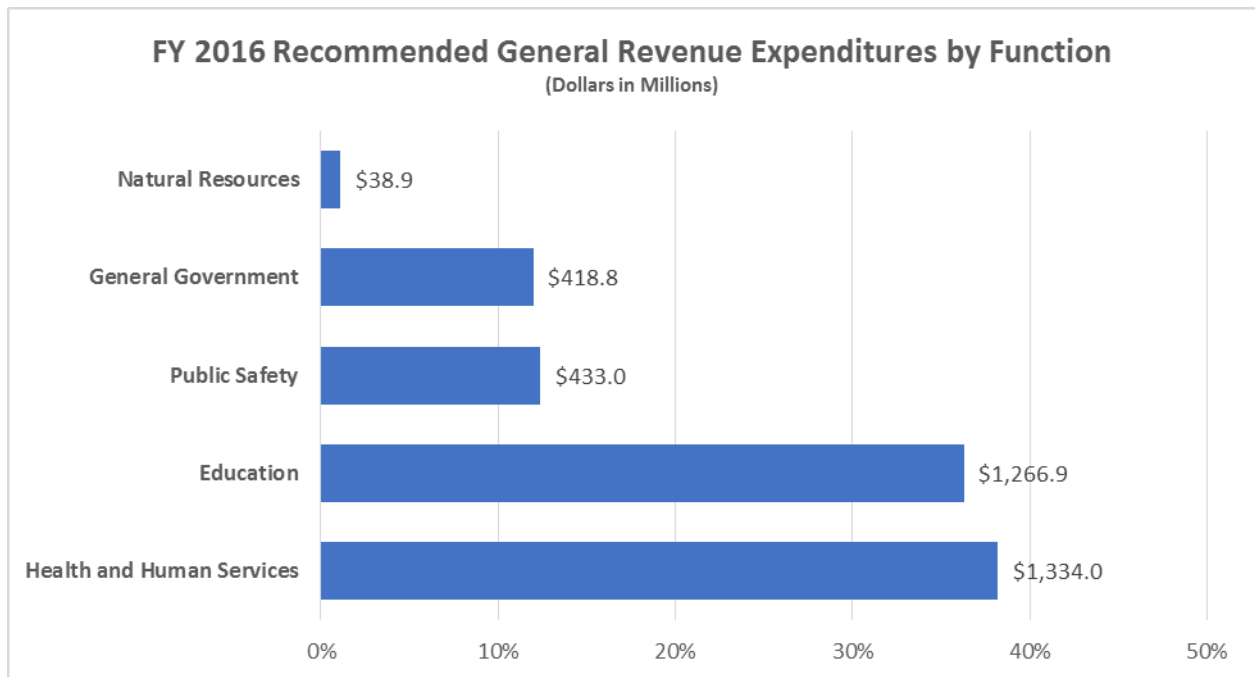
Recommended FY 2016 general revenue funding of \$3,491.6 million represents an increase of \$46.5 million, or 1.4 percent, over the FY 2015 enacted budget of \$3,445.2 million, and is less than one percent higher than the FY 2015 Revised Budget proposed by the Governor (\$3,488.4 million). Federal funds decrease from \$3,086.5 million in the FY 2015 enacted budget to \$3,003.1 million in the recommended FY 2016 Budget. The FY 2016 Recommended Budget included reviews of department and agency federal spending patterns and has more closely aligned requested spending levels with actual experience. Other funds decrease from \$1,965.4 million in the FY 2015 enacted budget to \$1,893.5 million in the FY 2016 Budget.

FY 2015 Revised Budget: Governor Raimondo recommends a revised all funds budget totaling \$8,839.5 million for FY 2015, an increase of \$59.3 million, or 1.0 percent, from the FY 2015 Enacted Budget of \$8,780.2 million. Of this total, \$3488.4 million, or 39.5 percent, is from general revenue, \$3,140.5 million, or 35.5 percent, is from federal funds, \$1,932.4 million, or 21.9 percent, is from other sources, and \$278.2 million, or 3.2 percent, is from restricted or dedicated fee funds. The Governor's FY 2015 Revised Budget includes 15,100.7 authorized FTE positions, which is 14.7 FTE positions higher than what is included in the FY 2015 Enacted Budget.

Recommended FY 2015 general revenue funding of \$3,488.4 million represents a net increase of \$43.2 million, or 1.3 percent, from the FY 2015 enacted budget of \$3,445.2 million, and is 4.6 percent higher than the FY 2014 actual expenditure. Federal funds increase from \$3,086.5 million in the FY 2015 enacted budget to \$3,140.5 million in the revised FY 2015 budget, primarily due to additional funding for the Health Benefits Exchange and for federal highway projects. Other funds decrease from \$1,965.4 million in the FY 2015 Enacted Budget to \$1,932.4 million compared to the enacted plan.

Overview

Expenditure Plan by Function: The challenge of balancing the State Budget is more difficult based upon a review of where overall general revenue actually goes. Expenditures from general revenue are projected to total \$3,491.6 million for FY 2016, increasing by \$3.2 million over FY 2015 revised spending levels.



Expenditures totaling \$1,334.0 million for Health and Human Services agencies represent nearly 38.2 percent of the total general revenue budget to support various health care and prescription drug coverage programs for low-income children, their parents, seniors and the poor, and community residential and treatment programs for the disabled.

Education is the second largest component of State spending, totaling \$1,266.9 million, or 36.2 percent of general revenue spending. This includes the State support for local education aid, support for the state university and colleges, and scholarships. The General Assembly enacted significant changes to the governance of Rhode Island’s elementary and secondary education and its higher education systems through creating a singular board of education. Governor Raimondo’s FY 2016 Recommended Budget includes legislation to implement additional restructuring by eliminating the Rhode Island Higher Education Assistance Authority and moving its functions under the Commissioner of Postsecondary Education.

Governor Raimondo’s FY 2016 Recommended Budget continues to invest in education in Rhode Island. The Governor fully funds the fifth year of the school funding formula, requiring an additional \$35.5 million in state funding.

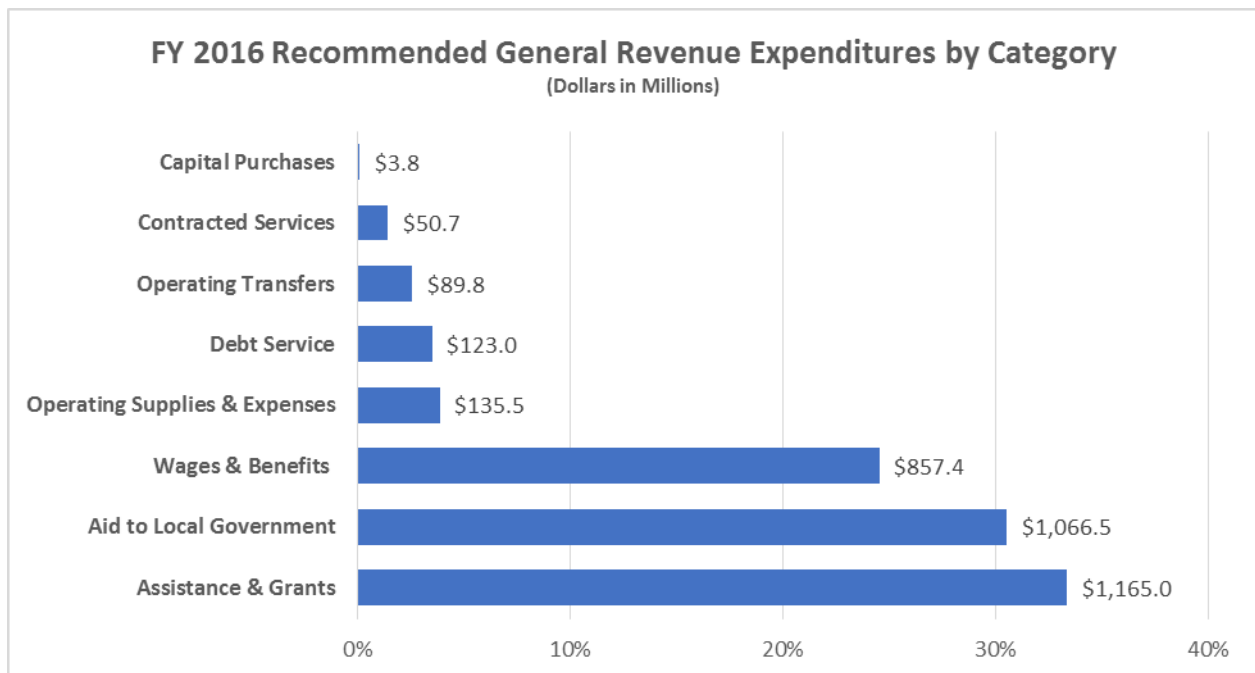
General revenue expenditures for General Government and Public Safety comprise \$418.8 million (12.0 percent) and \$433.0 million (12.4 percent), respectively. General Government includes, along with state operations, state aid to municipalities and direct property tax relief. Public Safety includes the state prisons, Military Staff, RI Emergency Management Agency, State Police, Attorney General and Judicial departments.

Overview

Finally, general revenue expenditures for Natural Resources comprise \$38.9 million, or 1.1 percent of total general revenue funding. The Natural Resources function is comprised of the Department of Environmental Management and the Coastal Resources Management Council.

Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

Expenditures by Category: General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel. The largest component is grants and assistance expenditures of \$1,165.0 million, comprising 33.4 percent of total general revenue spending. Local aid expenditures of \$1,066.4 million represent 30.5 percent of total spending, which includes fully funding the fifth year of the school aid formula; personnel expenditures of \$908.0 million comprise 26.0 percent of the budget; operating expenditures total \$135.5 million, or 3.9 percent of the budget; and capital expenditures, including debt service, and operating transfers total \$216.7 million, or 6.2 percent of the total general revenue budget.



Local aid comprises over \$1.066 billion of general revenue spending. The largest component of local aid is education aid. General revenue funding for local education aid increases by a net of \$35.5 million in FY 2016, as compared to the FY 2015 enacted funding level. The Governor's budget provides \$33.2 million for year five of the new funding formula. Education aid provided to local communities, charter schools, and state schools in FY 2016 total \$862.4 million or \$42.2 million more than provided in the FY 2015 Enacted Budget.

Beginning July 1, 2011, the new education aid formula began to distribute education aid to all local educational agencies (LEA), including districts, charter schools and state schools (with the exception of the School for the Deaf, which will be separately funded). The formula allows for the funding to follow the student and was developed with the following guiding principles: build a strong foundation for all children; improve equity among

Overview

districts and schools; be transparent; and be financially responsible. The new education aid formula determines the amount of funding each LEA shall receive per year. The Governor's Budget includes the best data available at the time of the budget submission; however these calculations will be updated using March 2015 student data, including final charter school lottery data, which is expected by April 1, 2015.

The State's FY 2016 share of teacher retirement costs decreases to \$89.0 million from the FY 2015 enacted levels to \$89.5 million. In addition to anticipated payroll growth, the required rate of contribution for the State share increases from 8.42 percent in FY 2015 to 9.19 percent in FY 2016.

Health and Human Services: While the Executive Office of Health and Human Services and the Departments under its auspices have implemented a number of initiatives authorized in the FY 2015 Enacted Budget with the goal of addressing the unsustainable growth in this functional area, these efforts will be significantly amplified in FY 2016.

In the Medical Assistance program, the Governor recommends an \$88.1 million reduction to the Caseload Estimating Conference's (CEC) adopted funding level. This is achieved through various policy actions designed to contain the Medicaid program's expenditure growth in both FY 2016 and subsequent years. First, the Governor recommends reductions to all Medicaid managed care capitation (i.e. monthly cost per member) rates, effective July 1, 2015, for savings totaling \$2.7 million in general revenue. Rates will be negotiated so as to reduce average annual growth in these rates by 0.9 percent relative to the increases assumed at the November 2014 CEC. The Governor further recommends general revenue savings of \$15.7 million for eliminating scheduled FY 2016 hospital payment rate increase(s) and imposing a 5 percent reduction to payment rates; savings of \$8.9 million for the elimination of the FY 2016 nursing facility rate increase and a 3 percent reduction to payment rates; savings of \$11.2 million for the elimination of all FY 2016 Upper Payment Limit (UPL) payments to community hospitals; and various other initiatives that strengthen program integrity, maximize leveraging of federal funds, and rationalize the delivery of out-of-plan services for children with special healthcare needs.

Governor Raimondo established the Working Group to Reinvent Medicaid on February 26, 2015, via executive order 15-08. The working group will work to foster innovation and improve Medicaid so those who need it most receive the best care at lower costs. The group includes a diverse set of community leaders with unique expertise in health care, business, and public health policy. Through a series of public meetings across the state, they will hear from patients, caregivers, doctors, nurses, hospitals, nursing homes, community health centers, behavioral health providers, and other health policy leaders to fully understand the challenges facing Rhode Island's Medicaid system. The group will develop a plan to improve the quality of care Rhode Islanders receive and reduce the costs for Rhode Island taxpayers. In accordance with this plan, the FY 2016 Recommended Budget contains general revenue savings totaling \$46.0 million divided among the budgets of the Executive Office, the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals; the Department of Children, Youth and Families, and the Division of Elderly Affairs. Further details regarding the strategic vision of the Working Group, as well as some examples of the potential reforms to be undertaken under its guidance, are provided in the *Executive Office of Health and Human Services* section of this Executive Summary.

Personnel: Total state personnel costs comprise 22.1 percent of total recommended spending in FY 2016. General revenue spending for personnel costs total \$908.0 million, nearly half of the total personnel costs. Actual

Overview

filled positions totaled 13,820.2 FTE positions as of December 27, 2014, a 163.3 position increase from the 13,656.9 filled position level as of December 29, 2012, and 1,262.6 FTE positions below the 15,082.8 FTE positions level in July 2007. The filled FTE position level of 13,820.2 is 1,265.8 FTE positions less than the FY 2015 enacted cap of 15,086.0 FTE positions.

In the FY 2015 revised budget, the Governor recommends a FTE position level of 15,100.1, an increase of 14.7 FTE positions from the FY 2015 enacted budget. In the FY 2016 budget, the Governor recommends a net increase of 18.7 FTE positions from the FY 2015 revised budget, or 15,119.4 FTE positions. While maintaining an acceptable level of critical services, reducing FTE position authorization in response to completed programs, and addressing new program concerns, the Governor recommends offsetting FTE position reconciliations and vacancy reductions to maintain the overall position authorization as close as possible to the FY 2015 enacted level.

Total personnel costs decrease \$33.9 million, or 1.6 percent, in FY 2016, as compared to the FY 2015 Revised Budget, reflecting decreases in purchased services, but increases by \$47.1 million (2.6 percent) from the enacted Budget. The State recently entered into contracts with most state employee unions that provide for cost of living adjustments (COLA) of 2.0% on April 6, 2014; 2% on October 5, 2014 and 2% on October 4, 2015. This assumes all union and non-union staff receive the same COLA under the same schedule. As of this writing, the State Police Trooper and RIBCO unions have not settled their contracts, and nor have URI, RIC, and CCRI faculty unions.

Transportation Finance: In recent years, Rhode Island has modified its transportation financing system to reduce reliance on the costly habit of borrowing to meet federal highway matching requirements to finance the State's highway improvement program. To address this issue, the General Assembly enacted into law a three-year, phased increase in registration and license fees, which began in FY 2014. Two-year registrations and drivers licenses would each be increased by \$30.00 (\$10.00 per year for three-years), while one-year registrations would be increased by \$15.00 (\$5.00 per year for three-years). The proceeds from these fee increases finance the newly created Rhode Island Highway Maintenance Account, and combined with a \$20.0 million appropriation from the Rhode Island Capital Plan Fund, was thought to be sufficient to provide the necessary match to federal funds, resulting in not having to go back to voters to borrow to meet our match requirements, and over time, will reduce the amounts necessary for debt service, thereby freeing up funding for other purposes in the future.

The Department of Transportation was also facing the same type of ongoing operating deficits that plague the State as a whole given that gas tax revenues fail to keep pace with the growth in transportation expenditures. The 2014 General Assembly, as part of the FY 2015 enacted budget, augmented on these initial funding changes with the passage of Article 21 – Relating to Transportation. Article 21 furthered how the Rhode Island Highway Maintenance Account is funded by (1) raising the state vehicle inspection fee by \$16.00, from \$39.00 to \$55.00. Previously \$16.00 of this fee had been deposited into the general fund; now, a total of \$32.00 (\$16.00 previous funds and the \$16.00 increase) will be deposited into the Highway Maintenance Account; (2) added a \$25.00 surcharge on all dismissals based on a good driving record; and (3) transfers existing motor vehicle fees, surcharges and tax revenues from the general fund to the Highway Maintenance Account, including (a) \$50.00 fee to receive a certificate of title for a purchased vehicle; (b) existing rental vehicle surcharges; and (c) a multi-year phase-in of all remaining motor vehicle fees.

Overview

The General Assembly also increased the appropriation from the Rhode Island Capital Plan Fund to \$27.7 million in FY 2015, in lieu of tolls – shifted 3.5-cents of gasoline tax allocations to the Rhode Island Turnpike and Bridge Authority (beginning FY 2015) with a corresponding decrease to the Department of Transportation, and provided for a statutory increase of the gasoline tax beginning in FY 2016 by 1.0-cent bi-annually based on the Consumer Price Index for all Urban Consumers (CPI-U).

The Governor recognizes the need for a robust transportation system which can encourage economic growth by investing in our infrastructure. With the Article 21 changes in mind and the looming shortfalls at the federal level from decrease in proceeds being deposited into the Federal Highway Trust Fund, the Governor has proposed an additional \$20.0 million from the Rhode Island Capital Plan Fund for transportation projects that can be started in FY 2016. The increase provides a total of \$47.7 million in Rhode Island Capital Plan Fund financing directed to the highway improvement program. To tackle the structural deficit consuming the State's general fund, the Governor proposes suspending, per Article 21, year-one of the three-year phase-in of remaining motor vehicle fees, scheduled at 25% in FY 2016, and replacing the loss to the Highway Maintenance Account with the additional financing from the Rhode Island Capital Plan Fund. The Governor's transportation infrastructure financing plan will provide the Department of Transportation with \$6.8 million in new funds in FY 2016, while continuing the phase-in approach of depositing all remaining motor vehicle related fees as directed by Article 21 in the out-years (75.0% in FY 2017 and 100% in FY 2018).

The Governor also recognizes the need to assist the Rhode Island Public Transit Authority in order to improve its overall financial condition. The Governor continues the plan under Article 21 to transfer five-percent of all available proceeds deposited into the Rhode Island Highway Maintenance Account. Additionally, the Governor proposes to continue financing debt service on outstanding general obligation bonds issued on behalf of RIPTA from the Authority's budget to the state general revenue in FY 2016, freeing up close to \$1.7 million in gasoline tax revenues.

The Economy

Introduction

The Consensus Revenue Estimating Conference (REC) convenes at least twice each year, typically within the first ten days of May and November. Historically, the purpose of the conference was confined to forecasting current and budget year revenue estimates. During the 1998 legislative session, the Revenue Estimating Conference statutes were modified to also require the adoption of a consensus economic forecast. Prior to the November 2001 conference, the conferees adopted a forecast for Rhode Island total employment, Rhode Island personal income, and the U.S. consumer price index for all urban consumers (CPI-U) covering the state's prior fiscal year, its current fiscal year, and the budget year.

Beginning with the November 2001 conference, in addition to Rhode Island total employment, Rhode Island personal income and the U.S. CPI-U, forecasts for Rhode Island wage and salary income, Rhode Island dividends, interest and rent, the Rhode Island unemployment rate, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills are also agreed upon at the Revenue Estimating Conference. Finally, the consensus forecast of these economic variables now includes the prior calendar and fiscal years, the current calendar and fiscal years, the budget calendar and fiscal years, and the next five calendar and four fiscal years.

Economic Forecast

This section describes the economic forecast used as an input for the Revenue Estimating Conference's consensus revenue estimates.

During its November 2014 meeting, a forecast of the U.S. and Rhode Island economies was presented by Moody's Analytics. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends in Rhode Island. The conferees heard the testimony from a Senior Economist for Moody's Analytics, and the Assistant Director for DLT's Labor Market Information unit.

The Revenue Estimating Conference adopted the economic forecast, shown at the end of this section, on November 3, 2014 through a consensus process informed by the testimony provided to the conferees. The updated economic forecast made slight changes to the consensus outlook adopted at the May 2014 Revenue Estimating Conference. These changes can also be seen at the end of this section.

In testimony to the principals of the November 2014 Revenue Estimating Conference, Moody's Analytics noted that the state took the first step in overcoming its reputation as a state with high business costs and taxes by cutting the state corporate tax rate from 9.0 percent to 7.0 percent for all C-corporations. In addition, Moody's Analytics' state economic analyst mentioned that well-directed business investment in Rhode Island's comparative advantage areas of higher education, healthcare and biotechnology will be essential to the achievement of sustained economic growth in the state. Moody's Analytics' economic analyst for Rhode Island noted that spillover growth in the financial services sector fueled by increased commercial rent costs in the Boston metro area have resulted in payrolls increasing by 4.4 percent in Rhode Island's financial services sector since the start of the year, or 3.0 percentage points higher than total payroll growth for the same time period. Furthermore, Moody's Analytics expects education-related construction to spur economic growth in the near term. Moody's Analytics optimism is tempered by the fact that the Rhode Island's lack of dynamic, high-skill industries will detract from the overall rate of economic expansion in the next few years.

The November 2014 Consensus Economic Forecast indicates that the state will need to direct resources into retraining displaced workers as the economy continues to move from a low value added manufacturing based economy to a services oriented economy. Investment in retraining displaced

The Economy

workers will mitigate the economic impacts associated with shrinkage of the labor force as a result of the state's demographic trends, the paucity of employment opportunities and persistent structural unemployment. According to Moody's Analytics, the void felt in the economy from this transition to a service based economy may be filled in the long term by growth in the biotechnology, medical device manufacturing and pharmaceuticals industries which currently employ a small percentage of the total workforce. Also stated in their quarterly narrative, Moody's Analytics indicated that the housing market in Rhode Island has begun to take a step back as the pace of homebuilding and construction activity has declined since accelerating in the first half of 2014. Home price appreciation in Rhode Island is still trending upward albeit at a slower pace than the national average.

Moody's Analytics noted that some of the conditions weighing down the housing market include increased foreclosures and the weak labor market, translating into a delayed release of pent-up household formation. A key risk to the November 2014 Consensus Economic Forecast is the growth in the housing market. Growth in the housing market is dependent on projected wage growth triggering the release of pent-up demand for household formation which, if unachieved, will make the forecast overly optimistic. On a positive note, Moody's Analytics stated that mortgage delinquency rates are almost back to prerecession levels. Stringent credit conditions have resulted in improved mortgage delinquency rates and the recent spike in foreclosure inventory should not be a cause for concern as Rhode Island consumers are in a stronger financial position to borrow. Additionally, Moody's Analytics reports that factory job gains earlier in the year as well as the previously noted recent hiring in the financial services sector have kept the state's wage growth on par with the national average, an encouraging development given the uncertainty of the potential abatement in federal spending levels for defense and other grants.

While testimony from Moody's Analytics gave a broad picture of Rhode Island's economic conditions as of November 2014, the Rhode Island Department of Labor and Training (DLT) presented a detailed analysis of Rhode Island's labor market. DLT reported that the Rhode Island unemployment rate was 7.6 percent in September 2014, the latest data available at the time of the Revenue Estimating Conference. This is down from 9.5 percent in September 2013 but was the first month in ten months that Rhode Island's unemployment rate did not decline from the previous month. For December 2014, Rhode Island's unemployment rate was 6.8 percent, a decrease from the December 2013 unemployment rate of 9.3 percent and a decrease of 0.3 percentage points from November 2014's unemployment rate.

Rhode Island's resident employment peaked at 547,300 in January 2007. Rhode Island resident employment in September 2014 totaled 512,300, or 35,000 off the peak. According to DLT, for December 2014, Rhode Island resident employment totaled 511,600, or 35,700 below the January 2007 peak. DLT's data has December 2014 resident employment at 4,600 jobs above the reported amount of resident employment in December 2013. The DLT's data shows that resident employment has decreased by 660 between September 2014 and December 2014.

According to testimony provided by DLT at the November 2014 Revenue Estimating Conference, Rhode Island establishment employment increased over the period September 2013 to September 2014 resulting in 5,900 jobs gained.

The Economy

Sector	Jobs Change	Sector	Jobs Change
Professional & Business Services	1,900	Trade, Transportation & Utilities	500
Leisure & Hospitality	1,100	Natural Resource & Mining	-
Financial Activities	1,000	Other Services	(100)
Manufacturing	800	Information	(200)
Education and Health Services	700	Government	(400)
Construction	600	Total Non-Farm	5,900

DLT staff testified further that they expect to see revisions to the June 2014 job numbers reported by the Bureau of Labor Statistics (BLS). Using a methodology developed by the University of Massachusetts, DLT staff project that total non-farm employment for the quarter ending June 2014 will be revised upward by 1,200 jobs. It should be noted that Moody's Analytics economic forecast incorporates upward revisions to BLS data for forecast numbers, but uses current BLS total employment numbers for historical figures. As a result, it may be the case that the growth rates contained in the forecast below will be revised downward as historical figures are revised upward. The anticipated changes to employment by sector for the quarter ending June 30, 2014 as calculated by DLT are shown in the table below.

Sector	Jobs Change	Sector	Jobs Change
Other Services	1,000	Trade, Transportation & Utilities	(200)
Education and Health Services	800	Financial Activities	(200)
Government	400	Construction	(200)
Leisure & Hospitality	100	Manufacturing	(300)
Information	100	Professional & Business Services	(300)
Natural Resource & Mining	-	Total Non-Farm	1,200

Source: RI Department of Labor and Training, Labor Market Information Unit, Quarterly Census of Employment and Current Employment Statistics (CES) data, Using methodology developed by the University of Massachusetts.

*Difference is a result of rounding

The November 2014 Consensus Economic Forecast

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. In FY 2014, total non-farm employment increased by 1.3 percent. In FY 2015, non-farm employment is expected to increase by 1.4 percent from 474,350 in FY 2014 to 480,910 in FY 2015. Over the FY 2015 through FY 2020 period, Rhode Island's economy is expected to add 23,120 jobs. It should be noted that growth rates in nonfarm employment indicate a positive trend from FY 2013's 1.1 percent growth to FY 2016's growth of 2.4 percent before rates of growth in nonfarm employment slow to 1.7 percent in FY 2017 and 0.6 percent in FY 2018. The consensus economic forecast indicates a continued decline in non-farm employment growth in FY 2019 and FY 2020 of 0.1 percent and -0.1 percent respectively.

The unemployment rate is projected to decline sharply from 9.0 percent in FY 2014 to 7.3 percent in FY 2015. As recovery takes hold, Rhode Island's unemployment rate is expected to continue its rapid decline falling to 5.2 percent by FY 2020. Even at this lower rate in FY 2020, Rhode Island's unemployment rate will be 0.3 percentage points higher than the State's unemployment rate of 4.9 percent achieved when the economy peaked in FY 2007.

Personal income growth is expected to be 4.0 percent in FY 2015 up from the 3.0 percent growth in FY 2014. The November 2014 Revenue Estimating Conference's estimates for personal income growth show a positive upward trend from FY 2013 through FY 2016 peaking at 5.9 percent growth in FY 2016. It

The Economy

should be noted that for FY 2015 through FY 2017, the adopted estimates for personal income growth are below the adopted estimates from the May 2014 Revenue Estimating Conference for the same period. This projection indicates that personal income growth will be weaker than what was anticipated for the FY 2015 through FY 2017 period at the May 2014 Revenue Estimating Conference. The consensus economic forecast for FY 2018 and FY 2019 personal income growth, as testified to by Moody's Analytics at the November 2014 Revenue Estimating Conference, is higher than the consensus economic forecast adopted at the May 2014 Revenue Estimating Conference by 0.6 percentage points and 0.2 percentage points respectively. The FY 2015 projected growth rate for personal income is down 1.7 percentage points from what was adopted at the May 2014 Revenue Estimating Conference of 5.8 percent. For FY 2016 the adopted November 2014 Revenue Estimating Conference personal income growth estimate is 0.7 percentage points below the 6.6 percent growth rate that was adopted in May 2014. Based on the November 2014 Revenue Estimating Conference, the personal income growth rate is expected to fall to 5.3 percent in FY 2017 and remain at or above 2.9 percent throughout the remainder of the forecast period.

Similarly, the November 2014 Revenue Estimating Conference estimates for FY 2015 growth in dividends, interest and rents indicate a slight increase from FY 2014 growth of 2.3 percent with robust growth of 9.0 percent projected to occur in FY 2016, 8.8 percent in FY 2017 and an average growth rate of 3.8 percent for the FY 2018 through FY 2020 period. November 2014 Revenue Estimating Conference adopted wage and salary income growth was higher in FY 2014 relative to the projected growth adopted in May 2014 by 0.7 percentage points. For the FY 2015 to FY 2020 period, the November 2014 Revenue Estimating Conference growth rates for wages and salaries were revised downward in every year except FY 2017 when compared to the forecast adopted in May 2014. Wage and salary income growth is expected to see continued improvement in FY 2015 with projected growth of 4.8 percent, an increase of 0.8 percentage points from FY 2014. The rate of growth accelerates in FY 2016 to 6.9 percent before decelerating in FY 2017, FY 2018 and FY 2019 to 6.0 percent, 4.2 percent and 3.4 percent respectively. The downward trend in wages and salaries income growth continues into FY 2020 with a projected growth rate of 2.8 percent.

The U.S. rate of inflation as measured by the Consumer Price Index for all urban consumers (CPI-U) is anticipated to increase to 1.9 percent in FY 2015 from 1.6 percent in FY 2014. The forecast of CPI-U as presented displays a consistent trend upward from 1.9 percent in FY 2015 to 2.9 percent in FY 2018 with decelerated growth expected to take place in FY 2019 and FY 2020. The rate of growth in CPI-U is forecasted to increase further to 2.2 percent in FY 2016, 2.6 percent in FY 2017 and 2.9 percent in FY 2018. In FY 2019 through FY 2020, inflation is expected to decelerate and settle at 2.5 percent.

For FY 2015, the interest rate on three month Treasury bills is expected to remain stable relative to FY 2014 at 0.04 percent. In FY 2016, the interest rate on three month Treasury bills is expected to rise to 0.8 percent and increase again by 1.7 percentage points to approximately 2.5 percent in FY 2017. For FY 2018 and FY 2019, the interest rate on three month Treasury bills climbs to 3.2 percent and 3.4 percent respectively before stabilizing at 3.5 percent in FY 2020. The interest rate on ten year Treasury notes is expected to increase from 2.7 percent in FY 2014 to 2.9 percent in FY 2015 and continue to rise to 4.0 percent and 4.8 percent in FY 2016 and FY 2017. The interest rate on ten year Treasury notes is anticipated to decrease to 4.6 percent in FY 2018 and then decrease to 4.5 percent in FY 2019 and remain flat for FY 2020.

The Consensus economic forecast for the fiscal years 2015 through 2020 agreed upon by the conferees at the November 2014 Revenue Estimating Conference is shown in the following table.

The Economy

The November 2014 Consensus Economic Forecast						
Rates of Growth (%)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Non-Farm Employment	1.4	2.4	1.7	0.6	0.1	-0.1
Personal Income	4.0	5.9	5.3	3.9	3.1	2.9
Wage and Salary Income	4.8	6.9	6.0	4.2	3.4	2.8
Dividends, Interest and Rent	2.8	9.0	8.8	5.5	3.2	2.6
Nominal Rates (%)						
U.S. CPI-U	1.9	2.2	2.6	2.9	2.8	2.5
Unemployment Rate	7.3	6.2	5.5	5.3	5.3	5.2
Ten Year Treasury Notes	2.9	4.0	4.8	4.6	4.5	4.5
Three Month Treasury Bills	0.0	0.8	2.5	3.2	3.4	3.5

Percentage Point Changes from November 2014 To May 2014 Consensus Economic Forecasts					
Rates of Growth (%)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Non-Farm Employment	-0.5	0.2	0.2	0.1	0.2
Personal Income	-1.7	-0.7	-0.1	0.6	0.2
Wage and Salary Income	-1.5	-0.1	0.0	-0.2	-0.1
Dividends, Interest and Rent	-4.4	-0.3	1.5	3.3	1.3
Nominal Rates (%)					
U.S. CPI-U	0.0	0.1	0.1	0.2	0.3
Unemployment Rate	-0.9	-0.7	-0.4	-0.3	-0.2
Ten Year Treasury Notes	-0.7	-0.6	-0.3	-0.2	-0.2
Three Month Treasury Bills	0.0	-0.1	-0.2	-0.1	-0.1

February 2015 Update to the November 2014 Consensus Economic Forecast

Due to the significant drop in oil prices in the fourth quarter of 2014 (the second quarter of FY 2015), the Office of Management and Budget requested Moody's Analytics to update the Rhode Island economic forecast based on Moody's Analytics' revised forecast for oil prices. This forecast was provided by Moody's Analytics in February 2015. Moody's Analytics forecast for oil prices at the November 2014 Revenue Estimating Conference showed the per barrel price for West Texas Intermediate crude oil rising from \$97.40 in the fourth quarter of 2014 to \$101.30 in the first quarter of 2015 (the third quarter of FY 2015) with continued increases to \$105.50 in the second quarter of 2016 (the fourth quarter of FY 2016) and to \$121.60 in the second quarter of 2020. Not surprisingly, Moody's Analytics' February 2015 forecast for oil prices showed a significant revision from its November 2014 oil price forecast. Specifically, Moody's oil price for the fourth quarter of 2014 was \$72.90 per barrel falling to \$50.00 per barrel in the first quarter of 2015 before steadily increasing to \$81.30 per barrel in the second quarter of 2016 and to \$90.80 per barrel in the second quarter of 2020.

With respect to the rest of the forecast, Moody's Analytics February 2015 update gave more of a mixed signal than anything in regards to Rhode Island's overall economic performance relative to

The Economy

what was expected in the forecast prepared for the November 2014 Revenue Estimating Conference. The February 2015 forecast showed a slight improvement in Rhode Island nonfarm employment growth for FY 2015. For FY 2016, nonfarm employment growth dropped 0.3 percentage points below the November 2014 forecast. For FY 2017 and FY 2018, nonfarm employment growth is expected to be 0.1 percentage points higher and 0.2 percentage points higher respectively than in the November 2014 forecast. For Rhode Island personal income, FY 2015 growth is 0.1 percentage points below the November 2014 forecast while FY 2016 personal income growth is 0.8 percentage points below the November 2014 forecast. For the FY 2017 through FY 2020 period personal income growth was revised upward for each year with upward revision of 0.3 percentage points for FY 2017 and 0.8 percentage points for FY 2018. Rhode Island wage and salary growth showed a much sharper downward revision for FY 2015 of 1.2 percentage points followed by a less significant decline of 0.6 percentage points for FY 2016. Rhode Island wage and salary growth, as was the case with personal income growth, was revised upward for each year in the FY 2017 through FY 2020 forecast horizon. Finally, the Rhode Island unemployment rate was revised downward by 0.3 percentage points for each year for the period FY 2015 through FY 2020.

General Revenues

Introduction

The Governor's recommended budget is based on estimated general revenues of \$3.510 billion in FY 2015 and \$3.597 billion in FY 2016. Annual estimated growth during FY 2015 and FY 2016 is 2.3 percent and 2.5 percent, respectively. Estimated deposits of \$107.8 million and \$108.0 million will be made to the Budget Reserve and Cash Stabilization Fund during these fiscal years. The contributions to the Budget Reserve and Cash Stabilization Fund are financed by limiting annual appropriations to 97.0 percent of estimated revenues in FY 2015 and FY 2016. The revenue estimates contained in the Governor's FY 2015 supplemental and FY 2016 recommended budgets are predicated upon the revenue estimates adopted at the November 2014 Consensus Revenue Estimating Conference (REC) and the Governor's recommended changes to the adopted general revenues.

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

FY 2015 Revised Revenues

The principals of the November 2014 Revenue Estimating Conference adopted revenue estimates that were \$15.8 million greater than the enacted FY 2015 revenue estimates, an increase of 0.5 percent. As shown in the *Changes to FY 2015 Enacted Revenue Estimates* table in Appendix A of this document, the Governor's revised FY 2015 Budget recommends an increase of \$901,649 in revenues.

The recommended change to the FY 2015 adopted estimates is attributable to a transfer of the Urban Institute Work Support Strategies grant of \$364,341 from general revenues to restricted receipts. This transfer is offset in part by the Governor's proposal to deposit \$1.3 million in energy rebates from National Grid as general revenues.

FY 2015 Revised Revenues vs. FY 2014 Final Audited

Recommended revenues for FY 2015 are based upon a \$79.5 million increase in total general revenues over FY 2014 final audited revenues, or growth of 2.3 percent. Much of this increase can be found in personal income taxes, sales and use taxes, the lottery transfer, insurance companies gross premiums taxes, the health care provider assessment, public utilities gross earnings taxes and other miscellaneous revenues. The increases are partially offset by a projected decrease in estate and transfer taxes, departmental receipts, motor vehicle operator license and registration fees, business corporations taxes, cigarette excise taxes, the unclaimed property transfer and financial institutions taxes.

Personal income tax revenues continue to be the single largest source of state general revenues in FY 2015 at 33.3 percent. FY 2015 personal income tax revenues are estimated to grow at an

General Revenues

annual rate of 4.7 percent or \$52.2 million over FY 2014 final audited personal income tax revenues. Much of this increase, 80.8 percent to be exact, is due to projected increased withholding income tax payments of \$42.2 million and increased estimated tax payments of \$7.7 million. Additionally, final tax payments are expected to increase by \$4.9 million while refunds and adjustments are estimated to be \$3.7 million more than in FY 2014.

FY 2015 revised general business tax revenues are projected to increase by \$12.5 million or 3.3 percent. The change is made up of a combined \$13.5 million increase in insurance companies gross premiums taxes and public utilities gross earnings taxes with an offsetting \$2.0 million total decrease in business corporations taxes and financial institutions taxes. The remaining difference is due primarily to an increase in the health care provider assessment of \$1.1 million while bank deposits taxes are left virtually unchanged from FY 2014 final audited revenues. The largest single changes in FY 2015 general business taxes occur in insurance companies gross premiums taxes with an \$11.2 million increase from FY 2014 final audited revenues and public utilities gross earnings taxes with a \$2.2 million increase from FY 2014 final audited revenues.

FY 2015 revised sales and use tax revenues are projected to increase by \$39.0 million or 4.3 percent, over final FY 2014 audited revenues. Sales and use taxes represent 27.2 percent of total general revenues in FY 2015 and are projected to be \$955.0 million.

Excise taxes other than the sales and use tax are expected to decrease by \$4.5 million or -2.1 percent in FY 2015 over final audited FY 2014 revenues due to a projected decrease in motor vehicle operator license and registration fees of \$2.5 million and a decrease in cigarette and other tobacco product taxes of \$2.7 million. Partially offsetting this decrease are alcohol excise taxes which are projected to increase by \$747,550 in FY 2015 over final audited FY 2014 revenues. Motor carrier fuel use tax revenues are estimated to decrease by \$23,920 in FY 2015 when compared to FY 2014 final audited revenues.

Other taxes are projected to decrease by \$15.8 million, or -30.0 percent in FY 2015 relative to final FY 2014 audited revenues. Of the total decrease in other taxes, estate and transfer taxes are expected to decrease by \$16.6 million or -38.1 percent. The significant decline in the projected amount in FY 2015 for estate and transfer taxes is the result of a change in the estate and transfer tax effective January 1, 2015 from a threshold system to a credit system while also eliminating the estate and transfer tax cliff. FY 2015 realty transfer taxes are anticipated to increase by \$838,184 while FY 2015 racing and athletics tax revenues are projected to decrease slightly. Racing and athletics taxes are expected to total \$1.1 million in FY 2015 a decrease of 6.5 percent from FY 2014 final audited revenues. Realty transfer taxes are expected to total \$8.8 million in FY 2015, an increase of 10.5 percent from final FY 2014 audited revenues.

In the Governor's FY 2015 revised budget, departmental receipts are projected at \$348.9 million, a decrease of \$11.7 million from final audited FY 2014 revenues, a 3.3 percent decrease. The revised FY 2015 departmental receipt revenues is \$364,341 below the FY 2015 revenue estimate adopted at the November 2014 Revenue Estimating Conference. The decrease is reflective of the Governor's proposal to transfer the Urban Institute Work Support Strategies grant from general revenues to restricted receipts in the FY 2015 revised budget.

General Revenues

For FY 2015, total other sources general revenues are projected to increase by \$6.7 million, or 1.7 percent from final FY 2014 audited other sources general revenues. Total other sources general revenues is comprised of other miscellaneous revenues, the lottery transfer and the transfer of proceeds from the unclaimed property program administered by the Office of the General Treasurer.

Other miscellaneous revenues are projected to increase by \$2.7 million, or 41.8 percent from final audited FY 2014 other miscellaneous revenues. The revised FY 2015 other miscellaneous revenues estimate is \$1.3 million above the adopted FY 2015 estimate as a result of the Governor's proposal to deposit energy rebates received from National Grid as general revenues in the FY 2015 revised budget.

In addition to the above general revenue components, an increase is expected in FY 2015 for the lottery transfer of \$7.0 million, or 1.9 percent from the final audited FY 2014 lottery transfer. The projected increase in the lottery transfer in FY 2015 is due to the results of the November 2014 Revenue Estimating Conference which increased the estimated transfer amount from video lottery terminals (VLTs) by \$8.4 million and from table games by \$192,113 from final FY 2014 final audited revenues. Traditional lottery and monitor games are projected to decrease by \$1.6 million from final FY 2014 audited revenues.

The unclaimed property transfer to the general fund is forecasted to decrease by \$1.7 million in FY 2015 or -13.6 percent from final FY 2014 audited revenues.

FY 2016 Proposed Revenues

Total General Revenue

The Governor's recommended FY 2016 budget estimates general revenues of \$3.597 billion, an increase of 2.5 percent from the revised FY 2015 level. The Governor's recommendation is comprised of \$3.380 billion of revenue estimated at the November 2014 Revenue Estimating Conference (REC) and \$216.9 million of recommended changes to the adopted estimates. These changes are shown in the schedule *Changes to FY 2015 Adopted Revenue Estimates* located in Appendix A of this document.

Personal Income Tax

The largest source of FY 2016 general revenues is the personal income tax. The Governor recommends personal income tax revenues of \$1.211 billion in FY 2016, \$5.9 million less than the estimate adopted at the November 2014 REC and growth of 3.7 percent from the revised FY 2015 budgeted amount. The Governor recommends the following changes to the November 2014 REC adopted estimate for FY 2016 personal income tax revenues:

- Exempt taxable Social Security benefits for federal Adjusted Gross Income (AGI) of \$50,000 or less for single, head of household and married separate filers and \$60,000 or less for married joint and qualifying widow(er) filers. This proposal is estimated to reduce the final payments component of personal income tax by \$3.9 million in FY 2016.
- Increase the allowable percentage of the federal earned income tax credit from 10.0 percent to 12.5 percent for TY 2016 with a further increase to 15.0 percent for TY 2017

General Revenues

and thereafter. This proposal is estimated to increase the refunds and adjustments component of personal income tax by \$3.0 million in FY 2016.

- The Governor recommends adding additional analytical support to the Department of Revenue's Division of Taxation in order to enhance taxpayer compliance rates. The proposal will allow the Division of Taxation to use contingent fee contracts to implement new compliance programs. It is expected that this initiative will increase the final payments component of personal income tax by \$962,500 in FY 2016.

General Business Taxes

General Business taxes are recommended to comprise 11.2 percent of total general revenue collections in the FY 2016 Budget. Business corporations tax revenues are expected to yield \$119.5 million, an increase of \$356,347 from the FY 2016 estimate adopted at the November 2014 REC. This increase is attributable to the following initiative:

- The Governor recommends eliminating the enterprise zone wage tax credit in favor of using other targeted economic development initiatives that will be more effective. The proposal is estimated to augment business corporations tax revenues by \$356,347 in FY 2016.

Insurance companies gross premiums taxes are projected to reach \$115.1 million in FY 2016, a decrease of \$871,584 from the FY 2016 estimate adopted at the November 2014 REC. This decrease is due to the Governor recommending the following initiative:

- The Governor recommends an initiative that will reduce insurance companies gross premiums tax revenue by \$871,584 in FY 2016 as a result of decreased Medicaid expenditures.

The recommended FY 2016 health care provider assessment on nursing homes is forecasted to yield \$43.3 million, a decrease of \$1.0 million from the FY 2016 estimate adopted at the November 2014 REC. The decrease reflects the Governor's initiative to do the following:

- The Governor recommends reducing Medicaid expenditures which translates into lower revenues for the health care provider assessment on nursing homes by \$1.0 million.

The Governor's FY 2016 recommended revenues for the public utilities gross earnings tax, the financial institutions tax, and the bank deposits tax remain at the same level as adopted at the November 2014 REC.

Sales and Use Tax

Sales and use tax revenues are expected to yield \$1.003 billion in the Governor's recommended FY 2016 budget, \$3.4 million more than was adopted at the November 2014 REC for FY 2016. The increase is reflective of the Governor recommending the following initiatives:

- The Governor recommends phasing out the sales tax on electricity, natural gas and heating fuels that is imposed upon commercial users unless such energy is used in the manufacturing process. The phase out of the sales tax on electricity, natural gas and heating fuels is over a five year period with 20.0 percent of the sale of these items being exempt from the sales and use tax in FY 2016. This initiative is estimated to lower sales and use tax revenues by \$4.9 million in FY 2016.

General Revenues

- The Governor recommends expanding the sales and use tax and the local 1.0 percent hotel tax to the private rental of vacation homes and to bed and breakfast inns with less than three rooms to rent. It is anticipated that this initiative will augment sales and use tax revenues by \$5.4 million in FY 2016.
- The Governor recommends requiring on-line resellers of lodging accommodations to pay all state lodging taxes on the final retail price paid by the purchaser of the lodging accommodations. It is estimated that this proposal will generate \$820,662 in sales and use tax revenue in FY 2016.
- The Governor recommends requiring providers of unlicensed rentals of lodging accommodations, such as Airbnb, to be subject to all state lodging taxes. This proposal is anticipated to enhance sales and use tax revenues by \$851,512 in FY 2016.
- The Governor recommends increasing the cigarette excise tax from \$3.50 per pack to \$3.75 per pack. As a result of this tax increase, the final retail price of cigarettes will increase and result in an estimated increase in sales and use tax revenues of \$656,737 in FY 2016.
- The Governor recommends allowing the Department of Revenue's Division of Taxation to enter into an agreement with businesses to perform self-audits of sales and use tax liability. It is expected that this proposal will increase sales and use tax revenues by \$500,000 in FY 2016.

Excise Taxes Other than Sales and Use Taxes

The Governor recommends FY 2016 excise taxes other than sales and use taxes totaling \$204.4 million or \$17.1 million more than was adopted at the November 2014 REC for FY 2016. The Governor recommends motor vehicle operator license and vehicle registration fees totaling \$50.2 million in FY 2016, or \$10.6 million more than was adopted at the November 2014 REC for FY 2016. The increase is comprised of two separate initiatives detailed below:

- The Governor recommends a one year delay of the plate reissuance program conducted through the Department of Revenue's Division of Motor Vehicles to September 2016. It is estimated that this proposal will reduce motor vehicle operator license and vehicle registration fees by \$2.6 million in FY 2016.
- The Governor recommends that the transfer of 25.0 percent of total motor vehicle operator license and vehicle registration fees in FY 2016 to the Rhode Island Highway Maintenance Account be postponed. It is estimated that retaining the 25.0 percent of motor vehicle operator license and vehicle registration fees as general revenue will increase motor vehicle operator license and vehicle registration fees by \$13.2 million in FY 2016.

The Governor recommends cigarettes excise taxes in FY 2016 in the amount of \$140.7 million or \$6.5 million more than the adopted estimate of \$134.2 million at the November 2014 REC for FY 2016. The Governor recommends one initiative that will increase cigarette excise tax revenues as described below:

- The Governor recommends raising the cigarette excise tax to \$3.75 per pack starting in FY 2016. It is estimated that this initiative will enhance cigarette excise tax revenues by \$6.5 million. The \$6.5 million increase is comprised of \$5.9 million in increased

General Revenues

cigarette excise tax revenues and \$621,555 from the cigarette floor stock which is triggered when there is an increase in the cigarette excise tax rate.

The Governor's FY 2016 recommended revenues for the motor carrier fuel use tax and alcohol excise tax remain at the same level as adopted at the November 2014 REC.

Other Taxes

The Governor recommends FY 2016 other taxes revenues totaling \$42.1 million or \$12.5 million more than was adopted at the November 2014 REC for FY 2016. Other taxes consist of the estate and transfer tax, racing and athletics tax, realty transfer tax and the proposed state property tax. It should be noted that the estimates for other taxes adopted at the November 2014 REC do not include any revenue from the proposed statewide property tax detailed below. The Governor puts forth the following initiatives that will have a revenue impact for other taxes:

- The Governor recommends closing the loophole under current law that enables the seller in a real estate transaction to avoid the real estate conveyance tax by selling a controlling interest in a business entity that holds real property without actually transferring the real property to the new owner. It is estimated that closing this loophole will increase realty transfer tax revenues by \$695,970 in FY 2016.
- The Governor recommends the establishment of a statewide property tax on non-owner occupied residences and vacant residential land valued at greater than \$1.0 million. The proposed tax rate is \$2.50 per \$1,000 of total assessed value. This proposal is estimated to increase other taxes revenues by \$11.8 million in FY 2016.

The Governor's FY 2016 recommended revenues for estate and transfer tax revenues remain at the same level as adopted at the November 2014 REC.

Departmental Receipts

The Governor's FY 2016 recommended departmental receipts revenues are expected to generate \$2.1 million more than the revised FY 2015 estimate. The proposed FY 2016 departmental receipts revenue estimate is \$151.7 million above the FY 2016 departmental receipt estimate adopted at the November 2014 REC. Inclusive of the Governor's proposed changes to departmental receipts revenues, total departmental receipts revenues are expected to total \$351.0 million in FY 2016, or 9.8 percent of recommended FY 2016 total general revenues. The Governor's FY 2016 recommended total for departmental receipts revenues is made up of the following proposals:

Licenses and Fees

- The Governor recommends reinstating the hospital licensing fee at 5.703 percent on FY 2013 net patient revenues to increase FY 2016 licenses and fees revenues by \$156.1 million.
- The Governor recommends phasing out the 2.0 percent imaging services and outpatient health care facility surcharges over the next four fiscal years. For FY 2016 these surcharges would equal 1.5 percent of net patient revenues. It is anticipated that the licenses and fees component of departmental receipts revenues will decline by \$574,399 in FY 2016 as a result.

General Revenues

- The Governor recommends eliminating select occupational licensing fees. This proposal is expected to reduce the licenses and fees component of departmental receipts revenues by \$365,906 in FY 2016. The table below displays the occupational licensing fees that are being proposed for elimination in the Governor's FY 2016 recommended budget.

<u>Agency</u>	<u>Occupation</u>	<u>FY 2016 Revenue Impact</u>
Business Regulation	Auctioneer	\$(70,000)
Business Regulation	Line Cleaner	\$(1,000)
Education	Athletic Coach	\$(35,000)
Education	General Subject Matter Substitute	\$(65,000)
Education	Nurse Teacher Substitute	\$(3,000)
Environmental Management	Fur Buyer	\$(300)
Environmental Management	Life Guard	\$(9,000)
Health	Athletic Trainer	-
Health	Audiologist Support Person	\$(50)
Health	Barber Apprentice	\$(1,700)
Health	Barber Instructor	\$(188)
Health	Electrologist Apprentice	\$(800)
Health	Electrologist Instructor	\$(25)
Health	Esthetician Instructor	\$(288)
Health	Hairdresser/Cosmetologist Instructor	\$(4,125)
Health	Manicurist Instructor	\$(150)
Health	Clinical Histologic Technician	\$(5,160)
Health	Clinical Laboratory Scientist	\$(64,200)
Health	Clinical Lab Tech	\$(13,080)
Health	Cytotech	\$(4,275)
Health	Music Therapist	-
Health	Occupational Therapy Assistant	\$(67,620)
Health	Orthotics	\$(2,640)
Health	PT Assistant	\$(15,950)
Health	Prosthetics	\$(2,280)

General Revenues

<u>Agency</u>	<u>Occupation</u>	<u>FY 2016 Revenue Impact</u>
Health	Radiologist Assistant	-
Health	Sanitarian	\$(75)
Total Revenue Impact		\$(365,906)

Fines and Penalties

- The Governor recommends adding additional analytical support to the Department of Revenue's Division of Taxation in order to enhance taxpayer compliance rates. The proposal will enable the Division of Taxation to use contingent fee contracts to implement new compliance programs. It is expected that this initiative will generate \$787,500 in additional fines and penalties revenue within departmental receipts for FY 2016.

Miscellaneous Departmental Receipts

- The Governor recommends transferring the state's share of the 5.0 percent state hotel tax and the state's receipt of the Statewide tourism district's share of the 5.0 percent state hotel tax to the Rhode Island Commerce Corporation to be used specifically for state level tourism promotion and marketing. It is anticipated that this initiative will reduce the miscellaneous departmental receipts component of departmental receipts by \$3.8 million in FY 2016.
- The Governor recommends the transfer of the Urban Institute Work Support Strategies grant from general revenues to restricted receipts. This transfer will lower the miscellaneous departmental receipts component of departmental receipts by \$408,000 in FY 2016.

Other Sources

The FY 2016 recommended revenues for the other sources component of total general revenues totals \$383.7 million, a decrease of \$19.7 million, or -4.9 percent, compared to the revised revenue estimate for FY 2015. The FY 2016 recommended revenues for other general revenue sources are \$39.7 million above the estimate of \$344.0 million adopted at the November 2014 REC for FY 2016. Other sources of general revenue are comprised of the lottery transfer, other miscellaneous revenues and the unclaimed property transfer. The Governor's proposed changes contained in the FY 2016 recommended budget impacting the other miscellaneous revenues component within other sources of revenue are listed below:

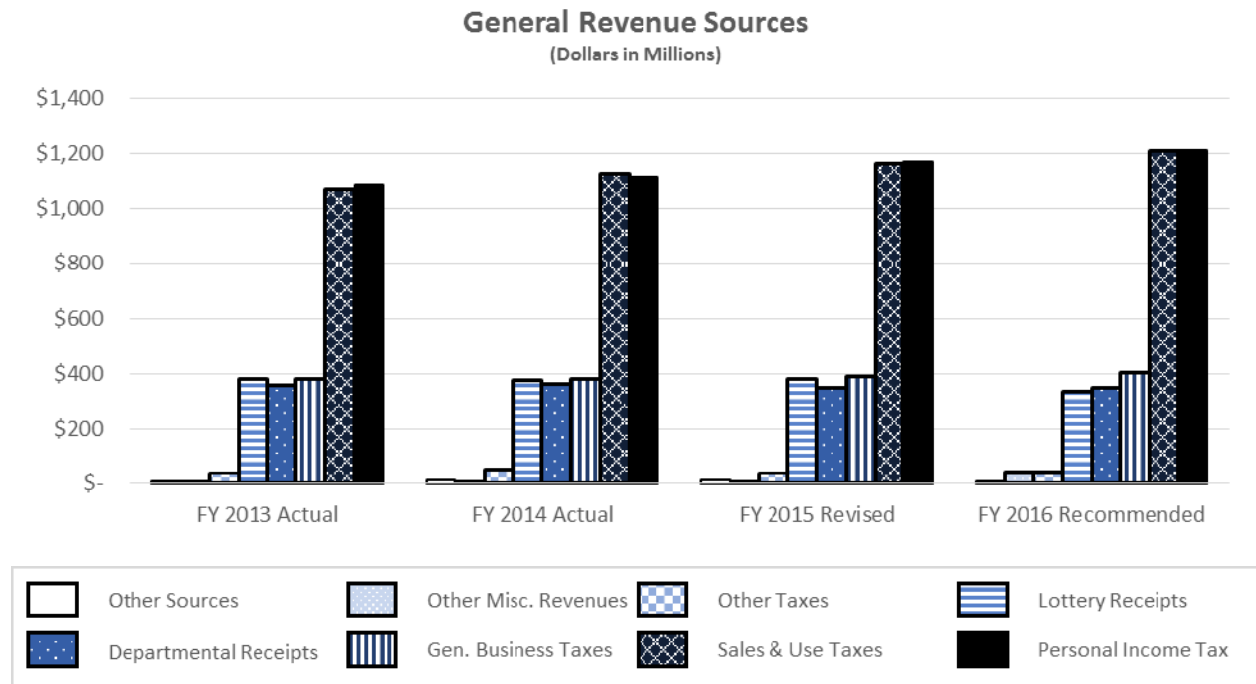
- The Governor recommends transferring \$19.0 million in proceeds from the restructuring of the state's tobacco bond debt by the Tobacco Settlement Financing Corporation.
- The Governor recommends transferring \$11.0 million in reserves from the Rhode Island Clean Water Finance Agency to offset debt service on general obligation bonds issued by the state on the agency's behalf.
- The Governor recommends transferring \$5.0 million in excess reserves from the Rhode Island Health and Educational Building Corporation.

General Revenues

- The Governor recommends transferring \$2.8 million in reserves from the Narragansett Bay Commission to offset debt service on general obligation bonds issued by the state on the commission’s behalf.
- The Governor recommends transferring \$1.5 million in reserves from the Rhode Island Resource Recovery Corporation while simultaneously providing the Corporation authorization to increase tipping fees.
- The Governor recommends accelerating the transfer of \$430,000 of debt service scheduled to be paid by the Rhode Island Airport Corporation over the FY 2016 to FY 2023 period into the FY 2016 budget.

The Governor’s FY 2016 recommended revenues for the lottery transfer and the unclaimed property transfer remain at the same level as adopted at the November 2014 REC.

The chart below shows the sources of general revenues for the period FY 2013 – FY 2016. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.



Restricted Receipts and Pass Through Revenues

Introduction

The Governor's recommended budget proposes changes to revenue sources other than general revenues for FY 2015 and FY 2016. The revenue estimates in the Governor's FY 2015 revised budget contains an increase of \$364,341 in non-general revenue adjustments. The revenue estimates in the Governor's FY 2016 recommended budget contain an increase of \$5.4 million in non-general revenue adjustments.

FY 2015 Revised Non-General Revenues

The Governor's revised FY 2015 budget proposes to transfer the Urban Institute Work Support Strategies grant of \$364,341 from general revenues to restricted receipts.

FY 2016 Recommended Non-General Revenues

The Governor's FY 2016 recommended budget includes the transfer of the Urban Institute Work Support Strategies grant, of \$408,000 from general revenue to restricted receipts. In addition, the Governor recommends reallocating the state 5.0 percent hotel tax from various tourism districts across Rhode Island to the Rhode Island Commerce Corporation. It is expected that the reallocation of the state hotel tax revenue will provide the Rhode Island Commerce Corporation with \$2.2 million in additional funding to fuel various initiatives. In addition, the Governor recommends the transfer of the state's share of state hotel tax revenues and the Statewide tourism districts share of state hotel tax revenues from general revenues to the Rhode Island Commerce Corporation. The transfer of these state hotel tax revenues are projected to increase funding for the Rhode Island Commerce Corporation by \$3.8 million in FY 2016.

The Governor recommends the imposition of the state hotel tax on the final retail price charged by on-line room resellers. Under current law, room re-sellers only pay the state hotel tax on the wholesale price of rooms made available for resale. This initiative will offset the overall reduction in pass through state hotel tax revenues for those tourism districts that have their shares of the state hotel tax reallocated to the Rhode Island Commerce Corporation. For other recipients of state hotel tax revenues, including the Rhode Island Commerce Corporation, this recommendation will increase state hotel tax revenues received. The total impact of the recommendation is projected to be \$586,186 in FY 2016.

The Governor recommends the imposition of the state hotel tax on unlicensed rentals for lodging accommodations, such as those facilitated by Airbnb, to level the playing field between licensed providers of lodging accommodations and unlicensed providers of the same. This initiative will offset the overall reduction in pass through state hotel tax revenues for those tourism districts that have their shares of the state hotel tax reallocated to the Rhode Island Commerce Corporation. For other recipients of state hotel tax revenues, including the Rhode Island Commerce Corporation, this recommendation will increase state hotel tax revenues received. The total impact of the recommendation is projected to be \$608,222 in FY 2016.

All Sources

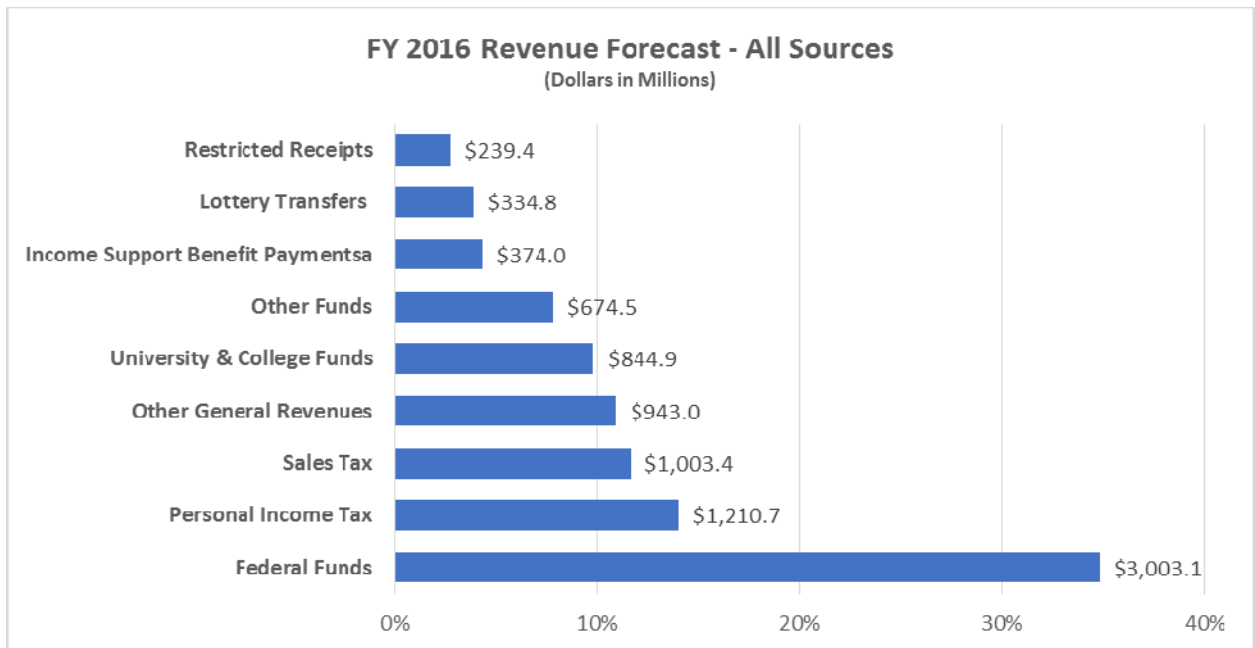
The total budget of \$8,627.6 million includes all sources of funds from which state agencies make expenditures.

Federal funds represent 34.8 percent of all funds. Almost 78.1 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales Taxes combined represent 25.7 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 9.8 percent, and 4.3 percent of the total, respectively.

Remaining sources include: Other General Revenues, 10.9 percent; the Lottery Transfer, 3.9 percent; Restricted Receipts, 2.8 percent; and Other Funds 7.8 percent.



All Expenditures

The Governor's FY 2016 Budget recommendation is \$8.628 billion in all funds comprised of six functional units of state government: Health and Human Services, Education, General Government, Public Safety, Transportation, and Natural Resources.

Approximately 43.5 percent of all expenditures are for Health and Human Services, comprised of agencies that engage in a broad spectrum of activities including income support, client subsidies, client advocacy, case management and residential support, and medical regulation, prevention, treatment, and rehabilitation services. The FY 2016 recommended budget for all health and human service agencies is \$3.751 billion.

Approximately 27.8 percent of all expenditures are for Education, which includes the Department of Elementary and Secondary Education, Public Higher Education, the Rhode Island State Council on the Arts, the Rhode Island Atomic Energy Commission, and the Historical Preservation and Heritage Commission. The FY 2016 recommended budget for education is \$2.399 billion.

Approximately 16.1 percent of all expenditures are for General Government, which includes agencies that provide general administrative services to other state agencies, assist in developing the state's workforce, assist municipalities in achieving fiscal health, and those that perform state licensure and regulatory functions. New in FY 2016 is an Executive Office of Commerce that will coordinate and focus the State's strategy for economic recovery. The FY 2016 recommended budget for all General Government agencies is \$1.394 billion.

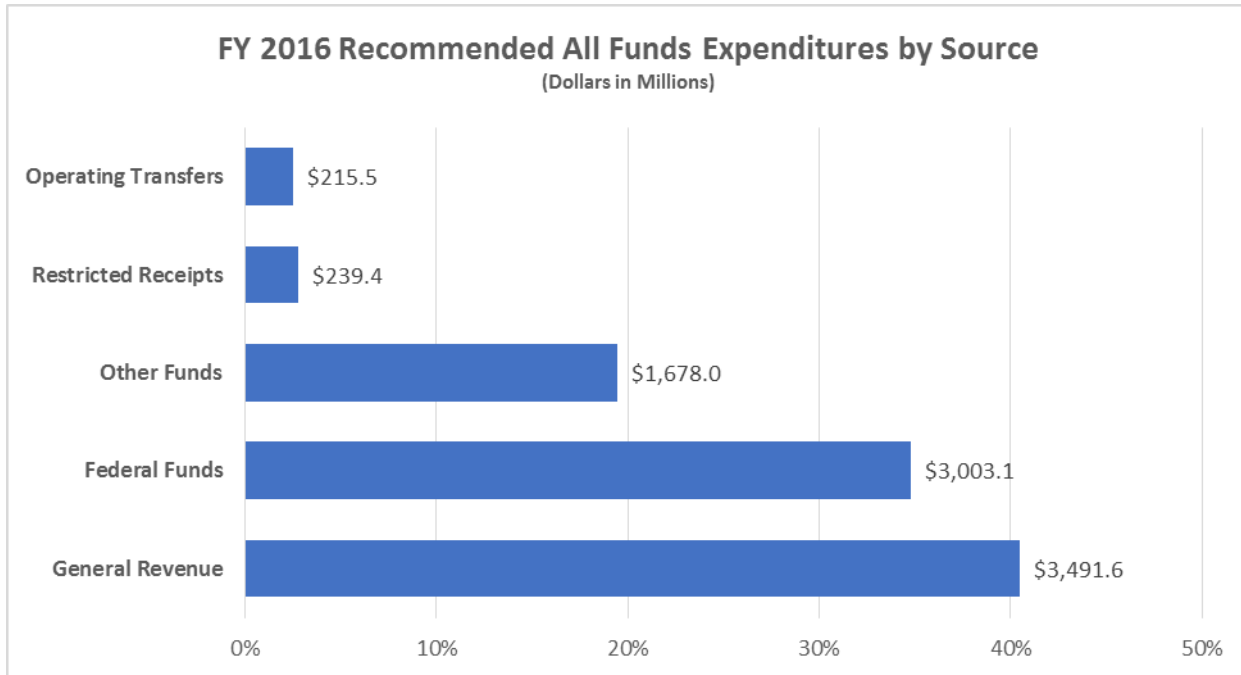
Approximately 6.1 percent of all expenditures are for Public Safety, which is the system that provides law enforcement, adjudicates justice, performs correction and rehabilitative services, and handles emergencies impacting Rhode Island's citizens. The FY 2016 recommended budget for the public safety system is \$525.1 million.

Approximately 5.3 percent of all expenditures are for Transportation, which provides for the state's maintenance and construction of a quality transportation infrastructure. The FY 2016 recommended budget for transportation is \$458.9 million.

Approximately 1.1 percent of all expenditures are for Natural Resources, which includes the Department of Environmental Management and the Coastal Resources Management Council. The FY 2016 recommended budget for natural resources is \$98.8 million.

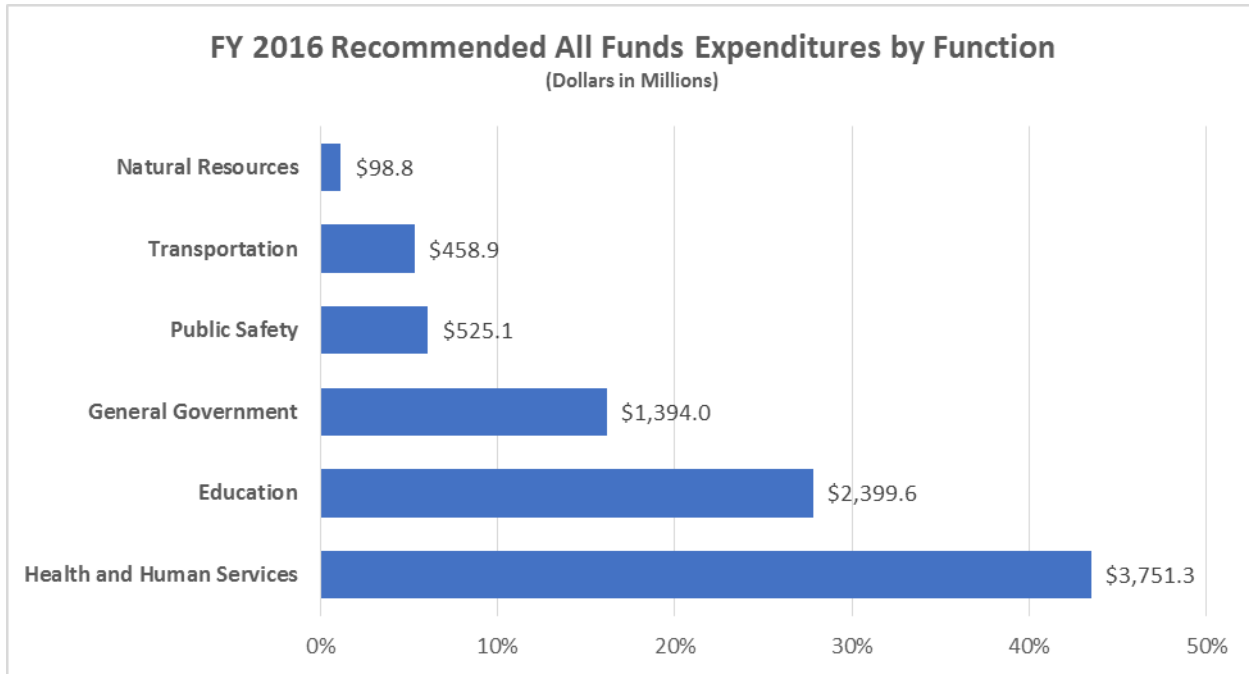
Expenditure Summary

All funds expenditures for FY 2016 are \$8.628 billion. Of this total, \$3.492 billion, or 40.5 percent, is from general revenue, \$3.003 billion, or 34.8 percent, from federal funds, \$1.893 billion, or 21.9 percent, from other sources, and \$239.4 million, or 2.8 percent, is from restricted or dedicated fee funds.



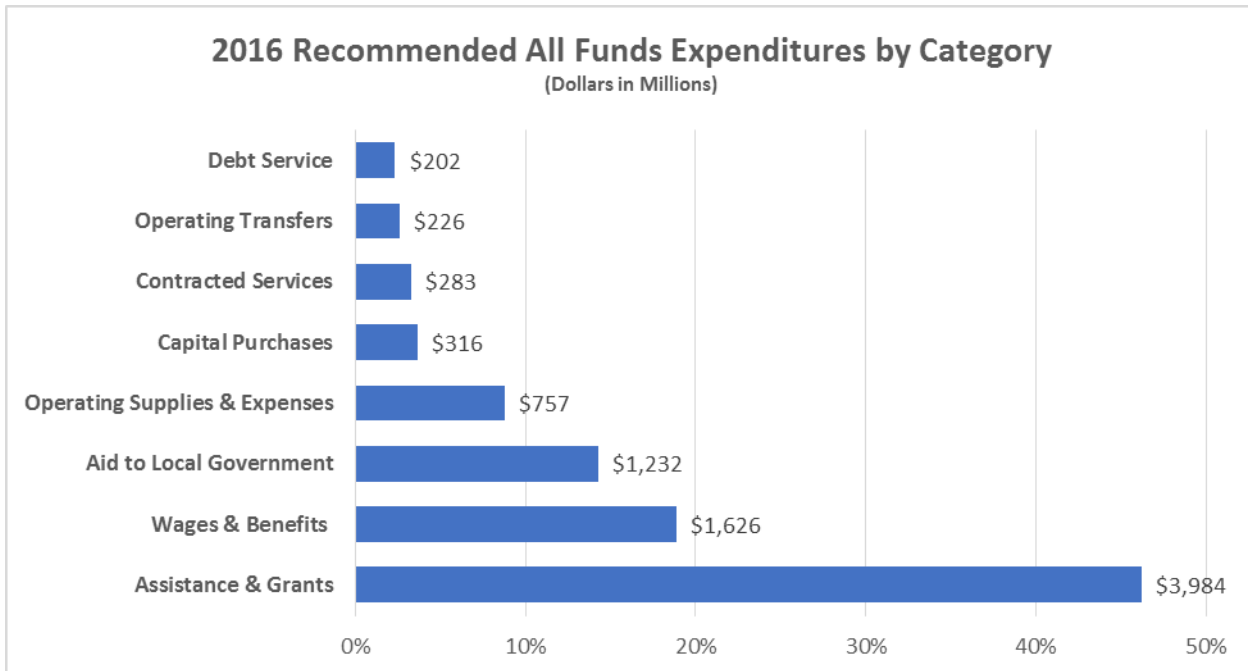
Expenditure Summary

On a functional basis, the largest percentage of expenditures is in the Health and Human Services area, which comprises \$3.571 billion, or 43.5 percent of the total budget. This is followed by spending for Education of \$2.399 billion, which comprises 27.8 percent of all spending, and expenditures for General Government of \$1.394 billion, equaling 16.1 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling \$1.083 billion, or 12.6 percent of the total budget.



Expenditure Summary

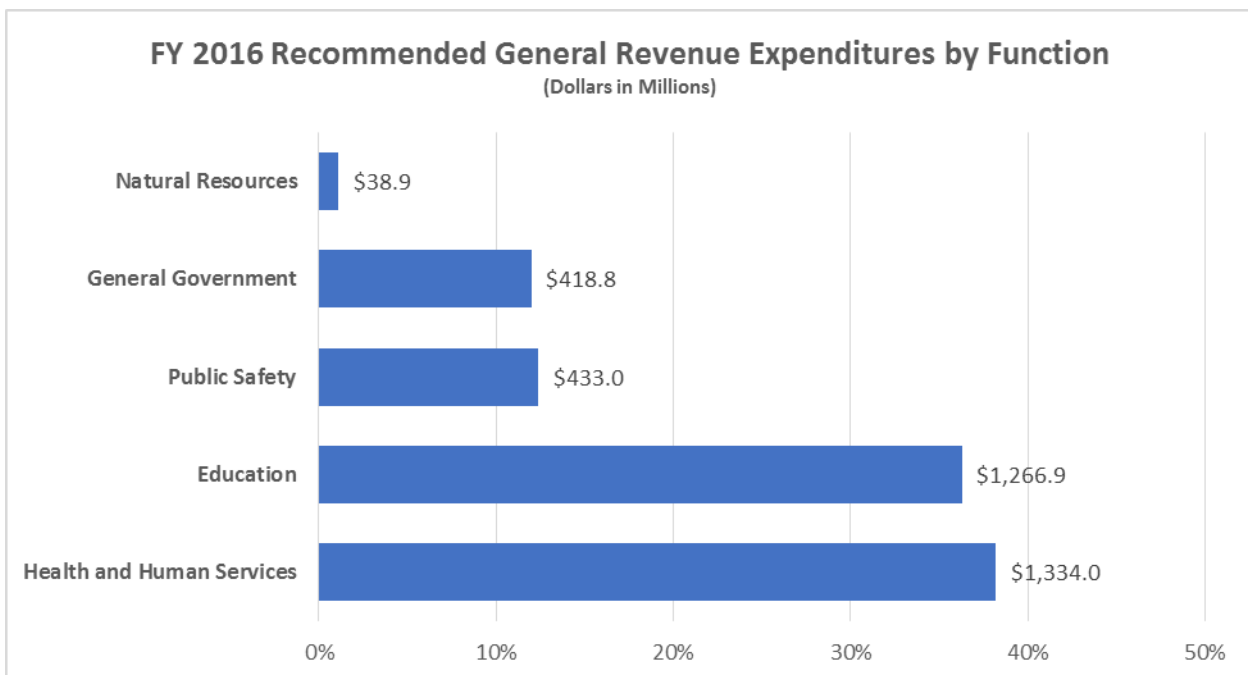
The second way to view expenditures is by major category. On this basis, the largest share of the FY 2016 budget is for assistance, grants and benefits equaling \$3.984 billion or 46.2 percent of the total. This is followed by personnel expenditures, which comprise 22.1 percent, or \$1.909 billion, and local aid expenditures, which make up 14.3 percent, or \$1.232 billion of the total budget. Expenditures for capital purchases and debt service total \$518.3 million or 6.0 percent, with the balance of spending used to finance operating expenditures and operating transfers of \$983.4 million, or 11.4 percent of the total.



Expenditure Summary

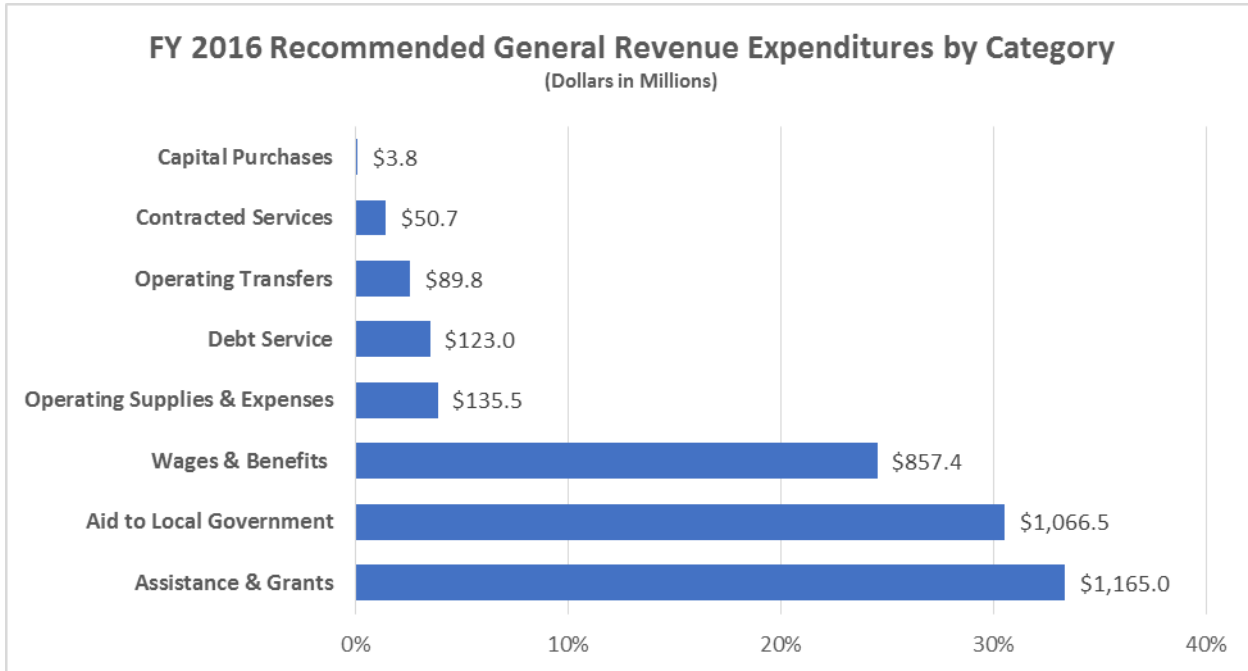
Expenditures from general revenue total \$3.492 billion for FY 2016. By function, spending by Health and Human Service agencies represents the largest share with expenditures, totaling \$1.334 billion, or 38.2 percent of the general revenue budget. This is followed by spending for Education, which totals \$1.267 billion, or 36.3 percent. General revenue expenditures for General Government and Public Safety comprise \$418.8 million (12.0 percent) and \$433.0 million (12.4 percent), respectively. Expenditures for Natural Resources comprise \$38.9 million, or 1.1 percent of total general revenue spending. Transportation expenditures are financed mostly by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel.



Expenditure Summary

The largest components of general revenue expenditures are assistance, grants, and benefit expenditures of \$1.165 billion, comprising 33.4 percent of total general revenue spending. Local Aid expenditures of \$1.066 billion represent 30.5 percent of total spending; personnel expenditures (including contracted services) of \$908.0 million comprise 26.0 percent of the budget; capital expenditures and debt service total \$126.8 million, or 6.3 percent of the total general revenue budget; and, operating expenditures and operating transfers total \$225.4 million, or 6.5 percent of the budget.



Enacted and proposed expenditures for general revenue funds, by category of expenditure are shown in the following table:

General Revenue Funds	FY 2015	2015	Change	FY 2016	Change
Category of Expenditure	Enacted	Revised	from Enacted	Recommended	from Enacted
Personnel (Including Consultants)	\$880.3	\$901.4	\$21.1	\$908.0	\$27.7
Operating Supplies and Expenses	\$129.2	\$136.3	\$7.1	\$135.5	\$6.3
Assistance and Grants	\$1,189.2	\$1,229.5	\$40.3	\$1,165.0	-\$24.2
Capital Purchases and Equipment	\$4.4	\$6.4	\$2.0	\$3.8	-\$0.6
Aid to Local Units of Government	\$1,038.3	\$1,027.7	-\$10.6	\$1,066.4	\$28.1
Debt Service	\$195.3	\$167.7	-\$27.6	\$123.0	-\$72.3
Operating Transfers	\$8.5	\$19.3	\$10.8	\$89.9	\$81.4
Total	\$3,445.2	\$3,488.4	\$43.2	\$3,491.6	\$46.5
<i>(in millions)</i>					

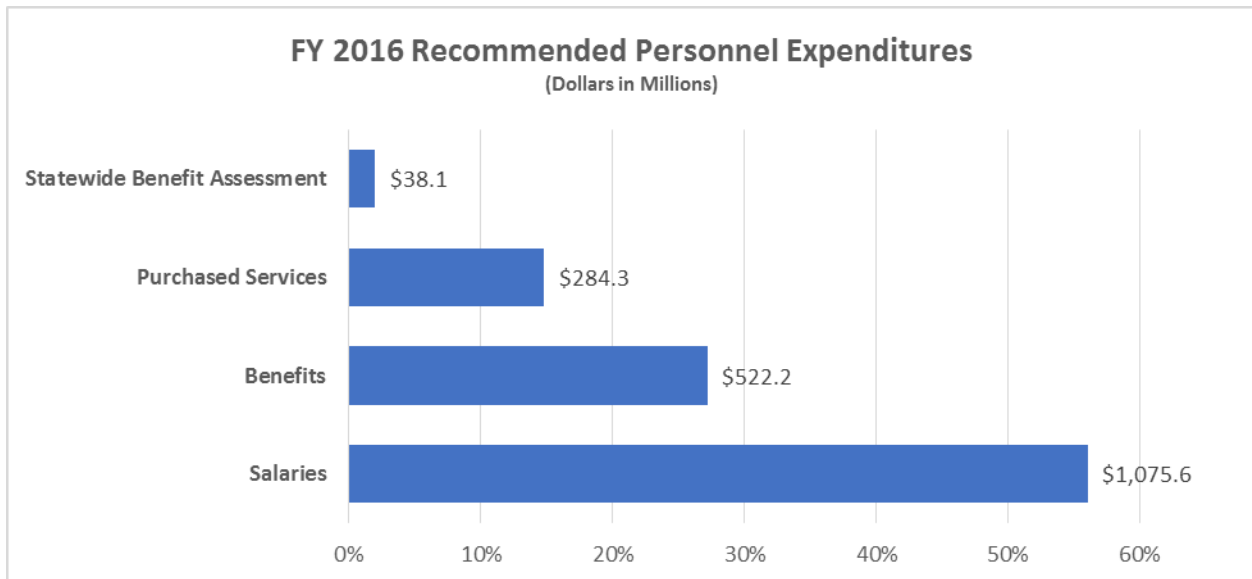
Expenditure Summary

Enacted and proposed expenditures by source of funds are shown in the following table:

	FY 2015	FY 2015	Change	FY 2016	Change
Source of Funds	Enacted	Revised	from Enacted	Recommended	from Enacted
General Revenue	\$3,445.2	\$3,488.4	\$43.2	\$3,491.6	\$46.5
Federal Funds	\$3,086.5	\$3,140.5	\$54.0	\$3,003.1	-\$83.5
Restricted Receipts	\$283.1	\$278.2	-\$4.8	\$239.4	-\$43.7
Operating Transfers	\$174.6	\$174.6	\$0.0	\$226.0	\$51.5
Other Funds	\$1,791.0	\$1,757.8	-\$33.1	\$1,667.5	-\$123.5
Total	\$8,780.3	\$8,839.5	\$59.2	\$8,627.6	-\$152.7
<i>(in millions)</i>					

Personnel Summary

The Governor’s FY 2016 recommended Budget finances personnel at \$1.9 billion. This includes \$1.6 billion for salary and benefits (85.2 percent) and \$284.3 million for purchased services (14.8 percent). This total includes expenditures financed from general revenue, federal grants, restricted receipts, other funds, and internal service funds. General revenue finances 47.3 percent of FY 2016 personnel expenditures. Federal funds finance 23.9 percent, Other Funds (primarily college tuition funds) and Internal Service Funds finance 23.2 percent, and restricted receipts finance the remaining 5.6 percent. The personnel supplements provided in the budget volumes contain all expenditures for personnel, including those of the internal service funds, as noted above. Since internal service fund positions are financed through charges to state agencies categorized as operating expenses, totals shown will differ in some cases from personnel costs shown in complementary documents of the FY 2016 Budget. After adjusting to reflect internal service fund personnel expenditures in the personnel category rather than as an operating expense, personnel expenditures constitute approximately 22.1 percent of the state budget, the second largest category of spending (after assistance, grants and benefits).



Personnel expenditures recommended for FY 2016 decrease by \$33.9 million from the FY 2015 revised Budget, but increase by \$47.1 million (2.6 percent) from the FY 2015 enacted Budget. From the enacted Budget, direct salaries increase by 2.5 percent, overtime increases by 9.7 percent, fringe benefits increase by 2.9 percent overall, with retiree health decreasing by 6.1 percent and retirement increasing by 4.3 percent. Medical benefits (including the medical waiver bonus) increase by 3.3 percent.

Rhode Island state government experienced significant attrition from retirements in FY 2009. Between May 1, 2008 and October 1, 2008, 1,396 state employees, who were members of the Employees’ Retirement System of Rhode Island, retired. Overall, authorized state employee full time equivalent positions declined from the FY 2008 final enacted level of 15,688.7 to 14,935.0 in the FY 2012 budget, a reduction of 753.7 positions. The FY 2013 final enacted budget reversed this trend, with the addition of 141.4 FTE positions (for an FTE position level of 15,076.4) primarily in Health and Human Service agencies to meet program needs in Health, Children Youth and Families, Behavioral Healthcare, and the Office of Health and Human Services. In the FY 2014 final enacted budget, the FTE level of 15,100.3 reflected further increases in Human Service and Public Safety agencies. In the FY 2015 revised Budget, however, the Governor recommends a FTE position authorization of 15,101.7, an increase of 15 7TE

Personnel Summary

positions from the FY 2015 enacted Budget. In the FY 2016 Budget, the Governor recommends a further increase of 18.7 FTE positions from the FY 2015 revised Budget, to a total of 15,120.4 FTE positions.

Current Retiree Health Benefit Structure

In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, eligibility requirements and co-share percentages for retiree health were modified in the 2008 session of the General Assembly. The new plan provided that employees retiring after October 1, 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. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree health. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service in order to be eligible for retirement and therefore also eligible for retiree health. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

Funding of Retiree Health Unfunded Liability

The Governor's recommended budget includes previously added provisions requiring that the State finance retiree health benefits on an actuarial basis and amortize the unfunded liability over a thirty year period. This financing mechanism will provide transparency with respect to the true cost of the benefit offered to state employees after employment. In compliance with GASB Statements 43 and 45, "Other Post-Employment Benefits (OPEB)," in July 2007, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. Pursuant to GASB Statement 45, "Other Post Employment Benefits" the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits for the period ending June 30, 2009. The unfunded liability as of June 30, 2009 was determined to be approximately \$774.7 million, including \$673.6 million for State employees, \$67.1 million for State Police, \$11.8 million for Legislators, and \$8.7 million for Judges, and \$13.5 million for the State's share for teachers. This was calculated using an investment rate of return of 5.0 percent and assumes that future financing will be on an actuarial basis. The annual required contribution as a percentage of payroll in FY 2014 is budgeted at 7.07 percent, 39.0 percent, 0.0 percent and 0.12 percent (no rate for teachers), respectively. Prior to FY 2011, the State had not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted that would require the State to finance on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities. During the 2009 Session of the General Assembly, this actuarial financing requirement was delayed until FY 2011.

Beginning with the first pay period of FY 2011, the state began providing the resources necessary to the OPEB trust fund to finance retiree health benefit costs on an actuarial basis, which will be used to pay current benefits and hold assets for investment.

Actuarial valuations for the Retiree Health Fund are performed every two years and the rates determined by the valuation are used for the two fiscal years following their adoption. A valuation was completed in May 2012 for the fiscal year ending June 30, 2011 and the rates from this valuation would be used for fiscal years 2014 and 2015. Retiree health is calculated on salaries of different categories of employees, including state

Personnel Summary

employees, State Police, and judges. Due to full funding of their respective fund, no assessment is required for Legislators. The enacted FY 2014 rates reflect enactment of a proposal recommended in the Governor's FY 2014 Budget to implement a Medicare Exchange for post-65 retirees, where retirees choose between multiple Medicare supplemental plans from different insurers. Under this program, the State set up Health Reimbursement Accounts (HRAs) for retirees in the state-sponsored health plans and deposit money each month into the account. The amount would be determined by the current level of subsidy the State provides, i.e. a 100 percent subsidized retiree would receive 100 percent of the maximum HRA amount, and an 80 percent subsidized retiree would receive 80 percent of the maximum HRA amount. Approximately 5,300 post-65 retirees currently receive subsidies and an additional 2,700 non-subsidized members are on the plan (spouses and public school teachers). As a result of this proposal, an updated actuarial analysis was performed by the fund's actuary, which resulted in a revised retiree health rate in FY 2014 of 7.07 percent for state employees (from the previous level of 7.38 percent), dropping further to 6.75 percent for FY 2015.

For FY 2016, the governor's budget recommendation recognizes a decrease in the rates for retiree health insurance for state employees from the FY 2015 enacted rate of 6.75% to 6.00% in FY 2016 per the actuarial report issued by Gabriel, Roeder and Smith (a decrease of 11.11%). There are also changes for Judges (decrease from 0.12% to 0.00%), for legislators (increase from 0.00% to 1.53%) and for State Police (decrease from 39.00% to 33.40%). The statewide general revenue savings resulting from these changes totals \$4,039,403. The actuarial valuation dated July 1, 2014, reported the results of a June 30, 2013 actuarial study which measured the retirement health system's funding progress, in order to determine the employer contribution rate for the fiscal years ending June 30, 2016 and June 30, 2017. The study showed improving plan experience resulting in actuarial gains, thus lowering the state's contribution rates overall. For FY 2016, the actuarial analysis made certain assumptions for investment return, wage inflation, long term health care trends, and the impact of the Medicare Exchange implementation for post-65 retirees effective in FY 2015. The study showed that for State Employees, Judges and the State Police, improving amortization of the unfunded actuarial accrued liability existed for each group, while Legislatures saw a slight extension of amortization period, thus resulting in a small increase for this group, even when considering an accumulated surplus in this fund.

Statewide Cost of Living Adjustment

The State recently entered into contracts with most state employee unions that provide for cost of living adjustments (COLA) of 2.0% on April 6, 2014; 2% on October 5, 2014 and 2% on October 4, 2015. This translates into an effective increase in salary and associated benefit costs in FY 2016 of 5.587% compared to the enacted FY 2015 budget, which did not include funding for either the April 2014 or October 2014 COLA. This assumes all union and non-union staff receive the same COLA under the same schedule. As of this writing, the State Police Trooper and RIBCO unions have not settled their contracts, and nor have URI, RIC, and CCRI faculty unions.

Employee Medical Benefits

The FY 2015 enacted budget recognized statewide savings totaling \$8.3 million (all-funds) due to improved trends in medical benefit and vision plan growth rates. These savings, consisting of \$3.4 million in general revenue, were reflected as a negative appropriation in the Department of Administration's (DOA) budget. The Governor's recommended budget re-allocates (within all fund sources) those savings to each agency's respective budget.

The FY 2015 enacted budget for health benefit costs was predicated upon a planning value of \$17,926 based on a weighted average of the three cost components consisting of medical, dental, and vision rates for both

Personnel Summary

individual and family plans. As a result of the above mentioned reallocation, the weighted average of the health benefit costs in the working budget is reduced to \$17,005. This amount is \$921, or approximately 5.2%, less than the rates used in the enacted budget.

For FY 2016, the budget instructions contained an estimated planning value equal to \$18,155, an increase of 6.7 percent from the FY 2015 working budget amount of \$17,005. This is the increase upon which the statewide target adjustment was based. Based on current and projected balances in the state's Health Insurance Fund, the Governor recommends an additional medical holiday in FY 2015. The state is self-insured for medical benefits and develops annual working rates based upon prior claims experience, adjusted for medical inflation. This fund is used to pay insurers for medical benefits for state employees. Revenue is generated by assessing state agencies on a bi-weekly basis, by co-shares from employees and from pharmaceutical rebates. In the event that there is a surplus, the balance may be used to reduce the working rates by not charging the state agencies for medical coverage for a particular pay period, known as a medical holiday. Employees paying a co-share based on a percentage of the premium cost are also not charged for the respective pay period. Employees paying a co-share based on a percentage of their pay are still charged.

Full-Time Equivalent Positions (FTE)

The FY 2015 enacted budget contained 15,086.0 full-time equivalent (FTE) positions, including 750.8 FTE positions that are third party funded positions in Higher Education. In order to maintain an acceptable level of critical services and addressing new program concerns, the Governor also recommends an increase of 14.7 FTE positions to 15,100.7 FTE positions in the revised FY 2015 Budget. In FY 2016, the Governor recommends a total FTE position level of 15,119.4, including 745.8 Higher Education third party funded positions, an increase of 18.7 FTE positions from the revised FY 2015 level and 33.4 FTE positions from the FY 2015 enacted level.

In **General Government**, the Governor recommends 2,331.8 FTE positions, a net increase of 33.1 FTE positions in FY 2016 from the FY 2015 enacted budget. The largest increase (18.6) reflects the creation of a new agency, the Executive Office of Commerce (EOC), including 5.0 FTE positions for central management functions, as well as transfers from the Department of Administration of 11.0 FTE positions in the Housing and Community Development program, and 2.0 FTE positions in the Rhode Island Television and Film Office. The Governor recommends no increase in the Department of Administration; 10.0 new positions, 14.6 transfers out (to Business Regulation and the EOC), and 6.0 transfers in (from the Governor's Office for the Health Benefit Exchange) are adjusted by reductions in vacant positions (8.0 in FY 2015, 9.4 in FY 2016). The Governor also recommends the addition of 9.5 FTE positions in the Department of Revenue, 6.5 FTE's for 20 part-time customer service representatives and 3.0 FTE positions in Taxation. The Governor also recommends an additional 5.0 FTE positions in Business Regulation, 4.0 in support of new federal grants and 1.0 reflecting a transfer of an ombudsman position from Administration/Office of Management and Budget (OMB).

In **Health and Human Services**, the Governor recommends 3,743.6 FTE positions; a net decrease of 0.4 FTE positions in FY 2016 from the FY 2015 enacted FTE authorization. This is comprised of reductions of 2.7 FTE positions in Health (one clerical position and 2.0 FTE positions due to program reductions due to professional board consolidations) and 1.0 FTE position in Behavioral Health (1.0 vacancy reduction, 1.0 transfer to Human Services, and 1.0 additional FTE federal grant position). The Governor also recommends an increase of 2.0 FTE positions in Children, Youth and Families to accommodate new Foster Care and Trauma Focused Care federal grants. Finally, the Governor recommends the creation of a Division of Advocacy in the Office of Health and Human Services, consolidating the Child Advocate, the Mental

Personnel Summary

Health Advocate, the Commission on the Deaf and Hard of Hearing, and the Governor's Commission on Disabilities. The recommendation adds 17.0 FTE positions in OHHS and a reduction in those agencies totaling the same amount.

In **Education**, the Governor recommends a total authorization (standard and third party) of 4,646.8 in FY 2015, an increase of 7.9 FTE positions, including a 3.5 FTE position increase in Elementary and Secondary Education for the Race to the Top initiative and 2.2 increase in Public Higher Education. In FY 2016, the Governor recommends 4,634.8 FTE positions, a net decrease of 6.3 FTE positions in FY 2016 from the FY 2015 enacted budget of 4,641.1. This includes a net program reduction of 1.5 FTE positions in Elementary and Secondary Education in the Administration for Comprehensive Education Strategy (ACES) program, comprising the end of 4.0 FTE position in the Race to the Top program and an additional school construction supervisor position. The Governor also recommends the transfer of the Rhode Island Higher Education Assistance Authority to the Office of the Postsecondary Commissioner (OPC). Including this transfer, the Office decreases its FTE by a net of 5.8 FTE positions. Public Higher Education university positions have been restructured, resulting in a net increase of 1.0 FTE position. A net total of 6.0 standard FTE positions are added at the University of Rhode Island and the Community College of Rhode Island, offset by reductions of 5.0 in third party positions.

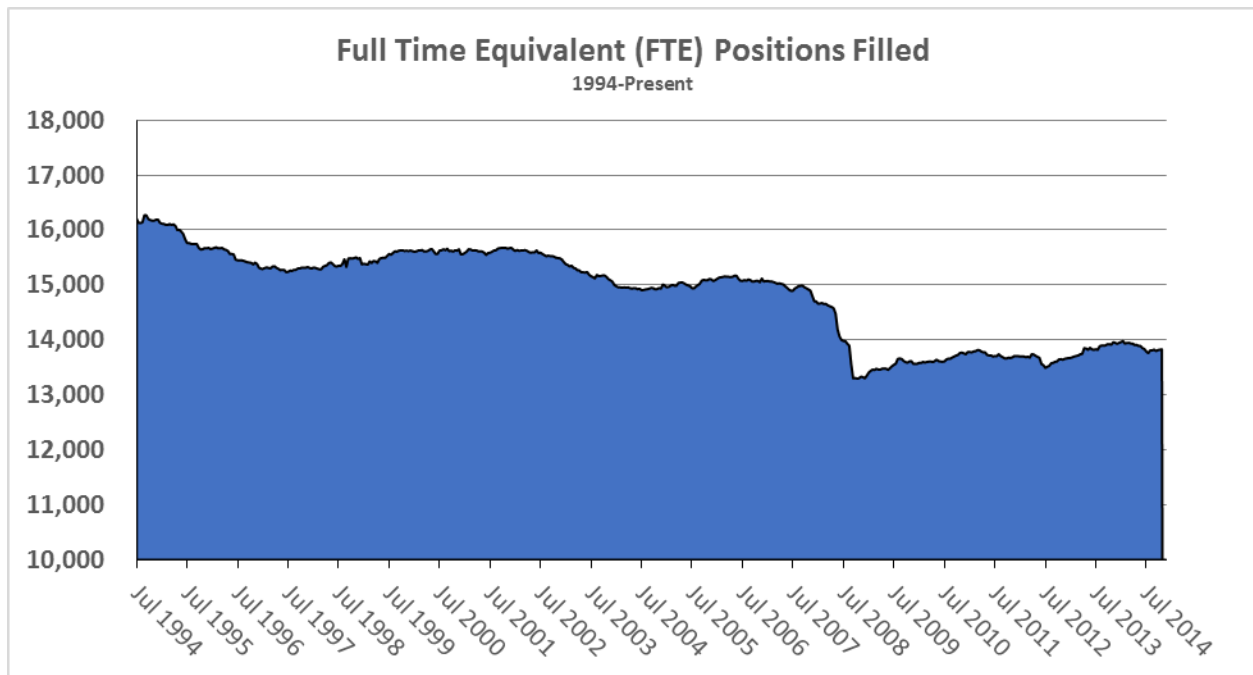
In **Public Safety**, there is an increase of 7.0 FTE positions to 3,228.6 in FY 2016 from the FY 2015 enacted budget in Public Safety. The Governor recommends 7.0 additional federally funded maintenance positions in the Military Staff.

In **Natural Resources**, there is no net change in the FTE level of 428.0 from FY 2015 enacted to FY 2016. The Governor recommends offsetting FTE reconciliations of 4.0 in FY 2015 revised and 2.0 in FY 2016 to match additional FTE positions.

In **Transportation**, the Governor recommends 752.6, no change from the FY 2015 enacted budget in both FY 2015 and FY 2016.

As directed by the Governor, the overall filled FTE position level must be constrained through careful management by cabinet directors and other agency heads of existing and upcoming vacancies. Actual filled positions totaled 13,820.2 as of December 27, 2014, a 127.3 position decrease from the 13,947.5 level in December 28, 2013, and 1,262.6 below the 15,082.8 in July 2007. The filled level is 1,265.8 FTE positions less than the enacted cap of 15,086.0 FTE positions. Because of resource constraints, as reflected in the Governor's recommended turnover across most agencies (a total of 6.5 percent statewide), as well as the program reductions and reconciliations (94.7 in FY 2015 revised and 69.3 in FY 2016), there are FTE positions in the roster that will not be filled in FY 2015 or FY 2016.

Personnel Summary



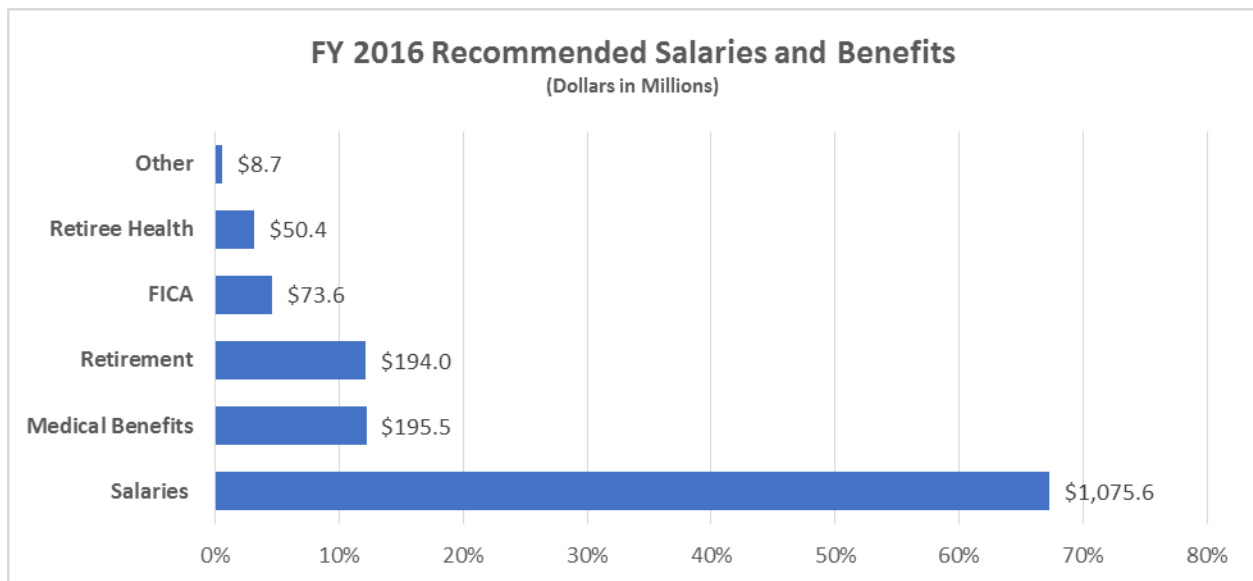
Salaries and Benefits

The largest category of personnel expenditures is for salaries and benefits. Salaries and benefits (including temporary and seasonal) represent \$1.597 billion or 83.2 percent of total personnel costs. Salaries, including payroll accrual, overtime, holiday, and other salary-related items, equal \$1.077 billion and fringe benefits equal \$522.2 million. Fringe benefit payments include \$194.0 million for retirement costs, \$195.5 million for medical benefits (including \$193.6 million for benefit plans and \$1.9 million for medical benefits-salary disbursements), \$50.4 million for retiree health benefits, \$73.6 million for FICA, and \$8.7 million for other benefits, including group life insurance and other contract stipends. In addition, the statewide benefit assessment is included to finance severance, unemployment, employee assistance, workers' compensation payments and administrative costs, and DLT employer assessments, and totals \$37.9 million, 2.0 percent of total personnel costs.

Direct Salaries increase by 3.5 percent in the FY 2015 Revised Budget over FY 2014 actual expenditures, and increase by 2.5 percent in the FY 2016 recommended Budget over the FY 2015 enacted Budget. The FY 2016 Budget includes no longevity increases for non-union personnel and for union personnel whose contracts end June 30, 2012, as these were abolished in the FY 2012 enacted Budget.

Fringe benefit adjustments increase by 4.5 percent in the FY 2015 revised Budget over FY 2014 actual expenditure and increase by a further 1.9 percent in FY 2016 over the FY 2015 enacted Budget. **Retirement** increases by 8.3 percent in FY 2015 revised from FY 2014 actual and by 2.6 percent in FY 2016 from the FY 2015 revised Budget. This includes a one percent defined contribution addition of \$6.6 million. Within state agency budgets, state employer retirement contributions are budgeted at 24.33 percent of payroll for FY 2015 enacted and revised Budgets, but at 24.64 percent in FY 2015. **FICA** increases by 3.3 percent in FY 2015 from the enacted Budget but increases by only 1.3 percent from the revised Budget. **Retiree Health** decreases by 1.5 percent in FY 2015 revised from FY 2014 actual expenditure, and decreases by 9.8 percent in FY 2016. The rate remains at 6.75 percent in FY 2015 enacted and revised, but decreases to 6.0 percent in FY 2016 for state employees.

Personnel Summary

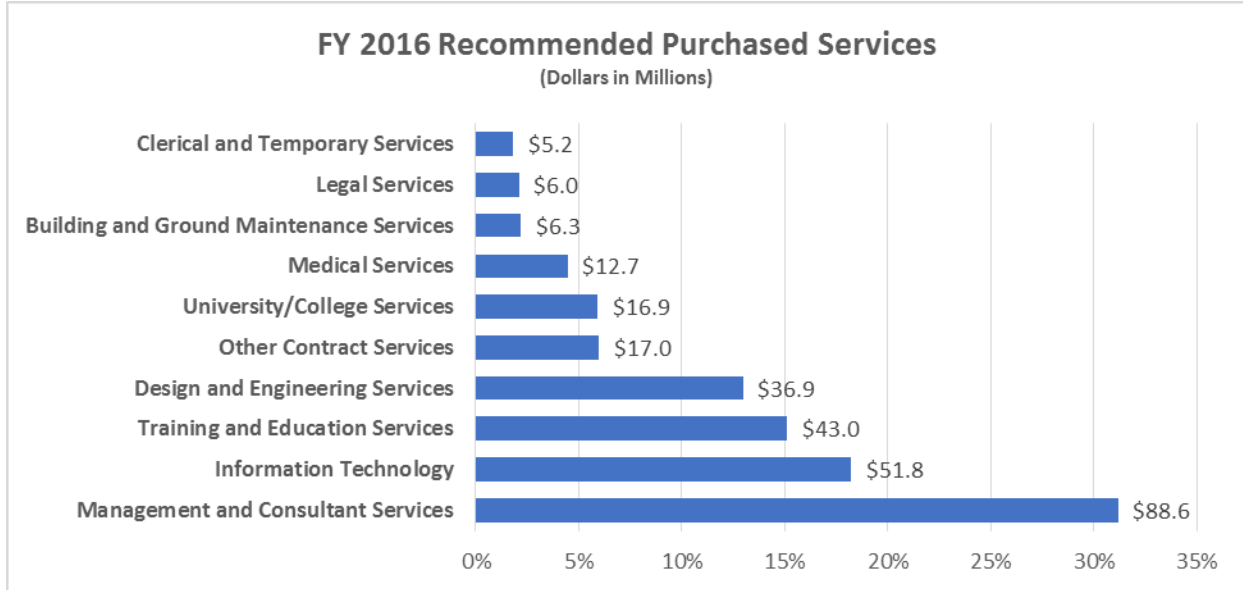


The largest fringe benefit increase is in **medical benefits**. The FY 2015 revised Budget of \$186.2 million includes an overall increase of 6.0 percent over FY 2014 actual expenditure levels. For FY 2016, the recommendation of \$195.5 million in medical benefits is an increase of 4.7 percent from the recommended revised budget amount for FY 2015. The two year total is 10.7 percent. The increases include estimated reductions in FY 2015 due to two medical benefit holidays.

Workers' compensation costs budgeted directly in the agencies in FY 2015 and FY 2016 are \$211,273 and \$196,024 respectively and are financed primarily in the Department of Corrections and Behavioral Health, Developmental Disabilities and Hospitals. These amounts reflect the continuation of wages in excess of those amounts received as a result of the Workers' Compensation statute (primarily as a result of assault cases). Since FY 2001, all workers' compensation costs, as well as unemployment insurance and unused leave severance payments, have been paid from a separate Assessed Fringe Benefits Administrative Fund. The fund is financed by a statewide benefit assessment of a fixed percentage of direct salaries that is charged to every department and agency in this document. The FY 2015 revised Budget and the FY 2016 recommended Budget values are 4.3 percent for regular state employees, an increase of 0.5 percentage points from the enacted level. However, certain agencies and/or certain employee classifications are not assessed the full rate because they do not receive worker's compensation benefits. Also, certain higher education employees do not receive severance payments. The assessed fringe benefit rate is applied to all direct salaries, except overtime. Expenditures from the fund have grown from \$31.1 million in FY 2008 to \$43.1 million FY 2009, but decreased in FY 2010 to \$28.8 million. The surge in severance payments was due to the large number of employees that retired prior to changes in retiree health benefit provisions, which became effective October 1, 2008. The FY 2015 revised Budget is \$37.3 million, an increase of 3.3 percent from FY 2014 actual expenditure. The recommendation for FY 2016 is \$37.9 million, an increase of 1.8 percent from the revised recommendation. The Assessed Fringe Benefit Fund is used to fund the following: services provided by the Donley Center; services of the Workers' Compensation Court; the Division of Workers' Compensation administrative costs related to workers' compensation activities; workers' compensation benefit payments to employees; payments to workers' compensation providers; unemployment compensation payments; severance

Personnel Summary

payments to employees for unused leave upon termination from state service; and Cornerstone Program administrative costs for the Flexible Health savings account.



Purchased Services

Purchased Services costs in the FY 2016 Budget total \$284.3 million, and represent 14.8 percent of total personnel costs. Expenditures in this category are for services provided by outside contractors in cases where special expertise is needed or where it would be less effective to hire full-time employees. Major categories of expenditure are management and consulting services (comprising 31.2 percent of the total), information technology services (18.2 percent), training and education services (comprising 15.1 percent), and design and engineering services (comprising 13.0 percent).

Recommended expenditures in the FY 2015 revised Budget of \$341.3 million are \$59.8 million more than FY 2015 enacted expenditures, a 21.3 percent increase in spending for services, including increases in other contract services (\$6.5 million), management and consultant services (\$21.0 million) and information technology services (\$29.4 million). A major portion of this increase is in the Health Benefits Exchange (HealthSource RI) for the development of the web-based exchange that will be available to Rhode Islanders and Rhode Island businesses. Recommended expenditures in FY 2016 are \$57.1million less than FY 2015 revised. The greatest decreases are in information technology services (\$32.7 million), management and consultant services (\$6.3 million), other contract services (\$5.0 million), and training and education services (\$6.7 million).

For each department or agency of state government, the Budget volumes contain an agency summary of personnel costs. For each program, the Budget volumes display all positions and their respective costs. Footnotes will assist readers in understanding variances between the years. Additionally, there are a number of terms used that are not part of every day usage. A Glossary with extended explanations is included in the back of the Technical Appendix. For more information on the codes used to identify the pay scales, refer to the Glossary. Pay scales are provided on the State’s Human Resources web site under the Compensation and Classification section.

