

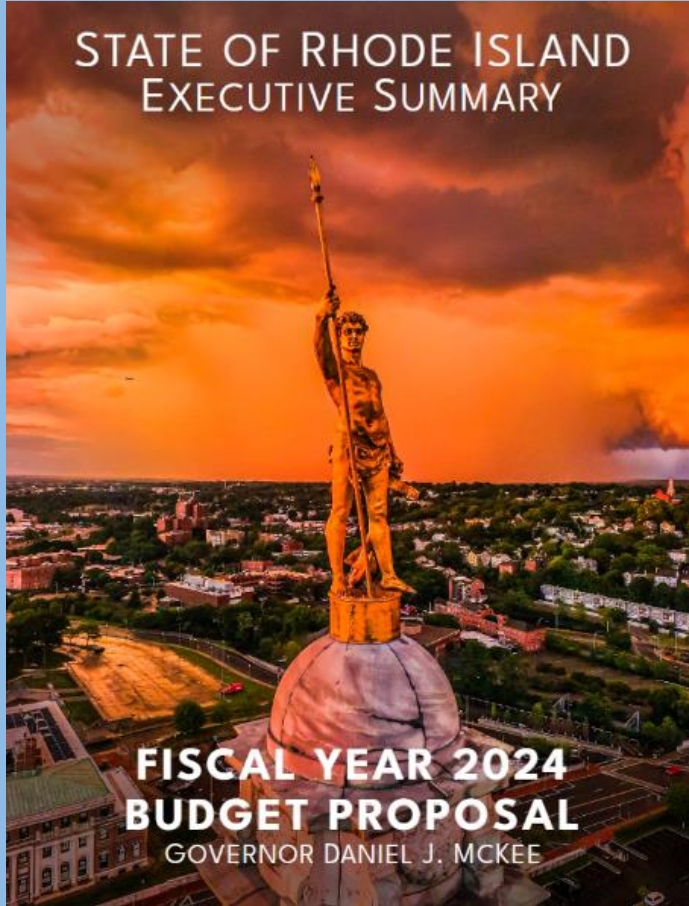


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FY 2024 Budget Overview

January 19, 2023

Prepared by the Office of Management and Budget (OMB)



“My Fiscal Year 2024 budget proposal is aimed at making further progress toward our RI 2030 goals.

There are three goals, in particular, that remain at the top of my mind: raising incomes for all Rhode Islanders; improving educational outcomes that meet Massachusetts’ levels by 2030; and creating a healthier state where we reduce chronic illness and improve health outcomes.”

- Governor Daniel J. McKee

FY 2024 Proposed Budget: \$13.75B

FY 2023 Projected Surplus: \$610M

What created this surplus?

- Strong revenue collections
- Lower expenditures, mainly from unfilled positions
- Additional federal support during the pandemic

What criteria were used in selecting items for surplus spending?

- Address underinvestment in operations and long-standing problems
- One-time items that do not result in future obligations
- Improve long-term budget outlook by lowering operating costs, avoiding expected cost growth, and/or pre-funding anticipated costs

Education

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K-12 Funding Formula

The recommended Fiscal Year 2024 Budget increases year-over-year K-12 education funding by \$57.8M. The increase is attributable, in part, to the following:

01

Student success factor from 40% to 42% (\$9.9M)

Provides additional support to school districts for economically disadvantaged students

02

Public Schools of Choice Supplemental Transition Fund (\$7.9M)

Compensates school districts for enrollment losses to charter schools

03

Categorical funding (\$13.1M)

Increases multilingual learner categorical by \$7.8M and special education categorical by \$4.8M

04

Students experiencing homelessness (\$2.5M)

Provides additional support to school districts to serve students experiencing homelessness

05

Temporary enrollment transitional support (\$8.5M)

Compensates school districts for all other types of enrollment losses

Higher Education

The recommended Fiscal Year 2024 Budget maintains a strong commitment to higher education by increasing aid year-over-year by \$14.2M – or 6.8%

Rhode Island College

Increases aid by \$3.6M (5.8%)

- ✓ Includes \$0.5M for implementation of the new Applied Biology and Biosciences Certificate program

University of Rhode Island

Increases aid by \$7.9M (8.7%)

- ✓ Includes \$1.5M for blue economy research and faculty

Community College of Rhode Island

Increases aid by \$2.6M (4.7%)

- ✓ Includes \$0.9M to fund two new programs: one to provide financial coaching and one to better connect CCRI directly to communities

Higher Education and Pre-K

Fresh Start Scholarship

- Provides \$2.5M to CCRI aimed at re-enrolling Rhode Islanders who earned some credits at CCRI but stopped before earning a degree

RI Reconnect

- Uses \$8M in SFRF to connect Rhode Islanders whose academic progress was disrupted during the pandemic with targeted coaching and wraparound services

Pre-K Seats

- Invests \$7M to preserve 800 seats funded by an expiring federal grant and \$1.3M to prepare 35 new classrooms for the 2024-25 school year

Tax Relief

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Tax Relief

The Governor recommends reducing the sales tax from 7% to 6.85% in Fiscal Year 2024 to make Rhode Island more competitive with our New England neighbors

State	Sales Tax Rate
Connecticut	6.35%*
Maine	5.5%
Massachusetts	6.25%
New Hampshire	0%
Rhode Island	7%
Vermont	6%*

**Some cities and towns in Connecticut and Vermont have an additional local sales tax rate*

Tax Relief (cont.)

The Governor recommends targeted tax relief to help households and small businesses navigate short-term, inflationary pressures

Gasoline Tax

- Forgoes the scheduled 3-cent increase – from 35 cents to 38 cents – to take effect July 1, 2023. This measure would save motorists approximately \$24.6M across Fiscal Years 2024 and 2025

Gross Receipts Tax on Electric and Natural Gas Bill

- Refunds tax on electricity and natural gas bills from December 2022 through March 2023 to provide an average of \$24 in savings to electric customers and \$30 in savings to natural gas customers

Tax Relief (cont.)

Corporate Minimum Tax

- Cuts the corporate minimum tax from \$400 to \$375, resulting in annual savings to businesses of about \$1M for Fiscal Year 2024 and \$2.1M in Fiscal Year 2025

Truck Trade-in Tax

- Exempts from the sales and use tax the trade-in value of trucks with a gross weight of 14,000 pounds or less to mirror exemptions for private passenger cars and motorcycles. The exemption is projected to save individuals about \$3.7M in Fiscal Year 2024 and \$5M in Fiscal Year 2025.

Transportation and Fiscal Responsibility

Transportation

The Governor recommends using surplus revenues for the following transportation investments:

01

\$87.8M to unlock Infrastructure Investment and Jobs Act funds

02

\$70M to replace lost tolling revenue to ensure projects remain on schedule

03

\$20M for a fund for cities and towns to complete road, sidewalk and bridge projects



Rainy Day Fund

Currently, 3% of state revenues are deposited into the rainy day fund every year until the fund balance reaches 5% of general revenues, at which point all additional funds are deposited in the RI Capital Plan Fund

- The 5% cap is lower than Massachusetts and Connecticut whose caps are 15%
- A larger rainy day fund balance would:
 - Better position the State to weather economic downturns and
 - Be viewed favorably by rating agencies
- The Governor proposes creating an additional fund to supplement the rainy day fund with \$55M in surplus funds (approximately 1% of state general revenues)

Other Fiscal Responsibility Items

Clean/Drinking Water Match

- Transfers \$28.5M in surplus funds to the Rhode Island Infrastructure Bank to satisfy the state match for the Clean/Drinking Water State Revolving Funds through Fiscal Year 2028

Rhode Island Capital Plan Fund

- Transfers \$60M in surplus funds for various projects, such as renovations at Davies Career and Technical High School and the State House, and investments in State-owned group homes

Retire Debt

- Uses \$35M in surplus funds to retire various debts which would result in annual savings of approximately \$4.5M

Raising Incomes

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Raising Incomes

The Governor recommends the following initiatives to improve conditions for small businesses and foster economic development that will help raise incomes for Rhode Islanders:

- Expand the **Wavemaker Fellowship** to include teachers
- Add \$2.6M to the **Small Business Assistance Program**, which connects businesses struggling to obtain lines of credit with community-based lenders
- Add \$0.7M for **SupplyRI** – a program that helps connect local suppliers to the procurement needs of larger businesses
- Eliminate the litter permit requirement for retail food establishments, with \$100,000 instead dedicated to litter removal
- Raise the program cap from \$210M to \$225M for **Rebuild Rhode Island** and pre-fund the cap increase with \$15M in surplus funds
- Add \$20M to the **First Wave Closing Fund** that provides last-dollar flexible financing to attract, develop, and retain businesses



SFRF Proposals

The Governor proposes using SFRF to invest in key economic development projects:

01

\$45M in **Bioscience Investments**, including the development of wet lab incubator spaces and a fund to provide wraparound services

02

\$25M for the **South Quay Marine Terminal** to support Phase 2 of the project

03

\$5M for **Small Business Assistance** in energy efficiency investments

The Governor's budget programs all remaining SFRF in FY 2024 to encourage timely spending and maximize likelihood of U.S. Treasury compliance.

Housing

The Department of Housing was established as a separate department within the Executive Branch effective Jan. 1, 2023, by the General Assembly during the 2022 legislative session

- Recommends an additional \$2.7M in general revenue to finance an additional 21 FTEs, bringing the total number of positions to 38 FTEs
- Charged with the continued implementation of \$250M in SFRF for projects focused on housing development, home ownership, community revitalization, and support for individuals experiencing homelessness
 - Adds \$30M in SFRF to expand shelter capacity to better meet the needs of individuals experiencing homelessness

Capital Budget

The budget surpluses and stimulus funding position Rhode Island to make record-setting investments. In the coming years, 137 infrastructure projects totaling nearly \$2B will proceed.

The enacted FY 2023 Budget included an additional \$478M in surplus funds for capital projects, and the recommended FY 2024 Budget proposes an additional \$60M in surplus above the baseline amount to support the following projects:

- Davies Career and Technical School: \$35M for renovations
- State House: Increase of \$25.2M (\$75.7M total) for HVAC and building envelope work
- Group Homes: An additional \$7.5M (total of \$22.4M) to keep State-run group homes in safe and operating condition

Health

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Ongoing COVID-19 Response

The enacted Fiscal Year 2023 budget provided \$186.9M in SFRF for the State's ongoing response. The State has not used any of these funds to date, and the Governor recommends the following:

Allocate \$34.9M for Fiscal Year 2024

- Supplements federal grants to cover the Department of Health's baseline pandemic response

Reserve \$61.0M for COVID Contingency

- \$43M for COVID-19 mitigation activities to address public health impacts of a surge
- \$18M for state agency costs outside the Department of Health's COVID surge budget

Health Initiatives

Equality in Abortion Coverage

- Expands the Reproductive Privacy Act of 2019 to individuals enrolled in Medicaid and state employees covered by the State Employee Health Insurance plan

Certified Community Behavioral Health Clinics (CCBHCs)

- Sets aside \$7.5M for reimbursement rates for the provision of care at CCBHCs that are coming online in Fiscal Year 2024 and are being established with \$30M in SFRF

9-8-8 Hotline

- Provides an additional \$1.6M in SFRF to operate the 9-8-8 hotline through Fiscal Year 2024 as a permanent funding source is identified

Financial Outlook

Enacted and Proposed Expenditures by Source

Sources of Funds	FY 2023 Enacted	FY 2023 Revised	Change from Enacted	FY 2024 Recommended	Change from FY 2023 Enacted
General Revenue	\$5,042.2	\$5,266.6	\$224.4	\$5,302.8	\$260.6
Federal Funds	5,708.4	5,951.3	243.0	5,526.0	(182.3)
Restricted Receipts	453.5	470.1	16.5	386.8	(66.7)
Other Funds	2,398.4	2,450.0	51.6	2,535.4	137.0
Total (millions)	\$13,602.5	\$14,138.0	\$535.5	\$13,751.1	\$148.6

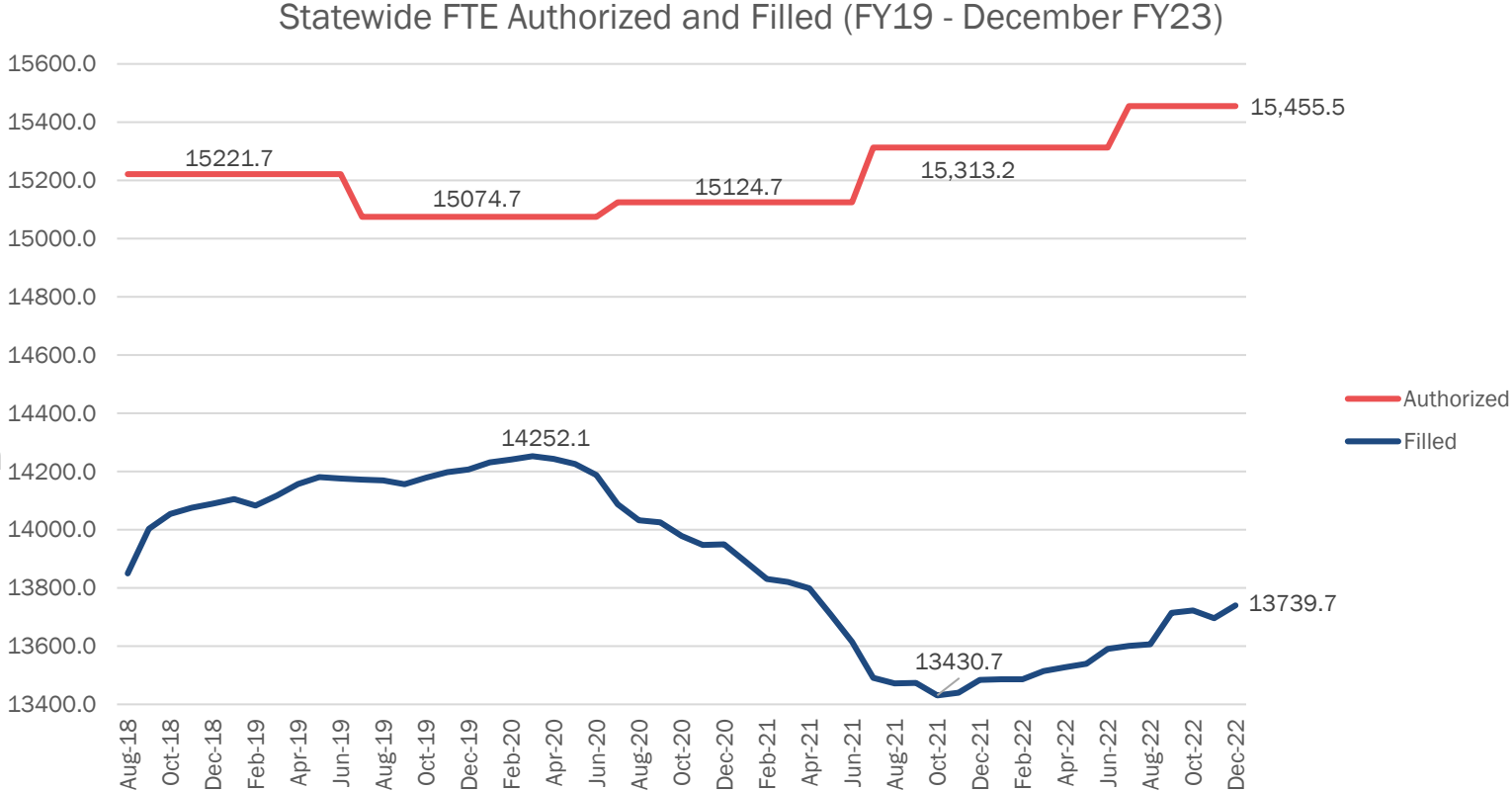
One-time Investments

The Governor recommends \$522.3M in non-recurring commitments, of which \$352.9M is recommended in Fiscal Year 2023 and \$169.4M is recommended in Fiscal Year 2024

Item	FY 2023	FY 2024
Pre-Fund Transportation State Match	\$87.8M	-
Toll Revenue Backfill	\$70.0M	-
Forgoing Statutory 3-Cent Gas Tax Increase	\$24.6M	-
RICAP Transfer to Fund Various Projects	\$60.0M	-
Rainy Day Fund 1% Transfer	-	\$55.0M
Suspend 4% Gross Receipt Tax on Electricity Bills and 3% Gross Receipt Tax on Natural Gas	\$35.6M	-
Defeasance of Existing Debt	-	\$35.0M
Correctional Officer Contract - FY 21 & FY 22 Retro/FY23 COLA	\$35.0M	-
Pre-Fund Clean/Drinking Water Match	\$28.5M	-
Pre-Fund IT Projects	-	\$27.0M
Economic Development - First Wave Closing Fund	-	\$20.0M
Pre-Fund RI Rebuild Cap Increase	-	\$15.0M
Education Aid - One-time Supplemental Funding	-	\$8.5M
Municipal Matching Fund Pool - Federal Grants	\$5.5M	-
Workers' Compensation Fund Supplement	\$4.4M	-
Other	\$1.5M	\$8.8M

Filled FTE

- FY 2023 Enacted FTE Position Authorization: 15,455.5
- FY 2023 Average Filled Positions (Through 12/22/22): 13,679.8
- FY 2023 Average Vacancy Rate (Through 12/22/22): 11.5%



Fiscal Year 2023 Enacted FTE Position Authorization: 15,455.5

Fiscal Year 2024 Recommended FTE Position Authorization: 15,591.5

- **New Recommended FTE: 136**

- Department of Corrections - 32
- Department of Health - 28
- Department of Housing - 21
- Department of Administration - 12
- Executive Office of Health and Human Services - 11
- Department of Environmental Management - 8
- Office of the Postsecondary Commissioner - 7
- Office of Veterans Services (Department of Human Services) – 4
- Rhode Island Department of Education - 4
- Department of Children Youth and Families - 3
- Executive Office of Commerce - 2
- Public Defender - 2
- Behavioral Healthcare, Developmental Disabilities and Hospitals – 2

- **Recommended Re-allocation of Authorized FTE Positions**

- 7 FTE from DOH to EOHHS (Health Equity Zone Initiative)
- 3 FTE from DHS to EOHHS (Medicaid Eligibility Quality Control)
- 4 FTE from URI to OPC (State Longitudinal Data System)

Fiscal Year 2023 Revised/Fiscal Year 2024 Budget Balance

	FY 2023 Gov Rev (\$ in millions)	FY 2024 Gov Rec (\$ in millions)
Opening Surplus	216.6	257.1
Adjustments and Reappropriation	263.1	-
Opening Resources Subtotal	479.7	257.1
Enacted/Adopted Revenue	5,260.4	5,104.8
Changes to Revenue	(49.1)	170.6
Revenue Subtotal	5,211.3	5,275.4
Resources Subtotal	5,691.0	5,532.5
Transfer to Budget Reserve	(162.8)	(166.0)
Total Resources Available	5,528.1	5,366.6
Enacted Expenditures/CSL	5,042.2	4,991.1
Changes in Expenditures	224.4	311.6
Expenditure Total	5,266.6	5,302.8
Intrafund Transfers	(4.4)	(55.0)
Surplus/(Deficit)	257.1	8.8

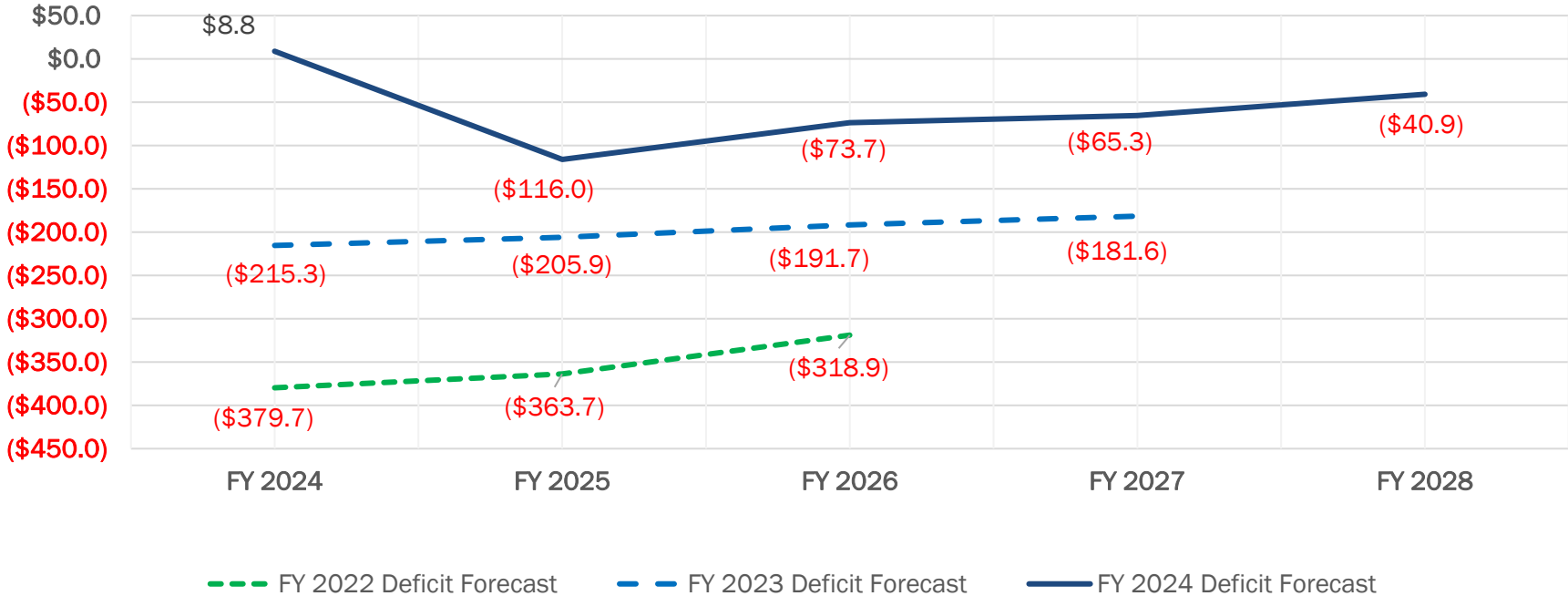
FY 2023 Revised and FY 2024 Recommended

- **FY 2023 Opening Surplus Adjustments:** Net increase of \$263.1M reflects reappropriations and prior year FEMA charges.
- **Changes to Revenue:** Revenue changes driven by Gross Earnings Tax Suspension impact (-\$36 million, FY23), Hospital Licensing Fee (+\$217 million, FY24), Sales Tax reduction (-\$25 million, FY24), and various smaller items.
- **One-time Investments:** Includes \$522.3M in one-time expenditure investments over the two fiscal years.

Five-year Forecast

The chart below shows an improving budget deficit since Fiscal Year 2022, with further improvements projected in the Fiscal Year 2024 budget

Structural Budget Deficit
FY 2022, FY 2023 & FY 2024 Forecasts



Q&A

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