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Overview

***Governor Carcieri's
Budget Philosophy***

The Governor's FY 2004 recommended budget is designed to bring long term structural stability to State finances, and to position the State for future economic prosperity. The FY 2004 Budget contains recommendations which constrain both the FY 2004 levels of spending, and propose changes which will curtail the future growth in of state spending in the out-years. While there are enhancements to revenues proposed in the budget, the goal in constructing the budget was to preserve the core missions of government by prudently allocating the estimated resources available. Given the limited resources, the investments which are proposed are modest, but are critical in moving the State's economy forward. These recommendations should provide the state with the capability to manage its finances in a prudent manner in the future, and to focus its agenda with respect to economic development. That agenda is focused on the creation and retention of jobs.

The Governor's jobs agenda addresses three fundamental areas of job creation. The first focuses on the state's workforce quality. The Governor understands that Rhode Island cannot compete effectively unless the literacy skills of the State's labor force are improved to adequately prepare them for the workplace. The Governor's FY 2004 budget includes an additional \$1.4 million for adult literacy programs. In addition to improving the literacy skills of the State's labor force, the Governor is committed to increasing the number of college graduates in the state. A major obstacle for Rhode Islanders that prevents them from obtaining undergraduate and advanced degrees is the cost of higher education. The Governor's FY 2004 budget seeks to add \$5.0 million to the Rhode Island Higher Education Assistance Authority for the purposes of providing more need-based grants to the state's college students. An important component of workforce quality is addressing the needs of the State's current and future employers. In furtherance of this objective, the Governor's FY 2004 budget invests an additional \$300,000 from the Rhode Island Capital Plan Fund (RICAP) for the architectural and engineering work necessary for the building of a \$10.0 million state-of-the-art biopharmaceutical manufacturing training facility. This cost of this facility will be financed by a public and private partnership between the State, biopharmaceutical manufacturers, and the makers of the equipment used in the biopharmaceutical manufacturing process.

***Governor Carcieri's
Jobs Agenda-
Workforce Quality***

The second area of the Governor's jobs agenda targets the State's economic development policy. The Governor believes that above average employment growth can be attained if the State works more closely with local governments on economic development initiatives. To assist with these initiatives, the Governor's FY 2004 budget proposes to spend \$500,000 to establish a matching grant fund for city and town economic development. This fund would provide state monies as a match to local government expenditures for economic development purposes. In order to attract new ventures to the State, the Governor's FY 2004 budget proposes eliminating the graduated licensing fee scale that is currently in place and replacing it with a fixed \$160 fee for both domestic and foreign corporations. This graduated scale has served as a disincentive for venture capital companies to assist start-up companies in Rhode Island. The manufacturing sector has declined substantially over the last ten years, and some attribute this decline to the State's tax policy. The Governor, in his FY 2004 budget, proposes changing the apportionment formula for manufacturers from the current one-third, one-third weighting on in-state sales, in-state payroll, and in-state property tax respectively to a 40% weighting for in-state sales and 30% weight each for in-state payroll and in-state property tax beginning with the 2003 tax year. This change in the business corporations tax is estimated

***Governor Carcieri's
Jobs Agenda-
Economic Policy
Development***

Overview

to cost \$2.0 million in foregone corporate income taxes collected, but these lost revenues are expected to be offset by other tax and fee revenues associated with the expansion of Rhode Island manufacturers operations.

The third component of the Governor's jobs agenda concentrates on the state's position in the emerging new economy. Rhode Island's public higher education institutions rank low in terms of the research funds that are brought into the State. In his FY 2004 budget, the Governor proposes a flexible rule to govern when public university professors may seek to commercialize their scientific discoveries. Currently, a strict statutory guidelines that allows little or no discretion governs this process. Given the state's success with the Amgen plant in West Greenwich and the pending expansion of Dow's contract pharmaceutical manufacturing facility in Smithfield, the Governor has targeted biotechnology as one of the areas for future job development in the state. To build on the State's current success that has resulted from the established medical research cluster that already exists in Providence, the Governor proposes the construction of a \$50.0 million Center for Biotechnology and Life Sciences at the University of Rhode Island. To jump start this process, the Governor's FY 2004 budget adds \$300,000 to the current \$200,000 of RICAP monies needed for architectural and engineering work. The financing for this project will be presented to the voters in a bond referendum in November 2004. To stimulate growth of new business in Rhode Island, the Governor proposes increasing the state's investment in the Slater Fund from \$2.5 million to \$5.0 million in FY 2004. The Slater centers are focused on Biomedical Technology, Design and Manufacturing, Marine and Environmental Technology, and Interactive Technology. In the five years since their inception, the Slater Centers have made strategic contributions to the growth of 59 high-tech start-ups in Rhode Island that employ over 250 Rhode Islanders.

***Governor Carcieri's
Jobs Agenda-
Positioning for the
New Economy***

The recommended budget includes expenditures for FY 2004 from all sources totaling \$5.630 billion. Of this total, \$2.769 billion or 49.2 percent comes from general revenue, \$1.749 billion or 31.1 percent from federal grant funds, \$973.6 million or 17.3 percent from other, and restricted receipts in the amount of \$139.2 million or 2.4 percent of the total. Expenditures from general revenues total \$2.769 billion for FY 2004, reflecting an increase of \$67.6 million, or 2.5 percent, from the revised FY 2003 Budget of \$2.701 billion. By category of expenditure, the largest share of the budget is for assistance, grants and benefits and equals \$2.483 billion or 44.1 percent of the total. This is followed by personnel expenditures, which comprise 23.6 percent, or \$1.327 billion, and local aid expenditures, which make up 18.8 percent, or \$1.060 billion of the total budget. Expenditures for capital expenditures total \$385.9 million, or 6.9 percent, with the balance of spending used to fund operating expenditures of \$374.7 million, or 6.7 percent of the total.

***Governor Carcieri's
Proposed Budget from
All Fund Sources***

The Governor's FY 2004-2008 Capital Improvement Plan continues the effort to reduce net tax supported debt as a ratio of personal income from 8.5 percent in 1994 to 3.89 percent in FY 2008. The Capital Budget proposes expenditures of \$677.1 million in FY 2004, and recommends issuance of \$101 million of new general obligation bonds for transportation purposes, education facilities, clean water projects, public safety projects, and the preservation of open space and historical sites. The capital plan also includes long-term financing for a new juvenile training school and a new Kent County Courthouse.

Overview

**Governor Carcieri's
Proposed Budget from
General Revenue Sources**

Resources available from general revenue receipts total \$2.811 billion for FY 2004, an increase of \$80.7 million from the revised FY 2003 level of \$2.730.4 billion. This reflects 3.0 percent revenue growth. In order to provide structural balance, the FY 2004 recommended revenues include \$138.7 million of revenues resulting from changes proposed by the Governor. These changes help offset the diminishing benefit of one-time revenues received from the proceeds of the tobacco securitization deal in FY 2002. On the receipt side, this decline in tobacco settlement related revenues results in a reduction of \$108.4 million. The Governor's proposed changes reflect \$84.9 million more from taxes and departmentals and \$53.7 million more from other sources. The two largest items in the \$84.9 million are proposed changes in the hospital licensing fee which is renewed annually (\$62.3 million), but is altered to provide a larger benefit to the State (\$6.4 million), and an acceleration into FY 2004 of the statutory increase in the cigarette tax (\$8.3 million). Additionally, the Governor recommends that the current formula for distributing the net terminal income (NTI) generated from the operation of video lottery terminals (VLTs) at the state's two licensed gaming facilities, Lincoln Park and Newport Grand Jai Alai, be changed so that it is more favorable to the state. This change will alter the flow of these growing revenues so that the taxpayer benefits from the growth in State licensed gaming. Within the "Lottery" category, the FY 2004 budget is \$96.7 million more than the FY 2003 budget, an increase of 39.4%. This estimate reflects approval by the Lottery Commission to increase the number of VLTs allowed at Lincoln Park and Newport Grand Jai Alai from a total of 2,478 to 4,303. FY 2004 is the first year that the full impact of the first phase of the increased number of VLTs will be seen in NTI generated. At a special Revenue Estimating Conference (REC) held in January 2003, the conferees increased the estimated state share of NTI from the VLTs in place at Lincoln Park and Newport Grand Jai Alai to \$220.0 million in FY 2004. This compares to an estimated \$176.0 million of NTI transferred to the state in FY 2003, an increase of 25.0%. The Governor proposes in his FY 2004 budget to increase the State's share of NTI from the current minimum of 51 percent of NTI to a minimum of 65.75 percent of NTI. The Governor's proposed change is estimated to be worth \$48.1 million, or a further increase of 21.9% over the revised FY 2004 estimate agreed upon at the January 2003 REC.

General Fund Free Surplus

	FY 2000 Actual	FY 2001 Actual	FY 2002 Unaudited	FY 2003 Revised	FY 2004 Recommended
Opening Surplus					
Free Surplus	\$98.3	\$91.9	\$131.2	\$33.0	\$14.5
Reappropriated surplus	16.1	21.7	11.1	7.8	0.0
Subtotal	114.4	113.7	142.2	40.7	14.5
Revenues and Transfers					
Revenues	2,025.2	2,273.6	2,149.0	2,288.4	2,326.1
Other Sources	252.2	290.8	454.4	426.6	346.3
Changes to Adopted Estimates				15.3	138.7
Subtotal Revenues	2,277.3	2,564.4	2,603.5	2,730.4	2,811.1
Contribution to Budget Reserve Fund	(47.5)	(53.1)	(54.7)	(55.3)	(56.5)
Total Available	2,344.2	2,625.0	2,691.0	2,715.8	2,769.2
General Revenue Expenditures	2,230.6	2,482.7	2,650.3	2,701.3	2,768.9
Free Surplus	91.9	131.2	33.0	14.5	0.3
Reappropriations	21.7	11.1	7.8	0.0	0.0
Total Ending Balances	113.7	142.3	40.7	14.5	0.3

Taking into account the Governor's proposed changes to the adopted estimates, including the projected opening surplus of \$14.5 million, and making the required transfer to the Budget Reserve Fund of \$56.5 million, total resources available to fund state expenditures is \$2.769 billion. Expenditures from general revenues total \$2.769 billion for FY 2004, reflecting an increase of \$67.6 million, or 2.5 percent, from the revised FY 2003 Budget of \$2.701 billion. This results in a surplus of \$.3 million.

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By function, spending by Human Services agencies comprises the largest share of general revenue expenditures, totaling \$1.047 billion or 37.8 percent of the budget. This is closely followed by spending for Education agencies, which totals \$944.8 million or 34.1 percent. General revenue spending for General Government and Public Safety makes up \$459.2 million (16.6 percent) and \$283.4 million (10.2 percent), respectively. Finally, expenditures from general revenues for Natural Resources comprise \$34.3 million or 1.2 percent of total spending. Transportation expenditures are funded by dedicated gasoline tax and, therefore are not a component of general revenue spending.

General revenue expenditures by category are largely devoted to funding grants, local aid and personnel. Local aid expenditures of \$918.6 million comprise 33.2 percent of total expenditures while grant based expenditures of \$893.5 million comprise 32.3 percent of total spending. Personnel expenditures of \$707.3 million comprise 25.6 percent of the budget. Operations totals \$155.9 million or 5.6 percent. Capital expenditures total \$93.4 million, or 3.4 percent of the total budget.

Hiring Freeze Results in Fewer FTE in FY 2004 Budget

The full-time equivalent authorization, or FTE cap, for positions in state government is recommended to decline from the revised FY 2003 cap of 15,382.6 to 15,250.5 for FY 2004. The FY 2004 recommendation reflects a statewide reduction of 157 FTE and \$7 million of savings, of which \$1.9 million is in Higher Education and \$5.1 million is currently reflected in the Department of Administration. This reduction will be implemented in a manner similar to the legislative FTE reduction enacted for FY 2003, and managed through an executive branch FTE authorization. It is anticipated that the \$5.1 million of savings will be allocated to the departments and agencies prior to enactment of the budget based upon vacancies and continued review of core agency missions. As of February 8, 2003, the number of filled positions, excluding exempt position in higher education, was 15,048.6. This is more than three hundred positions below the revised FY 2003 authorization, and is consistent with the Administration's imposition by executive order of a hiring freeze and with its goal to re-engineer government to provide better and more cost-effective services to our citizens.

Budget Reserve Fund Remains Intact

The Budget Reserve Fund will remain fully funded at 3% of total resources in the Governor's budget recommendation. At the end of FY 2004 the Budget Reserve Fund is expected to have an \$84.8 million balance. The use of the reserve fund to resolve the budget problems was not viewed as a viable alternative due to the relationship with the Rhode Island Capital Plan Fund and the constitutional and statutory requirements for repayment. The Governor's recommendation is based upon the policy that Budget Reserve Funds should be reserved only for an unanticipated revenue shortfall which would be impossible to address in the time permitted. The FY 2004 projected deficits have been anticipated and are resolved by the budget plans recommended.

The Governor's goal to reduce the cost of government will be achieved by focusing on the areas of significant growth and implementing a program to re-engineer state government service delivery. A significant long-term driver of the State's budget is the cost of staffing state government. The growth is due not to cost of living salary increases, but to other compensation inflators such as steps and longevity, and the projected increased cost of benefits paid

Constraining the Cost of State Government

Overview

by the State for current employees and retired employees. The total cost of active state employee health care benefits is projected to increase by \$23 million in FY 2004, reflecting a 17.5% increase in one year. This does not include the amount that the State expects to pay Blue Cross in FY 2004 to settle past claims not paid by the State through working rate premiums. The amount included in the FY 2004 Budget for this liability is \$13.5 million, with \$7.8 million funded by general revenues. Costs for state employee medical insurance have nearly doubled over the five-year period spanning 1999-2004.

The employer share of retirement costs for FY 2004 was scheduled to increase by \$13.1 million, or 20%. This is primarily attributable to the Retirement Board's certified rates of actuarial requirements for state employees, judges and state police changing from 7.68, 33.42, and 27.35 percent in the FY 2003 to 9.6, 33.9, and 26.77 percent respectively in FY 2004. The Governor recommends that the employer contribution would be reduced by two percent, and the employee contribution would increase by the same amount. This results in savings to the state from all sources of \$12.1 million. While this provides budgetary relief for the State, albeit at the expense of the employees, the total cost of employer retirement contributions, including retiree health costs is still projected to increase by \$1.0 million, or 1.4% in FY 2004.

The FY 2004 budget recommendation for all programs defined as education aid totals \$740.9 million, reflecting an increase of \$10.6 million, or 1.5% from FY 2003 revised levels. Funding for education aid, including the School for the Deaf, Davies Career and Technical School, and the Metropolitan School, has increased by \$7.0 million from revised FY 2003 levels. Of this total, charter school funding increases \$3.2 million, Metropolitan School financing increases \$1.8 million, Davies school financing increases by \$654,418 and Full-day Kindergarten increases by \$382,500. The Governor's recommendation provides that no school district shall receive less in FY 2004 than it did in FY 2003. Increases for other aid categories are: General Aid, \$283,000; Group Home financing, \$75,000; School for the Deaf, \$103,471; and, Progressive Support and Intervention, \$600,000.

***Local Education Aid
Up \$10.6 million,
a Modest 1.5%***

The additional funds recommended for Progressive Support and Intervention, targeted for reforms at Hope High School in Providence. Funding for the Metropolitan Career and Technical School recognizes the near completion of the school campus on Public Street in Providence and finances projected for enrollment increases. Education investments include expansion of a pilot project to improve teacher professional development, the I-Plan, by investing \$700,000.

The Governor recommends aid distributions for school construction projects increase by \$2.4 million. This reflects an estimate of new projects and/or increased project costs. The Governor recommends modifications to the school construction program to contain this program, which has grown nearly six-fold from \$6.9 million in 1990 to \$40.6 million in 2004. These recommendations will impact new projects only, and will result in an affordable assistance program for local governments.

The employer share of retirement costs for teachers was scheduled to increase by \$7.5 million or 20% in FY 2004. This is primarily attributable to the Retirement Board's certified rates of actuarial requirements for teacher employers increasing from 11.97 percent of payroll in FY 2003 to 13.72 percent in FY 2004. The Governor recommends that the employer contribution to teachers retirement, which is shared by the local government (60%) and the state (40%) be reduced by two percent, and that the employees' share be increased by the same amount. Taking into account the savings to the state from this shift of

Overview

\$6.3 million in contributions, teacher retirement costs are recommended at \$1.2 million or 2.7% above the FY 2003 revised level. This action will also generate savings to local school districts of \$9.5 million.

State aid to local governments, excluding the Public Service Corporation Tax, is recommended in a total amount of \$193.8 million. The Governor recommends financing the motor vehicle tax program at the \$4,500 exemption level, for a total of \$104.3 million, reflecting a \$4.1 million increase over the 2003 revised level for growth in tax rolls. The Governor's recommended general revenue sharing for FY 2003 is \$48.3 million, no reduction from enacted and revised FY 2003 levels. The Payment-in-Lieu-of-Taxes (PILOT) program is funded at \$21.7 million, an increase of \$3.6 million from enacted and revised levels, reflecting full funding under current law. State Library Aid is also fully funded under current law at \$6.9 million. All local aid increases by \$9.1 million, or 4.9 percent, from the FY 2003 revised levels.

**State Aid Increases by
\$9.1 million, or 4.9%**

**Higher Education
Support Up 4.0%**

For FY 2004, the Governor recommends total expenditures of \$584.5 million for Public Higher Education. This is financed by general revenue appropriations totaling \$172.8 million, \$2.6 million in federal funds, and \$409.1 million in other funds. Other funds include tuition and fee revenues, which are projected to grow by \$12.4 million, or 3.1 percent. The net \$3.2 million general revenue expenditure increase includes additional personnel fringe benefits funding of \$4.6 million, \$1.0 million for current services operating costs, and a decrease of \$2.4 million for a shift of two percent to the employee retirement contribution and for a hiring freeze. Within the Rhode Island Capital Plan Fund, \$12.0 million is recommended for Higher Education asset protection programs and other capital facility improvements. When debt service costs related to higher education, which are recorded in the Department of Administration, are recognized, total state support increases by \$5.1 million in FY 2004 for a total increase of 2.8%.

For FY 2004, the Governor recommends a significant investment in our youth by doubling the State's scholarship support from the Higher Education Assistance Authority from \$4.9 million in FY 2003 to \$9.9 million in FY 2004. This \$5.0 million of increased funding will allow increases in awards, from an estimated average award of \$441 to \$946, for eligible Rhode Island students in FY 2004. For FY 2006, the Governor recommends total funding of \$22.4 million, including general revenue of \$11.1 million, federal funds of \$7.3 million, and \$4.1 million in other funds. The Governor's recommendation maintains scholarships from other funds at \$3.2 million, \$0.2 million less than

**College Assistance
Grants to Needy Students
Doubles**

the FY 2003 revised level in the Tuition Savings Program. These funds are derived from provisions in the contract with Alliance Capital, which manages the Rhode Island 529 Tuition Savings Plan. The Plan, which is marketed nationally, has experienced robust growth for several years.

General revenue expenditures for public safety activities in FY 2004 are increasing by \$14.3 million or 5.3%. The growth in costs for the Department of Corrections is a primary reason that require other state government expenditures to be constrained or reduced. The Department of Corrections has experienced record high population levels during FY 2003, putting tremendous pressure on the budget, and resulting in an \$8.24

**Public Safety
Expenditure
Growth Rate
Exceeds Overall
Budget Growth**

Overview

million supplemental budget recommendation. The Governor will investigate alternatives to incarceration and review sentencing policies in order to address the long-term costs of the corrections system. Additional resources are recommended for on-site or video arraignments to improve the efficiency of the criminal justice system. The FY 2004 recommended general revenue budget increases by \$9.6 million, or 7.0% over the FY 2003 revised budget. The Governor's recommendations support an inmate population of 3,724, including 89 Immigration and Naturalization Service detainees and 3,635 state inmates, an increase of 66 from the FY 2003 revised estimate. The recommendation includes funding for population-related per capita operating costs reflecting increased population, as well as overtime cost to staff reactivated medium, maximum and intake housing units.

Homeland Security

The role of the state's public safety agencies continues to expand as a result of September 11th. Enhancements to State House security, both prior to and subsequent to September 11th, have been financed from existing Rhode Island Capital funds programmed for the State House. Additional operating funds have been recommended in FY 2003 and FY 2004 for ten additional capitol police officers for enhanced security. The Department of Health continues to receive federal bioterrorism grants from the Centers for Disease Prevention and Control (CDC) and the Health Resources and Services Administration (HRSA). The FY 2003 revised budget includes \$6.6 million for bioterrorism related activities. Perhaps the most significant of these is the first phase of the federally approved smallpox plan. The Department of Health will expend approximately \$350,000 to immunize a strategic reserve of 1,200 hospital and emergency personnel.

The FY 2004 Health Department budget recommendation includes \$5.9 million from federal sources for bioterrorism preparedness and planning. The budget includes \$727,058 to construct a Level Three Laboratory and well as train laboratory staff. The department would also assist hospitals in acquiring the infrastructure necessary to respond to public health emergencies with total funding of \$1.1 million. The budget also includes \$1.1 million to improve health information and communications systems statewide. Finally, the Governor has included \$650,000 within the Disease Prevention and Control program for physician training and to improve security and surveillance systems.

The FY 2003 revised and FY 2004 budgets for the Military Staff include federal funds for several projects related to homeland security, including supplemental funds for planning, assessment of the Emergency Operating Center, and volunteer training. The budget also includes a Department of Justice Weapons of Mass Destruction grant program of \$4.2 million to provide emergency first responders with equipment. Subject to final action by the federal government regarding total funding, funding structure, and eligibility requirements, the budget recommends an additional \$3.0 million in federal funds for various purposes relating to homeland security including more first responder equipment and training.

Investments in Human Services

The Governor's FY 2004 recommendation includes full funding for medical assistance for state clients, including provider rate adjustments, in conformance with levels adopted by the consensus caseload estimating conference. The Medical Benefits program in the Department of Human Services finances health care benefits for eligible clients in a variety of settings, including hospitals, assisted living arrangements, nursing homes, clinics and offices, and through a variety of models, including fee-for-service, managed care, and subsidy of federal and private health insurance. Not including reimbursements to hospitals for uncompensated care, and to local education authorities for special education, FY 2004 recommendations total \$917.5 million, including \$405.2 million of general revenues.

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The Governor recommends \$5.0 million from current general revenues for the affordable housing program. This program, operated by the Housing Resources Commission, provides grants or low interest loans for the rehabilitation of dilapidated housing units or for new construction, along with operating subsidies to reduce rents for a minimum of ten years. Units would be available to persons working at or near the minimum wage.

Total expenditures of \$233.6 million are recommended for the Department of Children, Youth and Families for FY 2004. A major component of the FY 2004 recommended budget is the expansion of Residential Counseling Center slots by sixteen. Residential Counseling Centers are eight-bed facilities that provide a variety of therapeutic and clinical services in a group home setting. These group homes are designed for adolescents with serious emotional disturbances who need time-limited services to prepare to return home or to a long-term placement. Services are provided for a six-month period of time. The new slots will be utilized to place children currently in psychiatric hospitals in appropriate setting. This action will result in savings of \$2.1 million for the department. This savings reflects the net effect of the cost of direct hospital services and the administration associated with those services as compared with expenditures for the new RCC beds. Also recommended at DCYF will be an enhancement to services related to the foster parent program. This initiative, funded with an additional \$1.5 million in general revenue reallocated from adoption subsidy program, and matched with \$1.1 million in federal funds, will provide additional compensation to foster parents, provide post placement support services to foster families, and provide enhanced residential opportunities for foster children. The Governor's Capital Improvement Plan includes initial financing for the construction of a new Training School. Architectural design is scheduled to be near completion by the end of FY 2003.

To ensure continued services to the population served by the Department of Mental Health, Retardation and Hospitals through its Developmental Disability Private Community Services program, the Governor recommends that general revenue funding increase by \$1.4 million. This increase reflects several components, a base increase of \$3.5 million for caseload and services changes, a reduction of \$2.0 million for the change in the FMAP rate, a transfer of \$1.0 million to DHS related to Children's services, and an increase in medical benefit costs for employees of provider agencies. The general revenue budget for the Eleanor Slater Hospital is decreasing by \$3.5 million from FY 2003 to FY 2004. This is a result of a \$4.5 million reduction relating to the closure of two wards, one medical and one psychiatric. This reduction is partially offset by savings in the FMAP rate. In the Division of Mental Health Services, the appropriation for base services/caseload is being increased by four percent to provide for current services. However, because the FMAP reduction occurs simultaneously, the net increase is only \$0.5 million.

The Governor recommends continued funding of the Rhode Island Pharmaceutical Assistance to the Elderly Program at established eligibility levels. For FY 2004, the Governor recommends funding of \$14.1 million for this program. The Department of Human Services is awaiting approval of a medicaid waiver which will provide expanded pharmaceutical benefits to eligible elderly and needy Rhode Islanders. The FY 2004 recommended general revenue budget is structured to finance the current service operations of the Department of Health. However, there are several reductions in areas not deemed essential to the central mission of the Department of Health. The Governor recommends reductions in several areas including the Health Care Quality Program (\$201,961), the Poison Control Center (\$250,000), and the Certificate of Need and Change in Effective Control Program (\$275,800).

***Investments to Protect
the Environment***

The Governor recommends continued protection of the state's ecological and scenic resources by financing \$80.6 million of expenditures from all

Overview

sources of funds in the State's natural resource agencies in FY 2004. In the Department of Environmental Management, the Governor recommends: \$1.0 million of general revenues in FY 2003 to begin the multi-year closure of the Rosehill Landfill Superfund site in South Kingstown; Rhode Island Capital Plan funding of \$1.2 million to ensure the safety of state-owned dams in state management areas, and \$2.6 million of Rhode Island Capital Funds in infrastructure rehabilitation at state-owned recreation areas and fishing ports. At the Coastal Resources Management Council, \$9.0 million of OSPAR restricted revenues will be utilized by FY 2004 for the state's share of the Providence River Dredging Channel to reduce the risk that a tanker could run aground while delivering oil to the Port of Providence. At the Rhode Island Water Resources Board, \$1.0 million will be used in FY 2004 to ensure the availability of potable water for the state's drinking water suppliers. The Governor also reduces the state's reliance on transfers from the Rhode Island Resource Recovery Corporation in FY 2004, to allow that entity to enhance source reduction programs and thus ameliorate statutory tipping fee increases. By reducing the volume of waste that enters the landfill, the Corporation will help contain costs for Rhode Island cities and towns and prolong the life of the State's landfill.

Debt Reduction

The Governor's recommended FY 2004 Capital and Operating Budgets reflect debt reduction during FY 2002 using resources from the proceeds of Tobacco Securitization Bonds to defease \$247.6 million of debt (\$295.5 million reflecting the accreted value of capital appreciation bonds). This defeasance of outstanding general obligation debt and certificates of participation using the proceeds of bonds which are not considered state debt resulted in a significant reduction in Rhode Island's net tax supported debt position. The use of Tobacco Settlement resources accelerated the trend of reducing net tax supported debt beyond that which had been displayed in previous Capital Budgets. It also resulted in \$51.6 million of debt service savings in FY 2003, with additional savings over the next ten years providing significant budget relief. The reduction in state debt of \$247.6 million at the end of FY 2002 resulted in significant improvement in the state's debt position compared to that which would result without the use of proceeds from Tobacco Securitization for defeasance. Rhode Island's net tax supported debt position was \$1.287 billion at the end of FY 2002. Without this defeasance, it would have been \$1.531 billion. As expected, this improved the state's projected debt ratios through FY 2012. Debt as a percentage of personal income is projected to decline from a high of 8.5 percent in FY 1994 to 4.51 percent by FY 2004, and 3.89 percent in FY2008.

Due to the significant impact of the defeasance from the proceeds of the tobacco securitization, funds which would have been directed by statute to the Sinking Fund are recommended as a resource in the General Fund.

More Money to Address Transportation Needs

For FY 2004, the Governor recommends significant additional revenue for RIPTA and a reallocation of available resources for both DOT and RIPTA. Both DOT and RIPTA will experience savings in debt service costs through general obligation debt defeasance resulting from the state's tobacco securitization agreement, as well as from other debt refinancings. The Governor recommends an additional six tenths of one cent of the gas tax for allocation to RIPTA. This additional funding equates to approximately \$2.8 million in new revenue to meet operating costs. This is in addition to debt service savings in FY 2004 reallocated to operating needs totaling \$489,513. The net \$9.5 million savings realized by DOT will be utilized to finance maintenance projects on a cash basis as opposed to debt funding. Projects to be financed in whole or in part in FY 2004 with this additional funding include the dismantling of the old Jamestown Bridge, replacement of the Barrington Bridge,

Overview

and an additional 60 miles of road repavement. Also in FY 2004, the Governor recommends adhering to the current gas tax allocation schedule, which calls for the transfer of an additional one fourth of one cent of gas tax revenue to DOT. The additional revenue from this increased allocation equates to approximately \$1.2 million.

Due to the significant unmet transportation needs, the Governor's budget proposal transfers additional gas tax receipts to DOT and RIPTA. The Governor recommends that the scheduled .25 cent transfer to the Department of Transportation be implemented in FY 2004, and that an additional .6 cents be allocated to RIPTA. The para-transit program in the Department of Elderly Affairs continues to receive the current allocation under the Governor's budget recommendations. The scheduled transfers are:

**Gas Tax Transfer
Program in the FY
2004 Budget**

Completed

Effective FY 1998 – transfer 2.0 cents to DOT for a total of 16.00 cents.
 Effective FY 1999 – transfer an additional 1.5 cents to DOT for a total of 17.50 cents
 Effective FY 1999 – transfer an additional 2.0 cents to RIPTA for a total of 5.00 cents
 Effective FY 2000 – transfer an additional 0.75 cent to DOT for a total of 18.25 cents
 Effective FY 2000 – transfer an additional 0.5 cent to RIPTA for a total of 5.50 cents
 Effective FY 2001 – transfer an additional 0.25 cent to RIPTA for a total of 5.75 cents
 Effective FY 2001 – transfer an additional 1.25 cents to DOT for a total of 19.50 cents
 Effective FY 2002 – transfer an additional 1.0 cent to DOT for a total of 20.50 cents
 Effective FY 2002 – transfer an additional 0.5 cent to RIPTA for a total of 6.25 cents

Recommended

Effective FY 2004 – transfer an additional 0.25 cent to DOT for a total of 20.75 cents
 Effective FY 2004 – transfer an additional 0.6 cent to RIPTA for a total of 6.85 cents

In FY 2004, the distribution of the gas tax would be: RIPTA – 6.85 cents, DEA – 1.00 cent, DOT – 20.75 cents, General Fund – 1.4 cent.

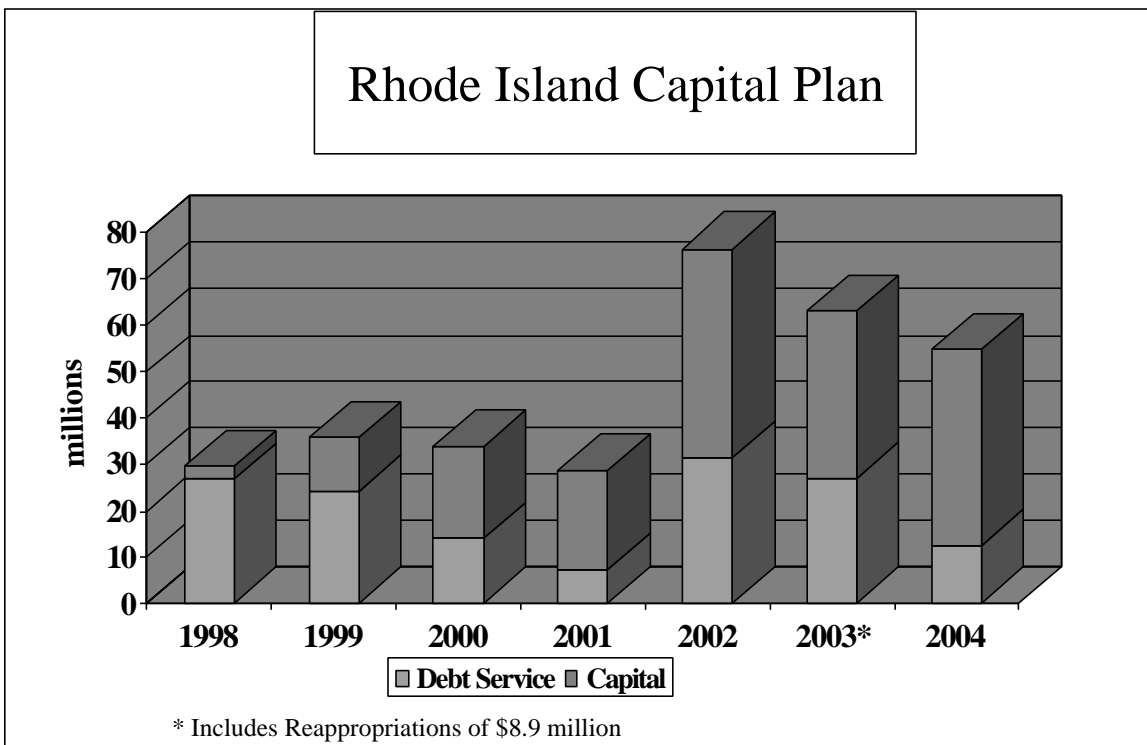
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Intermodal Surface Transportation Fund Transfers (in cents)							
<i>Department of Transportation</i>	16.0	17.5	18.25	19.50	20.5	20.5	20.75
<i>RI Public Transportation Authority</i>	3.0	5.0	5.50	5.75	6.25	6.25	6.85
<i>Department of Elderly Affairs</i>	1.0	1.0	1.0	1.0	1.0	1.0	1.0
<i>General Fund</i>	8.0	4.5	3.25	1.75	0.25	2.25	1.40
Total Gas Tax Levy, in cents:	28.0	28.0	28.0	28.0	28.0	30.0	30.0

The FY 2004 budget recommendations restore Rhode Island capital funds for the numerous projects that were deferred during FY 2002 and FY 2003.

**“Pay-As-You-Go”
Capital Plan
Back on Track**

Overview

“Pay as you go” funding from the Rhode Island Capital Fund provides \$35.9 million in FY 2003 and \$42.2 million in FY 2004 for capital projects. The Department of Transportation will benefit from debt service savings from the defeasance of debt using proceeds from the tobacco securitization. These savings will provide funds to demolish the old Jamestown Bridge and other critical projects that had been deferred. The Governor recommends that the state restore these projects to ensure that taxpayers previous investments are preserved and maintained.



Five-Year Projection

The fiscal 2004 executive summary also contains a five-year forecast as required by statute. The five-year forecast marks a distinct departure from past forecasts in fiscal 2006. This is the result of policy changes that have combined to enhance revenue flows while keeping program commitments and expenditures to affordable levels. By fiscal 2007-08, it is anticipated that surpluses will potentially equal 2.0-2.6 percent of the state expenditure base. However, it should be noted that there are a number of significant risks to this outlook. Among these risks are uncertainty with respect to the continuation of strong VLT revenue growth, long-term prison population growth and corrections infrastructure needs and the anticipated reporting standards which will require the state to reflect any accrued unfunded liability for retiree health benefits.

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 last fiscal year, its current fiscal year, and the budget year.

In 2001 the Rhode Island Division of Taxation procured an updated personal income tax simulation model. This acquisition required that additional economic variables be forecasted at the Revenue Estimating Conferences beginning with the November 2001 conference. Thus, 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 farm income, Rhode Island non-farm business income, Rhode Island dividends, interest and rent, Rhode Island total transfer payments, 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 last calendar and fiscal years (2002), the current calendar and fiscal years (2003), the budget calendar and fiscal year (2004) and the calendar and fiscal years for the period 2005 through 2011.

Summary

During the November 2002 conference, the conferees heard testimony from the state's two economic consulting firms, *Economy.com* and *Global Insight* (formerly *DRI-WEFA*). Both of the firms' representatives believed that the national recession had ended but that the ensuing national recovery was "struggling" to gain its footing and, as a result, the national recovery was likely to be a "jobless recovery" through at least the end of 2002. In addition, both economic consultants agreed that the key to a strengthening national economic recovery was a sustained increase in capital investment by businesses. Finally, both *Economy.com's* and *Global Insight's* economists stated that Rhode Island's economy was not immune from national trends and that such impacts would begin to be felt in the state's economy in FY 2003. Indeed, both presenters expressed some surprise that the Rhode Island economy had done as well as it had during the recession and each credited the restructuring of the state's economy during the 1990s as one of the reasons for this resilience.

On a comparative basis, the Rhode Island economy has fared well. According to *Global Insight*, the Rhode Island economy's performance outpaced those of Connecticut, Massachusetts and the United States as a whole. As of September 2002, year-over-year growth in Rhode Island total employment was 0.5% while in Connecticut, Massachusetts and the United States as a whole year-over-year growth in total employment was *negative* (-0.3%, -1.4%, and -0.6% respectively). With respect to year-over-year growth in personal income, in the second quarter of 2002, Rhode Island's personal income growth was 5.3%. This rate of growth was more than three and one-half times Connecticut's rate of 1.5%, more than four times Massachusetts rate of 1.3%, and nearly twice the United States as a whole's rate of 2.7%. Finally, with respect to the September 2002 unemployment rate, Rhode Island's

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unemployment rate was 5.0% vs. 4.1% in Connecticut, 5.2% in Massachusetts, and 5.5% for the United States as a whole.

In spite of this comparatively good economic performance, Rhode Island's economy has shown real weakness in certain areas. According to *Economy.com*, the Rhode Island economy has not exhibited a consistent trend, fluctuating between contraction and expansion on almost a monthly basis. In addition, an area of strong employment growth for the state, the financial services sector, has begun to be impacted by the prolonged downturn in the stock market. As a result, the expectation for this sector is for stagnant growth in the intermediate term and potential contraction given further deterioration in U.S. financial markets. Finally, the looming potential for war with Iraq remains the biggest threat to the state's economy at this time, primarily through reverberations from its impact on the national economy.

The consensus economic forecast for the fiscal years 2001 to 2004 agreed upon by the conferees at the November 2002 Revenue Estimating Conference is shown in the table below. This consensus economic forecast reflects the belief that the state's economic "recovery" will be weak to mild, reflecting the actual "recession" that occurred in the state last year. This forecast assumes the status quo about the possibility of war with Iraq and its subsequent outcome. Clearly, this forecast will be altered radically should the actual outcome with regard to Iraq deviate sharply from that which is currently expected.

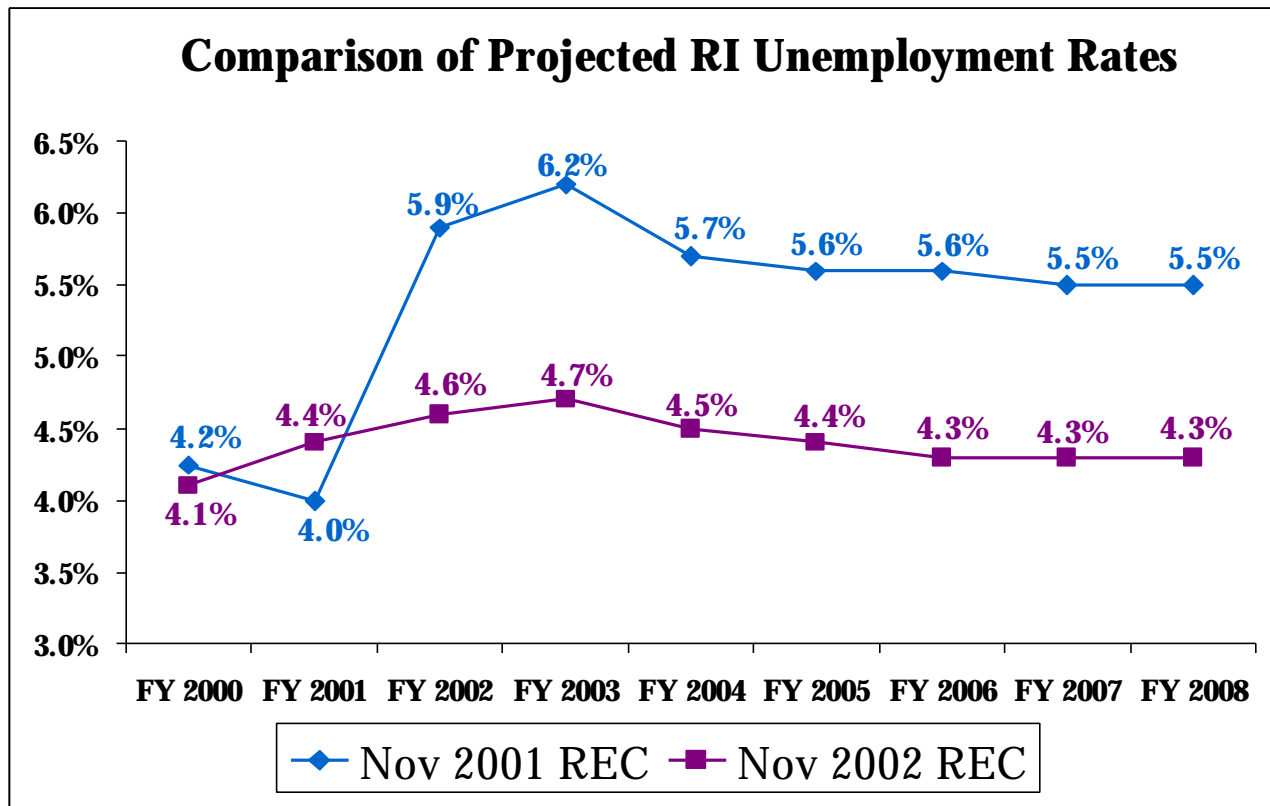
The November 2002 Consensus Economic Forecast				
Rates of Growth	FY 2001	FY 2002	FY 2003	FY 2004
Total Employment	1.6%	0.3%	0.4%	0.8%
Personal Income	6.0%	3.8%	4.1%	4.3%
Wage and Salary Income	5.5%	3.1%	3.9%	4.7%
Farm Income	-66.7%	-35.9%	8.1%	2.8%
Non-farm Business Income	3.3%	4.6%	5.1%	8.0%
Dividends, Interest and Rent	7.1%	0.4%	2.6%	3.0%
Total Transfer Payments	6.9%	12.1%	6.8%	2.5%
Nominal Levels				
U.S. CPI-U	3.4%	1.8%	2.1%	2.5%
Unemployment Rate	4.4%	4.6%	4.7%	4.5%
Ten Year Treasury Notes	5.4%	5.0%	4.4%	5.4%
Three Month Treasury Bills	5.1%	2.1%	1.9%	3.5%

The Economy

Employment

Rhode Island's economic performance over the past twelve months has been anything but typical. In fact, it might be said that, for Rhode Island, the national economic downturn that commenced in March 2001 turned out to be the recession that wasn't. According to the Rhode Island Department of Labor and Training (DLT), Rhode Island's seasonally adjusted unemployment rate peaked at 5.4 percent in December 2002. The last time the state's unemployment rate reached this level was in June 1997. In spite of the state attaining the highest monthly unemployment rate in five and one-half years, Rhode Island's unemployment rate remained below the national average for the seventeenth consecutive month. The November 2002 Revenue Estimating Conference forecasts a decline in the state's unemployment rate to 4.7 percent in FY 2003 and further decrease to 4.5 percent in FY 2004.

These projections are in sharp contrast to the forecasts made by the November 2001 Revenue Estimating Conference, the consensus of which anticipated the state sliding into recession in the second half of FY 2002. The graph below illustrates the difference between the November 2001 and November 2002 revenue estimating conferences' outlook with respect to the state's unemployment rate.



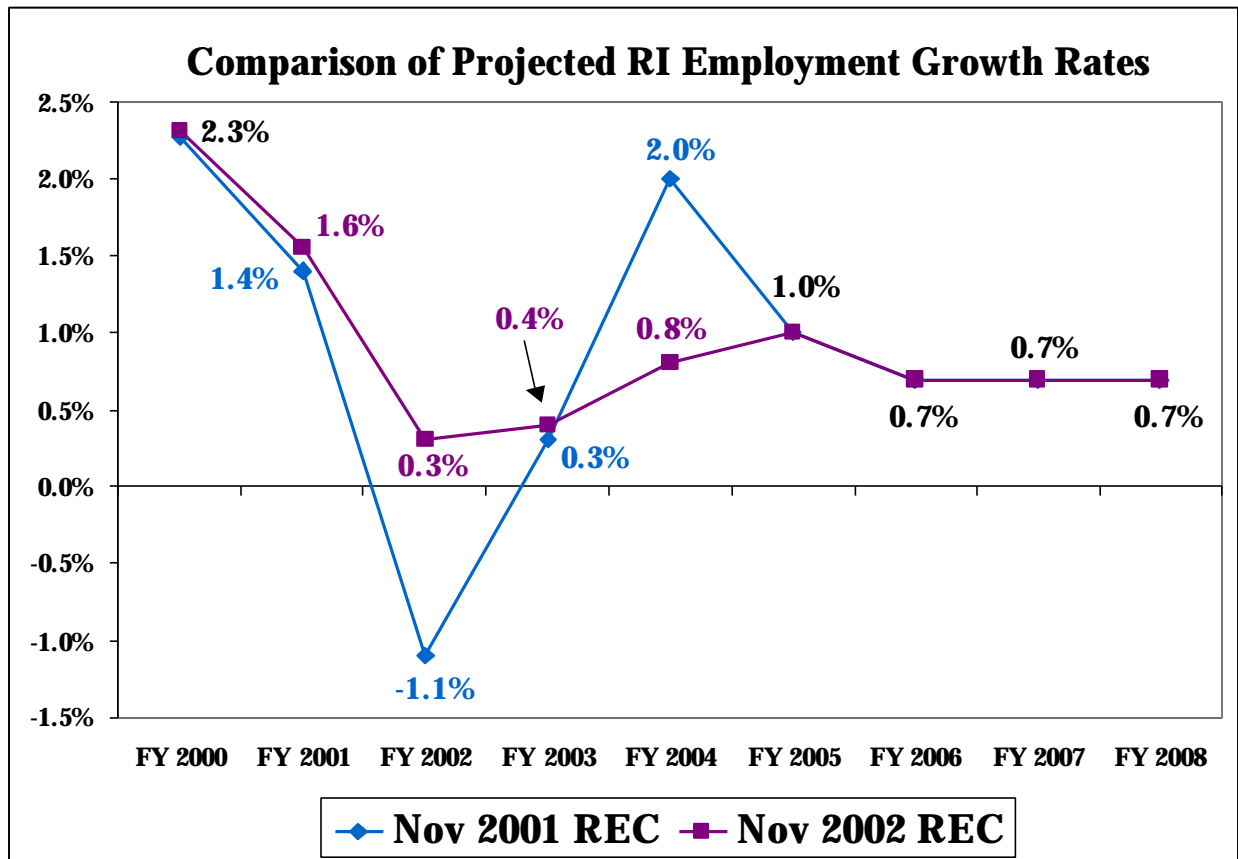
As can be seen in the graph, at this time last year, the REC expected that the recession would hit Rhode Island hard, causing a sharp run-up in unemployment in FY 2003. Note that the November 2001 REC projected a rate of unemployment 150 basis points higher than the current forecast. Note further, that the November 2001 REC forecasted an unemployment rate of 5.9 percent for FY 2002 when in reality it was 4.6 percent. The substantial spreads between the projected unemployment rates in the out-years,

The Economy

a minimum of 120 basis points in each fiscal year, is indicative of the significant structural change that has occurred in the Rhode Island economy and has yielded a lower natural rate of unemployment.

According to DLT, employment at Rhode Island businesses was 487,900 in December 2002, an increase of 3,700 jobs, or 0.8%, over December 2001. In spite of this year-over-year gain in employment at Rhode Island businesses, the number of unemployed Rhode Islanders increased in December 2002 by 900 from November 2002 to a total of 27,300. Compared to December 2001, the number of unemployed Rhode Island residents has increased by 2,200. The November 2002 REC projects Rhode Island employment on a fiscal year basis to be approximately 482,250 in FY 2003, an increase of nearly 2,000 jobs from FY 2002 and *over 8,000 jobs higher than the employment level that was forecast for FY 2003 at the November 2001 REC.* For FY 2004, the November 2002 REC forecasts further job growth, with Rhode Island employment rising to approximately 486,100.

DLT reports that the state's Manufacturing sector shed 900 jobs in December 2002 vs. December 2001 and its Business Services sector showed a decrease of 1,900 jobs for the same period. These job losses were more than offset by employment gains in Health Services, an increase of 1,100 jobs, Other Services, such as Engineering and Accounting Services, an increase of 1,700 jobs, and in Finance, Insurance and Real Estate services, an increase of 900 jobs. Rhode Island's Contract Construction industry experienced no employment growth in December 2002 relative to December 2001.



The chart above exhibits the forecasted changes in the growth of Rhode Island employment growth made at the November 2001 and November 2002 Revenue Estimating Conferences. Several differences

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readily apparent when comparing the two forecasts. First, in November of 2001 the conferees were much more pessimistic about the prospects for the Rhode Island economy. At that time, they anticipated Rhode Island employment growth of -1.1% for FY 2002. In reality, the state's economy experienced positive employment growth of 0.3%. Second, the November 2001 REC estimated a slow rebound in employment growth in FY 2003 to 0.3%, in spite of the significant decline projected for FY 2002. The November 2002 REC forecasted a flat rate of employment growth in FY 2003 of 0.4%, reflecting the "struggling" economic recovery currently underway. Finally, the participants at the November 2001 Revenue Estimating Conference projected a sharp up turn in Rhode Island employment growth of 2.0% in FY 2004, consistent with the severe decline in employment growth that was projected for FY 2002. At the November 2002 Revenue Estimating Conference, the conferees predicted a milder ramp up in Rhode Island employment growth of 0.8% in FY 2004, again reflective of the fact that the state's economy was relatively unscathed by the national recession.

In sum then, in terms of employment growth, the November 2001 REC forecasted a sharp recession and a significant recovery in Rhode Island over the FY 2002—FY 2004 period (i.e., a "V" shaped rate of employment growth curve). The November 2002 REC, on the other hand, has predicted that only a slowdown occurred in Rhode Island and only mild growth is expected over the FY 2002—FY 2004 (i.e., a "U" shaped rate of employment growth curve).

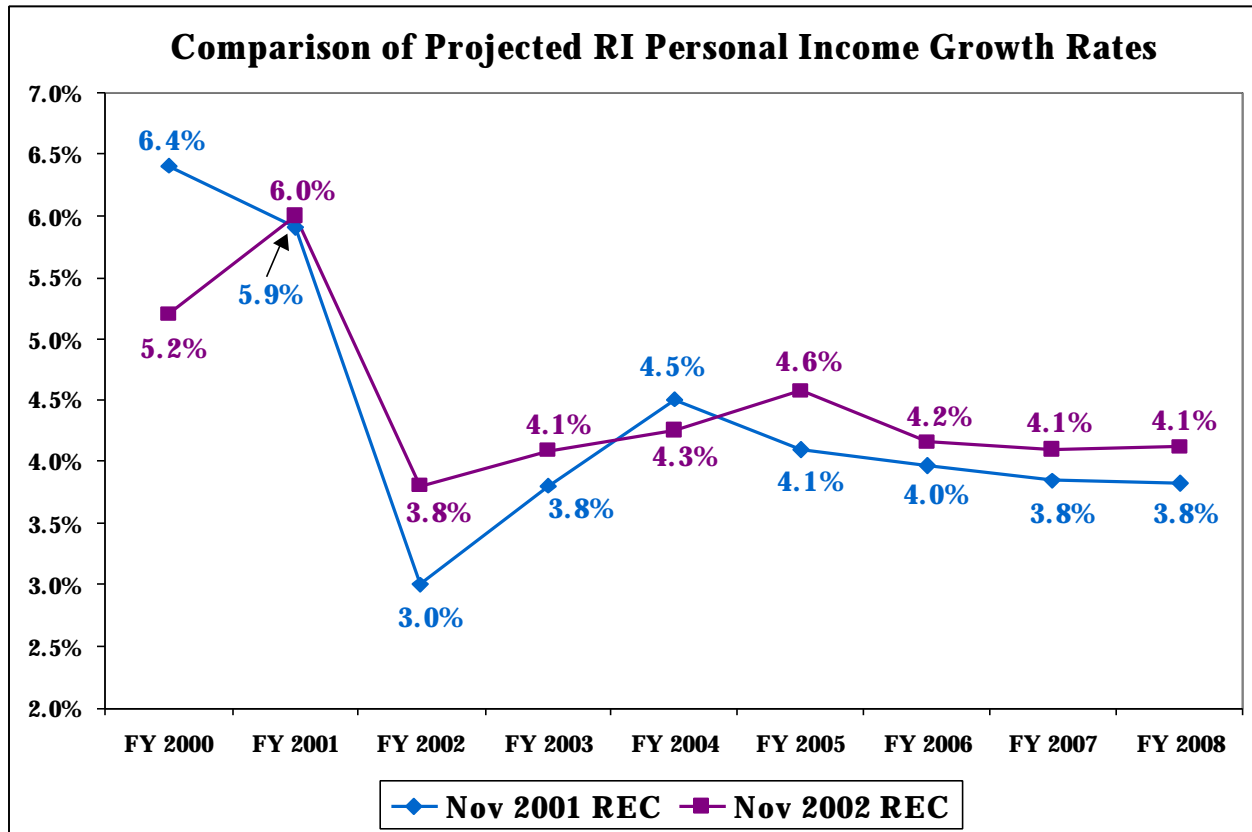
Personal Income

As was the case with the Rhode Island unemployment rate and the Rhode Island employment growth rate, the November 2002 Revenue Estimating Conference made significant changes to the forecast of Rhode Island personal income growth. This revision to the forecast was necessitated by the fact that the recession that was expected to impact the Rhode Island economy in the FY 2002—FY 2004 period turned out to be a deceleration rather than a contraction.

The graph below illustrates the difference between the two forecasts. Note that this chart differs substantively from the previous charts for a variety of reasons. First, during the period between the November 2001 and November 2002 Revenue Estimating Conferences a substantial revision was made to the state's personal income statistics. These types of revisions are quite common and can be seen in the large difference in the personal income growth rates for FY 2000. At this time, such a revision has not been made to the FY 2001 data and as a result both forecasts continue to predict a growth rate in Rhode Island personal income of approximately 6.0%. It is at this point, however, that the two forecasts begin to diverge with respect to the projected growth rate in personal income. This divergence, of course, is due to the different views of the future of the state's economy at the time the forecast was made.

It should be noted that over the FY 1989—FY 1999 period, the average annual rate of growth in Rhode Island personal income was 4.0%. In November 2001, the participants at the Revenue Estimating Conference projected that the growth rate in Rhode Island personal income would drop 100 basis points below this average annual growth rate to 3.0%. This growth rate would then improve to 3.8% in FY 2003, reflecting a slow recovery in the state's economy before finally beginning to accelerate in FY 2004 to a rate of 4.5%, again as the expected economic recovery took hold in Rhode Island. In the out years, the rate of growth in Rhode Island personal income would then revert back to the average annual growth rate of 4.0% that prevailed over the FY 1989 to FY 1999 period.

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In November of 2002, the conferees at the Revenue Estimating Conference revised the growth rate in Rhode Island personal income upward to be more in line with the average annual growth rate that prevailed over the FY 1989—FY 1999 period. Specifically, the members of the REC increased the growth rate for FY 2002 to 3.8% vs. the 3.0% growth rate adopted in November 2001. This sharp upward revision reflected the participants' expectation that the state's economy had not been adversely impacted by the national recession. Given that the state's economy had gone through an economic slowdown rather than a recession in FY 2002, the forecasters made an upward adjustment to the rate of personal income growth in FY 2003 to 4.1% from 3.8% in November 2001. Similarly, a downward revision was made to Rhode Island personal income growth in FY 2004 to 4.3% from 4.5% in November 2001. Finally, the November 2002 REC revised upward the rate of growth in personal income in FY 2005 from 4.1% to 4.6%. This revision was made to capture the anticipated entry of the Massachusetts economy into the growth phase of its recovery from the recession. The out year estimates of Rhode Island personal income growth tend to be slightly greater than the average annual growth rate noted above reflecting the underlying strength in the Rhode Island economy that was made evident by the recession that wasn't.

Conclusion

The state's economy was one of only two economies in the northeastern United States that did not experience a downturn in employment growth from 2000 – 2002. This record of economic performance gives the state an unprecedented opportunity to further its economic development without having to first repair the damage from the national economic recession.

The Jobs Agenda

Introduction

In his State of the State address, the Governor set the goal of creating 20,000 more jobs in Rhode Island over the next four years. What does the Governor's goal mean in terms of current employment trends in the Rhode Island economy? According to the November 2002 Revenue Estimating Conference's Consensus Economic Forecast, the Rhode Island economy is projected to add 13,627 new jobs over the 2003–2006 period. Thus, the Governor's goal of 20,000 new jobs represents an increase of 46.8% above this baseline growth. The November 2002 REC's Consensus Economic Forecast assumes an average annual rate of growth of 0.7% in employment for this period. To achieve the Governor's goal, the average annual growth in Rhode Island employment for 2003–2006 must be at least 1.0%. The table below summarizes this analysis.

<u>Nov 2002 REC</u>	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004</u>	<u>CY 2005</u>	<u>CY 2006</u>
Total Employment	478,833	481,757	483,684	488,520	491,940	495,384
Jobs Added	2,175	2,873	1,927	4,837	3,420	3,444
Growth	0.5%	0.6%	0.4%	1.0%	0.7%	0.7%
<u>Governor's Goal</u>	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004</u>	<u>CY 2005</u>	<u>CY 2006</u>
Total Employment	478,833	481,757	486,681	491,655	496,680	501,757
Jobs Added	2,175	2,873	4,924	4,974	5,025	5,077
Growth	0.5%	0.6%	1.0%	1.0%	1.0%	1.0%

In the FY 2004 budget, the Governor has put into place a multi-faceted approach for achieving his job creation goal. This approach addresses three fundamental components of job creation: workforce quality, economic development policy, and creating business in the emerging new economy. We address the Governor's specific recommendations for each of these areas below.

Workforce Quality

The 2000 U.S. Census revealed that 22 percent of Rhode Island's adult population 25 years old and over had less than a high school education, the highest percentage in New England. The Census also showed that of those 5 years old and over who spoke a language other than English, 8.5 percent indicated they spoke English less than 'very well', again the highest percentage in New England. The Governor understands that Rhode Island cannot compete effectively given these demographics and, as a result, the Governor's FY 2004 budget includes an additional \$1.4 million for adult literacy programs. Currently, according to the Rhode Island Workforce Literacy Collaborative, there are over 2,500 people on the waiting list to take adult literacy classes. The addition of this money should shorten the size of this waiting list considerably.

In addition to improving the literacy skills of the State's labor force, the Governor is committed to increasing the number of college graduates in the state. According to the 2000 U.S. Census, of Rhode Islanders age 25 and over, only 25.6 percent had earned a bachelor degree or higher. This puts Rhode Island fifth out of the six New England states, ahead of only Maine at 22.9 percent and well behind

The Jobs Agenda

Connecticut and Massachusetts at 31.4 percent and 33.2 percent respectively. A major obstacle preventing Rhode Islanders from obtaining bachelor degrees, is the cost of higher education. The National Center for Public Policy and Higher Education gives Rhode Island a grade of “F” when it comes to the affordability of higher education for the state’s residents. Particularly distressing is Rhode Island’s abysmal percentage of state grant aid targeted to low-income families as a percent of federal Pell Grant aid to low-income families. The state only matches 19 percent in state grant aid to federal Pell Grant aid. This is the second lowest percentage in New England and results in Rhode Island college students having the highest average annual loan amount in the region. The Governor’s FY 2004 budget seeks to add \$5.0 million to the Rhode Island Higher Education Assistance Authority (HEAA) for the purposes of providing more need based grants to the state’s college students. At this time, the average grant disbursed by HEAA is \$625 with over 10,000 Rhode Islanders receiving these grants. The Governor’s proposal will allow for an increase in the average grant and an increase in the number of Rhode Island students receiving them.

On December 23, 2002, the U.S. Food and Drug Administration approved Amgen Inc.’s West Greenwich, Rhode Island plant for the production of Enbrel®, the leading drug therapy for rheumatoid arthritis. According to Amgen Chairman and CEO Kevin Sharer, the Rhode Island facility is “among the most advanced cell culture manufacturing centers in the world.” The plant expects to employ more than “550 highly skilled professionals” to “monitor the Enbrel® being produced, and perform hundreds of routine controls and validation studies throughout the manufacturing process to help ensure its quality.” The jobs that are available at the Amgen plant are the high-paying jobs of the future that the Governor wants to attract to the state. In furtherance of this objective, the Governor’s FY 2004 budget invests an additional \$300,000 from the Rhode Island Capital Plan Fund (RICAP) for the architectural and engineering work necessary for the building of a \$10.0 million state-of-the-art biopharmaceutical manufacturing training facility. This cost of this facility will be financed by a public and private partnership between the State, biopharmaceutical manufacturers, and the makers of the equipment used in the biopharmaceutical manufacturing process.

Economic Development Policy

The Governor believes that above-trend employment growth can be attained if the State works more closely with local governments on economic development initiatives. As a first step in this regard, the Governor has functionally separated the Quonset Davisville Port and Commerce Park from the Rhode Island Economic Development Corporation allowing each entity to better serve their respective constituencies. For the Quonset Davisville Port and Commerce Park, this means focusing solely on the former Navy bases current and prospective tenants. For the Rhode Island Economic Development Corporation, this means focusing its attention on economic development initiatives throughout the state. To assist with these initiatives, the Governor’s FY 2004 budget proposes to spend \$500,000 to establish matching grant fund for city and town economic development. This fund would provide state monies as a match to local government expenditures for economic development purposes such as a marketing initiative for a municipal industrial park.

According to the Beacon Hill Institute’s *State Competitiveness Report 2001*, Rhode Island ranks 38th out of the 50 States and the District of Columbia with respect to venture capital available per capita. As the report notes, “[V]enture capital is important for start-ups. The more venture capital, the more sophisticated the financial environment.” Clearly, the more new ventures that are started in the state, the more likely that at least some of these new ventures will be successful and add to the state’s

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employment base. Typically, in the early phases of business development, when a firm has more potential than actual profits, a venture capitalist will invest real money in the firm in exchange for shares of the company's stock. Under current Rhode Island law, any changes in a company's authorized shares of stock requires the payment of a licensing fee to the Secretary of State. This fee is based on a graduated scale and can reach tens of thousands of dollars. For a start-up venture that wishes to increase its authorized shares of stock in order to transfer them to a prospective venture capitalist, a fee in the tens of thousands of dollars to do so is counterproductive. Thus, the Governor's FY 2004 budget proposes eliminating the graduated licensing fee scale that is currently in place and replacing it with a fixed \$160 fee for both domestic and foreign corporations.

From FY 1994 to FY 2002, state employment in manufacturing has decreased 22.5%, from 87,700 to 68,000 jobs. In addition, according to the Progressive Policy Institute, the export focus of the state's manufacturers ranks 44th out of the 50 states. At least part of this lackluster growth and sub-par export performance can be attributed to the way the State taxes the income of manufacturers. Under current law the state's corporate income tax apportionment formula requires manufacturers to assign weights of one-third each to their Rhode Island payroll, their Rhode Island property tax and their Rhode Island sales. The use of this formula penalizes Rhode Island manufacturers who wish to expand out-of-state sales as they pay a higher corporate income tax when they increase their in-state payroll and in-state plant and equipment to meet the increased demand. The Governor, in his FY 2004 budget, proposes changing the apportionment formula for manufacturers from the current one-third, one-third, one-third to 40% for in-state sales and 30% each for in-state payroll and in-state property tax beginning with the 2003 tax year. This is estimated to cost \$2.0 million in foregone corporate income taxes collected but these lost revenues are expected to be more than offset by other tax and fee revenues associated with the expansion of Rhode Island manufacturers operations.

Position in the New Economy

According to the National Science Foundation (NSF), in 1999, Rhode Island ranked 29th out of the 50 states plus the District of Columbia and the Commonwealth of Puerto Rico in academic research and development monies received. Further, the NSF notes that, in 2000, the State ranked 38th out of the same group of 52 in the number of patents issued to state residents. Under current law, the state's ethics code indicates that an individual has a "substantial conflict" with his or her "employment in the public interest...if he or she has reason to believe or expect...that he or she will derive a direct monetary gain...by reason of his or her official activity." Since much of university research is basic research, this provision in the state ethics code prohibits professors from commercializing applications associated with their university research. In his FY 2004 budget, the Governor proposes that Rhode Island adopt a best practice rule for commercialization of research and intellectual property. This change should provide public university professors with an incentive to seek the commercialization of their scientific discoveries.

Given the state's success with the Amgen plant and the pending expansion of Dow's contract pharmaceutical manufacturing facility in Smithfield, the Governor has targeted biotechnology as one of the areas for future job development in the state. According to the Brookings Institution's Center on Urban and Metropolitan Policy, a necessary condition for the development of a biotechnology commercialization cluster is the strong presence of medical research activity. Currently, the state's concentration of large hospitals and the Brown University Medical School in Providence have provided it with a solid foundation upon which to build. The Governor proposes the construction of a \$50.0 million

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million Center for Biotechnology and Life Sciences at the University of Rhode Island to serve as a complement to the established medical research cluster that already exists in Providence. The Governor believes that the development of a symbiotic relationship between the center at URI and the medical institutions in Providence will provide the state with a competitive advantage in this area and allow for future expansion of the industry in the state. To jump start this process, the Governor's FY 2004 budget invests an additional \$300,000 of RICAP monies for architectural and engineering studies. The bulk of the financing for this project will be put to the voters in a bond referendum in November 2004.

In 1997, the State established the Samuel Slater Technology Fund. The Slater Fund's mission is to plant "the seeds for a robust pool of high-tech employment opportunities in Rhode Island." It does this by "taking cutting-edge technologies out of the lab and into the commercial market, building clusters of high-tech firms in growth industries, and providing information and other critical resources to power the 21st century economy". The Slater Fund is comprised of four Slater Centers. These centers are focused on Biomedical Technology, Design and Manufacturing, Marine and Environmental Technology, and Interactive Technology. In the five years since their inception, the Slater Centers have made strategic contributions to the growth of 59 high-tech start-ups in Rhode Island that employ over 250 Rhode Islanders. The Governor proposes increasing the state's investment in the Slater Fund from \$2.5 million to \$5.0 million in FY 2004. At this level of funding, the Slater Fund's component centers could make 8 to 10 investments of \$100,000 each annually and better leverage the entrepreneurial expertise of their respective directors.

Revenues and Receipts

The FY 2004 budget recommends appropriation of funds totaling of \$5.631 billion. The largest source of funds is general revenue, reflecting \$2.769 billion or 49 percent of this total. Thirty one percent or \$1.749 billion is from federal funds, \$973.6 million, or 17.3 percent, is from other sources, and \$139.2 million, or 2.5 percent, is from restricted or dedicated fee funds. General Revenue expenditures are discussed in greater detail on the following pages.

Federal Funds are increasing by \$41.1 million from \$1.708 billion to \$1.749 billion. The major changes are described below:

- A decrease of \$2.7 million for the Department of Administration, primarily attributable to the projected statewide savings from the proposed change in the retirement fund contribution by state employees. These projected savings are budgeted centrally in the Department of Administration, but will be distributed to all agencies prior to final enactment of the budget.
- A decrease of \$9.1 million of federal funds within the Department of Labor and Training mostly associated with reductions of \$7.7 million in discretionary grants and program support for workforce development programs. The affected programs in the Department included: Welfare-to-Work, Workforce Investment Act, Trade Adjustment Act, and Unemployment Insurance Administration.
- An increase of \$3.9 million relating to a new source of federal funding to support a variety of election reform efforts in all 50 states. The reforms will include financing for computerized voting systems, voting equipment for the disabled or visually impaired, a statewide central voter registry, provisional balloting and poll worker education and training. A portion of these funds should be available to cover the cost of the lease for the State's existing Optical Scan Voting System, as Rhode Island is ahead of the curve in implementing this type of technology. The appropriations are reflected in the Board of Elections pending determination of the actual expenditures, which will occur in both the Secretary of State's Office and the Board of Elections.
- An increase of \$39.3 million in additional federal revenues for the Department of Human Services. This increase is entirely attributable to a \$46.0 million increase in Federal Medicaid grants. This increase is a composite of expanded and increased federal reimbursement rates. There is a \$60.1 million increase from FY 2003 revised levels for all funds in the Medical Benefits program. This amount is related to increases in all categories of Medicaid cost from expanding caseloads and cost inflation. The growth in federal costs for this increase at FY 2003 reimbursement rates is approximately \$33.3 million. Because of updated collection information on Rhode Island federal tax effort, federal Medicaid matching rates are increasing from 55.4 percent in federal fiscal year 2003 to 56.03 percent in federal fiscal year 2004. This results in a 2.7 percent decrease in state Medicaid expenditures in state fiscal year 2004 compared to SFY 2003. The increased federal charges resulting are approximately \$12.7 million, and when included with the \$33.3 million in benefit growth, accounts for the \$46.0 million change. Offsetting reductions in federal funds in cash assistance and child care programs of \$7.3 million represent the unavailability of one-time prior year federal and current year performance bonus TANF funds programmed for FY 2003. Federal grants in support for capital projects at the Veterans' Home and Cemetery decline by \$1.8 million.

Revenues and Receipts

- An increase of \$8.0 million in additional federal revenues for the Department of Mental Health, Retardation and Hospitals. This increase is primarily attributable to increasing caseload costs within the Developmental Disability and Mental Health programs and the change in the FMAP rate. The total federal revenues in Developmental Disabilities are increasing by \$7.5 million and federal revenues in the Mental Health Program are increasing by \$2.3 million. These increases are partially offset by a \$2.0 million reduction in the Eleanor Slater Hospital. This reduction in federal revenues is attributable to the closure of two wards and the resultant reduction in the patient census.
- A reduction of \$1.6 million in the State Police due primarily to the end of one-time technology and crime data funds.
- An increase of \$3.9 million in the Military staff, primarily for homeland security, including additional funds for first responder equipment and training, emergency water interceptors and an alternative public safety answering point facility.
- An increase of \$4.4 million in the Department of Transportation, primarily due to additional funds in the Governor's Office of Highway Safety for Alcohol Awareness and Prevention and highway and road Hazard Elimination efforts.

For FY 2004, the Governor recommends **restricted funds** expenditures totaling \$139.2 million, a increase of 16.2 million from the revised level of \$123.0 million. Restricted receipts are revenues (such as licenses and fees) which are solely dedicated to activities specified by the legislation that created the receipt. The most significant changes are:

- A net increase of \$218,455 in the Department of Environmental Management including: an increase of \$450,000 in the fish and game license receipt accounts due to new fee structure for resident and non-resident freshwater fish licenses, deer hunting, and new fees for wild turkey and pheasant; an increase of \$600,000 for a new fee in FY 2004 for generators of hazardous waste material to be collected in the Environmental Response Fund II; reduction of approximately \$250,000 in the Water and Air Restricted Receipt account due to one-time expenditures in FY 2003 not being repeated in FY 2004, and; reduction of approximately \$425,000 from the UST reimbursement account for one-time expenditures in FY 2003 for MTBE contamination work at the Pascoag water system in Burrillville.
- An increase of \$2.8 million in the Department of Labor and Training, primarily for additional expenditures for the Human Resource Investment Council, Workers' Compensation related programs, and increased use of Tardy and Interest funds.
- A decrease of \$651,636 within the Department of Human Services, reflecting the completion of one major capital project financed with restricted receipt funds. A portion of each resident's income at the Veterans' Home is dedicated to a capital projects fund. During FY 2003 the Veterans' Home roof will be replaced in most areas of the main facility. The repair projects in FY 2004 are not of the same magnitude and therefore the expenditures will be significantly less than those experienced in FY 2003.

Revenues and Receipts

- An increase of \$18.5 million in the Department of Transportation to reflect anticipated design and construction schedules associated with the Freight Rail Improvement Project

For FY 2004, the Governor recommends **other funds** expenditures totaling \$973.6 million, a decrease of .9 million from the revised level of \$974.5 million. This category is primarily comprised of funds in the University and College Fund, Employment Security and Temporary Disability funds and the portions of the gasoline tax dedicated to the Department of Transportation, the Department of Elderly Affairs, and the Rhode Island Public Transit Authority. Other funds also include operating transfers, such as the Rhode Island Capital Plan Fund (RICAP), as discussed below.. The most significant changes are:

- A reduction of \$3.7 million in the Office of the General Treasurer due to a reduction in purchased consultant services. The funding in FY 2003 represents the final installment of a \$20.5 million project to implement a new computerized system for the State Retirement System.
- An increase of \$12.4 million for Public Higher Education. The category of other funds, for Public Higher Education, includes institutional revenues, research funds, Rhode Island Capital Plan funds, auxiliary enterprise funds and student aid funds. The net increase reflects an increase of \$7.8 million for the University of Rhode Island, \$2.7 million for Rhode Island College and \$2.7 million for the Community College of Rhode Island.
- A net decrease of \$22.9 million in the Department of Labor and Training for income support benefit payments. The net decrease consists of a \$39.6 million decrease in Unemployment Insurance benefit payments; a \$15.3 million increase in Temporary Disability Insurance benefit payments; and a \$1.4 million increase in employment services expenditures from Reed Act funds.
- An increase of \$2.3 million above the FY 2003 recommended level in the Department of Environmental Management. The increase relates to additional financing of capital asset protection projects including rehabilitation of state-owned dams, commercial fishing piers, and recreational access projects.
- An increase of \$506,277 in RI Capital Plan Funds from recommendation for full funding in FY 2004 to repair the building envelope for the Forand Building in Cranston, including the roof, soffits, windows and wall panels.
- A net increase in the Department of Transportation of \$10.2 million results primarily from the following:
 - An increase of \$12.7 million in additional gasoline tax revenue available to DOT and RIPTA. The gas tax allocation to RIPTA will be increased by six tenths of one cent. This equates to an additional \$2.8 million for the authority. DOT's gas tax allocation increases by one fourth of one cent. This change provides additional revenue of \$1.2 million.
 - The Department of Transportation will experience net savings of \$9.5 million in debt service costs as a result of the defeasance of general obligation debt with

Revenues and Receipts

proceeds from the state's securitization of tobacco master settlement revenues, as well as from other debt refinancings.

- Changes to "Other funds" over FY 2003 also include an expenditure reduction of \$1.0 million in anticipated revenues from land sale/lease revenue, a reduction of \$935,000 in Rhode Island Capital Plan funds for RIPTA, and a reduction of \$575,785 in expenditures financed with revenue generated from highway advertising licensing fees.

General Revenues

Introduction

The Governor's recommended budget includes general revenues of \$2.730 billion in FY 2003 and \$2.811 billion in FY 2004. Annual estimated growth during FY 2003 and FY 2004 is 4.9 percent and 3.0 percent, respectively. Estimated deposits of \$55.3 million and \$56.5 million will be made to the Budget Reserve and Cash Stabilization Fund during the same time periods.

The aforementioned estimates are predicated upon the November 2002 Consensus Revenue Estimating Conference estimates, the adjustments to these estimates made at the January 2003 Consensus Revenue Estimating Conference, and changes to general revenues recommended by the Governor. 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 on the 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 the current fiscal year. The meeting of the Conference in January 2003 was in response to the Rhode Island Lottery Commission's vote to increase the number of video lottery terminals allowed at the state's two licensed gaming facilities. This special conference considered only the impact on general revenue that the state would expect to receive based on the addition of the new video lottery terminals (VLTs) and year-to-date collections from existing VLTs. Thus, the only revenue source re-estimated was that concerning the Lottery's Transfer to the general fund that results from the utilization of video lottery terminals.

FY 2003

The November 2002 conference revised the FY 2003 enacted revenue estimate upward by \$8.0 million, a 0.3 percent increase. The Governor recommends an increase of \$15.3 million in new revenues, as shown in the *General Revenue Changes to Adopted Estimates* table in this document. Of this \$15.3 million in recommended changes to the adopted estimates, \$14.3 million consists of a one-time transfer of gas tax revenues from the Department of Transportation (DOT) to the general fund. This transfer represents the FY 2003 debt service savings that the DOT reaped as a result of the state defeasing \$295.3 million in general obligation bonds as part of the tobacco securitization deal completed at the end of FY 2002. In addition, both the Narragansett Bay Commission (NBC) and the Rhode Island Airport Corporation (RIAC) have agreed to transfer their FY 2003 debt service savings from the debt defeasance portion of the tobacco securitization deal to the general fund. These transfers yield an additional \$0.7 million to the general fund. The remaining \$0.3 million is comprised of an anticipated increase in Health Care Provider Assessments due to an expansion of the group home tax base.

Recommended revenues for FY 2003 are predicated upon a \$126.9 million increase in collections over FY 2002, or growth of 4.9 percent. The largest contributing factor to this increase is the projected rise in tax collections from FY 2002, an increase of some \$107.4 million. All tax categories are expected to exhibit increased collections with Personal Income Tax collections forecasted to increase by \$21.5 million, General Business Tax collections projected to increase by \$23.5 million, Excise Tax collections anticipated to increase \$50.1 million, and Other Taxes estimated to increase \$12.3 million. In addition, Departmental Receipts are expected to increase by \$32.3 million. These sharp improvements in tax and

General Revenues

departmental receipt collections are due to the improved economy forecasted for FY 2003 and the tax and fee increases passed by the General Assembly during the 2002 session.

In addition to these general revenue components, increases are forecasted in FY 2003 for the Gas Tax Transfer to the general fund and the Lottery's Transfer to the general fund. In the case of the Gas Tax Transfer, an increase of \$24.3 million is forecasted and is attributable to the above mentioned transfer of the DOT's debt service savings and the 2002 Assembly's raising of the state's gas tax by \$0.02 per gallon. In the case of the Lottery's Transfer, an increase of \$31.5 million is projected and is due primarily to expected growth in video lottery net terminal income as a result of higher utilization and the addition of new video lottery terminals.

Finally, for FY 2003 a large decrease is estimated for the Other Miscellaneous category of Other Revenue Sources. This decrease of \$68.9 million from FY 2002 levels is due to a combination of factors. First, there is the planned decrease of \$50.0 million in the use of the resources made available from the tobacco securitization deal that the state executed at the end of FY 2002. Second, the planned transfer to the general fund from the Depositor's Economic Protection Corporation (DEPCO) is \$13.8 million less in FY 2003 than it was in FY 2002. Finally, the state received \$5.1 million from Blue Cross Blue Shield of Rhode Island in FY 2002 to settle an outstanding billing dispute it had with the state. This revenue will not be available again in FY 2003.

As noted above, personal income tax collections are forecasted to increase by \$21.5 million in FY 2003 over FY 2002, an increase of 2.7%. The revenue gains in personal income tax collections will be muted somewhat due to tax rate reductions and tax credits. The personal income tax rate was reduced on January 1, 2002 from the equivalent of 25.5 percent of federal taxable income to 25.0 percent of the same. This reduction in the personal income tax rate is expected to result in decreased revenues of approximately \$9.0 million in FY 2003. The increased Investment Tax Credit and Research and Development Tax Credits also continue to impact tax collections in FY 2002, as individuals and businesses continue to reap the benefits of an improved tax structure in Rhode Island. Personal income taxes are expected to comprise 30.4% of all general revenues collected in FY 2003 and total \$829.7 million.

The Sales Tax is expected to show gains in FY 2003 collections of \$32.5 million over FY 2002 collections. Sales taxes represent 28.5 percent of total general revenues in FY 2003. The continued strength in sales and use tax collections in Rhode Island is due in large part to the home mortgage refinancing boom that has occurred throughout the United States. According to a recent survey conducted by Fannie Mae, cash raised via either home equity borrowing or cash-out refinancing has been used by households for home improvements (42%), to pay down existing debt (30%), to purchase cars or other items (15%), and to purchase appliances or furniture (13%). From the State's perspective, the distribution of this consumption activity is significant, as most of the spending has been concentrated on items upon which the State assesses its 7.0% sales tax. Anticipated collections in FY 2003 are \$778.2 million reflecting a growth rate of 4.4 percent over FY 2002 collections.

Within the sales and use tax category, motor vehicle tax collections are expected to reach \$46.5 million in FY 2003, an increase of 1.4 percent over FY 2002 collections. The Motor Fuel tax estimate of \$1.0 million is 23.1% greater than FY 2002 collections. The revised FY 2003 Cigarette Tax estimate of \$101.8 million is an upward revision of \$2.9 million from the FY 2003 enacted budget. Both of these estimates reflect the 2002 Assembly's enactment of an increase in the cigarette tax from \$1.00 per pack

General Revenues

to \$1.32 per pack effective May 1, 2002. The FY 2003 estimate for cigarette tax collections is an increase of \$16.3 million over FY 2002 collections, or a 19.1% increase.

Positive growth is expected in nearly all categories of general business taxes. FY 2003 Business Corporations taxes are expected to rise \$11.8 million above FY 2002 collections and Insurance Companies taxes are anticipated to be \$6.8 million higher than in FY 2002. The primary reason for the increases in these taxes is the economic recovery currently underway in the state's economy. The Business Corporations Tax and the Insurance Companies Tax are expected to bring collections of \$36.0 million, and \$39.2 million, respectively. The Public Utilities Gross Earnings Tax is expected to garner \$83.6 million, an increase of \$2.8 million over FY 2002 collections. The Health Care Provider Tax is estimated to yield \$29.6 million, an increase of \$1.8 million over the \$27.8 million collected in FY 2002.

Inheritance and Gift Taxes are expected to yield \$7.8 million more in FY 2003 than in FY 2002, with estimated collections of \$30.0 million. This decline is due to the nature of the tax itself, which can be affected markedly by the passing of a single wealthy taxpayer. Racing and Athletic Taxes are expected to continue their downward trend in FY 2003 totaling \$5.3 million, a decrease of 3.3% from FY 2002 levels. Realty Transfer Taxes are expected to total \$7.4 million in FY 2003 a substantial increase of \$4.7 million over FY 2002 collections. This increase in collections is due to a combination of the strong housing market in the state and the 2002 Assembly's passage of a nearly 43% increase in the realty transfer tax rate.

In FY 2003, Departmental Receipts are estimated at \$276.6 million, an increase of \$32.3 million from FY 2002 collections, or 13.2%. Other Miscellaneous Revenues are expected to total \$163.4 million in FY 2003, a decrease of \$68.9 million from FY 2002 collections. The key difference from FY 2002 collections is the planned decrease in the use of the proceeds of the tobacco securitization deal from \$135.0 million in FY 2002 to \$85.0 million in FY 2003. In addition, the transfer of DEPCO proceeds falls from \$17.5 million in FY 2002 to \$3.7 million in FY 2003. The value for other miscellaneous revenues also assumes that the Governor's recommended revenue enhancements of \$0.7 million are incorporated into the final FY 2003 budget.

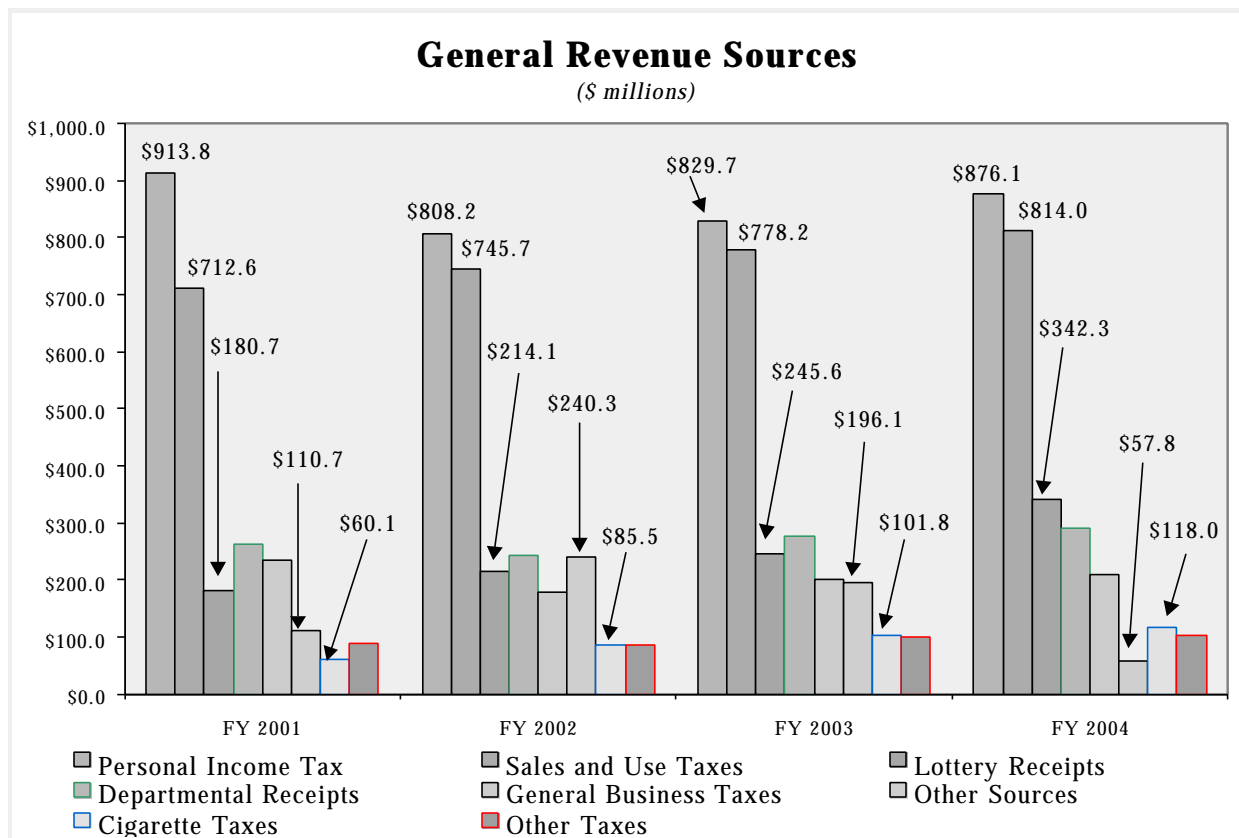
The chart below shows the sources of general revenues for the period FY 2001 – FY 2004. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted. In addition, the values of those categories for which the Governor's FY 2003 – FY 2004 budget recommends substantial changes are also shown.

FY 2004

The Governor's recommended FY 2004 general revenue estimate of \$2.811 billion is 3.0 percent greater than FY 2003 revised levels. The largest source of FY 2004 general revenues is the personal income tax, with estimated receipts of \$876.1 million comprising 31.2 percent of total general revenues. Strong growth in personal income tax collections of 5.6 percent is anticipated. The rate of growth in income tax collections will be lessened slightly by the final phase-in of the income tax relief plan enacted in 1997. Relative to FY 2003 projected collections, and due entirely to expected growth in personal income tax collections, the incremental "cost" of the income tax rate reduction in FY 2004 is estimated to be \$4.5 million.

General Revenues

Sales Tax collections are expected to total \$814.0 million in FY 2004. The FY 2004 estimate anticipates 4.6 percent annual growth, with the sales tax equalling 29.0 percent of total general revenues. The FY 2004 sales tax figure includes an additional \$0.5 million in revenues associated with the Governor's proposal to accelerate the legislatively mandated increase in the state's cigarette tax (see below). Another \$1.0 million that is included in the FY 2004 sales tax number is due to the Governor's proposal to require cigarette wholesalers to pre-pay the state sales tax when they purchase cigarette tax stamps.



Cigarette Tax collections are expected to rise sharply in FY 2004 upon adoption of the Governor's recommendation to accelerate the increase in the tax on cigarettes already in current law. Specifically, the Governor proposes moving to FY 2004 the ten cent (\$0.10) a pack increase scheduled for FY 2009 and one cent (\$0.01) of the ten cent (\$0.10) a pack increase scheduled for FY 2008. The result of this acceleration in the cigarette tax will be to increase it from the scheduled rate of \$1.50 per pack in FY 2004 to \$1.61 per pack. The higher cigarette tax is estimated to generate an additional \$7.8 million, with total cigarette tax revenues equalling 4.2 percent of general revenues in FY 2004. Other sales and use tax components are expected to increase by 3.6% in FY 2004 from their FY 2003 levels.

General business taxes represent 7.4 percent of total general revenue collections in the budget year. Business Corporation Tax revenues are expected to yield \$35.4 million, a decrease of 1.7 percent from FY 2003 levels. This decrease is a result of the Governor's proposal to reinvigorate the state's manufacturing sector by allowing manufacturers to use an apportionment formula for tax purposes that favors the expansion of their plant and equipment and provides them with an incentive to increase domestic employment. Franchise and Insurance Taxes are expected to grow at rates consistent with

General Revenues

their historical growth rates. Gross Earnings Tax, however, is forecast to increase 5.7% in FY 2004, largely due to increased collections from telecommunications providers. Health Care Provider Assessments are forecast to be \$31.3 million in FY 2004, increasing in line with health care inflation, given the Governor's proposed change in the group home providers' tax base. The Bank Deposits and Financial Institutions Taxes are also expected to generate revenues consistent with their FY 2003 levels.

Inheritance and Gift Tax and Realty Transfer Taxes are expected to grow modestly from their FY 2003 levels, with anticipated collections of \$30.8 million and \$7.6 million, respectively. Racing and Athletics Taxes are expected to continue their long-term decline in FY 2004, dropping to \$5.2 million in FY 2004 from \$5.3 million in FY 2003. This negative trend is projected in spite of the fact that both of the state's licensed gaming facilities have recently received approval from the Rhode Island Lottery Commission to increase the number of video lottery terminals allowed at each facility.

FY 2004 departmental revenues are expected to generate \$13.6 million more than in FY 2003. The Hospital Licensing Fee enacted by the 2000 General Assembly expires on June 30, 2003. The Governor recommends that the fee be continued for one year at the current rate of assessment. The revenue estimate of \$62.3 million is included in FY 2004 general revenues. In addition, the Governor recommends increases in the filing fee required of mutual fund companies to register their mutual funds with the Department of Business Regulation. This proposal is expected to bring in \$3.4 million in FY 2004. In addition, the Governor proposes changing the Department of Human Services uncompensated care formula and increasing the Department of Mental Health, Retardation, and Hospitals share of the uncompensated care payments made via the Medicaid program. These two proposals will result in \$7.9 million in additional Departmental Receipts in FY 2004. Including the proposed changes, departmental revenues are expected to be \$290.2 million in FY 2004, or 10.3% of total general revenues.

The "Other Sources" component total of \$400.1 million in FY 2004 represents a decrease of 9.4 percent, or \$41.6 million, compared to FY 2003. The change in other sources of revenue is spread out among the three major components of this category. Within the "Gas Tax Transfer" component, the Governor's FY 2004 budget shows a reduction of \$18.3 million, or -73.4%, from FY 2003 levels. This decline in the Gas Tax Transfer is made up of two items. The first involves allowing the Department of Transportation to retain the benefit of the debt service savings it received from the FY 2002 tobacco securitization deal for use on projects such as taking down the old Jamestown Bridge. The second involves transferring some of the Gas Tax Transfer designated for the general fund to the Rhode Island Public Transit Authority to assist that agency with its estimated budget shortfall.

Within the "Other Miscellaneous Revenues" category, the Governor's FY 2004 budget is \$119.5 million less than in FY 2003, a drop of 73.1%. The source of this drastic decline includes \$55.0 million less from the securitization of the state's tobacco Master Settlement Agreement payments than was contained in the FY 2003 budget. Further, under the tobacco securitization deal, the state sold its Master Settlement Agreement payments for the period FY 2004 to FY 2043 in exchange for the proceeds that the Tobacco Settlement Financing Corporation received from selling the tobacco bonds. In FY 2003, the state's tobacco Master Settlement Payment was still available to be used for budgetary purposes. This payment totaled \$53.4 million. Beginning in FY 2004, these payments are no longer available to the state. In addition, the Governor has proposed halting the annual transfer of a portion of the Rhode Island Resource Recovery Corporation's (RIRRC) operating surpluses, an amount that totaled \$6.0 million in FY 2003, so that RIRRC can better maintain the state landfill. Finally, the

General Revenues

scheduled transfer of the DEPCO proceeds to the general fund is expected to drop by \$3.0 million in FY 2004.

Within the "Lottery" category, the FY 2004 budget is \$96.7 million more than the FY 2003 budget, an increase of 39.4%. There are two primary sources for this increase, both having to do with the operation of video lottery terminals at the state's two licensed gaming facilities. First, in January 2003, the Lottery Commission approved increasing the number of video lottery terminals (VLTs) allowed at Lincoln Park and Newport Grand Jai Alai from a total of 2,478 to 4,303 at the two facilities. FY 2004 is the first year in which the full impact of the first phase of the increased number of VLTs will be seen in net terminal income (NTI) generated. At a special Revenue Estimating Conference held in January 2003, the conferees increased the estimated state share of NTI from the VLTs in place at Lincoln Park and Newport Grand Jai Alai to \$220.0 million in FY 2004. This compares to an estimated \$176.0 million of NTI transferred to the state in FY 2003, an increase of 25.0%. Second, the Governor proposes in his FY 2004 budget to make the current formula for distributing the NTI revenue generated by Lincoln Park and Newport Grand Jai Alai more favorable to the state. The Governor's proposed change is estimated to be worth \$48.1 million, or a further increase of 21.9% over the revised FY 2004 estimate agreed upon at the January 2003 REC.

All Sources

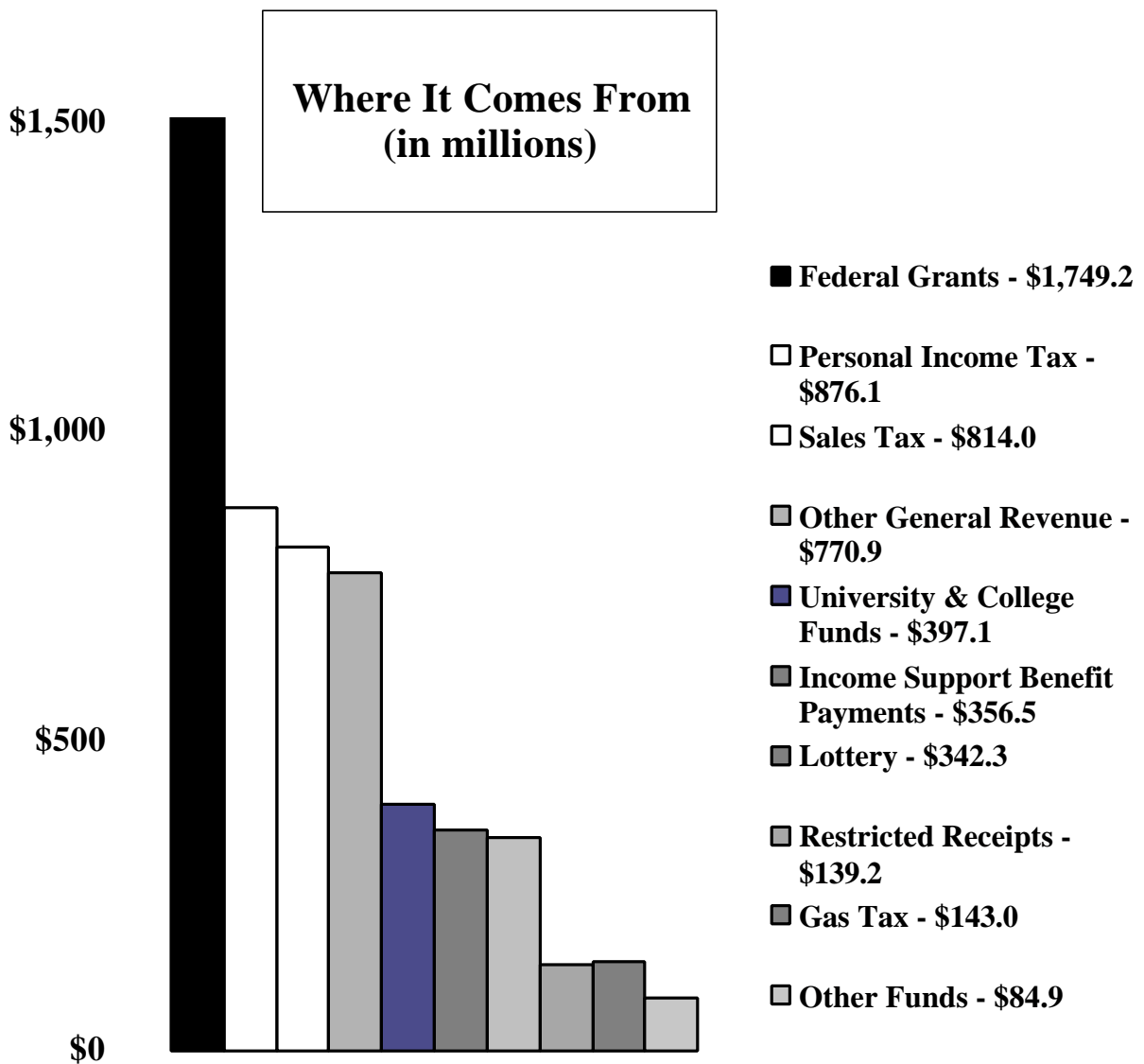
The total budget of \$5,630.8 million includes all sources of funds from which state agencies make expenditures.

Federal funds represent 31.1 percent of all funds. Over 70.6 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales and Use Taxes combined represent 30.0 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 7.1 percent, and 6.3 percent of the total, respectively.

Remaining sources include: Other General Revenues (12.9 percent); Gas Tax Revenues (2.5 percent); Lottery Transfers (6.1 percent); Restricted Receipts (2.5 percent); and Other Funds (1.5 percent).



All Expenditures

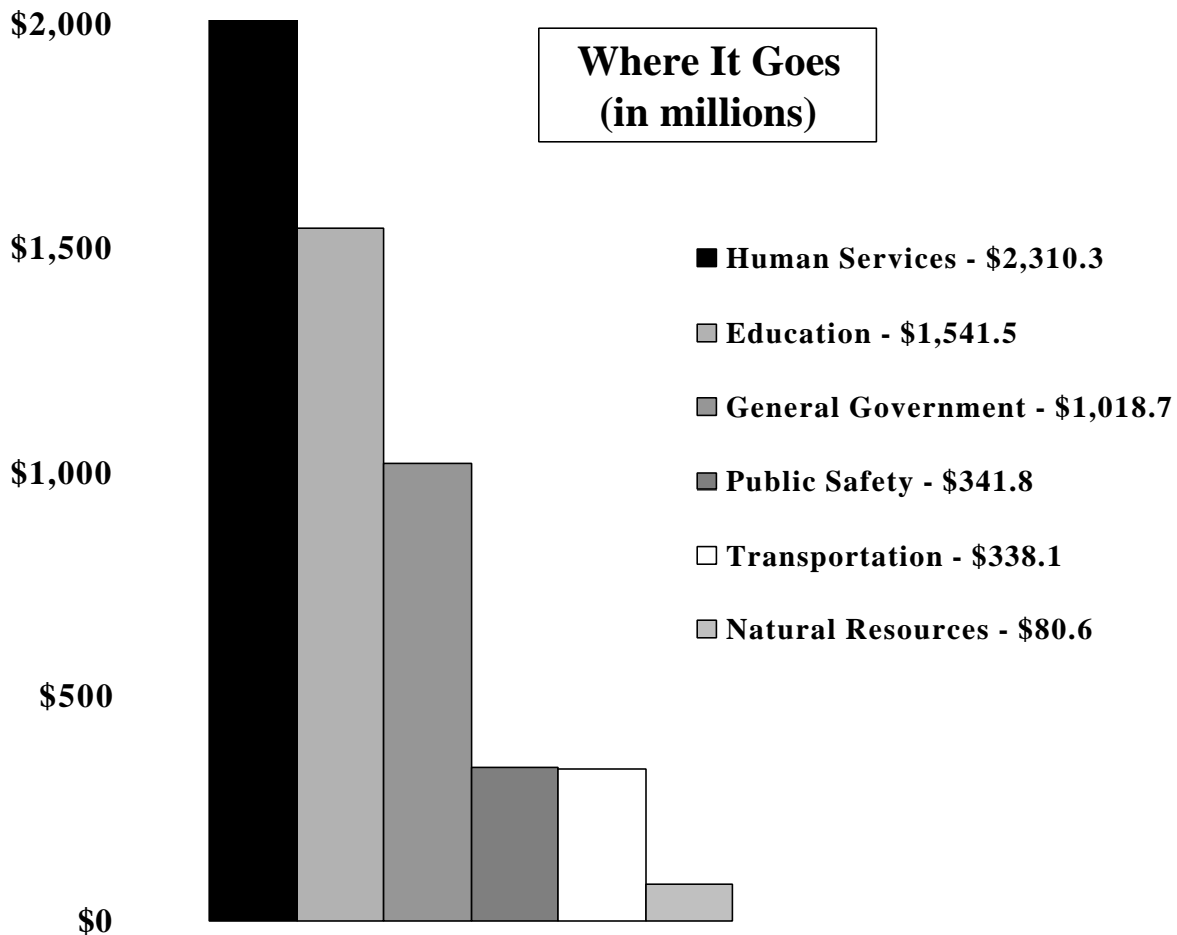
Approximately sixty-eight percent of all expenditures are for human services and education programs. The budgets for the human service agencies total \$2.310 billion, or forty-one percent of all expenditures. These programs constitute the state's safety net.

Education expenditures comprise over twenty-seven percent of total expenditures, or \$1.541 billion. Of this total, \$864.5 million represents funding for aid to local units of government. This is approximately fifty-six percent of all education expenditures, including higher education.

Approximately forty-two percent of the \$1.019 billion expended for general government is for grants and benefits to individuals. Most of these expenditures are for employment and training services or programs, including unemployment compensation.

Transportation expenditures comprise six percent of the total budget and include funds for public transportation, as well as highway, road and bridge expenditures.

In total, expenditures from all funds are recommended to increase by 2.2 percent over the revised FY 2003 budget.



Expenditure Summary

FY 2003 Revised General Revenue Expenditures

The revised FY 2003 general revenue expenditures total \$2.701 billion and reflect a net increase of \$36.8 million from the enacted budget, or 1.4 percent. The net increase in spending includes the addition of \$7.8 million of reappropriated balances from FY 2002, and an increase of \$29.1 million in expenditures.

The largest changes in the FY 2003 revised budget relate to increases of \$8.6 million for debt service payments in the Department of Administration, \$6.8 million for Institutional Corrections costs in the Department of Corrections and \$4.8 million for School Housing Aid in the Department of Elementary and Secondary Education. These and other significant changes to enacted general revenue expenditures are discussed below.

Within the Department of Administration the revised FY 2003 all sources funding requirement for debt service, on general obligation bonds, is \$70.2 million, which reflects a reduction of \$7.9 million from the enacted level of \$78.1 million. General revenue funded general obligation debt service is revised upward by \$8.1 million from \$7.6 million to \$15.8 million, while other sources funded debt service decreases by \$13.6 million from \$70.5 million to \$54.6 million. This recommendation reflects the actual defeasance of general obligation bonds with Tobacco Securitization revenues, a shift of \$1.2 million to general revenues to regain balance in the Rhode Island Capital Plan Fund, the estimated requirements on all outstanding bonds, and the cost of new debt issued in FY 2003.

With respect to the Department of Human Services budget, the November 2002 Caseload Estimating Conference adopted revised estimates for FY 2003 requiring the addition of \$8.9 million for Medicaid benefits, and allowing a reduction of \$6.8 million from the adopted estimate for cash assistance programs. Cash assistance requirements were reduced due to the availability of \$9.1 million in federal resources from prior year balances and from a performance bonus award. The net revisions, adopted by the Caseload Estimating Conference, total \$2.1 million.

Within the Department of Children, Youth and Families, an adjustment was required for Targeted Case Management Services related to a federal Medicaid waiver application. This issue represented a new form of Medicaid reimbursement for services provided by DCYF employees. DCYF, in concert with the Department of Human Services, submitted a waiver to the Centers for Medicaid and Medicare Services, to allow the department to claim reimbursement for services provided by social workers. While no formal decisions have been made at the Federal level relative to this request, the two departments believe that the waiver will not be approved. Similar waivers requested by other states have recently been rejected at the federal level. The Governor recommends restoring the savings that were incorporated into the Department's revised budget request relative to this program. This results in the addition of \$1.3 million in general revenue.

In the Department of Mental Health, Retardation and Hospitals, the Governor recommends an increase of \$2.0 million for Mental Health grant-based services. The increase represents a four-percent increase in the base Medicaid expenditures for these services. This includes funding for outpatient services provided through the Community Mental Health Centers and for inpatient psychiatric hospitalization services provided by Butler Hospital. The intent of the recommendation is to cover additional clients and services, above and beyond the FY 2002 base, in order to keep pace with the demand for these services.

In the Department of Elementary and Secondary Education, the Governor recommends an increase for School Construction Debt Service and Teacher Retirement Costs. The adjustment for school construction projects, completed in FY 2002, require an additional \$4.8 million above the enacted level. This increase results from eighteen new bond funded projects in eleven different communities and another thirty-six

Expenditure Summary

new projects funded from capital reserves in twenty-one communities. Teacher retirement costs are comprised of state contributions for teacher pension costs and a state subsidy for health benefit costs of retired teachers. Data provided by the State Retirement System indicates that expenditures for pension costs will be \$424,886 less than in FY 2003, but that the subsidy will exceed the budgeted level by \$1.1 million.

In the Department of Corrections, the Governor recommends adjustments relating to three categories of expenditure, federal detainees, general population increases and medical and pharmaceutical costs.

The number of federal detainees being held at the Department of Corrections is expected to total 85, for FY 2003, as opposed to the anticipated level of 195. The department's reduction in restricted receipt revenue from this population decrease is \$2.8 million. This revenue is used to offset payroll costs associated with the additional population. The Governor recommends an addition of \$2.8 million in general revenue to finance the shortfall in restricted receipt revenue.

The inmate population for FY 2003 is expected to average 233 inmates above the budgeted level of 3,392. Operating expenditures relating to this change are estimated to total \$959,000. Additional payroll costs, primarily overtime, will require supplemental funding of \$1.8 million. The additional overtime expenditures result from the reopening of housing modules required to comply with the budgeted population set forth in the enacted budget.

Medical and pharmaceutical costs are increasing due to the increasing incidence of serious in-patient procedures, in addition to drug cost increases. Medicine and drug costs will increase by \$893,000 from the enacted budget. Contract services for physicians and nurses are estimated to increase by \$284,000, while contract services for various inpatient and outpatient services are expected to be \$211,000 above the enacted spending level.

The statewide cost of employee medical insurance, included in the FY 2003 enacted budget, was predicated on a planning value of \$8,345 per full time equivalent position and was based upon a weighted average of all cost components for both individual and family plans. The budget instructions developed by the Budget Office in July 2002 utilized a planning value of \$8,636, or a value that is 3.5 percent greater than the enacted level. While the value of the medical premium remains the same, revised employee payrolls indicated a larger percentage of employees with family coverage, thus resulting in a higher weighted-average cost for FY 2003. In addition, vision costs were doubled in order to cover prior year deficits in the state fund utilized to cover claims. Dental costs were increased by 21.3 percent in anticipation of significantly higher premiums beginning in calendar year 2003 as a result of the expansion in benefits coverage under various employee collective bargaining agreements. These factors result in additional medical insurance costs of \$861,476.

FY 2004 Expenditures from All Funds

All funds expenditures for FY 2004 are \$5.631 billion. Forty-nine percent of this total, or \$2.769 billion, is general revenue funds, \$1.749 billion, or 31.1 percent, is from federal funds, \$973.6 million, or 17.3 percent, is from other sources, and \$139.2 million, or 2.5 percent, is from restricted or dedicated fee funds.

On a functional basis, the largest share of expenditures is in the Human Services area, which comprise \$2.310 billion, or 41.0 percent, of the total budget. Spending for Education is \$1.541 billion, which comprises 27.4 percent of all spending, while expenditures for General Government, including all state

Expenditure Summary

debt service, is \$1.019 billion, or 18.1 percent. Public Safety, Natural Resources, and Transportation expenditures comprise the balance of the total, at \$760.4 million, or 13.5 percent of the total budget.

Expenditures are also recorded on a categorical basis. On this basis, the largest share of the budget finances grants and benefits, and equals \$2.483 billion, or 44.1 percent of the total. Personnel expenditures of 23.6 percent, or \$1.327 billion, and local aid expenditures, which are 18.8 percent, or \$1.060 billion of the total budget, are the next largest categories. Expenditures for operations total \$374.7 million, or 6.7 percent. The balance of spending is required to finance capital expenditures of \$385.9 million, or 6.9 percent of the total.

FY 2004 General Revenue Expenditures

Expenditures from general revenues total \$2.769 billion for FY 2004. By function, spending by Human Services agencies comprises the largest share and totals \$1.047 billion, or 37.8 percent of the budget. Spending for Education programs, totaling \$944.8 million, or 34.1 percent of the budget, closely follow Human Services expenditures. General revenue spending for General Government and Public Safety are recommended at \$459.2 million, or 16.6 percent, and \$283.4 million, or 10.2 percent, respectively. Expenditures from general revenue for Natural Resources total \$34.3 million, or 1.2 percent of total spending. Transportation expenditures are financed from dedicated gasoline taxes and federal funds and therefore are not included in general revenue recommendations.

General revenue expenditures by category are primarily devoted to financing local aid and grants and benefits. Local aid totals \$918.6 million, or 33.2 percent of the total budget. Grants and benefits total \$893.5 million, or 32.3 percent. Personnel expenditures of \$707.3 million comprise 25.6 percent of the budget. Operations total \$155.9 million, or 5.6 percent of the budget while Capital expenditures total \$93.4 million, or 3.4 percent of the total budget.

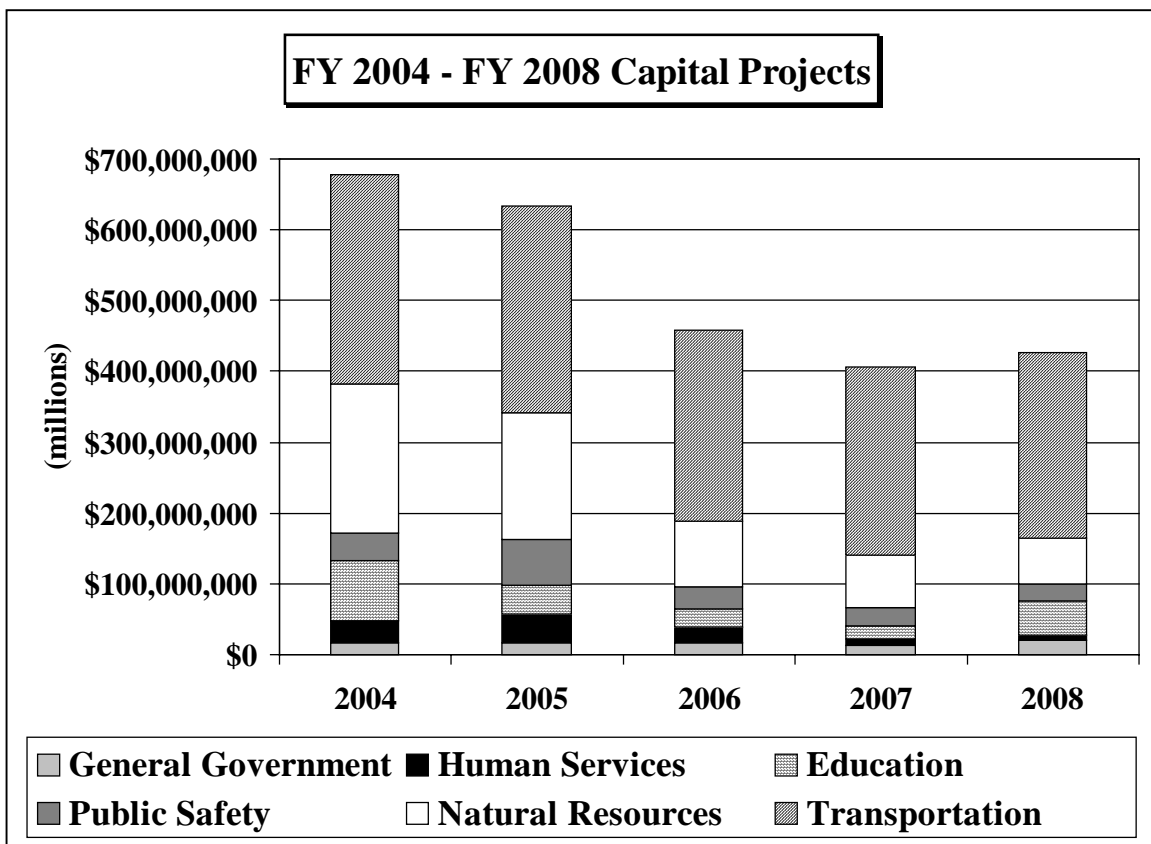
When compared to the recommended FY 2003 budget, the FY 2004 recommendation is \$67.6 million higher, an increase of 2.5 percent. The increase of \$67.6 million includes \$23.6 million in the Department of Administration for additional debt service payments, \$16.5 million in the Department of Human Services for caseload growth in social service programs and \$11.3 million in the Department of Elementary and Secondary Education for School Housing Aid, Local Education Aid and targeted investments. The increase also includes \$9.6 million in the Department of Corrections which primarily relates to costs associated with inmate population growth and \$5.0 million in the Higher Education Assistance Authority to expand scholarship programs.

Capital Budget

Capital Budget Overview

The Governor's FY 2004 Capital Budget and FY 2004 – FY 2008 Capital Improvement Plan are presented in detail in a separate document. The following provides a brief summary of the one-year capital budget and the five-year capital improvement plan.

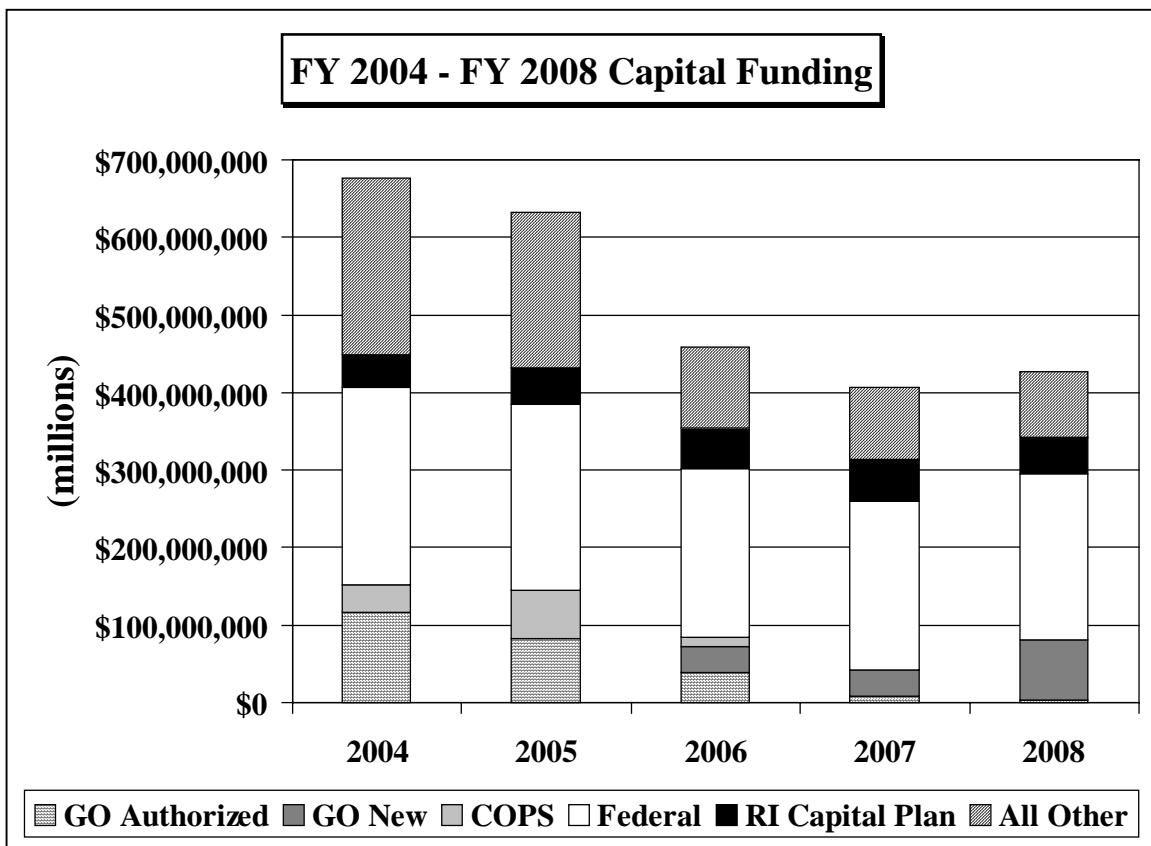
The FY 2004 capital budget includes proposed expenditures of \$677.1 million, of which Transportation projects constitute 37.6 percent, Natural Resources projects represent 40.4 percent, Education projects represent 11.0 percent and General Government and Economic Development projects constitute 2.2 percent. Over the five-year planning period Transportation and Natural Resources projects total over \$2.003 billion, or 77.0 percent of capital investments.



Over the five year period, federal funds of \$1.143 billion will finance approximately 43.9 percent of the planned capital projects; general obligation bonds will finance \$396.0 million, or 15.2 percent, with the remaining \$1.062 billion, or 40.9 percent, from other sources, including certificates of participation and the Rhode Island Capital Plan Fund.

A major source of state financing for capital projects is general obligation bonding. As of June 30, 2002, there were \$683.0 million in outstanding general obligation bonds. Over the five-year planning period, the recommended capital improvement plan provides for the issuance of \$248.4 million of authorized debt and the issuance of \$147.6 million from new bond referenda to be submitted for voter approval at the November 2004 and 2006 elections.

Capital Budget



This capital plan addresses the Governor's desire to continue targeting current resources to the infrastructure needs in the state. The Governor recommends the continued investment in infrastructure by dedication of current gas taxes to transportation purposes and a "pay-as-you-go" system of funding capital needs. In order to maintain state-owned property, ensure the safety of those who use these buildings and preserve the value of the properties, the Governor recommends \$42.2 million in FY 2004 from current revenues in the Rhode Island Capital Plan Fund for asset protection projects. Under the Governor's plan, over \$244.6 million will be dedicated from this fund over the next five years to infrastructure needs.

The Governor's plan incorporates the issuance of all bonds approved by the voters in November 1998, 2000 and 2002 and recommends new referenda in November 2004 and 2006 to continue the state's capital program.

The Governor's plan continues the significant investment in Public Higher Education by including the expenditure of \$21.0 million of bonds approved in 1998 to upgrade academic and administrative facilities, and the expenditure of \$40.6 million of bonds approved in 1996 for infrastructure and upgrading of the three institutions' data and telecommunications systems. In November 2000, the voters of the state approved a referenda authorizing the expenditure of \$37.0 million for dormitory renovations at the University of Rhode Island and Rhode Island College, and the construction of a new Community College of Rhode Island campus in Newport. These projects are fully programmed in the Governor's five-year plan.

Open space continues to be a high priority for the Governor. The capital improvement plan includes the issuance of the \$34.0 million Environmental Management bonds authorized in November 2000. These

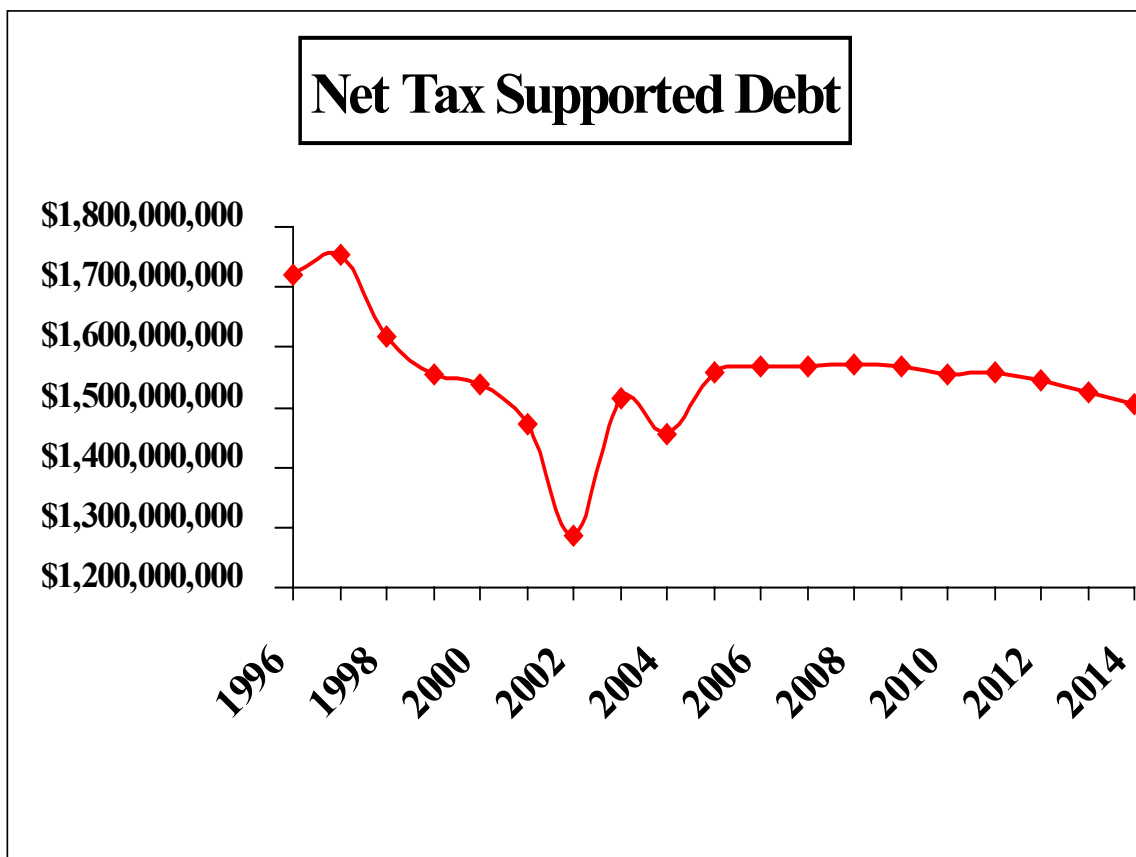
Capital Budget

funds will be used over a multi-year period to preserve open space, protect ground water supplies, and develop and improve public recreational facilities. The \$15.0 million referendum for open space preservation and bike path development approved in 1998 is also programmed to be fully issued over the planning period.

The capital plan includes issuance of bonds authorized in November 2002, including funds for a new State Police Headquarters, a new Municipal Fire Academy, grants to the Heritage Harbor Museum and Roger Williams Park, and for a new grant program for capital improvements at museums and cultural art centers.

Transportation continues to comprise a significant portion of the state's debt issuance requirements, reflecting \$179.5 million over the five-year period. However, the Governor is proposing that the Department of Transportation be allowed to retain savings in debt service costs resulting from the defeasance of general obligation debt with proceeds from the securitization of the state's revenues from the Tobacco Master Settlement. These funds will now be available to the department to fund projects on a pay-as-you-go basis, as opposed to the issuance of new debt. These savings will contribute over \$93.4 million over the five-year capital plan in additional resources for transportation capital projects.

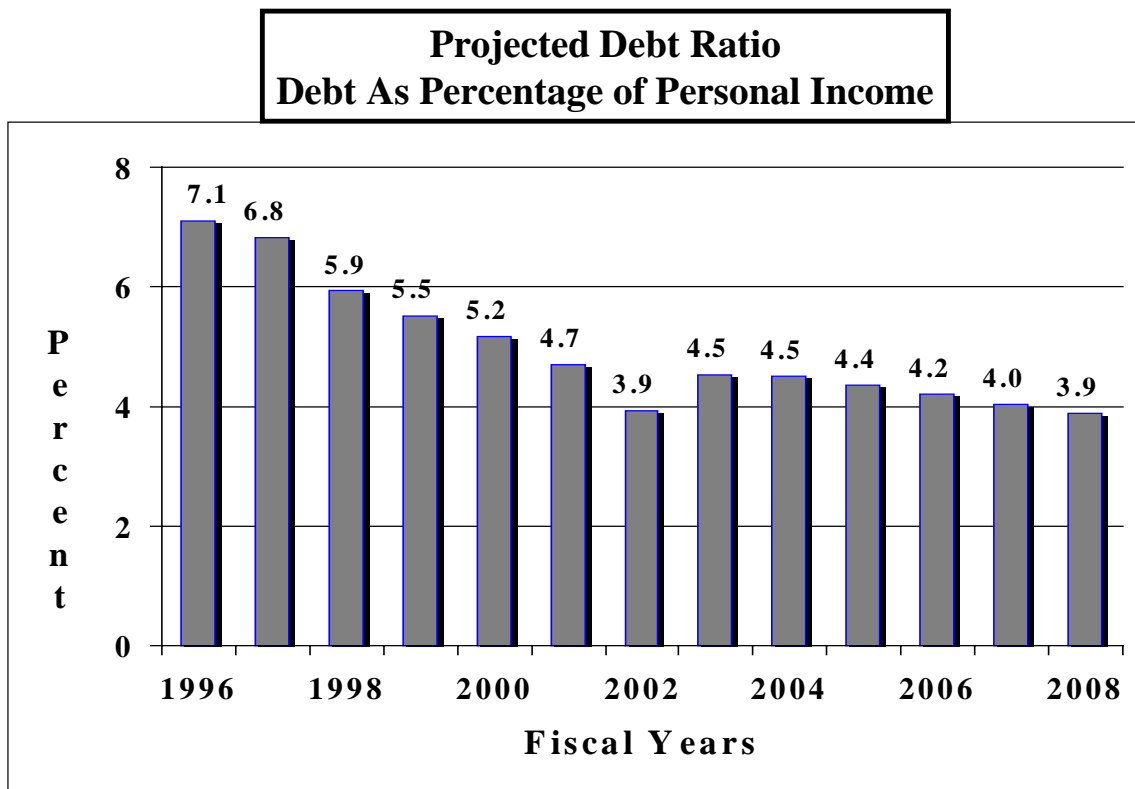
Net tax supported debt is projected to be \$1.571 billion by FY 2008. This would be a reduction of almost \$329.0 million from the FY 1994 high of \$1.9 billion. From FY 2004 to FY 2008, \$250.8 million of new tax supported debt will be issued, while \$193.8 million of outstanding and new debt will be retired. As shown on the graph below, net tax supported debt has declined significantly. The dip in FY 2002 reflects the fact that the issuance of general obligation bonds for FY 2003 projects was not executed prior to June 30, 2002.



Capital Budget

The Governor's recommended FY 2004 Capital and Operating Budgets reflects debt reduction during FY 2002 using resources from the proceeds of Tobacco Securitization Bonds to defease \$247.6 million of debt (\$295.5 million reflecting the accreted value of capital appreciation bonds). This defeasance of outstanding general obligation debt and certificates of participation using the proceeds of these bonds, which are not considered state debt, resulted in a significant reduction in Rhode Island's net tax supported debt position. The use of these accelerated Tobacco Settlement resources accelerated the trend of reducing net tax supported debt beyond that which had been displayed in previous Capital Budgets. It also resulted in \$51.6 million of debt service savings in FY 2003, and additional savings over the next ten years, providing significant operating budget relief.

The reduction in state debt of \$247.6 million at the end of FY 2002 resulted in significant improvement in the state's debt position compared to that which would result without use of the proceeds from Tobacco Securitization for defeasance. As shown below, Rhode Island's net tax supported debt position was \$1.287 billion at the end of FY 2002. Without this defeasance, it would have been \$1.531 billion. As expected, this improved the state's projected debt ratios through FY 2012. In 2002, according to Moody's medians Rhode Island ranked seventh in the country in terms of debt as a percent of personal income (5.2%), reflecting an improvement of two positions compared to 2000. The 2002 Moody's medians reflect net tax supported debt at the end of calendar 2001, so the defeasance is not yet reflected. The eighth ranked state had a ratio of 4.7 percent in 2002, so it is possible that the defeasance could also improve our ranking nationally when the medians are released for 2003.



Capital Budget

Recognizing that there continues to be a concern over the state's relatively high debt levels, the Governor's FY 2004 – FY 2008 Capital Improvement Plan supports the effort to reduce its reliance on tax supported bonds for financing. The Governor's proposed plan would reduce net tax supported debt as a percent of personal income from 8.5 percent in 1994 to 3.89 percent by 2008. This will be achieved by targeting current resources to the infrastructure needs of the state and the pursuit of an aggressive debt reduction plan. The use of Rhode Island Capital Plan Funds for capital projects statewide, and the continued dedication of existing gas tax resources to Transportation for investments in the state's infrastructure will reduce the outyear burden of deferred maintenance costs and high debt service costs. During FY 2002 and FY 2003, the budget recommendations to defer some capital projects provided budgetary relief, but resulted in a structural imbalance in FY 2004 and FY2005 when those funds are redirected to capital projects rather than debt service.

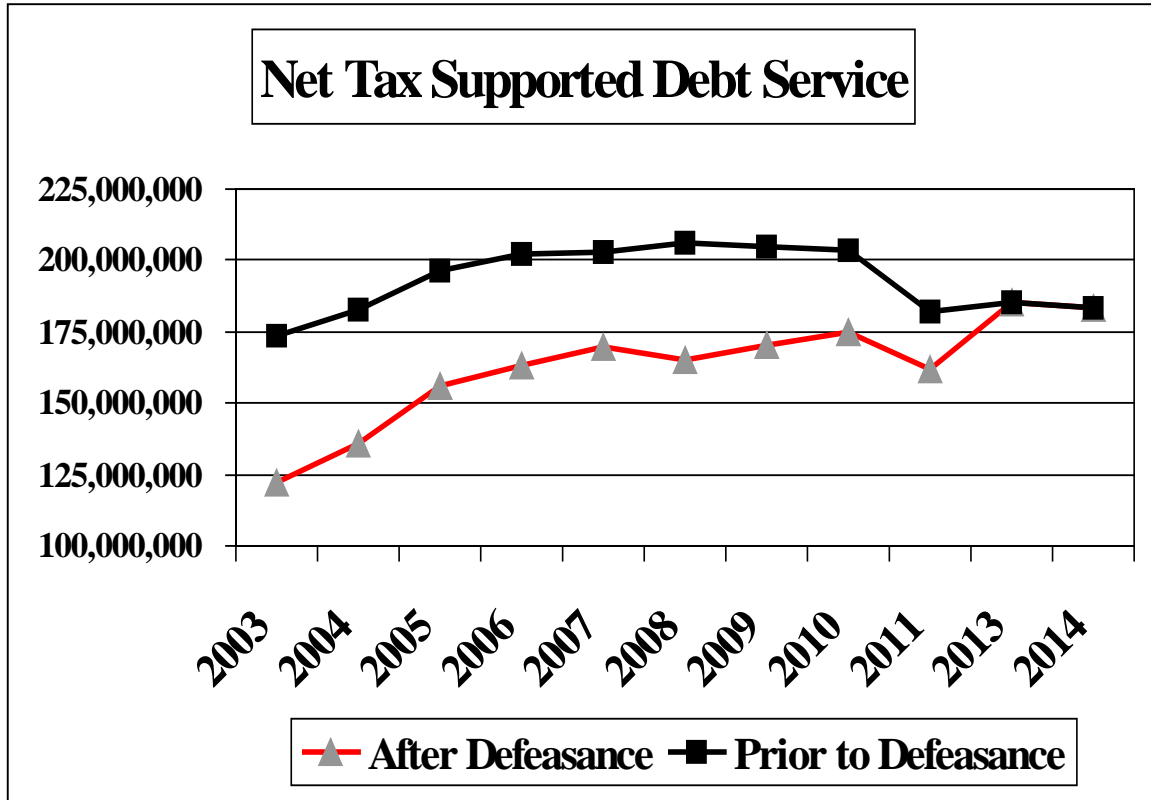
The Governor recommends total general obligation debt service of \$78.6 million in FY 2004, reflecting the existing debt service appropriations on outstanding bonds, plus \$2.6 million of estimated interest on bonds to be issued for FY 2004 projects.

The Governor recommends debt service funding of \$69.3 million for other obligations, including \$20.1 million for Rhode Island Refunding Bond Authority (formerly RIPBA) obligations, \$22.4 million for the Convention Center obligation, \$16.5 million for certificates of participation and long-term leases, \$5.0 million for Higher Education non-general obligation debt, and \$5.3 million for performance-based obligations. A detailed description of these obligations can be found in the capital budget document.

The projection of debt service costs over the five year planning horizon reflect those included in the FY 2004 – FY 2008 Capital Improvement Plan. The plan calls for the issuance of general obligation bonds in FY 2004 of \$101.0 million, and \$100.0 million thereafter. It assumes the issuance of certificates of participation for the Kent County Courthouse (\$51.8 million) and the Juvenile Training School (\$57.8 million). It is assumed that interest on the general obligation bonds and certificates issued will be 4.5 percent for twenty year fixed rate debt, and 2.5 percent for outstanding variable rate debt. It reflects a shift in debt service from the Rhode Island Capital Plan Fund to general revenues of \$14.6 million. This will fund capital projects deferred in FY2002 and FY2003, when Rhode Island Capital Plan funds were used to provide operating budget relief. It reflects the diminishing benefit of the debt service savings resulting from the debt defeasance using tobacco securitization proceeds. In FY 2004, the general revenue appropriation for debt service reflects debt service savings of \$34.3 million from defeasance; these savings decline from \$37.1 million by FY 2003 and result in a \$2.8 million increase in projected requirements.

General revenue funded debt service increases from \$68.9 million in the revised FY 2003 budget to \$92.5 million in the FY 2004 recommendation. This increase of \$23.5 million is the net result of several adjustments, including: a \$14.6 million increase due to a shift in debt service previously funded from the Rhode Island Capital Plan Fund; an increase of \$5.1 million for projected new debt issuances including new general obligation debt and Certificates of Participation for the new Kent County Courthouse and the new Department of Children, Youth and Families' Training School; an increase of \$2.0 million for Convention Center Authority debt service; and an increase of \$1.7 million for Higher Education debt service. The recommendation will finance \$1.6 million for payments on behalf of Fidelity Investments in accordance with an incentive-based agreement with the company. The recommendation will also continue to finance a level amount of \$3.7 million for estimated payments to the Providence Place Mall developers under the Mall Act, which is linked to the sales tax generated at the mall. A detailed description of these obligations can be found in the Capital Budget document.

Capital Budget



General Government

General Government

Summary

General Government includes agencies that provide general administrative services to all other state agencies, and those that perform state licensure and regulatory functions. It includes: most *elected officials*, including the Governor, Lieutenant Governor, General Treasurer, and the Legislature; *administrative agencies*, including the Department of Administration, the Department of Labor and Training, and the Board of Elections; and *regulatory agencies*, including the Department of Business Regulation and the Public Utilities Commission. The Governor recommends 2,476.9 FTE positions in FY 2003 and 2,481.9 FTE positions in FY 2004 within general government agencies.

The FY 2003 revised budget for General Government agencies totals \$1.036 billion, including \$435.0 million in general revenue, \$80.6 million in federal funds, \$59.3 million in restricted receipts, and \$461.2 million in other funds. The revised budget from all fund sources for General Government agencies is \$29.8 million greater than the FY 2003 enacted budget. The addition of \$15.1 million in general revenue expenditures to enacted levels is comprised of several elements. The major addition in general revenue funding occurs in the Department of Administration, with a general revenue addition of \$12.6 million. The largest component of this general revenue addition in FY 2003 is attributable to the debt service on general obligation bonds, an increase of \$8.6 million over the enacted level, as well as a reappropriation of \$2.3 million within the Department of Administration, primarily for the contingency. The general revenue budget for the Legislature also increases by \$2.3 million from the enacted level due to the reappropriation of unexpended FY 2002 appropriations.

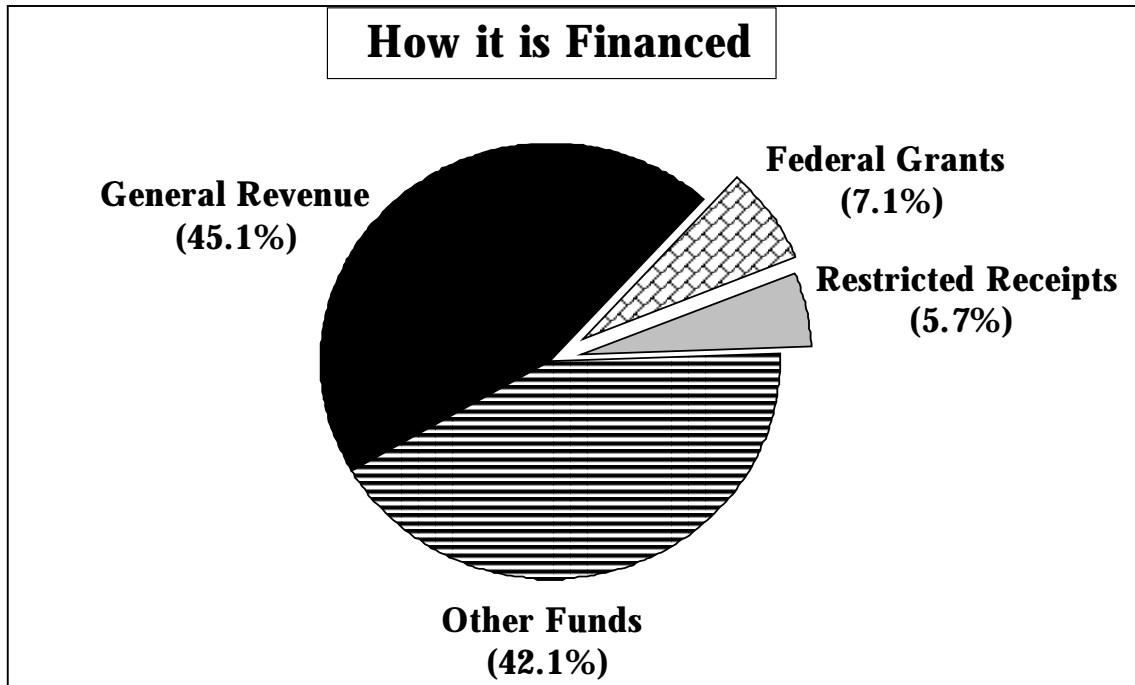
The majority of the federal funds additions of \$4.8 million to enacted FY 2003 appropriations are attributable to two departments. An increase of \$2.4 million in the Department of Labor and Training includes \$2.2 million for Unemployment Insurance Administration. The Department of Administration has an addition of \$1.8 million above enacted levels due to the programming of Community Development Block Grant funds that were not included in the department's original FY 2003 request.

The increase of \$8.8 million to restricted receipts in FY 2003 is primarily attributable to a new Renewable Energy Program and to projected interest earnings on funds from the issuance of Tax Anticipation Notes in the Department of Administration. The General Treasurer's unclaimed property program also experienced an increase in restricted receipts due to the reclassification of Fleet Financial Corporation as a Rhode Island bank.

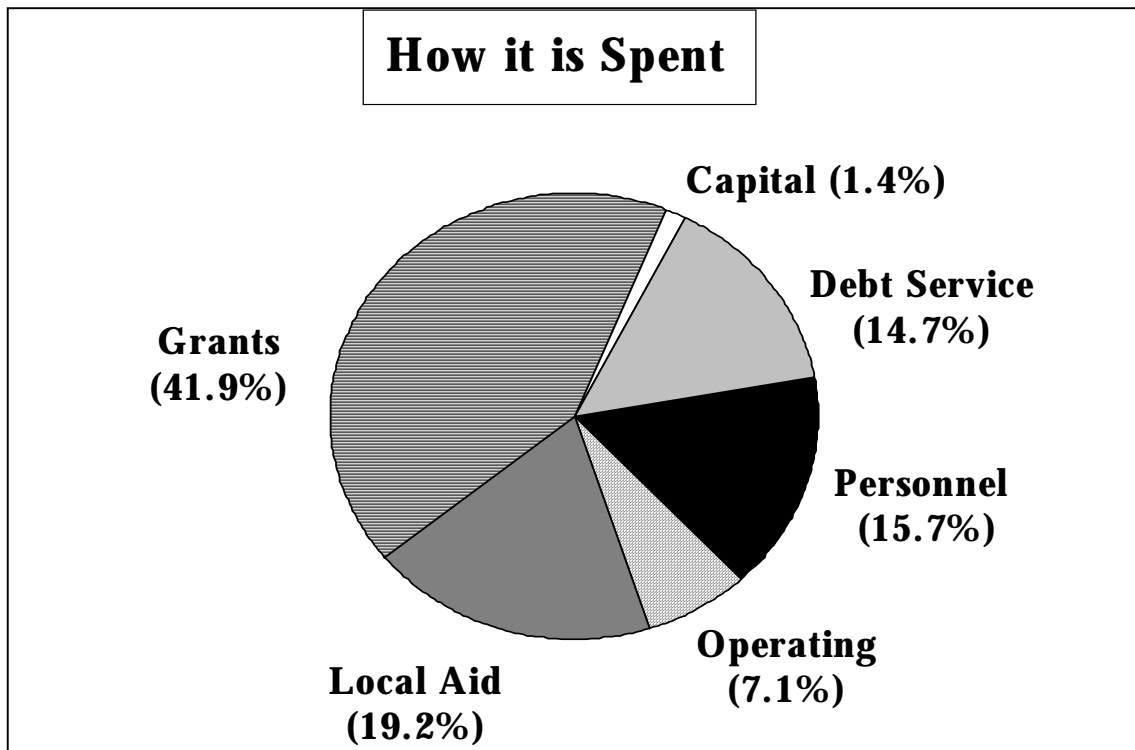
An increase of \$1.0 million in other fund expenditures from the enacted budget is due to greater than anticipated Unemployment Insurance Benefit payments resulting from a federal extension of benefit eligibility by thirteen weeks, offset by a decrease in other funds debt service on general obligation bonds within the Department of Administration.

For FY 2004, the Governor recommends expenditures of \$1.019 billion for General Government programs. The programs are financed with \$459.2 million of general revenue, \$72.1 million of federal funds, \$58.3 million of restricted receipts, and \$429.0 million of other funds. The FY 2004 recommendation for General Government agencies is approximately 1.7 percent less than the revised FY 2003 level.

General Government



Of \$1.019 billion recommended for FY 2004, \$427.0 million is for grants and benefits, \$160.0 million for personnel, \$195.7 million for local aid, \$163.9 million for capital, and \$72.0 million for operating.



General Government

General revenue funding for General Government agencies in FY 2004 increased by \$24.2 million from the FY 2003 revised level.

The Department of Administration has the most significant increase, totaling \$29.0 million. The majority of the increase is attributable to an increase in general revenue funded debt service of \$23.5 million. The increase is the net result of several adjustments, including: a \$14.6 million increase due to a shift in debt service previously funded from the Rhode Island Capital Plan Fund; an increase of \$5.1 million for projected new debt issuances, including new general obligation debt and Certificates of Participation for the new Kent County Courthouse and the new Department of Children, Youth and Families' Training School; an increase of \$2.0 million for Convention Center Authority debt service; and an increase of \$1.7 million for Higher Education debt service. The recommendation will finance \$1.6 million for payments on behalf of Fidelity Investments in accordance with an incentive-based agreement with the company. The recommendation will also continue to finance a level amount of \$3.7 million for estimated payments to the Providence Place Mall developers under the Mall Act, which is linked to the sales tax generated at the mall. The balance of this increase is represented by several incremental adjustments in other departments and agencies.

In FY 2004, federal funding for General Government agencies decreased by approximately \$8.5 million from the FY 2003 revised level. The change results primarily from a \$9.1 million reduction in the Department of Labor and Training, and several incremental adjustments in other departments and agencies. The reduction within the Department of Labor and Training is attributable to a reduction of \$7.7 million in the Workforce Development Services program, elimination of the Welfare-to-Work program, a reduction of \$1.2 million, and the elimination of the Workforce Investment Act Trade Adjustment program, a reduction of \$1.0 million. Funding for administration of the Unemployment Insurance benefit program is also projected to decline by \$1.2 million.

Two departments drive the restricted receipt fund decrease of \$1.0 million from revised FY 2003 levels. The Department of Administration has a decrease of \$3.9 million attributable to reductions in funding in the Renewable Energy Program and a reduction in payments made by the Convention Center Authority to the state. This reduction is offset by an increase of \$2.8 million in the Department of Labor and Training associated with the Human Resource Investment Council programs, Worker's Compensation programs, and the Tardy and Interest funded programs.

For FY 2004, both the Departments of Administration and Labor and Training have major changes in other fund expenditures from the FY 2003 revised level. The Department of Administration change in other funds is attributable to Debt Service. There is a \$9.7 million reduction in funding for debt service expenditures, which primarily reflects the redirection of approximately \$14.5 million in expenditures from the Rhode Island Capital Plan Fund to general revenue for debt service. This decrease is offset by an increase in debt service on Transportation debt of \$4.8 million due primarily to the deferral of variable rate debt payments in FY 2003 to finance the Department of Transportation maintenance facility. The Department of Labor and Training reduction of \$22.9 million in other funds results from a \$39.6 million decrease in Unemployment Insurance benefit payments, a \$15.3 million increase in Temporary Disability Insurance benefit payments, and a \$1.4 million increase in Employment Services expenditures from Reed Act funds. The decrease in Unemployment Insurance benefit payments is associated with the economic recovery and an end to the extension of benefits authorized by the federal government.

General Government

Department of Administration

The Governor recommends revised appropriations of \$489.2 million in FY 2003 for the Department of Administration. This includes \$368.2 million in general revenue, \$37.9 million in federal funds, \$14.7 million in restricted receipts, and \$68.4 million in other funds.

The revised FY 2003 budget is \$6.6 million greater than the enacted budget. This is comprised of an increase in general revenue appropriations of \$12.6 million, an increase in federal funds of \$1.8 million, an increase in restricted receipts of \$6.1 million, and a decrease in other funds of \$14.0 million.

Reappropriation of funds from FY 2002 represents \$2.3 million of the recommended general revenue increase. This includes \$300,000 for a Digital License System at the Registry of Motor Vehicles; \$518,103 for grants received by the State Energy Office; \$116,307 for the Medicaid Revenue Maximization Project within the Budget Office; and \$1.4 million in the Governor's Contingency Fund.

Debt service financed by general revenues increase by \$8.6 million, debt service from federal funds decrease by \$286,388, from restricted receipts increase by \$543,973, and from other funds decrease by \$15.9 million.

The Governor recommends an increase of \$8.1 million in general revenue funded debt service and a decrease of \$16.0 million in other funds debt service on general obligation bonds. These changes are primarily the result of the defeasance of debt with proceeds from the securitization of Rhode Island's share of Tobacco Master Settlement funds. Although the enacted budget included projected savings of \$43.9 million in general revenues, the final defeasance resulted in savings accruing to debt funded from other fund sources as well. These savings were primarily associated with Department of Transportation debt, which is funded from the Intermodal Surface Transportation fund.

In addition, the Governor recommends a shift of \$1.2 million for debt service from the Rhode Island Capital Plan Fund to general revenues. This shift is necessary to regain balance in the Rhode Island Capital Plan Fund, which would be in a deficit position at year-end, based upon revised revenues and expenditures in FY 2003.

The Governor also recommends an increase of \$1.0 million in general revenues and a commensurate decrease in restricted receipts associated with Rhode Island Convention Center Authority debt. This adjustment in funding sources is necessary based upon projected reductions in revenues at the authority as a result of the current slowdown in the economy.

Included within the FY 2003 revised budget is increased funding for personnel and operating costs within the several programs of the department. The funding changes are primarily for unrealized turnover and additional operating expenses, and will more accurately reflect projected expenditures. Included within the operating increases are additional funds for information processing rotary charges within several programs, additional funds for postage and printing at the Registry of Motor Vehicles, and additional funds for auto maintenance and travel within the Sheriffs program. The FY 2003 revised budget also includes a reduction of \$1.6 million in the Retiree Health Subsidy program, \$1.1 million of which is transferred to the Department of Education to more accurately record expenditures by functional area.

General Government

In addition to additions for unrealized turnover, personnel costs also increase due to the addition of ten new positions in the Capitol Police. These positions will fill posts at the State House and various courthouses. Also, included in the FY 2003 revised budget is funding to restore the position of the Chief Information Officer. This position had been eliminated as part of the personnel reductions mandated in the FY 2003 enacted budget.

Local aid decreases by a net of \$815,289, which is comprised of reductions in the Distressed Communities Relief fund of \$133,333, in Library Construction Aid of \$171,000, in the Motor Vehicle Excise Tax Phase-out of \$1,041,176 and an increase in the Property Revaluation program of \$530,220. These adjustments are based on the latest data used to determine the actual costs of these programs and provide full funding under current law.

Other additions in the revised recommendation include \$100,000 for the Economic Policy Council to supplement a legislative grant, which will be used to match funds from the local business community. An additional \$400,000 is recommended for the Torts account due to a major settlement negotiated by the Attorney General's office for a lawsuit pending against the state. Finally, an additional \$400,000 in general revenues is recommended to fund costs associated with parking for students, faculty and staff using the Shepards Building in downtown Providence.

The increase in federal funds in FY 2003 is primarily the result of programming Community Development Block Grant funds that were not included in the department's original FY 2003 request. The increase in restricted receipts is comprised of several items, including \$4.9 million for a new Renewable Energy Program, which was transferred to the State Energy Office from Narragansett Electric by action of the 2002 session of the General Assembly. Other major changes in restricted receipts are primarily in the debt service area, and include an increase of \$1.4 million for projected interest earnings on funds from the issuance of Tax Anticipation Notes and a decrease of \$1.0 million for the payments made by the Convention Center Authority to the state.

The Governor recommends total expenditures in FY 2004 of \$501.9 million for the Department of Administration. This includes \$397.2 million in general revenue, \$35.2 million in federal funds, \$10.8 million in restricted receipts, and \$58.8 million in other funds. Overall, this represents an increase of \$12.7 million from the FY 2003-revised budget. General revenue funds increase \$29.0 million, federal funds decrease \$2.7 million, restricted receipt funds decrease \$3.9 million, and other funds decrease \$9.6 million.

The FY 2004 budget continues to consolidate debt service payments in the Department of Administration, as required by state law. General revenue funded debt service increases from \$68.9 million in the revised FY 2003 budget to \$92.5 million in the FY 2004 recommendation. This increase of \$23.5 million is the net result of several adjustments, including: a \$14.6 million increase due to a shift in debt service previously funded from the Rhode Island Capital Plan Fund; an increase of \$5.1 million for projected new debt issuances including new general obligation debt and Certificates of Participation for the new Kent County Courthouse and the new Department of Children, Youth and Families' Training School; an increase of \$2.0 million for Convention Center Authority debt service; and an increase of \$1.7 million for Higher Education debt service. The recommendation will finance \$1.6 million for payments on behalf of Fidelity Investments in accordance with an incentive-based agreement with the company. The recommendation will also continue to finance a level amount of \$3.7

General Government

million for estimated payments to the Providence Place Mall developers under the Mall Act, which is linked to the sales tax generated at the mall.

The FY 2004 budget includes increases in several programs for aid to local communities and proposes to level fund other aid categories. The General Revenue Sharing program is recommended at \$48.3 million, which is the same funding as in FY 2003. The Governor proposes to amend current legislation to fix the FY 2004 distribution amounts to each community under this program at the same level as in FY 2003. The Governor proposes to fix the percentage distribution under this program at two and six tenths percent (2.6%) in FY 2005 and thereafter. The Payment-in-lieu-of-Taxes (PILOT) program is fully funded under current law at \$21.7 million. State Library Resource Sharing is also fully funded at \$6.9 million to reimburse local libraries for twenty-five percent of FY 2002 expenditures. Library Construction Aid will increase by \$375,700 over FY 2003 revised funding to fully fund projected FY 2004 payments for current commitments. The recommendation for the Municipal Police and Firemen Incentive Pay program is level funded at a total of \$1.1 million. Finally, the Property Revaluation Program is fully funded at \$2.4 million to reimburse those communities scheduled to perform revaluations and/or statistical updates during FY 2004.

As part of the FY 2004 budget, the Governor is recommending that state employees and teachers be required to pay an additional two percent of their salaries or wages to the state retirement fund, with a corresponding reduction in the state contribution. In addition, the Governor is recommending constraints on hiring in FY 2004 based upon existing vacancies. Both of these proposals will result in savings across state government and across all sources of funds. A separate program has been established within the budget of the Department of Administration to identify the projected savings for these items for all executive branch agencies except Public Higher Education, where the reduction is recorded directly. The value of savings in state expenditures for teacher's retirement is recorded in the Department of Elementary and Secondary Education. Overall, general revenue savings are projected at \$11.9 million, savings to federal funds are projected at \$3.0 million, restricted receipt savings are projected at \$502,814 and savings to other funds are projected at \$676,110.

The reductions due to savings projected from the change in the retirement fund contribution and constrained hiring are the primary reason for the \$2.7 million decrease in federal funds. In addition to these same savings, restricted receipt funding is also decreasing as a result of a reduction in funding in the Renewable Energy Program of \$2.7 million and a reduction of approximately \$700,000 in payments made by the Convention Center Authority to the state.

The Governor is recommending general revenue funds in several economic development areas, including an increase of \$2.5 million, for a total of \$5.0 million, for the Slater Centers of Excellence, a total of \$300,000 for the Economic Policy Council and an increase of \$500,000 in the grant to the Economic Development Corporation for the establishment of a new matching grant fund for city and town economic development. The Governor is recommending \$5.0 million in general revenue funding for the Neighborhood Opportunities Program to continue addressing the issue of affordable housing in the state.

FY 2004 funding for the core programs within the Department of Administration is comparable to FY 2003 levels, adjusted for longevity and other general personnel costs. The budget recommendation is 1.0 FTE position greater than the FY 2003 revised budget.

General Government

There are several significant changes included in the FY 2004 budget recommendation for the Department of Administration, and appear in several programs. The more noteworthy follow below:

- The Governor recommends \$220,556 for the continuation of the Digital License System within the Registry of Motor Vehicles. The budget for the Registry of Motor Vehicles also includes \$800,000 for a Customer Service Initiative.
- The FY 2004 recommended budget includes \$775,000 for a Collection Case Management System that would be utilized by the Division of Taxation as well as Child Support Enforcement that is estimated to result in \$900,000 of additional revenue.
- The Governor recommends \$220,000 for temporary and seasonal employees within the Division of Taxation.
- The Division of Central Services recommendation continues funding for nine new Capitol Police Officers and an administrative assistant added in the FY 2003-revised budget for this subprogram.
- The Governor recommends \$1.0 million to finance technology initiatives, including the continued implementation of the RI-SAIL financial management system.
- In order to finance the current staffing levels for the Sheriffs program, the Governor recommends approximately \$800,000 above the FY 2003 revised level.

In the FY 2004 recommended budget, other funds decrease \$9.6 million from the revised level. The majority of the change in other funds is attributable to one program – Debt Service. There is a \$9.7 million reduction in funding for debt service expenditures, which, as explained above, primarily reflects the redirection of approximately \$14.5 million in expenditures from the Rhode Island Capital Plan Fund to general revenue for debt service. This decrease is offset by an increase in debt service on Transportation debt of \$4.8 million due primarily to the deferral of variable rate debt payments in FY 2003 to finance the Department of Transportation maintenance facility. The redirection of debt service to general revenue has enabled the Governor to restore funding from the Rhode Island Capital Plan Fund to many capital projects deferred in prior fiscal years due to budgetary constraints. This increased spending is reflected throughout the various agencies where the capital projects are budgeted.

For FY 2004, the Governor recommends a total of 1,279.2 full time equivalent (FTE) positions. The FTE's include 10.0 FTE positions for the Capitol Police, 1.0 FTE position for the Chief Information Officer, 1.0 FTE position for the State Energy Office, and 1.0 FTE position transferred from the Department of Corrections.

Department of Business Regulation

The Governor recommends a revised FY 2003 budget of \$10.1 million, including \$9.7 million in general revenue and \$591,693 in restricted receipts. The general revenue revised budget is an increase of \$956,363 from the enacted level. The revised budget includes a reappropriation of \$489,000 to implement standardized business regulations as required by the federal Gramm-Leach-Bliley act. The additional \$467,363 includes a net \$531,650 for unachieved personnel savings and adjustments and \$64,287 in operating savings. The Governor recommends a total of 106.0 FTE positions for FY 2003.

General Government

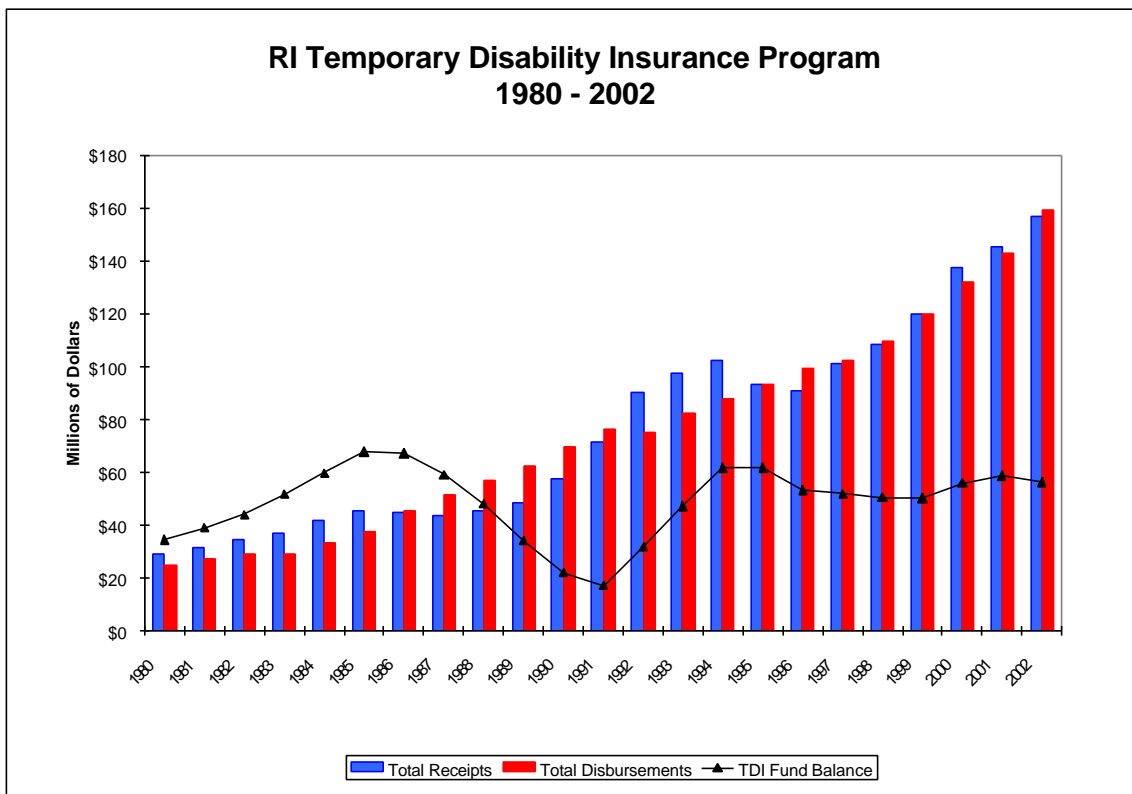
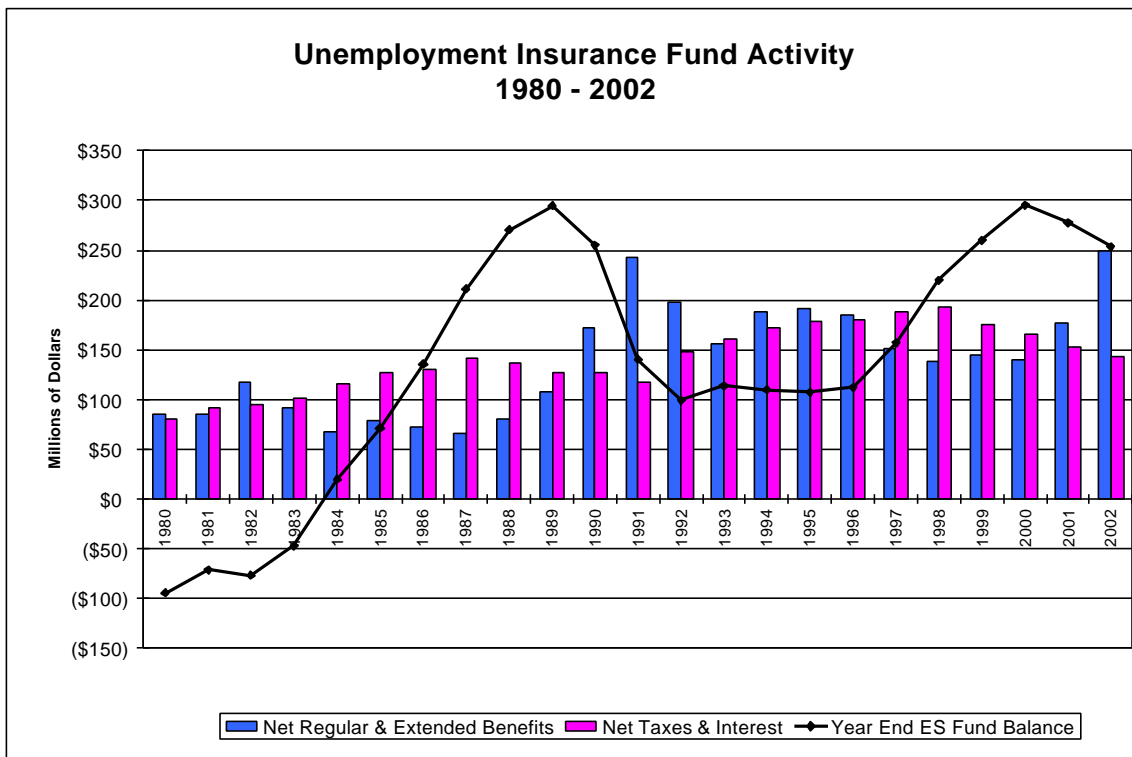
The Governor recommends total expenditures of \$10.4 million for the Department of Business regulation in FY 2004. This includes \$9.8 million from general revenue and \$601,063 from restricted receipts. The FY 2004 budget is an increase of \$0.3 million in general revenue from the FY 2003 revised level, primarily for fringe benefit rate adjustments. Articles in the FY 2004 Budget Act increase the securities mutual fund filing and real estate license fee structures to be comparable to the New England states, generating \$3.7 million in additional revenue annually. The Governor recommends four new FTE positions, three in the Insurance Division to conduct market examinations in a timely manner, and one in the Real Estate Unit to provide more efficient services. The Governor recommends a total of 109.0 FTE positions in FY 2004.

Department of Labor and Training

The Governor recommends expenditures of \$452.9 million in the FY 2003 revised budget, including \$6.8 million in general revenue, \$40.5 million in federal funds, \$22.3 million in restricted receipts, and \$383.4 million in other funds. The revised budget is \$15.7 million greater than the enacted budget of \$437.2 million. The majority of the increase is in other funds of \$15.6 million, followed by federal funds of \$2.4 million, and general revenue of \$15,872. The increases are partially offset by a decrease in restricted receipts expenditures of \$2.3 million. The addition of \$15,872 general revenues recommended in FY 2003 includes \$84,258 for Police and Fire Relief benefit payments, which is partially offset by decreases in personnel and operating costs. The increase in other fund expenditures is largely associated with greater than anticipated Unemployment Insurance Benefit payments of \$14.7 million due to the federal extension on benefit eligibility by 13 weeks. Changes in federal funding includes increases for Unemployment Insurance Administration of \$2.2 million and Workforce Investment Act and other training programs of \$0.2 million. For FY 2003 and FY 2004, the Governor recommends financing the Rapid Job Entry program using Reed Act Funds.

By category of expenditure, the FY 2003 revised budget includes an increase of \$13.2 million for grants and benefits, \$1.9 million for operating cost, and \$529,232 for personnel. The increase in expenditures for grants and benefits is due to Unemployment Insurance Benefit payments, while the increase in operating costs is primarily due to operating transfers of \$896,953, rental property of \$591,607, and telephone charges of \$166,242. The increase in personnel is associated with purchased services. The recent fund balance trends for both Employment Security Trust Fund and Temporary Disability Insurance Fund are shown in the graphs below. It should be noted that Rhode Island's Employment Security Fund is in stable condition, relative to other states. As of the end of 2002, the balance of the Employment Security Fund was \$253.8 million.

General Government



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In FY 2004, the Governor recommends expenditures of \$424.9 million, including \$7.9 million in general revenue, \$31.4 million in federal funds, \$25.1 million in restricted receipts, and \$360.5 million in other funds. The budget includes \$1.4 million in new general revenue funding to augment community-based adult literacy programs. In the aggregate, FY 2004 expenditures are \$28.0 million less than the FY 2003 revised budget. The decrease is largely associated with other funds expenditures, which decrease by \$22.9 million. The net \$22.9 million decrease consists of a \$39.6 million decrease in Unemployment Insurance benefit payments, a \$15.3 million increase in Temporary Disability Insurance benefit payments, and a \$1.4 million increase in Employment Services expenditures from Reed Act funds. The decrease in Unemployment Insurance benefit payments is associated with the economic recovery and an end to the extension of benefits authorized by the federal government.

Federal funds expenditures are budgeted to decrease by \$9.1 million in FY 2004 due to reductions in discretionary grant funding, and to FY 2002 balance forward funding that is included in the FY 2003 budget, but not in the FY 2004 budget. The reductions in federal funding are primarily \$7.7 million in the Workforce Development Services program. Some of the larger discretionary grant programs ending in FY 2003 include Welfare-to-Work, a reduction of \$1.2 million and the Workforce Investment Act Trade Adjustment program, at \$1.0 million. Funding for administration of the Unemployment Insurance benefit program is also projected to decline by \$1.2 million.

In FY 2004, restricted receipt expenditures are budgeted to increase by \$2.8 million. Most of the increase is associated with Human Resource Investment Council programs, at \$1.5 million, followed by Workers' Compensation programs, \$789,584, and Tardy and Interest funded programs, \$387,429.

General revenue expenditures increase by \$1.1 million in FY 2004. As noted above, this increase is associated with a gubernatorial initiative to provide \$1.4 million for community-based adult literacy programs. Other major changes in general revenue funded expenditures include: a \$400,000 reduction for the transfer of Workforce Regulation and Safety program costs to the Tardy and Interest Funds; a \$60,239 reduction for the cost associated with testing taxicab meter and public utility meters, which will be performed in FY 2004 by the Public Utilities Commission; and a \$131,658 increase for Police and Firefighter Relief benefit payments.

For FY 2004, the Governor recommends an FTE authorization of 537.7 FTE positions for the Department of Labor and Training. This is one FTE position less than the number of FTE positions recommended in the FY 2003 revised budget, reflecting the transfer of a metrology inspector associated with taxicab and utility meter testing to the Public Utilities Commission.

Legislature

The FY 2003 revised budget recommendation for the Legislature totals \$29.2 million, including \$28.4 million of general revenue and \$809,639 of restricted receipts. This reflects an increase of \$2.4 million from the enacted budget due to the reappropriation of unexpended general revenue appropriations in FY 2002.

The Governor's proposed FY 2004 recommendation reflects current service adjustments to the FY 2003 enacted appropriations which were provided in the July target calculations. The FY 2004 budget recommendation is \$32.2 million, of which \$27.3 million is from general revenue, \$842,444 is from

General Government

restricted receipts and \$4,000,000 in other funds. The general revenue budget for FY 2004 exhibits an increase of \$323,227 from the adjusted base levels, reflecting the estimated statewide Blue Cross settlement. The other funds budget for FY 2004 exhibits an increase of \$4,000,000 from the target level, wholly attributed to appropriated RICAP funds for the construction of a new Legislative office building. The Governor recommends 280 FTE positions in both FY 2003 and FY 2004.

Lieutenant Governor

The Governor recommends general revenue expenditures of \$860,138 for FY 2004, an increase of \$54,417 from the FY 2003 enacted and revised recommendation. The Lieutenant Governor, one of five elected general officers of the state, fulfills the responsibilities of Governor when required by the constitution.

Secretary of State

The FY 2003 revised budget totals \$6.2 million, including \$6.0 million in general revenue and \$232,612 in restricted receipts. This represents a general revenue increase from the enacted level of \$62,904. The increase is primarily attributable to unachieved turnover and transition expenditures. These increases are partially offset by purchased service and operating expenditure savings in the Elections division relating to the 2002 Primary and General Elections.

The Governor recommends total expenditures of \$5.2 million in FY 2004, including \$5.0 million of general revenue and \$207,391 of restricted receipts. The general revenue recommendation represents a reduction of \$1.1 million from the FY 2003 revised recommendation. This primarily reflects expenditures in FY 2003 for the primary and general election cycle not required in FY 2004. It also represents a reduction of ten percent of funding in the State Library Program relating to the preservation of historical documents by private historical societies. The FY 2004 budget includes \$100,000 for software acquisition and ongoing programming requirements for the Uniform Commercial Code system, as part of the RI e-Government Fund. The Office of the Secretary of State will be working in concert with the Board of Elections to implement federal election reform legislation. Some of these reforms will include; replacement of voting equipment, development of provisional balloting, creation of a central voter registry and poll worker training initiatives.

General Treasurer

The Governor recommends a revised FY 2003 budget of \$31.0 million for the Office of the General Treasurer. The revised budget is composed of \$3.5 million in general revenue, \$2.2 million in federal funds, \$15.8 million in restricted receipts, and \$9.5 million in other funds. The general revenue budget of \$3.5 million is equal to the appropriation contained in the budget enacted by the General Assembly in June 2002. The enacted budget included a decrease of \$1.0 million in the state's grant to the Violent Crime Victims Compensation Fund.

The Governor recommends total expenditures of \$26.3 million for the General Treasurer in FY 2004, including \$3.4 million in general revenue, \$1.5 million in federal funds, \$15.6 million in restricted receipts, and \$5.8 million in other funds. The programs within the Office of the General Treasurer include General Treasury, the Rhode Island Refunding Bond Authority, including obligations of the

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abolished Rhode Island Public Buildings Authority, the State Retirement System, the Unclaimed Property Program, and the Violent Crime Victims Compensation Fund.

The reduction in general revenue from FY 2003 to FY 2004 is a net figure that includes savings of \$208,319 in personnel achieved by leaving three existing positions vacant for FY 2004, and a decrease of \$56,944 in other operating and contract savings. The recommendation of \$734,080 million in FY 2004 for the Violent Crime Victims Compensation Fund represents a slight increase over the enacted budget and is intended to accelerate the financing to eliminate accumulated liability in this fund. It is anticipated that this will be accomplished in FY 2005. In FY 2006 and beyond, the available federal and restricted receipt funding sources are expected to be sufficient to finance the actual expenses of this program.

The Governor recommends 84.5 FTE positions in the FY 2004 budget, which is the same level in the revised FY 2003 budget.

Boards for Design Professionals

For FY 2003, the Governor recommends expenditures of \$378,802, comprised entirely of general revenue, for the Boards for Design Professionals. This reflects no increase from the enacted budget.

In FY 2004, total recommended expenditures are \$391,338, an increase of three percent from the FY 2003 revised budget, primarily related to increases in personnel. The Boards for Design Professionals is a consolidated program consisting of the Board of Registration of Professional Engineers, the Board of Registration for Professional Land Surveyors, the Board of Examination and Registration of Architects, and the Board of Examiners of Landscape Architects. The Governor recommends 4.0 FTE positions in FY 2003 and FY 2004.

Board of Elections

For FY 2003, the Governor recommends a revised budget of \$3.1 million to finance board operations, local and general elections and the matching public funds program and 15.0 FTE positions. The operating budget is \$2.2 million less than the FY 2003 enacted budget. The decrease primarily reflects appropriations for the Matching Public Funds Program. While the auditing costs for this program increased in the revised budget, the matching public funds utilized in the general election were approximately \$2.5 million less than the allocation included in the enacted budget. The FTE limitation has been reduced from the enacted level of 18.0, and the actual level of 22.0 in FY 2002, as a result of declassifying Board members as Full Time Equivalent positions.

The total FY 2004 budget recommendation of \$5.3 million finances the operating requirements of the Board of Elections, including \$3.9 million in federal funding relating to a national election reform initiative, and \$1.4 million in general revenues. The operating budget includes full and part-time personnel costs, as well as leased equipment and vendor payments for the optical scan ballot system. A total of 15.0 FTE positions are recommended for the board in FY 2004. The Federal Funding will be utilized for the purchase of Handicapped voting equipment, for the costs of the State's Optical Scan Ballot system, for Poll Worker training, for the development of provisional balloting and for election related equipment purchases. The Board of Elections will be working in concert with the Secretary of

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State's Office to implement these and other requirements of the Federal election reform legislation passed in 2002.

Rhode Island Ethics Commission

The Governor recommends revised FY 2003 expenditures of \$902,021, entirely from general revenue. This revised level of expenditures is \$24,257 or 2.6 percent less than the enacted authorization. The change consists primarily of net payroll savings of \$31,156 resulting from a cap reduction in FTEs of 0.5, reflecting the Budget Officer's discretionary allocation of an executive branch statewide FTE cap reduction. The Governor recommends an FTE cap of 9.0 in FY 2003, a reduction of 0.5 from the FY 2003 enacted authorization.

In FY 2004, the Governor recommends a budget of \$942,594, consisting entirely of general revenue. This proposed level of funding is \$40,573, or 4.5 percent, greater than the revised FY 2003 level. This net increase of \$44,654 consists primarily of increased payroll costs attributable to employees' entitlement for steps and longevity. It also includes increased costs for employees' retirement and medical benefits. The Governor's recommended FTE's for FY 2004 is unchanged at 9.0.

Office of the Governor

The Governor recommends general revenue expenditures of \$6.6 million in FY 2003 for the Office of the Governor. This represents an increase of \$1.5 million above the enacted budget level and reflects the reappropriation of \$1.1 million from FY 2002 to continue the environmental impact study at Quonset. It also includes estimated transition costs of \$400,000.

The Governor recommends general revenue expenditures of \$4.3 million for FY 2004, a decrease of \$2.3 million from the revised budget level. The FY 2004 recommendation does not include financing for the port study, but supports the agency operations, including the financing of 47.5 FTE positions.

Public Utilities Commission

For FY 2003, the Governor recommends total expenditures of \$5.6 million for the Public Utilities Commission. This funding is comprised of \$692,827 in general revenue, \$66,610 in federal funds, and \$4.9 million in restricted receipts. The Governor's revised general revenue recommendation reflects a net decrease of \$12,784 from the agency's FY 2003 enacted authorization and is due primarily to a reduction of 0.5 FTE to the FY 2003 FTE ceiling of the agency based on the Budget Officer's discretionary statewide FTE cap reduction allocation for the executive branch of state government. Staff military leave of absence also adds to the savings in payroll cost. All other funding sources were unchanged from the agency's FY 2003 budget authorization. The Governor recommends an FTE revised ceiling of 43.0 in FY 2003.

In FY 2004, the Governor recommends total expenditures of \$5.9 million, consisting of \$693,237 in general revenue, \$70,277 in federal funds, and \$5.1 million in restricted receipts. This funding level reflects an increase of \$254,099 from the Governor's FY 2003 revised recommendations for all sources of funding. It consists primarily of \$250,022 in restricted receipts for two additional FTEs for expanded efforts at inspection of meters for utilities and common carriers, including one position by transfer from the Department of Labor and Training, coupled with increased costs for employees

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medical and retirement benefits. The Governor's FTE ceiling recommendation for FY 2004 is 45.0, an increase of 2.0 FTEs from the Governor's FY 2003 revised ceiling. The proposed budget includes an article to eliminate the addition of two members to the Public Utilities Commission effective January 1, 2004.

Rhode Island Commission on Women

The Governor recommends a revised FY 2003 budget for the Rhode Island Commission on Women of \$143,489, composed entirely of general revenue expenditures, and consistent with the FY 2003 enacted budget. The revised FY 2003 budget recommendation contains funding for the Woman of the Year banquet, offset with general revenue generated by ticket sales to the event.

In FY 2004, the Governor recommends a general revenue budget of \$143,393, reflecting a \$96 decrease from the revised FY 2003 budget. The recommendation consists of adjustments to salaries, statewide benefit categories, and operating expenditures including savings from a proposed relocation of the Commission's offices to the Administration Building at One Capital Hill. Continued financing is provided for the Woman of the Year banquet in FY 2004. The Governor recommends 2.0 FTE positions in FY 2003 and FY 2004.

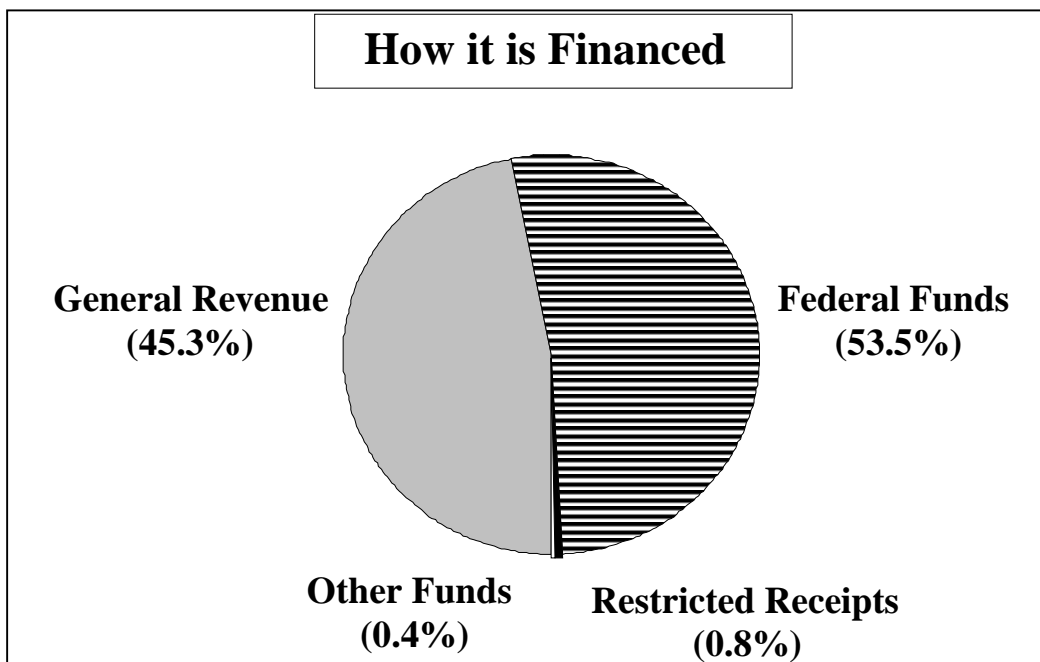
Human Services

Human Services

Summary

The Human Services function of state government spans a broad range of activities including, but not limited to, prevention, treatment, and rehabilitation services.

On a program basis, the Governor's FY 2004 budget finances current service costs for the state's elderly, children, juvenile, disabled and medically needy. The Governor's FY 2004 budget continues to support cash and medical assistance programs while maintaining services to veterans, the disabled, the mentally ill, the blind, and the visually-impaired. The chart below depicts the source of funding for the Governor's FY 2004 recommendation for the human service agencies and departments.



The Human Services departments and agencies continue to leverage their resources so that both individuals and families achieve maximum potential and self-sufficiency. The Governor's proposed funding level of \$2.3 billion protects services for the state's most vulnerable populations, including the elderly, children and families, medically needy, mentally ill, developmentally disabled, deaf and hard of hearing, and the physically disabled. The social and economic needs of clients continue to be met through the services provided by the Departments of: Children, Youth, and Families; Elderly Affairs; Health; Human Services; and Mental Health, Retardation, and Hospitals. The dual roles of advocacy and education continues to be provided by agencies including the Commissions on: the Deaf and Hard of Hearing; Human Rights; and, Disabilities, and the Offices of the Child Advocate and the Mental Health Advocate.

The Governor is committed to preventing child abuse and neglect, intervening for and on behalf of abused and neglected children and youths, and rehabilitating delinquent youths through education and training.

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For FY 2004, the Governor recommends total general revenue funding of \$1.047 billion, an increase of \$10.3 million from the FY 2003 revised budget. This includes increases of \$16.5 million in the Department of Human Services and \$571,687 in the Department of Elderly Affairs. These increases are offset by reductions of: \$2.6 million in the Department of Children, Youth and Families, \$2.6 million in the Department of Mental Health, Retardation and Hospitals and \$1.5 million in the Department of Health.

The changes in the Department of Human Services include: revised caseload conference estimates; revisions in the federal Medicaid matching rate, and elimination of a scheduled child care provider rate adjustment. The Governor also recommends continuation of uncompensated care payments to community hospitals; this program expires in current law, and will require a statutory change. However, Federal Regulations allow for the expansion of uncompensated care payments to the Eleanor Slater Hospital (State Facility) which reduces the availability of payments to community hospitals. Reductions to Medical Benefits expenditures, from the levels adopted by the caseload conference also include: the restructuring of the financing for children's intensive services and home-based therapeutic services, savings related to the administration of pharmacy payments, managed care savings and elimination of retroactive Medicaid eligibility payments. These items are discussed in greater detail in the Department of Human Services section of this document.

Within the Department of Mental Health, Retardation and Hospitals, the Governor proposes funding to support the cost of increasing caseloads in the Developmental Disability and Mental Health programs. The Governor also recommends the closure of two wards on the Pastore Center Campus of the Eleanor Slater Hospital. The closure will effect one medical ward and one psychiatric ward and will reduce the total census of the hospital by approximately 30 patients. The Governor's recommendation includes additional funding for Mental Health Group Home services, within the budget for MHRH, and additional funding for Nursing Home Services, within the DHS budget, to serve the discharged clients in more clinically appropriate settings.

The Governor recommends a general revenue decrease of approximately \$2.6 million in FY 2004, compared to FY 2003 revised levels, for the Department of Children, Youth and Families. This decrease is a net figure and primarily represents savings from the development of Residential Counseling Center beds in lieu of Psychiatric Hospital Services and the elimination of non-Medicaid CIS (Children's Intensive Services). These reductions are offset by a general revenue increase for Targeted Case Management Services.

Within the Department of Health, the Governor recommends total funding of \$106.9 million, including \$32.9 in general revenues. The majority of departmental programs have been financed at current service levels with the exceptions of the Health Care Quality Program, Certificate of Need Program and the Poison Control Center.

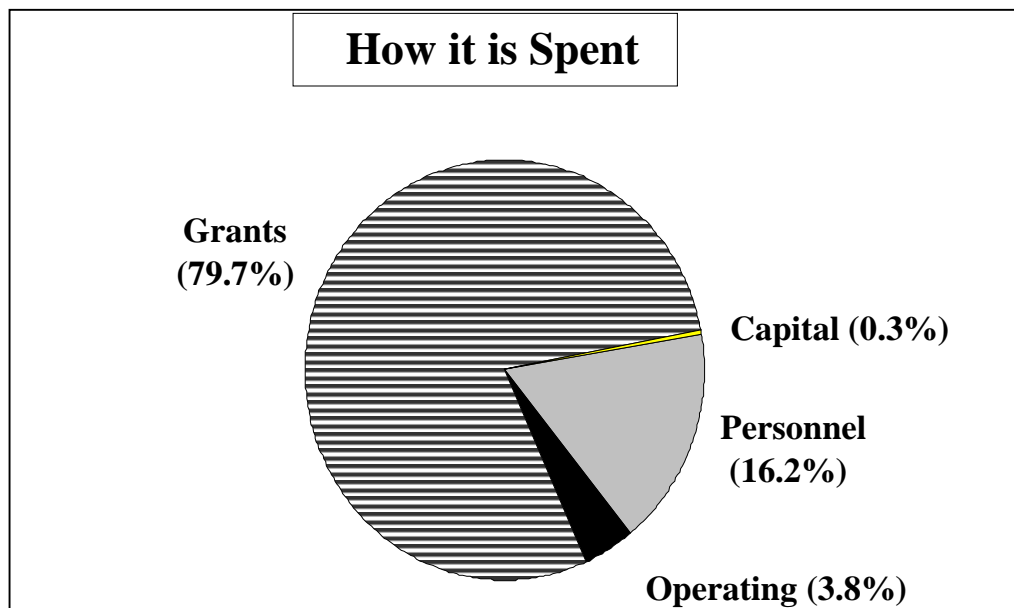
The Governor proposes total FY 2004 expenditures of \$41.9 million for the Department of Elderly Affairs, including \$27.4 million general revenues, an increase of \$571,687 million above the FY 2003 recommended level. The increase primarily reflects adjustments for the RIPAE program, which are partially offset by reductions in Legislative grants, Community Care grants and Respite Care services.

The Governor proposes total human services expenditures of \$2.310 billion, consisting of \$1.047 billion in general revenue, \$1.236 billion in federal funds, \$17.4 million in restricted receipts, and \$10.2 million in other funds. The total constitutes 41.0 percent of the total proposed expenditures for the state. Social

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The chart below depicts the financing sources of the proposed funding level of \$2.310 billion for human services programs. Whenever feasible, the Governor's plan leverages state resources with federal resources. For FY 2004, the state anticipates distributing \$94.3 million in state and federal resources to hospitals serving low-income persons under the Disproportionate Share Program.

The Governor's FY 2004 proposed level of expenditures includes direct and purchased services for residential care, medical care, and preventive health services, cash payments to individuals, and grant funding for non-governmental agencies. The operating costs associated with the administration of these social services programs are also included. Personnel, which includes purchased services, accounts for \$374.4 million, or 16.2 percent, of all expenditures programmed for human services. Other operating expenditures are funded at \$87.9 million, or 3.8 percent of proposed total human services expenditures, with capital projects slated for \$7.4 million, or 0.3 percent. Finally, grants and benefits expenditures of \$1.890 billion account for the largest outflow of identified resources, reflecting 79.7 percent of the total human services function budget. The chart below shows the outflows of all resources by category of expenditure for the human services function.



Included in proposed FY 2004 grants and benefits expenditures are: \$1.052 billion for medical assistance payments; \$73.3 million for child care benefits for qualified families; \$175.2 million for services to the developmentally disabled, \$66.0 million for services to the mentally ill, \$14.1 million for the Rhode Island Pharmaceutical Assistance to the Elderly (RIPAE) program, \$74.1 million for cash assistance grants for an estimated 39,540 individuals in the Family Independence Program; \$28.1 million in funding for an anticipated caseload of 30,180 individuals in the Supplemental Security Income (SSI) program; and \$2.9 million to assist qualified individuals in the General Public Assistance (GPA) program.

Human Services

Department of Children, Youth and Families

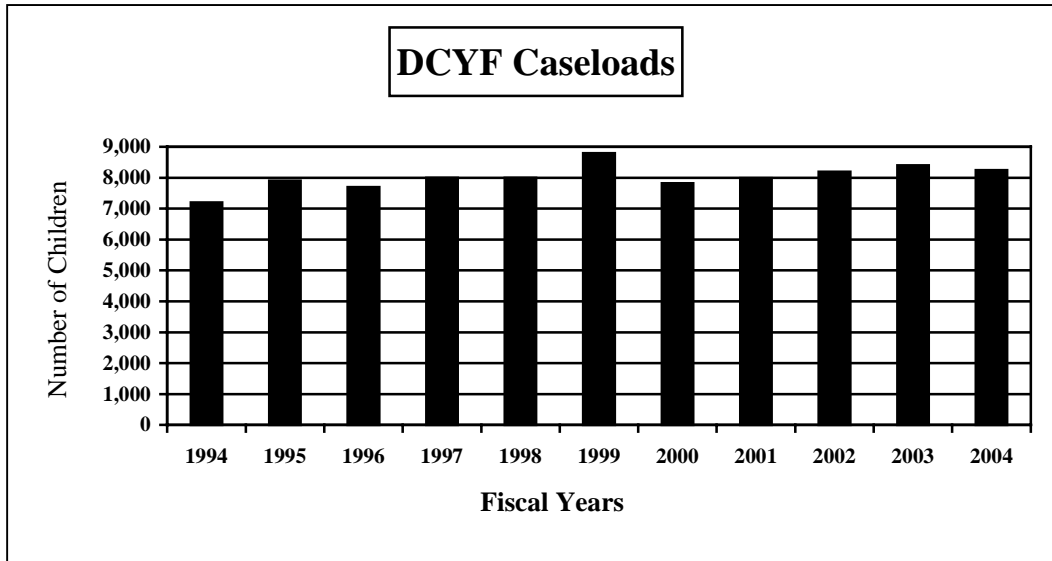
The Governor recommends total expenditures of \$237.1 million for the revised FY 2003 budget, including \$141.3 million of general revenue, \$94.3 million of federal funds, \$1.2 million in restricted receipts, and \$212,847 of other funds. The Governor's revised budget includes a net increase of \$1.7 million in general revenue expenditures. This represents a 1.3 percent increase over the enacted budget. The increases include \$1.0 million for Psychiatric Hospitalization costs in the Children's Behavioral Health Program, \$1.1 million for salary and fringe benefits costs in the Child Welfare Program due to the loss of Medicaid and Title IV-E matching funds, and \$1.3 million for Targeted Case Management Services. These increases are offset by reductions in Board and Support expenditures, which qualify for more Medicaid reimbursement than was anticipated in the enacted budget.

The Governor recommends total expenditures of \$233.8 million in FY 2004 for the Department of Children, Youth and Families. This budget is comprised of \$138.6 million of general revenue, \$93.4 million of federal funds, \$1.3 million of restricted receipts, and \$179,660 in other funds. The recommended FY 2004 general revenue budget decreases by \$2.6 million as compared to the revised FY 2003 budget. A major component of the FY 2004 recommended budget is the expansion of Residential Counseling Centers (RCC's) slots by sixteen. Residential Counseling Centers are eight-bed facilities that provide a variety of therapeutic and clinical services in a group home setting. These group homes are designed for adolescents with serious emotional disturbances (SED's) who need time-limited services to prepare to return home or to a long-term placement. Services are provided for a six-month period of time. These new slots will be utilized for children currently in psychiatric hospitals. This move will result in savings of \$2.1 million for the department. This savings reflects the net effect of the cost of direct hospital services and the administration associated with those services as compared with expenditures for the new RCC beds. The department anticipates saving \$1.0 million in general revenue, as a result of the change in the Federal Medicaid Assistance Percentage (FMAP) rate. The Federal share of eligible Medicaid expenditures is increasing from 54.663 percent in FY 2003 to 55.873 percent for FY 2004. The Governor recommends continuation of the Child and Adolescent Services System Program. The Child and Adolescent Services System Program was developed with a series of Federal grants whose purpose was to create a locally based, family driven, culturally competent system of mental health care for seriously emotionally disturbed children (SED). Eight Local Coordinating Councils, in partnership with DCYF, manage the CASSP. The Local Coordinating Councils are a network of family members, community leaders and health, juvenile justice, educational, mental health and other child-serving agencies. The councils manage the resources provided by the State and Federal governments to create a seamless system of care, reflective of the needs and strengths of the community, in order to keep children with SED's in their homes and communities as long as possible. The individual Local Coordinating Councils have community planning teams which, provide comprehensive planning services and allocate wraparound funds on a child specific basis. Also included, as part of the recommended FY 2004 budget, will be the elimination of Children's Intensive Services (CIS) for Non-Medicaid eligible children. The recommendation also reflects a reduction of ten percent, or \$50,000 from the current services level, in Legislative Grants.

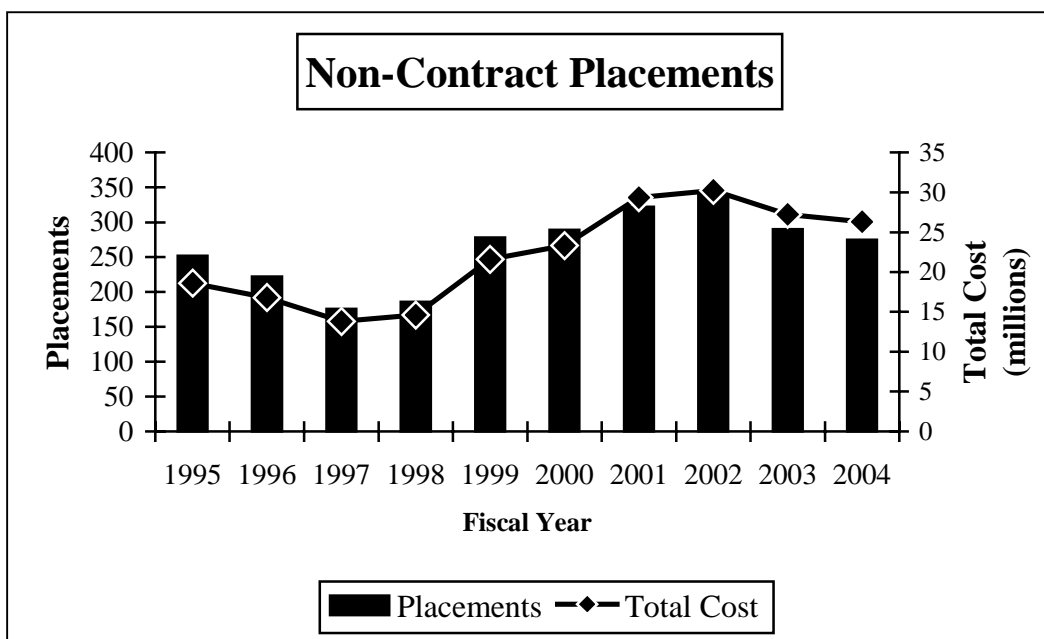
The Governor's Capital Improvement Plan includes \$59.6 million for the construction of a new 214-bed Training School at the Pastore Center. The project is intended to replace the existing training school, address overcrowding issues, and to comply with a Federal Court consent decree. The new facility will house detained and adjudicated male and female residents and provide equitable opportunities for residents to participate in programming. Architectural design commenced in FY 2002. The project will

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be financed through the issuance of certificates of participation, previously approved by the Legislature, and with funding available from a letter of credit from the sale of the Sockanosset property in Cranston to a private developer.



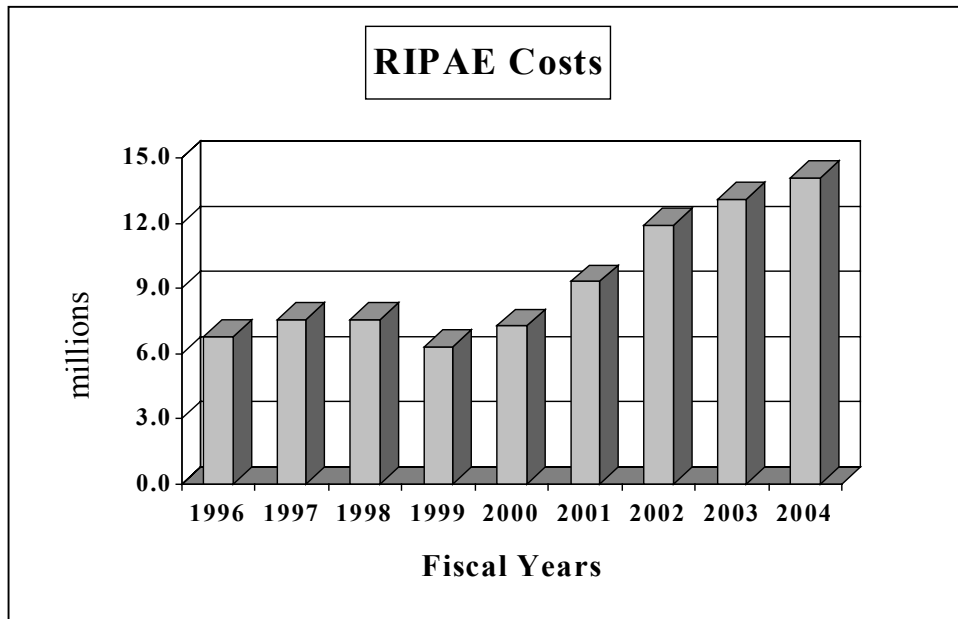
Department caseloads are projected at 8,400 for FY 2003, and 8,250 in FY 2004. The Governor's budget recommendation includes 290 purchase of service placements in FY 2003, and 275 placements in FY 2004. The reduction in the number of non-contract placements for FY 2004 assumes that continued utilization review and increased in-state capacity will result in children moving through the child welfare system more rapidly and appropriately. Purchase of service placements are tailored to the needs of each child, and are purchased by the department on an individual, as needed basis. The chart below displays the historical utilization data and revised FY 2003 and FY 2004 levels of purchase of service placements, with associated costs.



Human Services

Department of Elderly Affairs

The Governor recommends a revised budget for FY 2003 for the Department of Elderly Affairs of \$42.9 million. Expenditures are comprised of \$4.7 million in gas tax receipts, \$26.8 million in general revenue, and \$11.3 million in federal funds. This revised funding level is an increase of \$2.2 million from the FY 2003 enacted budget. The increase is comprised almost exclusively of federal funds. The general revenue budget recommendation represents an increase of \$15,965 from the enacted level. This increase includes additions of \$438,491 in operating expenses, primarily for rental of property, and \$152,000 in the Transportation Program. These increases are offset by reductions of \$259,875 in personnel, \$70,871 in grants and benefits, \$10,000 for the Governor's Conference on Aging and \$236,359 in the Rhode Island Pharmaceutical Assistance to the Elderly (RIPAE) program. The revised federal funds budget represents additions throughout the majority of federal accounts. The most significant changes include \$503,474 in Senior Community Service Employment expenditures and \$432,503 in Title III – Home Delivered Meals. Expenditures derived from gas tax funding remain unchanged from the enacted level.



For FY 2004, the Governor recommends total expenditures of \$41.9 million, consisting of \$4.7 million in gas tax receipts, \$27.4 million in general revenue and \$9.8 million in federal funds. The recommended budget is \$931,854, or 2.2 percent less than the FY 2003 revised budget. The majority of the reductions can be attributed to personnel expenditures and grant based expenditures including; Home and Community Care Grants, Respite Care and a ten percent reduction in Legislative Community Grants. For FY 2004, the recommendation for the RIPAE program totals \$14.1 million. This represents an increase of \$982,996, or 7.5 percent, from the FY 2003 revised budget level, including \$181,000 of savings from the elimination of the Pharmaceutical Care Services Program. The Governor recommends 52.6 FTE positions in both FY 2003 and FY 2004. The Governor's budget recommendation does not reflect the implementation of a pending federal Medicaid waiver, which would allow for federal Medicaid reimbursement of the majority of RIPAE expenditures. If the waiver is approved, the existing general revenue funds

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revenue funds for this program would be transferred to the Department of Human Services. This transfer could occur as early as July 2003.

Department of Health

The Governor recommends total expenditures of \$108.7 million in the FY 2003 revised budget, including \$34.4 million in general revenue, \$63.1 million in federal funds, \$10.9 million in restricted receipts and \$174,695 in other funds. This represents an increase of \$10.9 million from the FY 2003 enacted budget. General revenue increases by \$960,000 from the FY 2003 enacted budget. Specific programmatic increases include \$900,000 for the Early Intervention Program and \$60,000 for the Loan Repayment Program.

Federal funds increase by \$7.2 million in the FY 2003 revised budget from the enacted level. The increased grant funds have been awarded in the areas of Bioterrorism Preparedness Planning and Early Intervention. Federal funding is essential to completing the mission of the Department of Health and every effort is made to maximize this funding source. Restricted receipt funds increase by \$2.8 million from the enacted level, which results from new or increased funding from restricted revenues and foundation grants, as well as unexpended resources from FY 2002. The principal increase relates to child immunization funding within the Division of Family Health. In FY 2003, other funds are reduced \$36,833 from the FY 2003 enacted level.

For FY 2004, the Governor recommends total expenditures of \$106.9 million for the Department of Health. This includes \$32.9 million from general revenue, \$63.4 million from federal funds, \$10.5 million from restricted receipts, and \$73,426 from other funds. This is a net reduction of \$1.7 million from the FY 2003 revised budget, and is comprised of reductions in general revenue, restricted receipts, and other funds, and a slight increase in federal funds.

The FY 2004 recommended general revenue budget is structured to finance the current service operations of the Department of Health. However, the current fiscal climate has necessitated several reductions in areas not deemed essential to the central mission of the Department of Health. The Governor recommends reductions in several areas including the Health Care Quality Program (\$201,961), the Poison Control Center (\$250,000), the Certificate of Need and Change in Effective Control Program (\$275,800) and Legislative grants of (\$90,530).

The FY 2004 recommended budget does not include significant changes in federal funding, restricted receipts, or other funds throughout the department, as compared to the FY 2003 revised budget.

The budget recommendations for both FY 2003 and FY 2004 include full-time equivalent positions totaling 506.9 for the Department of Health. This total is identical to that included in the FY 2003 enacted budget.

Department of Human Services

The Governor recommends revised appropriations of \$1.418 billion for FY 2003, including \$610.2 million of general revenues, \$801.7 million of federal funds, \$5.8 million of restricted receipts and \$293,723 in other funds. This represents an increase of \$23.5 million, on an all funds basis, from the

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enacted budget. The revised budget for FY 2003 includes an increase of \$1.8 million in general revenue expenditures, an increase of \$20.0 million in federal funds, and an increase of \$1.8 million in restricted and other funds. The primary reason for the increase is the addition of \$14.2 million for revised Medical Benefit expenditure estimates, adopted by the November 2002 caseload estimating conference (CEC), which includes \$9.3 million in general revenue funds.

Cash assistance appropriations for FY 2003, pursuant to caseload conference estimates, increase by \$1.4 million from enacted appropriations. Additional federal resources, however, from the underexpenditure of prior year TANF block grant funds of \$3.1 million, and from a TANF bonus performance award of \$4.8 million have been recognized, resulting in a net general revenue reduction of \$6.4 million for cash assistance caseloads. The largest components of change in adopted cash assistance caseloads from general revenue funds, are the reduction of \$192,277 for the Supplemental Security Income (SSI) program, and the reduction of \$6.7 million in Family Independence Program (FIP) cash and child care benefits. The all funds reduction of \$1.7 million for FIP benefits, and the addition of \$2.9 million for child care costs reflect the impacts on adopted estimates of the increased transition of clients from unemployment to case closure or to reduced benefit levels recognizing earned income, and to the corresponding increase in child care hours. Allocations for federal food stamp benefits are reduced by \$1.0 million, to \$65.8 million, also reflecting caseload trends. This entitlement is totally financed from federal sources, and is not included in caseload conference estimates.

The revised FY 2003 budget proposal for general revenues includes the reappropriation of \$256,348 from FY 2002 appropriations for contractual costs related to federal Health Insurance Portability and Accountability Act mandates. It also includes the addition of \$250,000 for Emergency Housing Assistance vouchers financed by a grant from the Rhode Island Housing and Mortgage Finance Agency and recorded as general revenue expenditures. A legislative grant, included in the enacted budget in the Central Management program, for \$425,000 is entirely reallocated to the Medical Benefits program. The remaining changes for operational (non-entitlement) costs from general revenue total a reduction of \$605,724, and represent the recognition of savings from hiring freezes, continuing department efforts to maximize federal cost allocations, and from increased allocations to restricted indirect cost recovery proceeds.

For FY 2004, the Governor recommends total expenditures of \$1.474 billion for the Department of Human Services. This total includes \$626.7 million from general revenue, \$841.1 million from federal funds, \$800,000 from Rhode Island Capital Plan funds, and \$5.4 million from restricted receipts. The agency budget continues to finance: cash and medical assistance programs at caseload conference consensus values; training and support services for family assistance programs; continued services to veterans, the blind and visually impaired, and other assisted populations. Seventy-one percent of the agency's expenditures are for medical benefits payments.

The Governor's budget recommendations for both FY 2003 and FY 2004 include full funding for the operation of the Rhode Island Veterans' Home and the Rhode Island Veterans' Cemetery, including \$3.7 million for capital improvements in FY 2003, and \$1.8 million in FY 2004.

In FY 2004, current payment standards are maintained for clients receiving cash payments under the Family Independence Program. After reaching a peak caseload of 64,000 persons in 1994, the number of persons receiving cash assistance continues to decline. The November 2002 consensus caseload conference estimated that 42,120 persons would receive Family Independence Program cash assistance

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in FY 2003, a 6.8 percent decrease from FY 2002, declining to 39,540 persons in FY 2004, a reduction of an additional 6.1 percent. This decline reflects the goal of supporting families and placing clients into unsubsidized employment. Correspondingly, continuing investments are required in childcare, medical assistance, education, and training and employment programs. Consensus caseload conference estimates project 12,820 childcare slots in FY 2003, an increase of 5.9 percent from FY 2002 actual experience, and 13,075 slots in FY 2004, an additional increase of 1.9 percent.

The consensus caseload conference estimates for cash assistance payments in FY 2004 are reduced by \$4.4 million compared to revised FY 2003 levels. This reflects savings of \$1.3 million from the expiration of the state food stamp benefit, and continued reductions in FIP cash assistance payments of \$7.0 million, offset by increased SSI estimates of \$28,540 and increased estimates for child care slots of \$3.8 million.

No contraction of client eligibility is proposed for cash assistance programs. The Governor's recommended FY 2004 Budget includes a statutory revision, and a reduction of \$2.9 million in general revenue funds, from the elimination of a scheduled child care provider rate adjustment effective January 1, 2004. The scheduled adjustment of approximately eight percent is contained in current law, and its costs are included in the caseload conference estimates. The Governor also recommends establishment of a reimbursement rate for three-quarter time child care slot reimbursements, with associated savings of \$1.2 million; currently all slots above half time are reimbursed as full-time slots.

The Supplemental Security Income (SSI) caseload historically has increased on a continuous basis. The adopted caseload conference estimates are 29,400 recipients in FY 2003, and 30,180 in FY 2004, and compare to actual cases of 28,916 in FY 2002. The 2.6 percent growth rate results from a continued growth in the disabled component and a slight decline in the state's elderly population. The General Public Assistance Program will be maintained in FY 2004, providing limited cash assistance to eligible persons and a medical program of restricted scope. The caseload conference estimate is 450 persons in FY 2003, and 455 persons in FY 2004.

Medical assistance programs are maintained in FY 2004. Exclusive of uncompensated care distributions, the November CEC adopted medical benefits for FY 2004 at a level \$59.0 million greater than for FY 2003, including \$14.2 million in general revenue funds. The Governor recommends Medical Benefits appropriations, as adopted by the Caseload Estimating Conference, with the following revisions necessary to manage the growth in state costs:

- Reinstating uncompensated care payments to state and community hospitals as per current practice, requiring the addition of \$84.5 million, including \$37.2 million in general revenues. The current authorizing statutes expire annually; therefore the conference did not adopt FY 2004 estimates. This item requires a statutory change, and is included as an article to the recommended Budget. The proposed plan and statute recognize the new opportunity, under federal regulation, to increase uncompensated care payments to the Eleanor Slater Hospital, a state facility, by \$6.4 million from adopted estimates, to a total of \$17.7 million. This item is recorded as both a DHS expenditure and as an MHRH revenue. This level of reimbursement consumes the federal uncompensated care ceiling at a level that allows payments to community hospitals at \$76.6 million, a reduction of \$5.9 million from October, 2002 payments.
- Saving of \$8.3 million, including \$3.8 million in general revenues, from restructuring the financing of children's intensive and home-based therapeutic services. This includes enhancing the eligibility

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reviews for these services and for programs that ensure a level of medical need in an institutional setting.

- Net savings estimated at \$4.8 million, including \$2.1 million general revenues, by assuming direct administration of pharmacy payments for Rite Care clients.
- Savings of \$1.0 million in general revenues from accessing enhanced federal Medicaid matching rates in the managed care program, including pre-natal care for undocumented women.
- Managed care savings of \$244,782, in general revenue funds, from the contraction of center eligibility, for medical insurance for employees of child care centers. Eligibility for the subsidy would be restricted to centers serving fifty percent state clients, rather than the current forty percent. This item requires a statutory change, and is included as an article to the recommended Budget.
- An increase of \$2.3 million, including \$1.0 million in general revenue, to recognize the transfer of developmentally disabled youth's receiving Home Based Therapeutic services currently financed in MHRH appropriations.
- An decrease of \$331,296, including \$148,000 general revenue, from terminating retroactive Medicaid eligibility payments on behalf of adults with disabilities and the elderly.
- An increase of \$803,000, including \$354,350 in general revenue to nursing homes to recognize the spillover from the closure of a medical ward at the Eleanor Slater Hospital.

The adopted and recommended amounts for Medical Benefits recognize the savings resulting from an annual adjustment to federal Medicaid matching rates. Based on revised income and census data, the required state share for Fiscal Year 2004 has decreased by approximately 2.6 percent from FY 2003 levels. The Governor's recommendation reflects savings in Department of Human Services recommendations of approximately \$12.7 million due to state share reductions.

Basic medical services, provided through the Rhode Island Medical Assistance Program, will continue for: families receiving SSI benefits; children in foster care; Medicare beneficiaries having limited income and resources; pregnant women, parents and children with low incomes including mothers and children denied federal assistance due to their immigration status; and, persons meeting the criteria for the Categorically Needy Program. An inflation adjustment for nursing home reimbursements for eligible clients is included in the recommendation, pending an actual value from the National Nursing Price Index in May 2003. Rhode Island's Medical Assistance Program will continue to provide services in all mandatory categories as well as optional categories including dental, optometry, hospice, podiatry, ambulance and prescription services.

The Governor's proposed FY 2004 budget increases general revenue support for Veterans' Affairs by \$952,293, or 6.2 percent, from FY 2003 revised levels, reflecting employee benefit rates and increased operating costs related to increased acuity in the Veterans' Home population. Legislative grant appropriations are reduced by \$713,618. All other non-entitlement programs in the department increase by 3.6 percent, or \$1.8 million, primarily reflecting employee benefit rate changes on the recommended FTE ceiling of 1069.6 for both FY 2003 and FY 2004.

Department of Mental Health, Retardation and Hospitals

The Governor recommends total FY 2003 expenditures of \$441.9 million for the Department of Mental Health, Retardation and Hospitals, including \$221.7 million of general revenue, \$218.9 million in

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federal funds, \$1.3 million in other funds and \$75,000 in restricted receipts. General Revenue funds increase by \$2.8 million from the enacted level, and include the reappropriation of FY 2002 funds related to the Piravano Trust in the amount of \$148,190. The supplemental funding also includes: \$2.0 million for Medicaid eligible services in the Division of Integrated Mental Health, \$723,244 for utility related expenditures in the Central Power Plant, \$397,128 for direct services in the RICALS system, and a reduction of \$346,827 in the Eleanor Slater Hospital.

The increase in Mental Health Services relates to a significant increase in demand for services during FY 2002 and a projection that the caseload will increase by approximately four percent in FY 2003. The vast majority of the increase relates to outpatient services provided through the Community Mental Health Centers, but a portion of the increase relates to in-patient hospitalization services provided by Butler Hospital.

With respect to the utility increases, during the summer of 2001, the Power Plant experienced an outage due to the failure of a feedwater pump. The failure prevented the generation of steam, which is used for both air conditioning and heating, and necessitated the use of temporary boilers. The department has continued to have a variety of problems associated with the failure of existing equipment, which has resulted in the continued rental of temporary boilers and fuel tanks. The department is in the midst of a major renovation of the Central Power Plant, funded by Certificates of Participation. The project will be completed by January of 2004, at which point the Pastore Center Campus will have a reliable long-term source of steam and electricity to operate the campus.

In the RICLAS system, the original plan to close six residential facilities during FY 2003 has been slowed by litigation, which has resulted in fewer homes actually closing and expenditures greater than those anticipated in the enacted budget.

The Governor's FY 2004 recommendation totals \$450.0 million, including \$219.0 million of general revenues, \$226.9 million of federal funds, \$4.0 million of Rhode Island Capital Plan Funds and \$75,000 of restricted receipts. The general revenue portion of the budget reflects a decrease of approximately \$2.6 million, or 1.2 percent, from the FY 2003 revised level. The reappropriation of \$148,190 is not repeated in FY 2004. The net change from FY 2003 to FY 2004 would appear to indicate significant general revenue reductions, however, approximately \$4.7 million of general revenue Medicaid costs can be reassigned to federal funds as a result of the change in the Federal Matching Assistance Percentage rate (FMAP). The Governor's general revenue recommendations do however include several specific program reductions including the closure of two wards in the Eleanor Slater Hospital and the elimination of some prevention based funding in the Division of Mental Health Services. The recommendations also reflect the transfer of \$1.0 million to the Department of Human Services relating to Developmental Disability Services for Children and the shift of \$1.0 million in Substance Abuse and Mental Health general revenue expenditures to federal funds.

The ward closures in the Eleanor Slater Hospital are anticipated to effect two wards, one medical and one psychiatric. The closure of these wards will result in the consolidation of hospital services on the Pastore Center Campus and eventually in the closure of an entire building. Funding has been provided in the Governor's recommendations for the Department of Mental Health, Retardation and Hospitals and the Department of Human Services for Group Home and Nursing Home Services respectively to serve the discharged patients in an alternate setting more clinically appropriate to their needs.

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The FY 2004 recommendation does not include a cost of living adjustment for state employees, but the recommendations do reflect changes in medical benefit costs, retirement rates and other related personnel adjustments. The recommendation of the Governor provides for 2,067.7 FTE positions for FY 2003 and FY 2004.

Within the Eleanor Slater Hospital, compliance with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), Medicare, Medicaid, and Department of Health requirements continues to be major priorities. The Eleanor Slater Hospital is surveyed by JCAHO every three years with the most recent survey occurring in December of 2002. The Hospital scored a 97, out of a possible 100 points, and had no Type 1 deficiencies. Correspondingly, facility repairs, upgrades and campus-wide utility improvements are continuing. Funding for such projects is accomplished from a combination of sources including general revenue, Rhode Island Capital Plan Funds and Certificates of Participation.

Within the Division of Developmental Disabilities, the department is continuing to pursue the CHOICES initiative. The initiative includes components to provide individualized funding plans so that clients can exercise some freedom of choice in the location and type of supports which they will receive. The project is a collaboration with the Department of Human Services, and will include significant modifications to the state's Medicaid Management Information System.

As part of a plan to integrate MHRH service systems in order to deal with clients who have co-occurring disorders of Substance Abuse and Mental Health, the department is continuing to work toward a consolidated Behavioral Health Care Program. This program will help shape the future delivery of services to insure that clients with both mental health and substance abuse issues are diagnosed and treated appropriately. Although the program structure and the associated financing of Integrated Mental Health Services and Substance Abuse are currently separate, the service systems and financing will be merged over the next several years.

Office of the Child Advocate

The Governor recommends total expenditures of \$871,742 for FY 2003. This consists of \$494,552 in general revenue, \$359,190 in federal funds, and \$18,000 in restricted receipts. The revised funding level is \$18,000 greater than the enacted level, reflecting an increase in Rhode Island Foundation grant funds, which will be used to update and publish children guideline manuals. The Governor recommends 12.5 FTE positions for FY 2003.

For FY 2004, the Governor recommends total expenditures of \$462,844 including \$414,844 in general revenue and \$48,000 in federal funds. The Governor recommends a transfer of 6.7 FTE positions in the Educational Advocacy - Surrogate Parent Program to the Sherlock Center at Rhode Island College. The Governor recommends the transfer of the Educational Surrogate Parent Program's funding of \$388,471, of which \$77,595 are contracted general revenue match funds and \$271,406 are federal funds, to the department of Elementary and Secondary Education. The department of Elementary and Secondary Education will contract with the Sherlock Center for Surrogate Parent Program services. The Governor recommends 5.8 FTE positions for the Office of the Child Advocate in FY 2004.

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Commission on the Deaf and Hard of Hearing

The Governor recommends general revenue expenditures of \$261,397 in FY 2003, which is consistent with the FY 2003 enacted level. Minor decreases for purchased interpreter services, offset by corresponding increases to salary and benefits for a staff interpreter, constitute the only change to the Commission's revised budget in FY 2003. The staff interpreter position is recommended for half of the fiscal year and is contingent upon modification of the existing researcher associate position description and duties.

The Governor recommends total expenditures of \$285,014 in FY 2004 to fully finance current costs for the personnel and operating requirements of the commission, including the full year cost of the staff interpreter. Other adjustments include minor decreases to operating expenditures based on historical review. The Commission is entirely funded by general revenue. The Governor recommends a total of 3.0 FTE positions in both fiscal years.

Rhode Island Developmental Disabilities Council

The Governor recommends revised FY 2003 expenditures of \$545,788, consisting entirely of federal funds. This recommendation is \$124,355 greater than the agency's FY 2003 enacted budget and consists primarily of an increase in grant expenditures. The increase in grant expenditures is due to a new grant award for service learning opportunities of \$99,414 and reduced personnel costs, the savings from which were transferred to the grant category. The Governor recommends a revised FTE ceiling of 2.0, a reduction of 0.5 from the agency's enacted FY 2003 ceiling.

For FY 2004, the Governor recommends total expenditures of \$548,888, consisting entirely of federal funds. This proposed level of funding is \$3,100 greater than the FY 2003 revised recommendation. This net increase above the FY 2003 revised budget reflects current service cost adjustments for employee step, longevity, and medical and retirement benefits. The Governor's FTE ceiling recommendation is unchanged at 2.0 from the FY 2003 revised ceiling.

Governor's Commission on Disabilities

The Governor recommends revised expenditures of \$824,569 for FY 2003. This consists of \$481,594 in general revenue, \$36,152 in federal funds, \$56,823 in restricted receipts, and \$250,000 in Rhode Island Capital Plan funds. This revised funding level is \$401,610 greater than the FY 2003 enacted level and consists of a general revenue increase of \$160,855, a federal funds increase of \$4,510, a restricted receipts decrease of \$13,755, and a Rhode Island Capital Plan funds increase of \$250,000. The increased general revenue expenditures reflect the transfer of two FTE's from the Department of Administration's Central Services Program pursuant to Chapters 2 and 3 of 2002 P.L. Chapter 132 (2002-H8210 Substitute A) which took effect on August 1, 2002. The increase in Rhode Island Capital Plan funds reflects the Governor's request for authorization for facility renovations consistent with the Governor's capital plan of FY 2003 – FY 2007 to repair and rehabilitate existing state-owned structures and facilities for compliance with state and federal disabilities laws. The Governor recommends a revised FTE ceiling of 6.6, an increase of 2.0 from the FY 2003 enacted ceiling.

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For FY 2004, the Governor recommends total expenditures of \$1,117,288, including \$519,430 in general revenue, \$47,040 in federal funds, \$50,818 in restricted receipts, and \$500,000 in Rhode Island Capital Plan funds. When compared to the FY 2003 revised budget recommendation, this is an increase of \$292,719, consisting primarily of increases in general revenue and Rhode Island Capital Plan fund expenditures of \$37,836 and \$250,000 respectively. While the general revenue increase reflects primarily current service costs for employee retirement and medical benefits, the increase of \$250,000 in Rhode Island Capital Plan funds is consistent with the Governor's FY 2003 – FY 2007 capital plan to facilitate state compliance with federal disability laws for disabled persons' accessibility to state-owned facilities. The Governor's recommended FTE ceiling for FY 2004 is unchanged from the FY 2003 revised level of 6.6.

Rhode Island Commission for Human Rights

The Governor's revised FY 2003 budget totals \$1.2 million and consists of \$804,657 in general revenue and \$387,732 in federal funds. This revised level of funding is \$13,958 greater than the level enacted by the Legislature. It consists of an increase in general revenue of \$35,054 and a decrease of \$21,096 in federal funds. The general revenue increase reflects current service cost adjustments for employees' steps, longevity, and retirement and medical benefits of \$21,290 and other operating costs of \$23,764 which are offset by a reduction in general revenue-matching funds of \$10,000 for the use of student interns and fellows. The net decrease in federal funding reflects similar current service cost adjustments for employee steps, longevity, and retirement and medical benefits of \$28,710 offset with a decrease in other operating of \$19,806 and the discontinuation of the student intern program funding of \$40,000. This decrease reflects the available federal resources programmed for FY 2003. The Governor's FTE recommendation for FY 2003 is unchanged from the agency's FY 2003 enacted ceiling of 17.0.

For FY 2004, the Governor recommends total expenditures of \$1.2 million, which is comprised of \$895,306 in general revenue and \$270,822 in federal funds. This level of funding is \$26,261 less than the FY 2003 revised funding recommendation. The net decrease is due to reduced availability of federal resources which is attributable to the expiration of the agency's federal Fair Housing Initiative Program. This grant, which was co-awarded with Rhode Island Legal Services, is for the education and screening of people at the highest risk of becoming victims of housing discrimination. This grant expiration translates into the loss of two FTE positions, which the grant previously financed. The Governor's recommended FY 2004 FTE ceiling is 15.0, a reduction of two FTE positions from FY 2003 revised ceiling. FY 2004 general revenue funding increases by \$90,649 over the FY 2003 revised levels, which partially supplants a federal funds reduction of \$116,910, as the Governor's recommended budget fully finances FY 2004 current service costs.

Office of the Mental Health Advocate

The Governor recommends total FY 2003 general revenue expenditures of \$296,859, reflecting no change from the enacted level. The recommendation reflects an increase of \$464 in personnel and legal service costs and a reduction of \$464 in operating expenses.

The Governor recommends total FY 2004 general revenue expenditures of \$317,656, reflecting funding for the majority of agency current service costs. The recommendation reflects the elimination of general revenue funding for contracted temporary help. The Governor recommends a total of 3.7 FTE positions for this agency for FY 2003 and FY 2004.

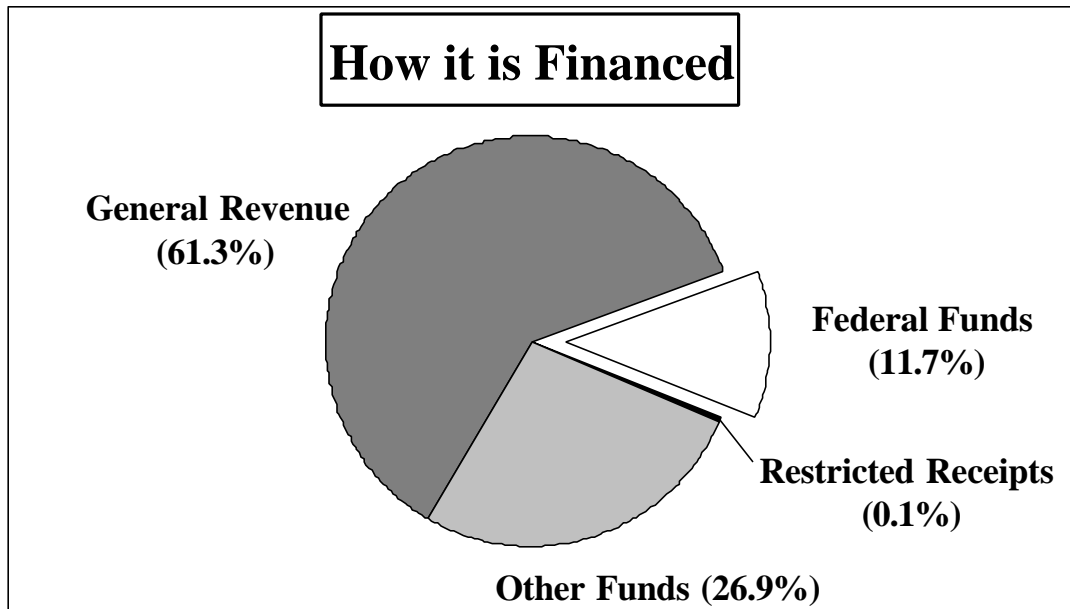
Education

Education

Summary

The Education function of state government includes services provided by the Department of Elementary and Secondary Education, Public Higher Education, the Rhode Island State Council on the Arts, the Rhode Island Atomic Energy Commission, the Rhode Island Higher Education Assistance Authority, the Historical Preservation and Heritage Commission, and the Rhode Island Public Telecommunications Authority.

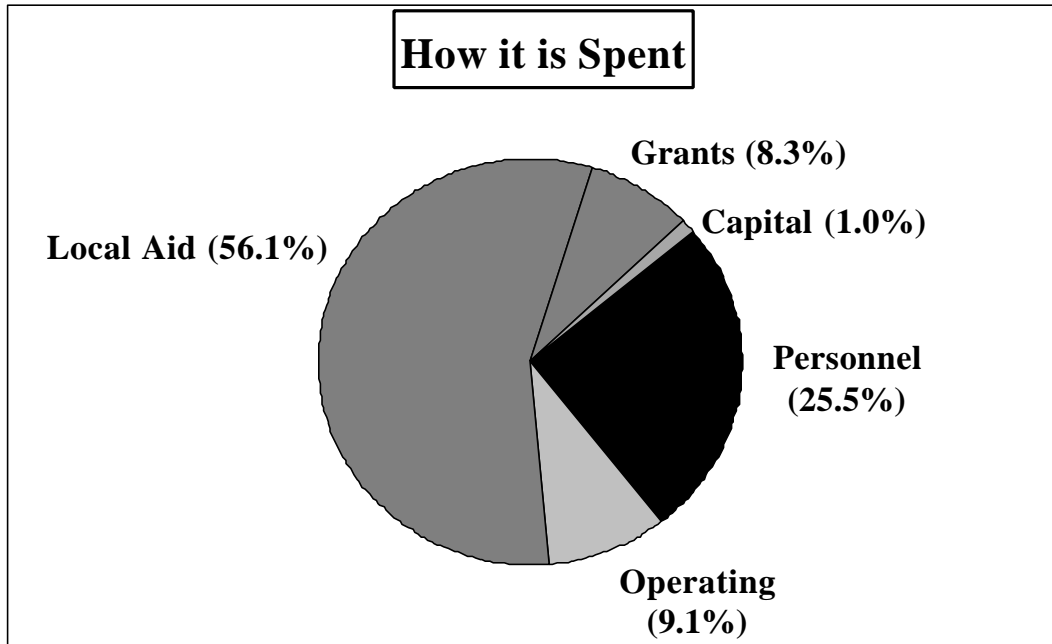
Two boards govern the major part of Education activities in Rhode Island. The Board of Regents, with the advice of the Commissioner of Education, establishes policy with respect to the operations of the Department of Elementary and Secondary Education, state education aid programs, the Central Falls School District, and the three state schools: the School for the Deaf, the Davies Career and Technical School, the Metropolitan Career and Technical School. The Board of Governors for Higher Education, with the advice of the Commissioner of Higher Education, establishes policy with respect to operations at the three state institutions of higher education.



The Governor recommends total expenditures of \$1.541 billion for Education in FY 2004, including \$944.8 million from general revenue, \$180.1 million from federal funds, \$1.6 million from restricted receipts, and \$415.0 million from other funds.

In the Education function of state government, other funds consist of: Rhode Island Capital Plan Funds, Institutional Revenues, Sponsored Research Programs, Scholarships and Fellowships, Auxiliary Enterprises in Public Higher Education, and the Corporation for Public Broadcasting grant to the Rhode Island Telecommunications Authority.

Education



The Governor's recommendation for Education for FY 2004 includes an increase of \$19.1 million in general revenues from FY 2003 revised levels, or an increase of 2.1 percent. The recommendation includes increased general revenue financing for Public Higher Education that is 1.9 percent above the Governor's FY 2003 revised budget, and for Elementary and Secondary Education that is 1.5 percent above the revised level. This includes an increase of \$7.0 million, or 1.1 percent in local education aid, including three state schools: the School for the Deaf, the Davies Career and Technical School, and the Metropolitan Career and Technical School. This continues the emphasis on the education of the children of Rhode Island. Aid to Local Units of Government accounts for 55.1 percent of all education expenditures. State operations expenditures, which include personnel and operating, account for 34.7 percent of total education expenditures. Most of these expenditures occur in Public Higher Education. The remaining 9.2 percent of expenditures occur in grants and benefits and capital outlays.

Education

Elementary and Secondary Education

The Governor recommends \$914.1 million in expenditures from all funds for the Department of Elementary and Secondary Education for FY 2003, of which \$744.7 million is general revenue expenditures, \$167.3 million is federal grants, \$1.3 million is restricted receipt funds, and \$721,511 is other fund expenditures. This represents an increase to the enacted FY 2003 budget of \$38.8 million in all funds. General revenue expenditures increase by \$5.4 million, federal expenditures increase by \$33.2 million, restricted receipt expenditures increase by \$73,736, and other fund expenditures increase by \$133,845.

The Governor's revised FY 2003 budget includes three changes in general revenues that account for the majority of the total increase: School Construction Aid increases by \$4.8 million, reflecting updated claims information; state retirement contributions for teachers decreases by \$0.4 million, reflecting an update of the teacher payroll base; and the Teacher Retiree Health Cost subsidy increases by \$1.1 million from the reallocation to the Department of Elementary and Secondary Education amounts that were appropriated in the Department of Administration in the enacted budget. The increase in federal funds represents larger carry-forward balances from FY 2002 and significant new federal investments in education for disadvantaged children, students with disabilities programs, teacher preparation programs, and additional standards for the "No Child Left Behind" federal agenda.

The Governor recommends \$926.3 million in expenditures from all funds for the Department of Elementary and Secondary Education in FY 2004. Of this total, \$756.0 million is from general revenue, \$168.2 million is from federal funds, \$1.1 million is restricted receipts, and \$0.9 million is from other funds. This financing level represents an increase in general revenue expenditures of \$11.3 million from the revised FY 2003 level, an increase of \$956,572 in federal expenditures, a decrease of \$196,431 in restricted expenditures, and an increase of \$214,069 in other fund expenditures.

Commencing with the FY 2004 budget recommendation, financing for the School for the Deaf and for the Davies Career and Technical School are included in the Education Aid program for both FY 2003 and for FY 2004. All discussions of education aid will include these components. Education aid to local government totals \$663.9 million in all funds for FY 2004. This represents an increase of \$4.6 million above the revised FY 2003 budget. The Governor recommends that general revenue expenditures for education aid increase by \$7.0 million above FY 2003 revised levels, and federal financing decreased by \$2.2 million from the same level.

The general revenue increase in education aid represents a freezing of aid to local districts at FY 2003 levels except for enrollment growth in charter schools, increases in full-day kindergarten and in group home beds. These categories add \$3.6 million to education aid above the revised level. To ensure that each local school district receives financing at no less than the FY 2003 level, the addition of \$283,000 is required. An additional amount of \$600,000 is recommended for progressive support and intervention, specifically targeted to achieving school improvements at Hope High School, Providence.

The Governor recommends \$5.8 million for the Metropolitan Career and Technical School. This represents an increase in financing for the school of \$1.8 million above the FY 2003 revised budget. Located in Providence, this innovative secondary school is designed to prepare Rhode Island's students for the challenges of the 21st century. The school's programs are housed at the Shepard Building downtown, in the West End of Providence, and at a new campus in South Providence. Most of the construction has been completed at the South Providence site and all buildings are expected to be operational by the end of FY 2003. Additional funding for the Metropolitan Career and Technical School

Education

provides for increased enrollment at the school of 180 to 200 students.

The Davies Career and Technical school budget is recommended at \$11.4 million, or \$654,418 above last year's revised budget. This represents a 6.1 percent increase in financing from FY 2003. The School for the Deaf budget is recommended at \$5.7 million, or \$103,471 above the FY 2003 revised budget, a 1.9 percent increase.

For FY 2004, teacher retirement obligations total \$40.4 million, an increase of \$1.2 million from revised levels. The recommendation reflects \$6.3 million in savings from a reallocation of retirement contributions from the state and Local Education Authorities to the teachers. The retired teacher health subsidy costs total \$1.3 million, an increase of \$195,270 above FY 2003.

The Governor recommends school construction aid for FY 2004 of \$40.6 million. This represents an increase from the revised FY 2003 level of \$2.4 million. School construction costs in FY 1998 totaled \$19.7 million. In the six years since, these costs have increased \$20.9 million, or over 106 percent from the 1998 level. To stabilize the state cost of school construction aid, the governor proposes a budget article to eliminate reimbursement of interest costs on these projects.

The state has fully implemented an initiative, enacted during the 2000 legislative session, to increase claiming by local education authorities of federal Medicaid funds for special education programs. Prior to FY 2001, school systems received Medicaid payments through Department of Human Services accounts for their direct costs in providing certain services for special education students. The Departments of Elementary and Secondary Education, Human Services and Administration collaborated to generate increased reimbursements for these services by expanding the classes of services eligible for reimbursement, by broadening the criteria for student eligibility, and by assisting the local authorities in improving their reimbursement methodologies. More significantly, Medicaid revenues were being realized for the first time in FY 2001 for the administrative costs associated with the operation of local special education programs. The total of new revenues for the local authorities is estimated to exceed \$17.4 million in FY 2004, compared to FY 2000 levels.

The Governor recommends \$15.2 million in general revenue for the agency's program operations. This is an increase of \$653,933 from the FY 2003 revised level recommended by the Governor. This continues to constrain personnel spending, reduces grant expenditures, and provides additional financing for I-Plans of \$700,000. Reductions of ten percent in legislative grants total \$118,600 in FY 2004.

The Governor recommends 328.7 FTE positions in FY 2003 and FY 2004.

Public Higher Education

The Governor recommends total expenditures of \$568.8 million for Public Higher Education in the FY 2003 revised budget, of which \$169.6 million is general revenue, \$2.4 million is federal funds, and \$396.8 million is from other funds. This represents an increase in total expenditures of \$10.2 million, comprised of \$44,455 in federal funds, \$10.0 million in other funds, and an increase of \$177,783 for medical benefits and a position transfer in general revenue.

The Governor's recommendation for FY 2003 includes 3,487.4 FTE positions. This represents an increase of 1.0 position above the FY 2003 enacted level, as adjusted by the Budget Office for the Legislative Statewide FTE cap reduction, and is attributable to a position transfer to Rhode Island College from the Legislature.

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For FY 2004, the Governor recommends total expenditures of \$584.5 million for Public Higher Education, including \$172.8 million in general revenue, \$2.6 million in federal funds, and \$409.1 million in other funds. Other fund sources include tuition and fee revenues, which are projected to grow by \$12.4 million, or 3.1 percent. General revenues increase by \$3.2 million from revised FY 2003 levels and include additions for personnel current services of \$4.4 million and for operating current services of \$1.1 million, and a decrease for a two percent retirement contribution shift and hiring freeze of \$2.3 million.

The budget proposed by the Governor includes an increase of 1.9 percent in state support to meet current services. Pursuant to current law, both the FY 2003 revised budget recommendation and the FY 2004 recommended budget include debt service expenditures within the Department of Administration benefiting Public Higher Education. In FY 2003, debt service of \$10.2 million is recommended and in FY 2004, \$12.1 million is recommended, an increase of \$1.9 million Recognizing increased debt service costs recorded in the Department of Administration , state financed expenditures in FY 2004 for Higher Education increase by a total of \$5.1 million, or 2.8 percent, compared to FY 2003 levels.

For FY 2004, the Governor recommends 3,499.1 FTE positions. This represents an increase of 11.7 FTE positions above the FY 2003 revised level. The transfer of the Educational Advocacy Surrogate Parent Program to the Sherlock Center at Rhode Island College from the Office of the Child Advocate adds 6.7 FTE positions, and federal grants received through the Departments of Health and Elementary and Secondary Education will finance five new positions.

The Children's Crusade program is dedicated to providing quality educational enrichment programs and scholarship assistance to disadvantaged youths during their elementary and secondary school years, using a combination of public and private funds. Continuing federal grant awards will provide funds for an early awareness for college study at \$2.0 million in both FY 2003 and in FY 2004. The Governor recommends continued general revenue support for the Rhode Island Children's Crusade at \$1.7 million for FY 2003 and FY 2004.

Rhode Island Council on the Arts

The Governor's revised FY 2003 budget for the Rhode Island Council on the Arts is \$3.2 million, including \$2.3 million in general revenue, \$609,051 in federal funds, and \$255,278 in restricted receipts. The recommendation reflects no change to general revenue appropriations, and an increase of \$62,248 for federal grant awards and restricted receipts.

For FY 2004, the Governor recommends \$3.0 million, including \$2.1 million in general revenue, \$696,006 of federal funds, and \$200,000 in restricted receipts. This reduction of \$148,638 from the revised FY 2003 budget includes general revenue reductions of \$180,315, reflecting primarily a reduction of \$103,042, or ten percent, to legislative grants, and \$90,650, also ten percent, to discretionary grants in support of the arts. Staffing authorizations are unchanged in each year at 6.0 FTE positions.

Rhode Island Atomic Energy Commission

The Governor recommends total expenditures of \$981,280 in the FY 2003 revised budget, consisting of \$639,681 in general revenue expenditures, \$194,850 in federal funds, and \$146,749 in other funds. This total is \$629,224 less than the enacted level, and primarily reflects a decrease of \$631,097 in federal funds availability.

Education

For FY 2004, the Governor recommends total expenditures of \$1.0 million. This is comprised of \$609,012 in general revenue, \$225,000 in federal funds, and \$208,626 in other funds. The decrease of \$30,669 in general revenue from FY 2003 levels is primarily for increased personnel turnover and operating savings, offset by increases for employee benefits rates.

The Rhode Island Atomic Energy Commission (RIAEC) will continue to operate the state-of-the-art reactor at the Rhode Island Nuclear Science Center (RINSC) for the purposes of research, education and training, and environmental monitoring. Moreover, the staff of the RINSC will continue to provide technical assistance to other state agencies, including the Rhode Island Department of Health and the University of Rhode Island. The Governor's budget will enable the RIAEC to explore further commercial uses for the RINSC, including new technology involved in cancer research.

The Governor recommends 8.6 FTE positions in FY 2003 and FY 2004.

Rhode Island Higher Education Assistance Authority

The Governor recommends revised expenditures of \$17.4 million in FY 2003, including \$6.0 million in general revenue, \$7.2 million in federal grants, and \$4.2 million in other funds. The recommendation includes an increase of \$1.4 million in other funds, from FY 2003 enacted levels for scholarship aid. The Governor proposes to access \$500,000 from the Tuition Savings Program (College Bound fund contract) to supplement state funds provided for scholarship aid.

For FY 2004, the Governor recommends total funding of \$22.4 million, including general revenue of \$11.1 million, federal funds of \$7.3 million, and \$4.1 million in other funds. This recommendation includes a \$5.0 million increase in general revenue above the revised FY 2003 level. This proposal by the Governor is an educational investment which doubles State Scholarship support from \$4.9 million in FY 2003 to \$9.9 million in FY 2004. The increased funding will allow increases in awards, from an estimated average award of \$441 to \$946, for eligible Rhode Island students in FY 2004. The Governor's recommendation maintains scholarships from other funds at \$3.2 million, \$0.2 million less than the FY 2003 revised level in the Tuition Savings Program. These funds are derived from provisions in the contract with Alliance Capital, which manages the Rhode Island 529 Tuition Savings Plan. The Plan, which is marketed nationally, has experienced robust growth for several years.

The Governor recommends 45.6 FTE positions in FY 2003 and FY 2004.

Historical Preservation and Heritage Commission

The Governor recommends revised total expenditures of \$1.8 million in FY 2003 for the Rhode Island Historical Preservation and Heritage Commission. The total consists of \$1.0 million in general revenue, \$534,534 in federal funds, and \$206,800 in restricted receipts. The total revised recommendation is \$32,238 greater than the FY 2003 enacted total and includes the transfer of personnel expenses from restricted receipts to general revenue funds totaling \$134,633. This shift in the source of funding is necessary because resources in the commission's restricted receipt accounts are no longer sufficient to support current services.

For FY 2004, the Governor recommends total expenditures of \$1.7 million, of which \$931,617 is general revenue, \$534,534 is federal funds, and \$251,800 is restricted receipts. This represents a total reduction of \$64,486 from the FY 2003 revised level and a decrease of \$109,486 in general revenue. The shift of

Education

personnel expenses between funding sources, as described above, also occurs in the FY 2004 Budget. In addition, the Governor recommends the elimination of two staff positions from the Heritage Commission, as well as the associated operating costs. The funding for all legislative grants disbursed by the commission has been reduced \$21,744. This is a ten percent reduction from the FY 2003 enacted level.

The Governor recommends 17.6 FTE positions in FY 2003 and 15.6 in FY 2004.

Rhode Island Public Telecommunications Authority

The Governor recommends total expenditures of \$2.5 million for the revised FY 2003 budget for the Public Telecommunications Authority. This consists of \$683,904 in grant financing from the Corporation for Public Broadcasting, \$555,601 in federal financing, and state general revenue financing of \$1.3 million. This recommendation reflects an increase of \$66,610 in general revenue expenditures, which represents the reappropriation of general revenue from FY 2002 for production start-up for the *Ciao Italia* program. It also reflects an increase in federal financing of \$205,601 and a decrease in Corporation for Public Broadcasting expenditures of \$23,421.

For FY 2004, the Governor recommends total financing of \$2.4 million, including \$1.2 million in general revenue, \$555,601 in federal grants, and \$691,249 from the Corporation for Public Broadcasting. This represents a \$95,463 decrease in general revenue financing for FY 2004. No state financing is included for the conversion to digital television.

The Governor recommends 22.0 FTE positions in FY 2003 and FY 2004.

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Public Safety

Public Safety

Summary

The quality of life in Rhode Island is enhanced through the administration of a public safety system that provides law enforcement, adjudicates justice, protects life and property, and handles emergencies impacting Rhode Island's citizens. The twelve agencies providing public safety services to the state include the following: the Department of Corrections; the court system (Attorney General; the Judiciary; Office of the Public Defender; and Commission on Judicial Tenure and Discipline); the Military Staff; the Rhode Island Justice Commission; and police and fire agencies (State Police; E-911 Emergency Telephone System; Fire Safety Code Board of Appeal and Review; State Fire Marshal; and Municipal Police Training Academy). The Marshals, previously part of the Department of Corrections, and the Sheriff's of Several Counties have been transferred to the General Government function and are now part of the Department of Administration.

The largest share of funding within the Public Safety function is for the Department of Corrections, representing 47.2 percent of the total. Because the Adult Correctional Institutions, which include seven secure facilities, operate twenty-four hours per day, the department must provide continuous supervision of approximately 3,600 inmates. Additionally, the Community Corrections program supervises more than 35,000 community-based offenders per year. The second largest share is for the court system as a whole, at 29.9 percent of the total. This includes 22.5 percent of expenditures for the Judiciary, supporting six courts statewide. (The Attorney General, the Office of Public Defender, and the Commission on Judicial Tenure & Discipline comprise the remaining 7.4 percent). The State Police require 12.8 percent of Public Safety funds. The Military Staff (comprised of both the National Guard and the Emergency Management Agency) spends 6.4 percent of Public Safety funds. The other five public safety agencies receive the remaining 3.7 percent of the funding in this function.

The Governor recommends a FY 2003-revised budget of \$324.8 million (all funds). \$269.1 million of the total budget is general revenue, 3.2 percent greater than enacted levels. \$7.8 million of the \$8.7 million increase is in personnel costs for salaries, retirement (including increased pension costs in the State Police) medical benefits, and other fringe benefits for correctional officers, state police, judicial employees and administrative support personnel. Most of the \$8.7 million increase is budgeted in the Department of Corrections. Inmate population has increased by 266 from the enacted level. Because of this and other concerns, the Governor recommends additional funds for custodial and supervisory overtime, per-capita operating expenditures, prescription drugs, medical contractors, and inpatient and outpatient services. Additional general revenue funding offsets the loss of restricted funds due to the decline in federal (immigration and U.S. Marshals) detainees housed in Rhode Island. Also, the FY 2003 revised budget for the Department of Corrections finances pay upgrades and retroactive payments for officers who are members of the Rhode Island Probation and Parole Association.

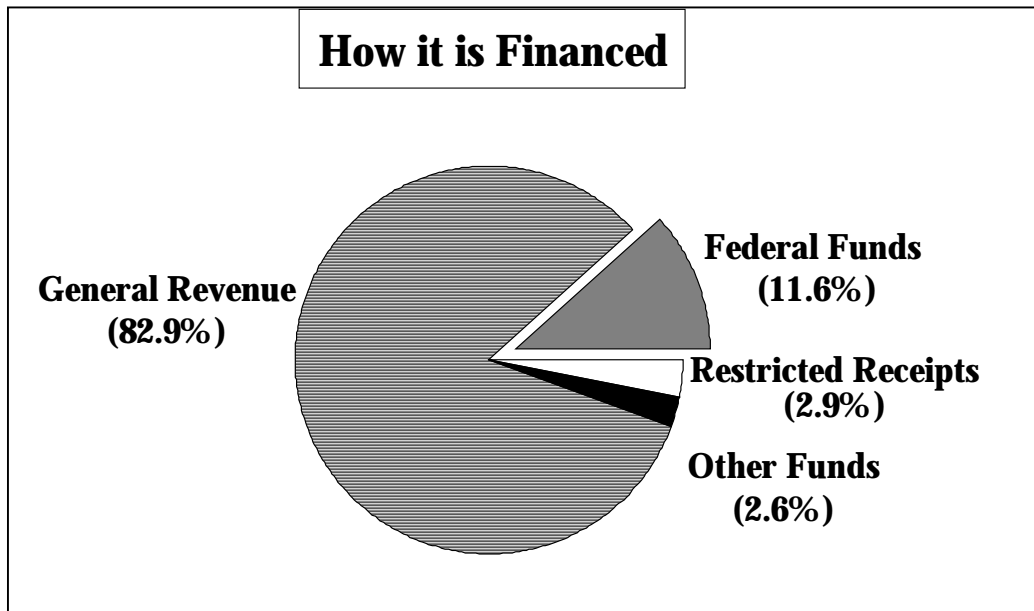
\$39.2 million is recommended in federal funds in FY 2003. The \$1.8 million increase in federal grants finances homeland security supplemental grants for planning Emergency Operating Center assessment, and volunteer training by the R.I. Emergency Management Agency in the Military Staff. The State Fire Marshal will procure a bomb van, two bomb suits, and related accessories with a Byrne grant through the Rhode Island Justice Commission. The agency will also receive additional federal grants for facilities inspections and terrorism preparedness training. Total federal grants in the R.I. Justice Commission increase by \$542,183. The Office of the Public Defender will retain a federal funded position to provide legal representation in Family Court cases. Federal grants finance continued Hate

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Crimes Training, highway safety, and other programs in the Municipal Police Training Academy. Increased federal funds are budgeted for child support enforcement, Drug Court, and Justice Link programs in the Judiciary.

In FY 2004, the Governor recommends an all-funds budget of \$341.8 million for public safety programs. Of this amount, \$283.4 million is from general revenue, \$39.7 million is from federal funds, \$10.0 million is from restricted receipts, and \$8.7 million is from other funds. The FY 2004 general revenue budget increases by \$14.3 million, or 5.3 percent, from the FY 2003 revised level. \$13.1 million of the increase is in personnel expenditures. In addition to inmate population related increases in overtime, per capita operating, prescription drug, and medical contract costs, the Department of Corrections requires general revenue funds to offset the end of federal funds from the State Criminal Alien Assistance program. In addition to financing on-going services, the Governor's recommended FY 2004 budget for Public Safety includes funding the third of four retroactive compensation payments to correctional union members in the Department of Corrections, as well as on-going pay upgrades for probation and parole offers. The Department of Corrections and the Office of the Public Defender will also implement an expanded video arraignment program at the Intake Service Center to process all Providence Court arraignments in-house, in order to reduce the length of incarceration and improve prisoner handling efficiency.

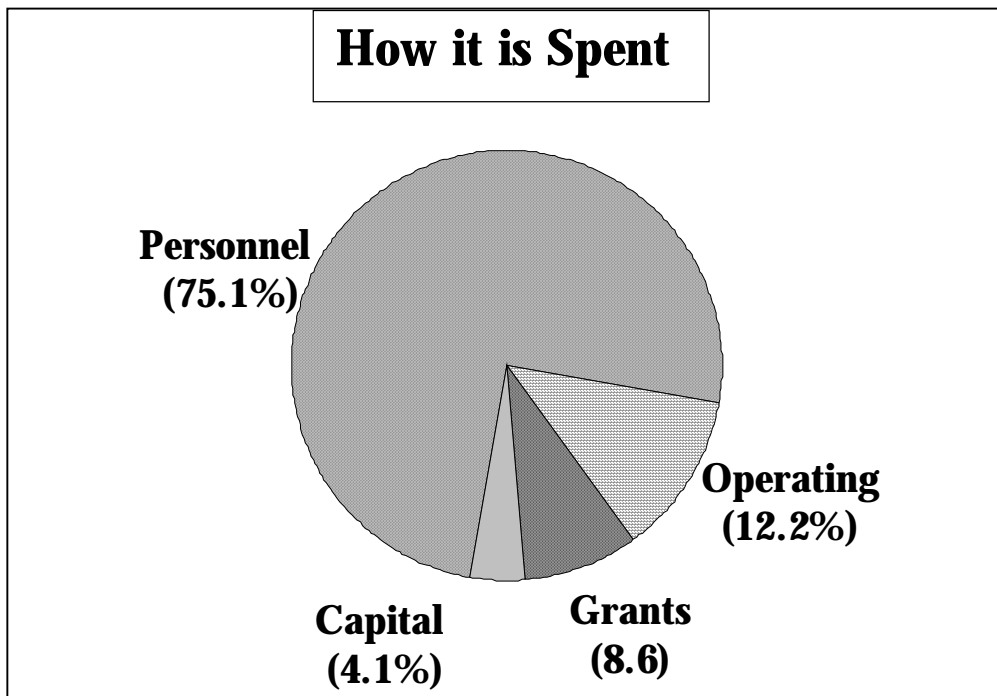
Federal funds in FY 2004 increase by \$556,426, or 1.4 percent, from the FY 2003 revised level. Reductions in personnel and operating expenditures due to loss of federal funding for such programs and alien assistance are offset by increases in grants and capital expenditure. The Governor recommends continued expenditure of federal funds to complete the projects related to homeland security supplemental grants, as well as an additional \$3.0 million for first responder equipment and other purposes related to homeland security. The Rhode Island Justice Commission has increased federal grants for juvenile justice and delinquency prevention.



Public Safety

Funding for the Public Safety function is derived mainly from state sources. 82.9 percent is general revenue and 2.5 percent in other funds (primarily Rhode Island Capital Plan funds). 11.6 percent is federal funds, and 2.9 percent is restricted receipts (payments from the federal government for federal detainees).

State operations, including personnel and other operating costs, total \$298.5 million, or 87.3 percent of total expenditures. Other areas of expenditure include \$13.9 million for capital improvements and \$29.4 million for assistance, grants, and benefits. Capital improvement projects include Rhode Island Capital Plan and general revenue funding for courthouse renovation projects, new Corrections facility construction, and both major renovation projects and smaller scale repair work at existing Corrections facilities.



Public Safety

Attorney General

The Governor recommends revised appropriations for the Attorney General of \$18.7 million in FY 2003, including \$15.8 million from general revenue, \$2.2 million from federal funds, and \$638,365 from restricted receipts. General revenue funding is \$182,977 above the enacted budget. Additional funds include the reappropriation of FY 2002 balances of \$18,000 for a Racial Profiling Study, \$15,858 of transition funds in the general program, \$18,500 for BCI maintenance costs, \$23,100 for the crime lab and \$93,000 for the criminal program. The remainder of the increase is primarily attributable to a statewide medical increase. The Governor recommends a staffing level of 227.9 FTE positions, which is 0.6 FTE less than the enacted budget reflecting the department's request.

For FY 2004, the Governor recommends total expenditures of \$18.1 million. Of this amount, \$16.1 million is financed from general revenue, \$1.4 million is from federal funding, and \$630,739 is from restricted receipts. The recommended total is 2.8 percent less than the FY 2003 revised budget of \$18.7 million. The decrease is primarily due to reduced federal funds. The Governor recommends a staffing level of 227.4 FTE positions, which is 1.1 FTEs less than the enacted budget reflecting the department's request.

Department of Corrections

For the FY 2003 revised budget, the Governor recommends total expenditures of \$151.2 million. This includes \$136.4 million in general revenue, \$9.5 million in federal funds, \$2.8 million in other funds, and \$2.6 million from restricted receipts. The FY 2003 revised general revenue budget is \$7.1 million greater than the enacted level, or 5.5 percent.

Because the number of federal detainees being held in state facilities is expected to be less than the enacted level, the requirement for a general revenue increase to offset the loss of restricted revenue is \$2.8 million. Since the total inmate population for the FY 2003 is expected to be well above the budgeted level, per capita operating expenditures increase by \$959,000. The revised general revenue budget includes \$5.6 million for a retroactive payment to the Rhode Island Brotherhood of Correctional Officers (RIBCO). Additionally, payroll costs, primarily overtime resulting from the reopening of medium, maximum, and intake housing modules closed to conform with prior population estimates, will require additional funding of \$1.8 million. Medical related costs due to an increased incidence of serious inpatient procedures as well as overall drug costs will increase by \$893,000 over the budgeted level. Contract services for physicians and nurses are estimated to increase by \$284,000 and contract services for various inpatient and outpatient services are estimated to increase by \$211,000 from the enacted estimate. The FY 2003 revised budget includes statewide expenditure reductions in the areas of reduced inmate related activities, inventory draw downs of food service equipment, military and janitorial supplies, and inmate clothing, and delay in road repaving.

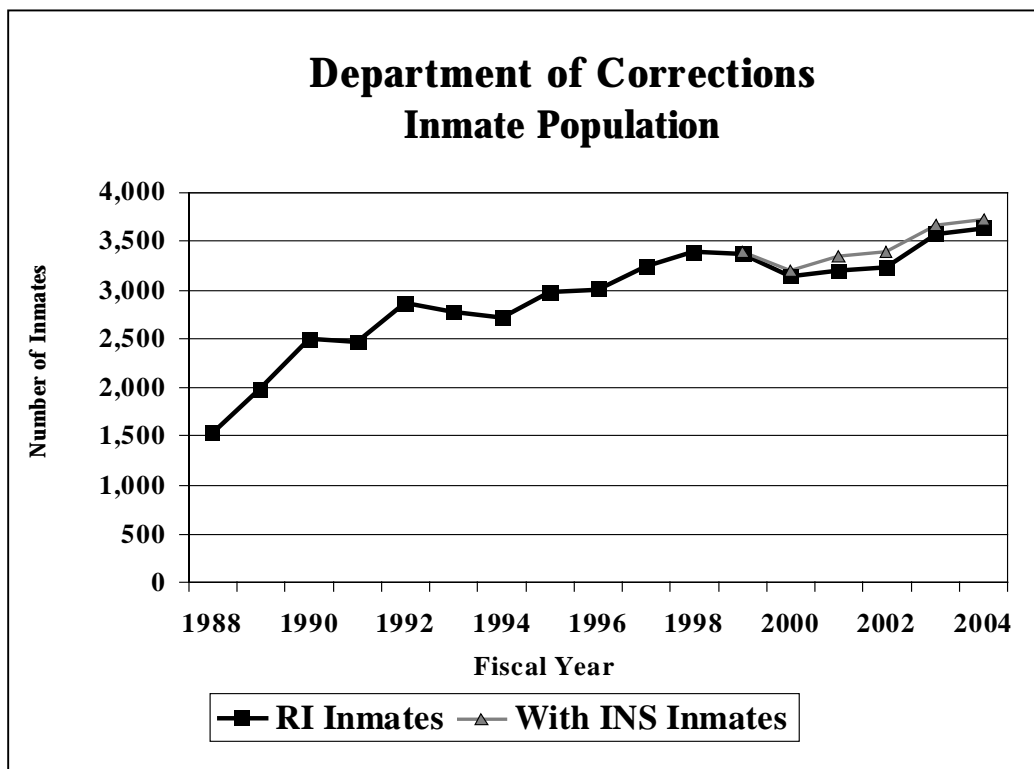
Federal funding decreases by \$1.1 million. The Governor recommends \$526,000 in federal Department of Justice funds for the Offender Reentry program to provide a new community-based model for aftercare services for inmates upon their release into the community. The Governor also recommends new federal funds for Project Safe Streets to provide intensive supervision of certain juvenile and adult offenders on probation in Providence. The budget also increases by \$384,000 in federal funds for the housing of criminal alien inmates, reflecting revised estimates of federal fund availability. Offsetting these increases, Federal Crime Bill expenditures have been reduced by \$2.2 million due to revised estimated construction

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schedules for the Reintegration Center project. The \$2.8 million decrease in restricted receipts from the enacted budget is due to the reduced number of Immigration and Naturalization Services and other federal detainees housed at the ACI. The enacted budget assumed 195 detainees versus 85 in the revised budget. This reduction is only partly offset by \$287,000 in carry forward revenue from FY 2002. The \$711,859 increase in other funds is due to the carry forward of unspent FY 2002 Rhode Island Capital Plan funds for various renovation and repair projects, offset by project delays and rescheduling.

The FY 2003 revised budget supports an average inmate population of 3,658, an increase of 266 from the enacted level of 3,392. The population includes 3,573 state inmates and 85 out-of-state (federal) detainees. As with the institutional population, the community-based offender population continues to rise. The total probation and parole caseload in FY 2002 was 34,992, up 1.8 percent from FY 2001. The budget includes \$375,509 in additional funding for retroactive payments and \$113,000 in on-going payments to Probation & Parole officers for position upgrades

For the FY 2004 budget, the Governor recommends \$161.5 million in total expenditures for the Department of Corrections. This consists of \$146.0 million in general revenue, \$8.8 million in federal funds, \$1.9 million in restricted receipts, and \$4.7 million in other funds.



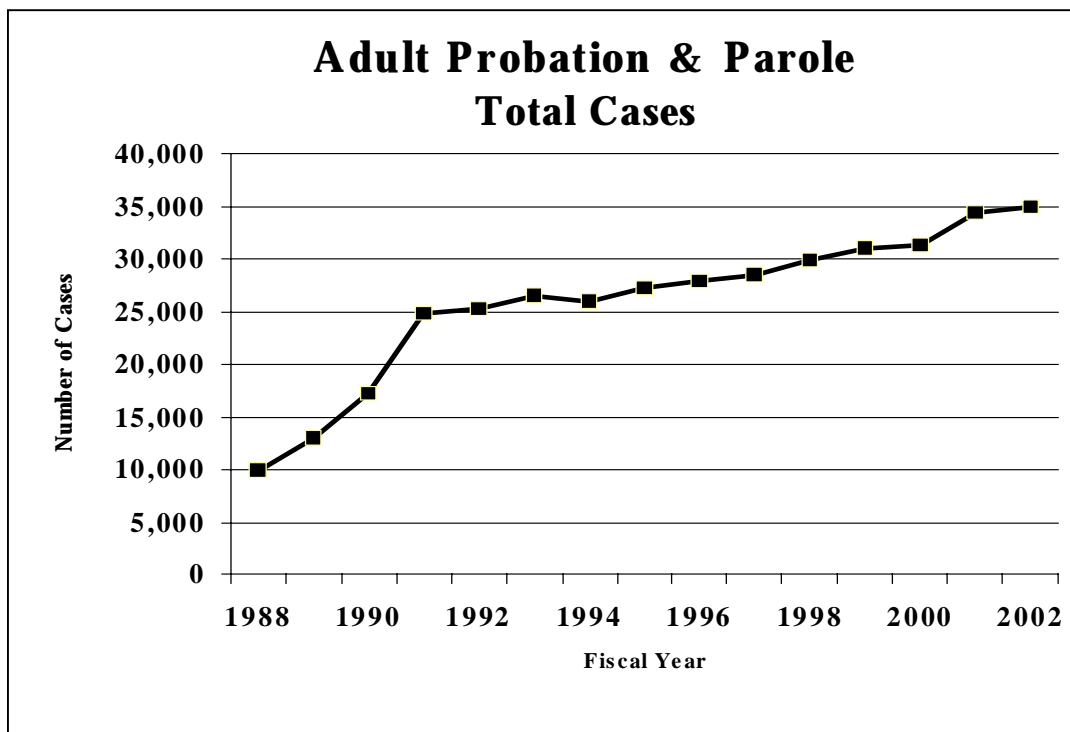
The FY 2004 recommended general revenue budget increases by 7.0 percent from the FY 2003 revised level. The \$9.6 million increase finances several items. There is a \$4.2 million statewide target adjustment for medical, retirement and other benefits, as well a \$1.3 million for the department's estimated share of the State's settlement with Blue Cross. The Governor recommends \$229,000 in payroll expenditures for 3.0 FTE's to operate an expanded video arraignment program to include all Providence Court arraignments, including the Sixth District Court. Together with additional personnel

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in the Public Defender's office, the augmented resources should reduce the length of incarceration and improve both security and efficiency in the handling of inmates.

The FY 2004 recommended budget supports an inmate population of 3,724, 89 Immigration and Naturalization Service detainees, and 3,635 state inmates, an increase of 66 from the FY 2003 revised estimate. The recommendation includes funding for population-related per capita operating costs reflecting the increased caseload, as well as overtime cost to staff reactivated medium, maximum and intake housing units. The recommendation also includes full funding for various medical costs (pharmaceuticals and drugs, medical contract employees, and inpatient/outpatient services). The Governor recommends restoration of \$974,000 in statewide operating reductions that were taken in FY 2003, including reduced gym hours, weekend closure of the educational recreation building, reduced visiting hours, and facility operating equipment and supplies. Due to the one-time drawdown of inventory, delays in hiring critical positions, and morale and inmate management problems, these reductions are not sustainable in FY 2004.

In order to continue operations in times of constrained resource availability, the Department has taken temporary steps to reduce staffing requirements and shift populations in two facilities. At the Intake Service Center, the awaiting trial population and staff are shifted on a day-to-day basis to minimize overtime requirements. At the various facilities, population shifts allow for the temporary closure of one housing module. The Department has also committed to a more efficient process of filling existing posts. The Department will work with the Governor, the Judiciary, and other interested parties to develop both early release and sentencing reform options to contain inmate population growth at an affordable level.



Public Safety

The Department also funds an array of Community Corrections programs to supervise offenders who have been released from prison in order to protect the public and rehabilitate the inmate. The budget supports probation and parole services, the home confinement program, intensive community supervision of domestic violence and sex offenders in certain geographic areas, and includes funding for a Risk Assessment Unit and of a transitional housing program for women. The Governor recommends \$225,000 in annualization costs of position upgrades for Probation and Parole officers. The Governor also recommends full funding of Community Corrections personnel in both FY 2003 and FY 2004, in order to avoid further deterioration of the program caseload ratios for probation (up from 307 to 320 for generic cases, up from 54 to 73 for domestic violence offenders).

Federal funding in FY 2004 decreases by \$668,591. Federal funds decrease by \$3.6 million in the State Criminal Alien Assistance program (SCAAP). In prior years this federal program has provided funds to reimburse states for the housing of illegal aliens who have committed crimes in the state. These funds were distributed on a formula based on the number of bed days and the cost of incarceration in the state. The Department has used these federal funds to offset payroll and overtime costs of operating its incarceration facilities. For FY 2004, both the President's budget and House action has eliminated SCAAP funding. The Governor recommends \$3.6 million additional general revenues to offset the end of the federal program.

Offsetting this federal fund decrease is a \$3.0 million increase in expenditure of Federal Crime Bill funds. To date, Rhode Island has received \$15.0 million in federal Violent Offender Incarceration – Truth-In-Sentencing (VOI-TIS) funds. A portion of the grant can be used for drug treatment and administrative costs, but the funds are primarily for expansion of bed capacity for violent offenders. Federal VOI-TIS funding has been used for expansion of bed space at the women's facilities and a renovation of Medium Security facilities. Preparation has begun for the renovation of a building at the Pastore Center to be used as a Reintegration Center, which will add 150 new beds for sentenced males. The Center will house inmates who are within six months of release, but who have not qualified for lower custody status. Intensive evaluation and services will be provided to residents to facilitate their reintegration into community life. The department plans to open the Reintegration Center in July 2005. The FY 2004 budget for VOI-TIS is \$6.9 million, \$3.0 million above the FY 2003 revised level. Because of annualization and full implementation, the budget for the Offender Reentry program also increases by \$443,400 from the enacted level, as does Project Safe Streets.

The Department also utilized VOI-TIS funds to finance a Siting and Construction Options Study. This study provided an in-depth analysis of offender populations and trends, offering critical guidance for future new construction and facility renovations. While the overall inmate population does not currently exceed capacity, of particular concern are the populations at the men's Maximum and Medium Security facilities, and in the women's secure facility. All have been near capacity for a number of years. Bed space availability in other facilities cannot be used to alleviate overcrowding in the above-mentioned facilities, as they are not designed to hold inmates classified at different security levels. The Siting and Construction Options Study has allowed the Department to develop a comprehensive ten-year plan that considers the various sub-populations, overall population forecasts, efficiency and effectiveness of existing facilities, and future construction needs. In addition to the impact of the population, the age and design of the facilities at the ACI are factors in planning for capital development.

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In order to provide necessary repairs and renovations to the Department's aging facilities, and to address state match requirements for federally funded expansion projects, the FY 2004 budget includes \$4.7 million in Rhode Island Capital Plan funds. Major project funding is recommended in FY 2004 for the following: Reintegration Center state match; Dix Expansion Phase II, fire safety code improvements to all facilities; security camera installation, Food Plant roof repair; and roof repair and bathroom renovations in the women's facilities. Rhode Island Capital Plan funding increases by \$2.0 million from the FY 2003 revised budget level due to the rephasing of several projects, including the Food Plant roof repair, security camera installation and bathroom, roof and masonry renovations to the women's facilities. There are also revised construction schedule increases for other projects, such as the High Security-Fire Alarm/HVAC and Dix II.

The Prison Industries program will continue to provide landscaping and grounds maintenance services for the Capitol Hill offices and Waterplace Park. \$231,386 in general revenue is budgeted in FY 2004 to Correctional Industries for this purpose. All other operations are supported by customer agencies and include a variety of services and products such as printing, sign making, cleaning supplies, license plate production, office workstation production and installation, moving and painting services for state, municipal, and charitable organizations, highway litter crews, and graffiti removal crews. The Central Distribution Center Internal Service Fund will now finance debt service payments for the State Warehouse facility, which cost has been previously financed by general revenue appropriations. Finally, as of FY 2003, operation of the Inmate Commissary has been assumed by a private contractor, franchise fees from commissary operations.

The Governor recommends 1,538.0 FTE positions in FY 2003 and 1,540.0 in FY 2004.

Judiciary

The Governor recommends a revised FY 2003 budget of \$74.8 million, including \$63.8 million in general revenue, \$4.1 million in federal funds, \$6.7 million in restricted receipts, and \$228,727 in other funds. The revised general revenue budget is \$565,913 greater than the enacted level of \$63.2 million. The additional \$565,913 is associated with a reappropriation of the same amount for the Justice Link program. Major general revenue changes, including the reappropriated funding, in the FY 2003 budget by category of expenditure are as follows: increases of \$543,709 for operating costs and \$224,584 for grants and benefits; and decreases of \$79,386 for payroll and \$122,994 for purchased services. Some of the revisions that constitute the general revenue categorical changes include additional funds for computer software of \$229,331, judicial pensions at \$224,584, central information costs of \$170,704, electricity \$148,378, and the Indigent Defense Fund for \$100,000. The recommended expenditures from federal funds in the revised budget are \$1.3 million greater than enacted levels. Most of the increase is for Family Court programs, including \$609,642 for Drug Court grants and Child Support Enforcement costs of \$203,594, followed by Justice Link programs for \$414,250. The recommended expenditures from other funds in the revised budget are for capital renovation and repair projects, including \$165,000 for the Murray Judicial Complex, \$59,834 for the Fogarty Annex, and \$3,893 for the Garrahy Judicial Complex.

In FY 2004, the Governor recommends expenditures of \$77.0 million, including \$65.9 million from general revenue, \$3.7 million from federal funds, \$7.0 million from restricted receipts, and \$315,500 from other funds. The recommended general revenue budget in FY 2004 is \$2.1 million greater than the FY 2003 revised budget. Significant general revenue changes include: increases of \$2.3 million for

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personnel and \$43,397 for grants and benefits; and a decrease of \$269,201 for operating costs. The \$315,500 of other funds recommended in FY 2004 is for capital improvements to the Murray, Garrahy, and Licht courthouses, as well as the Fogarty Annex. The building renovation projects will be financed from the Rhode Island Capital Plan Fund. The Governor's Capital Budget recommends expenditures of \$51.8 million from certificates of participation beginning in FY 2003 to construct a new Kent County Courthouse.

The Governor recommends an authorized staffing level of 721.7 FTE positions in FY 2003 and 715.7 FTE positions in FY 2004. The reduction of 6.0 FTEs between FY 2003 and FY 2004 is due to the termination of the Pre-trial Services program, which was financed with a federal grant that was matched with general revenues. The federal grant funds will be fully expended during FY 2003.

Military Staff

In the FY 2003 revised budget, the Governor recommends total expenditures for the Military Staff of \$21.9 million, including \$2.3 million general revenues, \$14.4 million in federal funds, \$668,758 in other funds, and \$122,629 of restricted receipts. The FY 2003 revised budget is 2.4 percent greater than the enacted budget, and consists of increases of \$49,856 in general revenue, \$384,699 in federal funds, and a reduction of \$22,352 in other funds. The increase in federal funds relates to a supplemental homeland security grant in Emergency Management for hazard operation planning (including terrorism/weapons of mass destruction), an initial assessment of the emergency operation center, and training and organizing volunteer activities.

The reduction in other funds is due to the deferral of construction for the Schofield Armory Rehabilitation project to FY 2004 and FY 2005. The reduction is offset by the addition of Rhode Island Capital Plan carry forward funds of \$23,000 for the repair of the fire-damaged Warren Armory.

The revised general revenue appropriation of \$2.3 million includes additional funds for contract employees for maintenance work in the Air Guard program (matched by federal funds), additional funds for electricity costs at state armories, and \$2,000 for veteran's bonuses enacted by the General Assembly. The budget provides \$83,334 for firing squads at veteran's funerals, reflecting savings from substitution of taped for live bugler services. The budget also includes salary and employee benefit adjustments, \$67,500 in funding for inauguration expenses, increased overtime funding for firefighters, and full funding of an aide-de-camp position and two Emergency Management positions.

In the FY 2004 budget, the Governor recommends total expenditures of \$21.9 million for Military Staff programs, including \$2.3 million from general revenue, \$18.3 million from federal funds, \$128,157 from restricted receipts, and \$1.2 million from other funds. Compared to the revised FY 2003 budget, general revenue expenditures increase by \$18,852, federal funds increase by \$3.9 million, and Rhode Island Capital Plan funds increase by \$540,388.

The FY 2004 recommended budget recognizes the end of one-time expenditures for the January 2003 inauguration ceremonies, and continues to fund the enacted FTE level in the National Guard and Emergency Management programs. The Governor recommends additional general revenue for contract employees for maintenance work in the Air Guard program with matching federal funds, additional funds for electricity costs at state armories, and funding for staff fringe benefit adjustments. The Governor continues to recommend \$17,517 in general revenue to establish the Distributed Technology Training program.

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In other funds, the Governor recommends continued Rhode Island Capital Plan funding for repair projects at the Warren, Bristol, Benefit Street, North Smithfield, and Schofield armories. The Governor also recommends matching funds for design work on new capital projects, a new maintenance shop and armory at Camp Fogarty, roof rehabilitation at the Armory of Mounted Commands, and other repair projects.

In federal funds, the Governor recommends completion of the supplemental homeland security grants for planning, Emergency Operating Center assessment, and volunteer training. The Governor also recommends \$3.0 million in federal funds for various purposes relating to homeland security, in addition to the Department of Justice's Weapons of Mass Destruction grant program of \$4.2 million. Subject to final action by the federal government regarding total funding, funding structure, and eligibility requirements, these purposes would include first responders equipment and training, emergency water interceptors, and an alternate public safety answering point facility.

The Governor recommends 90.0 FTE positions in FY 2003 (the same as the final enacted budget) and 93.0 in FY 2003, to fund 3.0 100-percent federally funded positions to implement supplemental federal grants programs to upgrade and revise state and municipal Emergency Operating Plans to include homeland security issues.

E-911 Emergency Telephone System

The Governor recommends general revenue expenditures of \$4.0 million in the FY 2003 revised budget for the E-911 Emergency Telephone System, the same as the FY 2003 enacted budget. The significant changes to the agency's budget include an increase of \$126,205 for overtime and a decrease of \$126,205 for the geographic information system (GIS) database development project. The reduction will reduce the number of towns being mapped in FY 2003. The GIS database will ultimately include the following: coordinate locations of buildings served by wireline telephones, road centerlines, fire hydrants, public places, and driveway access points; street addresses; road names; and, other pertinent information. The GIS database will provide the capability to locate wireless callers by relating latitude and longitude coordinates to a specific address or landmark. The agency is compliant with Phase II of a FCC-mandate that requires public safety answering points (PSAPs) to locate callers within certain distance and accuracy parameters.

For FY 2004, the Governor recommends expenditures of \$3.8 million from general revenue, including \$3.3 million for personnel and \$537,364 for operating expenditures. The FY 2004 budget is \$196,742 less than the FY 2003 revised budget. While providing an additional \$159,441 for current services adjustments and \$126,205 for overtime costs, the budget delays the collection of GIS databar2sr additional communities. While the agency is fully capable of receiving latitude and longitude data from all wireless cellular phone carriers, it is only able to associate the coordinates with a specific address or landmark for those communities where GIS data has been collected. These include Exeter, Tiverton, Gloucester, North Providence, East Providence and South Kingstown. For FY 2003 and FY 2004, the Governor recommends an FTE authorization of 47.6 positions.

Fire Safety Code Board of Appeal and Review

For FY 2003, the Governor recommends revised general revenue appropriations of \$233,782, an increase of \$8,453 from FY 2003 enacted levels. The change reflects the net value of adjustments for employee compensation and fringe benefit costs.

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The Governor recommends general revenues of \$235,469 for FY 2004, an increase of 0.7 percent from the FY 2003 revised budget. The recommendation fully finances current operations of the board, including additional duties regarding review of building rehabilitation plans effective July 1, 2001. The Governor recommends 3.0 FTE positions in FY 2003 and FY 2004.

State Fire Marshal

The Governor recommends revised FY 2003 funds for the State Fire Marshal of \$1.8 million, including \$1.4 million in general revenue and \$354,465 in federal funds. The revised general revenue budget reflects a decrease of \$50,001 from FY 2003 enacted levels, attributable to apparatus and vehicle purchases savings. Increased federal fund of \$253,293 recognize grant awards for Facilities Inspections and Terrorism Preparedness Training, and new Byrne Grant allocations from the Rhode Island Justice Commission for new bomb squad equipment accessories.

The Governor recommends total expenditures of \$1.6 million in FY 2004, including \$1.3 million general revenue and \$285,530 federal funds. The recommended general revenues represent a \$49,999 one-time saving for vehicle costs and a net value of \$25,415 in savings from personnel and operating costs. The Governor recommends 21.0 FTE positions in FY 2003 and FY 2004.

Commission on Judicial Tenure and Discipline

The Governor recommends expenditures of \$144,235 in the FY 2003 revised budget. This amount is \$35,000 greater than the FY 2003 enacted budget of \$109,235. The additional funding is for unanticipated legal costs associated with pending investigations and, potentially, public hearings of alleged judicial misconduct.

For FY 2004, the Governor recommends expenditures of \$113,455 from general revenue, which is \$30,780 less than the FY 2003 revised budget. The Governor's recommendation fully finances the Commission's operations, including funding for the one full-time staff member and a base level of funding for legal expenses.

Rhode Island Justice Commission

The Governor recommends total revised expenditures of \$5.9 million for FY 2003, including \$171,791 in general revenue, \$5.6 million in federal funds, and \$90,000 in restricted receipts. The Governor's revised FY 2003 general revenue recommendations are unchanged from the FY 2003 enacted level. Federal funds expenditures increase by \$500,000 in grant funding to local non-profit entities and state local police departments to maintain and enhance public safety.

In FY 2004, the Governor recommends total expenditures of \$6.0 million, including \$163,492 in general revenue, \$5.7 million in federal funds, and \$90,000 in restricted receipts. The level of funding increases by \$113,417 from the Governor's revised FY 2003 budget, and consists of a general revenue decrease of \$8,299 and an increase of \$121,716 in federal funds. The decrease in general revenue funding reflects a shift to federal funding sources consistent with the Governor's plan of constraining statewide general revenue expenditures where feasible. In FY 2004, federal grant funding to other state agencies, including the Attorney General's office and the Judicial Department, increase for juvenile justice and delinquency

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prevention programs. The FY 2003 and FY 2004 FTE recommendations are unchanged from the FY 2003 revised level of 9.0.

Municipal Police Training Academy

The Governor recommends a revised FY 2003 budget of \$416,018, including \$351,277 of general revenue and \$64,791 of federal funds. The general revenue recommendation is consistent with the FY 2003 enacted level. An increase of \$64,791 in federal funds above the enacted level relates to a late year award of grants through the Rhode Island Justice Commission for Hate Crimes Training (\$19,996) and the Byrne Grant for In-Service Training (\$4,000). Additional federal awards through the Governor's Office of Highway Safety will be used in FY 2003 for Drug Recognition and Field Sobriety (\$35,795) and Traffic Stop training (\$5,000).

The Governor recommends total expenditures of \$391,387 for the Academy in FY 2004 consisting of \$356,387 in general revenue and \$35,000 in federal funds. The Academy's in-service training programs, consisting of approximately 50 courses for 1,200 officers per year, will be affected by diminished federal funding in FY 2004. The Governor recommends 4.0 FTE positions in FY 2003 and FY 2004, consistent with previous years' staffing levels.

State Police

The Governor recommends \$43.7 million in expenditures for the State Police in the FY 2003 revised budget, including \$38.5 million general revenues, \$2.6 million in federal funds, \$2.4 million in other funds, and \$335,175 of restricted receipts. This reflects increases of \$620,848 in general revenue expenditures, and \$188,175 in restricted receipt costs. It also includes decreases in federal costs of \$217,358 and \$335,678 in other fund expenditures. The largest component of the general revenue increase occurs in pension costs, which accounts for \$344,796 of the total change.

The Governor recommends \$44.2 million in expenditures from all funds for the State Police for FY 2004, including \$40.1 million general revenues, \$1.0 million in federal funds, \$2.4 million in other funds, and \$223,468 of restricted receipts. This represents an increase of \$402,449 from the FY 2003 revised levels recommended by the Governor. This includes increases in general revenue expenditures of \$2.1 million, reductions in federal expenditures of \$1.6 million, and reductions in restricted receipt costs of \$111,707. Personnel costs account for \$907,014 of the general revenue increase, with \$669,811 attributable to medical costs. Costs related to trooper retirements account for an additional \$590,412. Operating costs increase for vehicle repairs by \$262,375, the replacement of bulletproof vests at \$80,000, and lease costs to maintain the state police fleet purchase program of \$170,000.

The Governor recommends 259.0 FTE positions in FY 2003 and 257.0 in FY 2004.

Office of the Public Defender

The Governor recommends total expenditures of \$6.5 million in the FY 2003 revised budget for the Public Defender, including \$6.0 million in general revenue and \$482,617 in federal funds. The general revenue recommendation is \$168,380 greater than the FY 2003 enacted level. This increase includes \$147,093 to restore four Intake Technician positions that had been identified for elimination in the distribution of statewide Legislative FY 2003 enacted reductions. The \$126,203 increase in federal

Public Safety

expenditures is due primarily to the Rhode Island Supreme Court's re-funding of one FTE which provides legal representation to respondent parents in dependency, abuse, neglect, or termination of parental rights appeal cases. This award is funded through a State Court Improvement grant from the US Department of Justice. In addition, the acquisition of computer hardware for the completion of the Justice-Link project require increased expenditures of \$52,680 from funds brought forward from FY 2002. The Governor recommends a revised FTE authorization of 83.2, a difference of 0.2 FTE from the FY 2003 enacted ceiling, attributable to the Budget Officer's allocation of a statewide FTE cap reduction in the executive branch of state government.

The Governor recommends total expenditures of \$7.0 million in FY 2004, including \$6.6 million in general revenue and \$441,822 in federal funds. The FY 2004 recommendation is \$513,240 greater than the Governor's FY 2003 revised recommendation. The general revenue increase of \$554,035 reflects an initiative to perform on-site or video arraignments by adding three FTE's (two arraignment attorneys and one bilingual interpreter) at an estimated cost of \$184,842. Other related payroll costs include the funding of four intake technicians at \$147,093 and another attorney position of \$66,597 previously federal funded. Federal funds decrease by \$40,795 in FY 2004. The Governor's FY 2004 FTE recommendation is 86.2, an increase of 3.0 FTEs from the FY 2003 revised authorization.

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Natural Resources

Natural Resources

Summary

The Natural Resources function includes the Department of Environmental Management, the State Water Resources Board and the Coastal Resources Management Council. Although the Narragansett Bay Commission and the Rhode Island Clean Water Finance Agency are quasi-public, environmental agencies created by the state, these operations are separate from the state and are not included in the state budget. Certain debt service for general obligation bonds issued to finance capital projects of these agencies however, are appropriated in the state budget within the Department of Administration.

The Department of Environmental Management manages and protects Rhode Island's public and common natural assets, including land, air and water resources. It manages state-owned lands, including state parks and beaches, forests, port facilities, and fish and wildlife management areas. The department administers a capital management program financed by general obligation bonds, Rhode Island Capital Plan funds, federal funds and restricted receipts. Capital program activities include: acquisition and development of recreational, open space and agricultural lands; municipal and non-profit grant programs for land acquisition and development; improvements to state-owned ports and recreation facilities; federally mandated Superfund projects; construction of new state environmental facilities; municipal wastewater facility construction grant programs; and, grants to non-governmental entities for specified water quality improvement projects. The department also monitors the use and quality of state groundwater, regulates discharges and uses of surface fresh and salt water; enforces game, fishing and boating regulations, regulates air quality, and monitors the disposal of solid and hazardous wastes.

The Coastal Resource Management Council seeks to preserve, protect and restore the coastal resources of the state. The council is administered by sixteen appointed representatives from the public and from state and local government, and is staffed with professional engineers, biologists, environmental scientists and marine resource specialists. The council issues permits regarding proposed changes in coastal facilities within an area from three miles offshore to two hundred feet inland from coastal features, including all freshwater wetlands within the coastal zone. The council formulates, develops amendments, and enforces violations of the Rhode Island Coastal Resources Management Plan and Special Area Management plans. The council: develops guidelines and advises communities on harbor management plans; develops a Submerged Lands Management licensing program for public trust areas; designates public rights-of-way to the shore; and serves as the aquaculture coordinator for permitting and planning actions. The council is the lead agency for coordination of all dredging activities and will work in cooperation with the Army Corps of Engineers on the Providence River dredging project beginning in FY 2003. The council also conducts public outreach and public communication campaigns on its programs and activities, and coordinates its programs with other government agencies.

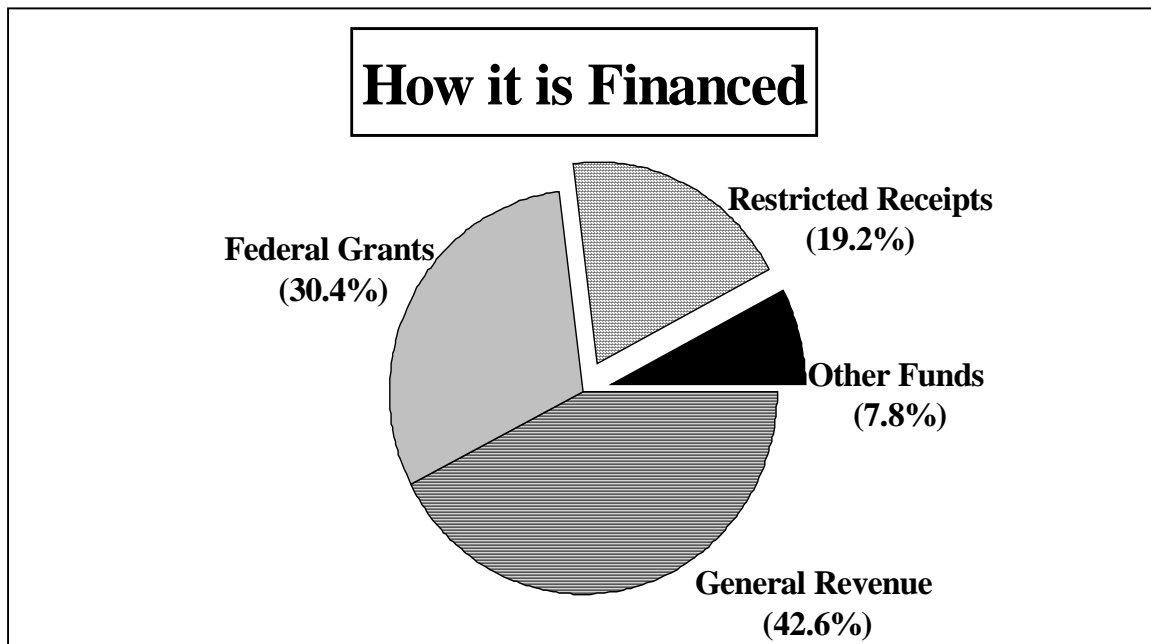
The State Water Resources Board is a water supply planning and development agency responsible for promoting the protection of developed and undeveloped drinking water supplies for the thirty-four municipal water supply systems located in the state. The board also regulates water supply transmission lines connecting water supply systems. The board manages the Big River Management Area, a water supply reservation. The board is composed of thirteen members, including six public members appointed by the Governor. One is a member of the House of Representatives appointed by the Speaker of the House; one member is from the Senate, appointed by the Majority Leader of the Senate. The five remaining members are the Director of the Department of Environmental Management, the Director of the Economic Development Corporation, the Director of the Department of Health, the

Natural Resources

Director of the Department of Administration, and the Chairman of the Joint Committee on Water Resources, all of whom serve ex-officio.

The Governor recommends total expenditures of \$80.6 million for natural resource agencies in FY 2004. This amount is an increase of 1.4 percent from the revised FY 2003 level of \$79.6 million. Fiscal year 2004 funding consists of \$34.3 million in general revenue, \$24.5 million in federal grants, \$15.5 million in restricted receipt revenues, and \$6.3 million in other funds. Of the expenditures recommended in FY 2004 for natural resource agencies, \$70.3 million, or 87.1 percent, is for the Department of Environmental Management, \$8.3 million, or 10.4 percent is for the Coastal Resources Management Council, and \$2.0 million, or 2.5 percent is for the State Water Resources Board

The recommended FY 2004 general revenue appropriation for the natural resource function is 1.1 percent, or \$388,271 less than the revised FY 2003 budget. The decrease is primarily in the Coastal Resources Management Council in the amount of \$189,349, or 12.0 percent below the FY 2003 revised level reflecting statewide benefit and payroll adjustments, as offset by the completion of non-recurring items for the permit database project in addition to position freezes and operational consolidation. General revenues in FY 2004 for the State Water Resources Board decrease by 11.0 percent or \$116,274, attributable to salary and payroll adjustments offset by operating transfers to restricted funds. Environmental Management's general revenue recommendation also decreases by \$82,648, or 0.3 percent, and is attributable to increases in salary and statewide benefit adjustments offset by a decrease in the state requirement for the Rosehill Landfill Superfund design.



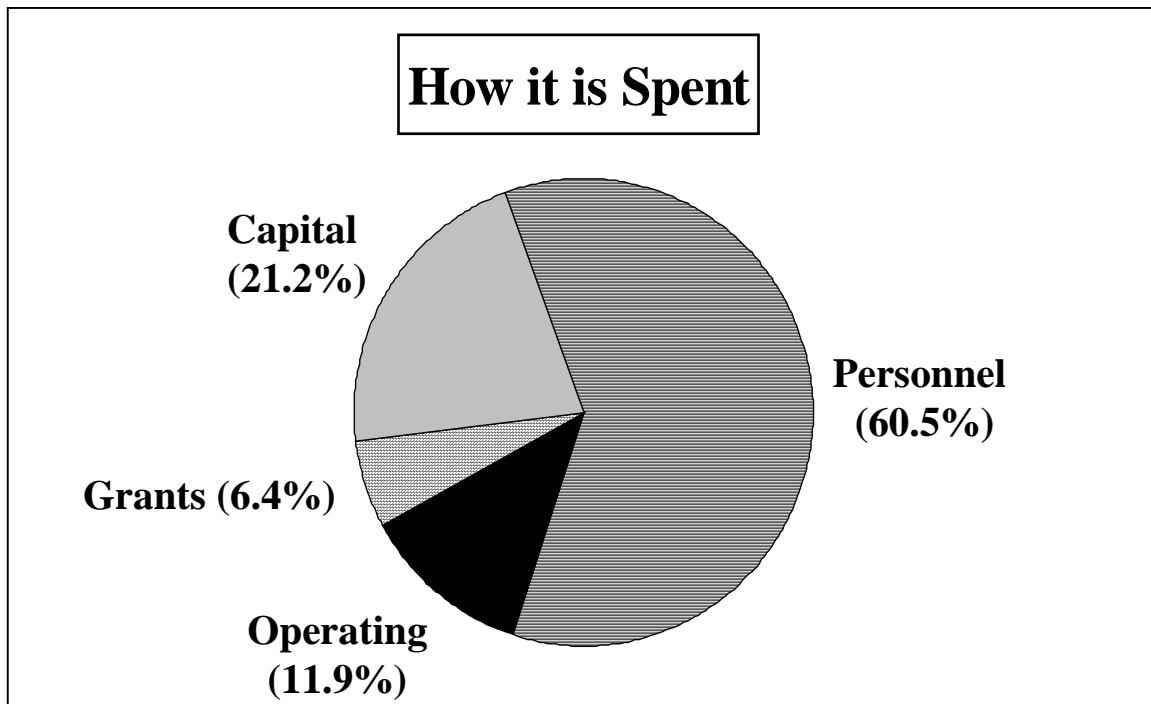
Federal funds for natural resource agencies are expected to decrease by 5.8 percent between the FY 2003 revised and the FY 2004 recommended budgets. Federal Funds are recommended at \$26.0 million in the revised FY 2003, and \$24.5 million in the recommended FY 2004 budget. The decrease

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in federal expenditures of \$1.0 million in the Coastal Resources Management Council reflects the current grant level in the coastal program. Federal fund ceilings in the Department of Environmental Management remain consistent with anticipated use and the FY 2003 recommended level.

Restricted receipt expenditures in the Department of Environmental Management are expected to increase from \$9.8 million in the revised FY 2003 budget to \$10.0 million recommended for FY 2004. The net increase of \$218,455, or 2.3 percent, is largely attributable to the availability of additional revenue for personnel costs offset by expected reductions in other accounts. In Coastal Resources Management, restricted receipts will be used for the first time in FY 2003, and again in FY 2004, when \$4.5 million will be expended in each year for the Providence River Dredging project. The funds will originate in the Oil Spill Prevention and Administration Fund in the Department of Environmental Management and be transferred to the Council upon initiation of the project. Restricted receipts in the Water Resources Board in the amount of \$984,000 in FY 2004 are financed through the Department of Health's Clean Water Fund through an interagency agreement for water supply and allocation plans.

Other funds expenditures for natural resources total \$6.3 million in the FY 2004 recommended budget, a increase of \$2.8 million, or 79.6 percent, from FY 2003 revised levels. Other funds finance capital improvements and asset protection projects financed with the Rhode Island Capital Plan Fund. The Governor's recommended budget finances projects for the FY 2004-2008 Rhode Island Capital Plan that were delayed in FY 2002 and FY 2003 due to fiscal constraints on the state. These projects include various facility maintenance projects of the Department of Environmental Management, habitat restoration projects of the Coastal Resources Management Council, and the Big River Management project of the Water Resources Board.



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Of the \$80.6 million recommended for natural resources for FY 2004, personnel is budgeted at \$48.8 million, or 60.5 percent, operating at \$9.6 million, or 11.9 percent, capital improvements at \$17.1 million, or 21.3 percent, and \$5.1 million, or 6.4 percent, for assistance, grants, and benefits.

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Department of Environmental Management

The Governor recommends revised appropriations of \$67.9 million in FY 2003 for the Department of Environmental Management including \$32.1 million in general revenue, \$23.1 million in federal funds, \$9.8 million in restricted receipts, and \$2.9 million in other funds. The department's revised general revenue appropriation is \$488,248 or 1.5 percent, less than the FY 2003 enacted budget. General revenue appropriations in the Policy and Administration program increase by \$94,022 from the enacted level, primarily due to adjustments in personnel categories in legal, computer systems, and administrative adjudication to adequately finance current personnel costs. General revenues in the Natural Resource Program increase by \$90,565 over the FY 2003 enacted level including the addition of personnel financing in the associate director's office in the amount of \$32,812, \$45,355 in forestry and \$93,431 in parks seasonal to finance current staffing levels plus \$11,716 for host community beach fee revenue sharing. The increases are offset by the reduction of \$68,652 in enforcement due to expected turnover and \$60,000 in records and communications due to increased allocations to restricted revenues. In the Environmental Protection program, general revenues decrease by \$672,835 from the enacted level, primarily attributable to an expected decrease in the design cost for the Rosehill Landfill Superfund site in the amount of \$520,000. Other reductions include \$44,893 in the water division due to achieved turnover, \$85,942 in the waste division for achieved turnover and new personnel offsets, and \$22,000 in the associate director's office for a new offset to restricted revenues.

The Governor's revised FY 2003 budget recommendation for federal grant ceilings is less than the enacted amount by \$1.1 million and includes reductions from the bureau of outdoor recreation grant in the amount of \$500,000, forest legacy, \$1.15 million, and fish and wildlife construction, \$200,000, to more closely match expected construction and land purchase outlays in FY 2003. These reductions are offset by increases to the federal Rosehill Landfill Superfund site in the amount of \$512,690, \$104,591 for department of defense sites restoration projects, and \$89,000 for the air pollution grant to adequately finance expected expenditures in those grants. A new grant award of \$94,000 for brownfields studies is also included in the FY 2003 revised recommendation.

Restricted Receipt expenditures in the Governor's revised FY 2003 budget are \$4.5 million less than enacted amounts, attributable to the expenditure for the state's share of the Providence River Dredging project now displayed in the Coastal Resources Management Council. This reallocates \$5.4 million from the Oil Spill Prevention and Administration Reserve fund for the initial estimate for first year costs for the project, and added \$4.5 million to the CRMC for the same purpose. Other adjustments include increased personnel offsets from general revenue accounts totaling \$310,040 to restricted sources. An additional \$140,000 is added to the boating registration account to finance, in part, a new research and patrol vessel. Financing in the amount of \$426,700 is added to the UST reimbursement account to allow for expenditures from the RI Underground Storage Tank Financial Responsibility Fund Review Board for work done at the Pascoag water system in connection with MTBE contamination in that community.

For FY 2004, the Governor recommends appropriations of \$70.3 million for the department, including \$32.0 million in general revenue, \$23.0 million in federal grants, \$10.0 million in restricted receipts and \$5.2 million in other funds. The FY 2004 recommendation is \$2.4 million, or 3.5% greater than the FY 2003 revised recommendation for all funds. Recommended general revenue appropriations are \$82,648 less than the FY 2003 recommended level; federal expenditures are \$74,506 less than the FY

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2003 level; restricted receipts are \$218,455 greater than the FY 2003 level; and other funds in FY 2004 are \$2.3 million greater than the revised FY 2003 budget.

General revenues in the Policy and Administration program increase by a net \$190,337 attributable to scheduled increases in employee compensation and fringe benefit costs and expenditure adjustment for lease and tax requirements at the department's headquarters building. In the Natural Resources program, \$511,716 is removed from the host beach community's revenue share, contingent upon passage of legislation to eliminate the share arrangement. In the parks division, a total of \$284,747 is added in FY 2004 including \$50,000 for medical services, to finance unreimbursed ambulance calls to relieve the host communities of this cost. Other additions for parks and beaches include additional amounts for overtime, \$30,000, auto maintenance in the amount of \$40,000, and \$184,143 for adjustments to personnel and benefit categories. In the Environmental Protection program, \$232,415 is reduced program-wide in general revenues, primarily due to the reduced estimates for state financing for the Rosehill Superfund site design. In compliance and inspection, \$281,645 is reduced from salary and benefit categories based on expected staffing levels in FY 2004. In water resources, \$365,528 is added to personnel and operating categories to fund expected expenditures in this division. In technical and customer assistance, \$129,360 is added for personnel salary and fringe adjustments.

Federal funds in the Policy and Administration program increase by a total of \$507,054, attributable to expected outlays of Bureau of Outdoor Recreation funds. In the Natural Resources division, federal funds decrease by a net \$132,257 reflecting decreased awards or completion of programs in the Poultry Grading Cooperative Agreement, NOAA Enforcement, and Northeast Multispecies Enforcement, offset by increases in the Narragansett Bay Reserve Operations, and increases in various fish assessment grants. Other adjustments to the Forest Legacy Program and Fish and Wildlife construction program reflect anticipated expenditure levels in these areas. In the Environmental Protection program, federal funds decrease by a net \$449,303 attributable to adjustments in federal awards. Most notably, federal financing for Rosehill Superfund site design budgeted for in FY 2003 will be adequate for both years.

Restricted receipts in the Policy and Administration program increase by a net \$27,522 attributable to a decrease in the Boat Registration account of \$121,299 for one-time equipment costs, a reduction of \$75,826 in the Oil Spill Prevention, Administration and Responsibility fund based on expected department activity, and the completion of the Goddard Horse Barn and its associated Champlin Grant funding in the amount of \$125,000. Approximately \$350,000 in indirect costs from the department's other two programs are consolidated here in FY 2004, contributing to the net increase in this program. Restricted receipts in the Natural Resource program increase by a net \$488,266, largely attributable to annualized revenues from increased fees for freshwater fishing and hunting licenses in the amount of \$451,223, offset by a reduction of \$300,162 in the fish and game land acquisition and development account to more closely match expected expenditure. Restructuring of shellfish and marine license fees including a new vessel declaration fee, will increase receipts in that account by \$291,742 above the FY 2003 level. In Environmental Protection, proposed restricted receipt expenditures are \$297,333 less than the FY 2003 revised recommendation, and reflect a decrease of \$193,487 to the indirect account now shown in the Policy and Administration program; a decrease of \$248,255 in the Water and Air protection program to more closely reflect anticipated collections; and completion of payments to vendors working on the Pascoag water contamination project in the amount of \$426,700. The Environmental Response fund experiences an increase of \$615,211 above the FY 2003 revised level, and reflects the annualized collection of revenue under a new fee structure for generators of hazardous waste.

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Other funds in all programs increase by \$2.3 million to a total of \$5.2 million in FY 2004, and reflect recommendations for Rhode Island Capital Plan construction projects deferred in FY 2002 and FY 2003. Projects with increased funding in FY 2004 include recreational facilities (\$587,371), Galilee piers (\$1.0 million), Boyd's Marsh Habitat restoration (\$260,000), and state-owned dam repair (\$928,593). Reductions include \$493,485 from the Newport piers project which was completed in FY 2003.

The Governor recommends 549.7 FTE positions in FY 2003 and 550.7 FTE positions in FY 2004.

Coastal Resources Management Council

In the revised FY 2003 budget, the Governor recommends appropriations for the Coastal Resources Management Council of \$9.0 million. This includes \$1.6 million of general revenue, \$2.4 million of federal funds, \$317,000 in Rhode Island Capital plan funds, and \$4.8 million in restricted receipts. The recommendation includes \$235,000 in general revenue funds reappropriated from FY 2002 for the computerization of the Agency's permit database. Personnel and operating expenditures decrease by \$124,095, reflecting vacation of two positions. The net general revenue increase from the enacted budget is \$111,531. Federal funds increase by \$1.2 million, reflecting \$71,389 in unexpended FY 2002 grants to develop a coastal habitat restoration system, and a \$1.1 million increase in expenditures for both continuing program operations and special activities. Among the latter are URI contracts for the publication of a public access guide and a contract for monitoring support for Providence River Dredging project. The increase also includes \$337,554 in unspent FY 2002 funds.

In the FY 2004 budget, the Governor recommends appropriations of \$8.3 million. Of this amount, \$1.4 million is financed with general revenue, \$1.5 million is financed from federal funds, \$4.5 million financed from restricted receipt funds, and \$1.0 million from other funds. General revenue funds decrease by \$189,349 compared to FY 2003 revised levels, reflecting statewide benefit and payroll adjustments, offset by the completion of non-recurring items for the permit database project, and staffing projections. The Governor also recommends the consolidation of the Providence field office. Federal funds decrease by \$864,000, reflecting the current grant level in the Coastal Zone Management Program and the completion of the coastal habitat restoration system grant.

The FTE position level for the council is unchanged at 28.0 for both FY 2003 and FY 2004.

The Governor recommends appropriations of Rhode Island Capital Plan funds in FY 2003 of \$172,000 for the coastal habitat restoration at Allin's Cove in Barrington. The Governor also recommends an initial expenditure of \$145,000 in FY 2003 and \$968,000 in FY 2004 for the South Coast Restoration program, to dredge breachways and tidal deltas for habitat restoration, beach replenishment, and fish restoration efforts. The Governor recommends restricted receipts of \$250,000 in FY 2003 for various coastal habitat restoration projects, and \$4.5 million in both FY 2003 and FY 2004 for the Providence River Dredging Project. The source of funds for both sets of projects is the Oil Spill Prevention, Administration, and Responsibility Fund.

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State Water Resources Board

The Governor recommends revised expenditures for the Water Resources Board of \$2.6 million for FY 2003, including \$1.1 million of general revenue, \$500,000 of federal funds, \$753,709 of restricted receipts and \$280,538 of Rhode Island Capital Plan Funds. This reflects an increase of \$91,768 from enacted levels. The addition consists of increases in personnel and operating of \$66,230 in general revenue, and \$25,538 in projects financed from the Rhode Island Capital Plan Fund. The Rhode Island Capital Plan Fund reductions include \$6,030 for the Big River Management Area and \$7,812 for the Water Allocation Plan and an addition of \$39,380 for the Supplemental Water Supplies Identification/Development Plan. Restricted funds are directed from the Department of Health's Clean Water Fund through an interagency agreement.

The Governor recommends FY 2004 expenditures of \$2.0 million, a decrease of \$586,521, or 22.6 percent, from revised FY 2003 levels. General revenue expenditures are budgeted at \$940,992. Other funds (Rhode Island Capital Plan) of \$80,000 in FY 2004 include only the Big River Management Area project. Restricted receipt funds of \$984,000 in FY 2004 include \$425,00 for Water Allocation Plan, \$300,000 for Supplemental Water Supplies Identification/Development Plan and \$259,000 for operating support that was shifted from general revenue. Restricted funds are again directed from the Department of Health's Clean Water Fund through an interagency agreement.

The Governor recommends 9.0 FTE positions in FY 2003 and in FY 2004.

Transportation

Transportation

Summary

Transportation includes road and bridge construction and maintenance, mass transit, and planning activities of the Department of Transportation. In FY 1994, the state established the Intermodal Surface Transportation Fund (ISTF), to provide financing for transportation expenditures from dedicated user-related revenue sources. This dedicated highway fund establishes a direct relationship between transportation project financing and the end-users of the projects, with a stable revenue stream capable of financing the projects on a pay-as-you-go basis.

The Intermodal Surface Transportation Fund is supported by the state's thirty-cent gasoline tax. Gasoline tax receipts finance operating and debt service expenditures of the Department of Transportation (DOT), as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs (DEA).

Beginning in FY 1998, the Governor began a process of addressing the state's neglected infrastructure needs by recommending the dedication of increased gasoline tax revenues to the Department of Transportation. Legislation was enacted increasing the department's share of the total tax in FY 1998 by two cents, bringing the department's allotment to sixteen cents, and reducing transfers to general revenue receipts to eight cents. For FY 1999 and beyond, the department was to receive an additional one cent each year until fiscal year 2006, when the general fund would no longer receive gasoline tax revenues.

In FY 1999, the Governor continued efforts to aggressively address the infrastructure needs of the state by increasing the DOT allocation of gas taxes by one and one half cents rather than one cent, as required by statute at the time. The Governor also increased the level of the gas tax allocation to the Rhode Island Public Transit Authority from three cents to five cents. This increase equated to an additional \$9.0 million per year for public mass transit operations. This plan would result in all gas tax proceeds being fully dedicated to transportation functions in FY 2004.

As part of the enacted FY 2000 budget, the plan was again amended by reducing the scheduled addition of one cent allocation of gas tax to DOT by one half cent in FY 2000 and increasing the RIPTA share by the same amount. In FY 2001, the portion of gas tax dedicated to DOT increased to 19.5 cents, as scheduled prior to the FY 2000 revision. The one half cent increase to RIPTA would continue permanently, and was offset by a decrease in the amount of gas tax originally scheduled for transfer to the general fund. The amended allocation plan would result in all gasoline tax revenue being dedicated to transportation functions by FY 2003.

The gasoline tax allocation plan was again amended in the enacted FY 2001 budget. The plan was altered to increase the RIPTA share of revenue by one fourth of one cent, for a new allocation level of 5.75 cents. The increase was offset by a corresponding decrease in gas tax revenue dedicated to the general fund. All gas tax proceeds would still be dedicated by FY 2003, but the DOT share that year would increase by 0.75 of a cent, as opposed to one full cent as originally planned.

The growing financial needs of RIPTA were again addressed with the enacted FY 2002 state budget. Of the remaining 0.75 cent of gas tax not being directed to transportation-related functions, an additional one half of one cent was transferred over to the authority. This change would leave one fourth of one cent for transfer to DOT in FY 2003. The amended plan provided additional operating funds to RIPTA of approximately \$2.35 million in FY 2002.

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Due to statewide budget constraints, the Governor recommended that the planned allocation of the remaining one fourth of one cent of gas tax scheduled for FY 2003 be delayed until FY 2004. Consequently, this amendment to the disbursement plan provided \$1.2 million in revenue to the general fund in FY 2003. In addition, the enacted FY 2003 budget included an increase in the gas tax of two cents, all of which was directed to the general fund.

For FY 2004, the Governor recommends significant additional revenue for RIPTA and a reallocation of available resources for both DOT and RIPTA. The Governor recommends an additional six tenths of one cent of the gas tax for allocation to RIPTA. This additional funding equates to approximately \$2.8 million in new revenue. Additionally, both DOT and RIPTA will experience savings in debt service costs through general obligation debt defeasance resulting from the state's tobacco securitization agreement, as well as from other debt refinancings. The \$9.5 million savings realized by DOT will be utilized to finance maintenance projects on a cash basis as opposed to debt funding. RIPTA debt service savings in FY 2004 will total \$489,513. Also in FY 2004, the Governor recommends adhering to the current gas tax allocation schedule, which includes the transfer of an additional one fourth of one cent of gas tax revenue to DOT. The additional revenue from this increased allocation equates to approximately \$1.2 million.

Current Law Gas Tax Allocation (in cents)

<u>Recipient</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
DOT	16.0	17.5	18.0	19.5	20.5	20.5	20.75
RIPTA	3.0	5.0	5.5	5.75	6.25	6.25	6.85
General Fund	8.0	4.5	3.5	1.75	0.25	2.25	1.4
DEA	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total:	28.0	28.0	28.0	28.0	28.0	30.0	30.0

The Federal Highway Administration (FHWA), under the authority of the FY 1992 - FY 1998 Intermodal Surface Transportation Efficiency Act (ISTEA), provided approximately \$100.0 million annually in Highway Trust Funds to Rhode Island, which the state matched at an average of twenty percent of the total project cost. In June 1998, the President signed into law the Transportation Equity Act for the 21st Century (TEA-21). The act authorizes funds for highway, highway safety, transit and other surface transportation for the following six years. Under this program, Rhode Island is expected to receive an average of \$165.0 million per year. TEA-21 builds on the initiatives established through ISTEA. The act combines the improvements in current programs with new initiatives for improving transportation safety and traffic flow efficiency, enhancing communities, and advancing economic growth. All highway and infrastructure projects not eligible for federal funds are financed with general obligation debt and gas tax proceeds.

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The DOT Highway Improvement Program (HIP) includes highway and intermodal projects that utilize federal funds administered by the FHWA, and highway transportation infrastructure projects financed by state funds (gas tax and bonds). The HIP implements DOT's capital program as identified in the state's Transportation Improvement Program (TIP). The TIP is a listing of transportation projects that the state plans to finance over a six-year period from federal highway funds. The Federal Highway Administration requires that all projects utilizing federal funds shall appear in an approved TIP. The TIP is adopted by the State Planning Council and approved by the Governor.

In Rhode Island, the TIP is the product of extensive public outreach to all communities, public interest groups, and citizens throughout the state by the agencies involved in transportation planning and project implementation. Following extensive public solicitation for the current TIP, highway projects are selected by a twenty-six member public body, known as the Transportation Advisory Committee (TAC), using criteria based on five major categories: mobility and benefits; cost effectiveness; economic development impact; environmental impact; and agreement with local and state goals and plans. Certain projects are reviewed by special public committees prior to selection for the TIP by the TAC. The transportation air quality subcommittee, assisted by DOT staff, conducts a solicitation and evaluation of Congestion Mitigation and Air Quality (CMAQ) proposals. A TAC subcommittee reviews new bicycle/pedestrian projects, and a DOT advisory committee solicits and evaluates application for funds earmarked in TEA21 for Transportation Enhancement activities.

The DOT Highway Improvement Program and Transportation Improvement Program emphasize the Governor's priorities for maintaining Rhode Island's existing transportation infrastructure before initiating large scale projects. After years of under-investment in preventive maintenance, the focus has shifted to addressing the deteriorated state of the transportation system infrastructure. Establishing a dedicated funding mechanism to address the state's highway infrastructure needs permits more road and bridge rehabilitation and maintenance projects to be financed on a "pay-as-you-go basis," thus reducing out-year requirements for bond funding and increased debt service costs

There are currently five major infrastructure projects either underway or requiring state intervention in the immediate future. These projects include the I-195 Relocation, Sakonnet River Bridge Replacement, Washington Bridge Replacement (eastbound), Freight Rail Improvement Program, and Route 403 Phase II. The cost of these projects is currently estimated at \$672.8 million through 2012. With such significant infrastructure needs to be addressed in the short-term future, DOT is considering an innovative financing approach to the issue. The department may propose to take advantage of a federally approved program (GARVEE Bonds) which allows states to borrow against future federal funds. This borrowing does not pledge the credit of the state. The debt service associated with this borrowing would be paid from annual federal highway fund allocations. This approach to meeting the transportation needs of the state is currently being researched by DOT officials and will be presented upon further study and review.

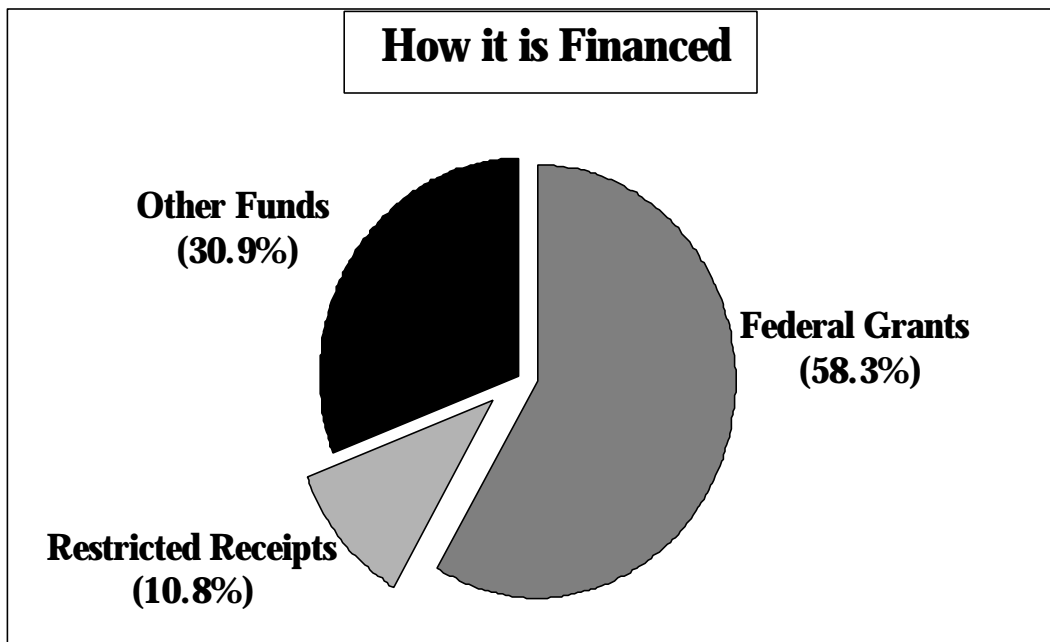
The revised FY 2003 budget for DOT includes an increase of \$2.0 million in gasoline tax revenue, compared to the enacted estimate. Of this total, \$752,645 results from the department's FY 2002 closing balance and \$733,725 is attributed to FY 2002 gas tax collections above the estimated per cent yield for that fiscal year. An additional \$511,324 will be available for RIPTA operations due to a reduction in the authority's debt service costs. "Other Fund" adjustments also include an reduction of planned expenditures (\$2.0 million) utilizing revenue generated through leasing and/or sale of DOT owned property and an increase of Rhode Island Capital Plan funds of \$360,000 for the costs associated with RIPTA facility construction.

Transportation

The department's FY 2003 revised budget for restricted receipt revenue totals \$17.9 million, which is \$24.6 million below the enacted level. This reduction reflects adjustments to planning and construction costs related to the Freight Rail Improvement Program. Total FY 2003 changes to all funds are \$25.1 million less than enacted levels.

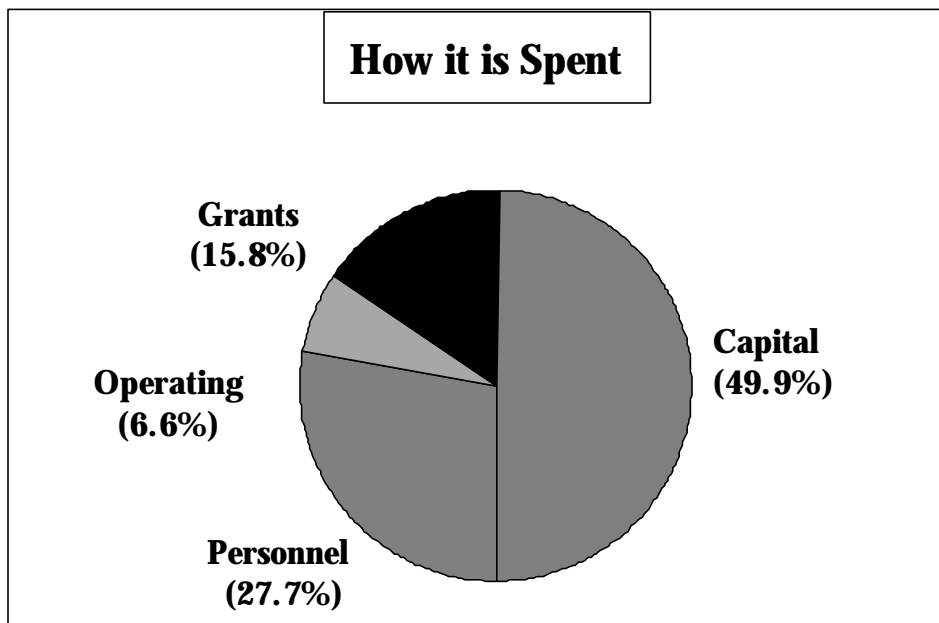
For FY 2004, the total amount of gas tax revenue estimated for the ISTF is \$130.4 million, including \$98.0 million for the Department of Transportation and \$32.4 million allocated to RIPTA. Resources are reduced by projected transfers to the Department of Administration to finance transportation related debt service costs. After debt service transfers by DOT and RIPTA of \$31.8 million and \$431,190, respectively, net gas tax resources are projected at \$66.3 million for DOT and \$31.9 million for RIPTA.

In FY 2004, recommended expenditures from all sources for transportation activities total \$338.0 million. The chart below illustrates the sources of financing for these expenditures.



Other/Gasoline Tax Funds total \$104.4 million or 30.9 percent of the expenditures for the Transportation function in FY 2004. Of this total, \$24.9 million supports personnel costs, \$20.3 supports operating costs to include winter maintenance operations (\$10.1 million) and highway lighting (\$2.9 million), \$31.9 million provides operating assistance for RIPTA, and \$27.3 million is allocated to infrastructure maintenance, repairs, and construction. In FY 2004, federal funding totals \$197.2 million. This equates to 58.3 percent of total transportation budget. Federal Highway Safety funds totaling \$9.2 million support grants to municipalities and other activities that promote highway safety programs. Restricted receipts totaling \$36.4 million represent costs associated with the ongoing Freight Rail Improvement Project (FRIP).

Transportation



In FY 2004, the department will continue to emphasize road and bridge rehabilitation and construction, support of mass transit services, and planning for both highway and mass transit operations. These efforts are undertaken through the department's two major infrastructure programs; Maintenance and Engineering.

Through the Maintenance Program, the department dedicates funds to the preservation of road and bridge assets. These activities include pavement resurfacing, crack sealing, pothole repair, street and sidewalk sweeping, signage, highway light maintenance, and bridge washing. Snow and ice removal operations also fall under the management of this program. The recommended Maintenance budget for FY 2004 is \$39.2 million. Adjusting for one-time costs associated with the recently completed Warwick Maintenance facility, this funding level represents a \$975,495, or 2.6 percent, increase over the FY 2003 revised spending level.

The Engineering program, which totals \$284.3 million in FY 2004, finances personnel in public works, real estate, research and technology, construction, design, materials, and intermodal planning sections. RIPTA's portion of the state gasoline tax, totaling \$31.9 million, plus federal mass transit grants are also appropriated within this program. Total spending for Engineering consists of \$59.9 million in gasoline tax/other revenue, federal appropriations of \$188.0 million, and restricted receipt revenue expenditures of \$36.4 million.

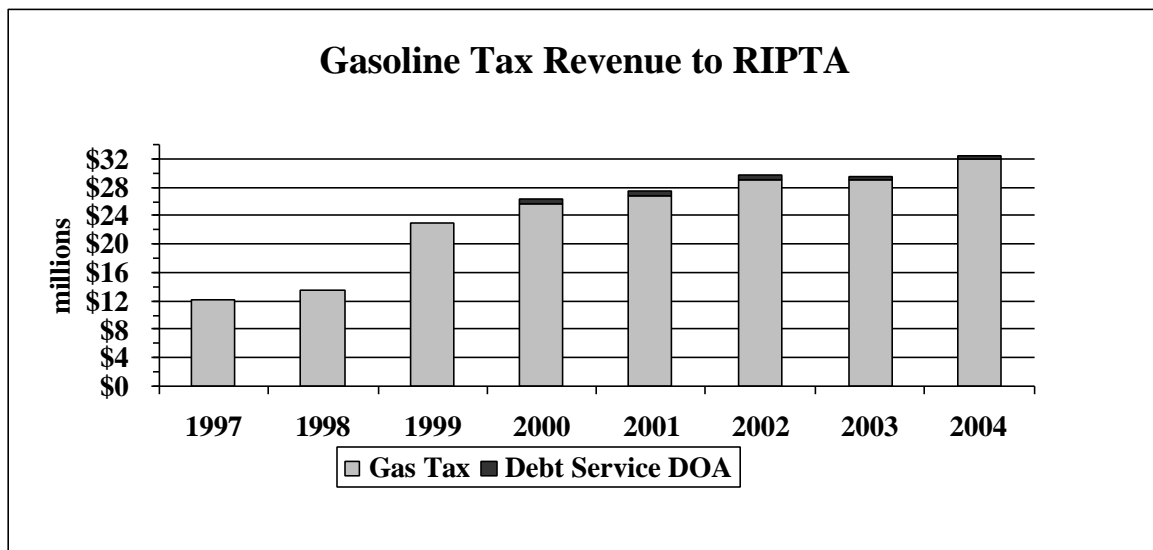
Included in the Engineering program is \$4.0 million in estimated revenue from the sale and/or lease of DOT owned properties. This revenue, along with \$30.0 million in general obligation bond funds, is utilized to meet matching requirements to federal funds provided under TEA-21. Noteworthy for FY 2004 is the increased amount of gas tax revenue available for use in the Engineering Program. The department

Transportation

will realize savings in debt service costs through general obligation debt defeasance resulting from the State's tobacco securitization sale, as well as other debt refinancings. The \$9.5 million savings will be utilized to finance maintenance projects on a cash basis as opposed to using bond funds

An essential part of the Engineering program is the Highway Improvement Program. This program, mandated through the TEA-21 legislation, outlines the short and long-term transportation infrastructure projects that the state will undertake.

The continued emphasis towards a more balanced multimodal transportation system extends to statewide mass transit programs. As noted above, operating assistance of \$31.9 million to the Rhode Island Public Transit Authority will be financed from a 6.85-cent allocation of the gasoline tax. This funding level for RIPTA will increase by \$2.8 million above FY 2003 levels, as additional gas tax revenue is allocated to the transit authority. One cent of the gas tax that is not included in the Department of Transportation budget supports the efforts of the Department of Elderly Affairs. This funding is intended to streamline and enhance elderly and handicapped transportation services. Much of this allocation is transferred to RIPTA to underwrite pass programs for the elderly, and to finance compliance costs statewide associated with Americans with Disabilities Act requirements.



Five-Year Financial Projection

FY 2004 – FY 2008 Overview

This Five-Year Financial Projection has been prepared pursuant to Section 35-3-1 of the Rhode Island General Laws, which requires that the Budget Officer:

(6) Prepare a five year financial projection of anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas, which projection shall be included in the budget submitted to the general assembly pursuant to subsection 35-3-7.

The five-year projection includes tables that present anticipated revenues and expenditures during the five fiscal years ending in June 2008. Tables which detail planning values are also included. The planning values reflect policy assumptions as well as economic and demographic forecasts.

The purpose of the five-year forecast is to provide a baseline fiscal outlook for the State of Rhode Island. Although the forecast may be utilized as a benchmark in assessing the affordability and desirability of alternative policy options, caution should be exercised in the interpretation of the forecast.

The economic forecast was developed by the principals of the November 2002 Revenue Estimating Conference with input from the consulting economists at Economy.com and Global Insight (formerly DRI-WEFA) and respective staff. This forecast truly serves as a “best guess” as to the future path of the economy since no formal economic model was employed by the conferees in arriving at the forecast. A detailed analysis of the conferees near-term economic forecast for the State is contained in ***The Economy*** section of this document. In that section, particular attention is paid to how the state fared during the national recession vs. the neighboring states of Connecticut and Massachusetts. In addition, a comparison of the actual economic performance of the State with the economic forecast contained in the FY 2003 budget is made. Finally, the FY 2004 economic forecast is contrasted with the economic forecast that was made for the FY 2003 budget.

The economic outlook presents the greatest risk to the economic forecast. Of particular note, the events with regard to the situation with Iraq remain unclear. The economic forecast underlying this five year projection could be radically altered by a war in Iraq and thus render these projections irrelevant. Another risk to the forecast is attributable to tax law changes that have been proposed and other external fiscal changes. It is necessary to calculate the direct, as well as indirect, effects of such a change on the economic outlook. For example, the Governor’s proposal to change the apportionment formula for manufacturers is designed to provide Rhode Island based companies with an incentive to expand their in-state operations. In forecasting the impact of these tax law changes, an estimate of both the direct revenue loss attributable to the tax law change, as well as the secondary effects, such as increased employment and personal income levels are desirable. Unfortunately, measuring behavioral responses to tax law changes is a difficult task. In the case of manufacturers, the response to the Governor’s proposal includes decisions to expand operations in the state, to relocate operations to Rhode Island from out of state, or to keep operations in Rhode Island rather than relocating them elsewhere. In the five-year revenue projections, the revenue loss attributable to a tax law change is estimated and included directly in the revenue projections. The beneficial effects associated with tax law changes (i.e., increased personal income tax collections that result from increased employment by manufacturers) are not captured.

The five-year revenue forecasts make substantive assumptions concerning the Rhode Island Lottery’s required transfer to the general fund. First, the five year forecast takes into account the addition of

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1,825 new video lottery terminals (VLTs) to the existing 2,478 VLTs already in place at Lincoln Park and Newport Grand Jai Alai, an increase of 73.6%. At this time, it is hard to determine what the impact of these new machines is going to be on the net terminal income generated at each facility. In addition, the Governor has proposed to alter the formula that determines how the net terminal income generated at Lincoln Park and Newport Grand Jai Alai is divided among its many claimants to be more favorable to the State. Finally, both Rhode Island and Massachusetts have convened gaming commissions to study the viability of casino gaming in each state. Massachusetts also has studied adding VLTs to the four racetracks located in Massachusetts, including at least one with a close proximity to Rhode Island. The five-year revenue projections for The Lottery's transfer to general fund are dependent on the actual events that transpire with each of these unknowns. However, should the new VLTs not achieve the anticipated net terminal income, the revenue projections contained herein could be considerably lower than estimated. The forecast assumes declining growth rates in VLT revenues reflecting some level of saturation.

The five-year projection includes the transfer of one-quarter of a cent (0.25) of the gas tax from general revenue to the Department of Transportation. In the FY 2003 budget, this transfer was delayed and used to shore up general revenue expenditures. The actual transfer of this one-quarter of a cent begins with the FY 2004 budget. In the FY 2003 enacted budget, the General Assembly increased the gas tax by two cents (2.0) from \$0.28 to \$0.30 per gallon with the two cents designated for general revenues. The FY 2004 budget permanently transfers six tenths of a cent (0.6) from general revenue to the Rhode Island Public Transit Authority. The five-year projection reflects this change in the allocation of the gas tax.

Beginning in fiscal year 2000, income on bond proceeds was no longer included in general revenue. Instead, the income was to be dedicated to a sinking fund that was to be used to pay off outstanding debt, pursuant to legislation enacted by the 1998 General Assembly. Because of the state's improved debt position, the Governor recommends that income on bond proceeds once again be included in the general fund, as was the case in fiscal years 2001–2003. The five-year revenue projections also assume that this transfer from the sinking fund to general revenue continues over the FY 2005 to FY 2008 period.

Expenditure side risks must also be noted within the five-year projection. One of the greatest expenditure side risks relates to medical services inflation, utilization, and technological change. Beneficial changes in medical technology and the resultant change in utilization of medical services are especially difficult to forecast. These factors are particularly influential, since a significant part of the budget is driven by medical costs and since costs have been accelerating at a rapid rate. Costs for state employee medical insurance alone will have nearly doubled over the five-year period spanning fiscal 1999 to 2004. While costs for medical care will continue to drive state personnel costs in the forecast, it is assumed that there will be a deceleration in the rate of growth through fiscal 2008.

Potential changes in employee contracts represent yet another significant unknown factor in the five-year expenditure forecast. Most union contracts will expire at the close of fiscal 2004. Spiraling health care costs are anticipated to play a significant role in discussions with union membership. However, the five-year forecast assumes no changes in the current employer/state share of premiums or other medical costs components such as co-payments for particular services.

Due to the rising costs for medical care and the anticipated reporting standards to be issued by the Governmental Accounting Standards Board (GASB) for Other Post Employment Benefits (OPEB), the

FY 2004 – FY 2008 Overview

state is currently in the process of evaluating the accrued actuarial unfunded costs for the retiree health benefits program. Under the anticipated new reporting requirements the state will be required to reflect any accrued actuarial unfunded costs on its financial statements by fiscal year 2007. No additional costs have been reflected in the five-year projection for this liability, but it is anticipated that this will have significant long-term implications for the state's finances.

Another expenditure side risk involves demographic shifts such as the aging of the baby-boomer population which will present a greater need to enhance and expand the infrastructure for elderly care towards the end of the five year horizon. The current explosive growth in the prison population also poses substantial risks for both operations costs and capital infrastructure needs. The projection assumes that future inmate population growth will quickly decelerate to reflect recent historical averages. The accuracy of this assumption will ultimately rest upon the success of efforts to create efficiencies in the criminal justice system and efforts to modify sentencing policy in the Judicial branch towards greater community-based versus institutional-based sentencing.

The five-year projection anticipates average annual revenue growth of approximately 5.6 percent beyond the budget year, based upon the November 2002 Revenue Estimating Conference forecast for the Rhode Island economy. The forecasts used here do not assume any significant downward swings in the economy. Personal income is forecast to grow at an annual rate of 4.3 percent, employment at .8 percent, and wage and salary disbursements at 4.8 percent. These variables and other assumptions are shown in the tables that follow.

The expenditure-side of the budget is estimated to increase at an annual rate of 4.8 percent from the FY 2004 base to FY 2008. Inflation however, as measured by the CPI, is expected to grow at an annual rate of 2.5 percent. A number of factors are responsible for the rate of growth above inflation.

The largest factor in overall spending growth is anticipated to occur in the category of grants and benefits. Expenditures for grants and benefits are expected to expand by approximately \$195.0 million, largely driven by growth in the state/federal Medicaid program. Percentage growth in this total category of expenditure is projected to average 5.1 percent and principally reflects trends in the rising costs of medical care.

Demand for services in the areas of Managed Care and other Medicaid, Developmental Disabilities, pharmaceuticals for the elderly, and child welfare and behavioral services, are all anticipated to contribute to growth exceeding the rate of inflation over the five-year interval. These increases are a result of expected growth in caseloads and utilization, as well as inflation. Underlying assumptions may be found in the planning values table.

The next largest dollar increase in overall spending is anticipated to occur in state operations costs - \$172.5 million, followed by aid to local units of government - \$160.9 million. However, it is capital costs that are anticipated to display the largest percentage change over the forecast horizon with growth averaging 9.4 percent annually. Capital costs are expected to increase by \$37.7 million from FY 2004-FY 2008. This unusual rate of increase reflects the diminishing debt service savings achieved from the defeasance using tobacco securitization proceeds (\$8.0 million), a shift of \$12.6 million from RICAP to general revenue funding, new debt service costs associated with the financing of the juvenile training school and Kent County Courthouse (\$5.4 million), and debt service on new general obligation bond issuance contributes to the remaining growth.

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Due to the fact that revenue growth is anticipated to exceed expenditure side growth however, and given the assumptions detailed below, it is expected that the state will begin to see operating surpluses beginning in fiscal 2006. The change in this year's forecast, from the persistent operating deficits predicted in previous years is largely attributable to three major policy decisions which affect the future growth in expenditures. First, the Governor proposes to enhance the revenue base by changing the allocation of VLT revenues. This is anticipated to generate approximately \$55.0-\$77.0 million in additional state revenue over the forecast horizon. Second, it is proposed that the state General Revenue Sharing Program be modified to allow for the transfer of a fixed 2.6 percent of state tax revenues to municipalities. Current law would require that this percentage reach 4.7 percent by fiscal 2009. This change results in an estimated reduction in expenditures, of no less than \$30.0 million by fiscal 2008. Third, it is proposed that the CPI component of the Motor Vehicle Tax Reimbursement to communities be frozen to the fiscal 2003 level, resulting in projected savings of approximately \$31.0 million by the end of the forecast horizon. Over fiscal years 2007-2008, the forecast displays surpluses ranging from \$64.0-\$85.0 million or from 2.0 to 2.6 percent of the projected expenditure base.

Personnel and Other Operations

This analysis assumes that salary and fringe benefits costs for existing staff will reflect both the rate of inflation with respect to cost of living adjustments (COLAs) and on-going increases for steps and longevity. It should be noted however, that no salary COLAs are assumed for fiscal year 2004. In addition, the forecast for personnel costs reflect existing health insurance coverage costs that are expected to significantly exceed the overall rate of inflation. As also shown in the expenditure tables, additional staffing is assumed to be required due to estimated caseload growth in the Department of Children, Youth and Families and Department of Corrections. This increases the overall state personnel requirements in order to finance these additional staffing needs. Upcoming contract negotiations are not assumed to alter other statewide staffing requirements during the five-year horizon.

Caseloads in the Department of Children, Youth and Families are projected to grow 10.8 percent through the forecast period. When combined with cost inflation, this growth increases personnel and operating expenditures by \$14.7 million and payments for provider services by \$22.9 million during the FY 2004 - FY 2008 period. The projections are based upon an analysis of actual caseload growth trends since FY 1993. Caseload growth translates directly into increased costs for supporting services, and both contracted and purchase-of-service placements.

Projections of inmate growth for the Department of Corrections are also a key determinant in projecting statewide staffing needs. Although the inmate population grew at an average rate of 4.3 percent per year from FY 1990 to FY 1996 overall, growth slowed after 1996 to 1.4 percent per year. In FY 2002, inmate population grew by only 1.3 percent. In FY 2003, however, inmate population began to rise. From a FY 2002 average of 3,387 (already above the previously estimated 3,370), population has increased to a peak of 3,621 in October 2002. While population has since declined to 3,520 due to seasonal holiday factors, the current population estimate is 3,658 in FY 2003 and 3,724 in FY 2004. Several factors are thought to account for the sudden increase, including more arrests (due to demographic changes or a stagnant economy) and longer sentences, especially for domestic violence offenders, gang members, and probation violators. For these reasons, the Rhode Island's population is expected to continue to grow, and at a higher rate than the previous five year estimate of 1.3 percent. Prison population is forecast to increase from 3,387 inmates in FY 2002 to 4,008 inmates in FY 2007. This reflects annual growth of 1.9 percent over the five-year period, or approximately 65 additional inmates per year. The estimate is based upon national and state prison population trends and includes

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INS detainees. The Bureau of Justice Statistics' Bulletin, "Prisoners in 2001", reports that nationally, while the prison growth rate continues to decrease, with the prison population rising at the lowest rate, 0.8 percent, since 1979, the average annual growth for the past three years remains at 2.0 percent.

In response to inmate population growth, the Criminal Justice Oversight Committee, formed in 1993 in response to the federal court settlement on population caps, has warned other state officials that the "surge in the inmate population has both legal and fiscal implications". The Committee is prepared to serve as a forum for review and recommendations regarding all criminal justice operations. The Governor is considering various options to reduce inmate population, including sentencing reform and alternatives to long-term incarceration.

The growth of the population within the institutions highlights the opportunity to explore programs and alternatives to address the growing community-based offender population, consisting of those under the supervision of the probation, parole, and home confinement programs. The number of adult probationers and parolees serviced has increased an average of 6.7 percent per year since FY 1990. According to the Bureau of Justice Statistics' report on Probation and Parole in 1998, Rhode Island has the fourth highest rate of probation supervision per capita in the nation. The most recent annual report from the Criminal Justice Institute shows that Rhode Island has the highest probation caseload in the country, 1:311 (Criminal Justice Institute's 2000 Corrections Yearbook). Additionally, although Rhode Island's home confinement population grew 70.4 percent between FY 1995 and FY 2002, in FY 2002, the number in home confinement actually fell by 3.2 percent.

The Department has taken a number of steps to address bed space shortages in the women's facilities. Currently, a wing in the Dix Facility is being renovated to provide an additional 45 beds for low to medium security female offenders. The project is being financed with \$401,940 received through the federal Violent Offender Incarceration – Truth in Sentencing Act (VOI-TIS) and a state match of ten percent. The second phase of the project, which includes related improvements not eligible for VOI-TIS funding, is being financed with \$589,000 in Rhode Island Capital Plan funds. Design work for the project has begun, with construction for Phase II scheduled for FY 2004.

The Department is beginning the renovation of an additional building at the Pastore Center for use as a Reintegration Center beginning in July 2004. The \$9.2 million renovation, also funded primarily with VOI-TIS funds, will add 150 new beds for male inmates. The Center will house inmates who are within six months of release, but who have not qualified for lower custody status. Intensive evaluation and services will be provided to residents in an effort to successfully reintegrate them into community life.

To date, Rhode Island has received \$14.97 million in VOI-TIS funding. Most of these funds are restricted to construction or expansion of facilities to increase bed capacity for violent offenders. All funds must be expended by September 30, 2005. Besides the aforementioned renovation of a wing in the Women's Dix facility, a portion of the funds has been used to renovate two areas of the Medium Security Donald Price facility. Additionally, the Department utilized the funds to conduct a Siting and Construction Options Study. This study provided an in-depth analysis of offender populations and trends, offering critical guidance for future new construction and facility renovations.

Exploration of construction and programming options is crucial even with the anticipated slower growth of the inmate population. In 1979, there were 730 inmates at the ACI. The inmate population in fiscal year 2003 was 3,387, representing growth of three hundred sixty-four percent over the twenty-one year

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period. Assuming the forecasted growth trend continues, the inmate population is anticipated to approach the current operational capacity within the next ten years. Of particular concern are the populations held in the Maximum Security facility, the Price and Moran medium security facilities, and the women's McDonald facility. All have been approaching capacity and have been for a number of years. Bed space availability in other facilities cannot be used to alleviate overcrowding in the above-mentioned facilities, as they are not designed to hold inmates classified to different security levels.

The Siting and Construction Options Study has allowed the department to develop a comprehensive ten-year plan that considers the various sub-populations, overall population forecasts, efficiency and effectiveness of existing facilities, and future construction needs for both institutional and community-based facilities. In addition to the impact of the forecasted population, the age and design of the facilities at the ACI are factors in planning for capital development.

In accordance with the Options Study, the department currently should consider five capacity expansion projects: A 24-bed expansion of the Segregation Unit at the Moran Medium Security facility; a 192-bed addition to the High Security Center; a 360-bed expansion of the Maximum Security facility; the construction of four Community Corrections Centers; and renovations at the Dix facility that will allow for expanded bed space for low and medium security women inmates. The first four of these projects would require significant additional state funds. Funding through the certificates of participation mechanism was proposed in FY 2002, but the Legislature did not concur. Only the Dix facility project has been approved to date.

Grants and Benefits

Grants and Benefits are projected to increase by 5.1 percent annually, largely reflecting expanding demand for and utilization of medical care. Most of this growth is reflected in the Department of Human Services budget, since this department is responsible for managing the state's Medicaid program.

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

Eligibility standards for TANF/FIP cash assistance are maintained at current levels throughout the forecast period, and assumes that economic influences on caseloads will result in reductions of 7.1 percent annually. An additional reduction of approximately 338 persons annually is assumed client attainment of a five-year limit on FIP eligibility. Adult clients reaching the time limit can be removed from cash assistance. Federal provisions require the state to achieve eighty percent closure of these adult clients; children in such households will continue to receive cash assistance. The forecast assumes that twenty percent of parents will receive exemption waivers, and that an additional twenty percent will remain on cash assistance as a supplement to wage earnings, Due to maintenance of effort requirements for general revenue support, savings accrue to the federal block grant account.

Savings in cash assistance will be offset by substantial additions in child care payments, which continue even after entry of cash assistance clients to unsubsidized employment. Child care slots are assumed to increase annually through the forecast period, and include adjustments for increased utilization by clients exhausting cash assistance. An eight percent market rate adjustment is assumed in mid-FY 2006

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and mid FY-2008. These effects are reflected in the tables. However, the full impact of additions to child care costs is not represented in the net general revenue costs. It is assumed that, as in the past, TANF federal block grant funds will be reallocated to finance child care costs. The continuous expansion of child care caseloads results in an increase in general revenue costs through FY 2005, with substantial offsets to the block grant, resulting from the cash assistance caseload declines noted above, beginning in FY 2004. By FY 2008, FIP cash assistance savings are estimated to reduce general revenue expenditures for child care by \$24.4 million. This amount, along with cash assistance expenditures and other eligible support costs, is still greater than the required maintenance of effort from general revenue funds to qualify the state for continued TANF block grant eligibility. The net result is that total annual general revenue expenditures for cash assistance and child decrease in each year of the forecast period. Unspecified expansions proposed for federal child care block grant funds are not estimated, but should reduce the affects of any unanticipated market rate adjustments.

SSI caseloads will increase marginally, as the elderly population is forecast to decrease over the five year period. This effect partially offsets continued increases in the disabled population. Annual cost of living adjustments of 3.0 percent are assumed.

Medicaid costs are assumed to reflect continuous changes in service delivery systems, such as reduced institutional care and greater participation in independent living and treatment arrangements, and managed care arrangements with client cost sharing. Based upon population trend data, marginal decreases in long-term care caseloads are projected. Nursing home costs are forecast to inflate by 3.1 to 3.3 percent annually.

All other Medicaid costs, except managed care, are estimated to increase by 8.8 to 8.9 percent annually. This category assumes a continuation of uncompensated care payments to state and community hospitals in each year. The managed care forecast assumes that costs will increase in line with CMS assumptions regarding expenditure growth for national health care. (See Planning Values Table). All general revenue Medicaid costs recognize marginal increases forecast for federal matching rates in FY 2005.

The forecasted expenditures, within the Developmental Disability system, of \$82.6 million in FY 2005 to \$91.6 million in FY 2008, indicate an average growth rate of approximately 3.6 percent. It should be noted that the expenditures in this year's forecast only reflect the residential day program and respite services. Last year's display for this program also contained medical costs under the Medicaid program, which are now reflected in Department of Human Services' grant costs. Although the growth in expenditures, in this program, have been relatively stable over the last two to three year period there are several factors which could significantly affect the expenditures during the forecast period. These include greater public awareness of the availability and therefore the utilization of services, the aging of caregivers and the aging of the existing population. The aging of the caregivers places a significant burden on the residential portion of this program. Clients who were cared for by their parents often require residential placement when the parents are no longer able to care for them. The age of the existing client population will also have an effect on the future cost of care. As with the general population in society, the baby boom is reaching retirement age, and many clients are facing diseases and or complications associated with aging in addition to their existing disability. This can increase both the nature and quantity of services required to maintain a client's quality of life. Public awareness activities, sponsored by both the department and by consumers of service, have and will continue to lead to greater utilization, at the earliest possible age, of the full range of services for which clients are eligible.

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Local Aid

Local aid expenditures include education aid, aid to local libraries, the PILOT program, Aid to Distressed Communities, Police and Fire Incentive payments, the Motor Vehicle Excise Tax Reimbursement, General Revenue Sharing and the Property Reevaluation program. Within this component, only one program area of spending is not expected to exceed inflation – Aid to Distressed Communities. In dollar terms, the largest driving force behind expenditure growth is accounted for by Education Aid programs, which is expected to increase by a total of \$188.4 million from the FY 2004 based level. Average growth in these programs is assumed to equal 3.9 percent over the projection period.

Payments for the Motor Vehicle Tax Reimbursement program are anticipated to add an additional \$20.7 million to total expenditure requirements over the forecast period. This reflects the growth in reimbursements due to anticipated growth in municipal tax rolls. As noted above, growth in this program is assumed to be partially contained, given the proposal to cap the CPI reimbursement to fiscal 2003 levels.

Finally, General Revenue Sharing growth over the forecast period will simply reflect the underlying growth in the state's tax base. This reflects the proposal to cap the percentage of the tax base that is distributed to communities to 2.6 percent of state taxes, as compared to the current law requirement to ramp up the percentage to 4.7 percent by fiscal 2009.

Capital

Recognizing that there continues to be a concern over the state's relatively high debt levels, the Governor's FY 2004 – FY 2008 Capital Improvement Plan supports the effort to reduce its reliance on tax supported bonds for financing. The Governor's proposed plan would reduce net tax supported debt as a percent of personal income from 8.5 percent in 1994 to 3.89 percent by 2008. This will be achieved by targeting current resources to the infrastructure needs of the state and the pursuit of an aggressive debt reduction plan. The use of Rhode Island Capital Plan Funds for capital projects statewide, and the continued dedication of existing gas tax resources to Transportation for investments in the state's infrastructure will reduce the outyear burden of deferred maintenance costs and high debt service costs. During FY 2002 and FY 2003, the budget recommendations to defer some capital projects provided budgetary relief, but resulted in a structural imbalance in FY 2004 and FY2005 when those funds are redirected to capital projects rather than debt service.

The projection of debt service costs reflected updated debt service projections as included in the FY 2004 – FY 2008 Capital Improvement Plan. The plan calls for the issuance of general obligation bonds in FY 2004 of \$101 million, and \$100 million thereafter. It is assumed that interest on the general obligation bonds issued will be 4.5 percent for twenty year fixed rate debt, and 2.5 percent for outstanding variable rate debt. It reflects the diminishing benefit of the debt service savings resulting from the debt defeasance using tobacco securitization proceeds. In FY2004 the general revenue appropriation for debt service reflects debt service savings of \$34.3 million from defeasance; these savings decline to \$26.3 million by FY2008 and result in an \$8.0 million increase in projected requirements.

The projected general revenue requirements for debt service is dependent upon the allocation of debt

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service costs to other sources of funds. The projection assumes that Rhode Island Capital Plan funding for debt service will decline from \$27.1 million in FY 2003 to \$12.6 million in FY 2004. In FY 2005, \$5.0 million of debt service will be funded from the Rhode Island Capital Plan funds, and none thereafter. This results in increased general revenue appropriations for debt service of \$12.6 million from FY2004 to FY2008. Disbursements of \$42.2 million, \$47.0 million, \$53.7 million, \$53.9 million and \$47.0 million over FY 2004 to FY 2008 are reflected as Rhode Island Capital Plan Fund expenditures, not general revenue, and therefore are not reflected in the five year report as operating costs.

It is assumed that the Department of Transportation funded by gas tax revenues in FY 2004 through FY 2008 will total \$31.8 million, \$34.4 million, \$36.5 million, \$40.8 million, and \$36.8 million respectively. It is assumed that the Rhode Island Public Transit Authority debt service funded by gas tax revenues in FY 2004 through FY 2008 will total \$.4 million, \$.6 million, \$.7 million, \$.7 million, and \$.8 million respectively. This is based upon the issuance of bonds consistent with the FY 2004 - FY 2008 capital budget. It reflects the issuance of \$30.0 million annually for the Department of Transportation. It reflects issuance of \$0.52 million in FY 2004, and \$1.6 million, \$.67 million, \$.44 million and \$1.95 million in FY 2004 to FY 2008 for the Rhode Island Public Transit Authority.

Obligations for McCoy Stadium are estimated at 2.5 percent, reflecting an average estimate of the variable rate interest costs to be paid on the balance of this debt. Obligations arising from the Kent County Courthouse (\$51.8 million) and the Juvenile Training School (\$57.8 million) are assumed to be financed by general revenues, and interest is assumed at 4.5 percent. Debt service costs for these projects increase by \$5.4 million from \$3.3 million in FY2004, which reflects only interest, to \$8.7 million in FY2008.

The obligations arising from the performance based on contracts between the Rhode Island Economic Development Corporation and private entities are projected to result in state appropriations due to the projected achievement of performance targets. The FY 2004 forecast includes \$1,600,000 for Fidelity, zero for Fleet, and \$3.7 million for Providence Place Mall. In FY 2005 the forecast includes \$2.5 million for Fidelity, zero for Fleet, and \$3.7 million for the Providence Place Mall. In FY 2006 and thereafter, it assumes the Fidelity and Providence Place Mall obligations are funded at the maximum level of \$2.5 million, and \$3.7 million, respectively. The forecast assumes no requirement for the Fleet obligation, which if earned would total approximately \$.3 million.

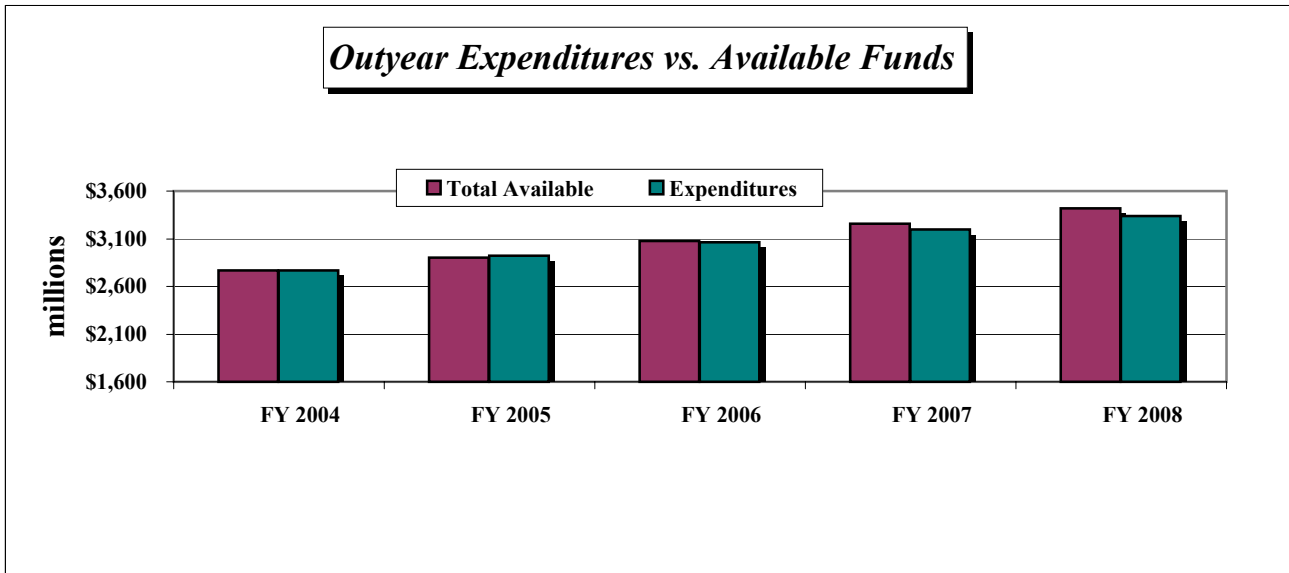
Other

It is assumed that the cost associated with the issuance of tax anticipation notes remains constant at the \$.9 million level.

The projection also assumes that disbursements for capital projects from general revenues would be \$1.0 million in FY 2004 \$2.4 million in FY2005, \$3.5 million in FY2006, \$1.3 million in FY2007 and \$.7 million in FY2008. This reflects capital projects funded by general revenues which are contained in the FY2004-2008 Capital Budget, such as the Rose Hill Landfill remediation and the Bristol County Water Authority Shad Factory treatment plant projects.

General Revenue Outyear Estimates FY 2004 - FY 2008

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Opening Surplus	\$14.5	\$0.0	\$0.0	\$0.0	\$0.0
Plus:					
Taxes and Departmentals	2,411.0	2,519.0	2,628.1	2,739.4	2,857.0
Other Sources	400.1	441.4	514.0	585.8	633.1
Budget Stabilization Fund	(56.5)	(59.2)	(62.8)	(66.5)	(69.8)
Total Available	2,769.1	2,901.2	3,079.3	3,258.6	3,420.3
Minus Expenditures	2,768.9	2,925.0	3,065.6	3,194.7	3,334.9
Equals Ending Balance	\$0.3	(\$23.8)	\$13.7	\$63.9	\$85.3
<i>Operating Surplus or Deficit</i>	<i>(\$14.2)</i>	<i>(\$23.8)</i>	<i>\$13.7</i>	<i>\$63.9</i>	<i>\$85.3</i>
Rhode Island Capital Fund					
Budget Stabilization Balance	\$84.8	\$88.8	\$94.3	\$99.8	\$104.7
Capital Fund Balance	0.1	0.0	0.0	0.0	0.0
<i>Debt Service Disbursements</i>	<i>12.6</i>	<i>5.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Capital Projects Disbursements</i>	<i>42.2</i>	<i>50.2</i>	<i>57.3</i>	<i>61.0</i>	<i>64.9</i>
<i>Total Disbursements</i>	<i>\$54.8</i>	<i>\$55.2</i>	<i>\$57.3</i>	<i>\$61.0</i>	<i>\$64.9</i>



General Revenue Outyear Estimates

	FY 2005	FY 2006	FY 2007	FY 2008
Personal Income Tax	\$934,300,000	\$992,300,000	\$1,046,200,000	\$1,101,300,000
General Business Taxes:				
Business Corporations	34,800,000	37,000,000	39,100,000	41,100,000
Franchise	9,200,000	9,500,000	9,700,000	10,000,000
Public Utilities	91,500,000	94,600,000	97,800,000	100,800,000
Financial Institutions	3,900,000	4,200,000	4,400,000	4,600,000
Insurance Companies	41,100,000	42,100,000	43,200,000	44,200,000
Bank Deposits	1,300,000	1,300,000	1,400,000	1,400,000
Health Care Provider	32,900,000	34,600,000	36,400,000	38,300,000
General Business Taxes	\$214,700,000	\$223,300,000	\$232,000,000	\$240,400,000
Sales and Use Taxes:				
Sales and Use	845,500,000	878,800,000	917,200,000	956,100,000
Motor Vehicle	49,300,000	50,700,000	51,900,000	53,000,000
Motor Fuel	1,200,000	1,200,000	1,200,000	1,200,000
Cigarettes	120,600,000	123,400,000	126,000,000	127,600,000
Alcohol	11,100,000	11,300,000	11,400,000	11,600,000
Controlled Substances	-	-	-	-
Sales and Use Taxes	\$1,027,700,000	\$1,065,400,000	\$1,107,700,000	\$1,149,500,000
Other Taxes:				
Inheritance and Gift	32,300,000	29,600,000	28,000,000	33,000,000
Racing and Athletics	5,100,000	5,100,000	5,100,000	5,000,000
Realty Transfer Tax	7,300,000	7,500,000	7,700,000	7,600,000
Other Taxes	\$44,700,000	\$42,200,000	\$40,800,000	\$45,600,000
Total Taxes	\$2,221,400,000	\$2,323,200,000	\$2,426,700,000	\$2,536,800,000
Total Departmental Receipts	297,500,000	304,900,000	312,500,000	320,000,000
Taxes and Departmentals	\$2,518,900,000	\$2,628,100,000	\$2,739,200,000	\$2,856,800,000
Other Sources				
Gas Tax Transfers	6,714,000	6,781,000	6,822,000	6,870,000
Other Miscellaneous	13,000,000	12,700,000	18,100,000	12,500,000
Lottery Commission Receipts	414,300,000	486,900,000	553,100,000	605,800,000
Unclaimed Property	7,400,000	7,600,000	7,800,000	8,000,000
Other Sources	\$441,414,000	\$513,981,000	\$585,822,000	\$633,170,000
Total General Revenues	\$2,960,314,000	\$3,142,081,000	\$3,325,022,000	\$3,489,970,000

General Revenue Outyear Estimates

	FY 2005	FY 2006	FY 2007	FY 2008
Personal Income Tax	6.6%	6.2%	5.4%	5.3%
General Business Taxes:				
Business Corporations	-1.6%	6.4%	5.4%	5.2%
Franchise	2.7%	2.6%	2.5%	2.5%
Public Utilities	3.5%	3.4%	3.4%	3.1%
Financial Institutions	6.2%	6.3%	5.4%	5.2%
Insurance Companies	2.5%	2.5%	2.5%	2.4%
Bank Deposits	3.5%	3.4%	3.2%	3.1%
Health Care Provider	5.1%	5.2%	5.2%	5.2%
General Business Taxes	2.7%	4.0%	3.8%	3.7%
Sales and Use Taxes:				
Sales and Use	3.9%	3.9%	4.4%	4.2%
Motor Vehicle	2.9%	2.8%	2.5%	2.0%
Motor Fuel	1.5%	1.0%	0.6%	0.7%
Cigarettes	2.3%	2.3%	2.1%	1.2%
Alcohol	1.7%	1.6%	1.6%	1.6%
Controlled Substances				
Sales and Use Taxes	3.6%	3.7%	4.0%	3.8%
Other Taxes:				
Inheritance and Gift	4.9%	-8.3%	-5.4%	17.8%
Racing and Athletics	-1.2%	-0.3%	-0.5%	-0.4%
Realty Transfer Tax	-4.6%	3.4%	2.6%	-1.7%
Other Taxes	2.6%	-5.5%	-3.4%	11.9%
Total Taxes	4.7%	4.6%	4.5%	4.5%
Total Departmental Receipts	2.5%	2.5%	2.5%	2.4%
Taxes and Departmentals	4.5%	4.3%	4.2%	4.3%
Other Sources				
Gas Tax Transfers	1.5%	1.0%	0.6%	0.7%
Other Miscellaneous	-70.5%	-2.0%	41.9%	-30.8%
Lottery Commission Receipts	21.0%	17.5%	13.6%	9.5%
Unclaimed Property	2.5%	2.5%	2.5%	2.4%
Other Sources	10.3%	16.4%	14.0%	8.1%
Total General Revenues	5.3%	6.1%	5.8%	5.0%

General Revenue Outyear Expenditure Estimates

	FY 2005	FY 2006	FY 2007	FY 2008
State Operations				
Personnel	\$735,747,461	\$769,618,623	\$806,680,868	\$844,015,191
Other State Operations	160,081,171	164,321,257	168,677,289	172,988,548
DCYF Caseload Growth	1,400,000	2,800,000	4,400,000	6,100,000
DOC Inmate Growth	3,700,000	6,500,000	9,500,000	12,700,000
Subtotal	\$900,928,632	\$943,239,880	\$989,258,157	\$1,035,803,739
Grants and Benefits				
DCYF Services	\$84,100,000	\$88,500,000	\$93,000,000	\$97,700,000
TANF Cash/Child Care/MOE	67,700,000	65,900,000	64,900,000	64,600,000
SSI Cash	29,400,000	31,100,000	32,900,000	34,800,000
Home Health Care-DEA	3,600,000	3,900,000	4,200,000	4,500,000
Nursing Home Care	119,700,000	121,500,000	123,500,000	125,700,000
MHRH MR\DD	82,600,000	85,600,000	88,600,000	91,600,000
Other Medicaid	222,200,000	242,000,000	263,500,000	286,700,000
RIPAE	15,500,000	17,000,000	18,700,000	20,600,000
Managed Care	153,700,000	165,000,000	175,900,000	186,600,000
Other Grants and Benefits	168,300,000	172,400,000	171,600,000	175,700,000
Subtotal	\$946,800,000	\$992,900,000	\$1,036,800,000	\$1,088,500,000
Local Aid				
Education Aid	\$753,400,000	\$782,700,000	\$811,700,000	\$842,100,000
General Revenue Sharing	52,300,000	55,100,000	57,800,000	60,400,000
Motor Vehicle Tax Reimbursements	109,018,332	114,100,559	119,420,049	124,991,620
PILOT	22,900,000	24,200,000	25,500,000	26,900,000
Distressed Communities	7,700,000	7,800,000	7,900,000	8,000,000
Library Aid	10,500,000	11,800,000	12,600,000	13,500,000
Property Revaluation Prgm	1,000,000	2,000,000	2,000,000	2,000,000
Police/Fire Incentive Payments	1,200,000	1,300,000	1,500,000	1,600,000
Subtotal	\$958,018,332	\$999,000,559	\$1,038,420,049	\$1,079,491,620
Capital				
<i>Debt Service</i>				
General Obligation	\$52,174,483	63,107,626	\$65,034,482	\$65,708,444
Refunding Bond Authority	19,459,559	19,461,427	19,460,083	19,292,753
COPS/Other Leases	20,494,368	19,339,810	19,415,529	19,442,665
Convention Center	18,083,101	18,088,663	18,092,918	19,094,945
Performance Based	5,768,526	6,048,526	6,048,526	6,048,526
TANS	865,226	865,226	865,226	865,226
<i>Capital Improvements</i>				
Other Projects	2,423,589	3,547,178	1,323,589	685,329
Subtotal	\$119,268,852	\$130,458,456	\$130,240,353	\$131,137,888
Total	\$2,925,015,816	\$3,065,598,896	\$3,194,718,559	\$3,334,933,247

General Revenue Outyear Expenditure Estimates

	FY 2005	FY 2006	FY 2007	FY 2008
State Operations				
Personnel	4.02%	4.60%	4.82%	4.63%
Other State Operations	2.65%	2.65%	2.65%	2.56%
DCYF Annual Caseload Growth	2.60%	2.60%	2.60%	2.60%
DOC Annual Inmate Growth	1.90%	1.90%	1.90%	1.90%
Subtotal	4.36%	4.70%	4.88%	4.71%
Grants and Benefits				
DCYF Services	5.13%	5.23%	5.08%	5.05%
TANF Cash/Child Care/MOE	5.24%	-2.66%	-1.52%	-0.46%
SSI Cash	3.90%	5.78%	5.79%	5.78%
Home Health Care-DEA	7.15%	8.33%	7.69%	7.14%
Nursing Home Care	1.33%	1.50%	1.65%	1.78%
MHRH MR\DD	3.70%	3.63%	3.50%	3.39%
Other Medicaid	8.96%	8.91%	8.88%	8.80%
RIPAE	10.01%	9.68%	10.00%	10.16%
Managed Care	7.93%	7.35%	6.61%	6.08%
Other Grants and Benefits	5.63%	2.44%	-0.46%	2.39%
Subtotal	5.96%	4.87%	4.42%	4.99%
Local Aid				
Education Aid	4.10%	3.89%	3.71%	3.75%
General Revenue Sharing	8.31%	5.35%	4.90%	4.50%
Motor Vehicle Tax Reimbursements	4.49%	4.66%	4.66%	4.67%
PILOT	5.45%	5.68%	5.37%	5.49%
Distressed Communities	2.21%	1.30%	1.28%	1.27%
Library Aid	10.89%	12.38%	6.78%	7.14%
Property Revaluation Prgm	-58.82%	100.00%	0.00%	0.00%
Police/Fire Incentive Payments	9.28%	8.33%	15.38%	6.67%
Subtotal	4.29%	4.28%	3.95%	3.96%
Capital				
<i>Debt Service</i>				
General Obligation	54.25%	20.95%	3.05%	1.04%
Refunding Bond Authority	1.31%	0.01%	-0.01%	-0.86%
COPS/Other Leases	40.85%	-5.63%	0.39%	0.14%
Convention Center	-3.56%	0.03%	0.02%	5.54%
Performance Based	9.25%	4.85%	0.00%	0.00%
TANS				
<i>Capital Improvements</i>				
Other Projects	149.91%	46.36%	-62.69%	-48.22%
Subtotal	27.63%	9.38%	-0.17%	0.69%
Total	5.64%	4.81%	4.21%	4.39%

General Revenue Outyear Planning Values

Estimates and Growth	FY 2005	FY 2006	FY 2007	FY 2008
Personal Income (billions) [1]	\$37.1	\$38.7	\$40.3	\$41.9
<i>Change</i>	4.6%	4.2%	4.1%	4.1%
Nonfarm Employment (thousands) [1]	491.0	494.4	497.9	501.4
<i>Change</i>	1.0%	0.7%	0.7%	0.7%
Personal Income Tax				
Wages and Salaries [1]	5.4%	4.7%	4.6%	4.6%
Taxable Nonwage [2]	4.2%	4.0%	4.1%	4.0%
Elasticity [3]	1.0	1.0	1.0	1.0
Business Corporation Tax [4]	6.2%	6.3%	5.4%	5.2%
Provider Tax	Institutional Healthcare Expenditure Growth [11]			
Sales Tax				
Wages and Salaries [1]	5.4%	4.7%	4.6%	4.6%
Elasticity [3]	0.8	0.8	0.8	0.8
Gasoline Tax				
Real Consumption [5]	1.5%	1.0%	0.6%	0.7%
Other Taxes and Departmentals	2.5%	2.5%	2.5%	2.4%
CPI-U (U.S.) [1]	2.5%	2.5%	2.5%	2.4%
Salaries and Fringe Benefits				
Salary Cost of Living Adjustments - CPI-U [1]	2.5%	2.5%	2.5%	2.4%
Steps and Longevity Increases [3]	2.0%	2.0%	2.0%	2.0%
Health Care Benefits [3], [12]	10.8%	8.2%	7.5%	6.7%
Corrections Population, Including INS Detainees [3]	3,793	3,863	3,935	4,008
<i>Change</i>	1.9%	1.8%	1.9%	1.9%
Children in State Care	8,465	8,685	8,910	9,142
Caseload Change [3]	2.6%	2.6%	2.6%	2.6%
FIP Caseloads [3]	36,383	33,503	30,778	28,220
<i>Change</i>	-7.8%	-7.9%	-8.1%	-8.3%

General Revenue Outyear Planning Values

Estimates and Growth	FY 2005	FY 2006	FY 2007	FY 2008
SSI Caseload [3]	30,964	31,785	32,650	33,566
Caseload Change	2.6%	2.7%	2.7%	2.8%
Percent Disabled	79.3%	80.0%	80.7%	81.3%
Estimated Disabled	24,564	25,436	26,339	27,274
Disabled Growth	3.6%	3.5%	3.6%	3.5%
Percent Elderly	20.7%	20.0%	19.3%	18.7%
Estimated Elderly	6,400	6,349	6,311	6,292
Growth Elderly [6]	-0.9%	-0.8%	-0.6%	0.3%
Home Health Care				
Expenditure Growth [7]	7.4%	7.5%	7.5%	7.5%
Nursing Home Care				
Price Inflation [3]	3.1%	3.1%	3.3%	3.1%
Other Medicaid				
Expenditure Growth [9]	8.8%	8.8%	8.9%	8.8%
RIPAE				
Caseloads	41,247	40,917	40,672	40,794
Caseload Change [6]	-0.9%	-0.8%	-0.6%	0.3%
Price Inflation [3], [10]	3.5%	3.3%	3.2%	3.1%
Managed Care				
Expenditure Growth [8]	7.6%	7.1%	6.6%	6.1%
Education Aid	3.0%	3.0%	3.0%	3.0%

[1] November 2002 Revenue Estimating Conference Consensus Economic Forecast.

[2] [1] and Economy.com Fiscal Year Forecast of the Rhode Island Economy, November 2002.

[3] State of Rhode Island Budget Office Estimate.

[4] Economy.com Calendar Year Forecast of the U.S. Economy, November 2002, Corporate Profits Before Tax.

[5] Economy.com Calendar Year Forecast of the U.S. Economy, November 2002, Nondurables: Gasoline and Oil.

[6] Economy.com Fiscal Year Forecast of the Rhode Island Economy, November 2002.

[7] HCFA (CMS) National Health Care Expenditures Projections 2001-2011, March 2002, Table 10: Home Health Care Expenditures, State and Local Payments, Average Annual Percentage Change from Previous Year.

[8] HCFA (CMS) National Health Care Expenditures Projections 2001-2011, March 2002, Table 3: National Health Expenditures, Private Health Insurance, Average Annual Percentage Change from Previous Year.

[9] HCFA (CMS) National Health Care Expenditures Projections 2001-2011, March 2002, Table 3: National Health Expenditures, Medicaid, Average Annual Percentage Change from Previous Year.

[10] [3] and HCFA (CMS) National Health Care Expenditures Projections 2001-2011, March 2002, Table 16: Prescription Drug Expenditures, State and Local Payments, Average Annual Percentage Change from Previous Year.

[11] HCFA (CMS) National Health Care Expenditures Projections 2001-2011, March 2002, Table 10: Home Health Care Expenditures, State and Local Payments, and Table 14: Nursing Home Care Expenditures, State and Local Payments, Average Annual Percentage Change from Previous Year.

[12] HCFA (CMS) National Health Care Expenditures Projections 2001-2011, March 2002, Table 5: Personal Health Care Expenditures, Private Health Insurance Payments, Average Annual Percentage Change from Previous Year.