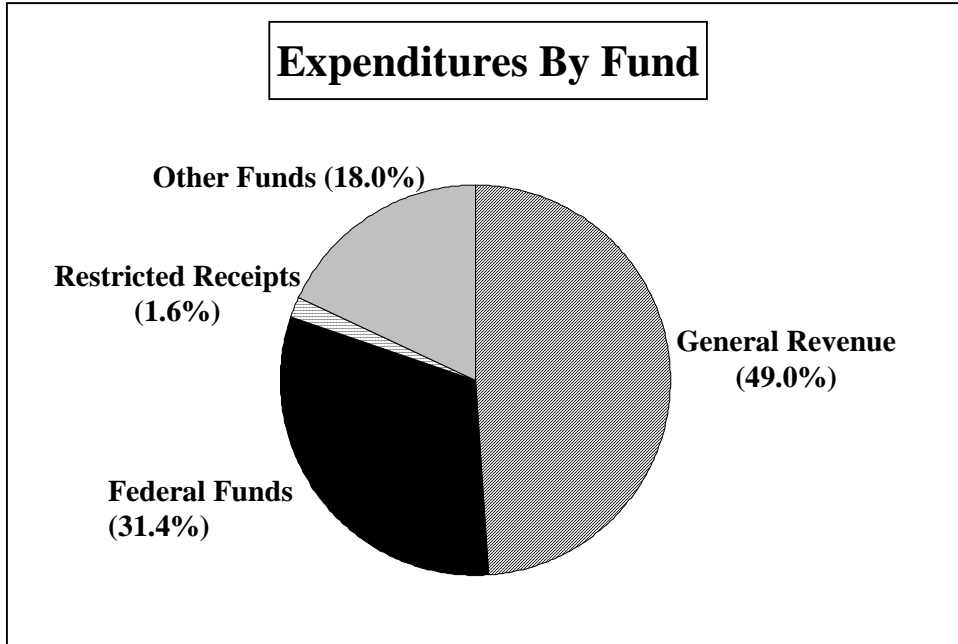


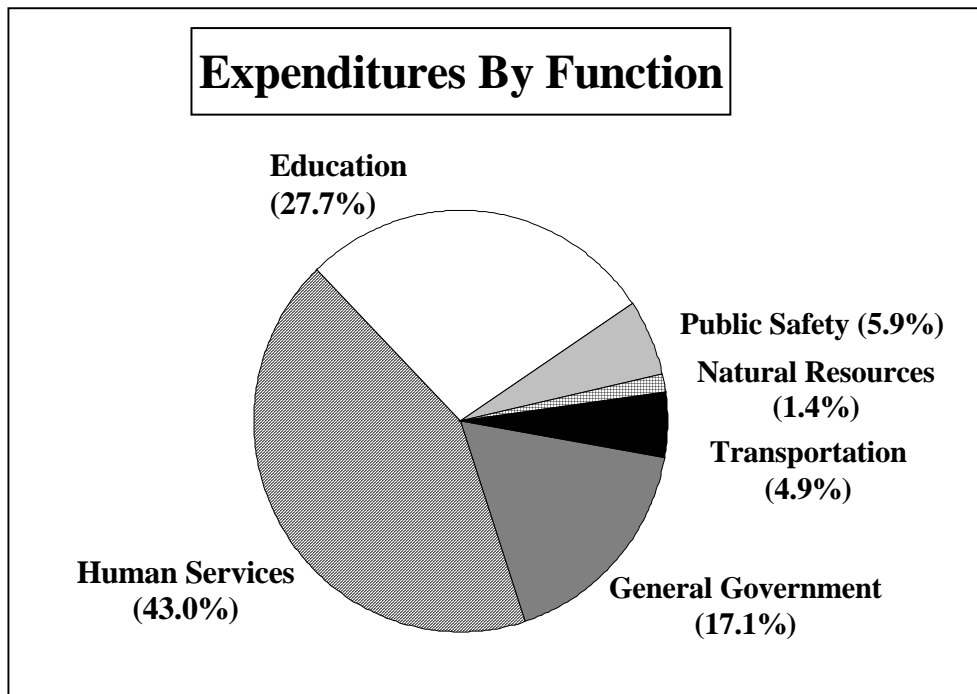
Introduction

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All funds expenditures for FY 2006 are \$6.254 billion. Of this total, \$3.070 billion or 49.0 percent is from general revenue, \$1.967 billion, or 31.4 percent, from federal grant funds, \$1.115 billion, or 18.0 percent, from other sources, and \$104.1 million, or 1.6 percent, is from restricted or dedicated fee funds.

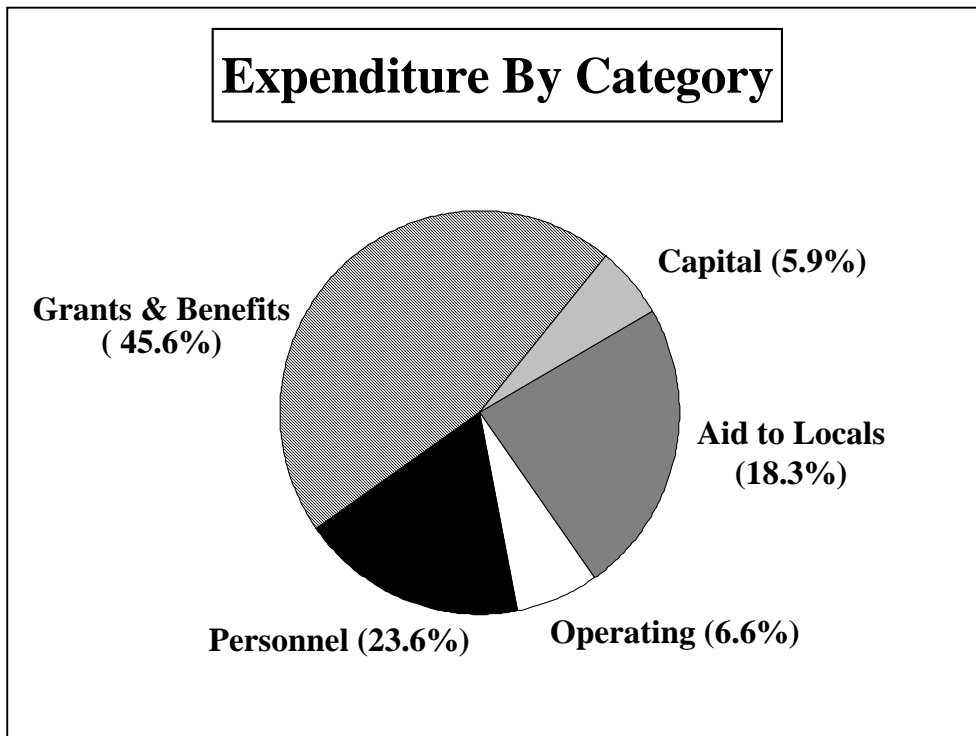


On a functional basis, the largest percentage of expenditures are made in the Human Services area, which comprise \$2.689 billion, or 43.0 percent of the total budget. This is followed by spending for Education of \$1.730 billion, which comprises 27.7 percent of all spending, and expenditures for General Government of \$1.0069 billion, equaling 17.1 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling \$766.4 million, or 12.2 percent of the total budget.



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The second way to view expenditures is by major category. On this basis, the largest share of the budget goes towards assistance, grants and benefits and equals \$2.855 billion or 45.6 percent of the total. This is followed by personnel expenditures, which comprise 23.6 percent, or \$1.476 billion, and local aid expenditures, which make up 18.3 percent, or \$1.145 billion of the total budget. Expenditures for capital expenditures total \$366.9 million or 5.9 percent, with the balance of spending used to finance operating expenditures of \$411.9 million, or 6.6 percent of the total.



Expenditures from general revenue total \$3.070 billion for FY 2006. By function, spending by Human Services agencies represents the largest share with expenditures, totaling \$1.228 billion, or 40.0 percent of the budget. This is followed by spending for Education, which totals \$1.035 billion, or 33.7 percent. General revenue expenditures for General Government and Public Safety comprise \$468.4 million (15.3 percent), and \$299.1 million (9.7 percent), respectively. Finally, expenditures from general revenues for Natural Resources comprise \$39.4 million, or 1.3 percent of total spending. Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel. Grant based expenditures of \$1.051 billion represent 34.3 percent of total spending, while Local Aid expenditures of \$1.000 billion comprise 32.6 percent of total expenditures, Personnel expenditures of \$772.5 million comprise 25.2 percent of the budget. Operations totals \$163.5 million, or 5.3 percent of the budget. Capital expenditures total \$81.2 million, or 2.6 percent of the total budget.

Governor Carcieri's FY 2006 Budget is the second volume in a six-volume set. The first volume, the *Executive Summary*, contains the summaries of revenue and expenditures on a statewide, functional, and departmental basis. The *Executive Summary* also presents statewide expenditure data by *category* or object of expenditure. This same data is presented in this document in more detail by program.

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Specific recommendations for FY 2006 for the departments are presented in the *Executive Summary*, and further detail is provided in the *Technical Appendix*. The five-year financial projection is contained in the *Executive Summary* and is submitted concurrently with *The Budget* as provided by law.

The Budget provides an overview of state expenditures, as well as an in-depth presentation of the State Budget by program with special reports on Education Aid and State Aid to provide a historical perspective on these state expenditures. *The Budget* also contains a "Budget Primer" which is intended to assist the reader of the budget documents in understanding the budget process in Rhode Island.

The financial data presented for state agencies in *The Budget* for the past two actual fiscal years (FY 2003 and FY 2004) is generally derived from the appropriation accounting and receipt accounting files of the State Controller as of the time of year-end closing. In the case of the accounts under the jurisdiction of the Board of Governor's of Higher Education, these columns reflect independently audited records.

The financial data for state agencies for the current fiscal year is from the enacted budget, modified in some cases to reflect recommended supplemental appropriations or withdrawals, revised expenditure estimates by category of expenditure or program, and revised estimates of federal grant awards or restricted receipts. In this document, the general revenue balance forward is included at the account level. The proposed changes to the enacted FY 2005 budget are included in the financial data by program for FY 2005. Totals and subtotals often appear to be inaccurate by small amounts or may disagree by small amounts with other budget and financial documents; this is due to differences in rounding procedures. The annual Appropriations Act is the absolute reference for state appropriation amounts.

The Budget also contains both narrative descriptions of the State's quasi-public agencies, authorities and entities, which are a component unit of state government for financial reporting purposes, and presents financial data provided by these entities. The Budget Office requests that quasi-public agencies and authorities submit information in the format used by the agency; no attempt is made to conform the financial presentation of the agencies data. In most cases, the FY 2005 and FY 2006 information has not been officially approved by the entities' governing bodies.

The *FY 2006 Budget* also continues to report performance measurements for most programs, as required by legislative mandate to develop performance measurements for use in the budget process. Measurements are reflected on each finance page of the *FY 2006 Budget* and are explained in detail in the *Technical Appendix*.

The *Personnel Supplement* contains information relating to personnel costs by program, which are included in the Governor's FY 2006 Budget. The *Budget as Enacted* will be prepared after final enactment by the 2005 General Assembly. The *Capital Budget* contains information on the Governor's recommended capital improvement plan, and contains individual project expenditures. *The Budget* generally contains the debt service component relating to capital improvements and any "pay as you go" capital, which is financed from current revenues.

The Budget Process: A Primer

The purpose of this primer is to clarify the annual budget and appropriations processes.

Appropriation Process. According to Article IX Section 16 of the Rhode Island Constitution, and the Rhode Island General Laws Section 35-3-7, the Governor must present spending recommendations to the Legislature. *The Budget* reflects expenditures for both the current and upcoming fiscal year and identifies the sources of financing for those expenditures.

On or before the third Thursday in January, (modified by the General Assembly during the 2004 legislative session from the third Wednesday in February) unless delayed by act of the Legislature, the Governor must submit to the General Assembly a budget containing a complete plan of estimated revenues and proposed expenditures, with a personnel supplement detailing number and titles of positions of each agency, and estimates of personnel costs for the next fiscal year.

The budget is proposed by the Governor and considered by the General Assembly, which may increase, decrease, alter, or strike out any item in the budget, provided that the action would not cause an excess of appropriations over anticipated revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it provides the necessary additional revenue to cover such appropriation. The Governor may veto legislative appropriations. The Legislature may override any veto by a two-thirds majority vote. Supplemental appropriations measures must be submitted by the Governor to the General Assembly on or before the third Thursday in January (modified by the General Assembly in the 2004 legislative session from the second Tuesday in January.) Supplemental appropriations by the General Assembly must also be supported by additional revenues.

The general laws of the state provide that if the General Assembly fails to pass the annual appropriation bill, amounts equal to those appropriated in the prior fiscal year shall be automatically available for expenditure, subject to monthly or quarterly allotments as determined by the Budget Officer. Expenditures for general obligation bond indebtedness of the state shall be made as required regardless of the passage of the annual budget or the amount provided for in the prior fiscal year.

Fiscal Years. It is important when reading the budget to consider which fiscal year is being discussed. The state *fiscal year* runs from July 1 to the following June 30 and is numbered for the calendar year in which it ends. The *current fiscal year* is the one which ends the coming June. The *actual fiscal years* are the years which concluded June of the two previous years. The *budget year* refers to the next fiscal year, which begins the July following the Legislature's adjournment. Finally, *out-year* refers to the years beyond the budget year.

By law, *The Budget* must also record two actual years of spending, as well as the Governor's revised spending recommendations for the current fiscal year, and the Governor's full recommendations for the budget year.

Revenue Estimates and Caseload Estimates. Receipt estimates for the current year and budget year are those adopted by the State Revenue Estimating Conference, as adjusted by any changes recommended by the Governor.

The State Revenue Estimating Conference was created by the 1990 General Assembly to provide the

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Governor and the Assembly with estimates of general revenues. It is composed of the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor, with the chair rotating between the three. It must meet no less than two times per year, in November and May, can be convened at any other time by call of any member, and must reach consensus on revenues. The 1991 Assembly created a Medical Assistance and Public Assistance Caseload Estimating Conference similar to the Revenue Estimating Conference to adopt cash assistance entitlement caseload estimates. The 1998 Assembly amended the Medical Assistance and Public Assistance Caseload Estimating Conference to estimate medical assistance expenditures, upon which the Governor's expenditures budget shall be based, and the appropriations by the assembly shall be made.

The consensus revenue estimate is the official revenue projection for general revenue. Estimates of revenues for federal funds, restricted receipts, and other funds are prepared by individual state agencies, reviewed by the Budget Office, and included in *The Budget*.

Classification of State Spending. The State of Rhode Island classifies state spending by function of government and by category of expenditure.

Function of government classifies expenditures by grouping agencies that make expenditures for similar programs and purposes. There are six functions of government defined in *The Budget*: General Government, Human Services, Education, Public Safety, Natural Resources, and Transportation.

The following explains the six functions of government included in *The Budget*.

General Government includes the administrative and regulatory functions of state government. Certain elected officials (Governor, Lieutenant Governor, General Treasurer, Secretary of State), the Legislature, and the Department of Administration are agencies that perform an administrative function. The Department of Business Regulation, the Department of Labor and Training, and the Public Utilities Commission are examples of agencies that perform a regulatory function.

Human Services is the function that provides services to individuals. Services provided include: the care of the disabled by the Department of Mental Health, Retardation and Hospitals; child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services; financial assistance and social services provided by the Department of Human Services; and, pharmaceutical assistance and home health care at the Department of Elderly Affairs.

The *Education* function provides education services to Rhode Islanders. The State Board of Regents for Elementary and Secondary Education and the Board of Governors for Higher Education provide direct education services, while services provided by the Rhode Island Telecommunications Authority are indirect in nature.

Public Safety is the function that provides safety and security services to Rhode Island citizens. Agencies in this function include the Department of Corrections, the Judiciary, the Attorney General and various law enforcement agencies, including the State Police.

The *Natural Resources* function protects the natural and physical resources of the state and regulates the use

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of those resources. Agencies included in this function are the Department of Environmental Management, the Coastal Resources Management Council, and the Water Resources Board.

Transportation includes the Department of Transportation, which is the only agency in this function. It is responsible for maintaining and constructing highways in Rhode Island, and for planning and financing all surface transportation modes.

Categories of expenditures classify expenditures by budgeting and accounting objects of expenditure: state operations; aid to local units of government; assistance, grants, and benefits; and capital. Objects of expenditures define how funds are encumbered and expended.

State Operations include expenses incurred while conducting the day-to-day business of state government. This category includes "personnel" and "operating." Personnel includes expenditures for salaries and wages, fringe benefits, consultant services, and workers' compensation costs. Operating expenses comprise non-personnel expenditures for operations of state government, including maintenance and non-fixed equipment (capital outlay).

Aid to Local Units of Government is payments made to governmental units that provide services at the local level, and in most cases have taxing authority. Education Aid to local school districts is an example.

Other Assistance, Grants and Benefits constitutes payments to individuals and agencies which are not governmental units. Drugs, medicine and nursing facilities for the Medicaid programs, the pharmaceutical assistance program for the elderly, and cash assistance payments for Family Independence Program entitlements are a few examples.

Capital includes capital debt service and capital improvements. While the debt service component of capital improvements is reflected in the operating budget, the majority of capital improvements are found in the *Capital Budget*. Debt service includes payments on short term tax anticipation notes, long term general obligation bonds, Rhode Island Refunding Bond Authority lease payments (formerly Rhode Island Public Buildings Authority lease payments), certificates of participation payments for the Intake Service Center, Attorney General's administrative office, and Shepard's building and lease payments to the Convention Center Authority.

State Employees. A major part of the state operations category of expenditures is salary and wage payments to employees. Public service in state government is divided into the classified service, unclassified service and non-classified service. The classified service comprises all positions in state service, now existing or to be created, except as specifically provided under R.I.G.L. 36-4-2 for unclassified employees and R.I.G.L. 16-59-7 for Higher Education non-classified employees. The classified service is divided into a competitive branch and a non-competitive branch. Employees hired to fill positions in the classified service must be hired on the basis of merit and fitness and usually upon the basis of competitive examinations. The non-competitive branch includes positions that require the performance of routine tasks, or those that require licenses, certificates, or registrations. These employees are also promoted and discharged on the basis of rules and regulations established and administered by the Rhode Island merit system.

Certain positions are specifically designated for inclusion in the unclassified service. These positions are

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defined to include those in specific agencies, or types of agencies for specific purposes. Examples are employees of the Legislature, elected officials, and employees of the courts. Compensation for unclassified positions is governed by the Unclassified Pay Board and other matters are governed by rules and regulations of the unclassified system.

State service also includes special types of positions. In addition to regular full time positions, there are *seasonal* positions in the classified service. Such positions require the employee to work an irregular schedule such that the employee is on call when needed, or for only a portion of the year, and only for a maximum of 925 hours in a 12-month period. Employees of the Department of Environment Management who staff the state's parks, beaches, and wildlands in the summer are an example of seasonal employees.

Financing of State Spending. Frequent reference is made in *The Budget* to "general revenue" expenditures and expenditures from "all funds". Expenditures from all funds include both general revenue expenditures and expenditures from federal funds, restricted receipts, and other or special revenue funds.

General revenue receives the most attention in the budget because it is the largest of the "uncommitted" revenue sources available to the state. It is also the fund to which most general tax receipts are credited. The Legislature may spend general revenue dollars for any purpose.

Federal funds, restricted receipts, and other funds, by contrast, are dedicated to a specific purpose. Other funds include the University and College Funds, the Transportation Fund, the Unemployment Insurance Fund and the Temporary Disability Insurance Fund. For example, the Legislature may not spend monies from the Unemployment Insurance Fund to build new prisons.

Within the budget documents, schedules contain expenditure data for two actual fiscal years, the current fiscal year and the budget year. The schedules display agency data by fund source for All Funds, General Revenue, Federal Funds, Restricted Receipts, and Other funds.

Rhode Island Capital Plan Funds. The 1990 Assembly instituted a limit on state expenditures commencing in fiscal year 1992 such that appropriations do not result in general fund expenditures exceeding 99.5 percent of general fund revenues in FY 1993, 98.5 percent in FY 1994 and 98.0 percent thereafter. The remaining balance is to be deposited into a budget reserve account, capped at 3.0 percent of general revenues. Once the cap is reached, the excess is deposited in a Capital Account, entitled the Rhode Island Capital Plan Fund, to be used for capital projects, debt reduction, and/or debt service. The 1992 General Assembly approved placement of the spending limits on the ballot as a constitutional requirement, and the voters approved the item on November 3, 1992.

Budget Basis. *The Budget* is prepared on the same basis that the state's year end financial statements, which is a modified accrual basis. Briefly, this means that obligations of the state are budgeted as expenditures if the goods or services are expected to be received during the fiscal year, regardless of whether a cash payment is expected to be made by the state by June 30th of that year. Revenues are estimated on the basis of when they are "earned" by the state. For example, the estimate of gas tax revenues reflects twelve months of revenues. However, due to a one month difference in the time the liability is incurred and the actual cash payment is made by the taxpayer, the revenue estimate reflects cash received from August through July.

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The Comprehensive Annual Financial Report (CAFR) shows the status of the state's finances on the basis of "generally accepted accounting principles" (GAAP). Every attempt is made in preparing the budget to ensure that it is consistent with the auditing standards upon which the state's financial position will be determined.

Program Performance Measures. The administration continues in its effort, initiated in FY 1998, to develop and track measures of the performance of state agencies and departments. The performance measures included in the FY 2006 budget are derived from the on-going process to identify and refine measures for state decision-makers to evaluate on an annual basis. With few exceptions, all executive branch agencies, and most other government offices, have developed a mature set of program performance measures. These measures are included on the agency and program financing pages in *The Budget* and are described further in the *Technical Appendix*. In some cases where no measures are identified, the process of developing measures continues. These cases are identified as NS (not supplied) or NC (not complete). Performance measures for general officers and agency central management units are not required, indicated by NA (not applicable).

The Budget Process. Production of a budget is a continuous process. It does, however, have certain discrete phases. In the Executive Branch, the budget process begins as soon as the legislative session ends. At that time the budget staff prepares the *Budget As Enacted* which reflects the budget enacted by the Legislature.

In the spring and early summer, budget instructions and allocations are distributed by the Budget Office to state agencies. At those times, agencies are instructed by the Budget Office to prepare a capital and operating budget. The capital budget contains a five-year capital improvement plan.

Agencies are requested to prepare operating budgets at specified target levels for submission on or before October 1 as specified by the Budget Officer. Agencies may also be allowed the opportunity to request additional funding through special white papers, separate from the agency's budget request.

The individual budgets submitted by the state agencies show program expenditures, with appropriate funding sources for each program within the agency. These data are shown for the actual year, the current year, and the target for the budget year. Further, the documents show "outcome" performance measures associated with each target level of spending. These performance levels provide a means for comparing budget alternatives, and are a significant tool used in the determination of agency budgets.

In the fall, analysts in the Budget Office review agency budget requests. The Budget Office staff prepares recommendations for the Governor. An analysis of items added or reduced from the target request is presented to the Governor. The analysis includes the agency's request and the basis for it, the Budget Office recommendation and the basis for it. The Governor then makes a budget determination. This process is repeated for all issues in all agencies. These decisions form the Governor's recommendations. The Budget Office compiles the individual recommendations, aggregates them, and prepares *The Budget*. *The Budget* reflects the revised current year funding plan submitted to the Legislature on the third Thursday in January (modified by the General Assembly in the 2004 legislative session), as well as the budget year funding plan.

During this same period between September and the start of the legislative session, House and Senate fiscal

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staffs also have the agency budget requests for analysis. Following receipt of the Governor's recommendations, the legislative fiscal analysts begin their analysis of the recommendations of the Governor.

The Governor's budget recommendations traditionally are incorporated in one omnibus appropriations bill, which is introduced in the Legislature on the third Thursday in January. This piece of legislation normally includes any statutory changes which would be required to implement the Governor's budget.

The following table summarizes the **budget calendar** during the budget cycle.

Mid-July	Capital Budget Requests due to Budget Office.
July 7	Budget Instructions and Funding Targets distributed to Agencies.
September 1	Budget requests of Agencies with enacted budget of \$7.0 million or less due to Budget Office.
September 15	Budget requests of Agencies with enacted budget of over \$7.0 million due to Budget Office.
3 rd Thursday	Statutory date for current-year Governor's Supplemental Appropriation bill submitted to in January Legislature.
3 rd Thursday in January	Statutory date for budget-year Governor's Budget Recommendation bill submitted to Legislature.

Consideration by House of Representatives and Senate. Appropriation bills are introduced into the House and are first considered by the Finance Committee in the House. The Senate Finance Committee also begins hearings on the budget bill, as introduced by the Governor. The chairpersons of the committees appoint subcommittees to consider appropriations for various agencies. Subcommittees vary in size, usually between two and five persons. After reviewing the budget requests and the Governor's budget, the House subcommittees recommend adjustments that the subcommittees wish to make to the full House committee for consideration. A committee may adjust the recommendations of its subcommittee. Appropriation bills are reprinted to reflect the recommendations of the full committee. The bill is then presented to the full House, and upon passage is transmitted to the Senate. The process for review of an appropriation bill in the Senate repeats the steps followed in the house of origin. Usually, consideration by the second house occurs in a much shorter span of time. Once the bill is presented and approved by the full Senate, the Governor has three options: 1) sign the bill into law, 2) veto the bill, or 3) allow the bill to become law without signature. (After seven days without the Governor's signature, the bill automatically becomes law.)