State of Rhode Island and Providence Plantations

Executive Summary

Fiscal Year 2012

Lincoln D. Chafee, Governor

Five-Year Financial Projection

FY 2012 – FY 2016 Overview

Summary

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

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

The five-year projection includes tables that present anticipated revenues and expenditures for the five fiscal years ending in June 2016. 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.

From the FY 2012 budget base, expenditures will exceed revenues in each of the out-years projected through FY 2016. The operating deficits range from $126.0 million in FY 2013, $199.3 million in FY 2014, $295.7 million in FY 2015, and $411.4 million in FY 2016. In percentage terms, the deficits are projected to approach 3.7 percent of spending in FY 2013 and 10.7 percent in FY 2016. The expenditure-side of the budget is estimated to increase at an average annual rate of 4.3 percent from the FY 2012 base to FY 2016. Inflation, however, as measured by the CPI, is expected to grow at an average annual rate of 2.3 percent over this five year period. A number of factors are responsible for the rate of growth above inflation, as discussed in detail below.

The five year projection anticipates average annual revenue growth of approximately 3.1 percent beyond the budget year, based upon the adopted November 2010 Revenue Estimating Conference forecast for the Rhode Island economy and the Governor's recommended changes to adopted revenues. The forecasts underlying the five year projection assume that recovery in the Rhode Island economy started in FY 2011. Thus, both FY 2011 and FY 2012 begin to show year-over-year increases in general revenue. General revenue growth is expected to be modest in FY 2011 before strengthening in FY 2012 and the stabilizing in FY 2014 as the uncertainty of the economic recovery diminishes. General revenue growth remains positive in FY 2016 but at a rate below those projected for FY 2013 through FY 2015.

Personal income is forecasted to grow at an average annual rate of 4.4 percent over the FY 2012 – FY 2016 period. Nonfarm employment is anticipated to grow at an average annual rate of 2.5 percent and wage and salary disbursements at an average annual rate of 4.1 percent over the FY 2012 - FY 2016 period. One risk to the revenue forecast is the timing of the economic recovery. If the recovery takes hold sooner than forecast, then the out-year growth rates, particularly in employment, would be lower. The tradeoff, of course, is that near-term revenue estimates would likely be better than currently estimated. Conversely, if the economic recovery takes hold later than forecast, then the out-year growth rates would be too optimistic and both the near-term and the out-year revenue forecasts may be overstated. Another risk to the revenue forecast is the behavior of consumers as the economy recovers. Consumer spending has historically comprised two-thirds of total spending. If post-recession, consumer spending does not rebound to pre-recession levels then the out-year revenue forecasts are likely to be overstated. Furthermore, European financial instability and unrest in the Middle East could negatively impact U.S. consumer spending. The United States has recently seen an increase in exports which may be short-lived if the European financial crisis deepens. Recent turmoil in the Middle East has put significant upward pressure on energy prices, particularly oil, and a sustained increase in the price of oil could dampen consumer spending as income is diverted from discretionary purchases to gasoline and heating fuel.

Highlights

The Governor's Business Tax Competitiveness Proposal (BTCP) is focused on continuing to improve Rhode Island's tax rate competitiveness. The BTCP is a multi-faceted approach that is designed to support all businesses in the state and make Rhode Island's corporate tax rate competitive with its neighboring states. Starting January 1, 2012, this proposal reduces the business corporation tax rate from 9.0 percent to 8.5 percent with further one-half percentage point reductions in 2013 and 2014. In addition, the BTCP eliminates the Jobs Development Act over a three year period again beginning in 2012. Further, the BTCP restructures the corporate minimum and minimum franchise taxes by reducing the rate paid by small businesses. Finally, beginning in 2012, the BTCP requires the use of combined reporting by business corporation tax filers thereby bringing Rhode Island in line with the majority of the other New England states. By FY 2016, the BTCP is estimated to provide $14.6 million in tax relief to Rhode Island businesses.

The Governor's Sales Tax Modernization Proposal (STMP) is intended to stabilize the State's revenues by extending the sales tax at a rate of 6.0 percent to some services and some currently exempt items. In addition, a separate 1.0 percent sales tax is imposed on a variety of other exempt items thereby ensuring that burden of the sales tax is borne by all consumers. The STMP addresses in a meaningful way Rhode Island's structural budget deficit over the next five years. By FY 2016, the STMP is anticipated to increase general revenues by $173.3 million.

The Governor's proposal to phase-in the transfer of motor vehicle license, registration and title fees to the Intermodal Surface Transportation Fund (ISTF) for use by the Department of Transportation (DOT) is intended to ease DOT off of its overreliance on debt to provide the state match necessary to leverage available federal highway monies. The Governor's plan is to transfer all of the revenues generated from the registration of motor vehicles and the issuance of operator's licenses and motor vehicle titles in 20.0 percent increments over the FY 2012 through FY 2016 time period. In FY 2016, the transfer of these revenues will increase DOT's funding by $64.2 million and the Department will no longer need to engage in debt issuance to qualify for federal highway funds.

Finally, the Governor proposes the repeal of the state's Motion Picture Production Company (MPPC) Tax Credit. The MPPC tax credit initially yields savings of $1.6 million in FY 2012 but these savings increase to $15.0 million in FY 2016 as new credits are not issued and previously issued credits are redeemed.

Economic Forecast and Revenues

The economic forecast was developed by the principals of the November 2010 Revenue Estimating Conference with input from the consulting economist at Moody's Economy and respective staff. This forecast is derived from the U.S. macroeconomic model and the State of Rhode Island economic model that Moody's Economy.com has developed. A detailed analysis of the conferees near-term economic forecast for the State is contained in The Economy section of the Executive Summary. In that section, particular attention is paid to how the state fared relative to the past year with respect to non-farm employment and personal income growth. In addition, a brief explanation of the actual economic performance of the State against the economic forecast contained in the FY 2011 budget is undertaken. Finally, the economic forecast is presented for the out-years through FY 2016.

The biggest risk to the economic forecast is the actual rate of recovery for the Rhode Island economy. The economic forecast predicts a "U" shaped recovery for both the U.S. and Rhode Island economies, however, the bottom of the "U" for Rhode Island's economic recovery is expected to be significantly broader than the bottom of the "U" for the U.S.' economic recovery. If Rhode Island' s recovery lags that of the U.S. by more than the length of time currently forecast, then personal income, employment, and wage and salary growth will be pushed out toward the end of the forecast horizon contained in this document.

In particular, employment growth rates are expected to be positive in FY 2011 for the first time since FY 2007. During the FY 2012 – FY 2014 period, Rhode Island employment growth rates are expected to be accelerating up the "U" shaped curve. In FY 2014, Rhode Island employment growth should peak at 3.3 percent and, by FY 2015, total non-farm employment should exceed the peak reached in FY 2007. In FY 2015 employment growth slows to a rate of 2.5 percent before reaching its steady-state level of growth at 1.7 percent in FY 2016. Growth in Rhode Island personal income is expected to strengthen in FY 2011 and FY 2012, averaging more than 2.5 percent over the two year period. Beginning in FY 2013, personal income growth is expected to rise sharply to an annual rate of 5.0 percent, a level not reached since FY 2007. Further, energy prices remain a risk to both the U.S. macroeconomic and Rhode Island forecasts. As an energy importer, Rhode Island's economy is vulnerable to both sharp increases and decreases in energy prices, with the former being more detrimental than the latter is beneficial. Finally, it should be noted that the economic forecast adopted at the November 2010 Revenue Estimating Conference does not incorporate any additional federal economic stimulus.

The revenue projections contained in the five year forecast include the Governor's Business Tax Competitiveness Proposal (BTCP). This proposal reduces the corporate income tax rate from 9.0 percent to 7.5 percent over a three year period beginning on January 1, 2012. In addition, the BTCP restructures the corporate minimum and minimum franchise taxes from a flat rate to graduated rates based on Rhode Island gross receipts. Furthermore, the BTCP implements combined reporting and phases out of the Jobs Development Act over a three year period beginning in 2012. The total Business Tax Competitiveness Proposal saves Rhode Island businesses $905,533 in taxes in FY 2012 with savings increasing to $15.6 million in FY 2016.

The five year revenue projection includes the Governor's proposals to modify the adopted Revenue Estimating Conference estimates for FY 2012. Overall revenues are expected to grow from $3.246 billion in FY 2012 to $3.544 billion in FY 2016. This is growth of $297.8 million, reflecting average annual growth of 3.1 percent. This revenue forecast includes the Governor's Sales Tax Modernization Proposal which includes reducing the sales tax rate from 7.0 percent to 6.0 percent; the modernization of the sales tax base to cover some services and items currently exempt from the from the sales tax, both of which will be taxed at 6.0 percent; the taxation of the retail sale of medical marijuana at 6.0 percent; the expansion of the sales tax base by taxing certain currently exempt items at a 1.0 percent rate; and the disallowance of the use of insurance proceeds from a totaled or stolen motor vehicle as the trade-in allowance for a passenger car. The Governor's Sales Tax Modernization Proposal is expected to increase revenue by $164.9 million in FY 2012 rising to $173.3 million in FY 2016. It also includes the Governor's proposal to repeal the Motion Picture Production Company Tax Credit program. The total recaptured revenue in FY 2012 is $1.6 million growing to $15.0 million in FY 2016. Further, the five year forecast incorporates the revenue impact from the Governor's proposal to publish separate top 100 delinquent business taxpayer and delinquent individual taxpayer lists. The separation of the current top 100 delinquent taxpayer list into two separate lists is expected to increase revenues by $2.3 million in FY 2012 declining to $132,932 in FY 2016. The five year revenue projection also includes the Governor's proposal to require that lottery winnings in excess of $600.00 be offset against debts owed to the State Tax Administrator. The payment of taxes owed from lottery winnings in excess of $600.00 would be the third priority after child support debts and benefit overpayments by the Department of Labor and Training. This proposal is estimated to increase revenues by $141,457 in FY 2012 and in subsequent years through FY 2016.

The five year revenue forecast also includes increased revenues from the increase in several fees including daily and annual pass fees for residents and non-residents on both weekdays and weekends to park at state beaches. The result is an increase in revenue of $1.9 million in FY 2012 descending to $1.7 million in FY 2016. The Governor proposes to increase the license fee for securities sale representatives to $75 annually and increase the fee for a federally covered advisor to $300 annually. The increased fees within the Department of Business Regulation result in annual increased revenue of $1.2 million in FY 2012 through FY 2016. Further the five year forecast incorporates the revenue impact of several motor vehicle initiatives. The Governor proposes to mandate that insurance companies obtain official Division of Motor Vehicles driving record abstracts at least every three years for insurance ratings. In addition, the Governor seeks to institute a returned check fee of $25.00 for checks that are returned to the Division of Motor Vehicles by an issuer's financial institution. These two revenue initiatives increase general revenues by $3.0 million in FY 2012 declining to $654,225 by FY 2016. The Governor also proposes to increase both the estate filing fee and the letter of good standing fee to $50 and levy a surcharge of 4.0 percent on the net revenues of compassion centers. These revenue proposals within the Department of Revenue result in an increase in revenue of $787,932 in FY 2012 rising to $1.2 million in FY 2016. Further the five year estimate includes the fee increase for fire code violations to $125 resulting in additional annual revenue of $40,000 in FY 2012 through FY 2016. The Governor also proposes to institute a $10 fee for the conducting applicant background clearances by the Department of Children, Youth, and Families. The resulting revenue initiative will increase annual revenues by $110,000 in FY 2012 through FY 2016. Finally, the Governor has proposed that the Department of Revenue serve as a collection agent for state agencies (i.e. gaining revenues from offset income tax refunds for probation and parole fees owed to the Department of Corrections) and increase the board and support fees at the Rhode Island's Veterans Home to 100.0 percent of resident countable income. The resulting revenue from these initiatives total $939,824 in FY 2012 falling to $887,009 in FY 2016. As has been the case in the past, the five year forecast contains the reinstitution of the hospital licensing fee at the current rate of 5.465 percent of FY 2009 net patient revenues for a total of $141.1 million in FY 2012. The revenue from the Hospital Licensing Fee is held constant over the forecast period and is included in the FY 2013 through FY 2016 forecast horizon.

One revenue change in the Governor's proposed FY 2012 Budget to restricted receipts has a positive impact on general revenues and is included in the five year estimate through an indirect cost recovery. The Governor has proposed to reduce the Telecommunication Access Fund fee on land line phones from $0.26 to $0.15 and apply this reduced fee to wireless phones. It is estimated that there will be additional revenue of $741,600 to the Telecommunication Education Access Fund which is subject to a 10.0 percent cost recovery and enhances general revenues annually by $74,160 in FY 2012 through FY 2016.

Further the five year forecast includes the reduction to the nursing home expenditure base resulting in a decrease of revenue of $704,000 in FY 2012 increasing to $1.1 million by FY 2016.

The Governor's proposal to phase-in the transfer of motor vehicle license and registration fees, commercial driver license fees, registration reinstatement fees, driver license reinstatement fees, and motor vehicle title fees to the Department of Transportation's Intermodal Surface Transportation Fund (ISTF) in equal increments over a five year period beginning in FY 2012 is also incorporated into the five year forecast. By FY 2016 100.0 percent of the funds from these sources will be dedicated to the ISTF. The net result is a reduction in general revenues of $12.0 million in FY 2012 increasing to $64.2 million in FY 2016.

Finally, the Governor proposes the dissolution to the Health Services Council which collects application fees for the State's Certificate of Need program. The result of this dissolution will be an annual reduction in departmental revenues in the five year forecast of $371,320 in FY 2012 through FY 2016.

One revenue enhancement in the Governor's proposed FY 2012 Budget has only a FY 2012 impact and thus is only included for FY 2012. This item is the $3.5 million transfer in excess reserves from the Rhode Island Resource Recovery Corporation.

In the FY 2011 five year forecast, the estimated revenues were projected to be $3.184 billion by FY 2015, the last year of the forecast, reflecting average annual growth of over 1.4 percent over the FY 2011 through FY 2015 period. The current five year forecast projects $3.457 billion of revenues by FY 2015, resulting in $311.9 million more in resources than previously projected, and $3.544 billion by FY 2016. The resulting average annual growth rate for the FY 2012 through FY 2016 period is 3.1 percent more than double the FY 2011 through FY 2015 growth rate contained in the FY 2011 budget.

Expenditures

Expenditure side risks must also be noted within the five-year projection. There are major initiatives within the Human Services function contained in the Governor's FY 2012 budget which set the expenditure base at a lower level and therefore a risk to the forecast is the passage of those proposals and their successful implementation. A recurring risk to the five-year forecast relates to medical services inflation, utilization, and technological change. Beneficial changes in medical technology and the resultant change in utilization of medical services are especially difficult to forecast. These factors are particularly influential, since a significant part of the budget is driven by medical costs and since costs have been accelerating at a rapid rate. This impacts both the costs incurred for the clients the state services and its employees. While costs for medical care will continue to be an underlying driver of state personnel costs in the forecast, it is assumed that there will be a deceleration in the rate of growth for state employee health benefit costs with an average annual rate of growth of 5.6 percent through FY 2016. The forecast also assumes that state employees will continue to share in the cost of medical insurance premiums and costs will moderate due to proposed plan design changes.

Another expenditure side risk involves demographic shifts such as the aging of the baby-boomer population which will present a greater need to enhance and expand the infrastructure for elderly care towards the end of the five year horizon.

Personnel and Other Operations

The wage projections contained in the personnel estimates assume a 3.0 percent negotiated COLA increase in FY 2012. Step increases, longevity increases and educational incentives historically have added 1.7 percent annually to the estimated salary and fringe benefit costs and have been incorporated into the analysis. COLAs reflecting the CPI are included for FY 2013 and thereafter. In FY 2013, salary costs are projected to grow 4.5% percent reflecting the 3 percent cost of living adjustment, 1.7 percent for steps and longevity, followed by increases of 4.4 percent, 4.0 percent, and 3.9 percent through FY2016.

The forecast reflects cost sharing which is expected to offset health insurance costs in FY 2012 and throughout the forecast period. Average employee cost sharing of 19 percent of medical premium cost in FY 2012 and thereafter is projected. This compares with average employee cost sharing of just 11.0 percent in FY 2009. Gross medical cost increases for health care premiums are expected to grow 7.5 percent annually on average in the forecast.

Despite pension reforms enacted in past legislative sessions, the costs of the State's defined benefit plan are expected to increase at pace greater than the rate of growth for salaries. The savings from benefit plan changes are expected to be offset by additional costs related to investment losses and unrealized investment returns. According to actuarial projections by Gabriel, Roeder, Smith and Company, the annual required contribution rate for state employees is expected to increase form 22.98 percent in FY2012 to 35.88 percent in FY2016. This reflects an increase in the rate of 12.9 percentage points over a five year period. Based upon projected payroll growth and the forecasted retirement contribution rates, the general revenue funded contribution for state employee members would grow from a projected $88.1 million in FY 2012 to $162.1 million in FY 2016, reflecting growth of $74.1 million in retirement costs alone and average increase of 24 percent a year. This is the single largest growth item in the budget, reflecting growth of 84 percent from FY2012 to FY2016.

Personnel and operating costs continue to be constrained during FY 2012. The Governor's proposed FY 2012 budget includes $44 million less in personnel and operating than was projected for FY 2012 in the previous five year forecast. This highlights the success in managing costs within available resources. The current five year forecast assumes $980.3 million of personnel and operating costs in FY 2012 and an average growth of 4.0 percent over the five year interval, resulting in an estimated cost of $1.210 billion in FY 2016, an increase of $170.5 million. In FY 2013, there is a $22.0 million transfer of funds to the Rhode Island Capital Plan Fund to replenish resources that were used to restore the state rainy day fund in FY 2009.

Grants and Benefits

Grants and Benefits are projected to increase by an average of 5.7 percent annually from FY 2012 to FY 2016. Most of this growth is reflected in the Department of Human Services budget, since this is where most of the Medicaid dollars are spent.

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 RI Works Program (formerly FIP), will meet their stated objectives during the forecast period, that federal block grants will continue at current levels, and that Medicaid matching rates (FMAP) will revert to base levels after June 30, 2011.

The forecast assumes that eligibility and economic influences on RI Works/Child Care caseloads will result in increases in costs of approximately 2.5 percent annually. These exclusively reflect continuing additions for child care subsidies, which are extended to the working poor even after cash assistance clients gain access to unsubsidized employment, offset savings in cash assistance. The block grant resources are assumed to be insufficient to finance these incremental costs throughout the forecast period, and, therefore, general revenue dollars are added. No additional effects from the implementation of the new RI Works program are recognized in the estimates, and it is assumed that federal TANF resources will remain sufficient to meet the entire cost of the RI Works program throughout the forecast horizon.

SSI caseloads will increase slightly, as both the elderly and disabled population components are forecast to increase moderately over the five-year period, resulting in increased costs of 2.5 percent per annum, on average.

DHS Medicaid projections reflect proposed reforms in both service delivery models and provider rates, including (but not limited to) the use of a price and acuity-based method of reimbursement for nursing homes, constraints on the growth of Medicaid managed care payment rates for outpatient hospital services, a reduction in non-emergency transportation rates, and selective contracting for home and community based services. No further reform-based savings beyond those for FY 2012 are incorporated in the forecast, though currently recommended initiatives are embedded in the FY 2012 base for at least a portion of the fiscal year. Where appropriate, these costs savings were annualized for FY 2013 through FY 2016.

Pharmacy inflation is assumed at 6.5 percent annually on average. Five-year estimates also reflect a schedule increasing federal "clawback" assessment charges for Part D Medicare benefits to dually eligible Medicaid clients at the pharmacy inflation rate.

The managed care forecast assumes that base costs will inflate at 6.1 percent on average per year until FY 2016. Incorporated into the FY 2012 expenditure base for managed care is a proposal in the Governor's Budget to limit annual increases in managed care payment rates for outpatient hospital services to no greater than the (CMS) Outpatient Prospective Payment System (OPPS) input price index. Estimated FY 2013 (the first full year of implementation) savings total $5.3 million in general revenues

Similarly, cost trends in institutional long term care include an annual growth rate increasing of 5.5 percent from FY 2012 through FY 2016. The FY 2012 expenditure base for nursing care contains savings of $6.1 million in general revenues from the rate reform initiative, annualized to $8.3 million in FY 2013.

The general revenue expenditures within the Services for the Developmentally Disabilities Private System are projected to increase from $86.6 million in FY 2011 to $117.7 million in FY 2016, which equates to a growth rate of 35.9 percent over the five-year period. This growth is a result of assumed trend of approximately 7.5 percent each year. There are several factors that could significantly impact expenditures during the forecast period. These include general economic conditions that negatively impacting Rhode Islanders; the aging of caregivers; the aging of the existing population; and greater public awareness of the availability and, therefore, the utilization of services. Efforts to restructure the network of providers serving persons with developmental disabilities and efforts to increase shared living arrangements over and above those contained in the Governor's FY 2012 Budget should serve to constrain growth below those contained in the projection. It should be noted that the expenditures only reflect the residential, day program, respite and supported employment services. Medical costs under the Medicaid program are reflected in Department of Human Services' grant costs.

Cost trends for general revenue state match expenditures to the Medicaid, Title IV-E, and other grant programs in the Department of Children Youth and Families are projected to grow from $78.5 million to $97.1 million between FY 2012 and FY 2016. This increase of only $18.6 million over the five year period represents the Department's continued success in transitioning to community based service agency.

Local Aid

Local aid expenditures include education aid, the Motor Vehicle Excise Tax Reimbursement, aid to local libraries comprised of Library Resource Sharing and Library Construction Aid, the Payment in Lieu of Taxes (PILOT) program, the Property Revaluation program, and the Distressed Communities Relief program. The Motor Vehicle Excise Tax Reimbursement, Library Resource Sharing and PILOT are assumed to grow by CPI over the period averaged at 2.4 percent. Growth in Library Construction Aid and the Property Revaluation program are forecasted based on proposed schedules. Lastly, Distressed Communities Relief is assumed to be level-funded over the period at the currently enacted level of $10.4 million.

In dollar terms, the largest driving force behind expenditure growth from FY 2012 to FY 2016 is Education Aid programs, which are expected to increase by a total of $198.5 million from the FY 2012 base level of

$831.1 million. This drastic rise is a direct result of the new education funding formula which contains a ten year transition period. Districts that stand to gain money will do so over seven year period, while losing districts will gradually lose funding over the full ten years. The Department of Elementary and Secondary Education's most recent estimates show an increase of $12.2 million between years two through seven of implementation. Between years eight and ten, a decrease of $6.3 million should be achieved as the gaining portion of the transition period will come to an end. In general, because of how the transition rules are structured, districts losing money are given more time to adjust, causing the early years of the transition period to cost more.

The funding formula is primarily data driven. As a result, changes may occur in the core instruction amount, the state share calculation, increases or decreases in student populations, changes in median family income, student movement between charter schools or state schools, as well as increases or decreases in free and reduced lunch students. To anticipate for these changes, a one percent growth rate has been included within the five-year forecast. Lastly, the forecast assumes that $31.3 million from the Education Jobs Fund Bill will be restored in general revenue funding beginning in FY 2013.

State contributions for teachers' retirement increase by $57.7 million, from $82.7 million in FY 2012 to $140.4 million in FY 2016. Projections for future required employer contributions to the teachers' retirement fund reflect two percent teacher payroll growth and increased contribution rates from 22.32 percent in FY 2012 to 34.2 percent in FY 2016. Housing aid, which reimburses communities for part of the debt incurred for new school construction is projected to increase by $17.9 million, from $72.5 million to $90.4 million.

Capital

The projection of capital project disbursements and debt service costs reflects updated debt service projections as included in the FY 2012 – FY 2016 Capital Improvement Plan. General revenue funded debt service on all tax supported obligations are projected to rise from $162.3 million in FY 2012 to $201.5 million in FY 2016, an increase of $39.3 million. The increase is attributable largely to the issuance of debt for the Historic Tax Credit stabilization program, which increases by $20.8 million, the issuance of general obligation debt, which increases by $20.2 million, and is offset by reductions in other categories as described below.

The five year forecast is based upon outstanding debt and projected new debt contained in the Governor's recommended FY 2012-2016 Capital Budget. - Interest rates for fixed rate general obligation bonds to be issued to fund projects are projected at 5.0 percent. Interest rates for issuance of twenty-year fixed rate certificates of participation are estimated at 5.5 percent. Historic Tax Credit debt is projected to be issued at 6 percent over 9 years in 2011, 2012, and 2013 and reflects an estimated $56 million reduction in bonds issued from the overall authorization due to lower project engagement. The lower general obligation bond issuance reflects the Governor's proposal to reduce the reliance on debt issues for the Department of Transportation to provide state match for federal funds. Projected amortization schedules are found in the exhibits contained in Appendix C of the State's Capital Budget.

FY 2011 General Obligation Bonds - $159.8 million ($40.0 million for DOT)
FY 2011 Historic Tax Credits - $40.0 million
FY 2011 Pastore/Zambarano Energy - $15.0 million
FY 2012 Historic Tax Credits - $35.2.0 million
FY 2012 General Obligation - $100.0 million ($40 million for DOT)
FY 2013 General Obligation - $99.0 million ($39 million for DOT)
FY 2013 Historic Tax Credits - $75.0 million

FY 2014 General Obligation Bonds - $82.0 million ($22 million for DOT)
FY 2015 General Obligation Bonds - $76.0 million ($16.0 million for DOT)
FY 2016 General Obligation Bonds - $60.0 million (zero for DOT)

Amortization of existing debt combined with new debt issuance, results in increased general revenue appropriations for debt service of $39.3 million from FY 2012 to FY 2016. Disbursements for capital projects are reflected as Rhode Island Capital Plan Fund expenditures, not general revenue, and therefore are not reflected in the five-year report as operating costs. Between FY 2012 and FY 2016, there is an increase of $20.8 million for debt for the Historic Tax Credit stabilization program, and a $20.2 million increase for general obligation debt. Performance based obligations increase remains at $7.0 million. Debt service on certificates of participation decreases by $1.6 million from $30.2 million in FY 2012 to $28.5 million in FY 2016. Convention Center debt service remains at $23.1 million.

The projected general revenue requirements for debt service are dependent upon the allocation of debt service costs to other sources of funds. It is assumed that the Department of Transportation's general obligation bond debt service in FY 2012 will total $46.2 million, and $48.5 million in FY2016. This debt service estimate reflects the Governor's proposed plan to decrease the issuance amount for Department of Transportation and replace will replace pay-go capital such that by 2016, there would be no new debt issued to provide state match for federal capital funds. The debt service on bonds issued from FY 2012 – FY 2015 would be allocated such that the transportation debt would be back loaded to provide for minimal debt service growth during the transition period. After FY 2016, debt service requiring a portion of gas tax revenues would decline from FY 2017 until all outstanding debt is paid off. It is assumed that the two cents of the gas tax dedicated to Motor Fuel bonds issued by EDC is equal to approximately $8.4 million annually. It is assumed that the Rhode Island Public Transit Authority debt service funded by gas tax revenues in FY 2012 will total $1.2 million in FY2012 and $2.7 million in FY2016.

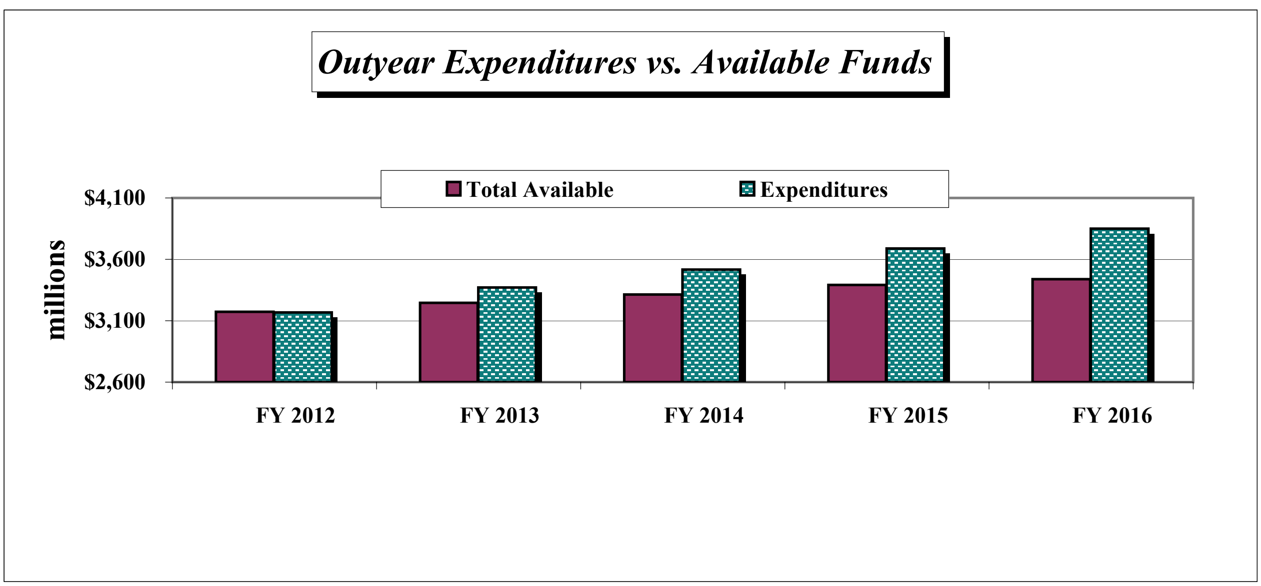
The obligations arising from performance based contracts between the Rhode Island Economic Development Corporation and private entities are projected to require the same amount of state appropriations due to the projected achievement of performance targets. Fidelity job rent credits are expected to result in a state obligation of $3.5 million in FY 2012 and $3.5 million in FY 2015The FY 2011 obligation reflects projected payments of $2.488 million on Phase I, plus $0.05 million due on Phase II. The forecast assumes no requirement for the Bank of America obligation transaction, which if earned would total approximately $0.3 million. The Providence Place Mall sales tax is expected to continue to fund the maximum $3,560,000 debt service.

Other

The projection also assumes that capital disbursements from general revenues would be $5.4 million in FY 2012, and thereafter. This includes all expenditures which would be subject to fixed assets recording.

General Revenue Outyear Estimates FY 2012 - FY 2016

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Opening Surplus	**$16.2**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Plus:					
Taxes and Departmentals	2,881.9	2,973.0	3,044.5	3,115.1	3,154.9
Other Sources	364.0	370.8	373.8	380.9	388.7
Budget Stabilization Fund	(91.3)	(100.3)	(102.5)	(104.9)	(106.3)
Total Available	**3,170.7**	**3,243.4**	**3,315.8**	**3,391.1**	**3,437.3**
Minus Expenditures	**3,169.8**	**3,369.4**	**3,515.1**	**3,686.8**	**3,848.8**
Equals Ending Balance	**$0.9**	**($126.0)**	**($199.3)**	**($295.7)**	**($411.4)**
Operating Surplus or Deficit	***($15.3)***	***($126.0)***	***($199.3)***	***($295.7)***	***($411.4)***
Budget & Cash Stabilization Balance	$150.1	$167.2	$170.9	$174.8	$177.2
RI Capital Fund Balance	0.4	0.2	0.1	18.6	72.1
Rhode Island Capital Fund					
Capital Projects Disbursements	*84.6*	*105.4*	*98.9*	*82.5*	*50.4*



General Revenue Outyear Estimates

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Personal Income Tax	**$ 950,004,002**	**$ 1,008,871,587**	**$ 1,071,130,403**	**$ 1,125,291,990**	**$ 1,160,818,145**
General Business Taxes:					
Business Corporations	130,364,537	140,347,623	145,631,808	152,555,563	156,890,024
Public Utilities	99,000,000	99,603,430	101,158,079	102,712,728	104,267,377
Financial Institutions	500,000	570,785	842,659	891,648	244,423
Insurance Companies	100,904,966	106,380,994	110,638,868	115,839,671	117,553,213
Bank Deposits	1,950,000	2,010,652	2,071,305	2,131,959	2,192,610
Health Care Provider	41,371,888	43,863,899	45,606,282	47,140,303	48,739,767
General Business Taxes	**$ 374,091,392**	**$ 392,777,382**	**$ 405,949,001**	**$ 421,271,872**	**$ 429,887,415**
Sales and Use Taxes:					
Sales and Use	989,482,799	1,015,599,320	1,022,250,811	1,029,414,734	1,036,347,520
Motor Vehicle	42,100,000	32,886,700	23,488,782	13,707,873	3,493,972
Motor Fuel	1,100,000	1,091,960	1,120,966	1,090,775	1,124,464
Cigarettes	131,800,000	128,717,807	125,573,535	122,500,106	119,507,792
Alcohol	12,200,000	12,531,792	12,685,420	12,890,664	13,106,598
Controlled Substances	-	-	-	-	-
Sales and Use Taxes	**$ 1,176,682,799**	**$ 1,190,827,580**	**$ 1,185,119,514**	**$ 1,179,604,153**	**$ 1,173,580,346**
Other Taxes:					
Inheritance and Gift	28,900,000	30,375,356	31,750,837	33,007,027	34,256,917
Racing and Athletics	1,100,000	1,059,940	1,043,769	1,046,783	1,017,423
Realty Transfer Tax	6,500,000	6,174,088	6,461,095	6,715,017	6,810,857
Other Taxes	**$ 36,500,000**	**$ 37,609,384**	**$ 39,255,701**	**$ 40,768,826**	**$ 42,085,197**
Total Taxes	**$ 2,537,278,193**	**$ 2,630,085,933**	**$ 2,701,454,618**	**$ 2,766,936,840**	**$ 2,806,371,103**
Total Departmental Receipts	344,580,999	342,884,100	343,038,258	348,137,119	348,570,433
Taxes and Departmentals	**$ 2,881,859,191**	**$ 2,972,970,032**	**$ 3,044,492,877**	**$ 3,115,073,960**	**$ 3,154,941,537**
Other Sources					
Other Miscellaneous	7,290,000	7,560,000	3,760,000	3,760,000	3,760,000
Lottery Commission Receipts	351,500,000	357,889,320	364,624,122	371,634,156	379,283,896
Unclaimed Property	5,200,000	5,316,982	5,437,981	5,544,505	5,652,807
Other Sources	**$ 363,990,000**	**$ 370,766,301**	**$ 373,822,103**	**$ 380,938,661**	**$ 388,696,704**
Total General Revenues	**$ 3,245,849,191**	**$ 3,343,736,333**	**$ 3,418,314,979**	**$ 3,496,012,621**	**$ 3,543,638,240**

General Revenue Outyear Estimates

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Personal Income Tax	**1.4%**	**6.2%**	**6.2%**	**5.1%**	**3.2%**
General Business Taxes:					
Business Corporations	5.7%	7.7%	3.8%	4.8%	2.8%
Public Utilities	2.1%	0.6%	1.6%	1.5%	1.5%
Financial Institutions	100.0%	14.2%	47.6%	5.8%	-72.6%
Insurance Companies	2.8%	5.4%	4.0%	4.7%	1.5%
Bank Deposits	2.6%	3.1%	3.0%	2.9%	2.8%
Health Care Provider	2.2%	6.0%	4.0%	3.4%	3.4%
General Business Taxes	**3.6%**	**5.0%**	**3.4%**	**3.8%**	**2.0%**
Sales and Use Taxes:					
Sales and Use	22.8%	2.6%	0.7%	0.7%	0.7%
Motor Vehicle	-18.7%	-21.9%	-28.6%	-41.6%	-74.5%
Motor Fuel	0.0%	-0.7%	2.7%	-2.7%	3.1%
Cigarettes	-2.4%	-2.3%	-2.4%	-2.4%	-2.4%
Alcohol	1.7%	2.7%	1.2%	1.6%	1.7%
Controlled Substances					
Sales and Use Taxes	**17.0%**	**1.2%**	**-0.5%**	**-0.5%**	**-0.5%**
Other Taxes:					
Inheritance and Gift	2.1%	5.1%	4.5%	4.0%	3.8%
Racing and Athletics	-12.0%	-3.6%	-1.5%	0.3%	-2.8%
Realty Transfer Tax	1.6%	-5.0%	4.6%	3.9%	1.4%
Other Taxes	**1.5%**	**3.0%**	**4.4%**	**3.9%**	**3.2%**
Total Taxes	**8.5%**	**3.7%**	**2.7%**	**2.4%**	**1.4%**
Total Departmental Receipts	**2.9%**	**-0.5%**	**0.0%**	**1.5%**	**0.1%**
Taxes and Departmentals	**7.8%**	**3.2%**	**2.4%**	**2.3%**	**1.3%**
Other Sources					
Gas Tax Transfers	n/a	n/a	n/a	n/a	n/a
Other Miscellaneous	-44.4%	3.7%	-50.3%	0.0%	0.0%
Lottery Commission Receipts	1.2%	1.8%	1.9%	1.9%	2.1%
Unclaimed Property	-1.9%	2.2%	2.3%	2.0%	2.0%
Other Sources	**-0.5%**	**1.9%**	**0.8%**	**1.9%**	**2.0%**
Total General Revenues	**6.8%**	**3.0%**	**2.2%**	**2.3%**	**1.4%**

General Revenue Outyear Expenditure Estimates

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
State Operations					
Personnel	$841,800,000	$890,000,000	$921,700,000	$957,500,000	$989,100,000
Other State Operations	138,500,000	142,200,000	145,500,000	148,700,000	151,800,000
Subtotal	**$980,300,000**	**$1,032,200,000**	**$1,067,200,000**	**$1,106,200,000**	**$1,140,900,000**
		5.3%	3.4%	3.7%	3.1%
Grants and Benefits					
Department of Human Services					
Hospitals	44,140,000	46,680,000	49,350,000	52,100,000	55,180,000
Managed Care	394,290,000	409,290,000	433,930,000	463,720,000	495,930,000
Nursing Care	157,550,000	163,260,000	172,010,000	181,790,000	192,570,000
Home Care	37,460,000	40,360,000	44,270,000	48,580,000	53,280,000
Other Medicaid	39,230,000	38,240,000	41,100,000	44,220,000	47,590,000
Pharmacy	5,390,000	5,750,000	6,120,000	6,490,000	6,930,000
Cash Assistance - TANF/FIP/Child Care	10,640,000	11,450,000	11,760,000	12,030,000	12,300,000
Cash Assistance - SSI	18,910,000	19,440,000	19,970,000	20,430,000	20,880,000
Clawback	46,500,000	61,450,000	65,330,000	69,340,000	74,070,000
DSH	61,070,000	62,780,000	64,470,000	65,960,000	67,410,000
Department of Health					
AIDS Medicaid	360,000	380,000	410,000	440,000	480,000
HIV/ADAP Formulary (CNOM)	700,000	750,000	810,000	870,000	930,000
Department of Elderly Affairs					
Medicaid (Case Mang't & Core Waiver)	5,730,000	6,140,000	6,600,000	7,100,000	7,640,000
Department of Children Youth & Families					
Children & Family Services	78,470,000	77,970,000	83,810,000	90,170,000	97,050,000
Department of Mental Health Retardation & Hospitals					
Developmental Disabilities-Private	86,590,000	94,580,000	101,660,000	109,380,000	117,720,000
Other Grants and Benefits	138,120,000	140,890,000	144,830,000	148,740,000	152,160,000
Subtotal	**$1,125,150,000**	**$1,179,410,000**	**$1,246,430,000**	**$1,321,360,000**	**$1,402,120,000**
		4.8%	5.7%	6.0%	6.1%
Local Aid					
Education Aid	831,070,000	899,360,000	938,750,000	983,400,000	1,029,620,000
General Revenue Sharing	0	0	0	0	0
GRS - VLT	0	0	0	0	0
Motor Vehicle Tax Reimbursements	10,000,000	10,280,000	10,560,000	10,800,000	11,040,000
Motor Vehicle - VLT	0	0	0	0	0
PILOT	27,580,000	28,820,000	30,050,000	31,250,000	32,500,000
Distressed Communities	10,380,000	10,380,000	10,380,000	10,380,000	10,380,000
Central Falls Stabilization Payment	4,900,000	0	0	0	0
Library Aid	11,600,000	11,670,000	13,170,000	13,160,000	13,230,000
Property Revaluation Prgm	1,130,000	1,610,000	520,000	980,000	1,960,000
Subtotal	**$896,660,000**	**$962,120,000**	**$1,003,430,000**	**$1,049,970,000**	**$1,098,730,000**
		7.3%	4.3%	4.6%	4.6%
Capital					
Debt Service					
General Obligation	77,990,000	58,340,000	94,890,000	99,620,000	98,170,000
Historic Tax Credit Program	22,640,000	28,380,000	35,010,000	43,430,000	43,440,000
COPS/Other Leases	30,170,000	50,000,000	31,170,000	29,390,000	28,540,000
Convention Center	23,140,000	23,140,000	23,140,000	23,080,000	23,080,000
Performance Based	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
TANS	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000
Capital Improvements					0
Other Projects	5,470,000	5,470,000	5,470,000	5,470,000	5,470,000
Subtotal	**$167,730,000**	**$173,650,000**	**$198,000,000**	**$209,310,000**	**$207,020,000**
		3.5%	14.0%	5.7%	-1.1%
Repayment To RI Capital Fund					
Operating transfer to RICAP		22,000,000			
Total	**$3,169,840,000**	**$3,369,380,000**	**$3,515,060,000**	**$3,686,840,000**	**$3,848,770,000**
Difference		**$199,540,000**	**$145,680,000**	**$171,780,000**	**$161,930,000**
		6.29%	**4.32%**	**4.89%**	**4.39%**

General Revenue Outyear Planning Values

Estimates and Growth	FY2012	FY2013	FY2014	FY2015	FY 2016
Personal Income (billions) [1]	$46.2	$48.5	$50.6	$52.6	$54.5
Change	*3.2%*	*5.0%*	*4.4%*	*3.9%*	*3.7%*
Nonfarm Employment (thousands) [1]	461.0	475.7	491.3	503.8	512.2
Change	*1.6%*	*3.2%*	*3.3%*	*2.5%*	*1.7%*
Personal Income Tax					
Wages and Salaries [1]	2.4%	5.4%	5.3%	4.2%	3.4%
Business Corporation Tax [2], [3]	6.2%	13.4%	8.4%	4.2%	4.0%
Provider Tax [3]	3.2%	6.9%	2.8%	2.2%	4.2%
Sales Tax					
Wages and Salaries [1]	2.4%	5.4%	5.3%	4.2%	3.4%
Gasoline Tax					
Real Consumption [4]	4.3%	0.7%	0.1%	1.0%	1.4%
Other Taxes and Departmentals [17]	0.3%	-0.8%	-0.6%	0.1%	-1.1%
CPI-U (U.S.) [1]	2.0%	2.8%	2.7%	2.3%	2.2%
Salaries and Fringe Benefits					
Salary COLA - [13], CPI-U [1]	3.0%	2.8%	2.7%	2.3%	2.2%
Steps and Longevity Increases [3]	1.7%	1.7%	1.7%	1.7%	1.7%
Medical Benefits Costs [8]	3.8%	4.5%	6.0%	6.9%	6.9%
Retiree Health Costs [14]	6.86%	6.86%	6.86%	6.86%	6.86%
State Employees Retirement Costs [15]	22.98%	26.27%	29.54%	33.35%	35.88%
Home Health Care					
Expenditure Growth [5]	21.9%	9.5%	9.7%	9.7%	9.7%
Nursing Home Care					
Expenditure Growth [6]	19.5%	5.1%	5.4%	5.7%	5.9%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
Managed Care/State Employee Plan					
Expenditure Growth [8]	3.8%	4.5%	6.0%	6.9%	6.9%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
Other DHS Medicaid					
Expenditure Growth [7]	21.4%	7.2%	7.5%	7.6%	7.6%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
MHRH- Mental Health					
Expenditure Growth [8]	3.8%	4.5%	6.0%	6.9%	6.9%
DCYF Services					
Expenditure Growth [7]	21.4%	7.2%	7.5%	7.6%	7.6%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
MHRH- MR/DD					
Expenditure Growth [7]	21.4%	7.2%	7.5%	7.6%	7.6%
Medicaid Reform Deflator [10]	0.0%	0.0%	0.0%	0.0%	0.0%
Pharmacy					
Expenditure Growth [9]	15.3%	6.8%	6.3%	6.1%	6.8%
Hospital Care					
Expenditure Growth [16]	14.4%	5.8%	5.7%	5.6%	5.9%

[1] ***November 2010 Revenue Estimating Conference Consensus Economic Forecast., FY 2010 - FY 2015.***
[2] ***Moody's Economy.com Quarterly U.S. Economic Forecast November 2010, Nominal Corporate Profits Before Tax.***
[3] ***State of Rhode Island Budget Office Estimate.***
[4] ***State of Rhode Island Budget Office Estimate for FY 2011 & FY 2012. Moody's Economy.com Quarterly U.S. Economic Forecast November 2010, Real Gasoline and Oil Consumption.***
[5] ***CMS National Health Expenditures Projections February 2010, 2009-2019, Home Health Care: Total State and Local***
[6] ***CMS National Health Expenditures Projections February 2010, 2009-2019, Nursing Home Care: Total State and Local***
[7] ***CMS National Health Expenditures Projections February 2010, 2009-2019, Total Health Expenditures: State and Local Medicaid***
[8] ***CMS National Health Expenditures Projections February 2010, 2009-2019, Total Health Expenditures: Private Insurance as proxy***
[9] ***CMS National Health Expenditures Projections February 2010, 2009-2018, Prescription Drugs: Total State and Local***
[10] ***No extraordinary decrease in expenditures unique to RI is forecasted in this five year forecast.***
[11] ***November 2008 CEC estimates and DHS Fiscal Year FY 2009 Forecast.***
[12] ***HCFA (CMS) National Health Care Expenditures Projections 1965-2017, Personal Health Care.***
[13] ***Based on contractual obligations for 2011 and 2012; FY 2012 and thereafter - CPI.***
[14] ***Reflects funding on an actuarial basis beginning with Fiscal 2011.***
[15] ***Estimate of actuarially required contribution based upon a % of payroll.***
[16] ***CMS National Health Expenditures Projections February 2010, 2009-2019, Total Health Expenditures: State and Local Medicaid***
[17] ***State of Rhode Island Budget Office Estimate, Consisting of all Other Taxes plus Departmentals minus Personal Income, Business Corporation, Health Care Provider Assessment, Sales and Use Taxes and Other Sources***