

State of Rhode Island and Providence Plantations

Budget



Fiscal Year 2012

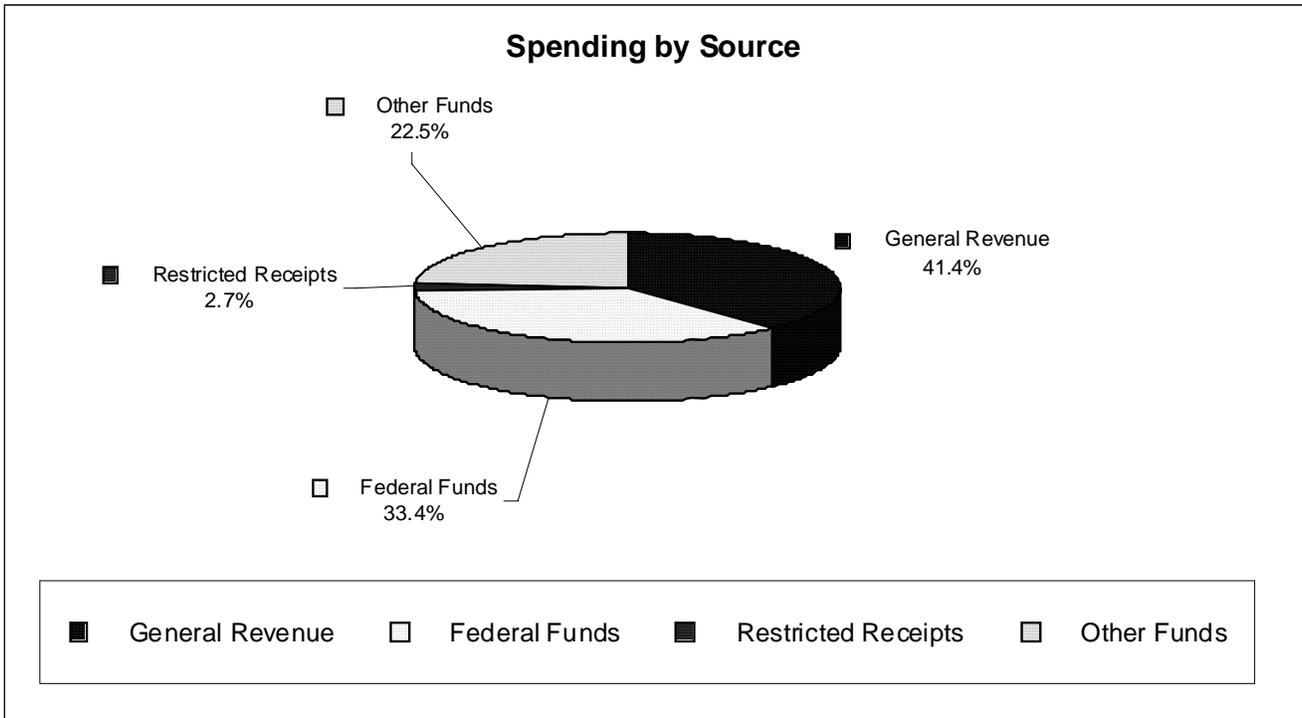
Lincoln D. Chafee, Governor

Introduction

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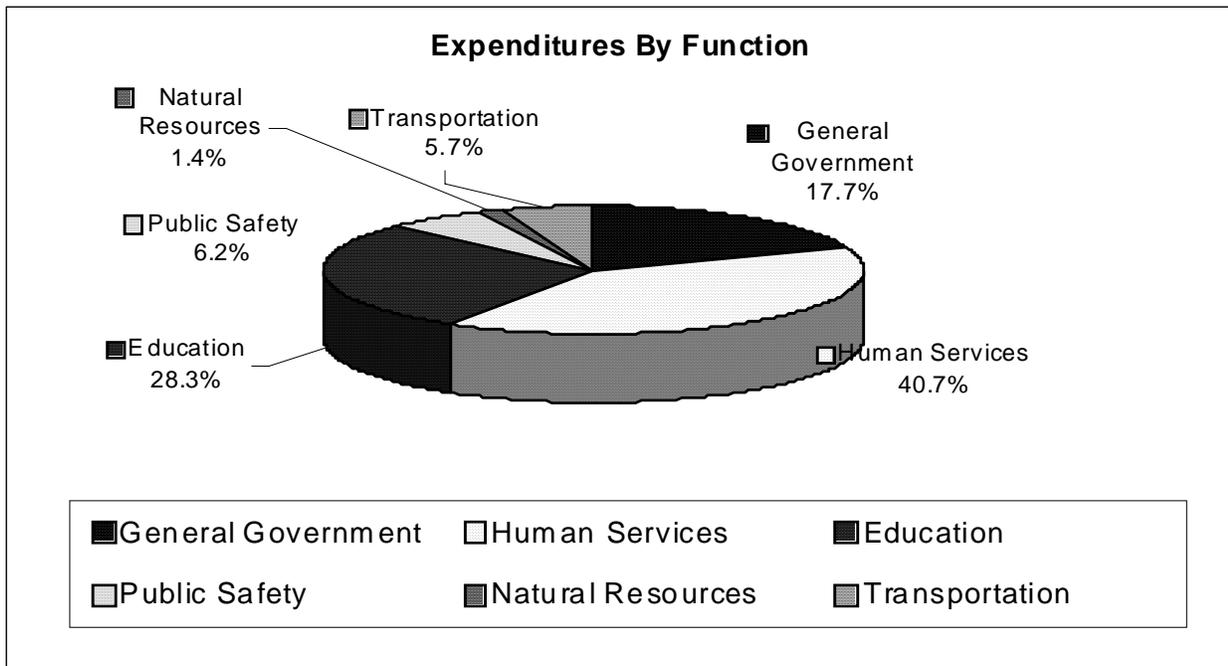
All funds expenditures for FY 2012 are \$7.661 billion. Of this total, \$3.170 billion, or 41.4 percent, is from general revenue, \$2.557 billion, or 33.4 percent, from federal funds, \$1.725 billion, or 22.5 percent, from other sources, and \$209.5 million, or 2.7 percent, is from restricted or dedicated fee funds.

On a functional basis, the largest percentage of expenditures is made in the Human Services area, which comprises \$3.120 billion, or 40.7 percent of the total budget. This is followed by spending for Education of \$2.170 billion, which comprises 28.3 percent of all spending, and expenditures for General Government of

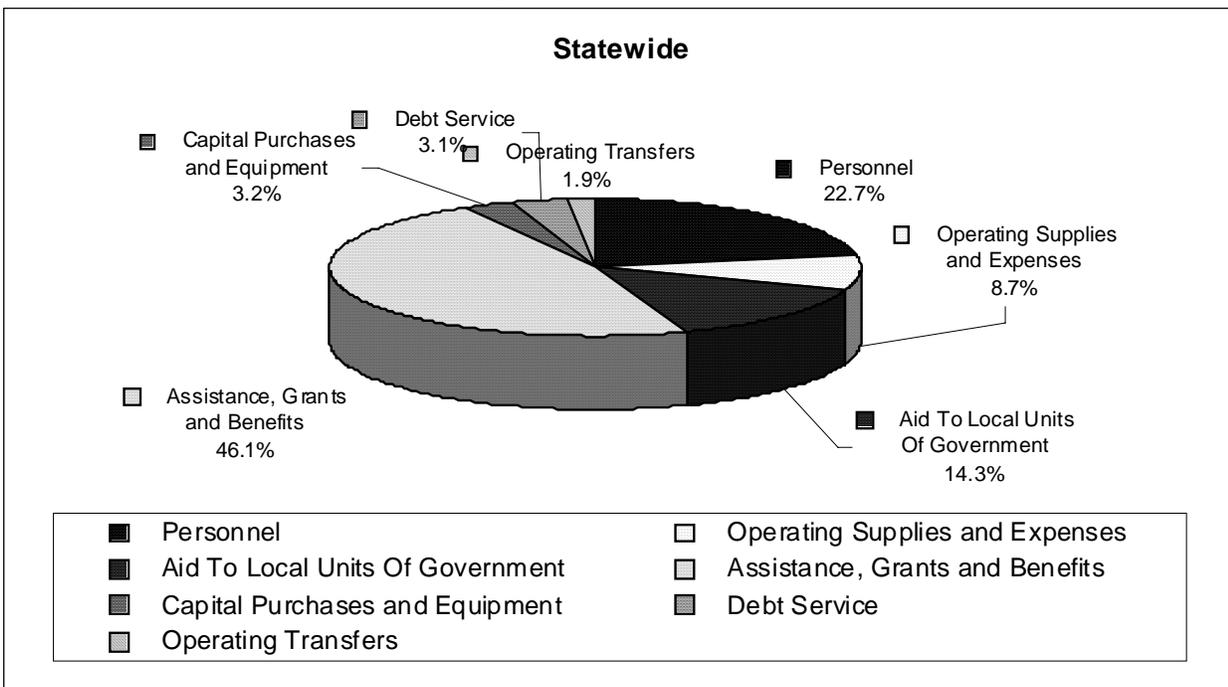


\$1.357 billion, equaling 17.7 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling \$1.014 billion, or 13.3 percent of the total budget.

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The second way to view expenditures is by major category. On this basis, the largest share of the FY 2012 budget is for assistance, grants and benefits equaling \$3.533 billion or 46.1 percent of the total. This is followed by personnel expenditures, which comprise 22.7 percent, or \$1.735 billion, and local aid expenditures, which make up 14.3 percent, or \$1.097 million of the total budget. Expenditures for capital purchases and debt service total \$484.7 million or 6.3 percent, with the balance of spending used to finance operating expenditures and operating transfers of \$812.1 million, or 10.6 percent of the total.



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Expenditures from general revenue total \$3.170 billion for FY 2012. By function, spending by Human Service agencies represents the largest share with expenditures, totaling \$1.261 billion, or 39.8 percent of the general revenue budget. This is followed by spending for Education, which totals \$1.054 billion, or 33.2 percent. General revenue expenditures for General Government and Public Safety comprise \$414.4 million (13.1 percent) and \$402.2 million (12.7 percent), respectively. Expenditures for Natural Resources comprise \$39.0 million, or 1.2 percent of total general revenue 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. The largest component is assistance, grants, and benefit expenditures of \$1.125 billion, comprising 35.5 percent of total general revenue spending. Local Aid expenditures of \$895.3 million represent 28.3 percent of total spending; personnel expenditures of \$841.8 million comprise 26.6 percent of the budget; operating expenditures and operating transfers total \$138.5 million, or 4.4 percent of the budget; and, capital expenditures and debt service total \$169.0 million, or 5.3 percent of the total general revenue budget.

Governor Chafee's *FY 2012 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.

Specific recommendations for FY 2012 for the departments are presented in the *Executive Summary*, as well as the five-year financial projection as provided by law. Further detail is provided in the *Technical Appendix*.

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 fiscal years (FY 2009 and FY 2010) 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 2011 budget are included in the financial data by program for FY 2011. Totals and subtotals often appear to be inaccurate by small amounts or may disagree by small amounts with other budget and financial documents; this is due to differences in rounding procedures. The annual Appropriations Act is the absolute reference for state appropriation amounts.

The Budget also contains both narrative descriptions of Rhode Island's quasi-public agencies, authorities and entities, which are component units of state government for financial reporting purposes, and presents financial data provided by these entities. The Budget Office requests that quasi-public agencies and authorities submit information in the format used by the agency; no attempt is made to conform the financial presentation of the agencies data. In most cases, the FY 2011 and FY 2012 information has not been officially approved by the entities' governing bodies.

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The *FY 2012 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 2012 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 2012 Budget*. The *Budget as Enacted* will be prepared after final enactment by the 2011 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.

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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, 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 the 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, although not on an individual “line item” basis. The Legislature may override any veto by a three-fifths majority vote. Supplemental appropriations measures must be submitted by the Governor to the General Assembly on or before the third Thursday 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 (e.g. FY 2011). The *current fiscal year* is the one which ends the coming June. The *actual fiscal years* are the years which concluded in 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-years* refer to any years beyond the budget year.

By law, *The Budget* must record two actual fiscal 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 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 among the three. It must meet no less than twice per year, in November and May, and can be convened at any other time by call of

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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. The Department of Revenue coordinates revenue collection activities of several state divisions.

Human Services includes agencies that provide services to individuals. These 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. Beginning in FY 2012, the Human Services function also includes the Department of Veterans' Affairs, composed primarily of the Rhode Island Veterans' Home and the Rhode Island Veterans' Memorial Cemetery. The Executive Office of Health and Human Services coordinates the programmatic and financing concerns of the Human Services agencies.

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 the Department of Public Safety.

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The *Natural Resources* function protects the natural and physical resources of the state and regulates the use 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 expenditure classify expenditures by budgeting and accounting objects of expenditure: personnel; state operations; aid to local units of government; assistance, grants, and benefits; and capital. Objects of expenditures define how funds are encumbered and expended.

Personnel includes the salaries, wages, and benefits of state employees, as well as personnel services purchased from outside contractors and vendors.

Operating Supplies and Expenses include expenses incurred while conducting the day-to-day business of state government. This category is often referred to simply as "operating". Operating expenses comprise non-personnel expenditures for operations of state government, including facilities maintenance, program and office supplies, rental of outside property, telecommunications, and insurance.

Aid to Local Units of Government is payments made to governmental units that provide services at the local level. Education Aid to local school districts is an example.

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 the Rhode Island Works, Supplemental Security Income, and Child Care Assistance entitlements are a few examples.

Capital Purchases and Equipment include capital improvements and new capital construction financed via the Rhode Island Capital Plan Fund (RICAP), general revenues, or federal funds. Please note that the majority of capital improvements, supported by other forms of financing (i.e. state debt instruments), are generally 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, certificates of participation payments for the Intake Service Center, Attorney General's administrative office, Information Technology, and the Rhode Island School for the Deaf; and lease payments to the Convention Center Authority.

Operating Transfers include inter-fund and inter-agency transfers of financial resources.

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. The non-competitive branch includes positions that require the performance of routine tasks, or those that require licenses, certificates, or registrations. These employees

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are also promoted and discharged on the basis of rules and regulations established and administered by the Rhode Island State Employees Merit System.

Certain positions are specifically designated for inclusion in the unclassified service. These positions are 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 may 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 appropriate general revenue dollars for any purpose.

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

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. On November 7, 2006, Rhode Island voters approved a constitutional amendment limiting state expenditures commencing in FY 2008 such that appropriations do not result in general fund expenditures exceeding 98.0 percent of general fund revenues in FY 2008, and 97.0 percent in FY 2012 and thereafter. The amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment will, beginning on July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the budget reserve account maximum balance would be gradually increased by increments of 0.4 percent to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2012, the spending is limited to 97.2 percent of revenues and the budget reserve fund is capped at 4.6 percent of resources.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that

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revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, would be transferred to the State Retirement Fund upon completion of the post audit.

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.

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 current administration continues in its effort to develop and track measures of the performance of state agencies and departments. The performance measures included in the FY 2012 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 September 15 or 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.

In the fall and early winter, 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 basis for the agency's request and 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

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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, 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 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 normally includes articles containing 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.
Late July	Budget Instructions and Funding Targets distributed to Agencies.
Mid September	Budget requests of Agencies with enacted budget of \$7.0 million or less due to Budget Office.
Late Sept./	
Early Oct.	Budget requests of Agencies with enacted budget of over \$7.0 million due to Budget Office.
Oct./Nov.	Agency Meetings to review Budget Recommendations.
Late Dec./	
Early Jan.	Gubernatorial Decisions on current year supplement and budget year recommendations.
3 rd Thursday	Statutory date for current-year Governor's Supplemental Appropriation bill submitted to
in January	Legislature.
3 rd Thursday	Statutory date for budget-year Governor's Budget Recommendation bill submitted to
in January	Legislature.

Consideration by House of Representatives and Senate. Appropriation bills are introduced into the House and are first considered by the House Finance Committee. 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 subcommittees recommend adjustments to the full 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 mirrors the steps followed in the House of Representatives. Usually, however, consideration by the Senate 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 six days, Sundays excepted, the bill automatically becomes law without the Governor's signature). The General Assembly may overturn the Governor's veto with a three-fifths vote in each house.