

State of Rhode Island and Providence Plantations

# Budget



## Fiscal Year 2017

Executive Summary

Gina M. Raimondo, Governor



## State of Rhode Island and Providence Plantations

State House  
Providence, Rhode Island 02903-1196  
401-222-2080

Gina M. Raimondo  
Governor

February 2, 2016

To the Honorable General Assembly:

The budget I submit today builds on the progress we have collectively made in addressing Rhode Island's economic and fiscal challenges.

Our principal focus is on building a new economy so that everyone can "make it in Rhode Island." In order to do that, we need skills that matter and jobs that pay.

Our economy is making progress. Last year, Rhode Island created more jobs than in any single year since 2000, and our unemployment rate fell more than any other state in the nation. But there is much more work to do to create growth that includes everyone.

For the second year, I propose a balanced budget that includes no broad-based tax increases; invests in strengthening neighborhood schools and in building skills that matter; makes it cheaper and easier to do business in order to attract new businesses and help our existing businesses grow; makes work pay for Rhode Island families; protects the health and safety of our residents; and modernizes government.

Last year, I worked closely with House Speaker Nicholas Mattiello, Senate President Teresa Paiva Weed, and leaders in both chambers to grow our economy. The General Assembly overwhelmingly supported a suite of economic development tools focused on putting people back to work -- those efforts are starting to bear fruit. However, more remains to be done. We need more skills, more jobs, and higher incomes.

This budget has five main themes to continue Rhode Island's comeback:

- Build skills that matter by developing a first-class educational system and workforce;
- Make it cheaper and easier to do business to grow well-paying jobs;
- Make government more innovative, efficient, and responsive to the public;
- Protect the health and safety of Rhode Islanders; and
- Make fiscally responsible decisions to support long-term growth and close the deficit.

If we remain committed to these principles, I am confident that we will achieve our shared goal of creating jobs and expanding opportunity for all Rhode Islanders.

The FY 2017 budget closes an estimated shortfall of \$49.5 million, down from the FY 2016 deficit of \$190.4 million we faced one year ago. A combination of last year's reforms to control cost growth and stronger revenues have improved our fiscal situation.

Under current law, the Governor's budget recommendations are based on projected revenues from the November Revenue Estimating Conference. Those estimates, however, may not reflect the true fiscal picture for the state. Indeed, in November and December 2015, the state's revenues were above estimates, and I am cautiously optimistic that the trend will continue. I have again proposed moving the November revenue conference to January so that the Governor's budget is informed by the most current data.

If revenues continue to come in higher than anticipated such that there are additional resources available after the May conference, I recommend that the General Assembly consider the following actions:

- Increase education funding formula categorical spending in areas such as career and technical education and transportation;
- Reduce the structural deficit by repealing proposed transfers from quasi-public agencies;
- Put more money in working people's pockets by expanding the Earned Income Tax Credit even beyond the increase proposed in this submission;
- Provide additional support for the Rhode Island Infrastructure Bank's Efficient Building Fund, which has experienced great demand to fund projects that reduce energy usage;
- Establish tiered reimbursement rates for Child Care Assistance Providers to incentivize quality improvements;
- Increase home care worker raises above budgeted amounts to promote greater use of home- and community- based services as an alternative to nursing homes; and
- Purchase additional voting equipment for the 2016 elections, including e-poll books.

I appreciate our partnership and shared sense of urgency in improving our state's economic outlook; I look forward to continuing to work with you as Rhode Island makes even more progress toward its comeback.

Sincerely,



Gina M. Raimondo  
Governor

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# FY 2017 Budget Documents

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Governor Raimondo's *FY 2017 Executive Summary* is the first of eight documents that contain the summaries of revenue and expenditures on a statewide, functional, and departmental basis and also presents statewide expenditure data by *category* or object of expenditure. This same data is presented in the *Budget* in more detail by program.

The *Executive Summary* contains special reports on Education Aid and State Aid to provide a historical perspective on these state expenditures and also contains a "Budget Primer" which is intended to assist the reader of the budget documents in understanding the budget process in Rhode Island. Specific recommendations for FY 2017 for the departments are presented in this document, as well as the five-year financial projection as provided by law. Further detail is provided in the *Technical Appendix*.

*The Budget* consists of four volumes that provide an overview of state expenditures, as well as an in-depth presentation of the State Budget by program. The financial data presented for state agencies in *The Budget* for the past two fiscal years (FY 2014 and FY 2015) 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 Office of Postsecondary 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 2016 budget are included in the financial data by program for FY 2016. 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 2016 and FY 2017 information has not been officially approved by the entities' governing bodies.

The *FY 2017 Budget* reports performance measurements for most programs, as required by legislative mandate to develop performance measurements for use in the budget process. Measurements are provided after each agency personnel supplement page. The *Budget* document provides information relating to personnel costs by program.

The *Capital Budget* contains information on the Governor's recommended capital improvement plan and contains individual project expenditures as well as contains the debt service component relating to capital improvements and any "pay-as-you-go" capital, which is financed from current revenues.

The *Budget as Enacted* will be prepared after final enactment by the 2016 General Assembly.



# Executive Summary

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# **Executive Summary**



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# Introduction

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Governor Raimondo's FY 2017 budget focuses on building a new economy so that everyone can "make it in Rhode Island." In order to do that, we need skills that matter and jobs that pay.

The state's economy made progress in 2015. Rhode Island created more jobs last year than in any single year since 2000, and the unemployment rate fell more than any other state in the nation.

However, much more work needs to be done to create growth that includes everyone. In passing the FY 2016 budget, the General Assembly supported numerous proposals to provide business, citizens and government with the tools necessary to spark an economic comeback. Those efforts are starting to have an impact, but the state is still not creating the kind of growth it needs. Rhode Island must continue to press urgently for reforms and investments that will make the state competitive with its neighbors, create well-paying jobs, and improve the standard of living for all residents.

The Governor's FY 2017 budget is built around five main themes:

- Develop a first-class educational system and workforce;
- Make it cheaper and easier to do business and create well-paying jobs;
- Make government more innovative, efficient and responsive to the public;
- Protect the health and safety of Rhode Islanders; and
- Make fiscally responsible decisions to support long-term growth and close the structural deficit.

Following these themes, the Governor submits a balanced budget that includes no broad-based tax increases; increases funding for elementary, secondary and higher education; continues commitment to workforce development efforts; reduces unemployment taxes for business owners; invests in economic growth and innovation; supports working Rhode Islanders through a minimum wage increase and expansion of the Earned Income Tax Credit; and promotes the fiscal health of our cities and towns.

During the last year, Rhode Island business and community leaders, academics, and stakeholders have contributed time and energy to tackling the state's most complicated challenges. The FY 2017 budget reflects many recommendations from groups such as the Rhode Island Economic Development Planning Council, the Working Group to Review the Permanent Education Foundation Aid Formula, the Overdose Task Force, the Working Group for Healthcare Innovation, the Justice Reinvestment Working Group, the Cybersecurity Commission, as well as all of those who shared their views in public meetings and community engagement events.

The budget also makes progress in closing the structural deficit. The FY 2017 budget closes an estimated shortfall of \$49.5 million, down from the FY 2016 deficit of \$190.4 million. In terms of constraining costs, the state made important progress in last year, locking in budget savings by resolving challenges to pension reform, the state also achieved significant savings by reinventing Medicaid, which accounts for approximately 30.0 percent of our state budget. The FY 2017 budget continues to focus on both holding down costs and creating economic growth. As a result, the projected FY 2020 deficit drops 27.9% from last year's estimate, from \$376.7 million to \$271.7 million. Additional revenues from a better business climate may improve the outlook further.

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## **First-Class Educational System and Workforce**

Fostering a pipeline of educated and skilled workers is the most important action the state can take over the long-term to position Rhode Islanders to thrive in the new economy. Not coincidentally, it is also among the most important approaches in the near term to attract businesses to invest and grow in Rhode Island.

### *K-12 Education*

Rhode Island must provide a first-class education so that students are prepared for well-paying jobs in the industries the state hopes to attract and expand. The state has committed to increased resources for public education by adopting a funding formula, which reimburses school districts according to their need and allows funding to follow the student. The Governor's budget continues implementation of the funding formula in its sixth year while proposing changes to improve educational outcomes and promote equity.

To ensure that the state's education funding formula fairly reflects the needs of schools and children, the Governor established the Working Group to Review the Permanent Education Foundation Aid Formula. This group of diverse stakeholders was charged with reviewing the funding formula and making recommendations for improvement. The Governor's budget includes the Working Group's recommendations to invest additional funds on behalf of students with special needs. It creates an English Language Learners weighting component to the formula and adjusts the allocation of funds to school districts and charter schools to reflect local costs and conditions. These investments represent a total increased investment of \$39.1 million for the funding formula and its associated categorical programs over FY 2016 levels.

Included in the funding formula and categorical program increase is an additional investment in early child development programs – \$1.2 million more than in FY 2016. Early learning programs support cognitive growth in children and lay the groundwork for future academic success. Rhode Island was one of twenty states that received federal funding under the Race to the Top – Early Learning Challenge grant. With the \$50.0 million grant expiring in December 2016, the Governor's budget includes \$1.6 million to sustain several ongoing early childhood initiatives in the Department of Human Services and the Department of Education.

### *Investment in Schools*

Innovation and leadership are essential to creating the conditions of success in Rhode Island public schools. To that end, the Governor recommends creating an Innovation & Empowerment Fund – a recommendation of the funding formula working group – and provides an initial appropriation of \$1.0 million in FY 2017 for both planning and implementation grants to support building-level innovation and empowerment and establish a statewide cohort of empowerment schools. Further, to promote leadership development among educators and administrators, the budget invests \$1.75 million toward professional development for principals and teachers to build a pipeline of school leaders through an emerging leaders program, support the growth of sitting principals, and strengthen in-state principal preparation programs. It also funds two additional staff positions at the Rhode Island Department of Education to support educator performance evaluation.

For students and educators to thrive, the state's schools must be safe, modern, and conducive to learning. In FY 2016, Governor Raimondo proposed the School Building Authority Capital Fund to supplement the existing school construction program, and the General Assembly supported an initial appropriation of \$20.0 million for the Fund. The FY 2017 budget invests a total of \$80.0 million in school construction and renovation, including \$9.1 million for the School Building Authority Fund. However, the demand for school construction and renovation

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funding exceeds available resources – the result of an earlier statewide moratorium on non-emergency projects. To address this shortfall, the Governor proposes a \$40.0 million school construction bond to further renovate and modernize school facilities.

In addition to the other education initiatives in this budget, the Administration intends to propose additional measures this year to further strengthen neighborhood schools by (1) empowering principals and teachers to form school leadership teams and make decisions in their own students' best interest; and (2) by providing parents more options about where their children go to school.

### *Skills Development & Access to Affordable Higher Education*

An educated and skilled workforce is vital to economic development. Employers have noted the need for job applicants with technical certification or higher education degrees, and Rhode Island must prepare its workforce with the skills to succeed. By 2020, 71.0 percent of Rhode Island's jobs will require some form of post-secondary degree – an associate's degree or higher – yet only about 43.0 percent of Rhode Islanders presently meet that benchmark.

To support affordable higher education, the FY 2017 budget provides \$17.0 million in new funding, including \$10.0 million in capital funding, for the University of Rhode Island, Rhode Island College, and Community College of Rhode Island. This investment is intended to prevent a tuition increase and to keep college accessible to Rhode Islanders. In recent years, the state has demonstrated an increased commitment to higher education funding, and this additional investment will assist Rhode Island students as they seek to improve their skills and enter the workforce.

Students should not be dissuaded from higher education by testing costs. The Governor's budget recommends \$500,000 to make the SAT and PSAT exams free for all students in Rhode Island. The goal of initiative is to have 100.0 percent of high school students take these tests. It will also permit high schools to administer the test during the school day to encourage participation.

The budget continues the state's commitment to the Pathways in Technology (P-TECH) program, which connects high schools, community colleges, and businesses. The program allows qualifying high school students to pursue a five- or six-year path to a high school diploma, an associate's degree, and ultimately a job. Conducted with industry partners, the program provides skills development and access to mentors, internship opportunities and employment. These partnerships create reliable pipelines of talented, trained workers. The state invested \$900,000 in FY 2016 to establish three P-TECH schools, and the Governor recommends an additional \$1.4 million from debt refinancing proceeds in FY 2017 to expand to five schools. Additionally, to provide students with the necessary skills for advanced industries, the budget includes \$260,000 in grant funding to expand computer science instruction in school districts.

For recent graduates, the Governor proposes a total of \$5.0 million to continue and expand the Wavemaker Fellowship college loan forgiveness program. In its first year, the Wavemaker program will provide loan forgiveness for recent graduates pursuing careers and starting businesses in technology, engineering, design, and other key sectors. The Wavemaker program encourages graduates to remain in the state, attracts young innovators, and promotes new businesses and economic activity. Expanding the program in its second year will satisfy the additional needs of recent graduates and employers eager to expand their workforce.

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The budget maintains the state's commitment to Real Jobs RI, a demand-driven workforce and economic development initiative. The program ensures that Rhode Island employers have the talent they need to compete and grow while providing targeted education and skills training to Rhode Island workers. Real Jobs Partnerships convene industry employers, key stakeholders and groups in alliances to address business workforce demands. This program requires no new general revenue funding, but redirects existing funds to the most effective programs, using performance measurement to optimize the investment of workforce development dollars.

Finally, the budget includes \$2.0 million for Rhode Island's participation in the White House's TechHire initiative. TechHire is a multi-sector initiative to empower Americans with the skills they need, through universities and community colleges but also nontraditional approaches like "coding boot camps," and high-quality online courses that can rapidly train workers for a well-paying job, often in just a few months. As part of this initiative, the Executive Office of Commerce, the Department of Labor & Training, Rhode Island higher education institutions, and non-profit organizations are working with employers to use data and innovative hiring practices to expand openness to non-traditional hiring and create more fast-track tech training opportunities by expanding models for training that prepare students in months, not years. The goal of Rhode Island's TechHire initiative is to train and place 2,000 Rhode Islanders in information technology jobs over the next five years.

### *Tax Relief and Support for Working Families*

Despite recent improvements in the state's unemployment rate and economic outlook, still too many Rhode Islanders struggle to make ends meet. In 2015, the Governor and the General Assembly provided help to working families by increasing the state's minimum wage from \$9.00 per hour to \$9.60, effective January 1, 2016. Massachusetts's rate is currently \$10.00 per hour and is scheduled to climb to \$11.00 in 2017. Connecticut's rate is currently \$9.60 per hour and will rise to \$10.10 in 2017. To remain competitive with neighboring states, the Governor recommends increasing Rhode Island's minimum wage to \$10.10 in 2017.

The FY 2017 budget includes a provision again increasing the allowable percentage of the federal Earned Income Tax Credit amount that may be used as a credit against Rhode Island personal income tax liability. The Governor and General Assembly supported increasing the deduction from 10.0 percent to 12.5 percent in the FY 2016 budget. The Governor recommends increasing the deduction rate to 15.0 percent, which will provide relief to 85,000 taxpayers, more than 70.0 percent of whom have a Federal Adjusted Gross Income of less than \$25,000.

### **Attracting 21<sup>st</sup> Century Businesses**

In addition to creating a pipeline of skilled workers, this budget proposes other actions designed to make it easier and cheaper to do business in Rhode Island, to attract advanced industries to invest here, and to help existing businesses grow and thrive.

### *Make it Easier and Cheaper to do Business*

The Governor seeks to lower the unemployment insurance (UI) burden that employers pay. UI taxes are among the top complaints of Rhode Island businesses. The Tax Foundation ranks Rhode Island 49th -- second worst -- in unemployment insurance taxes. Part of attracting 21<sup>st</sup> century businesses to invest in Rhode Island is addressing areas where the state is an outlier.

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The Governor's plan will reduce the UI taxes that burden Rhode Island businesses without harming benefits. The plan will save Rhode Island businesses approximately \$30 million next year alone, and will likely mean that businesses in Rhode Island will pay less per employee in UI taxes than businesses in Massachusetts.

Additionally, the proposal seeks to crack down on disability insurance fraud. Rhode Island is one of five states that require Temporary Disability Insurance (TDI) for workers – an important safety net in the event of injury. However, Rhode Island's program is structured differently from other TDI states, leading to relatively high claim rates and worker contributions (a 1.2% payroll tax on the first \$66,300 of wages). The Governor's proposal establishes a TDI Fraud and Program Integrity Task Force to improve the claims review process and promote enhanced information sharing across state government benefit programs. It also requires claims to be filed within 90 days of illness or injury.

### *Promote Innovation*

In January 2016, the Rhode Island Economic Development Planning Council adopted a long-term economic development strategic plan prepared by the Metropolitan Policy Program at the Brookings Institution, in association with Battelle Technology Partnership Practice and Monitor Deloitte. A comprehensive study of the Rhode Island economic climate, Rhode Island Innovates: A Competitive Strategy for the Ocean State, notes Rhode Island played a central role in the Industrial Revolution and emphasizes, in light of recent economic conditions, that “the Ocean State needs to transform itself once more.” Rhode Island's small size is an advantage to incubate ideas and foster collaboration, but the state can do more to promote a culture of innovation.

The Governor's budget recommends \$5.0 million in FY 2017 for a new research and development (R&D) tax credit. The credit will assist businesses that commit to R&D in the state and that make a substantial new investment in plant, equipment, or personnel. Rhode Island Innovates notes that the effectiveness of Rhode Island's R&D tax credit is limited in value and is not refundable. With the new proposal, companies can apply to the Commerce Corporation prior to incurring expenses and receive a refundable tax credit for property tax liability, up to \$200,000. The tax credit will be available to pass-through entities and will be subject to annual appropriations. The budget also recommends adding \$1.0 million to increase the state match under the federal Small Business Innovation Research program, a competitive award that supports innovative R&D and commercialization.

The budget also provides \$2.75 million to implement Impact Faculty, a higher education innovation initiative recommended by the Economic Development Planning Council (\$1.5 million in debt restructuring funds and \$1.25 million in general revenue). This effort will support hiring university faculty with track records of commercializing their research. Impact Faculty will transform Rhode Island higher education institutions into centers for innovation that can create new businesses and jobs and improve the economy.

Rhode Island Innovates also emphasizes the need for Rhode Island to improve transportation links to Boston and other areas. The budget includes \$1.5 million to create Rhody Pass, which will improve rail connectivity between Rhode Island and the metropolitan Boston area by offering users discounted fare options and rail information. To improve air connectivity, the budget includes \$1.5 million for an Air Service Development initiative to support additional direct routes from T.F. Green to major metropolitan areas, thereby facilitating business travel and economic development.

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## *Targeted Short-Term Investments for Economic Development*

The enacted FY 2016 budget authorized limited-duration economic development initiatives funded by the proceeds of state debt restructuring. That effort yielded \$64.0 million to support effective new tools to attract new businesses, support existing employers, improve schools, and encourage real estate development. The Governor’s budget projects an additional \$35.0 million available from ongoing debt restructuring in FY 2017. In most cases, these funds will be invested in programs demonstrating high demand in FY 2016. New initiatives include \$1.5 million designated for a new program to improve rail connectivity between Rhode Island and the Boston metropolitan area, and \$1.5 million to recruit top university faculty members and commercialize their research. A detailed list of expenditures follows.

<b>Summary of Projects Supported by State Debt Refinancing</b>		
<i>Restructuring the state’s debt is estimated to yield \$35.0 million in FY 2017. These funds will be used exclusively to advance economic development priorities.</i>		
<b>Project</b>	<b>FY 2017</b>	<b>Purpose</b>
Rebuild RI Tax Credit	\$20,600,000	Supports high-return catalytic real estate development projects that encourage construction and other job creation. Previously, Rhode Island had no broad-based real estate development tax credits. The Rebuild RI real estate tax credit will leverage private funds to spur real estate development.
First Wave Closing Fund	\$5,000,000	Provides state economic development officials with flexibility when working with businesses interested in locating to or expanding in Rhode Island. The First Wave Closing Fund provides last-dollar financing for projects that are catalytic in nature and of significant economic benefit to the state.
Impact Faculty	\$1,500,000	Supports hiring top-notch university faculty with track records of commercializing their research.
Rhody Rail Commuter Pass	\$1,500,000	Improves rail connectivity between Rhode Island and the metropolitan Boston area by offering discounted fare options and rail information to travelers.
P-TECH	\$1,400,000	Allows qualifying high school students to pursue a five- or six-year path to a high school diploma, an associate's degree, and ultimately a job. Conducted with industry partners, the program promotes skills development and provides access to mentors, internship opportunities and employment.
Industry Competitive Cluster Grants	\$1,250,000	Creates an incentive for companies in an industry sector to work together to solve problems, exchange ideas, and develop talent. Such “industry cluster” relationships are key to growing innovation economy and do not currently exist at scale in Rhode Island. This grant program encourages the formation of industry clusters in areas such as R&D, technology transfer, workforce development, or marketing.
Housing Opportunity Fund	\$1,000,000	Through Rhode Island Housing, finances the production and preservation of housing for young workers, seniors, and other residents. Projects will be prioritized if they can move to construction quickly and leverage federal housing tax credit dollars.

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Summary of Projects Supported by State Debt Refinancing (cont.)		
Project	FY 2017	Purpose
Main Street RI Streetscape Improvements	\$1,000,000	Provides funds to upgrade streetscapes in local business districts, including such elements as lighting, street furniture, and medians. These improvements will create an environment more hospitable to business and attract customers to the commercial corridors of cities and towns.
Innovation Vouchers	\$1,500,000	Expands R&D capacity among businesses in Rhode Island. Rhode Island enterprises with fewer than 500 employees can receive grants of up to \$50,000 to fund R&D assistance from a Rhode Island university, research center, or medical center. Vouchers can be used as: support for the commercialization of a new product, process, or service; access to scientific, engineering, and design expertise; technological development and exploration; or scaling innovative ideas to market development.
Building & Fire Code Permitting	\$250,000	Expedites fire and building permit review of priority projects. The approved FY 2016 budget permitted projects receiving state economic development incentive funding to be subject only to state building and fire code inspections done by the state. Funding will be used for one-time transition costs for the state assuming responsibility for certain local fire and building inspections.
<b>Total Refinancing Proceeds</b>	<b>\$35,000,000</b>	

## *Customer-Oriented Regulations and Permitting*

In addition to providing economic development incentives and tax relief, Rhode Island can improve the business climate by clearing the thicket of complex and redundant regulations at the state and municipal levels. From professional licensing to permitting, small business owners and residents have expressed frustration at long wait times and unclear advice from agencies. Following the Governor’s Executive Orders on regulatory reform (Executive Order 15-07) and Lean Government (Executive Order 15-09), the state has made efforts to streamline professional licensing at the Department of Health, shorten application timelines at the Department of Environment Management, and reduce unemployment insurance processing times at the Department of Labor and Training, among others.

The Governor’s budget includes the following initiatives to streamline regulations and make Rhode Island move at the speed of business.

- \$500,000 for expansion of e-permitting – In February 2016, the State Fire Marshal and State Building Commission will adopt an online permitting system, with ten communities following shortly thereafter. The e-permitting system will replace paper building permits, allowing builders and homeowners to transmit documents electronically and get real-time status updates on their applications. Additional funding will allow expansion to include 25 Rhode Island municipalities by the end of FY 2017.

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- \$250,000 in debt refinancing proceeds to expedite building & fire permits for priority projects – The approved FY 2016 budget permitted projects receiving state economic development incentive funding to be subject only to state building and fire code inspections done by the state. Funding will be used for one-time transition costs for the state assuming responsibility for certain local fire and building inspections.
- \$700,000 to modernize state regulations – The Office of Regulatory Reform and the Secretary of State’s Office propose modernizing the state’s Administrative Procedures Act and creating an online, indexed, and searchable Code of State Regulations. These improvements will make state regulations more accessible to business and others who interact with government, compiling all relevant information in a user-friendly format.

### **Keeping Rhode Islanders Safe and Healthy**

State government plays a key role in fostering a safe and healthy environment for all Rhode Islanders. Targeted investments in public safety, environmental protection, and public health can improve residents’ quality of life and make the state more attractive to visitors and businesses. The Governor’s budget includes programs to prevent crime, reduce fatal drug overdoses, support the health and well-being of seniors and children, enhance cybersecurity, and address the threat of climate change.

#### *Combat Drug Overdoses*

Like many states, Rhode Island has experienced a marked increase in accidental deaths from drug overdoses. This increase is largely attributable to opiate abuse; the state reported 237 deaths from opiate overdose in FY 2015, up nearly 18.0 percent from the previous year. This public health crisis has no geographic or socioeconomic boundaries; it threatens too many Rhode Island families and requires a thorough state response. Governor Raimondo’s Executive Order 15-14 created the Overdose Prevention and Intervention Task Force, which delivered a strategic plan to address the crisis in November 2015. Based on those recommendations, the Governor has set a statewide goal of reducing the number of opioid overdoses more than 40.0 percent by 2020. To make progress toward this target, the budget includes \$2.5 million to support medication-assisted treatment programs at the Department of Corrections. It also includes \$740,000 for the Office of Health and Human Services to increase availability of naloxone to first responders, better monitor opioid usage through the Prescription Monitoring Program, and expand access to peer recovery coaches. Including matching federal Medicaid dollars, this investment will provide a total of \$4.0 million to address the opioid crisis facing Rhode Islanders.

#### *Criminal Justice Reform*

Governor Raimondo has emphasized the need for criminal justice reform to end the cycle of incarceration and improve the safety of Rhode Islanders. Executive Order 15-11 established the Justice Reinvestment Working Group – representatives from the executive, legislative and judicial branches, and numerous stakeholders charged with reviewing the state’s criminal justice system and making recommendations. Supported by the Council of State Governments’ Justice Center and coordinated with the U.S. Justice Reinvestment Initiative, the Working Group adopted a data-driven approach to justice reform. Their final recommendations are expected in February 2016, but the Governor’s budget includes several provisions consistent with the group’s findings, including \$50,000 in FY 2016 and FY 2017 to improve evaluation of inmate rehabilitation programs in the Department of Corrections, and shifting existing resources to evidence-based programs.

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The budget also includes \$500,000 for a Pay for Success pilot project to increase employment and reduce recidivism for formerly incarcerated individuals. The pilot project will provide skills development and employment training, while fostering access to transitional jobs and permanent employment. Pay-for-success programs allow states to invest in promising programs and pay service providers only after certain outcomes have been achieved, thereby minimizing taxpayer risk and encouraging better results.

### *Enhance Cybersecurity*

As with criminal justice reform, the state has adopted an interagency approach to addressing the threat of cybersecurity. The Cybersecurity Commission, created by Executive Order 15-10, brought together representatives from state and municipal government, private industry and academia to make recommendations on improving the resiliency of government operations, as well as developing a cybersecurity industry and workforce in Rhode Island. Consistent with their recommendations from October 2015, the Governor's budget includes \$800,000 for priority information technology infrastructure upgrades, cybersecurity training for executive branch employees, and establishing a state cybersecurity director.

### *Healthy Environments for Seniors & Children*

As part of its Medicaid reform efforts, Rhode Island has emphasized the importance of home- and community-based placements as an alternative to more costly nursing homes. For these alternatives to be successful, the state must have a robust provider network and support system for home- and community based services. To build this capacity, the Governor's budget proposes increasing the hourly wages for home health aides and personal care attendants by approximately 7.0 percent. This investment will support a high-quality workforce and expand seniors' access to vital services in their homes.

Senior centers also play an integral role in keeping people in their homes by providing access to health care and social and educational opportunities. To expand the role of senior centers in Rhode Island communities, the FY 2017 budget includes an additional \$600,000 for the Division of Elderly Affairs to increase grant funding to current recipients of senior center funds. That funds will also provide initial appropriations to any cities or towns not yet receiving state support for these services.

The state's children also need safe environments conducive to developmental growth. Lead-based paint in Rhode Island's relatively old housing stock is the most common source of lead exposure for children. High blood lead levels are associated with learning disabilities and other cognitive challenges. To reduce children's lead exposure, the Governor's budget includes \$187,000 for lead poisoning prevention efforts. These funds will support Certified Lead Centers, which provide non-medical case management to lead-poisoned children, as well as the Lead Elimination Surveillance System and contracted data analysis and GIS services.

### *Address Climate Change & Protect the Environment*

As a coastal state, Rhode Island's economy and identity are closely tied to the health of the ocean and Narragansett Bay. Because of its unique geography, Rhode Island is particularly susceptible to the effects of global climate change, with many cities and towns threatened by coastal flooding and erosion. However, this vulnerability can also become an asset if Rhode Island leads the way in climate change research and mitigation planning. To encourage that transformation, the Governor's budget includes \$100,000 for a Coastal Resiliency Initiative at URI's Graduate School of Oceanography. In partnership with the National Oceanographic and

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Atmospheric Agency, the Institute will assist shoreline communities in preparing for and managing climate change impacts such as sea-level rise, extreme weather events, and fishery changes.

Rhode Island is also well-positioned to lead in renewable energy and energy efficiency efforts. With the Block Island wind project likely to be the United States' first offshore wind farm in 2016, the state has an unprecedented opportunity to raise its profile regionally and nationally on renewable energy. The Governor's budget includes several provisions to advance renewable energy in the state, including:

- Extend the Renewable Energy Fund beyond its scheduled expiration in December 2017 – The REF has been a popular incentive for small-scale solar, commercial renewable energy development, early stage commercial renewable development, and pre-development feasibility studies.
- Exempt renewable energy systems from municipal property tax – Currently, municipalities have the option to exempt renewable energy systems from taxation, but few do so. The Governor proposes an automatic exemption of renewable systems, but will allow municipalities to opt out of the exemption.
- Broaden net metering to allow more residents and business to use renewables – Rhode Island significantly expanded the appeal of solar installations by allowing net-metering, which credits residents and businesses that own on-site solar systems for the electricity they sell back to the grid. However, this benefit is unavailable to residents who rent, live in multi-family residences, or have unsuitable roofs for panel installation. The Governor proposes implementation of virtual net metering, which allows businesses and municipalities to receive credits from a solar array located offsite, as well as third-party net metering, which allows companies to install residential solar panels at no upfront cost to homeowners.

State government must also lead by example on renewable energy and energy efficiency. The Governor's Executive Order 15-17 charged state government with procuring 100.0 percent of electricity consumption from renewable sources by 2025. The executive order also set a target of reducing overall electricity consumption in state agencies by 10.0 percent between FY 2014 and FY 2019.

Finally, the FY 2017 budget addresses the need to enhance enforcement of laws and regulations to protect the state's environmental assets. It includes \$208,000 to support two staff positions at the Department of Environmental Management. An environmental scientist in the Office of Compliance and Inspection will improve complaint response times and enforce new provisions of the amended wetlands and cesspool statutes. An additional legal counsel in the Office of Legal Services will pursue litigation to compel compliance and ensure payment of administrative fines and penalties. These efforts will enhance DEM's ability to pursue those who violate environmental laws and will ultimately improve compliance.

### **Making Government Effective and Efficient**

The Raimondo Administration is focused on improving government programs to deliver better outcomes for Rhode Islanders. Across government, departments are making efforts to use data to inform decisions, invest in evidence-based programs, improve customer service, streamline business processes, adopt technology, and eliminate wasteful and duplicative programs. The Governor's FY 2017 budget includes numerous provisions to modernize government and use taxpayer dollars more effectively.

#### *Reinventing Medicaid*

The Governor's FY 2016 budget initiated an expansive Reinventing Medicaid effort to control costs and improve health outcomes. The FY 2017 budget continues that initiative, with reforms proposed in six major categories:

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targeted interventions for the highest cost/highest need populations, value-based payment approaches in managed care, value-based payment in long-term services and supports, value-based payment in hospitals, better coordinated care for individuals with behavioral health needs, and improved program oversight and efficiency. The Office of Health and Human Services' budget assumes \$39.0 million in general revenue savings from these proposals in FY 2017, including \$19.1 million in operational savings from the Unified Health Infrastructure Program. These cost reductions are in addition to savings from FY 2016 efforts that were included in the November 2016 Caseload Estimating Conference. The budget also establishes a Performance-Based Program for hospitals and nursing homes. This revenue-neutral effort will move Medicaid funding toward a value-based purchasing approach that rewards quality, efficiency, and health outcomes.

### *Child Welfare Improvements*

The Department of Children, Youth and Families (DCYF) is improving the child welfare system to reduce costs while providing better outcomes to children in care. Rhode Island has one of the highest child placement rates in residential programs – a costly alternative to foster homes, family reunification, and adoption. DCYF proposes ending the current structure of child welfare service delivery, which uses two networks of service providers for placements, and returning administrative functions to DCYF staff. To increase the number of foster care placements and reduce the need for residential programs, the budget proposes increasing the foster care subsidy rate from \$16.05 per day to \$18.59.

As part of its operational and fiscal review, DCYF has also identified greater opportunities to reduce general revenue spending by improving Medicaid claiming, saving \$2.1 million in general revenue in FY 2017 and recovering \$3.4 million from services provided between FY 2014 and FY 2016. DCYF has also identified \$2.0 million in personnel savings in the child welfare program from greater efficiencies and by leaving certain positions vacant.

### *Enhanced Opportunities for People with Developmental Disabilities*

The FY 2017 budget takes important steps to provide greater opportunities to individuals with intellectual and developmental disabilities (IDD). In 2014, the state signed a consent decree with the U.S. Department of Justice to provide training and support services and transition to community-based activities and integrated employment, replacing the sheltered workshops and facility-based day programs then in place. This transformation allows the state to save money on expensive residential programs and provide better outcomes for the IDD population, but it also requires some reinvestment so service providers can build capacity and offer appropriate programming.

To ensure that individuals with IDD are not placed in unnecessarily restrictive settings, the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) will make programming and placement decisions based on the individuals' results from a nationally recognized needs assessment survey. BHDDH projects savings of \$1.0 million in FY 2016 and FY 2017 by moving individuals to less restrictive settings that reflect their actual needs. BHDDH also anticipates moving some individuals with IDD from group home settings to Shared Living Arrangements, reducing costs by \$1.5 million in FY 2016 and \$7.6 million in FY 2017. Changes in program delivery will also eliminate the need for professional supports in day centers, thereby saving \$1.1 million in FY 2016 and \$2.2 million in FY 2017.

These system changes will require service providers to adapt and offer new home- and community-based programs. The budget includes \$5.2 million in FY 2016 and \$4.5 million in FY 2017 for service providers to

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develop and offer the services required under the consent decree. Additionally, to ensure quality care and minimize staff turnover at service providers, the budget also includes an increase in minimum hourly wages for Direct Service Professionals from \$11.55 to \$12.00, for a total of \$2.5 million in FY 2017.

### *Cost-Containment in Eleanor Slater Hospital, Training School*

In 2015, BHDDH began a comprehensive operational review of the state-run Eleanor Slater Hospital system. The new management team has identified areas for improvement and efficiencies – particularly in low-volume, high-cost services. BHDDH proposes a hospital reorganization and other efficiency enhancements to achieve \$4.1 million in savings in FY 2017.

DCYF is also reviewing services provided in the Rhode Island Training School. Though the average daily population in the Training School has declined from an average of 169 in FY 2009 to 85 in December 2015, the relatively steady costs of health care and education services do not reflect that reduction. In light of DCYF's intent to restructure service delivery, the budget includes a reduction of \$500,000 in contracted health care costs.

### *Government Efficiency Improvements*

The Governor has challenged departments to review existing functions and determine whether they can be provided more cost-effectively. The FY 2017 budget includes the following initiatives:

- \$2.6 million savings in utility costs in FY 2017 – The State exercised its final option year for natural gas commodity pricing for the period December 1, 2015 through October 31, 2016 at Pastore Campus Power Plant, resulting in a 14.0 percent reduction in pricing.
- \$267,000 savings in state worker's compensation claims in FY 2017 – Based on a Bureau of Audits review, the state determined that it was paying a higher assessment rate for certain classifications of state employees. Correcting the error will save \$500,000 in all funds, and \$267,000 in general revenue.

Investments in technology will also streamline business process and result in cost savings.

- The state's Unified Health Infrastructure Program (UHIP) integrates the application and approval processes for various benefit programs, including HealthSource RI, Medicaid, Supplemental Nutrition Assistance Program (SNAP), RI Works, and subsidized child care. In addition to providing better customer service to Rhode Islanders, these technology improvements will yield \$22.6 million in spending reductions in the Office of Health and Human Services and Department of Human Services in FY 2017.
- The state is in the process of replacing its antiquated paper-based time and attendance tracking system with a web-based solution. The new time & attendance system will facilitate staff scheduling, improve reporting, reduce unnecessary paperwork, and ensure that leave employee requests conform to policies and law. The Department of Corrections, one of the pilot agencies to test the system, anticipates \$350,000 in savings in FY 2017.

### *Customer Service Investments*

The Governor's budget also includes several initiatives to improve customer service and Rhode Islanders' interactions with government, including the following:

- \$130,000 to implement Online Voter Registration – The Secretary of State's office supports legislative efforts to establish online voter registration in Rhode Island. More than half of U.S. states, including Massachusetts and Connecticut, provide this convenient, secure, and cost-effective method to register to vote or update voter registration information. Adoption in Rhode Island will improve election

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administration by reducing the number of manual registrations and updates that consume voter and staff time prior to elections.

- \$1.4 million in FY 2017 to upgrade the state's voting equipment (\$1.0 million increase over FY 2016) – Based on the Voting Equipment Task Force's recommendations, the state issued a Request for Proposals to lease optical scan paper ballot tabulation and ballot printer systems. The Secretary of State's office expects to implement the equipment in time for the Presidential Preference Primary in April 2016.
- \$147,000 for the Division of Motor Vehicles (DMV) to provide extended hours to the public (\$40,000 in FY 2016 and \$107,000 in FY 2017) – DMV is developing a proposal to offer evening or weekend service at one or more branches. Additional hours will provide flexibility to Rhode Islanders, reduce wait times at peak hours, and improve overall customer service.

### *Fraud Detection & Prevention*

Governor Raimondo proposes a comprehensive Fraud Detection and Prevention Initiative to use technology and enhanced oversight to detect and prevent fraud across executive branch departments. Currently, the state's efforts to detect and prevent fraud and abuse are spread across several agencies, including the Bureau of Audits, Office of Health and Human Services, Department of Labor & Training, Department of Business Regulation, and the Division of Taxation. This fragmented approach inhibits data-sharing and collaboration. Taxation and OHHS have made significant investments in information technology to detect and prevent fraud and abuse, but the state needs to coordinate those efforts with work in other agencies. The Governor's budget proposes standardizing audit and quality review functions across executive branch agencies and investing \$1.5 million in a fraud detection system. These efforts are expected to save \$5.0 million for last six months of FY 2017. The consolidation will also yield \$290,000 in personnel savings in FY 2017 by eliminating redundant functions.

### *Program Eliminations & Downsizing*

The FY 2017 budget includes several provisions to remove unnecessary or duplicative programs and/or spending in order to focus government's efforts on delivering key services to the public. These provisions include:

- Close Rhode Island Film & Television Office – The office's primary responsibility is to promote the state to production companies and to review and approve applications for Film Production Tax Credits. With the Tax Credit program scheduled to sunset in FY 2019, the budget recommends closing the office and transferring marketing responsibilities to the Commerce Corporation. Because Film Office staff will not transfer to Commerce, the proposal will save \$332,000 in FY 2017.
- Lease State Fleet Passenger Vehicles – Of the more than 2,600 vehicles and heavy equipment in the state fleet inventory, approximate 250 are light-duty passenger vehicles designated for employee use. Departments own these passenger vehicles, but a recent survey indicated inconsistencies in preventive maintenance. The budget proposes leasing light-duty passenger vehicles, with a third-party manager responsible for upkeep and replacement. The State Fleet Office will manage the contract and continue to oversee the remainder of the fleet. The budget assumes \$1.0 million in revenue from state vehicle sales, with leasing costs offset by operational efficiencies.
- Eliminate Library Resource Services – The Office of Library and Information Services administers contracted services such as online tutoring, genealogy research and business reference. As these services are available from other sources, the budget recommends terminating the contracts, for a savings of \$311,000.
- End Channel 36 Transition Grant – Rhode Island's Public Broadcasting Station, Channel 36, became an independent entity separate from the state in FY 2014. Since then, the state has provided a total of

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\$750,000 in transition funding to support Channel 36's financial self-sufficiency. The FY 2017 budget recommends ending transitional support, saving \$200,000.

- Transfer Atomic Energy Commission to the University of Rhode Island – The state's Atomic Energy Commission manages the Nuclear Science Center, a research reactor on the Narragansett Bay Campus of the University of Rhode Island. As the Center is used for academic and commercial research, the budget proposes transferring operating costs and staff to URI. The state does not anticipate savings from the transfer, but greater integration with URI will lead to operational improvements.

### *State Personnel Modernization*

The state's personnel system, in many instances, is governed by archaic laws, which may hinder the efficient operations of the state and limit opportunities for state employees. The state needs thoughtful and targeted personnel reform to attract top talent, control rising costs, provide more opportunities and options for employees, and create a government that is flexible, innovative, and responsive to Rhode Islanders.

The budget includes legislative proposals to provide state government with greater flexibility in hiring and managing personnel. It also proposes the ability to offer completely optional health insurance buyouts to current retirees. This proposal can save the state money while also benefiting retirees who have access to insurance through other means, such as through their spouse's employer policy.

### *Municipal Fiscal Health*

In a state the size of Rhode Island, the fiscal health of individual cities and towns can have a significant impact on the broader business climate. Businesses may be reluctant to locate or expand in a state where one or more municipalities face financial distress. The Governor's FY 2017 budget includes several provisions to assist cities and towns as they strengthen their fiscal footing:

- Fully Fund PILOT – The budget includes an additional \$1.9 million for Payment in Lieu of Taxes (PILOT), intended to offset the municipal property tax losses of nonprofit and government property owners. The total \$42.0 million appropriation in FY 2017 will be the first time the state has fully funded PILOT since FY 2008.
- Create Municipal Transparency Portal – Funding of \$200,000 will allow the Division of Municipal Finance to develop an online website for collection and public dissemination of municipal fiscal data and reports. The budget streamlines and standardizes existing reporting requirements to facilitate comparison across municipalities and will provide cities and towns with financial analysis support. The budget also requires the Division to post municipal contracts to improve fiscal transparency to taxpayers.
- Mandate Income Tax Refund Offset Program for Distressed Communities – Ten municipalities participate in the Division of Taxation's income tax refund offset program, which garnishes income tax refunds of individuals who owe back taxes or other state fines. The budget requires that cities and towns designated as "distressed communities" participate in the offset program to recover unpaid taxes.
- Reform Property Revaluation Schedule – The budget includes language extending the property tax revaluation schedule cycle from nine years to fifteen years. Municipalities will have to conduct updates every five years, instead of three, which will promote efficiencies and cost savings while maintaining reliable property values in each of the cities and towns.

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## **Making Responsible Investments & Reducing Deficit**

The budget also makes progress in closing the out-year deficits by investing in long-term growth. Structural deficits create an unstable business climate and discourage investment. If residents and business are concerned about future tax increases, they will be reluctant to invest in the economy by hiring new workers, renovating property, or making large purchases. The FY 2017 budget includes no broad-based tax increases to maintain business climate, as well as contains numerous cost-controlling efforts and efficiencies described above. The budget makes new investments in initiatives that promote economic growth and will help reduce future deficits.

### *General Obligation Bond Projects*

Every two years, the people of Rhode Island go to the ballot to consider various projects funded through general obligation bonds. These projects provide an opportunity to invest in Rhode Island's infrastructure, economic development, and quality of life. In the FY 2017 budget, Governor Raimondo proposes a total of \$230.0 million for the following seven general obligation bond initiatives on the 2016 ballot.

- Leveraging Higher Education to Create 21st Century Jobs – \$45,500,000
  - URI – Engineering Building Renovations, Phase 2 - \$25,500,000 – URI proposes to renovate and build additions to the existing College of Engineering complex of buildings, including the renovation and addition to Bliss Hall. The project will improve classrooms and offices, modernize teaching laboratories, upgrade elevators and restrooms, and replace the HVAC system.
  - Innovation Center – \$20,000,000 – Bond funding will support a public challenge to select a location, develop a vision, and construct the state's first innovation district. Funding will be used to finance construction tenant improvements and shared-use equipment. State investment will leverage additional resources from academic institutions, industry partners, federal funds, and philanthropic organizations.
  
- Recreation, Green Spaces, and Healthy Communities - \$35,000,000
  - Historic State Park Development Program – \$7,000,000 – Support capital improvements to state properties, including Fort Adams State Park, Brenton Point, Colt State Park and Goddard State Park.
  - State Land Acquisition Program – \$4,000,000 – Acquire open space, farmland, watershed, and recreation lands with matching funds from federal and private entities.
  - State Bikeway Development Program – \$10,000,000 – Design and construct bikeways, including the completion of the Blackstone River Bikeway and the South County Bikeway.
  - Brownfield Remediation and Economic Development – \$5,000,000 – Provide up to 80.0 percent matching grants to public, private, and/or non-profit entities for brownfields remediation projects.
  - Stormwater Pollution Prevention Program – \$3,000,000 – Provide up to 75.0 percent matching grants for public, private, and/or non-profit entities for projects that reduce stormwater pollution.
  - Local Recreation Development Matching Grant Program – \$2,000,000 – Provide up to 80.0 percent matching grants to municipalities to develop public recreational facilities.
  - Local Land Acquisition Matching Grant Program – \$4,000,000 – Provide fifty percent matching grants to municipalities, local land trusts, and non-profit organizations to acquire fee-simple interest, development rights, or conservation easements on open space and urban parklands.
  
- Quonset Port –\$70,000,000 – The Port of Davisville has two piers (Pier 1 and Pier 2), both of which are significantly older than their expected useful lives. The Quonset Development Corporation has a plan to

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extend and rehabilitate Pier 2 – a cost-effective option that will allow for business continuity at the port. By adding a pier extension to Pier 2, Quonset can sequence the repairs without harming the Port's ability to service customers. This investment will keep Quonset competitive as a port and promote economic growth for the state.

- **Housing Opportunity** – \$40,000,000 – Rhode Island has a shortage of 30,000 housing units within the means of the state's lowest-income renters – those earning 30.0 percent or less of Area Median Income (\$24,250 for a family of four). Funding for the Housing Opportunity initiative will be allocated through the existing Building Homes Rhode Island. Bond funds will be invested in the development of new apartments, for-sale homes, and supportive housing. The funds will also rehabilitate and preserve existing homes. The state's last two bond issuances of \$75.0 million financed 1,944 homes with a total development cost of almost \$469.0 million, leveraging five dollars in other federal, state and private sources for each state dollar.
- **School Construction** – \$40,000,000 – After the state's moratorium on school construction and renovation expired in FY 2016, school districts faced a backlog of projects. The FY 2016 budget created a School Building Authority and seeded a capital improvement fund to target funds to the highest priority projects. Providing additional resources to the capital fund will remove administrative hurdles for districts to execute urgent improvements and provide public school districts an equitable opportunity to address their immediate needs. With an initial \$20.0 million in FY 2016, the School Building Authority was able to fund 86 projects, benefitting 30,000 Rhode Island students.
- **Veterans' Home** - Voters authorized the Veterans' Home project in November 2012 for \$94.0 million. Based on the latest projections, the total cost of the new construction is estimated at approximately \$121.0 million. The 2012 ballot question stated that the amount of bonds to be issued would be lowered by any federal funding received for this project. The federal Veterans Administration is expected to contribute up to \$60.5 million to the project, which would allow the state to only issue \$33.5 million of the 2012 bonds, leaving the project up to \$27.0 million short. This ballot proposal will authorize up to \$27.0 million in bonds to cover this shortfall, but overall the amount of debt issued by the state for the new Veterans' Home project will be \$34.0 million less than authorized in 2012.

### *Improved Taxation Enforcement and Compliance*

The FY 2017 budget includes the following initiatives to improve compliance with existing tax laws:

- **Internal Revenue Code Audit Program** – The Division of Taxation proposes working with a vendor to identify candidates for audits of companies that have intercompany transactions between related companies. Prior to the state's implementation of combined reporting, companies could shift revenues between related entities to avoid taxation in certain states. The audit program will have a three-year lookback period to capture underpaid taxes. It is expected to yield net revenues of \$6.7 million.
- **Nexus Program** – The Division of Taxation expects to identify and register out-of-state entities that legally do business in Rhode Island, but have not paid appropriate corporate, withholding, and/or sales and use taxes. Identifying and collecting back taxes will provide an estimated \$880,000 in net revenues in FY 2017.

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## *Medical Marijuana Regulation and Enforcement*

The FY 2017 budget includes provisions to improve oversight and enforcement of the state’s medical marijuana program. Currently, patients not growing their own medical marijuana may purchase marijuana from registered caregivers and compassion centers. The lack of transparency and oversight in the caregiver market makes it difficult to enforce limits on how much marijuana is grown and dispensed. The budget proposal creates a tagging system and fee for each medical marijuana plant to monitor supply and ensure compliance with growing limits. It also reduces the number of plants that may be grown by caregivers and patients. By charging for plant tags and reducing the compassion center surcharge, it will encourage greater price parity between the two supply sources. The proposal facilitates access to compassion centers by authorizing delivery services. It also creates a cultivator license for individuals to grow a larger number of plants to supply compassion centers.

The Department of Business Regulation will assume responsibility for licensing, regulating, and inspecting compassion centers and caregivers, with the Department of Health continuing oversight of physicians and patients. These collective changes will improve patient access to medical marijuana, enhance enforcement, and yield an additional net \$8.4 million in general revenue and restricted receipt funding in FY 2017.

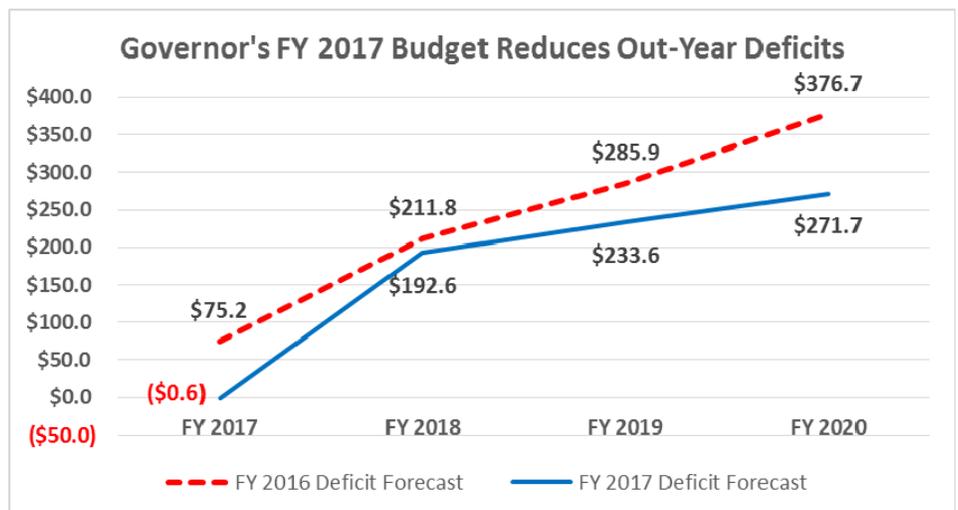
## *Cigarette Tax*

The Governor’s budget proposes increasing the cigarette tax by 25 cents, from \$3.75 to \$4.00 per pack. The additional tax will raise \$7.1 million in revenue in FY 2017 while improving the health of Rhode Islanders. According to the Campaign for Tobacco-Free Kids, an increase in cigarette prices reduces youth smoking rates. With the proposed increase, the average price of cigarettes will be \$9.78 per pack, still below the Massachusetts average of \$10.18, thereby minimizing cross-border revenue losses.

## *Deficit Reduction*

The FY 2017 budget closes an estimated shortfall of \$49.5 million, down from the FY 2016 deficit of \$190.4 million the state faced one year ago. A combination of last year’s reforms to control cost growth and stronger revenues have improved Rhode Island’s fiscal situation. The Governor’s budget successfully closes the projected FY 2017 deficit of \$49.5 million through a combination of expenditure reductions, new revenues, and transfers and other operating changes.

The Governor’s budget also reduces projected out-year deficits. Compared to FY 2016 projections from March 2015, the FY 2017 budget shrinks the projected FY 2018 deficit by 9.1 percent from \$211.8 million to \$192.6 million. Decreases in later years are larger, with the FY 2019 deficit declining 18.3 percent and FY 2020 dropping 27.9 percent. Additional



revenues from a better business climate may improve the outlook further. While more work remains to be done, the Governor’s budget makes progress in closing Rhode Island’s structural deficit.

# Overview

The FY 2017 Recommended Budget addresses a projected operating deficit of nearly \$49.5 million, while investing in key areas to improve the State’s overall financial outlook. The FY 2017 Budget reflects ongoing improvements in the State’s overall financial condition over the past several years. FY 2015 closed with a surplus of \$168.0 million, representing the sixth year in a row the State has closed with a strong surplus. The following outlines the FY 2016 Revised and the FY 2017 Recommended Budgets as proposed by Governor Raimondo on February 2, 2016.

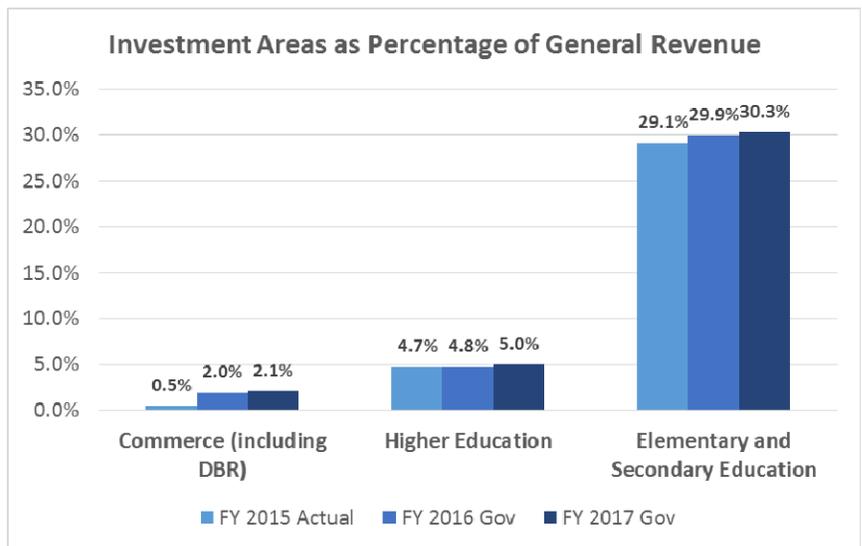
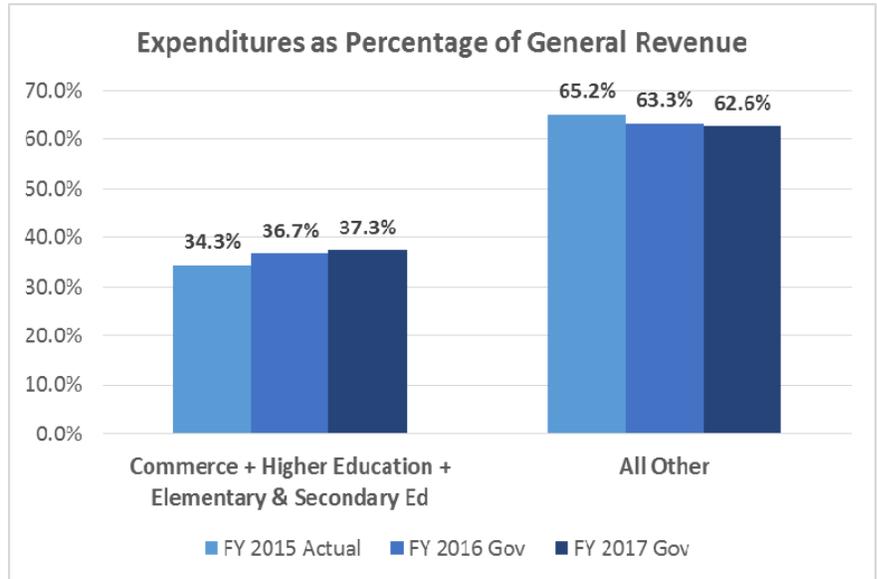
## Investment in Growth

The Raimondo Administration aims to rebalance state expenditures by constraining consumption-oriented spending – for example, health care and benefits programs – and increasing investments such education and workforce training, economic development, and infrastructure. The enacted FY 2016 budget included a Medicaid reform proposal to reduce consumption while increasing funds for economic development and education.

As seen in the following charts the FY 2017 budget continues the shift toward investment, specifically elementary and secondary education, higher education, and economic development. Total investment in these three areas climbed from 34.3 percent of general revenue expenditures in FY 2015 to 37.3 percent in FY 2017.

At the departmental level, funding for the Department of Education (including school aid to cities and towns) climbed from 29.1 percent of general revenue spending in FY 2015 to 30.3 percent in FY 2017. Funding for the Office of Postsecondary Education and the three

institutions of higher education increased from 4.7 percent in FY 2015 to 5.0 percent in FY 2017. Finally, funding for the Executive Office of Commerce and Department of Business Regulation rose from 0.5 percent of general revenue spending in FY 2015 to 2.1 percent in FY 2017.



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**FY 2017 Recommended Budget:** Governor Raimondo recommends an all funds budget totaling \$8,964.8 million for FY 2017, a decrease of \$10.4 million, or 0.1 percent, from the FY 2016 Revised Budget of \$8,975.1 million. Of the \$10.4 million decrease, there is an increase of \$100.3 million in general revenue and \$63.2 million in other funds, with reductions in federal funds of \$146.9 million and in restricted receipts of \$26.9 million. Of the \$8,964.8 million budget, \$3,676.8 million, or 41.0 percent, is from general revenue; \$2,967.2 million or 33.1 percent is from federal funds; \$2,058.9 million, or 23.0 percent, is from other sources; and \$261.9 million, or 2.9 percent, is from restricted or dedicated fee funds. The Governor's FY 2017 Recommended Budget includes 15,225.3 authorized full-time equivalent (FTE) positions, which is 86.0 FTE positions greater than what is included in the Governor's FY 2016 Revised Budget Plan and 104.9 FTE positions more than what was included in the FY 2016 Enacted Budget.

Recommended FY 2017 general revenue funding of \$3,676.8 million represents an increase of \$124.8 million, or 3.5 percent, over the FY 2016 enacted budget of \$3,555.2 million, and is 2.8 percent higher than the FY 2016 Revised Budget proposed by the Governor (\$3,576.5 million). Recommended FY 2017 federal funding of \$2,967.2 million represents an increase of \$20.0 million, or 0.7 percent, over the FY 2016 enacted budget, but is \$146.9 million below the FY 2016 Revised budget (\$3,114.2 million). Other funds and operating transfers increase from \$1,920.7 million in the FY 2016 enacted budget to \$2,058.9 million in the FY 2017 Budget.

**FY 2016 Revised Budget:** Governor Raimondo recommends a revised all funds budget totaling \$8,975.1 million for FY 2016, an increase of \$309.7 million, or 3.6 percent, from the FY 2016 Enacted Budget of \$8,665.4 million. Of this total, \$3,576.5 million, or 39.8 percent, is from general revenue, \$3,114.2 million, or 34.7 percent, is from federal funds, \$1,995.7 million, or 22.2 percent, is from other sources, and \$288.8 million, or 3.2 percent, is from restricted or dedicated fee funds. The Governor's FY 2016 Revised Budget includes 15,139.3 authorized FTE positions, which is 18.9 FTE positions higher than included in the FY 2016 Enacted Budget.

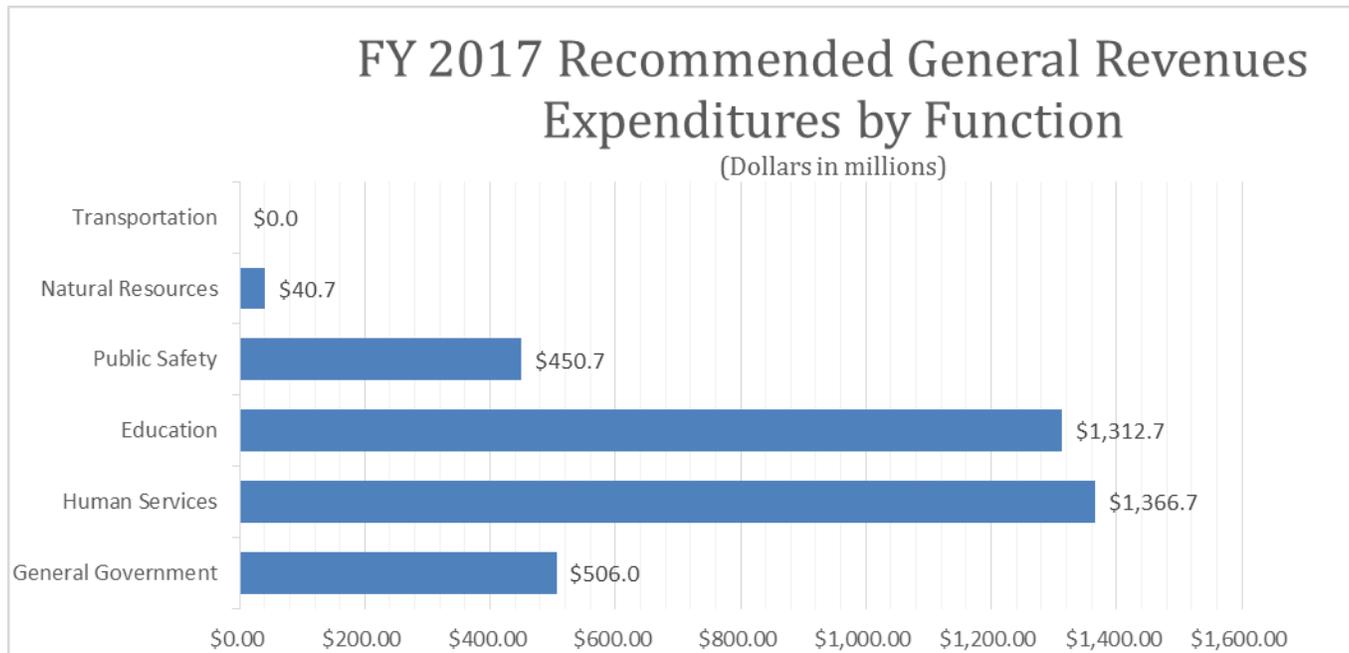
Recommended FY 2016 general revenue funding of \$3,576.5 million represents a net increase of \$24.5 million, or 0.7 percent, from the FY 2016 enacted budget of \$3,555.2 million, and is 7.2 percent higher than the FY 2014 actual expenditure (\$3,336.4 million). Federal funds increase from \$2,947.3 million in the FY 2016 enacted budget to \$3,114.2 million in the revised FY 2016 budget. Other funds increase from \$1,920.7 million in the FY 2016 Enacted Budget to \$1,995.7 million compared to the enacted plan.

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**Expenditure Plan by Function:** Expenditures from general revenue are projected to total \$3,674.8 million for FY 2017, increasing by \$98.3 million over FY 2016 revised spending levels. Expenditures are divided into five functional areas aligned with state departments and agencies: General Government, Health and Human Services, Education, Public Safety, and Natural Resources.



Expenditures totaling \$1,366.7 million for Health and Human Services agencies represent 37.2 percent of the total general revenue budget to support various health care and prescription drug coverage programs for low-income children, their parents, seniors and the poor, and community residential and treatment programs for the disabled. The Governor's budget continues to constrain cost growth in these areas while focusing on improving outcomes. The budget implements Medicaid reform efforts begun in FY 2016 and includes improvements to the child welfare system, state hospitals, and services provided to people with developmental disabilities.

Education is the second largest component of State spending, totaling \$1,312.7 million, or 35.7 percent of general revenue spending. This includes state support for local education aid, support for the state university and colleges, and scholarships. The Governor's budget implements the sixth year of the education funding formula and increases support for early childhood and special education programs. It also increases funding to higher education with a goal of preventing tuition increases at University of Rhode Island, Rhode Island College, and the Community College of Rhode Island.

General revenue expenditures for General Government and Public Safety comprise \$506.0 million (13.7 percent) and \$450.7 million (12.3 percent), respectively. General Government include state operations, state aid to municipalities, and direct property tax relief. Public Safety includes the state prisons, Military Staff, RI Emergency Management Agency, State Police, Attorney General, and Judicial departments.

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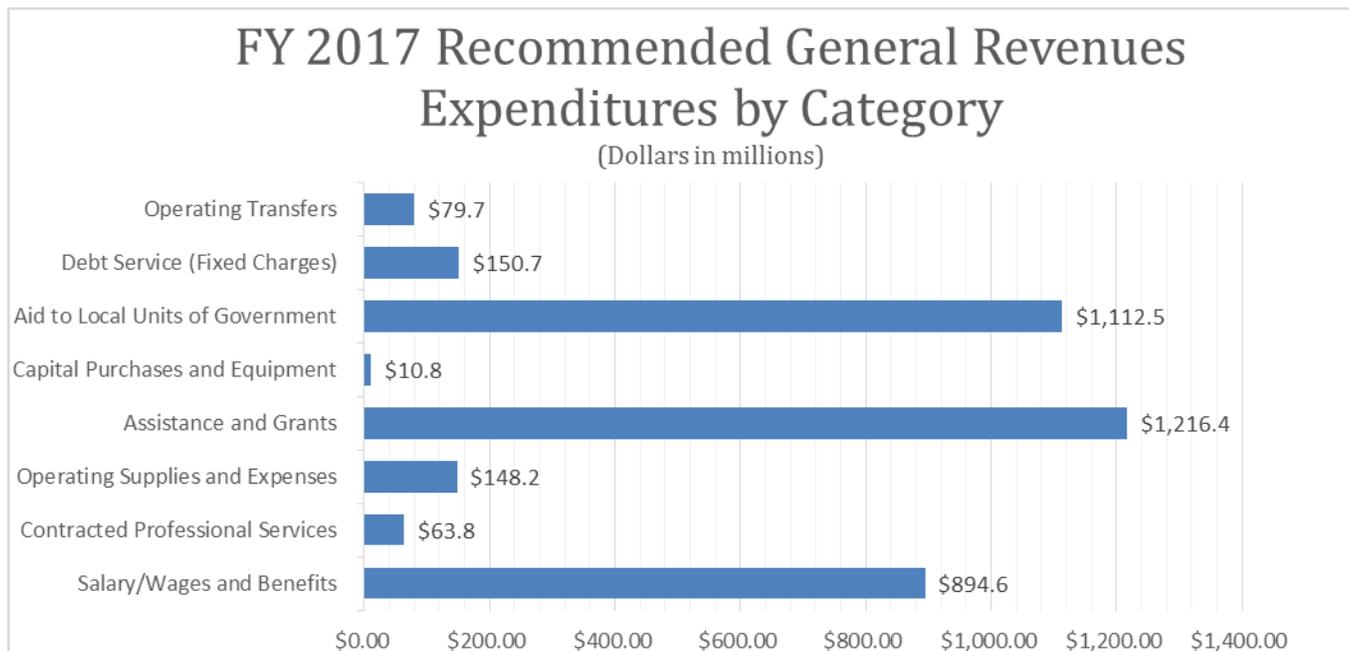
## Overview

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Finally, general revenue expenditures for Natural Resources comprise \$40.7 million, or 1.1 percent of total general revenue funding. The Natural Resources function includes the Department of Environmental Management and the Coastal Resources Management Council.

Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

**Expenditures by Category:** General revenue expenditures are also sorted into eight categories to group similar types of expenditures across departments. The largest general revenue categories are financing grants, local aid and personnel. Grants and assistance expenditures total \$1,214.4 million, comprising 33.0 percent of total general revenue spending in FY 2017. Local aid expenditures of \$1,112.5 million represent 30.3 percent of total spending, which includes fully funding the sixth year of the school aid formula. Personnel expenditures and contracted services of \$958.4 million represent 26.1 percent of the budget. Operating expenditures total \$148.2 million, or 4.0 percent of the budget; and capital expenditures, including debt service, and operating transfers total \$241.2 million, or 6.6 percent of the total general revenue budget.



Expenditures on grants and benefits represent \$1,216.4 million, or 33.0 percent of general revenue spending in FY 2017. More than 90.0 percent of these expenditures occur in the Health and Human Services function. In FY 2016, Governor Raimondo’s budget included substantial Medicaid reforms to control costs and deliver better health outcomes to Rhode Islanders. Partly from implementing those changes, the share of general revenues spent on grants and benefits declined from 33.9 percent of the FY 2016 revised budget to 33.0 percent in FY 2017.

Local aid represents \$1,112.5 million of general revenue spending in FY 2017, or 30.3 percent. The largest component of local aid is education aid, totaling \$1038.8 million. General revenue funding for local education aid increases by \$45.5 million in FY 2017 over the FY 2016 revised funding level. The Governor’s budget provides

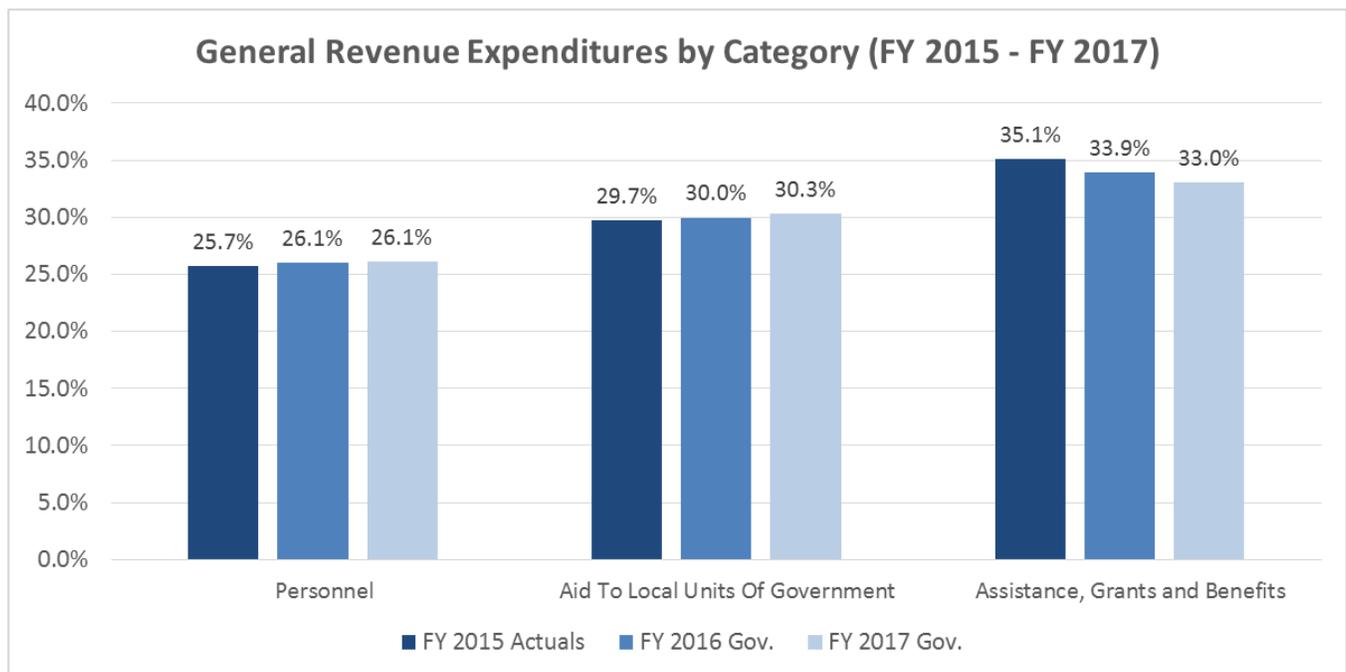
# Overview

\$33.4 million for year six of the K-12 education funding formula, as well as \$5.7 million more in categorical program funding such as early childhood and high-cost special education.

The Governor recommends changes to local K-12 education aid in FY 2017 arising from proposals of the Fair Funding Formula Working Group established in late 2015 to review the existing formula. It creates an English Language Learners weighting component to the formula and adjusts the allocation of funds to school districts and charter schools to reflect local costs and conditions. These investments increase the total share of local aid from 30.0 percent in FY 2016 to 30.3 percent in FY 2017.

The third-largest category, personnel and contracted services, includes \$958.4 million in FY 2017, or 26.1 percent of general revenue expenditures. In recent years, the state has taken steps to control personnel costs. As a result, personnel costs have remained steady as a percentage of general revenue budget – 26.1 percent in both FY 2016 and FY 2017.

The chart below demonstrates the Administration’s continued focus on shifting resources from consumption to investment. Local aid has increased from 29.7 percent of general revenue spending in FY 2015 to 30.3 percent in FY 2017, driven by additional funding for local education. Personnel expenditures increased from 25.7 percent of general revenues in FY 2015 to 26.1 percent in FY2016 and remained steady in FY 2017. Meanwhile, spending on grants and benefits declined from 35.1 percent of general revenues in FY 2015 to 33.0 percent in FY 2017.



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# The Economy

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## Introduction

The Consensus Revenue Estimating Conference (REC) convenes at least twice each year, typically within the first ten days of May and November. Historically, the purpose of the conference was confined to forecasting current and budget year revenue estimates. During the 1998 legislative session, the Revenue Estimating Conference statutes were modified to also require the adoption of a consensus economic forecast. Prior to the November 2001 conference, the conferees adopted a forecast for Rhode Island total employment, Rhode Island personal income, and the U.S. consumer price index for all urban consumers (CPI-U) covering the state's prior fiscal year, its current fiscal year, and the budget year.

Beginning with the November 2001 conference, in addition to Rhode Island total employment, Rhode Island personal income and the U.S. CPI-U, forecasts for Rhode Island wage and salary income, Rhode Island dividends, interest and rent, the Rhode Island unemployment rate, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills are also agreed upon at the Revenue Estimating Conference. Finally, the consensus forecast of these economic variables now includes the prior calendar and fiscal years, the current calendar and fiscal years, the budget calendar and fiscal years, and the next five calendar and four fiscal years.

## Economic Forecast

This section describes the economic forecast used as an input for the Revenue Estimating Conference's consensus revenue estimates.

During its November 2015 meeting, a forecast of the U.S. and Rhode Island economies was presented by Moody's Analytics. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends in Rhode Island. The conferees heard the testimony from a Senior Economist for Moody's Analytics, and the Assistant Director for DLT's Labor Market Information unit.

The Revenue Estimating Conference adopted the economic forecast, shown at the end of this section, on November 2, 2015 through a consensus process informed by the testimony provided to the conferees. The updated economic forecast made changes to the consensus outlook adopted at the May 2015 Revenue Estimating Conference. These changes can also be seen at the end of this section.

In testimony to the principals of the November 2015 Revenue Estimating Conference, Moody's Analytics noted that the state's labor market is showing positive signs as the three month moving average year-over-year percentage change in non-farm employment growth based on the Bureau of Labor Statistics' household survey moved above 2.0 percent in 2015. In addition to non-farm employment growth, Moody's Analytics reported that Rhode Island personal income growth has begun to accelerate exceeding 4.0 percent growth year-over-year in FY 2015. This rate of growth was the second highest in New England trailing only Massachusetts. According to Moody's Analytics, the breadth of job creation in Rhode Island bears watching as five industry sectors had negative job growth year-over-year in September 2015 while six industry sectors experienced positive job growth for the same period. This compares to the United States economy as a whole which had positive job growth in all 11 industry sectors. Based on an analysis conducted by Moody's Analytics, Rhode Island continued to underperform New England, the Northeast, and the United States as a whole in the growth in mid-wage jobs since January of 2010. Rhode Island did, however, outperform New England and the Northeast in the growth of high-wage jobs over this same time period. Finally, Moody's Analytics testified that new home sales in Rhode Island continue to lag behind existing home sales and that mortgage credit quality in the state is "a lingering sore spot" when it comes to Rhode Island's housing market.

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## The Economy

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Moody's Analytics provided the principals of the November 2015 Revenue Estimating Conference with three major risks that the U.S. economy faces and how Rhode Island would be impacted by these risks.

- The first risk is the exposure of state economies to trade with China and its major trading partners. For the U.S. as a whole, exports to China and its major trading partners as a percentage of Gross State Product (GSP) is 2.7 percent while Rhode Island's exports to China and its major trading partners is 0.9 percent of state GSP. Thus, a significant economic slump in China will have less of an impact on Rhode Island than the U.S. as a whole and Massachusetts.
- The second risk is the exposure of state economies to equity holdings of households. For the U.S. as a whole, Moody's Analytics determined that direct and indirect equity holdings measure in thousands of dollars as of December 2014 were approximately \$165,000 while for Rhode Island these holdings were \$167,000. Thus, faced with a sharp reduction in equity values the wealth effect on Rhode Island should be in line with the U.S. as a whole and less significant than in Connecticut and Massachusetts each of which have direct and indirect household equity holdings of more than \$176,000.
- The third risk is the exposure of state economies to a further slump in energy prices as measured by oil-related income as a percentage of total personal income. In this case, not surprisingly, Rhode Island's exposure risk is considerably less than the U.S. as a whole based on 2014 data as Rhode Island oil-related income as a percentage of total personal income was 0.3 percent vs. 2.0 percent for the U.S. Based on this risk factor, Rhode Island's exposure was similar to that of all of the New England states.

When all three of these risk factors are combined in a weighted average with 40 percent weights on exports to China and its major trading partners and direct and indirect household equity holdings and a 20 percent weight on oil-related income as a percentage of total personal income, Rhode Island's economy is classified as at lower risk while both Connecticut and Massachusetts are classified as at near average risk.

Moody's Analytics noted that some of the conditions weighing down the housing market include increased foreclosures and the weak labor market, translating into a delayed release of pent-up household formation. A key risk to the November 2015 Consensus Economic Forecast is the growth in the housing market. Growth in the housing market is dependent on projected wage growth triggering the release of pent-up demand for household formation which, if unachieved, will make the forecast overly optimistic. On a positive note, Moody's Analytics stated that mortgage delinquency rates are almost back to prerecession levels. Stringent credit conditions have resulted in improved mortgage delinquency rates and the recent spike in foreclosure inventory should not be a cause for concern as Rhode Island consumers are in a stronger financial position to borrow. Additionally, Moody's Analytics reports that factory job gains earlier in the year as well as the previously noted recent hiring in the financial services sector have kept the state's wage growth on par with the national average, an encouraging development given the uncertainty of the potential abatement in federal spending levels for defense and other grants.

While testimony from Moody's Analytics gave a broad picture of Rhode Island's economic conditions as of November 2015, the Rhode Island Department of Labor and Training (DLT) presented a detailed analysis of Rhode Island's labor market. DLT reported that the Rhode Island unemployment rate was 5.4 percent in September 2015, the latest data available at the time of the Revenue Estimating Conference. This is down from 7.2 percent in September 2014. The 5.4 percent unemployment rate for September 2015 was the lowest it has been since August 2007 when the rate was 5.3 percent. For December 2015, Rhode Island's unemployment rate fell further to 5.1 percent, a decrease from the December 2014 unemployment rate of 6.8 percent. The December 2015 unemployment rate of 5.1 percent was the lowest recorded since June 2007 when the rate was 5.0 percent.

## The Economy

Rhode Island's resident employment peaked at 547,300 in January 2007. Rhode Island resident employment in September 2015 totaled 527,800, or 19,500 below the peak, but 15,500 higher than in September 2014. According to DLT, for December 2015, Rhode Island resident employment totaled 526,496, or 20,779 below the January 2007 peak. DLT's data has December 2015 resident employment at 14,898 jobs above the reported amount of resident employment in December 2014. The DLT's data shows that resident employment has decreased by 1,587 between September 2015 and December 2015.

According to testimony provided by DLT at the November 2015 Revenue Estimating Conference, Rhode Island establishment employment increased over the period September 2014 to September 2015 resulting in 3,000 jobs gained.

Sector	Jobs Change	Sector	Jobs Change
Leisure & Hospitality	2,400	Information	(300)
Professional & Business Services	2,100	Government	(500)
Manufacturing	1,000	Education and Health Services	(700)
Other Services	600	Construction	(1,800)
Trade, Transportation & Utilities	400		
Financial Activities	(200)	<b>Total Non-Farm</b>	<b>3,000</b>

DLT staff testified further that they expect to see revisions to the June 2015 job numbers reported by the Bureau of Labor Statistics (BLS). Using a methodology developed by the University of Massachusetts, DLT staff project that total non-farm employment for the quarter ending June 2015 will be revised upward by 1,500 jobs. It should be noted that Moody's Analytics economic forecast incorporates upward revisions to BLS data for forecast numbers, but uses current BLS total employment numbers for historical figures. As a result, it may be the case that the growth rates contained in the forecast below will be revised downward as historical figures are revised upward. The anticipated changes to employment by sector for the quarter ending June 30, 2015 as calculated by DLT are shown in the table below.

Sector	Jobs Change	Sector	Jobs Change
Construction	1,800	Education and Health Services	(400)
Retail Trade	1,700	Manufacturing	(400)
Financial Activities	700	Transportation and Utilities	(400)
Government	500	Accommodations & Food Services	(700)
Information	(200)	Other Services	(800)
Professional & Business Services	(300)	<b>Total Non-Farm</b>	<b>1,500</b>

Source: RI Department of Labor and Training, Labor Market Information Unit, Quarterly Census of Employment and Current Employment Statistics (CES) data, Using methodology developed by the University of Massachusetts.

\*Difference is a result of rounding

### The November 2015 Consensus Economic Forecast

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. In FY 2015, total non-farm employment increased by 1.1 percent. In FY 2016, non-farm employment is expected to increase by 1.6 percent from 474,960 in FY 2015 to 480,280 in FY 2016. Over the FY 2016 through FY 2021 period, Rhode Island's economy is expected to add 25,070 jobs. It should be noted that growth rates in nonfarm employment indicate a positive trend from FY 2015's 1.1 percent growth to FY 2017's growth of 1.7 percent before rates of growth in nonfarm employment slow to 1.5 percent in FY 2018 and 1.1 percent in FY 2019. The

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## The Economy

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consensus economic forecast indicates a continued decline in non-farm employment growth in FY 2020 and FY 2021 of 0.5 percent and 0.2 percent respectively.

The unemployment rate is projected to decline significantly from 6.7 percent in FY 2015 to 5.2 percent in FY 2017. Rhode Island's unemployment rate is expected to continue its downward trend falling to 5.0 percent by FY 2020 before ticking up to 5.1 percent in FY 2021. Even at this lower rate in FY 2021, Rhode Island's unemployment rate will be 0.2 percentage points higher than the State's unemployment rate of 4.9 percent achieved when the economy peaked in FY 2007.

Personal income growth is expected to be 4.7 percent in FY 2016 up slightly from the 4.6 percent growth in FY 2015. The November 2015 Revenue Estimating Conference's estimates for personal income growth show a positive upward trend from FY 2014 through FY 2017 peaking at 5.2 percent growth in FY 2017. It should be noted that for FY 2016 and FY 2017, the adopted estimates for personal income growth are below the adopted estimates from the May 2015 Revenue Estimating Conference for the same period. This projection indicates that personal income growth will be stronger than what was anticipated for the FY 2018 and FY 2019 period at the May 2015 Revenue Estimating Conference. The consensus economic forecast for FY 2020 and FY 2021 personal income growth, as testified to by Moody's Analytics at the November 2015 Revenue Estimating Conference, is equal to or slightly below the consensus economic forecast adopted at the May 2015 Revenue Estimating Conference. The FY 2016 projected growth rate for personal income is down 0.3 percentage points from what was adopted at the May 2015 Revenue Estimating Conference of 5.0 percent. For FY 2017 the adopted November 2015 Revenue Estimating Conference personal income growth estimate is also 0.3 percentage points below the 5.5 percent growth rate that was adopted in May 2015. Based on the November 2015 Revenue Estimating Conference, the personal income growth rate is expected to fall to 4.8 percent in FY 2018 and remain at or above 3.1 percent throughout the remainder of the forecast period.

Similarly, the November 2015 Revenue Estimating Conference estimates for FY 2016 growth in dividends, interest and rents indicate a sharp increase from FY 2015 growth of 3.9 percent with robust growth of 10.1 percent projected to occur in FY 2017, 8.8 percent in FY 2018 and an average growth rate of 2.3 percent for the FY 2019 through FY 2021 period. November 2015 Revenue Estimating Conference adopted wage and salary income growth was higher in FY 2015 relative to the projected growth adopted in May 2015 by 1.0 percentage point. For FY 2016 and FY 2017, the November 2015 Revenue Estimating Conference growth rates for wages and salaries were revised downward by 1.4 percentage points and 0.7 percentage points respectively when compared to the forecast adopted in May 2015. Wage and salary income growth is expected to see continued improvement in FY 2016 with projected growth of 4.6 percent, an increase of 0.5 percentage points from FY 2015. The rate of growth accelerates in FY 2017 to 5.3 percent before decelerating in FY 2018, FY 2019 and FY 2020 to 5.0 percent, 4.6 percent and 3.6 percent respectively. The downward trend in wage and salary income growth continues into FY 2021 with a projected growth rate of 3.0 percent.

The U.S. rate of inflation as measured by the Consumer Price Index for all urban consumers (CPI-U) is anticipated to increase to 1.2 percent in FY 2016 from 0.7 percent in FY 2015. In FY 2017 the growth in the CPI-U doubles to 2.4 percent before increasing to 3.0 percent in both FY 2017 and FY 2018. The forecast of CPI-U growth decelerates to 2.6 percent in FY 2019 and 2.4 percent in FY 2020 and FY 2021.

For FY 2016, the interest rate on three month Treasury bills is expected to rise slightly relative to FY 2015's 0.0 percent rate. In FY 2017, the interest rate on three month Treasury bills is expected to rise to 1.0 percent and increase again by 1.5 percentage points to approximately 2.5 percent in FY 2018. For FY 2019 and FY 2020, the interest rate on three month Treasury bills climbs to 3.2 percent and 3.3 percent

## The Economy

respectively before stabilizing at 3.5 percent in FY 2021. The interest rate on ten year Treasury notes is expected to increase from 2.2 percent in FY 2015 to 3.6 percent in FY 2016 and continue to rise to 4.3 in FY 2018. The interest rate on ten year Treasury notes is anticipated to drift downward in FY 2019 to 4.2 percent and then decrease to 4.2 percent in FY 2020 and remain flat for FY 2021.

The Consensus Economic Forecast for the fiscal years 2016 through 2021 agreed upon by the conferees at the November 2015 Revenue Estimating Conference is shown in the following table.

<b>The November 2015 Consensus Economic Forecast</b>						
<b>Rates of Growth (%)</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Non-Farm Employment	1.6	1.7	1.5	1.1	0.5	0.2
Personal Income	4.7	5.2	4.8	3.8	3.2	3.1
Wage and Salary Income	4.6	5.3	5.0	4.6	3.6	3.0
Dividends, Interest and Rent	7.1	10.1	8.0	3.2	1.6	2.0
<b>Nominal Rates (%)</b>						
U.S. CPI-U	1.2	2.4	3.0	3.0	2.6	2.4
RI Unemployment Rate	5.6	5.2	5.0	5.0	5.0	5.1
Ten Year Treasury Notes	2.5	3.6	4.3	4.2	4.1	4.1
Three Month Treasury Bills	0.3	1.0	2.5	3.2	3.3	2.5

The differences between the November 2015 and the May 2015 Consensus Economic Forecasts are shown below. As is apparent from the table, the November 2015 Consensus Economic Forecast (CEF) is generally lower in FY 2016 and FY 2017 than the May 2015 Consensus Economic Forecast with the exception of the Rhode Island unemployment rate and national level measures that are tied to inflation. Employment and income growth improves in FY 2018 through FY 2020 in the November 2015 CEF vis-à-vis the May 2015 CEF.

<b>Percentage Point Changes from November 2015 To May 2015 Consensus Economic Forecasts</b>					
<b>Rates of Growth (%)</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Non-Farm Employment	0.04	-0.12	0.75	0.64	0.24
Personal Income	-0.28	-0.32	0.50	0.36	0.01
Wage and Salary Income	-1.35	-0.69	0.62	0.78	0.37
Dividends, Interest and Rent	0.42	0.72	1.32	0.08	-0.65
<b>Nominal Rates (%)</b>					
U.S. CPI-U	-0.64	-0.12	0.24	0.38	0.26
RI Unemployment Rate	-0.46	-0.31	-0.27	-0.24	-0.22
Ten Year Treasury Notes	-0.61	-0.53	-0.32	-0.28	-0.30
Three Month Treasury Bills	-0.34	-1.17	-0.48	-0.15	-0.16

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# General Revenues

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## Introduction

The Governor's recommended budget is based on estimated general revenues of \$3.569 billion in FY 2016 and \$3.707 billion in FY 2017. Annual estimated growth during FY 2016 and FY 2017 is -1.2 percent and 3.1 percent, respectively. Estimated deposits of \$112.9 million and \$113.7 million will be made to the Budget Reserve and Cash Stabilization Fund during these fiscal years. The contributions to the Budget Reserve and Cash Stabilization Fund are financed by limiting annual appropriations to 97.0 percent of estimated revenues in FY 2016 and FY 2017. The revenue estimates contained in the Governor's FY 2016 supplemental and FY 2017 recommended budgets are predicated upon the revenue estimates adopted at the November 2015 Consensus Revenue Estimating Conference (REC) and the Governor's recommended changes to the adopted general revenues.

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

## FY 2016 Revised Revenues

The principals of the November 2015 Revenue Estimating Conference adopted revenue estimates that were \$52.4 million greater than the enacted FY 2016 revenue estimates, an increase of 1.48 percent. As shown in the *Changes to FY 2016 Enacted Revenue Estimates* table in Appendix A of this document, the Governor's revised FY 2016 Budget recommends an increase of \$5,000 in revenues over the amount adopted at the November 2015 Revenue Estimating Conference.

The recommended change to the FY 2016 adopted estimates is attributable to a grant received by the Rhode Island State Council on the Arts from the Rhode Island Foundation. The funding will be used to provide grants to Expansion Arts alumni and administrators to attend professional development workshops. This one-time grant will be deposited as general revenue, with the additional revenue reflected in the Governor's revenue estimates for departmental receipts.

## FY 2016 Revised Revenues vs. FY 2015 Final Audited

Recommended revenues for FY 2016 are based upon a \$44.9 million decrease in total general revenues over FY 2015 final audited revenues, or growth of -1.2 percent. Much of this decline is attributable to projected decreases in the lottery transfer, motor vehicle operator license and registration fees, personal income taxes, estate and transfer taxes, other miscellaneous revenues, financial institutions taxes, and the unclaimed property transfer. However, these decreases are partially offset by gains in sales and use taxes, business corporations taxes, cigarette excise taxes, departmental receipts, and insurance companies gross premiums taxes.

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## General Revenues

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Personal income tax revenues continue to be the single largest source of state general revenues in FY 2016 at 33.8 percent. FY 2016 personal income tax revenues are estimated to grow at an annual rate of -1.0 percent or \$44.9 million below FY 2015 final audited personal income tax revenues. Much of this decrease is due to a projected \$22.1 million decline in final payments, a \$1.3 increase in refund payments, and a \$14.5 million downward adjustment to the estimated accrual. However, these declines are partially offset by an increase of \$24.5 million in withholding payments and an increase of \$694,205 in estimated payments.

FY 2016 revised general business tax revenues are projected to increase by \$2.6 million or 0.6 percent. The change is made up of a \$5.5 million increase in business corporations taxes along with a combined increase of \$89,771 in public utilities gross earnings taxes and bank deposits taxes. These increases are offset by a \$5.0 million decrease in financial institutions taxes and a \$123,338 decrease in the health care provider assessment.

FY 2016 revised sales and use tax revenues are projected to increase by \$17.6 million or 1.8 percent, over final FY 2015 audited revenues. Sales and use taxes represent 27.3 percent of total general revenues in FY 2016 and are projected to be \$981.0 million.

Excise taxes other than the sales and use tax are expected to decrease by \$7.6 million or -3.7 percent in FY 2016 over final audited FY 2015 revenues. This change is largely driven by a projected decrease in motor vehicle operator license and registration fees of \$12.9 million. However, this movement is partially offset by an increase of \$4.1 million in cigarettes taxes and increases of \$624,650 and \$636,715 in motor fuel taxes and alcohol taxes, respectively.

Other taxes are projected to decrease by \$10.7 million, or -23.9 percent in FY 2016 relative to final FY 2015 audited revenues. Of the total decrease in other taxes, estate and transfer taxes are expected to decrease by \$11.2 million or -32.8 percent. FY 2016 realty transfer taxes are anticipated to increase by \$506,536 while FY 2016 racing and athletics tax revenues are projected to decrease slightly. Racing and athletics taxes are expected to total \$1.1 million in FY 2016 a decrease of 0.7 percent from FY 2015 final audited revenues. Realty transfer taxes are expected to total \$10.0 million in FY 2016, an increase of 5.3 percent from final FY 2015 audited revenues.

In the Governor's FY 2016 revised budget, departmental receipts are projected at \$356.7 million, an increase of \$2.6 million from final audited FY 2015 revenues, representing a decrease of 0.7 percent. The revised FY 2016 departmental receipt revenues is \$5,000 above the FY 2016 revenue estimate adopted at the November 2015 Revenue Estimating Conference. This change results from the grant to the Rhode Island State Council on the Arts from the Rhode Island Foundation as described above.

For FY 2016, total other sources general revenues are projected to decrease by \$36.6 million, or -9.1 percent from final FY 2015 audited other sources general revenues. Total other sources general revenues is comprised of other miscellaneous revenues, the lottery transfer and the transfer of proceeds from the unclaimed property program administered by the Office of the General Treasurer.

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## **General Revenues**

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Other miscellaneous revenues are projected to decrease by \$8.0 million, or -91.1 percent from final audited FY 2015 other miscellaneous revenues.

In addition to the above general revenue components, a decrease is expected in FY 2016 for the lottery transfer of \$25.0 million, or -6.6 percent from the final audited FY 2015 lottery transfer. The projected decrease in the lottery transfer in FY 2016 is due to the results of the November 2015 Revenue Estimating Conference which decreased the estimated transfer amount from video lottery terminals (VLTs) \$26.7 million from final FY 2015 audited revenues. Revenues from table games are projected to increase by 12.1 percent to \$14.3 million, an increase of \$1.5 million over FY 2015 final audited revenues. Traditional lottery and monitor games revenues are projected to remain steady at \$57.0 million in FY 2016, an increase of 0.2 percent, or \$112,358 over FY 2015 final audited revenues.

The unclaimed property transfer to the general fund is forecasted to decrease by \$3.6 million in FY 2016 or -26.3 percent from final FY 2015 audited revenues.

### **FY 2017 Proposed Revenues**

#### **Total General Revenue**

The Governor's recommended FY 2017 budget estimates general revenues of \$3.707 billion, an increase of 3.1 percent from the revised FY 2016 level. The Governor's recommendation is comprised of \$3.493 billion of revenue estimated at the November 2015 Revenue Estimating Conference (REC) and \$214.3 million of recommended changes to the adopted estimates. These changes are shown in the schedule *Changes to FY 2017 Adopted Revenue Estimates* located in Appendix A of this document.

#### **Personal Income Tax**

The largest source of FY 2017 general revenues is the personal income tax. The Governor recommends personal income tax revenues of \$1.263 billion in FY 2017, \$1.9 million less than the estimate adopted at the November 2015 REC and growth of 4.0 percent from the revised FY 2016 budgeted amount. The Governor recommends the following changes to the November 2015 REC adopted estimate for FY 2017 personal income tax revenues:

- The Governor recommends the addition of 3.0 new FTE Revenue Officer I positions to assigned to Collections within the Department of Revenue, Division of Taxation. The addition of these positions is estimated to have a total revenue impact of \$2,689,328 divided among personal income tax, business corporations tax, and sales and use tax, in addition to an increase in fines and penalties within departmental receipts. The estimated impact on FY 2017 personal income tax revenue is an increase of \$788,468. Impacts on other revenue streams are described in each relevant section below.
- The Governor recommends increasing the allowable percentage of the federal earned income tax credit to 15.0 percent in tax year 2017. This change will result in an estimated additional \$2.7 million increase in personal income tax refunds in the FY 2017 recommended budget.

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# General Revenues

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## General Business Taxes

General Business taxes are recommended to comprise 12.5 percent of total general revenue collections in the FY 2017 Budget. Business corporations tax revenues are expected to yield \$163.7 million, an increase of \$7.7 million from the FY 2017 estimate adopted at the November 2015 REC. This increase is attributable to the following initiatives:

- The Governor recommends \$6.7 million in additional business corporations revenues for FY 2017 resulting from a transfer pricing audit project of business corporations tax filers from past years.
- The Governor recommends a reinstatement of the nexus program, a data-mining exercise confirming that all firms with a physical presence in the state pay required business corporations and sales and use taxes. The initiative is expected to have a total general revenue impact of \$1,000,000 in the recommended FY 2017 budget. This impact is divided between \$750,000 in business corporations taxes and \$250,000 in sales and use taxes.

Insurance companies gross premiums taxes are projected to reach \$127.7 million in FY 2017, an increase of \$1.1 million from the FY 2017 estimate adopted at the November 2015 REC. This decrease is due to the Governor recommending the following initiative:

- The Governor recommends increased enforcement of retaliatory assessments on foreign insurers, which is expected to result in an additional \$1,074,000 in additional insurance companies gross premiums tax revenue in FY 2017. Retaliatory state tax structures are the norm nationwide within the insurance industry. Under this structure, policies issued to Rhode Island residents by out-of-state insurance companies are subject to the higher of the domestic tax rate or the foreign tax rate of state in which the issuing insurance company is domiciled. This measure enhances the enforcement of this provision.

The Governor's FY 2017 recommended revenues for the public utilities gross earnings tax, the financial institutions tax, the bank deposits tax, and the health care provider assessment remain at the same level as adopted at the November 2015 REC.

## Sales and Use Tax

Sales and use tax revenues are expected to yield \$1.015 billion in the Governor's recommended FY 2017 budget, \$2.7 million more than was adopted at the November 2015 REC for FY 2017. The increase is reflective of the Governor recommending the following initiatives:

- The Governor recommends increasing the excise tax on cigarettes to \$4.00 per pack from \$3.75 effective August 1, 2016. This is expected to result in \$7.1 million in additional FY 2017 recommended revenues with an impact on both sales and use taxes as well as the cigarette excise tax. This policy is projected to result in an increase of \$633,248 in FY 2017 sales and use tax revenue.
- The Governor recommends the addition of 2.0 FTE Revenue Agent I positions assigned to Field Audits within the Department of Revenue, Division of Taxation. This is expected to have an impact of \$1,009,167 in additional sales and use tax revenue resulting from enhanced enforcement of current tax policy.

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## **General Revenues**

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- The Governor's recommendation to add 3.0 FTE Revenue Officer I positions assigned to Collections, described above, is expected to result in an additional \$784,369 in sales and use tax revenues in FY 2017.
- The Governor's recommendation to reinstate the nexus program, described above, is expected to result in an additional \$250,000 in sales and use tax revenues in FY 2017.

### **Excise Taxes Other than Sales and Use Taxes**

The Governor recommends FY 2017 excise taxes other than sales and use taxes totaling \$177.3 million or \$6.5 million more than was adopted at the November 2015 REC for FY 2017.

The Governor recommends cigarettes excise taxes in FY 2017 in the amount of \$145.1 million or \$6.5 million more than the adopted estimate of \$138.6 million at the November 2015 REC for FY 2017. The Governor recommends one initiative that will increase cigarette excise tax revenues as described below:

- The increase in the cigarette excise tax described above is expected to result in a \$6.5 million increase in FY 2017 recommended cigarette excise tax revenues. This expected increase is comprised of \$5,685,325 in increased cigarette excise tax revenues and \$803,384 from the cigarette floor stock which is triggered when there is an increase in the cigarette excise tax rate.

The Governor's FY 2017 recommended revenues for the motor vehicle operator license and vehicle registration fees, motor carrier fuel use tax, and alcohol excise tax at the same levels as adopted at the November 2015 REC.

### **Other Taxes**

The Governor's FY 2017 recommended revenues for the estate and transfer tax, racing and athletics tax, and realty transfer tax remain at the same levels as adopted at the November 2015 REC.

### **Departmental Receipts**

The Governor's FY 2017 recommended departmental receipts revenues of \$369.5 million are \$46.7 million less than the revised FY 2016 estimate. The proposed FY 2017 departmental receipts revenue estimate is \$178.1 million above the FY 2017 departmental receipt estimate adopted at the November 2015 REC. Inclusive of the Governor's proposed changes to departmental receipts revenues, total departmental receipts revenues are expected to total \$369.5 million in FY 2017, or 10.0 percent of recommended FY 2017 total general revenues. The Governor's FY 2017 recommended total for departmental receipts revenues is made up of the following proposals:

#### **HOSPITAL LICENSING FEE**

- The Governor recommends reinstating the hospital licensing fee on the hospital FY 2014 base year at 5.862 percent. This is expected to result in an increase of \$169.1 million in FY 2017 recommended licenses and fees revenue within departmental receipts.

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# General Revenues

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## **MEDICAL MARIJUANA REGULATORY FEES**

- The Governor recommends a net increase of \$9,751,893 in departmental receipts revenue resulting from changes in licenses and fees pertaining to medical marijuana and other miscellaneous revenues. These revenues will be administered by the Department of Business Regulation (DBR), Department of Revenue (DOR), and Department of Health (DOH) in FY 2017.
- The Governor recommends the following changes in FY 2017 licenses and fees revenues to be administered by DBR.
  - A \$150 plant tag fee for patients who self-grow medical marijuana is expected to result in \$1,440,000 in additional revenue.
  - A \$150 plant tag fee for caregivers who grow medical marijuana for Medicaid patients is expected to result in \$611,902 in additional revenue.
  - A \$350 plant tag fee for caregivers who grow for non-Medicaid patients is expected to result in \$8,253,228 in additional revenue.
  - A \$350 plant tag fee for co-op growers is expected to result in \$399,000 in additional revenue.
  - A \$350 plant tag fee for growers with cultivator licenses is expected to result in \$31,500 in additional revenue.
- The Governor recommends a reduction in recommended FY 2017 revenues resulting from a decrease in the compassion center surcharge administered by DOR from 4.0 percent to 3.0 percent. This will have an estimated revenue impact of -\$172,405 in departmental receipts licenses and fees.
- The Governor recommends transferring medical marijuana patient and caregiver registration fees administered by DOH to restricted receipts with an expected combined revenue impact of -901,647 in departmental receipts licenses and fees.
  - The impact of transferring patient registration fees to DOH restricted receipts is expected to have a FY 2017 general revenue impact of -516,866.
  - The impact of transferring caregiver registration fees to DBR restricted receipts is expected to have a FY 2017 general revenue impact of -384,781.
- The Governor recommends an additional \$90,315 in FY 2017 departmental receipts miscellaneous revenues resulting from indirect cost recovery fees. This estimate is comprised of \$38,478 of indirect cost recovery resulting from medical marijuana caregiver registration fees for DBR, \$150 from cultivation site license fees for DBR, and \$51,687 from medical marijuana patient registration fees for DOH.

## **PUBLIC FINANCE MANAGEMENT FEES**

- The Governor recommends the Rhode Island Office of the General Treasurer to assess public finance management fees on re-financings and other tax exempt debt issuances through the Public Finance Management Board. This is expected to result in an increase of \$295,000 in FY 2017 recommended licenses and fees revenue.

## **COASTAL RESOURCES MANAGEMENT COUNCIL**

- The Governor recommends that the Coastal Resources Management Council transfer submerged land rental fees to Department of Environmental Management restricted receipts. This is expected to have a FY 2017 general revenue impact of -150,000.

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# General Revenues

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## **BANK/INSURANCE EXAMINATION FEES**

- The Governor recommends that the Department of Business Regulation allow banks and insurance examination fees at 150 percent of cost for expedited service. This is expected to have a FY 2017 general revenue impact of \$400,000.

## **DIVISION OF TAXATION COLLECTIONS FINES AND PENALTIES**

- The Governor recommends an increase of \$645,110 in FY 2017 departmental receipts fines and penalties revenue resulting from the addition of 3.0 FTE Revenue Officer I positions assigned to Collections described above.

## **FORWARD CAPACITY MARKET REVENUE**

- The Governor recommends an additional \$108,864 in FY 2017 departmental receipts miscellaneous revenues resulting from a forward capacity market revenue initiative, a negotiated agreement to manage utility services in the event of excess demand.

## **Other Sources**

The FY 2017 recommended revenues for the other sources component of total general revenues totaling \$386.8 million, an increase of \$19.1 million, or 5.1 percent, compared to the revised revenue estimate for FY 2016. The FY 2017 recommended revenues for other general revenue sources are \$22.2 million above the estimate of \$364.6 million adopted at the November 2015 REC for FY 2017. Other sources of general revenue are comprised of the lottery transfer, other miscellaneous revenues and the unclaimed property transfer. The Governor's proposed changes contained in the FY 2017 recommended budget impacting the other miscellaneous revenues component within other sources of revenue are listed below:

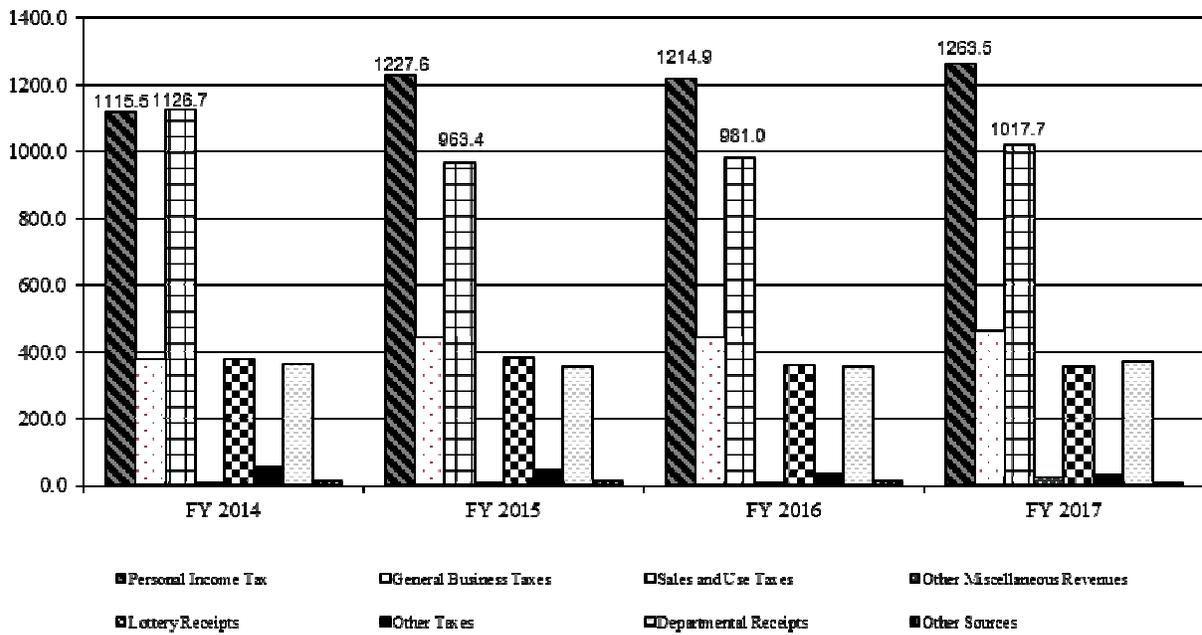
- The Governor recommends \$5.0 million in revenues from a fraud initiative.
- The Governor recommends \$1.0 million in additional revenue resulting from the sale of state fleet motor vehicles to other parties.
- The Governor recommends transferring \$5.0 million in excess reserves from the Rhode Island Health and Educational Building Corporation.
- The Governor recommends accelerating the transfer of \$275,000 of debt service scheduled to be paid by the Rhode Island Airport Corporation over the FY 2017 to FY 2023 period into the FY 2017 budget.
- The Governor recommends transferring \$1.45 million in reserves from the Narragansett Bay Commission to offset debt service on general obligation bonds issued by the state on the commission's behalf.
- The Governor recommends transferring \$1.5 million in reserves from the Rhode Island Resource Recovery Corporation while simultaneously providing the Corporation authorization to increase tipping fees.
- The Governor recommends transferring \$8.0 million in reserves from the Rhode Island Infrastructure Bank to the general fund.

The Governor's FY 2017 recommended revenues for the lottery transfer and the unclaimed property transfer remain at the same level as adopted at the November 2015 REC.

# General Revenues

The chart below shows the sources of general revenues for the period FY 2014 – FY 2017. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.

**General Revenue Sources (\$ millions)**



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# **Restricted Receipts and Pass Through Revenues**

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## **Introduction**

The Governor's recommended budget proposes changes to revenue sources other than general revenues for FY 2015 and FY 2016. The revenue estimates in the Governor's FY 2015 revised budget contains an increase of \$364,341 in non-general revenue adjustments. The revenue estimates in the Governor's FY 2016 recommended budget contain an increase of \$5.4 million in non-general revenue adjustments.

## **FY 2016 Revised Non-General Revenues**

The Governor's revised FY 2016 budget proposes no changes to non-general revenues.

## **FY 2017 Recommended Non-General Revenues**

The Governor's FY 2017 recommended budget includes the transfer of the registration fees paid by medical marijuana patients from general revenue account in the Department of Health (DOH) to a restricted receipt account in DOH. The total amount of fees subject to transfer is \$516,866, however, as a restricted receipt account, the registration fees paid by medical marijuana patients will be subject to the 10 percent indirect cost recovery assessment yielding a net transfer to the DOH's restricted receipt account of \$465,179.

The Governor's FY 2017 recommended budget includes the transfer of the registration fees paid by medical marijuana caregivers from a general revenue account in DOH to a restricted receipt account in the Department of Business Regulation (DBR). The total amount of fees subject to transfer is \$384,781, however, as a restricted receipt account, the registration fees paid by medical marijuana patients will be subject to the 10 percent indirect cost recovery assessment yielding a net transfer to the DBR's restricted receipt account of \$346,303.

The Governor's FY 2017 recommended budget contains \$1,500 in new registration fees paid by medical marijuana cultivation facilities that are credited to a restricted receipt account in DBR. The license fee for a medical marijuana facility is set at \$500 and the Governor's recommended budget assumes three such licenses will be issued in FY 2017. The registration fee for medical marijuana cultivation facilities will be subject to the 10 percent indirect cost recover assessment yielding a net deposit in the DBR's restricted receipt account of \$1,350.

The Governor's FY 2017 recommended budget incorporates the transfer of submerged land lease fees from a general revenue account under the Coastal Resources Management Council to a restricted receipt account in the Department of Environmental Management (DEM). The total amount of fees transferred is \$150,000. DEM's submerged land lease fees restricted receipt account will not be subject to the 10 percent indirect cost recovery assessment.

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## All Sources

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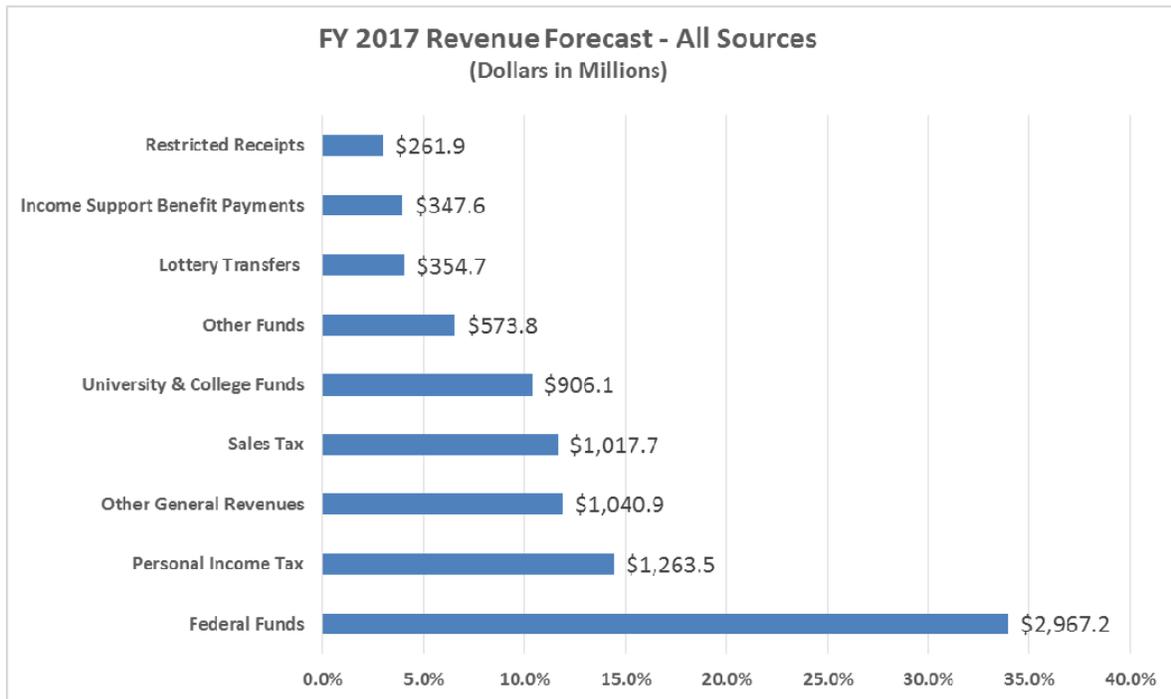
The total budget of \$8.962 billion includes all sources of funds from which state agencies make expenditures.

Federal funds represent 34 percent of all funds. Almost 77.9 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales Taxes combined represent 26.1 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 10.4 percent, and 4.4 percent of the total, respectively.

Remaining sources include: Other General Revenues, 11.9 percent; the Lottery Transfer, 4.1 percent; Restricted Receipts, 3.0 percent; and Other Funds 6.6 percent.



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## All Expenditures

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The Governor's FY 2017 Budget recommendation is \$8.962 billion in all funds comprised of six functional units of state government: Health and Human Services, Education, General Government, Public Safety, Transportation, and Natural Resources.

Approximately 42.0 percent of all expenditures are for Health and Human Services, comprised of agencies that engage in a broad spectrum of activities including income support, client subsidies, client advocacy, case management and residential support, and medical regulation, prevention, treatment, and rehabilitation services. The FY 2017 recommended budget for all health and human service agencies is \$3.764 billion.

Approximately 28.1 percent of all expenditures are for Education, which includes the Department of Elementary and Secondary Education, Public Higher Education, the Rhode Island State Council on the Arts, the Rhode Island Atomic Energy Commission, and the Historical Preservation and Heritage Commission. The FY 2017 recommended budget for education is \$2.521 billion.

Approximately 17.1 percent of all expenditures are for General Government, which includes agencies that provide general administrative services to other state agencies, assist in developing the state's workforce, assist municipalities in achieving fiscal health, and those that perform state licensure and regulatory functions. The FY 2017 recommended budget for all General Government agencies is \$1.532 billion.

Approximately 6.3 percent of all expenditures are for Public Safety, which is the system that provides law enforcement, adjudicates justice, performs correction and rehabilitative services, and handles emergencies impacting Rhode Island's citizens. The FY 2017 recommended budget for the public safety system is \$560.0 million.

Approximately 5.4 percent of all expenditures are for Transportation, which provides for the state's maintenance and construction of a quality transportation infrastructure. The FY 2017 recommended budget for transportation is \$479.5 million.

Approximately 1.2 percent of all expenditures are for Natural Resources, which includes the Department of Environmental Management and the Coastal Resources Management Council. The FY 2017 recommended budget for natural resources is \$106.8 million.

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## Expenditure Summary

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All funds expenditures for FY 2017 are \$8.962 billion. Of this total, \$3.675 billion, or 41.0 percent, is from general revenue, \$2.967 billion, or 33.1 percent, from federal funds, \$2.059 billion, or 22.9 percent, from other sources, and \$262.0 million, or 2.9 percent, is from restricted or dedicated fee funds.

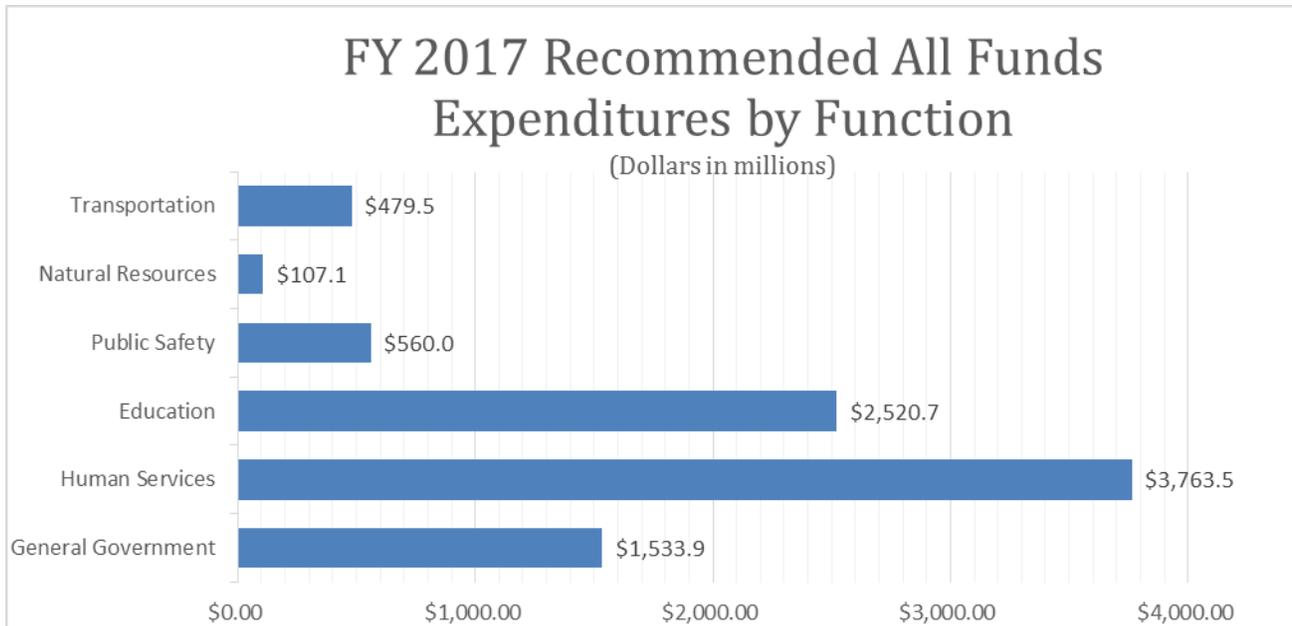


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## Expenditure Summary

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On a functional basis, the largest percentage of expenditures is in the Health and Human Services area, which comprises \$3.763 billion, or 42.0 percent of the total budget. This is followed by spending for Education of \$2.521 billion, which comprises 28.1 percent of all spending, and expenditures for General Government of \$1.532 billion, equaling 17.11 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling \$1.146 billion, or 12.8 percent of the total budget.

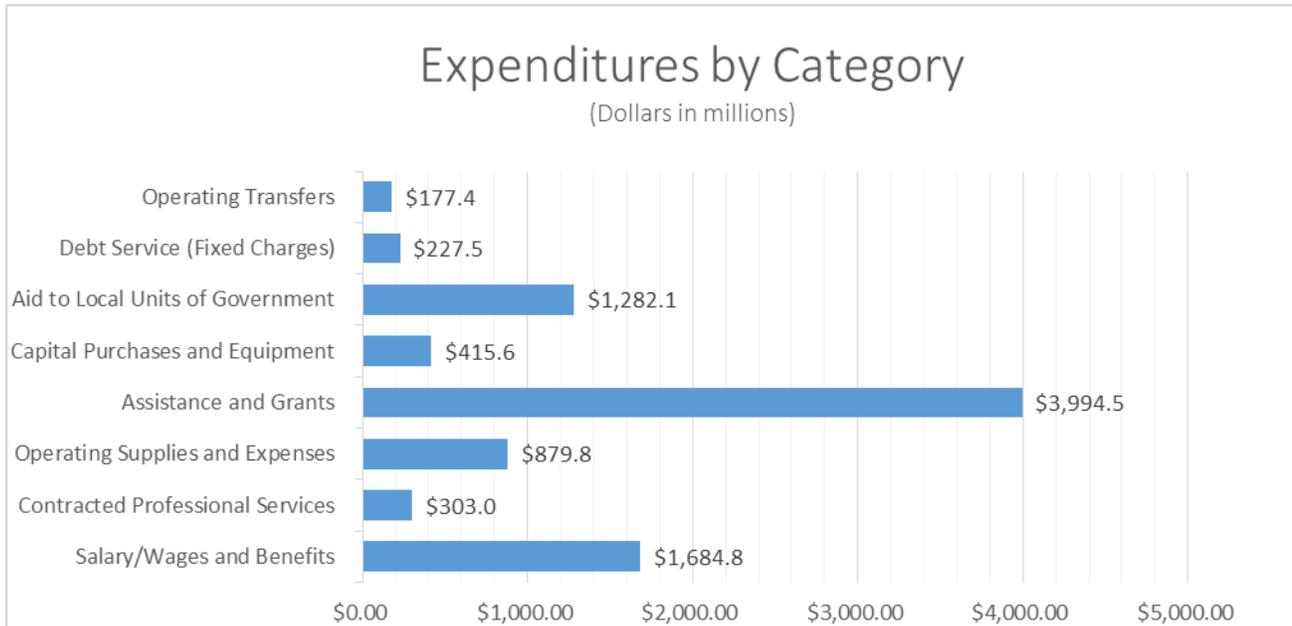


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## Expenditure Summary

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The second way to view expenditures is by major category. On this basis, the largest share of the FY 2017 budget is for assistance, grants and benefits equaling \$3.992 billion or 44.6 percent of the total. This is followed by personnel expenditures, which comprise 22.2 percent, or \$1.988 billion, and local aid expenditures, which make up 14.3 percent, or \$1.282 billion of the total budget. Expenditures for capital purchases and debt service total \$642.8 million or 7.1 percent, with the balance of spending used to finance operating expenditures and operating transfers of \$1.057 billion, or 11.8 percent of the total.



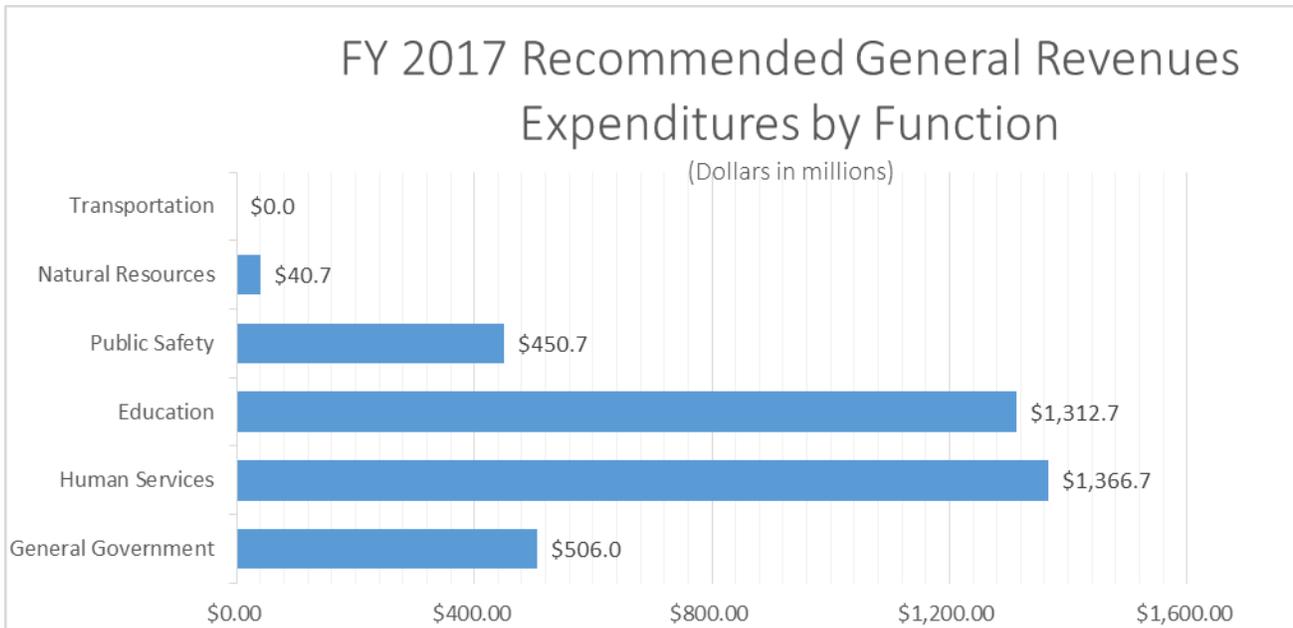
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## Expenditure Summary

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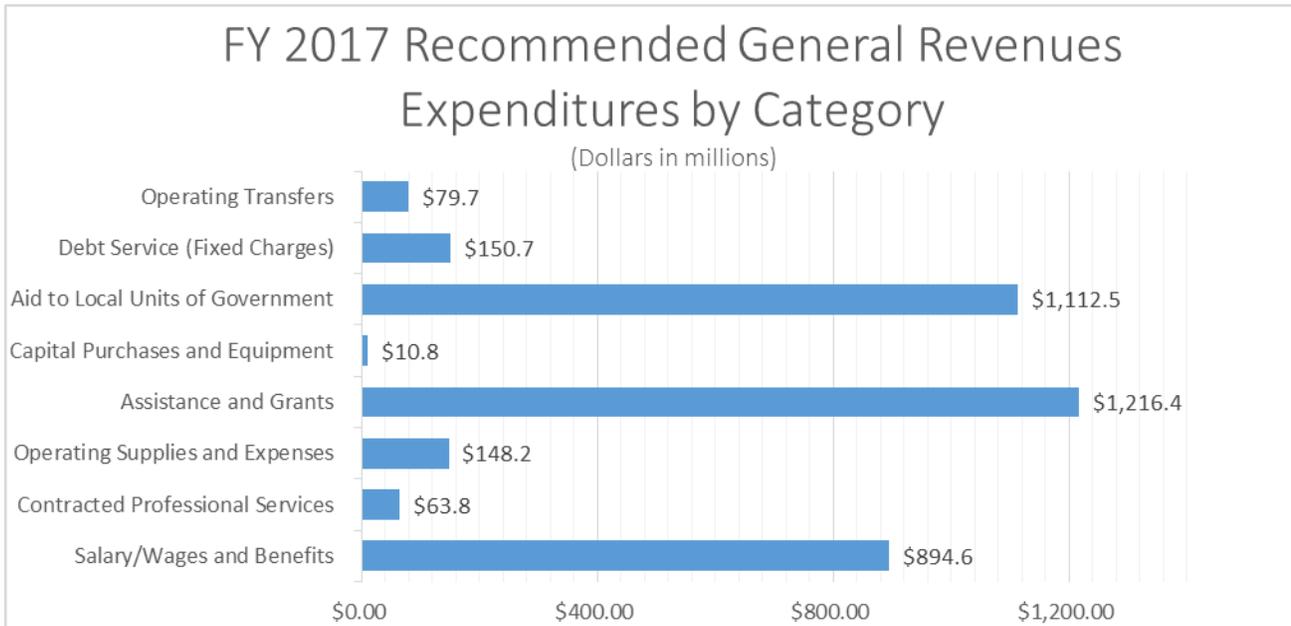
For general revenue only, expenditures total \$3.675 billion for FY 2017. By function, spending by Health and Human Service agencies represents the largest share with expenditures, totaling \$1.367 billion, or 37.2 percent of the general revenue budget. This is followed by spending for Education, which totals \$1.313 billion, or 35.7 percent. General revenue expenditures for General Government and Public Safety comprise \$503.9 million (13.7 percent) and \$450.6 million (12.3 percent), respectively. Expenditures for Natural Resources comprise \$40.7 million, or 1.1 percent of total general revenue spending. Transportation expenditures are financed mostly by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing assistance and grants, local aid and personnel.



# Expenditure Summary

The largest components of general revenue expenditures are assistance, grants, and benefit expenditures of \$1.214 billion, comprising 33.0 percent of total general revenue spending. Local Aid expenditures of \$1.112 billion represent 30.3 percent of total spending; personnel expenditures (including contracted services) of \$958.4 million comprise 26.1 percent of the budget; capital expenditures total \$10.8 million and debt service is \$150.7 million, or a combined total of 4.4 percent of the general revenue budget; and, operating expenditures and operating transfers total \$227.9 million, or 6.2 percent of the budget.



Enacted and proposed expenditures for general revenue funds, by category of expenditure are shown in the following table:

General Revenue Funds	FY 2016	2016	Change	FY 2017	Change
Category of Expenditure	Enacted	Revised	from Enacted	Recommended	from Enacted
Personnel (Including Consultants)	\$925.3	\$931.8	\$6.5	\$958.4	\$33.1
Operating Supplies and Expenses	\$138.1	\$139.5	\$1.4	\$148.2	\$10.1
Assistance and Grants	\$1,199.8	\$1,213.5	\$13.7	\$1,216.4	\$16.6
Capital Purchases and Equipment	\$3.8	\$7.6	\$3.8	\$10.8	\$7.0
Aid to Local Units of Government	\$1,082.3	\$1,072.2	-\$10.1	\$1,112.5	\$30.2
Debt Service	\$124.2	\$123.0	-\$1.2	\$150.7	\$26.5
Operating Transfers	\$78.4	\$88.8	\$10.4	\$79.7	\$1.3
Total	\$3,551.9	\$3,576.5	\$24.6	\$3,676.8	\$124.9
<i>(in millions)</i>					

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## Expenditure Summary

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Enacted and proposed expenditures by source of funds are shown in the following table:

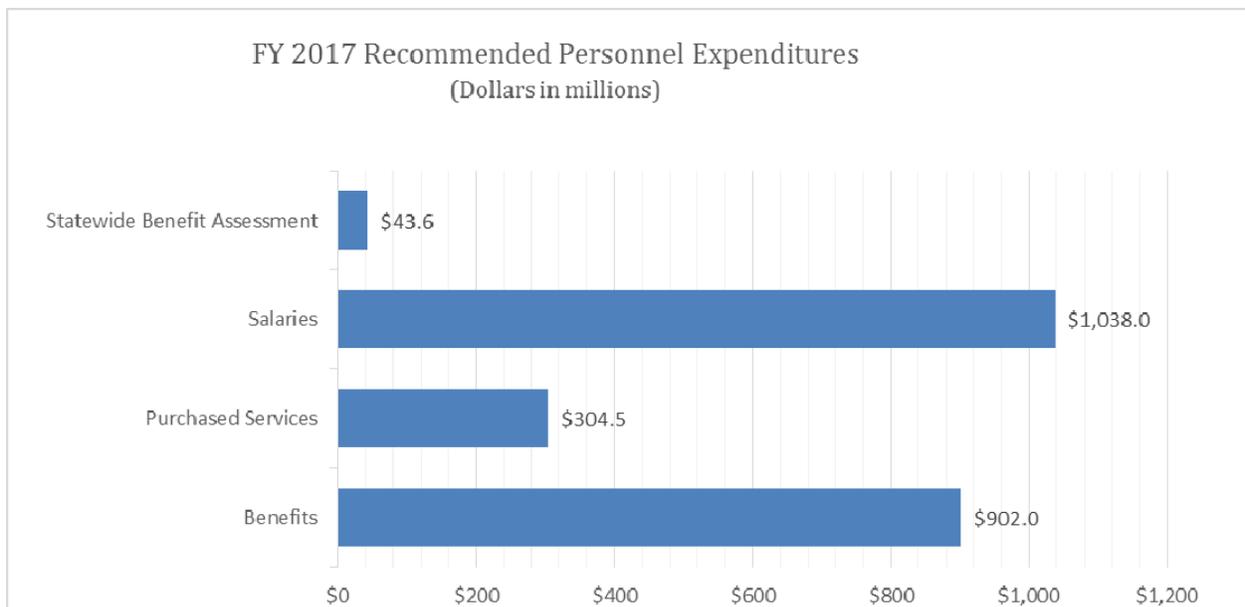
<b>Source of Funds</b>	<b>FY 2016 Enacted</b>	<b>FY 2016 Revised</b>	<b>Change from Enacted</b>	<b>FY 2017 Recommended</b>	<b>Change from Enacted</b>
General Revenue	\$3,552.0	\$3,576.5	\$24.5	\$3,676.8	\$124.8
Federal Funds	\$2,947.3	\$3,114.2	\$166.9	\$2,967.2	\$20.0
Restricted Receipts	\$245.5	\$288.8	\$43.3	\$261.9	\$16.4
Operating Transfers	\$217.1	\$196.1	-\$21.0	\$177.4	-\$39.7
Other Funds	\$1,703.5	\$1,799.6	\$96.0	\$1,881.2	\$177.6
Total	\$8,665.4	\$8,975.1	\$309.7	\$8,964.5	\$299.0
<i>(in millions)</i>					

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## Personnel Summary

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The Governor's FY 2017 recommended Budget finances personnel at \$2.0 billion. This includes \$1.7 billion for salary and benefits (84.7 percent) and \$304.5 million for purchased services (15.2 percent). This total includes expenditures financed from general revenue, federal grants, restricted receipts, other funds, and internal service funds. General revenue finances 47.1 percent of FY 2017 personnel expenditures. Federal funds finance 22.1 percent, Other Funds (primarily college tuition funds) and Internal Service Funds finance 25.9 percent, and restricted receipts finance the remaining 5.4 percent. The personnel supplements provided in the budget volumes contain all expenditures for personnel, including those of the internal service funds, as noted above. Since internal service fund positions are financed through charges to state agencies categorized as operating expenses, totals shown will differ in some cases from personnel costs shown in complementary documents of the FY 2016 Budget. After adjusting to reflect internal service fund personnel expenditures in the personnel category rather than as an operating expense, personnel expenditures constitute approximately 22.2 percent of the state budget, the second largest category of spending (after assistance, grants and benefits).



Personnel expenditures recommended for FY 2017 decreases by \$56.4 million from the FY 2016 revised Budget, but increases by \$66.9 million (2.6 percent) from the FY 2016 enacted Budget. From the enacted Budget, direct salaries increase by 2.5 percent, overtime increases by 3.8 percent, fringe benefits increase by 2.0 percent overall, with retiree health increasing by 2.2 percent and retirement increasing by 5.7 percent, while medical benefits (including the medical waiver bonus) decrease by 1.4 percent.

Rhode Island state government experienced significant attrition from retirements in FY 2009. Between May 1, 2008 and October 1, 2008, 1,396 state employees, who were members of the Employees' Retirement System of Rhode Island, retired. Overall, authorized state employee full time equivalent positions declined from the FY 2008 final enacted level of 15,688.7 to 14,935.0 in the FY 2012 budget, a reduction of 753.7 positions. The FY 2013 final enacted budget reversed this trend, with the addition of 141.4 FTE positions (for an FTE position level of 15,076.4) primarily in Health and Human Service agencies to meet program needs in Health, Children Youth and Families, Behavioral Healthcare, and the Office of Health and Human Services. In the FY 2014 final enacted budget, the FTE level of 15,100.3 reflected further increases in Human Service and Public Safety agencies. The FY 2015 final enacted

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## Personnel Summary

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budget FTE level was little changed at 15,100.7, but the FY 2016 final enacted budget rose to 15,118.4 in the functional areas of General Government and Public Safety. In the FY 2016 revised Budget, the Governor recommends a FTE position authorization of 15,139.3, an increase of 20.9 FTE positions from the FY 2016 enacted Budget. In the FY 2017 Budget, the Governor recommends a further increase of 88.0 FTE positions from the FY 2016 revised Budget, to a total of 15,227.3 FTE positions.

### ***Current Retiree Health Benefit Structure***

In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, eligibility requirements and co-share percentages for retiree health were modified in the 2008 session of the General Assembly. The new plan provided that employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree health. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service in order to be eligible for retirement and therefore also eligible for retiree health. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

### ***Funding of Retiree Health Unfunded Liability***

The Governor's recommended budget includes previously added provisions requiring that the State finance retiree health benefits on an actuarial basis and amortize the unfunded liability over a thirty year period. This financing mechanism will provide transparency with respect to the true cost of the benefit offered to state employees after employment. In compliance with GASB Statements 43 and 45, "Other Post-Employment Benefits (OPEB)," in July 2007, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. Pursuant to GASB Statement 45, "Other Post Employment Benefits" the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits for the period ending June 30, 2009. The unfunded liability as of June 30, 2009 was determined to be approximately \$774.7 million, including \$673.6 million for State employees, \$67.1 million for State Police, \$11.8 million for Legislators, and \$8.7 million for Judges, and \$13.5 million for the State's share for teachers. This was calculated using an investment rate of return of 5.0 percent and assumes that future financing will be on an actuarial basis. The annual required contribution as a percentage of payroll in FY 2014 is budgeted at 7.07 percent, 39.0 percent, 0.0 percent and 0.12 percent (no rate for teachers), respectively. Prior to FY 2011, the State had not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted that would require the State to finance on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities. During the 2009 Session of the General Assembly, this actuarial financing requirement was delayed until FY 2011.

Beginning with the first pay period of FY 2011, the state began providing the resources necessary to the OPEB trust fund to finance retiree health benefit costs on an actuarial basis, which will be used to pay current benefits and hold assets for investment.

Actuarial valuations for the Retiree Health Fund are performed every two years and the rates determined by

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## Personnel Summary

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the valuation are used for the two fiscal years following their adoption. A valuation was completed in May 2012 for the fiscal year ending June 30, 2011 and the rates from this valuation would be used for fiscal years 2014 and 2015. Retiree health is calculated on salaries of different categories of employees, including state employees, State Police, and judges. Due to full funding of their respective fund, no assessment is required for Legislators. The enacted FY 2014 rates reflect enactment of a proposal recommended in the Governor's FY 2014 Budget to implement a Medicare Exchange for post-65 retirees, where retirees choose between multiple Medicare supplemental plans from different insurers. Under this program, the State set up Health Reimbursement Accounts (HRAs) for retirees in the state-sponsored health plans and deposit money each month into the account. The amount would be determined by the current level of subsidy the State provides, i.e. a 100 percent subsidized retiree would receive 100 percent of the maximum HRA amount, and an 80 percent subsidized retiree would receive 80 percent of the maximum HRA amount. Approximately 5,300 post-65 retirees currently receive subsidies and an additional 2,700 non-subsidized members are on the plan (spouses and public school teachers). As a result of this proposal, an updated actuarial analysis was performed by the fund's actuary, which resulted in a revised retiree health rate in FY 2014 of 7.07 percent for state employees (from the previous level of 7.38 percent), dropping further to 6.75 percent for FY 2015.

For FY 2016, the governor's budget recommendation recognizes a decrease in the rates for retiree health insurance for state employees from the FY 2015 enacted rate of 6.75% to 6.00% in FY 2016 per the actuarial report issued by Gabriel, Roeder and Smith (a decrease of 11.11%). There are also changes for Judges (decrease from 0.12% to 0.00%), for legislators (increase from 0.00% to 1.53%) and for State Police (decrease from 39.00% to 33.40%). The statewide general revenue savings resulting from these changes totals \$4,039,403. The actuarial valuation dated July 1, 2014, reported the results of a June 30, 2013 actuarial study which measured the retirement health system's funding progress, in order to determine the employer contribution rate for the fiscal years ending June 30, 2016 and June 30, 2017. The study showed improving plan experience resulting in actuarial gains, thus lowering the state's contribution rates overall. For FY 2016, the actuarial analysis made certain assumptions for investment return, wage inflation, long term health care trends, and the impact of the Medicare Exchange implementation for post-65 retirees effective in FY 2015. The study showed that for State Employees, Judges and the State Police, improving amortization of the unfunded actuarial accrued liability existed for each group, while Legislatures saw a slight extension of amortization period, thus resulting in a small increase for this group, even when considering an accumulated surplus in this fund.

### ***Statewide Cost of Living Adjustment***

In FY 2014, the State entered into contracts with most state employee unions that provide for cost of living adjustments (COLA) of 2.0% on April 6, 2014; 2% on October 5, 2014 and 2% on October 4, 2015. This translated into an effective increase in salary and associated benefit costs in FY 2016 of 5.587% compared to the enacted FY 2015 budget. The FY 2017 budget includes annualization of these cost of living adjustments. As of this writing, the RIBCO unions have not settled their contract.

### ***Employee Medical Benefits***

The FY 2015 enacted budget recognized statewide savings totaling \$8.3 million (all-funds) due to improved trends in medical benefit and vision plan growth rates. These savings, consisting of \$3.4 million in general revenue, were reflected as a negative appropriation in the Department of Administration's (DOA) budget. The Governor's recommended budget re-allocates (within all fund sources) those savings to each agency's respective budget.

The FY 2016 enacted budget for health benefit costs was predicated upon a planning value of \$18,155, an

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## Personnel Summary

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increase of 6.7 percent from the FY 2015 working budget, based on a weighted average of the three cost components consisting of medical, dental, and vision rates for both individual and family plans. When the General Assembly passed the FY 2016 budget, Medical Benefit and Vision Plan savings of \$2.3 million that were reflected in the Department of Administration's budget. The Budget Office subsequently re-allocated those savings in the RIFANs accounting system to each agency's budget, which is now a component of the "working budget". The weighted average of the health benefit costs in the working budget is \$17,520. This amount is \$635, or approximately 3.5 percent, less than the rates used in the enacted budget.

For FY 2017, the budget instructions contained an estimated planning value equal to \$18,095, a decrease of \$60, or approximately 0.03 percent, from the FY 2016 enacted budget amount of \$18,155. This is the decrease upon which the statewide target adjustment was based. The Governor's recommended Budget also includes a further Reduction in medical benefits of \$2.6 million.

The state is self-insured for medical benefits and develops annual working rates based upon prior claims experience, adjusted for medical inflation. This fund is used to pay insurers for medical benefits for state employees. Revenue is generated by assessing state agencies on a bi-weekly basis, by co-shares from employees and from pharmaceutical rebates. In the event that there is a surplus, the balance may be used to reduce the working rates by not charging the state agencies for medical coverage for a particular pay period, known as a medical holiday. Employees paying a co-share based on a percentage of the premium cost are also not charged for the respective pay period. Employees paying a co-share based on a percentage of their pay are still charged.

### *Full-Time Equivalent Positions (FTE)*

The FY 2016 enacted budget contained 15,118.4 full-time equivalent (FTE) positions, including 745.8 FTE positions that are third party funded positions in Higher Education. In order to maintain an acceptable level of critical services and addressing new program concerns, the Governor also recommends an increase of 20.9 FTE positions to 15,139.3 FTE positions in the revised FY 2016 Budget. In FY 2017, the Governor recommends a total FTE position level of 15,227.3, including 745.8 Higher Education third party funded positions, an increase of 88.0 FTE positions from the revised FY 2016 level and 108.9 FTE positions from the FY 2016 enacted level.

In **General Government**, the Governor recommends 2,391.7 FTE positions, a net increase of 61.5 FTE positions in FY 2017 from the FY 2016 enacted budget. The largest increase (32.0) reflects the creation of new programs in the Department of Administration. To centralize audit functions, capital project management and asset protection, the Governor recommends the transfer of 19.0, 5.0, and 4.0 FTE positions from other agencies respectively. The Governor also recommends the addition of 3.0 FTE positions in the Office of Management and Budget to perform enhanced performance management functions, and 1.0 FTE position in Information Technology to address cybersecurity concerns. The Governor recommends the addition of 9.0 FTE positions in the Department of Revenue, 5.0 in the Taxation Division to enhance revenue collection, 1.0 in the Municipality Transparency Portal for programming services, and 3.0 in the Office of Revenue Analysis. The Governor also recommends an additional 6.5 FTE positions in Labor and Training, 3.0 for the Misclassification Task Force, 3.0 for grant monitoring and evaluation, and 1.0 for the State Workforce and education Alignment project, offset by a 0.5 reduction due to retirement. In Business Regulation, the Governor recommends and additional 6.0 FTE positions, 5.0 in the medical marijuana program and 1.0 in insurance. The Governor's recommend budget also includes the following: 4.0 FTE positions in the General Treasurer (1.0 in the College Bound Fund, 1.0 in the new Office of Debt Management, and 2.0 in the Retirement Administration for information technology and financial reporting functions); 2.0 in the Secretary

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of State to implement the Governor's Regulatory Reform Initiative to increase public and business accessibility to state regulations; 1.0 in the Board of Elections for campaign finance; and 1.0 in the Public Utilities Commission for dealing with residential utility termination cases.

In **Health and Human Services**, the Governor recommends 3,753.6 FTE positions; an increase of 6.0 FTE positions in FY 2017 from the FY 2016 enacted FTE authorization. In the Department of Health, the Governor recommends an increase of 13.0 FTE positions, reflecting the transfer of the Women, Infant and Children (WIC) program from Human Services. In Human Services, the Governor recommends a net reduction of 4.0 FTE positions, reflecting an increase of 3.0 Veteran's Affairs, and a transfer of 7.0 FTE eligibility technician positions to Administration. In the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals, the Governor recommends a reduction of 4.0 FTE positions, including a 2.0 position transfer to administration for capital asset management, and a 2.0 position reduction due to reorganization. The recommended budget also includes an addition interpreter for the deaf position in the Commission on the Deaf and Hard of Hearing.

In **Education**, the Governor recommends a total authorization (standard and third party funded) of 4,664.4 in FY 2017, an increase of 34.6 FTE positions, including a 2.0 FTE position increase in Elementary and Secondary Education, 1.0 for performance management and 1.0 in support of the Rhode Island Model for evaluation training, and a 2.6 decrease in the Rhode Island Council on the Arts reflecting the elimination of the R.I. Film Commission. In Public Higher Education, the Governor recommends 4,293.8 FTE positions, 3,548.0 standard and 745.8 third-party funded, a net increase of 34.6 FTE positions. The recommendation includes net increases in professors and advisers in the University of Rhode Island (33.0) and Rhode Island College (2.6), and a transfer of 1.0 FTE position to Administration for Audit consolidation.

In **Public Safety**, there is an increase of 17.0 FTE positions to 3,246.6 in FY 2017 from the FY 2016 enacted budget in Public Safety. The Governor recommends 4.0 additional maintenance and program manager positions in the Military Staff. The Governor also recommends 13.0 additional FTE positions in Corrections, 8.0 in discharge planning (replacing contract services), and 5.0 in the Justice Reinvestment Initiative for new pre-trial assessments and increased probation supervision caseloads.

In **Natural Resources**, the Governor recommends 401.0 FTE positions, an increase of 2.0 FTE positions in the Department of Environmental Management, 1.0 in the Office of Compliance and Inspection to increase response time to complaints and enforce new provisions of the wetlands statutes, and 1.0 in the Office of Legal Services to pursue litigation in order to secure regulatory compliance and payment of fines and penalties.

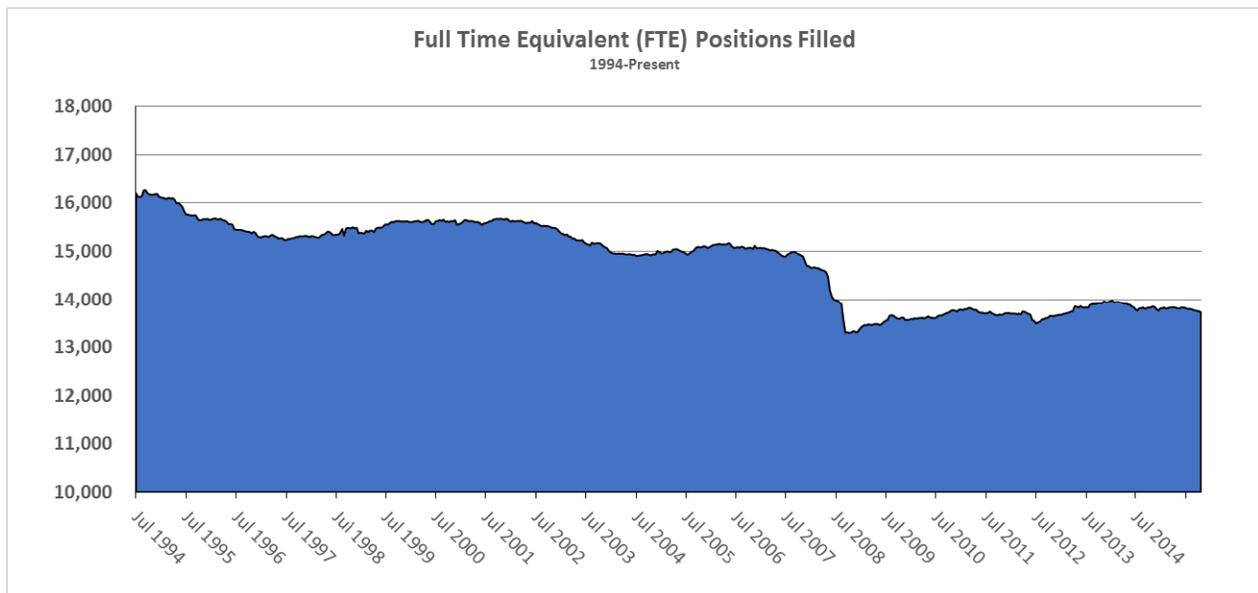
In **Transportation**, the Governor recommends 741.0, a transfer of 11.6 FTE positions due to the audit and capital management consolidations in Administration.

As directed by the Governor, the overall filled FTE position level must be constrained through careful management by cabinet directors and other agency heads of existing and upcoming vacancies. Actual filled positions totaled 13,702.9 as of December 26, 2015, a 117.3 position decrease from the 13,820.2 level in December 27, 2014, and 1,379.9 below the 15,082.8 in July 2007. The filled level is 1,415.5 FTE positions less than the enacted cap of 15,118.4 FTE positions. Because of resource constraints, as reflected in the Governor's recommended turnover across most agencies (a total of 6.0 percent statewide), as well as the program reductions and reconciliations (a net of 62.7 in FY 2016 revised and 20.7 in FY 2017), there are FTE positions in the roster that will not be filled in FY 2016 or FY 2017.

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## Personnel Summary

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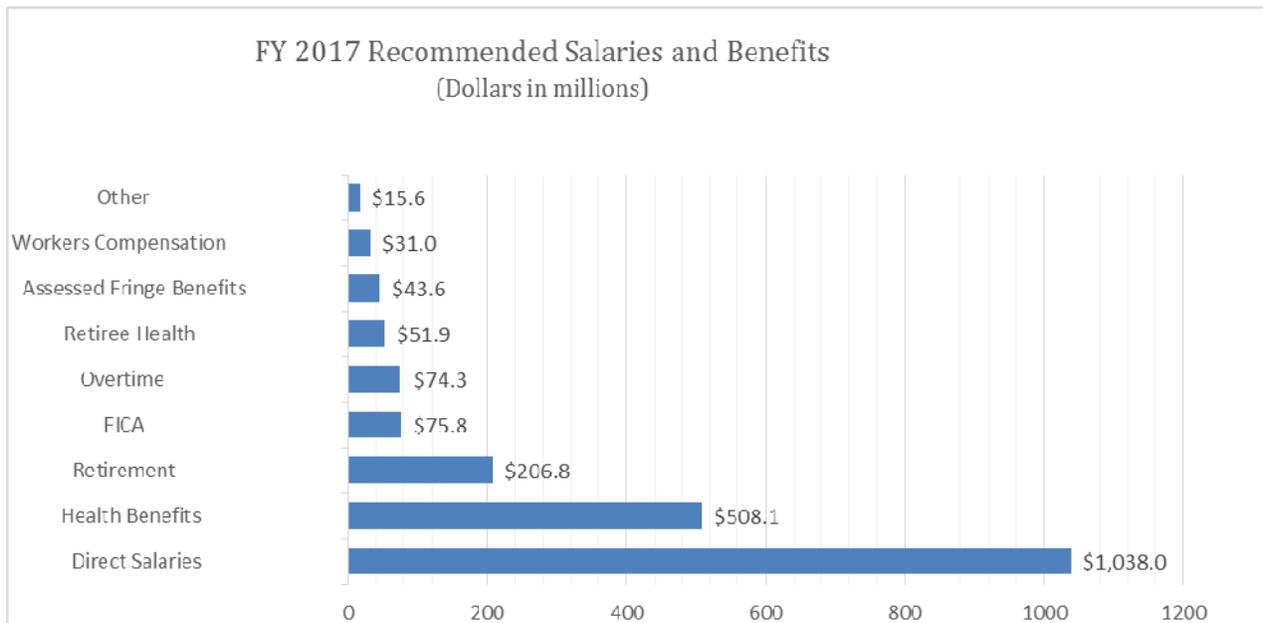
### **Salaries and Benefits**

The largest category of personnel expenditures is for salaries and benefits. Salaries and benefits (including temporary and seasonal) represent \$1.6 billion or 83.6 percent of total personnel costs. Salaries, including overtime, holiday, and other salary-related items, equal \$1,108.4 billion and fringe benefits equal \$536.9 million. Fringe benefit payments include \$206.8 million for retirement costs, \$194.0 million for medical benefits (including \$192.4 million for benefit plans and \$1.6 million for medical benefits-salary disbursements), \$51.9 million for retiree health benefits, \$75.3 million for FICA, and \$8.9 million for other benefits, including group life insurance and other contract stipends. In addition, the statewide benefit assessment is included to finance severance, unemployment, employee assistance, workers' compensation payments and administrative costs, and DLT employer assessments, and totals \$43.6 million, 2.0 percent of total personnel costs.

Direct Salaries increase by 5.4 percent in the FY 2016 Revised Budget over FY 2015 actual expenditures, and increase by 2.5 percent in the FY 2017 recommended Budget over the FY 2016 enacted Budget. The FY 2016 Budget includes no longevity increases for non-union personnel and for union personnel whose contracts end June 30, 2012, as these were abolished in the FY 2012 enacted Budget.

Fringe benefit adjustments increase by 5.5 percent in the FY 2016 revised Budget over FY 2015 actual expenditure and increase by a further 2.1 percent in FY 2017 over the FY 2016 enacted Budget. **Retirement** increases by 5.4 percent in FY 2016 revised from FY 2015 actual and by 5.7 percent in FY 2017 from the FY 2016 revised Budget. This includes a one percent defined contribution addition of \$5.3 million. Within state agency budgets, state employer retirement contributions are budgeted at 24.64 percent in FY 2016 and 26.34 percent in FY 2017. **FICA** increases by 5.8 percent in revised FY 2016 from FY 2015 actual expenditure but in FY 2017 increases by only 1.5 percent from the revised Budget. **Retiree Health** decreases by 6.9 percent in FY 2016 revised from FY 2015 actual expenditure, but increases by 2.2 percent in FY 2017. The rate remains at 5.97 percent in FY 2016 revised and FY 2017 for state employees.

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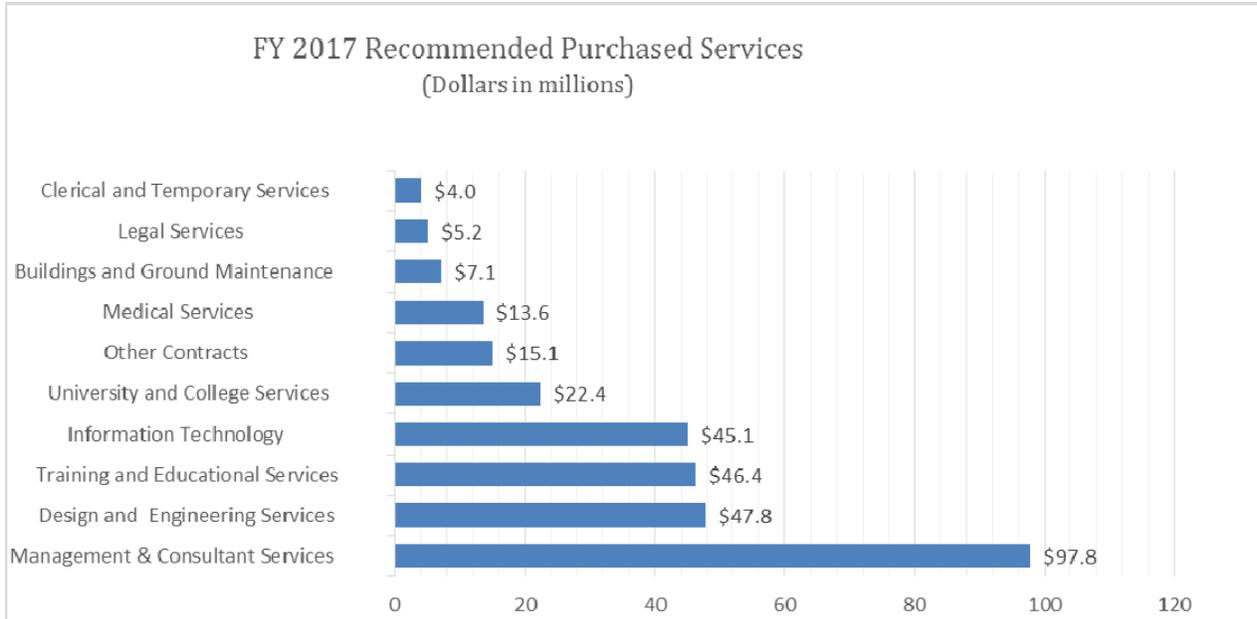


The largest fringe benefit increase is in **medical benefits**. The FY 2016 revised Budget of \$188.3 million includes an overall increase of 9.9 percent over FY 2015 actual expenditure levels. For FY 2017, the recommendation of \$194.0 million in medical benefits is an increase of 3.0 percent from the recommended revised budget amount for FY 2016. The two year total is 12.9 percent. The increases include estimated reductions in FY 2016 and FY 2017 due to two medical benefit holidays.

Workers' compensation costs budgeted directly in the agencies in FY 2016 and FY 2017 are \$661,359 and \$696,386 respectively and are financed primarily in the Department of Corrections and Behavioral Health, Developmental Disabilities and Hospitals. These amounts reflect the continuation of wages in excess of those amounts received as a result of the Workers' Compensation statute (primarily as a result of assault cases). Since FY 2001, all workers' compensation costs, as well as unemployment insurance and unused leave severance payments, have been paid from a separate Assessed Fringe Benefits Administrative Fund. The fund is financed by a statewide benefit assessment of a fixed percentage of direct salaries that is charged to every department and agency in this document. The FY 2016 revised Budget and the FY 2017 recommended Budget values are 4.6 percent and 4.75 percent respectively for regular state employees, an increase of 0.5 percentage points from the enacted level. However, certain agencies and/or certain employee classifications are not assessed the full rate because they do not receive worker's compensation benefits. Also, certain higher education employees do not receive severance payments. The assessed fringe benefit rate is applied to all direct salaries, except overtime. Expenditures from the fund have grown from \$31.1 million in FY 2008 to \$43.1 million FY 2009, but decreased in FY 2010 to \$28.8 million. The surge in severance payments was due to the large number of employees that retired prior to changes in retiree health benefit provisions, which became effective October 1, 2008. The FY 2016 revised Budget is \$40.3 million, an increase of 5.6 percent from the enacted budget and 3.2 percent from FY 2015 actual expenditure. The recommendation for FY 2017 is \$43.6 million, an increase of 8.2 percent from the revised recommendation. The Assessed Fringe Benefit Fund is used to fund the following: services provided by the Donley Center; services of the Workers' Compensation Court; the Division of Workers' Compensation administrative costs related to workers' compensation activities; workers' compensation benefit payments to employees; payments to workers' compensation providers;

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unemployment compensation payments; severance payments to employees for unused leave upon termination from state service; and Cornerstone Program administrative costs for the Flexible Health savings account.



## ***Purchased Services***

Purchased Services costs in the FY 2017 Budget total \$304.5 million, and represent 15.2 percent of total personnel costs. Expenditures in this category are for services provided by outside contractors in cases where special expertise is needed or where it would be less effective to hire full-time employees. Major categories of expenditure are management and consulting services (comprising 32.1 percent of the total), design and engineering services (comprising 15.7 percent), training and education services (comprising 15.2 percent), and information technology services (14.8 percent).

Recommended expenditures in the FY 2016 revised Budget of \$398.7 million are \$115.8 million more than FY 2016 enacted expenditures, a 40.9 percent increase in spending for services, including increases in training services (\$7.2 million), design and engineering services (\$8.8 million), management and consultant services (\$16.7 million) and information technology services (\$80.8 million). Recommended expenditures in FY 2017 are \$94.2 million less than FY 2016 revised. The greatest decreases are in information technology services (\$87.6 million) and management and consultant services (\$6.7 million).

For each department or agency of state government, the Budget volumes contain an agency summary of personnel costs. For each program, the Budget volumes display all positions and their respective costs. Footnotes will assist readers in understanding variances between the years. Additionally, there are a number of terms used that are not part of every day usage. A Personnel Glossary with extended explanations is included in the back of the Technical Appendix. For more information on the codes used to identify the pay scales, refer to the Glossary. Pay scales are provided on the State’s Human Resources web site under the Compensation and Classification section.