RIPEC
Comments on Your Government
A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

Analysis of Rhode Island's Budget Outlook, Debt Position and 2012 Ballot Initiatives

This RIPEC comments provides an updated look at the state's FY 2013 budget and out-years, based on the preliminary FY 2012 closing, as well as Rhode Island's current debt position. In addition, the report summarizes the 2012 ballot initiatives, including questions 1 and 2 on the expansion of gaming, and the five bond initiatives. Although RIPEC does not take a position on bond initiatives, the report includes a number of questions for voter consideration.

Introduction

The preliminary, unaudited FY 2012 year-end statement, released by the State of Rhode Island Office of Accounts and Controls, shows a closing surplus of $115.5 million. One should note that these year-end numbers are preliminary and subject to change in the final audit. Table 1 shows the budget statement for the FY 2012 budget as enacted, and the preliminary closing amounts based on the State Controller's report. Revenues were higher than enacted by $12.9 million, and general revenue expenditures were $29.4 million less than enacted. After the transfer to the budget reserve, the resulting surplus was $21.7 million higher than enacted.

Table 1
Preliminary Budget Statement ($ millions)

	Budget	Audit
Opening Surplus/Deficit	$64.2	$64.2
Reappropriated Surplus	4.5	4.5
General Revenues	3,257.4	3,270.3
Total FY 2012 Revenues	*$3,326.1*	*$3,339.0*
General Revenue Expenditures	$3,139.3	$3,109.9
Reappropriations (carried forward to 2013)	-	7.7
Excess Revenue to Retirement System	-	12.5
Total FY 2012 Expenditures	*$3,139.3*	*$3,130.1*
Balance	*$186.8*	*$208.9*
Transfer to Budget Reserve	($93.0)	($93.4)
Closing Surplus/Deficit	**$93.8**	**$115.5**

Source: State Controller Preliminary Audit; House Fiscal Staff "Budget as Enacted"

Although FY 2012 appears to have closed with a surplus, out-year budget deficits are projected from FY 2014 onward. Based on recent RIPEC estimates that incorporate the FY 2012 closing, Rhode Island will have a projected surplus of $28.9 million in FY 2013. Despite this encouraging news, expenditure growth is projected to continue to outpace growth in revenues, perpetuating the state's cycle of out-year deficits. By FY 2017, the state is projected to face a deficit of $373.9 million, or 10.4 percent of estimated revenues.[1]

The cushion provided by a higher-than-anticipated closing surplus has provided the state an opportunity to make strategic investments in the state's infrastructure, to pursue an agenda that encourages job creation, and to invest in the state's workforce. However, out-year deficits will continue to hamper the state's ability to support these

[1] Note: these projections do not account for changes in revenue/expenditure patterns that resulted in the increased FY 2012 surplus.

investments. Unless the state's structural deficit is resolved, the state will continue to have to choose between making investments in its future and relying on short-term financial fixes and one-time solutions.

One component of this decision is the state's capital budget and debt level. Capital investments provide both much-needed infrastructure improvements and can help boost the state's economy. However, how the state funds these projects – particularly with regard to increased debt – is an important consideration. Although the state has made significant improvements in debt management in recent years, it still ranks in the top half of the country for debt per capita and as a share of personal income.

According to the Rhode Island Office of the Secretary of State, a referendum is a "means by which a legislative body requests the electorate to approve or reject proposals such as constitutional amendments, long-term borrowing, and special laws affecting cities and towns." Regarding debt, when the General Assembly wishes to incur debt past one-year, it must authorize an election in which voters vote on the debt proposal.

This November, Rhode Island voters will be asked to consider five bond questions to authorize an additional $307.6 million in additional debt costs, including interest. Given the state's fiscal and economic outlook, RIPEC encourages taxpayers to consider the following questions when deciding whether to authorize new debt in November:

- Which projects will result in investments that will strengthen the state's economy and help grow and retain jobs?
- Do some of the proposed projects represent higher priorities than others given finite resources?
- What is the "opportunity cost" of these projects if they are not approved?
- Do the benefits outweigh the costs of the project when interest costs are taken into account?
- Will these projects help the state achieve its policy goals?
- Given the current state employment outlook, is the pricing structure for these projects (including labor) optimal?

Preliminary FY 2012 Closing

Revenue Changes

Overall, FY 2012 revenues were higher than in the FY 2012 revised budget. Table 2 provides an overview of the revised state revenues. Total FY 2012 actual revenues were $3,270.3 million – $12.9 million (0.4 percent) more than the enacted revenues of $3,257.4 million. Total tax revenue was $14.8 million (0.6 percent) higher than enacted. Within this total:

- Personal income tax collection actuals were $14.7 million (1.4 percent) higher than enacted, accounting for the largest amount of positive variance between enacted tax revenues and actual tax revenues;
- The decrease in motor fuel, cigarettes, and alcohol tax revenue ($2.9 million lower than enacted) was offset by increases in revenue for the general sales and use (0.5 percent increase) and motor vehicle taxes (0.7 percent increase).
- The lower-than-anticipated revenue from business corporations and insurance company taxes accounted for the bulk of the variance in general

business tax collections – business corporation tax collections were $8.4 million lower than enacted; and

- Departmental revenue was 1.5 percent, or $5.0 million lower than enacted due to two hospitals in receivership not paying their hospital licensing fees totaling $10.0 million.

Table 2
General Revenues (Preliminary-Unaudited)
for the Fiscal Year Ended June 30, 2012 ($ millions)

	Final Budget	Actual	Variance	% Variance
Personal Income Tax	$ 1,046.2	$ 1,060.9	$ 14.7	1.4%
General Business Taxes				
Business Corporations	$ 131.6	$ 123.2	$ (8.4)	-6.4%
Public Utilities Gross Earnings	98.3	100.6	2.3	2.4%
Financial Institutions	2.5	3.6	1.1	42.3%
Insurance Companies	89.0	89.5	0.5	0.6%
Bank Deposits	2.1	2.0	(0.1)	-4.7%
Health Care Provider Assess.	41.6	41.9	0.3	0.8%
Sales and Use Taxes				
Sales and Use	$ 846.0	$ 850.4	$ 4.4	0.5%
Motor Vehicle	47.7	48.4	0.7	1.5%
Motor Fuel	1.0	0.7	(0.3)	-26.7%
Cigarettes	133.6	131.1	(2.5)	-1.9%
Alcohol	12.0	11.9	(0.1)	-1.1%
Other Taxes				
Inheritance and Gift	$ 44.8	$ 46.4	$ 1.6	3.6%
Racing and Athletics	1.3	1.3	0.0	2.1%
Realty Transfer Tax	5.9	6.4	0.5	9.1%
Total Taxes	$ 2,503.6	$ 2,518.3	$ 14.8	0.6%
Departmental Revenue	$ 344.5	$ 339.5	$ (5.0)	-1.5%
Total Taxes and Departmentals	$ 2,848.1	$ 2,857.8	$ 9.8	0.3%
Other Sources				
Gas Tax Transfer	$ -	$ (0.0)	$ (0.0)	-
Other Miscellaneous	16.8	20.1	3.3	19.7%
Lottery	378.5	377.7	(0.8)	-0.2%
Unclaimed Property	14.0	14.6	0.6	4.0%
Total Other Sources	$ 409.3	$ 412.4	$ 3.1	0.8%
Total	**$3,257.4**	**$3,270.3**	**$ 12.9**	**0.4%**

Source: Rhode Island State Controller

Expenditure Changes

Total general revenue expenditures, based on the preliminary audited budget for FY 2012, were $3,109.9 million, or $29.4 million lower than enacted. The majority of the variance – approximately $23 million – was primarily due to lower-than-anticipated expenditures by general government and human services agencies (i.e. Department of Human Services and Department of Health).

Lower-than-anticipated spending for Human Services constituted the majority of the difference between the actual and the enacted budget ($12.2 million, or 1.0 percent, less than enacted). Within Human Services, the Department of Human Services spent $16.7 million less than their final appropriation, mostly due to lower-than-anticipated expenditures for medical benefits (Medicaid). In contrast, the Department of Children Youth and Families; the Department of Behavioral Health, Developmental Disabilities, and Hospitals; and the Office of the Child Advocate combined spent approximately $5.6 million more than appropriated. It should be noted that these expenditure patterns will have a notable impact on future projected deficits: the November Caseload Estimating Conference will help determine the magnitude of the impact.

Net expenditures within General Government were $10.6 million, or 2.5 percent, less than enacted. Relative to enacted appropriations, the Legislature and the Department of Administration accounted for the majority of the variance, with expenditures of $6.3 million and $2.7 million less than enacted, respectively. Within Education, the Department of Elementary and Secondary Education spent approximately $4 million less than appropriated, the largest variance of any department within the category and nearly all due to lower preliminary teacher retirement costs. The Public Safety category overall spent less than appropriated, with a variance of $2.6 million between the final appropriation and actual expenditures.

Table 3
General Revenue Expenditures (Preliminary) for the FY Ended June 30, 2012 ($ millions)

	Final Budget	Actual	Variance	Percent Variance
General Government	$420.3	$409.6	$10.6	2.5%
Human Services	1,238.4	1,226.2	12.2	1.0%
Education	1,041.3	1,037.2	4.1	0.4%
Public Safety	401.6	399.0	2.6	0.6%
Natural Resources	37.8	37.9	0.1	0.3%
Total	**$3,139.3**	**$3,109.9**	**$29.4**	**0.9%**

Source: State Controller Preliminary Audit for FY 2012

Budget Reserve and Cash Stabilization Fund

Rhode Island's Budget Reserve and Cash Stabilization Fund, commonly referred to as the "rainy day fund", was established in 1985. In the early 1990s, state spending was limited to 98.0 percent of estimated unencumbered general revenues for each fiscal year. Subsequently, the remaining two percent balance of general revenue was appropriated into the Budget Reserve and Cash Stabilization account, provided that no payment into the account would increase the balance above three percent of the estimated general revenues.

In the early 1990s, a constitutional amendment created the Rhode Island Capital Plan Fund (RICAP) to pay for capital projects, debt reduction, or debt service. As part of this change, appropriations in excess of the cap on the rainy day fund now flow primarily into the RICAP fund. In addition to limiting the use of excess reserve funds to capital projects only (as opposed to debt reduction or debt service), a 2006 amendment increased the cap on the budget reserve fund from three percent of general revenues to five percent beginning in FY 2013. This amendment reduced the amount of revenues that can be spent from 98.0 percent of revenues to 97.0 percent of revenues by FY 2013.

As shown on table 4, the Budget Reserve Fund had an opening balance of $130.3 million in FY 2012. The estimated transfer from the General Fund of $93.4 million resulted in balance of $223.7 million. After transferring $70.3 million to the Rhode Island Capital Fund, a balance of $153.4 million remained. Based on statutory requirements, the plan is currently fully funded.

Table 4
State Budget Reserve and Cash Stabilization Account FY 2012 Preliminary ($ million)

Opening Balance	$130.3
Calculated transfer from General Fund	93.4
Subtotal	*$223.7*
Transfer to Capital Fund	$70.3
Ending Balance	**$153.4**

Source: RIPEC calculations based on State Controller Preliminary Audit

Forecast

RIPEC's budget projections for FY 2013 through 2017 are shown on table 5. The projections assume revenue and expenditure growth at rates consistent with the House

Fiscal Advisory Staff's FY 2012 budget as enacted, but are adjusted to account for revenue changes resulting from the FY 2012 preliminary closing numbers. While the FY 2013 revised opening surplus of $115.5 million and the reappropriated surplus of $7.7 million (see table 1) may provide a cushion for the state in the current fiscal year, the forecasts for out-years show a continued structural imbalance in the state's general revenue budget.

Table 5
Projected Deficits FY 2013-2017 ($ million)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Available Revenues	$3,341.1	$3,365.2	$3,420.7	$3,499.3	$3,590.3
Total Expenditures	3,312.2	3,467.2	3,644.0	3,800.7	3,964.2
(Deficit)/Surplus*	$21.1	-$102.0	-$223.4	-$301.4	-$373.9
As a % of Available Revenue	-0.6%	3.0%	6.5%	8.6%	10.4%

SOURCE: RIPEC calculations based on House Fiscal Staff documents

Based on estimates by the House Fiscal Staff, updated to account for the revised FY 2012 closing, RIPEC projects a surplus in FY 2013 of $21.1 million, compared to the FY 2013 enacted surplus of $130,000. The increased FY 2013 surplus results in a projected FY 2014 budget gap of $102.0 million, compared with the $129.9 million budget gap projected in the FY 2013 enacted budget. Using House Fiscal Staff growth rates for revenues and expenditures, deficits are expected to increase to $373.9 million (10.4 percent of available revenue) in FY 2017. As noted earlier, these growth rates do not reflect revised revenue or expenditure patterns resulting from the FY 2012 closing, which may alter the underlying assumptions of the House Fiscal Staff projections.

The November Caseload Estimating Conference will provide an update on projected caseloads and expenditures for TANF/RIWP, child care, SSI disability, general public assistance (GPA), and Medicaid spending. The Conference will also update projected revenues based on the economic conditions in the state and current and projected revenue from taxes, departmental revenue, and other sources. The information from the November conference will represent the first official projections and will be used by the Governor as he develops his FY 2014 budget.

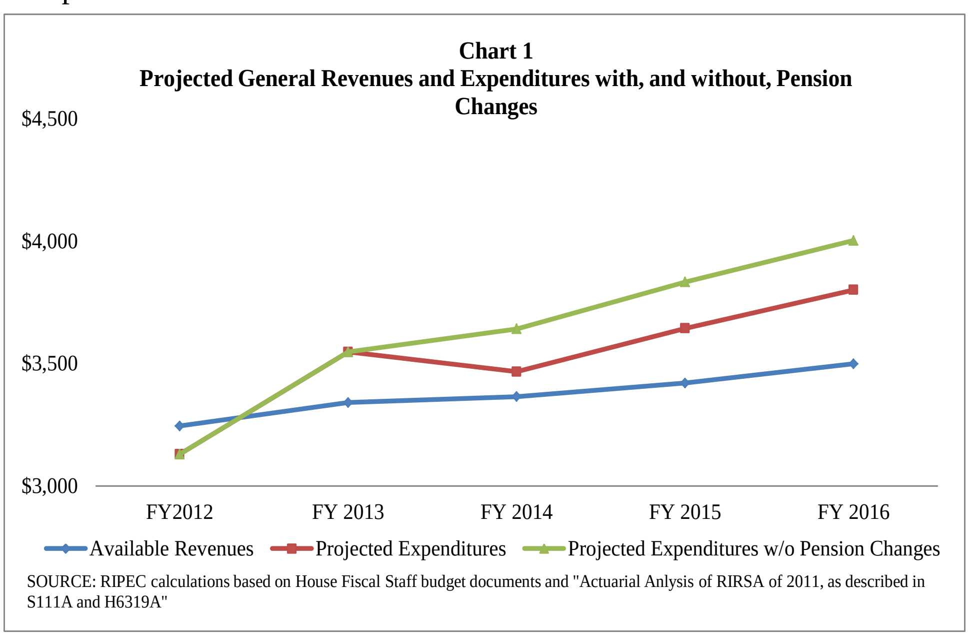
Risks to the Forecast

Beginning in FY 2015, the gap also reflects the estimated impact of casino gaming in Massachusetts. House Fiscal staff estimates losses related to casino gaming in Massachusetts account for one-third of the FY 2017 budget gap (assuming no mitigation from the November referendum questions). Based on the most recent data from the Massachusetts Gaming Commission, the first casino license will be issued as early as November 2013, though it is likely it will not be issued until March 2014. Given this delay, Rhode Island may see a measure of fiscal relief in the short-term; however, the long-term impact will likely be the same, and the state is projected to lose a significant amount of revenue.

The second undetermined impact on the state budget relates to the implementation of the Affordable Care Act (ACA). State governments are charged with implementing several components of the Act, which include, but are not limited to: changing Medicaid eligibility determinations; developing streamlined eligibility and enrollment systems across Medicaid and other programs such as the Children's Health Insurance Program; and addressing the financial implications of implementing Medicaid expansion. Analysis from the Government Accountability Office (GAO) estimates that three specific aspects of Medicaid expansion will contribute to state budget costs through 2020:

- absorbing administrative costs associated with managing Medicaid enrollment;
- acquiring or modifying information technology systems to support Medicaid; and
- enrolling individuals who were previously not eligible into Medicaid.

The third uncertain factor in Rhode Island's fiscal future is the pending court decision challenging recent state pension reform, known as the Rhode Island Retirement Security Act (RIRSA). If the state does not prevail in the lawsuit, overturning the Act will have significant implications for Rhode Island's out-years by substantially increasing expenditures. As chart 1 indicates, overturning the RIRSA would increase projected deficits by approximately $175 to $200 million through FY 2016. As a result, the projected deficit by year FY2016 is expected to be over $500 million dollars if the Act is reversed, as opposed to a deficit of roughly $300 million under the current law. This does not take into account the additional amortization cost of the state's liability for years in which it made contributions based on the new law.



Lastly, states and municipalities face uncertainty as the federal budget fiscal cliff approaches. The fiscal cliff refers to a confluence of policy changes scheduled to go into effect at midnight on December 31 and in the early days of 2013. Some of these changes include the expiration of the tax cuts through the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the extension of the "Bush tax cuts"), as well as the across-the-board spending reductions, or sequestration, under the Budget Control Act of 2011 (the legislation that brought an end to the 2011 debt-ceiling crisis).

As outlined by the Congressional Budget Office and other organizations, the impact of these federal budgetary changes on states will depend upon the policies adopted – or not adopted – by lawmakers to avoid the worst-case scenario. Most analysts predict that, as a response to the cliff, and possible across-the-board budget cuts, policymakers will enact a package of changes in the lame-duck session of Congress following the 2012 election. Until then, it is unknown how these federal fiscal changes will impact Rhode Island's budget outlook.

Rhode Island's Capital Budget & Debt Position

In contrast to state operating budgets, which usually include funding for one fiscal year, capital budgets include funding for multiple years. Capital budgets typically include projects that are:

- unique and unlikely to be repetitive;
- tangible and readily identifiable;
- of larger financial magnitude than many operating budget projects; and
- have long-term future consequences.

Rhode Island's capital budget includes several sources of funding that include, but are not limited to, federal funding, general obligation debt, the Rhode Island Capital Plan (RICAP funds, and private funding. The FY 2013-2017 capital budget includes capital outlays of $3,600.4 million for the five-year period. Financing this plan requires $809.5 million of debt issuances and $2,790.0 million from current revenue streams.

Credit rating agencies consider a number of issues when analyzing the state's overall debt position, including the state's total net tax-supported debt. Net tax-supported debt refers to all debt in the state that requires an appropriation. As of June 30, 2012, Rhode Island had a net tax-supported debt of $1,873.9 million (see table 6), representing a 0.5 percent decrease from June 30, 2010 ($1,883.9 million). Net tax-supported debt currently includes direct debt (e.g. general obligation bonds backed by the state),

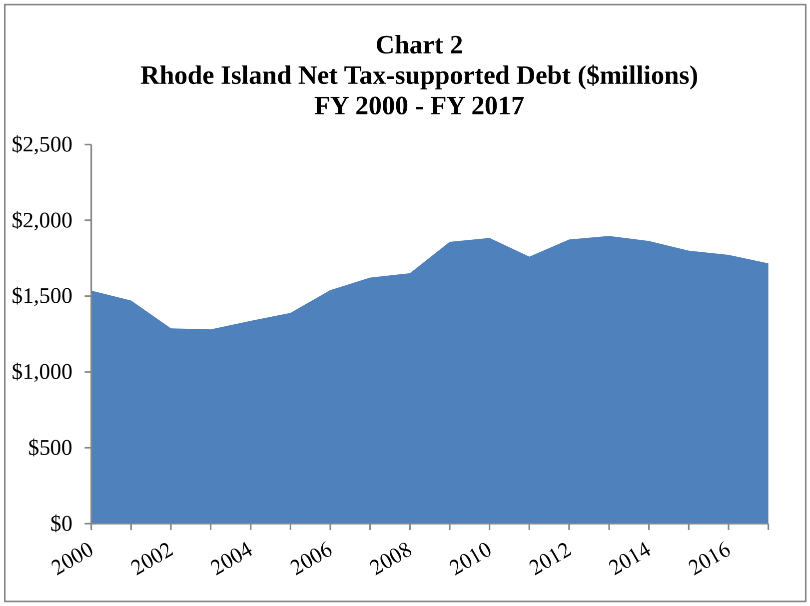
Table 6
Rhode Island's Net Tax-supported Debt ($ thousands)

	2010	2011	2012
Direct Debt			
Various Purpose Bonds Outstanding	$1,118,030	$1,049,400	$1,110,585
Proposed General Obligation Bond Issuance	-	-	-
Variable Rate General Obligations	-	-	-
Subtotal	$1,118,030	$1,049,400	$1,110,585
Guaranteed Debt		-	-
Subtotal	-	-	-
Other Debt Subject to Annual Appropriation			
Convention Center Authority Outstanding	$268,280	$259,620	$250,510
EDC-Transportation (motor fuel)	77,645	74,060	70,350
CP- Equipment/Vehicle Leases	5,425	3,505	1,570
CP- Attorney General	1,745	1,450	1,145
CP-DLT Howard Complex	11,200	9,695	8,115
CP-Shepard's Building (originally EDC)	17,245	15,220	13,060
CP-Howard Steam Plant	19,650	18,220	16,735
CP-Kent County Courthouse	47,240	44,715	42,110
CP- Traffic Tribunal Court Complex	18,215	17,310	16,380
CP- Training School	44,500	42,450	40,290
CP- Information Technology	25,935	21,390	16,795
CP-School for the Deaf	29,500	28,470	27,410
CP- CCRI Energy Conservation	-	-	6,145
Loan Agreement-Historic Structures Tax Credit Fund	135,195	120,820	105,990
CP- DOA Energy Conservation	5,635	5,415	23,645
CP- URI Energy Conservation	17,385	16,205	20,400
CP- Division of Motor Vehicle System	11,000	9,615	8,175
RIHMFC Neighborhood Opportunities Housing Program	8,450	3,485	-
EDC-URI Power Plant	9,995	9,195	8,360
EDC-McCoy Stadium	1,130	-	-
Subtotal	$755,370	$700,840	$677,185
Performance Based Agreements			
Econ. Dev. - Fleet	$8,925	$8,655	$8,360
Econ. Dev. - Fidelity Building	17,749	16,710	15,586
Econ. Dev. - Fidelity Building II	9,244	8,954	8,643
Subtotal	$35,918	$34,319	$32,589
Gross Debt	$1,909,318	$1,784,559	$1,896,724
Less: Adjustments for Agency Payments	($25,406)	($24,130)	($22,780)
Net Tax Supported Debt	$1,883,912	$1,760,429	$1,873,944

*"CP" stands for certificates of participation; "EDC" is the Economic Development Corporation
NOTE: only debt authorizations completed as of June 30, 2012 are included in this table
SOURCE: Rhode Island State Budget Office - Capital Budget, various years

guaranteed debt, performance-based agreements, and other forms of debt such as certificates of participation.

Direct debt is debt supported by the state's general fund for which the state has pledged its full faith and credit. It consists of general obligation bonds and notes issued in anticipation thereof. This type of debt requires approval by the voters. Rhode Island had $1,110.6 million in outstanding direct debt as of June 30, 2012. Direct debt increased by 0.1 percent between June 30, 2010 and June 30, 2012.



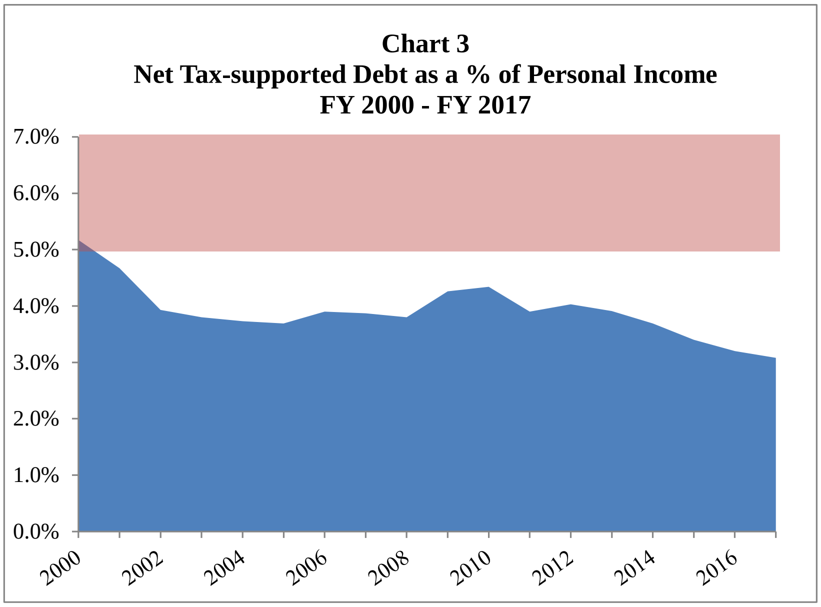
Other long-term debt includes state obligations related to revenue bonds from state agencies or commissions, third party financing arrangements and other contracts entered into by the state. Examples include capital leases with the Rhode Island Refunding Bond Authority (formally the Rhode Island Public Buildings Authority), master equipment lease agreements with financial institutions, revenue bonds issued by the Economic Development Corporation (EDC) and certificates of participation. As of June 30, 2012, Rhode Island had $677.2 million in this type of outstanding long-term debt. Of this amount, approximately one third ($250.5 million) was debt related to the Rhode Island Convention Center. Between June 30, 2010 and June 30, 2012, other outstanding long-term debt (excluding the Convention Center Authority Debt) decreased by 12.4 percent.

Chart 2 displays a projection of Rhode Island's net state tax-supported debt from FY 2000 through FY 2017. Net tax supported debt is projected to decrease by 8.4 percent from $1,873.9 in FY 2012 to $1,716.3 in FY 2017. Net debt used in these projections assumes current outstanding obligations and new debt programmed in the state's capital budget.

Overview of State Debt

Rhode Island has made significant progress in managing its debt over the past 20 years as a result of conservative debt management practices. For example, the state paid off DEPCO-related debt twenty-two years ahead of schedule - eliminating a considerable portion of the state's debt burden. The state allocated $295.6 million of the net tobacco proceeds to defease existing, non-callable general obligation debt – thereby freeing up approximately $343.5 million in net debt service payments through FY 2012.

To monitor the state's progress, the Rhode Island Public Finance Management Board (PFMB) adopted guidelines for managing certain elements of the state's debt. Credit guideline 1 is that tax-supported debt should not exceed the target range of 5.0 to 6.0 percent of personal income, and annual debt service for tax-supported debt should not exceed 7.5 percent of general revenues.



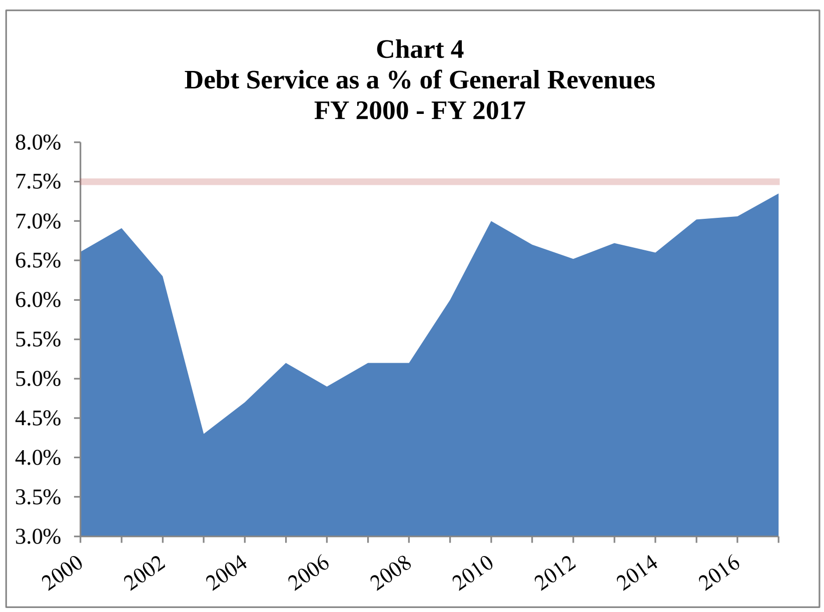
Debt Service and General Revenue

The PMFB guidelines also state that annual debt service for tax-supported debt should not exceed 7.5 percent of general revenues. Documents from the PMFB indicate that debt service was estimated to be 6.7 percent of general revenue in FY 2011. This debt ratio was within the PMFB guidelines, but is projected to increase close to the PMFB limit over the next few years, from 7.0 percent in FY 2015 and 7.4 percent in FY 2017. Based on the FY 2013 Capital Budget, debt service as a percentage of general revenues is projected to grow from 6.5 percent of general revenues in FY 2012 to 7.4 percent of general revenues in FY 2017, only 0.2 percent lower than the PMFB guidelines. Net debt service obligations are estimated to increase from $217.7 million in FY 2012 to $275.3 million in FY 2017, a 26.4 percent increase.

Credit guideline 2 is that the PFMB should monitor the total amount of tax-supported debt, state supported revenue debt, and agency revenue debt in relation to the state's personal income. Lastly, the third credit guideline states that all of the guidelines may be exceeded temporarily under certain extraordinary conditions.

Debt as a Percent of Personal Income

The PFMB set a guideline that net tax supported debt levels should not exceed 5.0 to 6.0 percent of personal income. Although the state's debt as a percent of personal income was significantly above these guidelines through the mid-1990s, Rhode Island's debt burden has remained well below the PFMB guidelines since the 2000s, ranging from a low of 3.7 percent in FY 2005 to a high of 5.17 in FY 2000. The state Budget Office projects tax-supported debt as a percentage of personal income will decline over the next few years, from 4.0 percent of personal income in 2012 to 3.4 percent in 2015 and 3.1 percent in 2017.



How Rhode Island's Debt Level Compares

The following provides an overview of the Ocean State's debt levels as compared to other states using debt per capita and debt as a percentage of personal income. It should be noted that debt ratios only provide a general picture of the state's relative debt position. Economic, administrative and structural factors provide additional information regarding the overall financial condition of the state, illuminating issues related to debt capacities and burdens.

Table 7
Net Tax-supported Debt

Per Capita	1992	2002	2012
U.S. Median	$364	$606	$1,117
Connecticut	2,204	3,440	5,096
Maine	373	471	845
Massachusetts	1,816	3,298	4,814
New Hampshire	514	485	776
Rhode Island	**1,151**	**1,508**	**1,997**
Vermont	781	861	792
RI Rank within U.S.	6	7	12

Percent of Personal Income	1992	2002	2012
U.S. Median	2.2%	2.2%	2.8%
Connecticut	8.7%	8.1%	9.1%
Maine	2.2%	1.7%	2.3%
Massachusetts	8.0%	8.4%	9.4%
New Hampshire	2.5%	1.4%	1.8%
Rhode Island	**6.1%**	**4.8%**	**4.7%**
Vermont	4.5%	2.9%	2.0%
RI Rank within U.S.	10	8	14

Source: Moody's Investors Service - Medians - Various Years

Debt per Capita

Tax-supported debt per capita is determined by dividing the state's tax-supported debt by the estimated population. It should be noted that Moody's Investors Service calculation of debt per capita has a time-lag in the data. For example, to determine 2012 debt per capita, 2012 tax-supported debt was divided by 2011 population estimates.

Data comparing Rhode Island to other states show that, while Rhode Island's tax-supported debt is estimated to be within the guidelines adopted by the PFMB, the Ocean State's debt per capita ranks 12th highest in the nation and debt in relation to personal income ranks 14th highest in the country (table 7). Among the New England states, both Connecticut (1st highest) and Massachusetts (2nd highest) ranked above Rhode Island. Rhode Island's 2012 net tax-supported debt per capita was $1,997. This level of per capita debt exceeds the United States median ($1,117) by $880. The Ocean State's per capita debt burden was 78.8 percent higher than the US median.

Debt per $1,000 of Personal Income

Another indicator prepared by Moody's is net tax-supported debt as a percentage of personal income. Tax-supported debt as a percentage of personal income is determined by dividing the net tax-supported debt by total personal income. There is also a lag in the data used by Moody's in this calculation. For example, to determine the 2012 ratio of debt to personal income, the 2012 tax supported debt is divided by 2010 personal income.

As shown on table 7, Rhode Island's 2012 net tax-supported debt as a percentage of personal income ranks 14th highest. The debt level in the Ocean State equals 4.7 percent of state personal income compared to the U.S. median of 2.8 percent. Among the New England states, both Massachusetts (ranking 2nd) and Connecticut (ranking 3rd) had debt levels as a share of personal income higher than the Ocean State.

Rhode Island's 1992 net tax-supported debt as a percent of personal income was 6.1 percent. That ratio declined to 4.8 percent in 2002 and to 4.7 percent in 2012. Moody's notes that, despite low interest rates, state borrowing has slowed overall. However, state's overall total debt service costs increased by 8.6 percent in 2011, as states began to repay the large amounts of debt incurred during the recent financial downturn.

State Bond Ratings

Bond ratings provide a picture of how each state's debt capacity and debt management practices impact the relative costs and risk associated with their bonds. Bond ratings are also important because they help investors determine interest rates: the higher the rating, the lower the yield and interest rates. Lower rated bonds typically have higher yields and interest rates, and, as a result, cost the issuer more in the long-run. Rating agencies (Moody's Investors Service, Standard and Poor's and Fitch Investors Service) evaluate the economy, state debt capacity and management practices to determine the level of risk involved in purchasing bonds.

As table 8 shows, 47 of the 50 states currently have a bond rating from Moody's Investors Service. States that do not have general obligation debt bond ratings typically use pay-as-you-go financing or other methods of funding capital projects. Rhode Island is among 12 states that have a rating of Aa2. The state's current rating represents an improvement over 2009 when Rhode Island's rating was Aa3. Currently, no state has a bond rating below investment grade by Moody's, nor does any state have a bond rating lower than A2.

Table 8
General Obligation Bond Ratings

State	Rating	State	Rating
Alaska	Aaa	Hawaii	Aa2
Delaware	Aaa	Louisiana	Aa2
Georgia	Aaa	Maine	Aa2
Maryland	Aaa	Michigan	Aa2
Missouri	Aaa	Mississippi	Aa2
New Mexico	Aaa	Nevada	Aa2
North Carolina	Aaa	New York	Aa2
South Carolina	Aaa	Oklahoma	Aa2
Tennessee	Aaa	**Rhode Island**	**Aa2**
Texas	Aaa	Wisconsin	Aa2
Utah	Aaa	Arizona	Aa2*
Vermont	Aaa	Kentucky	Aa2*
Virginia	Aaa		
Indiana	Aaa*	Connecticut	Aa3
Iowa	Aaa*	New Jersey	Aa3
		California	A1
Alabama	Aa1	Illinois	A2
Arkansas	Aa1		
Florida	Aa1	Nebraska	NA
Massachusetts	Aa1	South Dakota	NA
Minnesota	Aa1	Wyoming	NA
Montana	Aa1		
New Hampshire	Aa1		
Ohio	Aa1		
Oregon	Aa1		
Pennsylvania	Aa1		
Washington	Aa1		
West Virginia	Aa1		
Colorado	Aa1*		
Idaho	Aa1*		
Kansas	Aa1*		
North Dakota	Aa1*		

Ratings in Order of Highest to Lowest = Aaa, Aa1,Aa,Aa2,Aa3, A1,A2 (NA=No GO Debt)
* Issuer Rating (No General Obilgation Debt)
Source: Moodys Investors Service - 2012 State Debt Medians, May 2012

Although interest rates are favorable for borrowing, it is of paramount importance that the state preserve or improve its current rating level of Aa2 (Moody's), and AA (S&P and Fitch) to ensure continued access to capital markets. According to Moody's, Rhode Island's rating "reflects the state's persistent revenue under-performance and spending challenges; its record of balancing budgets with one-time solutions; and a history of substantial short-term borrowings for cash flow purposes." Specific factors cited in Moody's negative outlook include the state's "narrow liquidity margins, below-average economic performance, and persistent budget gaps." Moody's also notes that while pension reform in 2011 removed some fiscal pressure, the costs associated with a reversal of these reforms would be "significant."

November 2012 Ballot Initiatives

On November 6, 2012, Rhode Island voters will have the opportunity to vote on seven ballot initiatives. Two of these initiatives would grant approval for state-operated casino gaming. The other five questions would authorize the issuance of general obligation bonds, refunding bonds, and temporary notes for various proposals. This section of the report summarizes the proposed referenda and comments on measures of affordability. Traditionally, RIPEC only summarizes the bond initiatives. However, given the potential revenue impact of Questions One and Two, this report includes an overview of the casino gaming approval questions. While RIPEC does not take a position on these questions, this section of the report will also outline questions voters should consider when evaluating how to vote on each question.

Questions 1 and 2

Questions One and Two would grant state constitutional approval for state-owned casino gaming facilities at Twin River (Question One) and Newport Grand (Question Two). Although the General Assembly has authorized Twin River and Newport Grand to engage in casino gaming, the approval of a majority of voters in both a statewide referendum, as well as municipal referenda in the municipality in which the casinos operate, is required. In the case of Question One, this means that casino gaming will be approved if, and only if, voters statewide *and* the voters of Lincoln approve table gaming at Twin River. Regarding Question Two, a majority of voters in Newport, as well as statewide voters, must approve gaming at Newport Grand.

Casino gaming in Rhode Island is defined as: any and all table and casino-style games played with cards, dice or equipment, for money, credit, or any representative of value; including, but not limited to roulette, blackjack, big six, craps, poker, baccarat, pai gow, any banking or percentage game, or any other game or device included within the definition of Class III gaming as that term is defined in Section 2703(8) of Title 25 of the United States Code and which is approved by the state of Rhode Island through the Lottery Division.

The legislation authorizing these two referenda questions was in response to a legislative decision in Massachusetts, in which the Massachusetts legislature voted to allow the development and operation of three casinos and one racino in the commonwealth. An outside analysis by Christiansen Capital Advisors indicated that the state stands to lose a significant amount of revenue when the Massachusetts casinos begin operation, as will Twin River and Newport Grand.[2] Under the "likely case" scenario, the state is projected to see revenue declines of approximately $50 million to

[2] For a more complete analysis on the estimated fiscal impact of casino gaming at Twin River and Newport Grand, see RIPEC's report "Table Gaming in the Ocean State."

$150 million between FY 2015 and FY 2017. It appears that the current legislation would do little to mitigate the negative impact of gaming on state revenues. However, authorization of table gaming at the casinos may impact the entities' ability to meet the challenges of increased cross-border competition.

As voters decide whether to allow casino gaming, RIPEC believes the following questions should be considered:

- What will be the impact on the state gaming industry if gaming is not authorized? Will there be additional economic impacts to the state?
- If casino gaming is not authorized at either site, how will the state compensate for lost slots revenues?
- What are the positive and negative ways in which authorizing casino gaming would affect the host communities of Lincoln and Newport?

General Obligation Bond Proposals

Voters will be asked to approve up to $209.0 million in new general obligation bond debt on November 6, 2012. According to the 2012 Voter Information Handbook published by the Secretary of State's Office, principal and interest payments for all proposed projects are estimated to total $307.6 million over the 20-year payback period. The estimates are based on a 4.0 percent interest rate on the bonds, and assume that the state issues all the bonds at once (which is typically not the case – the debt is issued as the projects progress). This figure includes the total amount to be borrowed if all bond proposals are approved ($209.0 million) and the interest on the amount borrowed ($98.6 million).

The following highlights each bond referendum placed on the ballot and outlines questions taxpayers should consider when voting this November.

Higher Education

The state has proposed issuing $50.0 million in general obligation bonds for higher education capital projects, which will be used to renovate and modernize three academic buildings at Rhode Island College (RIC). This renovation project includes improvements such as renovations and modernizations to Gaige Hall and Craig-Lee Hall to increase physical access for individuals with disabilities. These renovations would increase technological capacity, update energy efficiency, and increase access for disabled students.

Table 9
Total Estimated Bond Referenda Costs

Project	Principal	Interest	Total
Higher Education Facilities	$50,000,000	$23,581,750	$73,581,750
Veterans' Home	94,000,000	44,333,691	138,333,691
Clean Water Finance Agency	20,000,000	9,432,700	29,432,700
Environmental Management	20,000,000	9,432,700	29,432,700
Affordable Housing	25,000,000	11,790,875	36,790,875
Total Cost	$209,000,000	$98,571,716	$307,571,716

Principal and interest include cost of issuance; interest is based on a rate of 4.0 percent over 20 years (may vary when issued); assumes level payments

Source: 2012 Voter Information Handbook, Secretary of State

The bond issue also includes an upgrade and expansion of a small portion of the Fogarty Life Science building, which focuses on nursing and allied health programs. Currently these programs have only one dedicated classroom and two dedicated labs. Issuing this bond would not prohibit nor replace the construction of a joint nursing facility with the University of Rhode Island.

Questions to consider include:

- Is it appropriate for the state to issue bonds for this project, or would the state be better off funding this project through its pay-go capital plan?
- Are the demands for the associated academic programs at RIC sufficient, to support the facility expansion?
- Is the upgrade/expansion consistent with the potential creation of a joint RIC/URI nursing facility?

Veterans' Home

The state has proposed issuing $94.0 million in general obligation debt for the Department of Human Services to construct a new Veterans' Home in Bristol and to renovate the existing facilities. Construction and renovations are expected to commence in 2013.

The first and second part of the work – construction of a new, 225-bed nursing home facility to replace the existing facility and a new 75-bed assisted living facility – are expected to be completed simultaneously. The third part is renovations of the current facility to provide services such as spousal residences, recreation facilities, and beds for homeless veterans. If parts one and two are constructed simultaneously, as per the bond as written, the cost is estimated to be $94.0 million, compared to an original estimate of $100.7 million (the reduction is a result of reduced inflation and construction mobilization costs).

The bond question provides for the full cost of projects (assuming phases one and two are completed simultaneously), and does not reflect the availability of federal funds. However, the amount of funds borrowed by the state will be reduced significantly if the state is able to secure federal funding for the construction of the new veterans' home. Part one of the project is eligible for federal reimbursement of approximately $21 million, reducing the total borrowing to $73.0 million.[3]

Questions to consider include:

- How do the future benefits of the new facility compare to the future operational costs?
- What are the future operational costs to the state for the new facilities?
- Is construction of a new facility, as opposed to renovating an existing facility, appropriate?
- If parts one and two cannot be constructed simultaneously, what is the contingency plan for covering the extra debt ($6.7 million)?
- Has the state explored alternate funding sources to support the projects (e.g. private donations)?

Clean Water Finance Agency

The state has proposed issuing $20.0 million in general obligation bonds for Clean Water and Drinking Water State Revolving Fund (SRF) programs, which are co-managed by the Clean Water Finance Agency, Rhode Island Department of Environmental Management, and the Rhode Island Department of Health. Of the $20.0 million, $12.0 million will be used to leverage federal capitalization grants to finance approved water pollution abatement or wastewater infrastructure projects and $8.0 million will be used to leverage federal capitalization grants to finance approved drinking water projects. In total, it is estimated that these state contributions will leverage $100.0 million in federal capitalization grants that will be in the form of low-interest, subsidized loan for local

[3] NOTE: the state borrows only on an as-needed basis as the project moves forward. In the event of federal reimbursement, the state would not borrow the remaining funds.

governmental units. The schedule for both of these projects is from 2013 to 2017. The useful life of these projects is estimated to be at least 20 years.

Questions to consider include:

- Should the state consider other financing mechanisms given the size of the issue and the state's current fiscal limitations?
- Is issuance of general obligation debt appropriate for state support of local projects?
- What are the economic, environmental and social impacts if the state were to not pursue these projects?
- Do these projects represent significant economic and social assets?

Environmental Management

The state has proposed issuance of $20.0 million in general obligation bonds, refunding bonds, and temporary notes for environmental management initiatives. The $20.0 million is to be divided across six areas:

- $4.0 million would go towards restoring and protecting water quality, economic viability, and environmental sustainability of Narragansett Bay and Rhode Island's watersheds. Activities funded would include nonpoint source pollution abatement; commercial, industrial and agricultural pollution abatement; and riparian buffer and watershed ecosystem restoration.
- $2.5 million would go towards the purchase of land, development rights and conservation easements for acquiring recreational and open space lands.
- $4.5 million would go towards the purchase of agricultural development rights to active farms in Rhode Island.
- $2.5 million in grants to municipalities, local land trusts, and non-profit organizations for fee-simple title, development rights or conservation easements.
- $5.5 million in grants to municipalities for acquisition, development or revitalization of local recreational facilities, $1.0 million of which would be for the renovation and development of "historic" or "passive" recreation areas. These grants would fund up to 90.0 percent of the overall project costs.

All of the projects financed by this bond are expected to begin in 2014 and be completed by 2020. Development projects have an expected useful life of 25 years, land conservation and farmland preservation projects are in perpetuity.

Questions to consider include:

- What resources does the state currently have to acquire and preserve open space/agricultural land, and what is the long-term goal in terms of total land to be preserved?
- Given the low cost of each of these initiatives, is general obligation bonding the appropriate financing mechanism, or should the state use pay-go financing instead?
- Are the state general obligation bonds being used to maximize other sources of revenue, to include private and federal resources?
- What role has the private and non-profit sector played in acquiring and preserving land in the state?

Affordable Housing

Referenda question seven would allow the state to issue $25.0 million in general obligation bonds, refunding bonds, and temporary notes as funding for the Rhode Island Housing Resources Commission to redevelop existing structures or construct new affordable houses and apartments. It is expected that the bond will leverage $125.0 million in funding from private and federal sources. Combined with additional funds, the bond is expected to result in the construction of approximately 600 long-term affordable homes and 1,000 construction jobs. The work is expected to begin in 2013 and end in 2015. At a minimum, the useful life of these projects is expected to be 30 years.

Questions to consider include:

- Is there enough demand for affordable housing that warrants the construction and rehabilitation of the properties?
- How does affordable housing fit into the state's overall economic development priorities?
- Given the current level of foreclosed properties in the state, is new construction the most appropriate use of state funds?
- How will the location of housing be prioritized?
- How many individuals or families will be impacted by the construction or rehabilitation of these homes?