RIPEC

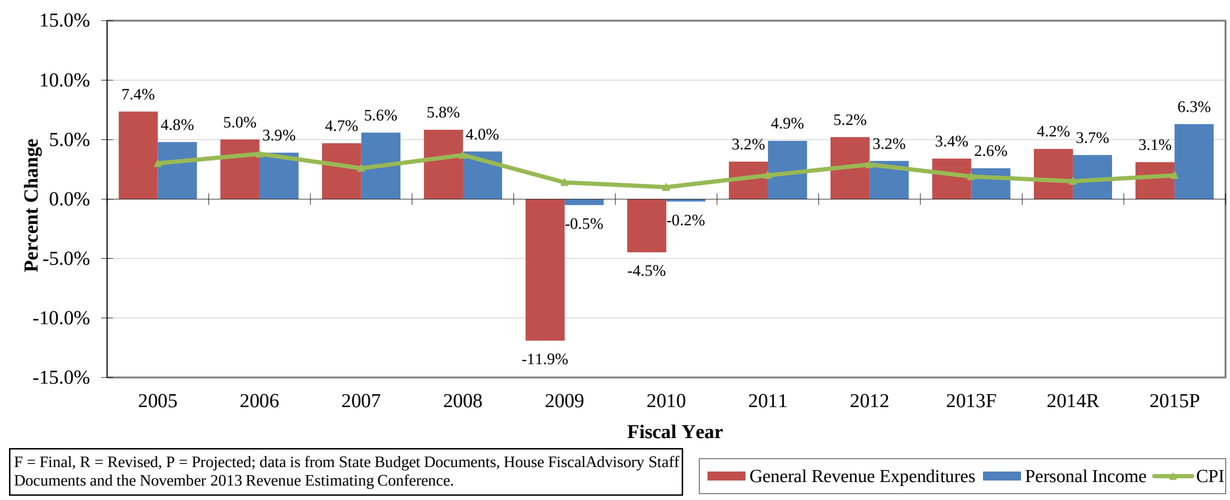
Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

Governor's FY 2015 Budget as Proposed

This RIPEC Comments outlines the Governor's FY 2015 budget request and summarizes key policy issues. The proposed FY 2015 budget includes all funds expenditures of $8,544.0 million, an increase of $330.9 million (4.0 percent) from the FY 2014 enacted budget. Fiscal year 2015 general revenue expenditures total $3,456.1 million in the proposed budget, an increase of $96.3 million (2.9 percent) from the FY 2014 enacted budget.

Chart 1
Change in General Revenue Expenditures, Personal Income and CPI (Unadjusted)



RIPEC Comments

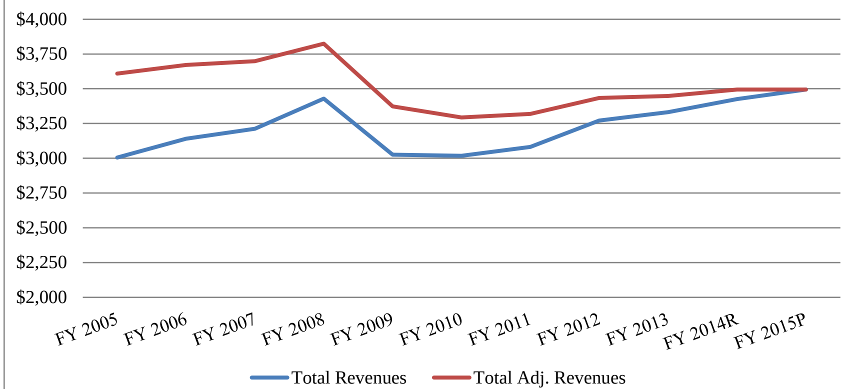
The Governor's FY 2015 budget anticipates a FY 2014 $68.9 million closing surplus— the fourth year of year-end surpluses. The closing surplus for FY 2014 is largely due to a larger-than-expected FY 2013 closing, higher–than-expected revenue estimates from the November Revenue Estimating Conference (REC), and the Governor's expenditure modifications. After the November 2013 Revenue and Caseload Estimating Conferences, the FY 2015 budget process began with an anticipated deficit of approximately $100.0 million, which is resolved without increasing any taxes. Instead, this revenue-expenditure gap is resolved through a combination of the prior year surplus, one-time revenues, expenditure adjustments, and cost-shifting. Of note, there has been no significant change in the long-term deficit forecast.

Rhode Island's economy seems to be improving; however, the decisions made today, as the state creates and adopts a FY 2015 budget, will help create opportunities or barriers for the state as it moves out of the recession. Policy issues decided upon today will likely have out-year impacts, including, but not limited to:

- The establishment of casino gambling in Massachusetts;
- The implementation of health care reform through the ACA, including, but not limited to, the expansion of Medicaid;
- The outcome of pension reform mediation/litigation;
- The repayment of debt service on the moral obligation bonds associated with the former Rhode Island Economic Development Corporation's Job Creation Guarantee Program (specifically loan guarantees made to 38 Studios); and
- Transportation and infrastructure funding proposals aimed at addressing the state's potential transportation funding shortfall.

These events have the potential to occur within a fairly small timeframe, which could put significant pressure on the state budget. Moreover, although recent revenue and expenditure trends indicate that Rhode Island's economy is beginning to recover after the Great Recession in nominal terms, the state's general revenues and expenditures remain lower than pre-recession levels in real terms.

Chart 2
Real and Adjusted General Revenues
FY 2005- FY 2015P



SOURCE: State Budget Office documents; RIPEC calculations

In unadjusted terms, FY 2015 projected general revenues of $3,494.5 million have recovered to FY 2008 levels, as seen in chart 2. Similarly, FY 2015 projected expenditures from general revenues ($3,456.1 million) have also reached 2008 levels on an unadjusted basis. When adjusted for inflation, however, projected general revenues and general revenue expenditures in FY 2015 are lower than in FY 2008.

Furthermore, five-year estimates project expenditures will grow faster than both inflation and revenue increases through FY 2019. It is estimated that by FY 2019, the deficit as a percent of available revenues will reach 11.5 percent.

Future Budgetary Uncertainties

Although revenues have started to recover, the state has only just started to recover from the Great Recession. Even with cautious planning, however, the unpredictable nature of the economic recovery could exert pressure on the state's out-year budgets. As such, Rhode Island must continue to be mindful of the opportunities it has to control out-year implications. The following section outlines policy issues with out-year fiscal implications.

Casino Gambling in Massachusetts

Massachusetts's gaming law allows three Category 1 licenses; one in three specified regions of the state (Region A, Suffolk, Middlesex, Essex, Norfolk and Worcester counties; Region B, Hampshire, Hampden, Franklin and Berkshire counties; and Region C, Bristol, Plymouth, Nantucket, Dukes and Barnstable counties), and one slot parlor, or Category 2 license in one of the three regions. The Massachusetts Gaming Commission has established a multiple-stage process, including background investigations, for awarding the four licenses. To date, the Gaming Commission has awarded the state's Category 2 slot parlor license to Penn National Gaming, which will develop its facility at the Plainridge Racecourse in Plainville, MA. The Commission anticipates the first Category 1 license to be awarded by Summer of 2014.

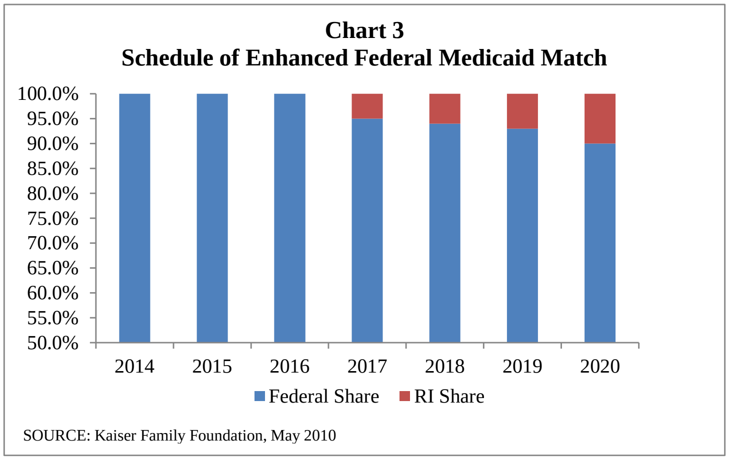
In January 2012, the Rhode Island Department of Revenue commissioned Christiansen Capital Advisors, LLC (CCA) to study the likely revenue and fiscal impacts on Rhode Island of authorized gaming in Massachusetts. This report developed three scenarios based on the locations of potential Massachusetts Category 1 and 2 licenses (best case, worst case, and likely case). The Governor's FY 2015 proposed budget includes assumptions from the CCA's likely case scenario for the location of the Category 1 and 2 licenses. Overall, the proposed budget, based on this scenario, anticipates a total reduction in lottery transfers of $422.1 million in the next five years. A Massachusetts Category 1 license closer to Rhode Island, as in the "worst case" scenario, could result in greater revenue reductions for the state.

Moreover, when the casinos open will determine when Rhode Island will begin to feel the impact on state revenues. Initially, Rhode Island assumed that a racino would open in FY 2015 and the other three casinos would open in FY 2016. Due to delays in the process in Massachusetts, the negative revenue impact has been pushed out. Any changes to the Massachusetts timeline will continue to impact the state's forecast.

Affordable Care Act
Rhode Island had the flexibility under the Patient Protection and Affordable Care Act (ACA) to create its own health insurance benefits exchange. In September 2011, Governor Lincoln Chafee addressed the health benefits exchange provision of the ACA by establishing the Rhode Island Health Benefits Exchange (RIHBE) as a division within the state's Executive Department. The 2013 budget subsequently moved RIHBE to the state's Department of Administration. In October 2013, Rhode Island opened its online insurance marketplace, HealthSource RI (HSRI).

Though HSRI has received over $111.5 million in grant funding, it must become sustainable in the long-term, through state funding or rate pricing, by January 1, 2015. The annual cost of running the state exchange is currently estimated to be between $17.9 and $23.9 million (partially contingent upon the demand on the contact center). As outlined in a 2013 RIPEC publication "HealthSource RI Status Updates," there are several options for generating enough revenue to support HSRI, including a premium surcharge, user fee, premium assessment, carrier tax, claims-paid tax, and broad-based tax.

In addition to decisions regarding how to make HSRI financially sustainable, policymakers may also want to consider other ACA implementation and fiscal implications such as the extension of Medicaid to adults without dependents up to 138.0 percent of the federal poverty level. The ACA's Medicaid expansion is federally funded through 2016, after which the federal share declines (see chart 3). In January 2017, the federal Medicaid rate will decrease to 95.0 percent; 94.0 percent in 2018; 93.0 percent in 2019; and lastly to 90.0 percent in 2020 and subsequent years. Assuming no changes are made to the program, Rhode Island will begin to contribute a 10.0 state match in 2020.



According to the House Fiscal Advisory Staff, programs supported by Medicaid are already 27.9 percent of total spending in the Governor's FY 2015 recommended budget and 30.9 percent of spending from general revenues. Policymakers should look to the cost estimates of the May 2014 Caseload Estimating Conference for insight about potential out-year Medicaid-related expenditures.

State Pensions

The Rhode Island Retirement Security Act (RIRSA) of November 2011 reformed state pension contributions for public employees by reducing the state's unfunded liability and future payment obligations. However, a legal challenge over RIRSA was filed in June 2012, and both sides were ordered into mediation in December 2012. In February 2014, the Governor, General Treasurer, and attorneys representing public employee unions and retiree coalitions challenging the pension changes announced a settlement agreement achieved through court-ordered mediation. This joint-announcement articulated that the settlement agreement proposal preserved 95 percent of the savings from RIRSA.

The settlement required the plaintiffs to conduct informational meetings, followed by a voting mechanism for their respective groups' approval of the settlement. Voting was to occur on a class-by-class basis within 45 days of the settlement announcement. A vote of more than 50.0 percent of the members to disapprove of the settlement proposal would result in a failure of settlement and a reversion to the original litigation. In April 2014, it was announced that 61.0 percent of eligible police officers opposed the settlement agreement. This resulted in a motion by the Governor and General Treasurer to dismiss the lawsuit, which was ultimately denied by the Rhode Island Superior Court. Mediation has now officially ended and a trial is scheduled to begin on September 15, 2014.

In an April 2014 Weekly Credit Outlook for Public Finance, Moody's Investors described the failure of mediation and the resulting shift towards litigation a "credit negative" for both the state of Rhode Island and local Rhode Island municipalities. Moody's provided a range of possible financial outcomes of a litigated resolution, ranging from a reversal of RIRSA (resulting in state annual contributions of $500 million for FY 2016, or approximately 14.0 percent of FY 2016 revenues), to a court decision to uphold RIRSA, which could result in savings of approximately 45 percent. The magnitude of the range in potential annual state costs, Moody's noted, results in a "considerable risk" to Rhode Island's already challenged economy.

38 Studios

Another long-term policy issue with fiscal consequences includes the annual decision the General Assembly must make regarding repayment of the Job Creation Guaranty Program's debt service associated with 38 Studios. The Rhode Island Economic Development Corporation administered $75.0 million of taxable revenue bonds (considered moral obligation bonds) under the Job Creation Guaranty Program to 38 Studios in November of 2010. The company's subsequent bankruptcy filing left the state with a shortfall amounting to $89.1 million over eight years. After contentious debate, in the 2013 legislative session, the General Assembly approved the first of these eight payments ($2.4 million). The Governor's FY 2015 budget proposal includes $12.3 million in general revenues to pay for the debt service

Rhode Island's consideration of defaulting on the 38 Studios debt service could have several detrimental impacts. First, the perception of the state's creditworthiness in the market may be damaged. Consequently, the cost of borrowing would most likely increase with investors' perceived risk. Secondly, the state's bond rating could be downgraded in response to default. This could also increase the cost of borrowing commensurate with increased risk. In addition to general obligation bonds, the state's lower rating could also impact the cost of the following types of debt issuances: appropriation-backed; credit-supported; public and quasi-public; and municipal.

As the state considers repayment of the 38 Studios bond, attention must be granted to the consequences of default, and not necessarily focused on whether the initial loan guaranty decision was appropriate. It has been RIPEC's position that to uphold the state's moral obligation, the bond repayment should be supported by the state. To learn more about potential implications of default, see the 2013 RIPEC study titled "Bond Issuance and Default."

Transportation Funding

Rhode Island, like many other states throughout the United States, currently faces a long-term transportation funding shortfall. A decline in revenue from the state gas tax, the traditional source of funds for transportation projects, and uncertainty surrounding federal funds provided to the state through the Federal Highway Trust Fund have contributed to this shortfall. For example, the Rhode Island Department of Transportation (RIDOT) estimates that it faces a shortfall of $1.1 billion in needed funding for construction projects from FY 2015 to FY 2023. Additionally, the Rhode Island Turnpike and Bridge Authority (RITBA), which manages the four large bridges located in the East Bay, estimates it faces a shortfall of over $200.0 million in funding during the next decade.

The complexity of Rhode Island's transportation finance challenges was highlighted during the last days of the 2013 Rhode Island General Assembly's legislative session, when lawmakers debated whether to generate revenue from the installation of tolls on the Sakonnet River Bridge. The General Assembly initially voted to delay new tolls on the Sakonnet River Bridge, but then subsequently agreed to enact a 10.0 cent toll, and to create a Special Legislative Commission to Study the Funding for Bridges. The Commission, issued its final report regarding potential sources of revenue for transportation projects in January 2014. This report does not include explicit recommendations, but provides an analysis of the various revenue sources available to the state.

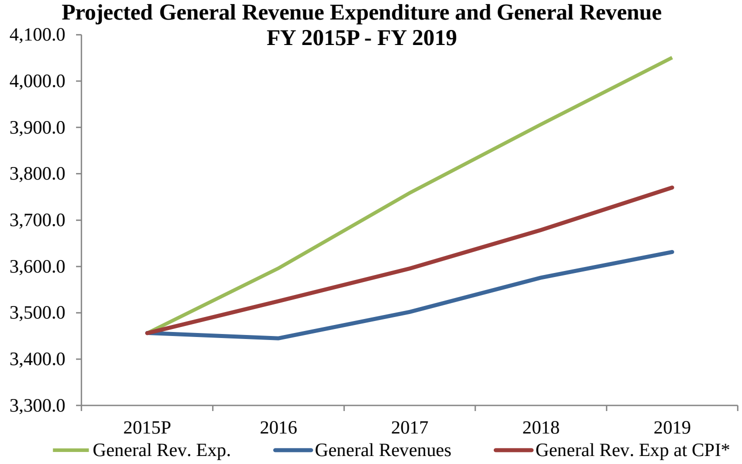
Various transportation reports over the past several years point to the same fundamental issue: Rhode Island requires a predictable and sustainable funding mechanism capable of addressing current operations and the long-term needs of surface transportation infrastructure projects. It is RIPEC's position that funding sources should follow a set of principles, including those that:

- Lessen the overall tax burden;
- Ensure a proper balance between state and local taxes;
- Promote equity and fairness;
- Equitably and efficiently fund public services;
- Ensure predictability for the taxpayer as well as government;
- Improve Rhode Island's competitive position; and
- Establish a balanced set of revenues.

Moreover, while Rhode Island must consider alternative sources of transportation funding, funding is only part of the solution for improved transportation infrastructure. The state's transportation system could be better aligned to improve priorities, functionality, and overall efficiency. The need for a long-term funding solution, and increased efficiencies should be considered as a short- and long-term policy priority.

Additional Considerations

Chart 4
Projected General Revenue Expenditure and General Revenue
FY 2015P - FY 2019



SOURCE: Budget Office documents; RIPEC Calculations

Decisions related to: Massachusetts' gaming expansion; the implementation of the Affordable Care Act; the outcome of pending pension reform litigation; the repayment of 38 Studios' debt service; and a long-term funding plan for transportation and infrastructure needs will most certainly have a long-term fiscal impact on Rhode Island's state budget. Moreover, two other budgetary issues—one of which is currently incorporated into the proposed FY 2015 budget document as submitted to the General Assembly, and one which is not—should also be weighed against future fiscal concerns.

Debt Incurrence

Provisions in the FY 2015 budget that propose the incurrence of additional state debt should also be considered for their future fiscal consequences. The FY 2015 capital budget provides $4,684.3 million across all funding sources for capital projects between FY 2014 and FY 2019. It also includes four general obligation bond proposals worth $275.0 million in new borrowing authority for the state, including:

- $125.0 million to construct a new building for the University of Rhode Island's College of Engineering as well as the renovation or demolition of several other existing structures already on campus;
- $75.0 million for over a dozen water infrastructure, land conservation, and "green" projects that are collectively referred to in the budget as "Jobs for a Beautiful Rhode Island" initiatives;
- $40.0 million for mass transit projects throughout the state, including potentially moving the existing RIPTA hub in downtown Providence away from Kennedy Plaza; and
- $35.0 million to establish a Cultural Arts and the Economy grant program that would provide funding to preserve or renovate performance centers, historic sites, museums, and cultural arts centers.

Voters should not consider these proposals in isolation. Rather, these proposals, and the proposed capital budget in general, should be analyzed for the ways in which the state's proposed debt levels compare—whether along the guidelines of the Rhode Island Public Finance Management Board, as compared to other states' levels, or even as debt capacity and management relates to bond ratings.

Recent State Personnel Agreements
As policymakers are considering the proposed FY 2015 budget, they should also consider recent changes that have not been incorporated into the budget, but which are anticipated to have a budgetary impact. Specifically, the Governor's administration recently reached an agreement with labor unions to provide state workers with three, 2.0 percent raises over the upcoming 18 months, retroactive to April 6, 2014. The Governor's administration anticipates that the raises would cost $3.6 million this fiscal year, as well as $26.2 million in the new state budget year beginning on July 1, 2014, with some healthcare-related offsetting savings. These costs will need to be factored into the expenditure analysis as the FY 2015 proposed budget is considered.

Prioritizing Competitiveness

As the central policy document of the state, the budget must aim to address future and short-term challenges. In terms of out-year challenges, the state must proactively work to find areas in which programmatic change may result in a slowing of expenditure growth. This is particularly true with regard to medical assistance expenditures, which are the primary driver of the state's budget (see "Budget Drivers" section). The state must also be careful to not commit to programs today that will be unsustainable in the future. The magnitude of projected current services deficits, even without taking into account potential risks to the budget, call for constrained budgeting in the near future.

Addressing out-year challenges must also be balanced with the need to focus on improving Rhode Island's challenged economy. Of immediate concern is the need to prioritize improved economic competitiveness. While the state's economy has certainly experienced some momentum in recent quarters (which may be more likely driven more by external forces than internal), it continues to struggle with a number of internal structural issues, including a shrinking labor force, limiting its ability to compete. For these reasons, policy decisions today must focus on the ways to drive down the cost-of-doing business, including tax policy reform aimed at ameliorating Rhode Island's outlier status.

Tax Competitiveness

By most external measures, various components of Rhode Island's tax structure are consistently ranked less competitive than neighboring states. For example, The Tax Foundation's annual State Business Tax Climate Index (SBTCI), which attempts to measure the "business-tax friendliness" of each state's tax system, ranked Rhode Island's tax climate 46th out of 50 states. This analysis, combined with other business climate rankings, suggests that there is considerable opportunity to make Rhode Island's tax climate more competitive.

For these reasons, RIPEC, in conjunction with several members of Rhode Island's business community, has promoted a prioritized set of proposals for reforming the state's tax structure. Suggested reforms, in order of priority, include:

- maintaining recent personal income tax reforms;
- reducing the corporate income tax rate to be competitive with neighboring states;
- addressing burdensome provisions in the estate tax, such as removing the "cliff";
- reducing the state's sales tax rate to be more competitive with neighboring states;
- reviewing the implications of lowering the property tax cap and classification system; and
- promoting review of the state's current unemployment and temporary disability insurance systems.

Taken together, these reforms would help improve Rhode Island's relative business climate ranking and cost-of-doing business.

Additionally, the need to reconsider the state's tax structure also surfaced recently this March, when the state's Division of Taxation published its "Tax Administrator's Study of Combined Reporting," as required by Rhode Island General Laws §44-11-45. The Division's study, which gathered and analyzed corporate income tax returns for two successive years, discusses policy and fiscal ramifications of changing Rhode Island's business corporation tax statute to potentially move towards a system of combined reporting. Under combined reporting, a group of related companies that have a "flow of value" between them must combine their income for tax purposes. Specifically, under combined reporting, companies are required to report all income made by all subsidiaries, regardless of the state in which it was earned, and then remit state corporate income taxes on the basis of the entity's economic activity in the state as determined by an apportionment formula. The Division of Taxation's study included a review of combined reporting using two separate apportionment formulas: the standard formula (three factors), and single sales.

When reviewing the possible options for changing the way corporations must report their income, policymakers may want to consider how these changes affect the state's overall economic competitiveness and business climate. Considerations should also be granted to potential changes in corporate income tax revenue, and whether potential revenue gains could offset alternative policy changes to promote enhanced competitiveness. This approach will require difficult policy choices focused on the areas of the state budget that are driving expenditure growth.

FY 2014 Revised and FY 2015 Proposed Budget Summary

FY 2014 Supplemental Budget

The Governor's FY 2014 supplemental budget increases total expenditures by $166.4 million or 2.0 percent relative to enacted FY 2014 spending. Changes from the FY 2014 enacted budget to the supplemental budget include the following:

- General revenue funds decrease by $8.1 million (0.2 percent);
- Federal funds increase 3.9 percent, or $105.1 million;
- Restricted receipts increase by $24.4 million, or 9.6 percent; and
- All other funds (including the gas tax) increase 2.4 percent ($44.9 million).

Table 1
FY 2014 Supplemental Budget ($ millions)

Source of Funds	2014E	2014R	Change
General Revenue	$ 3,359.8	$ 3,351.7	-0.2%
Federal Funds	2,717.7	2,822.8	3.9%
Restricted Funds	255.0	279.4	9.6%
Other Funds	1,880.6	1,925.5	2.4%
Total	$ 8,213.1	$ 8,379.4	2.0%

E = Enacted, R = Revised

SOURCE: RIPEC calculations based on House Fiscal Advisory Staff Analysis

The FY 2013 closing statements reflect a $104.1 million closing surplus, $5.6 million in audit adjustments and a re-appropriated surplus of $7.1 million. In addition, the November 2013 Revenue Estimating Conference (REC) increased general revenues by an estimated $45.6 million. The Governor's revised FY 2014 budget includes $4.2 million from the transfer of $925,419 in surplus funds from a restricted receipt account in the Department of Administration and the transfer of $3.3 million in bond premiums from the Rhode Island Capital Plan Fund. After the $1.7 million cash stabilization adjustment, total available general revenues are projected to increase by $60.4 million relative to the enacted FY 2014 budget.

The Governor's revised budget includes a net decrease in expenditures of $8.0 million. The Governor's proposed $15.2 million reduction in spending is partially offset by a $0.1 million increase in spending related to changes from the November 2013 Caseload Estimating Conference (CEC) and a reappropriation of $7.1 million.

Table 2
Changes to FY 2014 Enacted Budget ($ millions)

	FY 2014 Enacted	FY 2014 Revised	Change
Opening Surplus	$ 93.4	$ 104.1	$ 10.7
Audit Adjustments	-	(5.6)	(5.6)
Re-appropriated Surplus	-	7.1	7.1
Subtotal Opening Surplus	*$ 93.4*	*$ 105.6*	*$ 12.2*
Revenues	$ 3,381.0	$ 3,381.0	$ -
November REC Changes to Enacted	-	45.6	45.6
Governor's Changes	-	4.2	4.2
Subtotal Revenues	*$ 3,381.0*	*$ 3,430.9*	*$ 49.9*
Cash Stablization Fund	$ (104.2)	$ (105.9)	$ (1.7)
Total Available Revenues	**$ 3,370.1**	**$ 3,430.6**	**$ 60.4**
Enacted Expenditures	$ 3,359.8	$ 3,359.8	$ -
November CEC Changes to Enacted	-	0.1	0.1
Reappropriations	-	7.1	7.1
Governor's Changes	-	(15.2)	(15.2)
Total Expenditures	**$ 3,359.8**	**$ 3,351.7**	**$ (8.0)**
Total Ending Balance	*$ 10.4*	*$ 78.8*	*$ 68.4*
Transfer to Other Funds	$ (10.0)	$ (10.0)	$ -
Free Surplus	**$ 0.4**	**$ 68.9**	**$ 68.4**

SOURCE: State Budget Documents; RIPEC calculations

FY 2015 Proposed Deficit Resolution

Table 3
FY 2015 Budget Surplus Statement as Recommended by Governor

	Amount $ millions	% of Total
Opening Surplus*	**$68.9**	**49.2%**
Revenue Modifications		
Revenue Initiatives	$15.5	11.1%
Total Revenue Modifications	**$15.5**	**11.1%**
Expenditure Modifications		
Debt service	$5.6	4.0%
Medical Benefits	3.6	2.6%
Human Services	54.3	38.8%
Locals	4.9	3.5%
Other changes***	(12.9)	-9.2%
Total: Expenditure Modifications	**$55.5**	**39.6%**
Total	**$140.0**	**100.0%**

*Net of the Rainy Day Fund Transfer

** Includes $10.0 million for higher education

SOURCE: House Fiscal Advisory Staff Documents; RIPEC calculations

As of July 2013, the projected FY 2015 deficit was approximately $150.0 million. Due to the November Revenue Estimating Conference and the FY 2013 closing totals, this projected deficit decreased to approximately $100.0 million by late November 2013. The Governor's FY 2015 budget resolution relies heavily on the use of the FY 2014 closing surplus of $68.9 million (net of the Rainy Day Fund transfer), which accounts for 49.2 percent of the total budget solution. The balance of the Governor's proposed resolution is from revenue and expenditure modifications, which represent 11.1 percent and 39.7 percent of the resolution, respectively. Notably, the budget does not rely on any broad-based tax increases.

Revenue changes include changes to tax policy and enhanced collections. For example, the Governor's FY 2015 proposed budget expands the sales and use tax to hotel resellers, and to bed and breakfasts, and timeshares. The Governor's proposal also calls for 10 additional revenue officer positions, which are projected to assist in the collection of increased tax revenue, and enhanced other compliance measures aimed to capture revenue (i.e. adding a safe harbor for the use tax on personal income tax returns, and forming a Statewide Taskforce to Combat Employee Misclassification).

The FY 2015 budget as proposed makes a number of expenditure adjustments, the largest of which ($54.3 million) are within Health and Human Services agencies. These changes include $28.3 million from provider reductions, $21.2 million from enhanced program efficiencies, $3.6 million from cost shifting, and $1.3 million from changes impacting clients of the Health and Human Services agencies.

General Revenues

General revenues reflect those revenues that may be used for any purpose, as opposed to other sources of funding, which may be used only for specific purposes. These funds represent 40.5 percent of all funds. The majority of general revenues – approximately 78 percent – are derived from taxes including the personal income tax, general business taxes and sales taxes. The remaining revenue is comprised of departmental receipts including the hospital licensing fee, lottery receipts, and other miscellaneous funds.

FY 2014 Revised Revenues

The Governor's FY 2014 revised budget includes a net increase in revenues of 1.3 percent ($44.3 million) when compared to the FY 2014 enacted budget. The majority of these changes – approximately 97 percent – reflect revisions made during the November 2013 Revenue Estimating Conference (REC). The balance reflects the payment of an overdue FY 2012 hospital licensing fee that was counted towards FY 2013 general revenues, a transfer of surplus funds from the Department of Administration, and a transfer of bond premiums from the Rhode Island Capital Plan Fund.

The REC forecasted an $11.5 million increase in personal income taxes, a $2.1 million decrease in general business tax collections, and a $21.1 million increase in sales and use taxes. Coupled with a $500,000 increase in all other taxes, total tax collections were projected to increase by $31.0 million over enacted estimates. In addition, the REC increased estimated departmental receipts by $11.4 million and increased total revenues from other sources by $3.2 million, for a net increase of $45.6 million.

In addition, the budget includes a net decrease of $1.3 million in proposed revisions to the adopted REC estimates. This total includes a reduction of $5.6 million in departmental receipts resulting from the payment of an overdue FY 2014 hospital licensing fee that was accrued to FY 2013 general revenues. Also included in the budget is an overall increase of $4.2 million in revenues from other sources resulting from the transfer of $925,419 in surplus funds from the Department of Administration and $3.3 million in bond premium proceeds from the Rhode Island Capital Plan Fund.

Table 4
FY 2014 and FY 2015 Governor's Proposed General Revenue Program ($ millions)

	FY 2013	FY 2014			FY 2015		
General Revenues	**Audited**	**Enacted**	**Revised**	**Change**	**Nov REC**	**Proposed**	**Change**
Taxes							
Personal Income Tax	$1,085.8	$1,109.2	$1,120.7	1.0%	$1,153.9	$1,158.3	0.4%
General Business Taxes	381.3	384.4	382.3	-0.6%	391.1	390.4	-0.2%
General Sales & Use Tax	878.9	887.2	904.0	1.9%	930.6	937.5	0.7%
Other Sales Taxes*	62.0	71.0	69.7	-1.8%	68.5	68.5	0.0%
Cigarette Tax	132.5	130.7	136.3	4.3%	132.4	133.2	0.6%
Other Taxes	37.1	40.5	41.0	1.2%	41.3	41.3	0.0%
Subtotal - Taxes	*$2,577.5*	*$2,623.0*	*$2,654.0*	*1.2%*	*$2,717.8*	*$2,729.2*	*0.4%*
Department Receipts**	$356.8	$348.7	$354.5	1.7%	$208.2	$352.9	69.5%
Other Sources	389.7	409.3	416.8	1.8%	412.5	412.5	0.0%
Total Revenues	**$3,324.0**	**$3,381.0**	**$3,425.3**	***1.3%***	**$3,338.5**	**$3,494.5**	***4.7%***

* Motor vehicle, motor fuel and alcohol sales taxes

** Department Receipts do not include hospital licensing fee

Source: State Budget Office documents, RIPEC calculations

FY 2015 Proposed Revenues

General revenues in the Governor's FY 2015 proposed budget increase by 4.7 percent ($156 million) when compared to the REC. However, it should be noted that the REC estimates do not include the hospital licensing fee of $141.3 million as this payment must be reauthorized every year. This increase is primarily attributable to provisions designed to increase tax enforcement and collections for income and sales taxes such as the hiring of 10 new revenue officers at the Division of Taxation. Among other tax changes, some proposed changes include:

- An increase of $990,000 in revenue resulting from the establishment of a statewide taskforce on employee misclassification and the underground economy;
- An additional $2.2 million in revenue resulting from the addition of a use tax lookup table and safe harbor option on the personal income tax return form;
- A $400,000 increase in revenue resulting from a proposed requirement that all state employees be in compliance with Rhode Island income tax laws as a condition of employment;
- An increase of $1.2 million in revenue resulting from broadening the base of the state's sales tax to include hotel room resellers, timeshare property owners, and bed and breakfast inns; and
- $750,000 in additional revenue resulting from defining e-cigarettes as tobacco products under state law.

2015 Proposed Tax Changes

The Governor's proposed FY 2015 budget does not include any broad-based tax increases, and total proposed tax changes are projected to result in a net tax revenue increase of $11.4 million compared to November REC estimates. As noted above, the increase in tax revenue is driven by a $4.4 million increase in personal income tax collections and a $6.9 million increase in sales and use tax collections. Additionally, the budget proposes raising $750,000 in new cigarette tax revenue by defining e-cigarettes as tobacco products. These proposed revenue increases are primarily the result of provisions to increase tax compliance and minor tax expansions.

Table 5
FY 2015 Governor's Proposed Tax Changes ($ millions)

	Proposed
Personal Income Tax	
10 Additional Revenue Officer Positions	$2.7
Taskforce on Employee Misclassification	1.0
Employee Compliance Project	0.4
Block on "new" registrations	0.3
Subtotal	*$4.4*
General Business Taxes	
10 Additional Revenue Officer Positions	$0.71
Managed Care Rate Reduction	(0.43)
Reduce Health Care High Utilizers	(0.33)
Hospital Rate Freeze	(0.12)
DME Reviews based on OIG Audits	(0.07)
Imaging Services Utilization Review	(0.04)
Suspend Nursing Home COLA	(0.41)
Long-Term Care Financial Eligibility/Payment Review	(0.27)
Subtotal	*($0.7)*
Sales & Excise Taxes	
10 Additional Revenue Officer Positions	$2.7
Safe Harbor for Use Tax on Personal Income Tax Returns	2.2
Expand Sales and Use Tax to Hotel Resellers	0.8
Anti-Zapper Legislation	0.8
Expand Sales and Use Tax to Bed and Breakfasts and Timeshares	0.4
Subtotal	*$6.9*
Cigarette Tax	
Tax E-Cigarettes as an Other Tobacco Product	$0.8
Subtotal	*$0.8*
Total Proposed Tax Changes	***$ 11.4***

Source: State Budget Office documents, RIPEC calculations

General Business Tax Changes

The Governor's proposal includes a reduction in the state's corporate tax rate from 9.0 percent to 6.0 percent conditional to Congress approving the Marketplace Fairness Act (MFA) or similar legislation. Approved by the U.S. Senate in May 2013, the MFA, if approved by both chambers and signed into law by the president, would allow states to require remote sellers to collect and remit sales tax on online purchases.

Under current law, there are four changes to the state's tax code that would automatically occur after passage of MFA or similar legislation:

- A reduction in the sales tax rate from 7.0 percent to 6.5 percent;
- An increase in the local meals and beverage tax from 1.0 percent to 1.5 percent;
- Elimination of the sales and use tax on clothing and footwear items with a sales price of over $250; and
- An increase in the local hotel tax, which is given to municipalities, from 1.0 percent to 1.5 percent.

The Governor's proposed budget would eliminate these changes from current law and replace them with two new provisions that would go into effect if MFA is approved:

- A reduction in the corporate tax rate from 9.0 percent to 6.0 percent effective on January 1 of the year following passage of MFA; and
- An expansion of the current sales and use tax exemption on electricity and gas purchases for manufacturers to include all businesses.

Tax Expansions

In addition to greater tax enforcement, the Governor's proposal includes two provisions that would expand currently existing taxes to cover additional goods and services. The first provision would raise a total of $1.4 million in sales and use tax and hotel tax revenue by expanding the state's lodging tax to include bed and breakfast inns with less than 3 boarding rooms, timeshare property owners, and hotel room resellers. The second provision would increase cigarette tax revenue by $750,000 by defining e-cigarettes as a tobacco product under state law.

Expenditure Summary

As proposed, the Governor's FY 2015 budget includes all funds expenditures of $8,544.0 million, a 4.0 percent ($330.9 million) increase from the FY 2014 enacted budget. The budget includes projected increases in expenditures for personnel ($45.5 million), operating ($95.9 million), local aid ($33.7 million), grants and benefits ($134.0 million), capital ($14.1 million), and capital debt service ($11.3 million), totaling $330.9 million in increases. The proposed 13.5 percent increase in operating costs represents the largest percent increase in spending by category between the FY 2014 enacted and FY 2015 proposed budgets. Operating transfers are projected to decline by $3.7 million.

In terms of state spending by fund, general revenue expenditures of $3,456.1 million account for the majority of spending, supporting 40.5 percent of the total FY 2015 proposed budget. Expenditures from federal funds (the single largest share of which is Medicaid funds) of $2,878.4 million are 33.7 percent of total proposed spending and represent the second largest source of support. Expenditures from other funds (primarily university and college funds, and employment and training funds) total 22.8 percent of all spending and are the third largest source of funding in the FY 2015 budget. The smallest category of expenditures is from restricted funds, representing just 3.0 percent of the total FY 2015 proposed state budget.

All Funds Expenditures

Rhode Island allocates expenditures by both function and category. Function indicates spending by agencies with like programs and purposes and includes general government, human services, education, public safety, natural resources, and transportation. **Chart 5** shows FY 2015 expenditures by function and the inflation-adjusted share of growth by function since FY 2005.

- Human services expenditures, which include spending on entitlement programs (e.g., supplemental security income, cash assistance and medical assistance), elderly services, state hospitals, etc., represent the largest share of total FY 2015 expenditures ($3,527.3 million, 41.3 percent).
- Expenditures for human services programs also represent the largest share of adjusted growth (38.5 percent), and the largest share of unadjusted growth (40.0 percent) since FY 2005. These programs account for about $0.39 of every new dollar spent since FY 2005.
- The proposed $2,356.5 million in education expenditures (i.e., elementary and secondary education, higher education, arts, and historical preservation and heritage) represents the second largest share of adjusted growth (and second largest share of unadjusted growth) by function since FY 2005.
- Since FY 2005, education spending has increased by $384.4 million in adjusted terms ($0.29 of every new dollar), the second largest share of the increase in expenditures over the past ten years. In unadjusted terms, growth in education expenditures is $714.1 million.

Table 6
Rhode Island State Spending - All Funds ($ millions)

By Category	2005	2014E	2014 R	2015P	2014E-15P Change
Personnel*	$ 1,380.9	$ 1,825.3	$ 1,889.3	$ 1,870.8	$ 45.5
Operating	359.4	711.1	812.2	807.0	95.9
Local Aid	1,121.8	1,169.8	1,165.6	1,203.5	33.7
Grants & Benefits	2,624.4	3,710.0	3,705.6	3,844.1	134.0
Capital	198.6	382.1	400.5	396.2	14.1
Capital Debt Service	149.7	268.1	248.1	279.4	11.3
Operating Transfers	165.5	146.8	158.1	143.0	(3.7)
Total	$ 6,000.3	$ 8,213.1	$ 8,379.4	$ 8,544.0	$ 330.9

By Fund	2005	2014E	2014R	2015P	Change
General Revenue	$ 2,926.9	$ 3,359.8	$ 3,351.7	$ 3,456.1	$ 96.3
Federal Funds	1,891.0	2,717.7	2,822.8	2,878.4	160.7
Restricted Funds	101.2	255.0	279.4	258.9	3.9
Other Funds	1,081.2	1,880.6	1,925.5	1,950.6	70.0
Total	$ 6,000.3	$ 8,213.1	$ 8,379.4	$ 8,544.0	$ 330.9

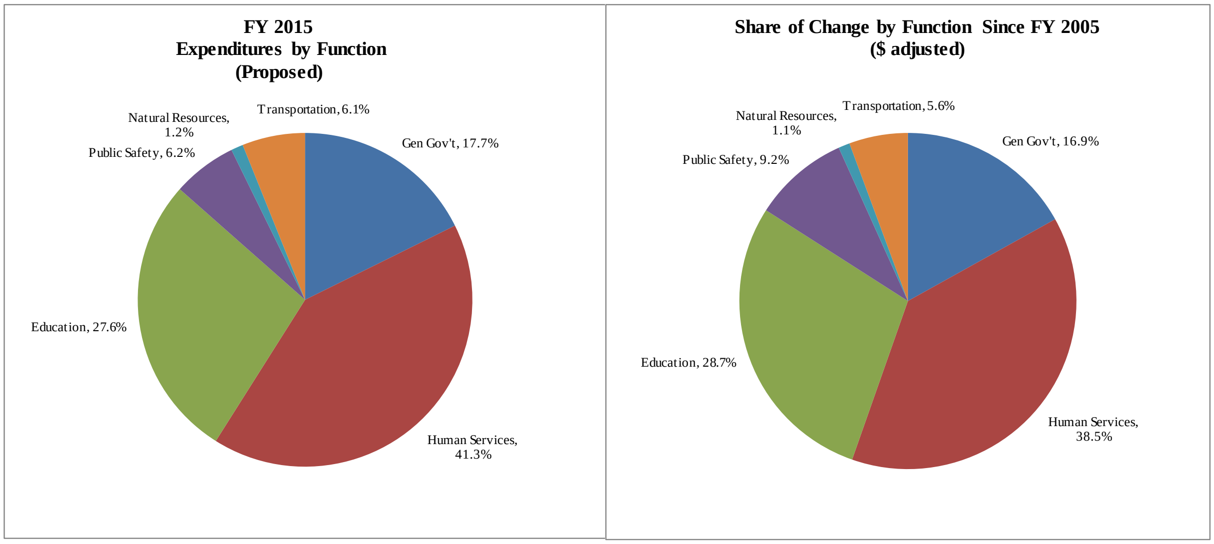
E = Enacted, R = Revised, P = Proposed

Note: FY 2015 Proposed General Revenues include the opening surplus, but not the transfer to cash stabilization fund

*Personnel includes Salaries, Benefits, and Contracted Services

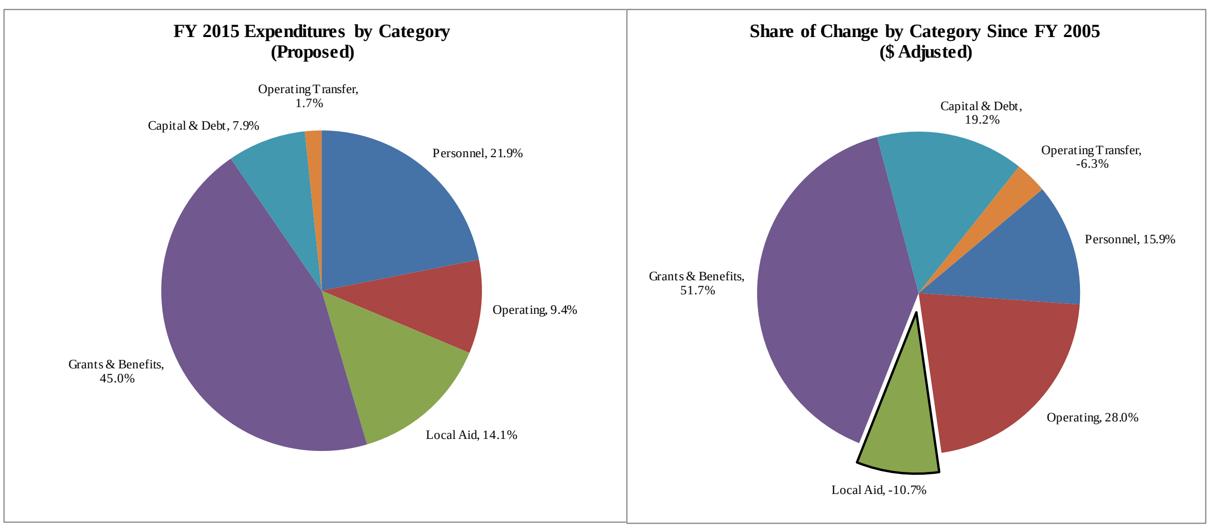
Source: RIPEC calculations based on House Fiscal Advisory Staff Analysis

Chart 5
Expenditures by Function and Adjusted Share of Change Since FY 2005



SOURCE: State Budget Office documents; RIPEC calculations

Chart 6
Expenditures by Category and Adjusted Share of Change Since FY 2005



SOURCE: State Budget Office documents; RIPEC calculations

- Combined public safety, natural resources and transportation represent 13.5 percent of the FY 2015 budget and 15.9 percent of adjusted growth (14.5 percent of unadjusted growth) over the past ten years.
- Proposed general government expenditures, that is, spending for programs that support all other functions including general government type activities, account for 17.7 percent of FY 2015 expenditures.
- Adjusted general government expenditures have increased by 21.2 percent ($226.5 million) since FY 2005, while unadjusted expenditures have increased by 17.3 percent ($441.0 million).

Expenditures are also allocated by accounting categories that reflect what is purchased, i.e. personnel, operations, local aid, grants and benefits, capital, debt service and operating transfers.

As shown on **chart 6**:

- Grants and Benefits represent the largest share of the adjusted spending increase over the past ten years. Of every new dollar spent since FY 2005, $0.52 has gone to support the increase in Grants and Benefits, accounting for about 45.0 percent of total proposed expenditures in FY 2015. In unadjusted terms, proposed spending on this category is an increase of $1,219.7 million over the past ten years, representing 47.9 percent of the total growth in expenditures during this time.
- Operating expenditures account for the second-largest share of spending increase since FY 2005 on an adjusted basis, with the increase including about $0.28 of every dollar spent and representing 9.4 percent of all spending in FY 2015.
- Capital and debt expenditures experienced the third-largest adjusted increase between FY 2005 and FY 2015, taking up $0.19 of every new dollar spent, and increasing by 61.5 percent.
- Since FY 2005, adjusted personnel expenditures have increased by 12.8 percent ($212.7 million), taking up 21.9 percent of the FY 2015 budget. Personnel expenditures increased on an unadjusted basis by $489.9 million (35.5 percent).
- Local aid, which includes education aid and other direct assistance to municipalities, decreased by 10.7 percent, on an adjusted basis. In the FY 2015 proposed budget, proposed local aid expenditures of $1,203.5 million constitute 14.1 percent of all expenditures.
- Operating transfers were the only category to experience an unadjusted decrease in the past ten years. The $143.0 million operating transfer category in FY 2015 reflects transfers between state and quasi-government agencies. In adjusted terms, operating transfers experienced a decrease of 28.0 percent ($55.7 million). On an unadjusted basis, operating transfers experienced a decrease of 13.6 percent (22.5 million) since FY 2005, taking up a 1.7 percent share of total FY 2015 proposed expenditures.

General Revenue Expenditures

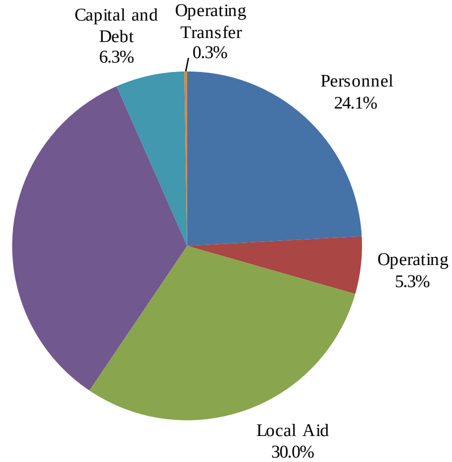
General revenue expenditures – effectively unrestricted spending that is primarily from own-source revenue – account for the largest share of total spending by fund (40.5 percent of all funds spending). Proposed FY 2015 general revenue expenditures of $3,456.1 million are 2.9 percent higher than FY 2014 enacted general revenue expenditures. The majority of this increase ($42.0 million, 43.6 percent) is related to growth in proposed local aid spending. Proposed local aid spending of $1,036.6 million for FY 2015 represents a 4.2 percent, $42.0 million increase over FY 2014 spending.

Table 7
FY 2014 and FY 2015 General Revenue Expenditures
($ millions)

Expenditure Category	FY 2014 Enacted	% of Total	FY 2015 Proposed	% of Total
General Operations				
Personnel	$817.7	24.3%	$833.8	24.1%
Operations	176.8	5.3%	183.9	5.3%
Subtotal Operations	*$994.5*	*29.6%*	*$1,017.7*	*29.4%*
Subtotal Grants & Benefits	*$1,174.0*	*34.9%*	*$1,173.8*	*34.0%*
Subtotal Local Aid	*$994.6*	*29.6%*	*$1,036.6*	*30.0%*
Capital Expenditures				
Capital	$6.1	0.2%	$4.4	0.1%
Debt Service	183.7	5.5%	214.9	6.2%
Subtotal Capital	*$189.8*	*5.6%*	*$219.3*	*6.3%*
Operating Transfer	*$6.8*	*0.2%*	*$8.8*	*0.3%*
Total	**$3,359.8**	**100.0%**	**$3,456.1**	**100.0%**

Source: State Budget Documents and RIPEC calculations

Chart 7
FY 2015 Expenditures by Category as a % of Total General Revenue Expenditures



- Proposed grants and benefits spending of $1,173.8 million accounts for 34.0 percent of total FY 2015 proposed general revenue expenditures. Proposed FY 2015 expenditures in this category are 0.02 percent ($0.2 million) lower than FY 2014 enacted spending.
- Spending on personnel and operating expenditures accounts for 29.4 percent of the FY 2015 proposed general revenue budget. The proposed $1,017.7 million in general revenues expenditures is 2.3 percent more ($23.2 million) than in FY 2014 enacted.
- The aforementioned proposed local aid expenditures increase from $994.6 million in FY 2014 to $1,036.6 million in FY 2015, an increase of 4.2 percent ($42.0 million). Local aid accounts for 30.0 percent of the total FY 2015 general revenue budget.
- Total proposed general revenue expenditures for capital and debt service increase 15.5 percent, from $189.8 million (5.6 percent) in the FY 2014 enacted budget to $219.3 million (6.3 percent) in the FY 2015 proposed budget.
- The FY 2015 proposed budget includes an increase in general revenue-supported operating transfer expenditures of 29.4 percent ($2.0 million), from $6.8 million in FY 2014 to $8.8 million in FY 2015.

Budget Drivers

Overview

Table 8 outlines total adjusted expenditures between FY 2005 and FY 2015 by expenditure category and select subcategories. As shown on the table, although total spending has increased on an adjusted basis, not all categories or subcategories of expenditures have increased over the past decade. The following provides a summary of expenditure highlights by category and notes areas of budget growth over the past decade. Detailed, select expenditure changes are included in the following sections.

Personnel/Operations

- Proposed expenditures for FY 2015 general operations (personnel and other state operations) of $2,677.8 million are 28.1 percent ($588.2 million) higher than adjusted FY

2005 expenditures. Together, these two categories account for 44.0 percent of the total adjusted growth between FY 2005 and FY 2015.

- Since FY 2005, retirement costs have increased at a faster rate than any other personnel expenditure (adjusted percentage change of 64.5 percent) and have more than doubled on an unadjusted basis (from $94.1 million to $185.9 million).
- The Governor's proposed FY 2015 budget does not include funding for a COLA for state employees, despite the agreement reached by the state and labor unions in early April 2014.The budget does include a proposed $300,000 for FY 2014 labor contract negotiation costs.
- The Governor's proposed FY 2014 budget adds $500,000 in General Revenues for an external employee classification and compensation study. The 2013 Assembly did not approve a similar FY 2014 proposal.

Grants and Benefits

- Growth in grants and benefits was driven by the other grants and benefits category, which grew by 64.4 percent since 2005 (in adjusted terms), accounting for 18.6 percent of overall growth in state expenditures. Proposed other grants and benefits expenditures for FY 2015 are approximately 248.7 percent higher than FY 2005 levels.
- Growth in managed care Medical Assistance – All other (everything but managed care) was 27.6 percent of the overall budget growth between FY 2005 and the proposed FY 2015 budget (in adjusted terms), and 53.2 percent of growth in the overall grants and benefits category.
- Adjusted spending on cash supports related to Rhode Island Works (formerly the Family Independence Program), the state's program under Temporary Assistance to Needy Families (TANF) has decreased by $50.8 million (57.7 percent) over the past decade. In absolute terms and as a share of total change, this is the largest decline of any budget driver category.
- Similarly, child care assistance expenditures have decreased by $44.9 million (47.0 percent) during the same time frame.
- Adjusted grants and benefits for higher education increased by 115.1 percent, from $142.6 million in FY 2005 to $306.8 million in FY 2015, accounting for 12.3 percent of the total expenditure increase during this time.

Local Aid

- Local aid expenditures declined 10.7 percent ($144.7 million), when adjusted for inflation, over the past decade. Adjusted FY 2005 local aid spending accounted for 18.7 percent of total expenditures, while FY 2015 local aid accounts for 14.1 percent of proposed spending.
- The reduction in the motor vehicle excise tax phase-out reimbursement and elimination of general revenue sharing account for a combined total reduction of $179.1 million (adjusted) since FY 2005.
- Education aid to local governments has increased by 5.6 percent ($52.1 million), on an adjusted basis, over the past decade. In unadjusted dollars, local education aid increased $208.5 million, or 26.8 percent, during the same time period.
- The Governor proposes fully funding the fourth year of the education funding formula, increasing direct education aid expenditures by $34.0 million over FY 2014 revised spending. The budget also includes increases in most categorical aid programs (e.g.,

transportation, high-cost special education and early childhood funds). It also includes funding for the Full-Day Kindergarten Pilot Program that aids local school districts voluntarily transition from half-day to full-day kindergarten.

- Other local aid decreased by $6.7 million, or 10.3 percent, from FY 2005 on an adjusted basis. This category includes pass-through, distressed communities, and library aid, the state's property revaluation reimbursement program, and municipal fire and police incentive pay.
- Federal aid decreased on an inflation-adjusted basis by $23.9 million (18.2 percent) while the Payment-in-Lieu-of-Taxes (PILOT) program increased by $7.8 million (28.6 percent). On an unadjusted basis, Federal aid decreased by $1.9 million (1.7 percent) while the PILOT program increased by $12.4 million (54.5 percent).
- The Governor proposes funding the municipal incentive aid program at $5.0 million for FY 2015, a decrease of $5.0 million from current law. Communities must meet certain criteria related to their pension plans to qualify for this funding. The program is anticipated to end in FY 2016.

Capital, Debt and Operating Transfers

- The remaining categories, which include capital expenditures, debt service and operating transfers account for 9.6 percent of total FY 2015 proposed expenditures.
- Adjusted spending on capital and debt increased by 61.5 percent in the past decade, accounting for 19.2 percent of the total increase in spending during this time.
- Proposed FY 2015 capital and debt expenditures of $675.6 million represent 7.9 percent of the total budget, compared to adjusted FY 2005 spending of $418.3 million (5.8 percent of the budget).
- The Governor's proposed budget includes $7.2 million for historic tax credit debt service and a proposal to utilize $52.1 million that was previously intended to be used for a debt service reserve to fund new projects.
- The Governor proposes seeking voter approval in November 2014 for $275 million in General Obligation bonds to fund renovations and improvements to the University of Rhode Island College of Engineering, establish a Cultural Arts and the Economy grant program, enhance and improve the state's mass transit system, and provide funding to clean water and land acquisition projects.
- The FY 2015 budget includes a payment of $12.3 million from general revenues for the debt service related to the $75.0 million Job Creation Guaranty Loan given to 38 Studios. Debt service will continue through FY 2021, for a total amount of $89.1 million.
- The FY 2015 budget proposes to continue the state's use of general revenues for the Rhode Island Public Transit Authority's (RIPTA) debt service payments for one additional year to reduce the Authority's projected operating shortfall. Originally, the use of general revenues to assist RIPTA cover the cost of debt service was only to occur in FYs 2013 and 2014.
- Operating transfers account for 1.7 percent of the FY 2015 proposed budget ($143.0 million), compared to adjusted FY 2005 spending when they accounted for 2.8 percent of the budget ($198.7 million).

Table 8
Rhode Island State Budget Drivers - All Funds (inflation-adjusted, $ millions)

Expenditure Category	FY 2005 Actual	FY 2005 % of Total	FY 2015 Proposed Base	FY 2015 Proposed % of Total	Actual Increase	Percent Change	Share of Increase
General Operations							
Personnel	$ 1,658.1	23.0%	$ 1,870.8	21.9%	$ 212.7	12.8%	15.9%
Operations	$ 431.5	6.0%	807.0	9.4%	375.5	87.0%	28.1%
Subtotal - Operations	$ 2,089.6	29.0%	$ 2,677.8	31.3%	$ 588.2	28.1%	44.0%
Grants & Benefits							
Income Support (TDI & Employ)	$ 485.0	6.7%	$ 545.5	6.4%	$ 60.5	12.5%	4.5%
Medical Assistance - Mgd Care*	$ 454.1	6.3%	$ 582.0	6.8%	127.9	28.2%	9.6%
Medical Assistance - All Other*	$ 996.2	13.8%	$ 1,365.0	16.0%	368.8	37.0%	27.6%
Development Disabilities	$ 277.0	3.8%	$ 184.0	2.2%	(93.0)	-33.6%	-7.0%
Child Welfare	$ 193.7	2.7%	$ 119.4	1.4%	(74.3)	-38.4%	-5.6%
TANF	$ 88.0	1.2%	$ 37.2	0.4%	(50.8)	-57.7%	-3.8%
Child Care	$ 95.6	1.3%	$ 50.7	0.6%	(44.9)	-47.0%	-3.4%
SSI	$ 32.8	0.5%	$ 18.6	0.2%	(14.2)	-43.3%	-1.1%
Higher Education	$ 142.6	2.0%	$ 306.8	3.6%	164.2	115.1%	12.3%
Other Grants & Benefits	$ 386.2	5.4%	$ 634.9	7.4%	248.7	64.4%	18.6%
Subtotal - Grants & Benefits	$ 3,151.2	43.7%	$ 3,844.1	45.0%	$ 692.9	22.0%	51.8%
Local Aid							
Education Aid	$ 935.1	13.0%	$ 987.2	11.6%	$ 52.1	5.6%	3.9%
Motor Vehicle Phase-out	$ 126.1	1.7%	$ 10.0	0.1%	(116.1)	-92.1%	-8.7%
General Revenue Sharing	$ 63.0	0.9%	$ -	0.0%	(63.0)	-100.0%	-4.7%
PILOT	$ 27.3	0.4%	$ 35.1	0.4%	7.8	28.6%	0.6%
Incentive Aid	$ -	0.0%	$ 5.0	0.1%	5.0	-	0.4%
Federal Aid	$ 131.7	1.8%	$ 107.8	1.3%	(23.9)	-18.2%	-1.8%
Other**	$ 65.1	0.9%	$ 58.4	0.7%	(6.7)	-10.3%	-0.5%
Subtotal - Local Aid	$ 1,348.2	18.7%	$ 1,203.5	14.1%	$ (144.7)	-10.7%	-10.8%
Capital Expenditures							
Capital Expenditures	$ 238.5	3.3%	$ 396.2	4.6%	$ 157.7	66.1%	11.8%
Debt Service	$ 179.8	2.5%	$ 279.4	3.3%	99.6	55.4%	7.4%
Subtotal - Capital	$ 418.3	5.8%	$ 675.6	7.9%	$ 257.3	61.5%	19.2%
Operating Transfer	$ 198.7	2.8%	$ 143.0	1.7%	$ (55.7)	-28.0%	-4.2%
Total	**$ 7,206.1**	**100.0%**	**$ 8,544.0**	**100.0%**	**$ 1,337.9**	**18.6%**	**100.0%**

* Prior to the FY 2010 budget year, the category "Rhody Health" was allocated throughout Medical Assistance incl. Managed Care; it is now designated as a separate category and incl. in "all other" in this table. As such, year-to-year comparisons should be made with caution.
** Includes: Pass-through, distressed communities, and library aid; property revaluation program; municipal fire and police incentive pay.

Source: RIPEC calculations based on state budget data - State Budget Office, DOA

Personnel

Proposed FY 2015 personnel expenditures total $1,870.8 million, a decrease of $18.5 million, or 1.0 percent, when compared to the Governor's revised FY 2014 budget. When compared to the FY 2005 budget, personnel expenditures increased from $1,380.9 million, an unadjusted increase of 35.5 percent. During this time, the unadjusted average cost per full-time employee (FTE) has increased 34.4 percent, from $72,351 in FY 2005 to $97,235 in FY 2015.

Table 9
State Personnel Costs - Unadjusted ($ millions)

Personnel Costs (Millions)	FY 2005 Actual	FY 2014 Revised	FY 2015 Proposed	FY 2014 Revised - FY 2015 Actual Change	FY 2014 Revised - FY 2015 Percent Change
Salaries & Benefits					
Net Salaries	$ 824.1	$ 963.3	$ 980.6	$ 17.3	1.8%
Adjustment for Temp	(71.2)	(87.4)	(94.8)	(7.4)	8.5%
Overtime	56.7	54.0	53.1	(0.9)	-1.7%
Retirement*	94.1	181.0	185.9	4.9	2.7%
Medical	166.8	180.5	198.1	17.6	9.8%
Retiree Health (OPEB)**	-	55.9	53.9	(2.0)	-3.6%
Other Benefits/Payroll***	78.4	90.1	91.2	1.1	1.2%
Salaries & Benefits	*$ 1,150.5*	*$ 1,437.4*	*1,468.0*	$ 30.5	2.1%
Authorized FTE Positions	**15,901.6**	**15,100.3**	**15,097.0**	**(3.3)**	**0.0%**
Average Cost Per FTE	**$72,351**	**$95,191**	**$97,235**	**$2,044**	**2.1%**
Other Personnel Costs					
Other Payroll Costs****	$ 32.4	$ 113.0	$ 121.8	$ 8.8	7.8%
Purchased Services	198.0	338.9	281.0	(57.9)	-17.1%
Other Personnel	*$ 230.4*	*$ 451.9*	*$ 402.8*	*$ (49.1)*	*-10.9%*
Total Personnel Costs	**$ 1,380.9**	**$ 1,889.3**	**$ 1,870.8**	**$ (18.5)**	**-1.0%**

Source: State Budget Office and Personnel Supplements
* Includes Defined Contribution Plan as of FY 2015
** Previously included in other costs
*** Includes FICA, Holiday Pay, Payroll Accrual and Other
**** Includes "other" costs, including temporary and seasonal payroll, unemployment compensation, statewide benefit assessment, anticipated retroactive payments, and workers compensation

Retirement costs remain the fastest growing component of total personnel expenditures over the decade, increasing by $91.8 million, or 97.6 percent between FY 2005 and FY 2015, as table 9 shows. In FY 2005, retirement costs accounted for 8.3 percent of salaries and benefits, compared to 10.0 percent in FY 2015.

In addition to increases in retirement expenditures, the largest benefit increase over the decade is for medical benefits. On an unadjusted basis, medical benefits have increased by 18.8 percent since FY 2005, from $166.8 million to $198.1 million in the proposed budget. However, in inflation-adjusted terms, medical benefits are projected to decline by 1.1 percent over the same period, and have decreased from 14.7 percent of salaries and benefits in FY 2005 to 13.9 percent in FY 2015.

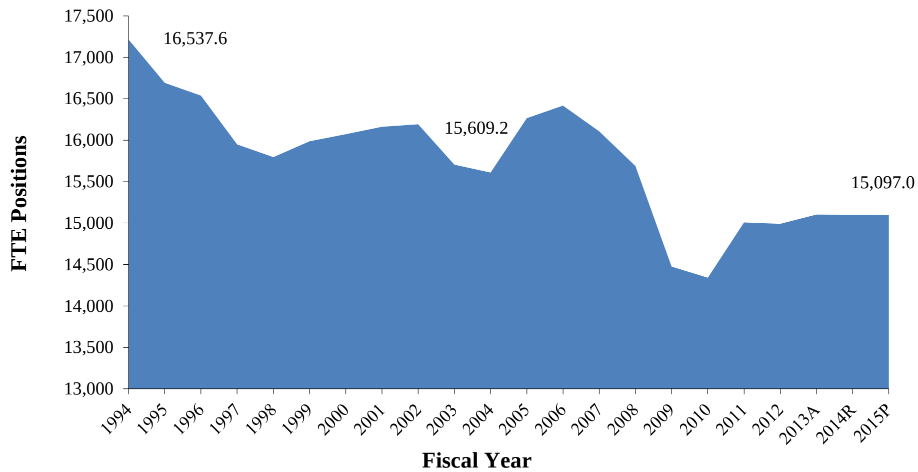
Although retiree health was not shown as a separate category in FY 2005, this category of expenditures, once one of the fastest-growing in the overall personnel budget, declined in the proposed FY 2015 budget by 3.6 percent between the FY 2014 enacted and the FY 2015 proposed budget.

Several initiatives could impact spending in the future. In one such instance, the Governor's budget proposes to repeal the requirement that the Department of Administration seek General Assembly approval for determining the salary of cabinet directors. In addition, the Governor's proposed FY 2015 budget does not include a cost-of-living increase for state employees, though most contracts expired at the end of FY 2013. The budget includes $300,000 for contract negotiation costs. In addition, the proposed FY 2015 budget includes $500,000 for an outside review of the state's personnel classification system and other personnel initiatives; a similar initiative was not approved by the 2013 Assembly. However, in April 2014, the Governor's administration and labor unions negotiated a four-year state employee contract agreement, anticipated by the administration to cost $3.6 million in FY 2014 and $26.2 million next fiscal year, with some offsetting healthcare-related savings.

FTE Authorization

In order to manage staffing levels in state government, the state allocates FTE positions to all agencies and departments. These FTE positions now exclude certain positions in higher education that are research-oriented and are financed through federal or other third-party sources. However, these positions are included in the totals here for comparison purposes.

Chart 8
Full Time Equivalent Positions



SOURCE: State Budget documents: RIPEC calculations

- The FY 2015 budget authorizes 15,097.0 positions; this is 3.0 positions less than the FY 2014 revised budget, and 21.0 positions less than the FY 2014 enacted budget. This represents a 0.1 percent decrease over FY 2014 revised levels.
- The FY 2014 enacted budget authorized 15,118.3 FTE positions; the FY 2014 revised budget includes a total FTE authorization of 15,100.3 positions, 18.0 lower than the FY 2014 enacted budget.
- As of December 28, 2013, a total of 13,888.9 positions were filled in the state, 1,229.4 FTE positions lower than the enacted cap.
- There are a total of 15,097.0 FTEs, including 642.9 higher education positions, authorized in the Governor's FY 2015 budget. Changes in FTE authorization include: a reduction in the Department of Transportation by 20.0 positions due to long-held vacancies; a reduction of 11.0 positions in the Department of Public Safety due the recent retirements and the elimination of the Director of Municipal Police Training Academy position; an increase of 3.0 FTE positions in the Department of Administration due to program adjustments and relocation, including 10.0 new FTE positions for HealthSource RI (the Health Exchange);

the introduction of 35.0 new FTE positions in the Executive Office of Health and Human Services (EOHHS), including 29.0 positions for the Unified Health Infrastructure Project, and 5.0 positions for the Race to the Top program, among others, all which balance the elimination of 35.0 vacant positions; a total increase of 18.0 positions in the Department of Human Services and the Department of Labor and Training; and the addition of 7.0 new positions in the Department of Revenue to reflect new revenue and tax collection initiatives.

Grants and Benefits Programs

Proposed grants and benefits expenditures for FY 2015 total $3,844.1 million, accounting for 45.0 percent of the total budget. Of this total, general revenue funds account for $847.6 million of expenditures for grants and benefits, an increase of 0.7 percent from FY 2014 enacted general revenue expenditures. Of note, this category is particularly impacted by the reforms related to the Affordable Care Act (ACA), especially Medicaid expansion. In anticipation of and since the commencement of the October 2013 start date for enrollments in the state's Health Benefits Exchange, departments within the Executive Office of Health and Human Services (EOHHS) have started the foundational work associated with implementation of the ACA.

Medical Assistance

Medical assistance represents the single largest category of expenditures, as well as the fastest-growing category of spending in the budget. Expenditures, as presented on table 10, reflect Medicaid expenditures within the EOHHS, to which expenditures formerly in DHS were moved in FY 2013. These expenditures account for about two-thirds of total Medicaid spending and include expenditures related to hospitals, nursing homes, managed care (primarily RIte Care), and pharmacy expenditures. Projected managed care savings (specifically, Rhody Health Partners and Rhody Health Options), driven by lower-than-expected estimates and downward revisions to capitation rates in the Governor's recommended FY 2015 budget, are largely responsible for the decline of expenditures for several programs between the enacted FY 2014 budget and the proposed FY 2015 budget. It should be noted that prior to the FY 2010 budget year, "Rhody Health Partners" was allocated through Medical Assistance including Managed Care; it is now designated as a separate category. As such, year-to-year comparisons should be made with caution.

Table 10
FY 2014 - 2015 Unadjusted Medical Assistance Expenditures ($ millions)

Medical Assistance Program	FY 2014 Enacted	FY 2014 Revised	FY 2015 Proposed	FY 2014R - 2015P Change	%
Hospitals	$89.1	$69.3	$33.3	($36.0)	-51.9%
DSH	129.8	129.8	131.2	$1.4	1.1%
Subtotal	*$218.9*	*$199.1*	*$164.5*	($34.6)	-17.4%
Nursing Homes	$361.4	$285.8	$167.5	($118.3)	-41.4%
Home and Community Care	98.1	78.2	43.5	($34.7)	-44.4%
Subtotal	*$459.5*	*$364.0*	*$211.0*	($153.0)	-42.0%
Pharmacy	$1.9	$0.8	$0.2	($0.6)	-75.0%
Part D Clawback	50.1	50.8	50.4	($0.4)	-0.8%
Subtotal	*$52.0*	*$51.6*	*$50.6*	($1.0)	-1.9%
Managed Care	$593.2	$591.0	$582.0	($9.0)	-1.5%
Rhody Health Partners	202.3	198.0	188.7	($9.3)	-4.7%
Rhody Health Options	0.0	126.3	330.0	$203.7	161.3%
Other	205.7	198.3	420.2	$221.9	111.9%
Subtotal	*$1,001.2*	*$1,113.6*	*$1,520.9*	$407.3	36.6%
Total*	**$1,731.6**	**$1,728.3**	**$1,947.0**	**$218.7**	**12.7%**
Federal Funds	*$1,014.7*	*$1,022.4*	*$1,231.4*	*$209.0*	*20.4%*
General Revenues	*$843.3*	*$842.0*	*$847.6*	*$5.6*	*0.7%*
Restricted Receipts	*$9.9*	*$10.0*	*$13.8*	*$3.8*	*38.0%*

* Prior to the FY 2010 budget year, the category "Rhody Health" was allocated throughout Medical Assistance including Managed Care; it is now designated as a separate category. As such, year-to-year comparisons should be made with caution.

Source: State Budgets, Governor's FY 2015 proposed budget, and RIPEC calculations.

Additional highlights of the Governor's FY 2015 medical assistance budget, as illustrated in table 10, include:

- The continued expansion of Medicaid to non-disabled, adults without dependent children up to 138.0 percent of the federal poverty level, which began in January 2014, per the ACA.
- An increase in primary care physician Medicaid payment rates for fee-for-service and managed care to bring rates into line with the federal Medicare program.
- Reducing managed care capitated payments to Neighborhood Health and United HealthCare for providing care to RIte Care and Rhody Health enrollees by 2.95 percent, resulting in savings of $21.7 million, including $10.4 million from general revenues. Rates are negotiated annually, with the next resetting slated for July 1, 2014 through June 30, 2015.
- Freezing projected inpatient and outpatient hospital rate increases for fee-for-service and managed care programs to FY 2013 levels, which requires both a statutory change and a

change to the extension waiver, resulting in total savings of $7.9 million ($3.8 million in general revenue).

- Freezing rate increases for nursing care and hospice facilities, yielding a total savings of $7.5 million ($3.3 million in general revenue offset by a $0.4 million revenue loss in health care taxes).
- The FY 2015 budget proposes savings of $11.0 million from all sources and $5.5 million in general revenues from for an upper payment limit reimbursement made to community hospitals.
- The Governor's FY 2015 budget includes a total of $16.3 million in all funds and $8.2 million in General Revenue savings in high-cost health care utilization initiatives, including reducing costs by 3.0 percent for certain services for children with special health care needs and addressing the high cost of services for elderly and disabled adults with increased access to behavioral health services.

Other Human Services Initiatives

- EOHHS has proposed assessing a cost-sharing fee of $250 monthly on families at 250.0 percent of the Federal Poverty Line (FPL) receiving the Katie Beckett Option, resulting in $2.9 million in savings ($1.5 million from general revenues). The Katie Beckett option allows for Medicaid payment of co-pays for families with children enrolled in the program. The cost-sharing fee will exclusively be for the 92.0 percent of children's families who have commercial insurance coverage as a primary insurance, but use the Medicaid payment to pay for services not covered by their commercial insurer. The proposal does not change a child's eligibility. The governor includes Article 25, which instructs the Office to set the payment through its rules and regulations process – legally, this option could have called for cost-sharing in the past, but this is the first year to do so.
- In FY 2013, EOHHS, in coordination with its departments and the Rhode Island Health Benefits Exchange, launched an integrated eligibility system called the Unified Health Infrastructure Project (UHIP). The Governor's budget includes an additional $5.7 million in general revenue ($20.3 million from all sources) in FY 2015 for the development of EOHHS components of UHIP.
- Similarly, the Governor recommends $15.0 million in general revenue ($49.2 million from all funds) for Medicaid Administration operations.

Local Aid

Total state aid (aid to local governments excluding federal aid) totals $1.1 billion in the Governor's proposed FY 2015 budget. This represents an unadjusted increase of 8.3 percent since FY 2005 and is $47.0 million (4.5 percent) more than the Governor's FY 2014 revised budget. Of the total increase, $45.7 million is related to increases in local education aid, including fully funding the fourth year of the state's education funding formula. The increase in direct education aid reflects both the implementation of the funding formula to districts and to charter schools starting in FY 2012. In particular, funding for charter schools increases by $8.1 million (14.7 percent) as new schools open and existing schools expand. State municipal aid, including the Payment-in-Lieu-of-Taxes (PILOT) program, Distressed Communities Relief Fund, and other aid programs, is level funded at the FY 2014 amount of $72.2 million. The remainder of the increase in total state aid results from a $1.3 million increase in the amount of pass-through revenue provided to municipal governments from the state meals and beverage tax.

Table 11
State Aid to Local Government - Unadjusted ($ millions)

Major State Aid Program	FY 2005	FY 2014R	FY 2015P	2014R-2015P Change
Education Aid				
Direct Education Aid*	$ 458.6	$ 697.8	$ 724.7	$ 26.9
Teacher Retirement	48.5	80.9	89.8	8.9
School Housing Aid	42.2	67.7	67.9	0.3
State Schools**	25.0	29.8	28.7	(1.1)
Charter School Aid (direct and indirect)	18.0	55.1	63.1	8.1
Non-Distributed Aid***	13.3	10.4	13.0	2.6
All Other Aid****	173.2	-	-	-
Subtotal - Education Aid	*$ 778.8*	*$ 941.5*	*$ 987.2*	*$ 45.7*
Municipal Aid				
General Revenue Sharing	$ 52.4	$ -	$ -	$ -
Excise Tax Phase-Out	105.0	10.0	10.0	-
PILOT	22.7	35.1	35.1	-
Incentive Aid	-	5.0	5.0	-
Distressed Communities Aid	9.5	10.4	10.4	-
Other Aid*****	11.2	11.7	11.7	-
Subtotal - Municipal Aid	*$ 200.9*	*$ 72.2*	*$ 72.2*	*$ -*
Pass-through Revenues				
Meals and Beverage Tax	$ 17.8	$ 21.8	$ 23.1	$ 1.3
Public Service Corporations Tax	14.6	13.2	13.2	-
Subtotal - Pass-through Revenues	*$ 32.4*	*$ 35.0*	*$ 36.3*	*$ 1.3*
Total State Aid	**$ 1,012.1**	**$ 1,048.7**	**$ 1,095.7**	**$ 47.0**

* Includes directly distributed general aid to LEAs prior to the passage of the funding formula, after implementation includes funding formula distribution, Central Falls operations, and Urban Collaborative Accelerated Program.

** Includes Met School, Davies School, and School for the Deaf

*** Includes Text Book Expansion, School Breakfast, Telecommunications Access, Early Childhood Demonstration, Transportation Categorical, High Cost Special Ed Categorical, Career and Tech Categorical, and All Day Kindergarten

**** Includes all other aid to LEAs prior to passage of the funding formula

***** Includes state library aid and resource sharing, library construction reimbursement, and the property revaluation program.

Source: RIPEC calculations based on State Budget documents

Education Aid Highlights

Total proposed state education aid to local governments for FY 2015 is $987.2 million, including direct education aid, teacher retirement, school housing aid, funding for three state-run schools (Davies, The Met School, and the School for the Deaf), charter school aid, categorical aid, and other aid. Proposed FY 2015 spending is $45.7 million higher than the Governor's FY 2014 revised plan.

Direct education aid, as shown in Table 12, totals $810.6 million, and includes distributions through the education funding formula, including state funding for the operations of the Central Falls school district, and group home funding. The Urban Collaborative Accelerated Program (UCAP), an alternative high school for at-risk students from Central Falls, Cranston, North Providence, and Providence, will receive funding through the formula for the second time, and is also included in this category.

Table 12
Changes to Direct Education Aid ($ millions)

	Districts	Charters	Urban Collaborative	State Schools*	Total
Revised FY 2014 Distributed Aid	$ 697.5	$ 55.1	$ 0.3	$ 23.9	$ 776.7
Year 4 Formula Change	27.6	8.1	0.4	(1.1)	35.0
Group Home Data Update	(1.0)	-		-	(1.0)
FY 2015 Proposed Distributed Aid	$ 724.0	$ 63.1	$ 0.7	$ 22.8	$ 810.6

*Includes The Met and Davies; RI School for the Deaf does not receive funds through state funding formula
SOURCE: State budget documents; RIPEC calculations

The Governor's budget fully funds year four of the state's education funding formula. The funding formula includes a core instruction amount of $8,966, plus an additional 40.0 percent for each PK-12 student receiving free or reduced-price lunch. The state's share is calculated by multiplying the total amount by the state share ratio (more information on the formula and calculation of the state share can be found here). Education aid highlights in the Governor's proposed FY 2015 budget include:

- Continuing to fund UCAP operations through the funding formula for the second year, consistent with 2012 legislation. This change will be revenue-neutral to the state, but will result in a reduction in state formula aid to the four sending districts;
- Providing funding for the three new charter schools (Engineering Early College, Hope Academy, and Southside Elementary), and increased funding for five charter schools expected to see an increase in enrollment. Growth in charter school enrollment is one of the primary drivers of the increase in education aid; and
- Providing funding for four of the five categorical aid programs (transportation, high-cost special education, career and technical, and the early childhood demonstration pilot grant). No districts were eligible to receive aid under the fifth categorical aid program – the regionalization bonus – so no funds were allocated to this program.

Municipal Aid Highlights

Recommended total municipal aid is $72.2 million in FY 2015, not including pass-through aid of $36.3 million (plus additional hotel tax revenue of $6.9 million). Proposed FY 2015 municipal aid is the same amount as in the Governor's FY 2014 revised budget. Local aid initiatives include:

- Level funding of $10.4 million for the distressed communities program;
- Continuation of the Municipal Incentive Aid program established in FY 2014 for cities or towns meeting certain criteria related to their pension systems. The FY 2015 proposed budget would fund the program at $5.0 million in FY 2015, the same amount as in the Governor's FY 2014 revised budget, distributed proportionally to municipalities based on population. This is a decrease of $5.0 million from current law. Communities are eligible for the funds in FYs 2015 & 2016 if they meet one of the following criteria:

1. The municipality does not have a locally-administered pension plan;
2. The municipality transitions all locally-administered pension plans into the state-run Municipal Employees' Retirement System (MERS) by June 30, 2014;
3. The municipality has submitted a Funding Improvement Plan (FIP) to the Department of Revenue for each locally-administered pension plan and each FIP has been approved by the plan sponsor and governing body;
4. The municipality has implemented a previously approved FIP within 18 months of the time that an actuary determines that a locally-administered pension plan is in critical status; and/or
5. A municipality with locally-administered pension plans:
    a. Does not require a FIP and is funding 100 percent of the Annually Required Contribution; or
    b. Requires a FIP, but the submission due date is after the March payment of aid under this program.

Capital, Debt, and Operating Transfers

The Governor's FY 2015 proposed capital budget is intended to anticipate the state's need for capital project funding through FY 2019. Because of the nature of capital projects, the budget includes funding for multiple years. Capital budgets typically fund projects that are:

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

In total, the capital budget provides $4,684.3 million across all funding sources for capital projects between FY 2014 and FY 2019. However, this total excludes unforeseen projects, or those that have yet to be programmed, particularly for out-years FY 2018 and FY 2019. To the extent that out-years are less predictable for capital budgets, the capital budget best reflects the needs of the current fiscal year, and one to two subsequent years. The budget also includes four general obligation bond proposals that voters will be asked to approve worth $275.0 million in new borrowing authority for the state. Finally, the budget includes an operating transfer of $143.0 million.

Table 13
Governor's Recommended FY 2015 Capital Project Funding by Source ($ Millions)

Expenditures by Source	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total	% of Total
Federal Funds	$ 376.5	$ 363.2	$ 278.4	$ 243.6	$ 243.4	$ 217.3	$ 1,722.4	36.8%
Rhode Island Capital Plan (RICAP)	146.6	152.3	125.1	110.0	97.4	88.0	719.4	15.4%
General Revenue	0.6	1.6	1.6	1.0	1.0	1.0	6.9	0.1%
Restricted Receipts	6.8	3.1	8.6	3.4	0.3	0.3	22.6	0.5%
General Obligation Bonds	91.7	102.0	123.7	108.8	112.7	130.7	669.5	14.3%
Revenue Bonds	45.0	39.9	38.9	38.4	37.4	36.9	236.4	5.0%
Revolved Capitalization Grants	16.1	16.6	17.6	18.1	19.2	19.7	107.2	2.3%
Certificates of Participation	32.4	40.2	25.2	15.0	-	-	112.7	2.4%
RI Health & Educational Building Corp.	10.7	12.2	5.9	22.6	37.4	62.2	151.0	3.2%
Land Sale Revenue	9.1	21.3	9.6	8.4	1.0	1.0	50.4	1.1%
Grant Anticipation Revenue Vehicle (GARVEE)	37.3	6.8	4.1	-	-	-	48.1	1.0%
Private Funding	3.6	1.0	0.5	-	0.2	2.5	7.8	0.2%
Other	150.2	115.7	147.6	116.9	114.6	184.9	829.9	17.7%
Totals	**$ 926.5**	**$ 875.8**	**$ 786.8**	**$ 686.2**	**$ 664.5**	**$ 744.5**	**$ 4,684.3**	**100.0%**

SOURCE: State budget documents; RIPEC calculations

Table 14
Governor's Recommended FY 2015 - FY 2019 Capital Project Funding by Function ($ Millions)

Expenditures by Function	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total	% of Total
Education	$ 116.9	$ 106.5	$ 102.6	$ 123.1	$ 139.6	$ 187.6	$ 776.4	16.6%
General Government	81.9	83.3	59.2	47.4	28.7	19.9	320.4	6.8%
Human Services	20.6	36.8	70.6	38.3	17.9	7.3	191.7	4.1%
Natural Resources	233.3	162.7	156.8	126.4	141.9	218.3	1,039.4	22.2%
Public Safety	36.6	37.7	37.7	30.6	15.7	15.2	173.5	3.7%
Transportation	437.1	448.8	359.9	320.4	320.6	296.1	2,182.9	46.6%
Totals	**$ 926.5**	**$875.8**	**$786.8**	**$686.2**	**$664.5**	**$744.5**	**$4,684.3**	**100.0%**

SOURCE: State budget documents; RIPEC calculations

Capital Projects by Funding Source

To finance anticipated capital projects, the state relies on a variety of funding sources, as shown in Table 13. The Governor’s FY 2015 budget proposes spending $4,684.3 million on capital projects between FY 2014 and FY 2019, including $875.8 million in FY 2015. Federal funds make up the largest share of the total funding sources between FY 2014 and FY 2019, accounting for 36.8 percent ($1,722.4 million) of funding in the Governor’s proposed capital budget. Funds from state General Obligation bonds, including the Governor’s proposed ballot referenda for the 2014 and 2016 elections, total $669.5 million (14.3 percent) while funds from the Rhode Island Capital Plan Fund (RICAP) are $719.4 million (15.4 percent).

Between FY 2014 and FY 2019, just under half of the capital funding, or $2,182.9 million, is projected to be used for transportation. Combined, natural resources and education account for nearly another 40 percent of the capital budget through FY 2019 (22.2 percent and 16.6 percent, respectively). Again, it is important to remember that many projects in the out-years (FY 2018 and FY 2019) may not yet be programmed and accounted for in the proposal).

Table 15
Total Estimated Bond Referenda Costs

Project	Principal	Interest	Total
Higher Education - URI College of Engineering	$ 125.0	$ 80.9	$ 205.9
Clean Water, Open Space, Healthy Communities	$ 75.0	$ 49.1	$ 124.1
Mass Transit Hub Infrastructure	$ 40.0	$ 26.2	$ 66.2
Creative and Cultural Economy	$ 35.0	$ 22.9	$ 57.9
Total Cost	$ 275.0	$ 179.1	$ 454.1

Principal and interest include cost of issuance; interest is based on a rate of 5.0 percent over 20 years (may vary when issued)

SOURCE: State budget documents; RIPEC calculations; House Fiscal Advisory Staff

General Obligation Bond Proposals

The Governor's FY 2015 capital budget proposes that four general obligation bond proposals be placed on the ballot for voter approval in November 2014. The four bond proposals, which are displayed in Table 15, total $275.0 million in new borrowing authority plus additional debt service costs estimated to total $179.1 million. Over 20 years, total borrowing costs for the four bond proposals are expected to be $454.1 million. The bond proposals are:

- $125.0 million to construct a new building for the University of Rhode Island's College of Engineering as well as the renovation or demolition of several other existing structures already on campus.
- $75.0 million for over a dozen water infrastructure, land conservation, and "green" projects that are collectively referred to in the budget as "Jobs for a Beautiful Rhode Island" initiatives.
- $40.0 million for mass transit projects throughout the state, including potentially moving the existing RIPTA hub in downtown Providence away from Kennedy Plaza.
- $35.0 million to establish a Cultural Arts and the Economy grant program that would provide funding to preserve or renovate performance centers, historic sites, museums, and cultural arts centers.

Table 16
Projected Tax-Supported Debt as % of Personal Income ($ millions)

FY	Personal Income	Net Tax-Supported Debt	Debt Ratio
2013	$48,853.8	$1,889.9	3.87%
2014	$50,662.5	$1,958.3	3.87%
2015	$53,858.0	$1,943.2	3.61%
2016	$57,306.1	$1,972.5	3.44%
2017	$60,383.0	$1,900.5	3.15%
2018	$62,783.0	$1,898.2	3.02%
2019	$65,095.3	$1,913.6	2.94%

SOURCE: State budget documents

Debt Burden

While roughly two thirds of funding for Rhode Island's capital budget comes from existing revenue streams, the remainder is obtained through bond issuance. Most of Rhode Island's bond financing is through general obligation bond issuance, which generally requires voter approval, and is a type of tax-supported debt.

Table 17
Projected Tax-Supported Debt Service as % of General Revenues ($ millions)

FY	Adj. General Revenues*	Net Tax-Supported Debt Service	Debt Ratio
2013	$3,487.7	$230.3	6.60%
2014	$3,560.8	$225.1	6.32%
2015	$3,629.8	$256.4	7.06%
2016	$3,673.3	$262.5	7.15%
2017	$3,730.0	$284.5	7.63%
2018	$3,803.8	$271.8	7.15%
2019	$3,861.4	$259.4	6.72%

SOURCE: State budget documents
*Subtracts the projected dedicated gas tax

To monitor the state's progress in managing its debt, the Rhode Island Public Finance Management Board (PFMB) adopted guidelines. 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. Proposed new issuance of tax-supported debt in the FY 2015 Capital Budget should be analyzed as it relates to these guidelines. Tables 16 and 17 illustrate that the Governor's FY 2015 budget proposal projects that:

- The ratio of tax-supported debt to personal income is anticipated to decline from 3.61 percent in FY 2015 to 2.94 percent in FY 2019; and
- The ratio of tax-supported debt service to general revenues is anticipated to peak in FY 2017 at 7.63 percent, but will decline in FY 2018 and FY 2019.

38 Studios

The repayment of one particular bond issuance in the FY 2015 proposed budget will be of considerable importance this legislative session. The Rhode Island Economic Development Corporation (now the Rhode Island Commerce Corporation) guaranteed $75.0 million of taxable revenue bonds (considered moral obligation bonds) under the Job Creation Guaranty Program to 38 Studios in November 2010. The company's subsequent bankruptcy filing left the state with a shortfall amounting to $89.1 million over eight years. The Governor's FY 2015 budget proposal includes $12.3 million in general revenues to pay for the debt service associated with the 38 studios bonds. The projected repayment schedule for the debt service for the bonds is shown in Table 18.

Table 18
38 Studios Projected Debt Service Repayment ($ millions)

FY	Projected Debt Service
2014	$2.4
2015	$12.3
2016	$12.5
2017	$12.4
2018	$12.4
2019	$12.4
2020	$12.3
2021	$12.3

SOURCE: House Fiscal Advisory Staff; State budget documents

Operating Transfers

The Governor's FY 2015 proposed budget includes operating transfers of $143.0 million, a decrease of $64.3 million (31.0 percent) from the FY 2005 adjusted total of $207.3 million. The operating transfers category accounts for funds that are transferred from general revenues to quasi-public state agencies or between the general fund and other accounts.