



# Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

## FY 2015 Budget Update

*This report provides an end-of-year update on the FY 2015 budget, as the version enacted in June has been altered by the November 2014 Revenue and Caseload Estimating Conference and agency overspending. Changes since the FY 2015 budget's enactment have resulted in a FY 2015 deficit, which is in addition to projected out-year structural deficits. This Comments on Your Government concludes by outlining a potential budgetary approach for FY 2016 and beyond.*

### FY 2015 Budget Overview

The FY 2015 enacted budget anticipated a surplus of approximately \$0.5 million. However, based on the November 2014 REC/CEC, agency spending totals through the first quarter of the fiscal year, and the preliminary FY 2014 closing report, the Budget Office now projects that the state faces a deficit of \$34.5 million for the current fiscal year. Table 1 displays the updated projection for state revenues, expenditures, and other factors that contribute to the overall budget surplus or deficit.

As Table 1 demonstrates, the state is now projected to have additional revenue available than was estimated in the enacted budget; however, expenditures are greater

than was projected, resulting in an overall budget deficit. As indicated by Table 2, the budget factors contributing to the current deficit include:

### Increased Expenditures

- An increase of \$37.0 million in expenditures resulting from the November 2014 CEC;
- Reappropriations of \$7.4 million from FY 2014 including \$4.4 million required by statute and \$3.0 million at the discretion of the Governor;
- Overspending by state agencies that totals \$42.2 million (see Table 3);
- An increase of \$0.7 million in the amount of funds transferred to the Budget Reserve and Cash Stabilization Account, or “rainy day fund,” based upon the increase in general revenue; and
- Savings of \$20.4 million from the delayed issuance of new debt.

### Increased Revenues

- An increase of \$15.8 million in projected general revenue collections from the November 2014 REC;
- An increase of \$8.7 million in the opening surplus transferred from FY

**Table 1**  
FY 2015 Current Budget Summary (\$ millions)

|                              | FY 2014<br>Prelim. | FY 2015<br>Enacted | FY 2015<br>Current |
|------------------------------|--------------------|--------------------|--------------------|
| Opening Surplus*             | \$111.2            | \$59.2             | \$75.3             |
| Total General Revenues       | 3,436.3            | 3,493.1            | 3,508.9            |
| Total Expenditures           | (3,343.7)          | (3,445.2)          | (3,511.4)          |
| Transfers to Other Funds**   | (135.9)            | (106.6)            | (107.3)            |
| <b>End Surplus/(Deficit)</b> | <b>\$67.9</b>      | <b>\$0.5</b>       | <b>(\$34.5)</b>    |

\*Includes reappropriated funds from FY 2014  
 \*\*Includes transfers to the Rainy Day Fund  
 SOURCE: RI Budget Office; November 2014 REC

**Table 2**  
**Causes of Projected FY 2015 Budget Deficit**  
(\$ millions)

|   |                 |
|---|-----------------|
| <b>FY 2015 Enacted Budget Projected Surplus/(Deficit)</b> | \$0.5           |
| <b>Expenditure Changes</b>                                |                 |
| Expenditure Increase from Nov. 2014 CEC                   | (\$37.0)        |
| Reappropriations from FY 2014                             | (\$7.4)         |
| Overspending by State Agencies                            | (\$42.2)        |
| Transfer to Budget Reserve Account                        | (\$0.7)         |
| Savings from Delayed Debt Issuance (Hist. Tax. Credit)    | \$20.4          |
| <b>Revenue Changes</b>                                    |                 |
| Revenue Increase from Nov. 2014 REC                       | \$15.8          |
| Increase in the Opening Surplus                           | \$8.7           |
| Reappropriated Funds from FY 2014                         | \$7.4           |
| <b>FY 2015 Current Projected Surplus/(Deficit)</b>        | <b>(\$34.5)</b> |

SOURCE: RI Budget Office; November 2014 REC/CEC

2014 resulting from agency underspending; and

- A total of \$7.4 million in funds from FY 2014 to pay for the reappropriations described above.

*Agency Overspending*

A state agency is considered to be overspending if expenditures are projected to exceed the enacted budget based upon spending trends through the first quarter of the fiscal year. In the FY 2015 First Quarter Report, the Budget Office projects that agencies will overspend by a combined \$42.2 million. The agencies that are projected to exceed their enacted budgets by the largest amounts are the Department of Children, Youth and Families (\$13.2 million), the Department of Corrections (\$7.8 million), and the Department of Public Safety (\$3.3 million). Table 3 provides a full list of agency overspending.

The causes of agency overspending vary between agencies, but one cause common to numerous agencies is public employee salary increases that were not funded in the enacted budget. In April 2014, the Chafee

**Table 3**  
**Rhode Island State Agency Spending Above FY 2015 Enacted Budget (\$ millions)**

| Agency  | Amount Over Budget |
|---|--------------------|
| Department of Children, Youth, and Families                                   | \$13.2             |
| Department of Corrections   | \$7.8              |
| All Others  | \$5.1              |
| State Police  | \$3.3              |
| Office of Health and Human Services   | \$2.2              |
| Department of Human Services  | \$2.2              |
| Department of Behavioral Healthcare, Developmental Disabilities and Hospitals | \$1.7              |
| Department of Administration  | \$1.6              |
| Department of Environmental Management  | \$1.5              |
| Attorney General  | \$1.0              |
| Office of Post-Secondary Education  | \$1.0              |
| Board of Elections  | \$1.0              |
| Department of Education   | \$0.5              |
| <b>Subtotal</b>   | <b>\$42.2</b>      |

SOURCE: RI Budget Office

Administration reached an agreement with state employee labor unions, on a four-year contract that would provide 2.0 percent cost-of-living-adjustments on April 6, 2014, October 5, 2014 and October 4, 2015. However, the enacted budget did not provide new funds for these salary increases and agencies were instead directed to find ways to pay for them within their existing budgets.

Examples of agency-specific reasons for overspending include increased caseloads and problems with the System of Care at the Department of Children, Youth and Families and high costs for a medication used to treat Hepatitis C at the Department of Corrections and at the Office of Health and Human Services. The Budget Office has responded to projected agency overspending by directing agencies to implement cost-saving measures. These measures include instructions to only hire new employees when absolutely necessary and to submit corrective action plans (these plans are required by law) describing specific steps that will be taken to reduce costs.

**November 2014 Revenue and Caseload Estimating Conferences**

Representatives from the Rhode Island State Budget Office, Senate Fiscal Staff, and House Fiscal Advisory Staff meet twice annually at a publicly-held Revenue Estimating Conference (REC) and Caseload Estimating Conference (CEC) in May and November of each year. The Governor’s budget submission is based on revenue and caseload estimates from the November REC/CEC. The November 2014 REC/CEC, held within the first ten days in November as required by state law, projected that state revenues for Fiscal Year (FY) 2015 will slightly exceed the levels included in the enacted budget while also projecting that the state will begin to experience a decrease in lottery revenue in FY 2016 as a result of new casinos opening in nearby Massachusetts. The CEC also projected that expenses associated with medical assistance (Medicaid) in FY 2015 will exceed the enacted budget.

**Economic Outlook**

Along with revenue and caseload estimates, the conferees at the REC/CEC adopt a consensus economic forecast for the state, which is based upon testimony and projections from Moody’s Investors Service and the Rhode Island Department of Labor

and Training. The consensus forecast adopted at the November 2014 REC/CEC suggests that the state’s economy continues to recover from the Great Recession. However, the recovery is uneven and there remain a number of potential risks to the state’s economy. These risks include, but are not limited to, continued weakness in the housing market and a lack of personal income growth. Compared to the consensus forecast adopted at the May REC/CEC, the November REC/CEC projects slower employment and personal income growth in FY 2015. These changes were attributed in part to a downgrade in the national forecast for the United States and a belief that the recession inflicted greater structural damage on the economy than was previously believed. Despite this, economic growth is projected to increase in FY 2016, with greater employment and personal income growth than during FY 2015. Table 4 shows the difference between the projections made at the May REC/CEC and the November REC/CEC.

Although the overall forecast adopted at the November REC/CEC is less optimistic than the forecast adopted at the May REC/CEC, Rhode Island’s economy does show signs of positive change to come. The conferees heard testimony that manufacturing employment and exports from the state are among the positive trends. In addition,

**Table 4**  
**Rhode Island Consensus Economic Forecast**  
**May 2014 and November 2014**

| Economic Indicator     | FY 2014 | FY 2015 |        | FY 2016 |        | FY 2017 |        |
|------------------------|---------|---------|--------|---------|--------|---------|--------|
|                        | Nov-14  | May-14  | Nov-14 | May-14  | Nov-14 | May-14  | Nov-14 |
| Employment Growth*     | 1.3%    | 1.9%    | 1.4%   | 2.3%    | 2.4%   | 1.5%    | 1.7%   |
| Unemployment Rate      | 9.0%    | 8.2%    | 7.3%   | 6.9%    | 6.2%   | 5.9%    | 5.5%   |
| Personal Income Growth | 3.0%    | 5.8%    | 4.0%   | 6.6%    | 5.9%   | 5.5%    | 5.3%   |
| CPI                    | 1.6%    | 2.0%    | 1.9%   | 2.1%    | 2.2%   | 2.5%    | 2.6%   |

\*Nonfarm Employment  
Source: May 2014 and November 2014 Consensus Economic Forecasts

consumers have paid down significant amounts of personal debt in recent years, which will allow them to resume making large purchases. Finally, Rhode Island's tourism industry continues to do well and employment in the industry is projected to continue to increase over the next several years.

## **Revenues**

The November 2014 REC projected total FY 2015 general revenues of \$3,508.9 million, an increase of \$15.8 million above the revenue estimate included in the FY 2015 enacted budget. The increase in general revenues compared to the enacted budget is driven primarily by increases in the projections for income tax and sales and use tax collections.

For FY 2016, the REC projected general revenues of \$3,380.2 million; this increases to \$3,536.3 million if the Hospital Licensing Fee (HLF) of \$156.1 million is included. Because the REC must base its estimates on current law, it assumes that the HLF sunsets at the end of FY 2015 and is not reauthorized for FY 2016. However, the HLF has been reauthorized each year since it was first implemented. Without including the HLF, the November 2014 estimate for FY 2016 is \$128.7 million below the November 2014 revenue estimate for FY 2015. If the HLF is included, the November 2014 estimate for FY 2016 is \$27.4 million greater than the November 2014 estimate for FY 2015.

### *FY 2015*

Major changes in estimates between the FY 2015 enacted budget revenue projection and the November 2014 REC are attributable to the following revenue sources:

- Personal income taxes are projected to increase by \$10.6 million, attributed in large part to an increase of \$10.4 million in the net accrual. Additionally, the state is projected to pay out \$3.8 million less in income tax refunds than the enacted budget anticipated.
- General business taxes are estimated to decrease by \$10.7 million compared to the enacted budget as the amount of tax collected from business corporations, public utilities, and insurance companies are each expected to decline. This estimate includes the impact of changes associated with the treatment of asset depreciation.
- Sales tax collections are estimated to be \$15.4 million greater than the enacted budget projection. This increase was attributed to increased economic activity in the state as well as greater tax enforcement.
- Lottery receipts are estimated to be \$1.2 million below the enacted budget projection due to lower than expected revenue collections from the sale of lottery tickets.

### *FY 2016*

Notable changes between the revenue estimates for FY 2015 and FY 2016 made at the November 2014 REC include:

- A projected increase in personal income tax collections of \$48.9 million as a result of employment and personal income growth.
- An anticipated net increase in general business tax revenue of \$11.7 million; this was attributed by the conferees to improving economic conditions in the state.

**Table 5**  
**November 2014 Revenue Estimating Conference Update**

| Revenues                               | FY 2014<br>Prelim | May-14           | FY 2015<br>Enacted | Nov-14           | Enact-Nov<br>Change | FY 2016<br>Enacted* | Nov-14           | FY 15-16<br>Change** |
|--|-------------------|------------------|--------------------|------------------|---------------------|---------------------|------------------|----------------------|
| <b>Personal Income</b>                 | \$1,115.5         | \$1,148.1        | \$1,157.1          | \$1,167.7        | \$10.6              | \$1,211.4           | \$1,216.6        | \$48.9               |
| <b>General Business</b>                |                   |                  |                    |                  |                     |                     |                  |                      |
| Business Corporation                   | \$115.2           | \$115.4          | \$118.8            | \$112.8          | (\$6.0)             | \$134.6             | \$119.1          | \$6.3                |
| Public Utilities Gross Earnings        | 101.4             | 112.0            | 112.0              | 103.6            | (8.4)               | 118.0               | 105.0            | \$1.4                |
| Insurance Companies                    | 102.4             | 116.9            | 115.5              | 113.6            | (1.9)               | 119.5               | 116.0            | \$2.4                |
| Other                                  | 66.6              | 56.5             | 56.0               | 61.7             | 5.7                 | 58.0                | 63.3             | \$1.6                |
| <i>Subtotal</i>                        | \$385.6           | \$400.8          | \$402.4            | \$391.7          | (\$10.7)            | \$430.1             | \$403.4          | \$11.7               |
| <b>Sales and Use Taxes</b>             |                   |                  |                    |                  |                     |                     |                  |                      |
| General Sales and Use                  | \$916.1           | \$937.0          | \$939.6            | \$955.0          | \$15.4              | \$976.2             | \$1,000.0        | \$45.0               |
| Motor Vehicle                          | 52.4              | 52.3             | 49.5               | 49.9             | 0.4                 | 37.4                | 39.6             | (\$10.3)             |
| Gasoline                               | 0.5               | 0.5              | 0.5                | 0.5              | 0.0                 | 0.8                 | 0.5              | \$0.0                |
| Cigarettes                             | 139.5             | 135.8            | 135.8              | 136.8            | 1.0                 | 131.9               | 134.2            | (\$2.6)              |
| Alcohol                                | 18.3              | 16.0             | 17.4               | 19.0             | 1.6                 | 12.3                | 13.0             | (\$6.0)              |
| <i>Subtotal</i>                        | \$1,126.7         | \$1,141.6        | \$1,142.9          | \$1,161.2        | \$18.3              | \$1,158.7           | \$1,187.3        | \$26.1               |
| <b>Other Taxes</b>                     | \$52.7            | \$46.0           | \$36.6             | \$36.9           | \$0.3               | \$28.4              | \$29.6           | (\$7.3)              |
| <b>Total Taxes</b>                     | <b>\$2,680.5</b>  | <b>\$2,736.5</b> | <b>\$2,739.0</b>   | <b>\$2,757.5</b> | <b>\$18.5</b>       | <b>\$2,828.6</b>    | <b>\$2,836.9</b> | <b>\$79.4</b>        |
| <b>Departmental Revenue*</b>           | \$360.3           | \$208.2          | \$351.7            | \$349.3          | (\$2.4)             | \$354.0             | \$199.3          | (\$150.0)            |
| <b>Total Taxes &amp; Departmentals</b> | <b>\$3,040.9</b>  | <b>\$2,944.7</b> | <b>\$3,090.6</b>   | <b>\$3,106.8</b> | <b>\$16.2</b>       | <b>\$3,182.5</b>    | <b>\$3,036.2</b> | <b>(\$70.6)</b>      |
| <b>Other Sources</b>                   |                   |                  |                    |                  |                     |                     |                  |                      |
| Other Miscellaneous                    | 6.4               | 2.5              | 7.5                | 7.8              | 0.3                 | 2.2                 | 1.1              | (6.7)                |
| Lottery                                | 376.3             | 385.6            | 384.5              | 383.3            | (1.2)               | 339.5               | 334.8            | (48.5)               |
| Unclaimed Property                     | 12.7              | 10.5             | 10.5               | 11.0             | 0.5                 | 10.7                | 8.1              | (2.9)                |
| <i>Subtotal</i>                        | \$395.4           | \$398.6          | \$402.5            | \$402.1          | (\$0.4)             | \$352.4             | \$344.0          | (\$58.1)             |
| <b>Total General Revenues</b>          | <b>\$3,436.3</b>  | <b>\$3,343.3</b> | <b>\$3,493.1</b>   | <b>\$3,508.9</b> | <b>\$15.8</b>       | <b>\$3,535.0</b>    | <b>\$3,380.2</b> | <b>(\$128.7)</b>     |

Source: FY 2015 Budget as Enacted; May and Nov 2014 Revenue Estimating Conferences

\*From general revenue out-year estimates included in FY 2015 budget as enacted.

\*\*Change between November 2014 estimate for FY 2015 and estimate for FY 2016

NOTE: FY 2015 estimates from May 2014 and FY 2016 estimates from Nov. 2014 for Departmental Revenue do not include Hospital Licensing Fee of approximately \$156 million

- An expected increase of \$45.0 million in sales and use tax collections as consumers increase purchases due to improved economic conditions and employment growth.
- A projected \$48.5 million decrease in lottery revenue (see next section).
- An anticipated decrease of \$7.8 million in inheritance and gift tax collections

partially attributable to reforms to the estate tax enacted by the General Assembly last session.

### Lottery Revenues

Since legalizing the use of Video Lottery Terminals (VLTs) in 1992, Rhode Island has become increasingly reliant upon lottery

revenues to support state government operations. In FY 2014, lottery revenues (including instant games, Keno, and VLTs) accounted for approximately 11.0 percent of state general revenues, an increase of four percentage points since FY 2001, when they represented 7.0 percent of general revenues. Preliminary figures from the November 2014 REC indicate that lottery revenues will represent 10.9 percent of anticipated general revenues in FY 2015. Though these revenues have contributed to a more optimistic revenue scenario, out-year projections indicate that lottery revenues will decline over the next several years as new casinos open in nearby Massachusetts.

#### *Instant Games and Lottery Tickets*

The Rhode Island Division of Lottery oversees a number of lottery activities including, but not limited to, instant games, scratch tickets, and traditional lottery games (i.e. Powerball). All funds generated by these games are deposited in the state general fund after the subtraction of prize payouts and operating costs. The November 2014 REC estimates that the state will receive \$56.5 million in revenue from these sources in FY 2015.

#### *Current Gaming Facilities, NTI, and NTGR*

There are currently two gaming facilities operating VLTs in Rhode Island: Twin River Casino located in Lincoln and Newport Grand located in Newport. Additionally, Twin River received permission to operate table games after voters approved a ballot question in 2012. On November 4, 2014, voters in Newport rejected a ballot question for the second consecutive election that would have authorized the operation of table games at Newport Grand.

Income generated by VLTs is measured by Net Terminal Income, or NTI, which is

**Table 6**  
**VLT Net Terminal and Net Table Games Income**  
**FY 2004 - FY 2016 Est. (\$ millions)**

| FY                        | Twin River   | Table Games* | Newport Grand | Total        | Annual Change | Percent Change |
|---------------------------|--------------|--------------|---------------|--------------|---------------|----------------|
| 2004                      | 283.3        | 0.0          | 75.6          | 358.9        | 44.2          | 14.0%          |
| 2005                      | 319.8        | 0.0          | 79.4          | 399.2        | 40.3          | 11.2%          |
| 2006                      | 338.9        | 0.0          | 77.6          | 416.5        | 17.3          | 4.3%           |
| 2007                      | 342.0        | 0.0          | 74.6          | 416.6        | 0.1           | 0.0%           |
| 2008                      | 406.5        | 0.0          | 71.2          | 477.7        | 61.1          | 14.7%          |
| 2009                      | 396.6        | 0.0          | 64.2          | 460.8        | (16.8)        | -3.5%          |
| 2010                      | 410.5        | 0.0          | 57.3          | 467.8        | 6.9           | 1.5%           |
| 2011                      | 442.4        | 0.0          | 50.2          | 492.6        | 24.8          | 5.3%           |
| 2012                      | 476.0        | 0.0          | 51.4          | 527.3        | 34.7          | 7.1%           |
| 2013                      | 472.6        | 1.5          | 48.1          | 522.3        | (5.0)         | -1.0%          |
| 2014                      | 462.4        | 88.1         | 44.7          | 595.2        | 72.9          | 14.0%          |
| 2015**                    | 477.1        | 101.2        | 43.8          | 622.1        | 26.9          | 4.5%           |
| 2016**                    | 405.5        | 104.0        | 37.4          | 546.9        | (75.2)        | -12.1%         |
| <b>Total Change</b>       | <b>43.1%</b> | <b>18.0%</b> | <b>-50.5%</b> | <b>52.4%</b> |               |                |
| <b>Avg. Annual Change</b> | <b>3.0%</b>  | <b>8.6%</b>  | <b>-5.7%</b>  | <b>3.6%</b>  |               |                |

\*Total Net Table Games Revenue at Twin River

\*\*Estimate from November 2014 Revenue Estimating Conference

NOTE: Table Games began operations at Twin River in June 2013; total and average annual change measure from the start of FY 2014.

SOURCE: Christiansen Capital Advisors; RI Division of Lottery; November 2014 Revenue Estimating Conference; RIPEC calculations

defined as gross income minus prizes. In FY 2004, NTI at Twin River (then called Lincoln Park) totaled \$283.3 million; the November 2014 REC estimates that NTI will total \$477.1 million in FY 2015. At Newport Grand, NTI was \$75.6 million in FY 2004 and the November 2014 REC estimates that it will total \$43.8 million in FY 2015. Additionally, table games began operation at Twin River in June 2013; the November 2014 REC estimates that Net Table Games Revenue (NTGR), also defined as gross income minus prizes, will total \$101.2 million in FY 2015. Table 6 displays NTI and NTGR at the two facilities since FY 2004.

Under Rhode Island state law, NTI and NTGR generated at the two facilities are subject to an allocation formula, which determines the state share of these funds (see Table 7). Using the NTI consensus projections from the November 2014 REC, the state will receive approximately 61.1 percent of NTI at Twin River and 59.2 percent of NTI at Newport Grand for FY

**Table 7**  
**Distribution of Net Terminal Income and Net Table Game Revenue**

| Recipient                 | Current (FY 2015) |                |                |
|---------------------------|-------------------|----------------|----------------|
|                           | Twin River        | Newport        | Twin River TG  |
| Gaming Facility           | 27.88%            | 30.13%         | 84.00%         |
| Technology Providers      | 7.00%             | 7.22%          | 0.00%          |
| Central System Provider*  | 2.43%             | 2.43%          | 0.00%          |
| Host Municipality         | 1.45%             | 1.01%          | 0.00%          |
| Narragansett Indian Tribe | 0.17%             | 0.00%          | 0.00%          |
| Transfer to State         | 61.07%            | 59.21%         | 16.00%         |
| <b>Total</b>              | <b>100.00%</b>    | <b>100.00%</b> | <b>100.00%</b> |

\*The central system provider (GTECH) receives 2.5% on the first \$500 million of NTI, 1% on the next \$500 million, and 2.5% thereafter. Based on FY 2015 estimates from the November 2014 REC, communication providers will receive 2.43% of NTI.

SOURCE: RI Department of Revenue

2015. The state also receives 16.0 percent of NTGR generated at Twin River. The November 2014 REC estimates that the state will receive \$314.9 million in NTI revenue and \$11.9 million in NTGR revenue in FY 2015. A certain percentage of the state's share of NTI revenues are committed to aiding distressed communities, property tax relief, and covering marketing costs for the two facilities.

*Threats to Lottery Revenues*

Massachusetts is currently in the process of awarding licenses to construct three resort casinos located in defined regions of the state as well as a slot parlor that can be located anywhere in the state. Licenses to construct casinos have already been awarded to MGM for a facility in Springfield and Wynn Resorts in Everett, as well as to Penn National Gaming for a slot parlor in Plainville. The final casino license, which will allow the construction of a casino in southeastern Massachusetts, has not yet been awarded. The Massachusetts Gaming Commission recently extended the deadline

to apply for the remaining casino license to February 1, 2015. The three locations considered most likely to receive the final license are Taunton, New Bedford, and Fall River.

If three new casinos and a slot parlor do open in Massachusetts, it is likely that revenues at Twin River and Newport Grand would be adversely impacted. The most immediate threat comes from the Penn National Gaming slot parlor in Plainville, which is expected to open for business during the summer of 2015. The state commissioned Christiansen Capital Advisors, LLC to complete a study analyzing the financial impact of new facilities in Massachusetts on the existing facilities in Rhode Island. The study concluded that VLT revenues at Twin River and Newport Grand are likely to decline in the coming years even without new facilities in Massachusetts. This was attributed to lingering effects of the Great Recession and a lack of interest in casino gaming among the younger generation.

The Christiansen Capital Advisors' study analyzed three possible scenarios for the construction of new gaming facilities in Massachusetts. Each of the scenarios assumed that casinos would be built in Springfield and Everett and that the slot parlor would be built in Plainville. The difference between the three scenarios involved the location of the final casino to be built in southeastern Massachusetts; each scenario involved a different location from the possible locations of Taunton, New Bedford, or Fall River. The study also assumed that the facilities in Springfield and Everett would open at the start of FY 2018 and that the third facility in one of the three locations would open at the start of FY 2019.

**Table 8**  
**State Gaming Revenue Projections**  
**FY 2015 - FY 2020 (\$ millions)**

| Scenario              | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | % Change |
|-----------------------|---------|---------|---------|---------|---------|---------|----------|
| Status Quo (Baseline) | \$316.4 | \$317.2 | \$315.6 | \$313.2 | \$312.3 | \$310.8 | -1.8%    |
| Taunton               | \$316.4 | \$272.8 | \$271.5 | \$228.4 | \$188.0 | \$187.1 | -40.9%   |
| New Bedford           | \$316.4 | \$272.8 | \$271.5 | \$228.4 | \$202.1 | \$201.2 | -36.4%   |
| Fall River            | \$316.4 | \$272.8 | \$271.5 | \$228.4 | \$191.8 | \$191.0 | -39.6%   |

NOTE: Status quo (baseline) scenario assumes that no casinos or slot parlors are constructed in Massachusetts; other scenarios assume a slot parlor opening in Plainville, MA on July 1, 2015 and a casino opening in the location listed on July 1, 2018. Includes only state share of NTI and NTGR from Twin River and Newport Grand.

SOURCE: Christiansen Capital Advisors, LLC; RI Department of Revenue

According to the Christiansen report, the state's share of gaming revenues generated at Twin River and Newport Grand will first be negatively impacted in FY 2016 when the slot parlor located in Plainville opens. State revenue from the two facilities is anticipated to decline from \$316.4 million in FY 2015 to \$272.8 million in FY 2016 a decline of 13.8 percent in one year.<sup>1</sup> The study then projects revenue to remain steady in FY 2017 before declining again in FY 2018 when the facilities in Springfield and Everett open. Revenue would again decline in FY 2019 when the third facility in Taunton, New Bedford, or Fall River opens. As Table 8 indicates, between FY 2015 and FY 2020, state gaming revenue would decline by 40.1 percent if the final casino is built in Taunton, 36.4 percent if it is built in New Bedford, and 39.6 percent if it is built in Fall River.

### Caseloads

The November 2014 Caseload Estimating Conference (CEC) projects data on cash and medical assistance expenditures. The CEC projected that net cash assistance expenditures within the Department of Human Services (Rhode Island Works, Child Care, Supplemental Security Income, and General Public Assistance) in FY 2015 are expected to decrease slightly compared

to the enacted budget. Cash assistance caseloads for FY 2015 are expected to total \$106.0 million, a decline of \$0.7 million compared to the enacted budget. In FY 2016, cash assistance expenditures are projected to total \$108.7 million, an increase of \$2.8 million compared to the November 2014 estimate for FY 2015. However, only \$0.3 million of this anticipated increase in expenditures will be paid for with state general revenues while the remainder will be covered by federal funds.

In addition to cash assistance programs, the CEC estimates Medicaid expenditures within the Office of Health and Human Services. Medical assistance expenditures for FY 2015 are projected to total \$2,364.9 million, an increase of \$118.4 million above the enacted budget. In FY 2016, medical assistance expenditures are projected to total \$2,457.7 million, an increase of \$92.7 million above the November 2014 estimate for FY 2015. Overall, net cash and medical assistance expenditures for FY 2015 are projected to be \$117.7 million above the spending levels in the enacted budget. Of this total, \$37.0 million must be paid for with state general revenue.

### Cash Assistance Highlights

- Rhode Island Works Program (RIWP), Rhode Island's welfare reform program, provides cash assistance, education, training,

<sup>1</sup> The report does not rely on the updated estimates from the November 2014 REC.

**Table 9**  
**November 2014 Caseload Estimating Conference**  
**Cash Assistance Expenditures (\$ millions)**

| Expenditures           | FY 2015           |                |                   |                     | FY 2016           |                      |
|------------------------|-------------------|----------------|-------------------|---------------------|-------------------|----------------------|
|                        | Adopted<br>May-14 | Enacted        | Adopted<br>Nov-14 | Change<br>Enact-Nov | Adopted<br>Nov-14 | Change<br>from FY15* |
| TANF/RIWP              |                   |                |                   |                     |                   |                      |
| General Revenues       | \$0.0             | \$0.0          | \$0.0             | \$0.0               | \$0.0             | \$0.0                |
| Total                  | 35.6              | 35.6           | 33.3              | (2.2)               | 33.3              | 0.0                  |
| Child Care             |                   |                |                   |                     |                   |                      |
| General Revenues       | 9.7               | 9.7            | 9.7               | 0.0                 | 9.7               | 0.0                  |
| Total                  | 50.0              | 51.1           | 52.8              | 1.6                 | 55.3              | 2.5                  |
| SSI                    |                   |                |                   |                     |                   |                      |
| General Revenues       | 18.6              | 18.6           | 18.5              | (0.1)               | 18.7              | 0.2                  |
| Total                  | 18.6              | 18.6           | 18.5              | (0.1)               | 18.7              | 0.2                  |
| GPA                    |                   |                |                   |                     |                   |                      |
| General Revenues       | 1.4               | 1.4            | 1.4               | 0.0                 | 1.4               | 0.0                  |
| Total                  | 1.4               | 1.4            | 1.4               | 0.0                 | 1.4               | 0.0                  |
| <b>Total</b>           | <b>\$105.6</b>    | <b>\$106.7</b> | <b>\$106.0</b>    | <b>(\$0.7)</b>      | <b>\$108.7</b>    | <b>\$2.8</b>         |
| <i>General Revenue</i> | <i>\$29.7</i>     | <i>\$29.7</i>  | <i>\$29.5</i>     | <i>(\$0.1)</i>      | <i>\$29.8</i>     | <i>0.3</i>           |

\*Change from estimates for FY 2015 adopted at the November 2014 Caseload Estimating Conference

Note: Totals may not sum due to rounding.

Source: RIPEC Calculations based on May 2014 and November 2014 Caseload Estimating Conference data

transportation, and employment services to low income working parents and those preparing for work. The program is funded entirely through the federal Temporary Aid to Needy Families (TANF) block grant.

- The November 2014 CEC projected a caseload of 13,475 persons receiving services through Rhode Island Works in FY 2015. This projection is a decrease of 975 below the anticipated caseload of 14,450 included in the enacted budget. Compared to the enacted budget, November 2014 projected expenditures for FY 2015 are lower by \$2.2 million.
- For FY 2016, the projected RIWP caseload of 13,475 is the same as the November 2014 estimate for FY 2015. Projected expenditures for the program in FY 2016 are \$1,051 higher than the November 2014

estimate for FY 2015 with the entirety of the year-over-year increase due to higher spending on children's clothing.

- November 2014 caseload estimates for FY 2015 child care assistance increased compared to the enacted budget and May estimates, resulting in an increase in projected expenditures despite a slightly lower annual cost per subsidy. Projected expenditures for child care in FY 2015 are \$1.6 million higher than the enacted budget. The increase in subsidies was primarily attributed to the extension of a pilot program that allows parents already receiving child care services to earn higher salaries without losing program eligibility.
- Child care assistance is funded through a combination of state and federal money. The November 2014 CEC estimates that the program will be funded in FY 2015 with \$9.7 million in state general revenue and \$43.1 million from the federal Child Care Development Fund and TANF block grant funds. The state's contribution in FY 2016 is also projected to total \$9.7 million along with \$45.6 million in federal funds.
- For Supplemental Security Income (SSI) in FY 2015, the November 2014 caseload estimate of 33,900 persons is 30 less than the enacted budget. Additionally, the November 2014 estimate for monthly cost per person is \$0.25 lower than the enacted budget and May 2014 estimates. The state pays transaction fees to the federal government to cover partial administration of the program; the November 2014 estimate for these fees is \$52,500, a decrease of \$1,000 from the enacted

budget and May 2014 estimate. These changes combine to result in decreased program expenditures of \$0.1 million compared to the enacted budget.

- In FY 2016, estimated SSI program costs are projected to increase due to a caseload increase of 339 persons and an increase of \$0.15 in the monthly cost per person compared to the November 2014 estimates for FY 2015. Transaction fees are projected to decrease by \$500. Total expenditures on the program in FY 2016 are anticipated to increase by \$0.2 million compared to the November 2014 estimate for FY 2015.
- General Public Assistance (GPA) caseloads are projected to be 455 persons in FY 2015 and 465 persons in FY 2016. The FY 2015 caseload estimate is 45 fewer persons than the enacted budget.
- Despite the decreased caseload, total GPA program costs for FY 2015 are projected to be \$12,414 above the enacted budget and as a result of higher monthly costs per person (\$130.00 November 2014 estimate compared to \$113.50 in the enacted budget). Costs per person are expected to rise further in FY 2016 to \$132.00 per person, per month; along with a higher caseload, these changes result in an increase of \$27,146 in total program costs compared to the November 2014 estimate for FY 2015.

#### *Medical Assistance (Medicaid) Highlights*

- Total Medicaid expenditures in FY 2015 are projected to be \$2,364.9 million, an increase of \$118.4 million above the enacted budget. In FY 2016, Medicaid expenditures are projected to rise to \$2,457.7

million, an increase of \$92.7 million (3.9 percent) above the November 2014 estimate for FY 2015.

- The November 2014 estimate for hospital payments in FY 2015 totals \$217.1 million, an increase of \$10.5 million above the enacted budget. In FY 2016, payments to hospitals are projected to increase to \$218.8 million, \$1.7 million above the November 2014 estimate for FY 2015.
- The November 2014 estimate for costs associated with the Medicaid expansion authorized by the federal Affordable Care Act in FY 2015 is \$46.7 million higher than the enacted budget (\$539.1 million compared to \$492.4 million). In FY 2016, Medicaid expansion costs are projected to rise by an additional 8.0 million to reach \$547.1 million.
- Costs associated with the Medicaid expansion are fully funded by the federal government through the end of calendar year 2016 and the federal share then decreases annually until it reaches 90.0 percent in calendar year 2020. As the federal share decreases, the state will be responsible for the remaining costs.
- Long-term care expenditures, including nursing and hospice care, and home and community services, are projected to be \$246.3 million in FY 2015. This represents an increase of \$30.4 million above the enacted budget. This increase is funded in part by a shift of resources from the Rhody Health Options program, which has expenditures of \$19.5 million below the enacted budget. Long-term care expenditures are

projected to total \$266.6 million in FY 2016, an increase of \$20.3 million from FY 2015.

- The November 2014 estimate for expenditures on the Rhody Health Partners program is \$280.3 million, an increase of \$28.0 million above the enacted budget. This increase is attributed in part to the high cost of a new medication used to treat Hepatitis C. Additionally, the FY 2015 enacted budget transferred certain Medicaid funded behavioral health expenses to the Rhody Health Partners program; these are included in the November 2014 estimate. FY 2016 expenditures for the Rhody Health Partners program are projected to total \$301.0 million, an increase of \$20.7 million from the November 2014 estimate for FY 2015.

- Expenditures for managed care programs (RItE Care and RItE Share) are projected to total \$636.5 million in FY 2015. This is an increase of \$21.1 million compared to the enacted budget. Higher costs compared to the enacted budget were attributed to the high cost of a new medication used to treat Hepatitis C and changing program demographics. Program expenditures in FY 2016 are projected to total \$660.4 million, an increase of \$23.9 million from the November 2014 estimate for FY 2015.

Projections made at the CEC are based on current law and do not incorporate proposed changes to existing policy. Therefore, changes made by the General Assembly to benefit eligibility or other aspects of these programs could result in future changes to expenditure projections.

**Table 10**  
**November 2014 Caseload Estimating Conference**  
**Change in Cash Assistance and Medical Assistance Expenditures (\$ millions)**

|                                   | FY 2015           |                  |                   |                     | FY 2016           | FY 2015 to FY 2016* |             |
|-----------------------------------|-------------------|------------------|-------------------|---------------------|-------------------|---------------------|-------------|
|                                   | Adopted<br>May-14 | Enacted          | Adopted<br>Nov-14 | Change<br>Enact-Nov | Adopted<br>Nov-14 | Change              | % Change    |
| <b>Cash Assistance</b>            |                   |                  |                   |                     |                   |                     |             |
| TANF/RIWP Total                   | \$35.6            | \$35.6           | \$33.3            | (\$2.2)             | \$33.3            | \$0.0               | 0.0%        |
| Child Care Total                  | 50.0              | 51.1             | 52.8              | 1.6                 | 55.3              | \$2.5               | 4.7%        |
| SSI Total                         | 18.6              | 18.6             | 18.5              | (0.1)               | 18.7              | \$0.2               | 1.3%        |
| GPA Total                         | 1.4               | 1.4              | 1.4               | 0.0                 | 1.4               | \$0.0               | 1.9%        |
| <b>Total: Cash Assistance</b>     | <b>\$105.6</b>    | <b>\$106.7</b>   | <b>\$106.0</b>    | <b>(\$0.7)</b>      | <b>\$108.7</b>    | <b>\$2.8</b>        | <b>2.6%</b> |
| <i>Cash Assistance Gen Rev</i>    | <i>\$29.7</i>     | <i>\$29.7</i>    | <i>\$29.5</i>     | <i>(\$0.1)</i>      | <i>\$29.8</i>     | <i>\$0.3</i>        | <i>0.9%</i> |
| <b>Medical Assistance</b>         |                   |                  |                   |                     |                   |                     |             |
| Hospitals                         |                   |                  |                   |                     |                   |                     |             |
| Hospitals                         | \$58.0            | \$68.3           | \$78.8            | \$10.5              | \$80.5            | \$1.7               | 2.2%        |
| DSH                               | 131.2             | 138.3            | 138.3             | 0.0                 | 138.3             | \$0.0               | 0.0%        |
| <i>Subtotal Hospitals</i>         | <i>\$189.2</i>    | <i>\$206.6</i>   | <i>\$217.1</i>    | <i>\$10.5</i>       | <i>\$218.8</i>    | <i>\$1.7</i>        | <i>0.8%</i> |
| Long-term Care                    |                   |                  |                   |                     |                   |                     |             |
| Nursing and Hospice Care          | \$165.0           | \$162.1          | \$176.0           | \$13.9              | \$191.0           | \$15.0              | 8.5%        |
| Home/Community Services           | 54.8              | 53.8             | 70.3              | 16.5                | 75.6              | \$5.3               | 7.5%        |
| <i>Subtotal Long-term Care</i>    | <i>\$219.8</i>    | <i>\$215.9</i>   | <i>\$246.3</i>    | <i>\$30.4</i>       | <i>\$266.6</i>    | <i>\$20.3</i>       | <i>8.2%</i> |
| Managed Care                      | \$684.0           | \$615.4          | \$636.5           | \$21.1              | \$660.4           | \$23.9              | 3.8%        |
| Pharmacy                          | 1.4               | 1.4              | 3.6               | 2.2                 | 4.0               | \$0.4               | 11.1%       |
| Pharmacy Clawback                 | 50.4              | 50.4             | 50.5              | 0.1                 | 52.0              | \$1.5               | 3.0%        |
| Other                             | 608.0             | 115.1            | 114.0             | (1.1)               | 117.6             | \$3.6               | 3.2%        |
| Rhody Health                      | 508.9             | 549.3            | 557.8             | 8.5                 | 591.1             | \$33.3              | 6.0%        |
| Medicaid Expansion**              | -                 | 492.4            | 539.1             | 46.7                | 547.1             | \$8.0               | 1.5%        |
| <b>Total: Medical Assistance</b>  | <b>\$2,261.7</b>  | <b>\$2,246.5</b> | <b>\$2,364.9</b>  | <b>\$118.4</b>      | <b>\$2,457.6</b>  | <b>\$92.7</b>       | <b>3.9%</b> |
| <i>Medical Assistance Gen Rev</i> | <i>\$887.6</i>    | <i>\$876.6</i>   | <i>\$913.7</i>    | <i>\$37.1</i>       | <i>\$948.7</i>    | <i>\$35.0</i>       | <i>3.8%</i> |
| <i>Total Federal Funds</i>        | <i>\$1,439.4</i>  | <i>\$1,436.4</i> | <i>\$1,517.0</i>  | <i>\$80.6</i>       | <i>\$1,577.3</i>  | <i>\$60.3</i>       | <i>4.0%</i> |
| <i>Total General Revenue</i>      | <i>\$917.2</i>    | <i>\$906.2</i>   | <i>\$943.3</i>    | <i>\$37.0</i>       | <i>\$978.5</i>    | <i>\$35.2</i>       | <i>3.7%</i> |
| <i>Total Restricted Receipts</i>  | <i>\$10.6</i>     | <i>\$10.6</i>    | <i>\$10.6</i>     | <i>\$0.0</i>        | <i>\$10.6</i>     | <i>\$0.0</i>        | <i>0.0%</i> |
| <b>TOTAL EXPENDITURES</b>         | <b>\$2,367.2</b>  | <b>\$2,353.2</b> | <b>\$2,470.9</b>  | <b>\$117.7</b>      | <b>\$2,566.3</b>  | <b>\$95.5</b>       | <b>3.9%</b> |

\*Change between November 2014 estimate for FY 2015 and estimate for FY 2016

\*\*Note: Medicaid Expansion was included in the "Other" category at the May 2014 Caseload Estimating Conference

Source: RIPEC calculations based on May 2014 and November 2014 Caseload Estimating Conference data

## RIPEC Comments

Though Rhode Island's economy was particularly vulnerable to the negative effects of the Great Recession, it has recently exhibited signs of improvement. Chiefly, Rhode Island's economy has grown by over 2.0 percent for the past six economic quarters, and, according to the Rhode Island Current Economic Indicator, Rhode Island's economy grew by an annual rate of 3.0 percent in the second quarter of 2014 and by 2.3 percent in the third quarter of 2014. Rhode Island's economy continues to grow faster than New England's, but slower than the national rate.

Despite its recent improvements in the state's underlying economic growth rate, in contrast to national trends, Rhode Island's employment status has yet to return to pre-recession levels, and structural weaknesses challenge the state's future labor force. For example, testimony at the November Consensus Economic Forecast from the Department of Labor and Training (DLT) suggests that Rhode Island has recovered 57.8 percent of jobs lost since the *Great Recession*. This proportion of job recovery is lower than every other New England state, and the national proportion. Notably, Massachusetts has recovered 171.0 percent of jobs from pre-recession levels, and the national economy has recovered 112.3 percent. DLT testimony suggests that Rhode Island is not anticipated to recover 100 percent of jobs lost during the Great Recession until 2018.

These data trends highlight the short- and long-term fiscal challenges faced by Rhode Island's policymakers. The REC and CEC results, and recent reports of state agency overspending, have resulted in a projected FY 2015 budget deficit of \$34.5 million. This FY 2015 deficit is expected to grow to

at least \$172.9 million in FY 2016, as projected by the Budget Office's FY 2015 Budget as Enacted.<sup>2</sup> The budget forecast for the outer-years beyond FY 2016 is similarly bleak.

The state's budget outlook in future years is further clouded by various risk factors such as the possibility that lottery revenues will decrease further as new casinos open in Massachusetts. Though stakeholders have explored the possibility of expanding operations at Newport Grand to include table games, as of November 2014, voters in Newport rejected related ballot questions. As new Massachusetts casinos draw customers away from Rhode Island facilities, a creative approach to this revenue dilemma will be needed. A loss of lottery revenues in future fiscal years will exacerbate the state's structural deficits and necessitate further spending and revenue changes.

In addition to the uncertainty surrounding lottery revenues, Rhode Island faces other unknowns that may affect out-year budget projections. For example, the Rhode Island Retirement Security Act (RIRSA), which reformed state pension contributions for public employees, is facing a court challenge that is to commence in April 2015. The outcome of the case, or a potential out-of-court settlement, could have implications for the state's unfunded pension liability and future payment obligations.

Other unknowns, including: the financial sustainability of Rhode Island's state-based health exchange, HealthSource Rhode Island; and the enrollment levels for Rhode Island's extension of Medicaid, should also

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<sup>2</sup> This FY 2016 forecasted deficit has not been adjusted to include the results from the November 2014 REC/CEC.

be considered for their out-year fiscal impact.

These economic and fiscal challenges require a focused agenda that balances fiscal discipline with economic growth. The following factors ought to be considered when developing the FY 2016 budget.

### Examining Fiscal Projections

When developing a strategy aimed at strategically reducing expenditures, it is important to consider the projected growth rates of various state budget categories. Table 11 lists projected growth rates for general revenues, and the four major expenditure categories (State Operations, Grants and Benefits, Local Aid, and Capital). Notably, total expenditures are expected to outpace general revenues through FY 2019.

In the short-term, State Operations and Grants and Benefits are the two expenditure categories that are anticipated to grow by the highest rates in FY 2016. However, in the longer-term, expenditure growth in State Operations is anticipated to taper off by FY 2017, while Grants and Benefits growth is expected to slightly increase, and then

remain level through FY 2019. By FY 2019 it is anticipated that the yearly growth rate for grants and benefits expenditures will be 5.3 percent—the highest annual expenditure growth rate of all categories. The second highest anticipated annual expenditure growth rate in FY 2019 is local aid (4.2 percent).

In terms of magnitude of spending, as a proportion of the FY 2015 budget as enacted all funds expenditures (net of the operating transfer), grants and benefits comprise the largest proportion of expenditures. State operations comprise the second largest category, on a proportional basis of expenditures from the FY 2015 budget as enacted.

These expenditure levels and projections suggest that a key focus of the next budget process ought to be identifying those expenditure categories that are driving out-year expenditures, and prioritizing corresponding reforms. A question for consideration is: of the three largest expenditure categories (Grants and Benefits, State Operations, and Local Aid), what type of balanced policy changes can be made that will drive down costs and improve efficiency?

|                                   | <b>FY 2016</b> | <b>FY 2017</b> | <b>FY 2018</b> | <b>FY 2019</b> | <b>Proportion of FY 2015E All Funds Expenditures*</b> |
|-----------------------------------|----------------|----------------|----------------|----------------|---|
| Total General Revenue             | 1.2            | 0.7            | 1.9            | 1.9            |   |
| Expenditures: State Operations    | 5.4            | 1.7            | 3.4            | 2.7            | 30.8%   |
| Expenditures: Grants and Benefits | 5.0            | 6.0            | 5.8            | 5.3            | 47.2%   |
| Expenditures: Local Aid           | 4.0            | 3.5            | 4.1            | 4.2            | 14.0%   |
| Expenditures: Capital             | 0.8            | 8.6            | 1.8            | (8.6)          | 8.0%  |
| Expenditures: Total               | 4.5            | 4.1            | 4.4            | 3.4            |   |

\*Net of Operating Transfer  
SOURCE: FY 2015 Budget as Enacted, Budget Office; FY 2015 Budget as Enacted, House Fiscal Advisory Staff

Grants and Benefits, the largest expenditure category, includes the expenditures of the following agencies: the Executive Office of Health and Human Services; the Department of Human Services; the Department of Children, Youth & Families; and the Department of Behavioral Healthcare, Developmental Disabilities, & Hospitals. Table 12 lists the various categories of Grants and Benefits by agency for the FY

2015 enacted budget, through the FY 2019 projected budget.

The second-to-last column in this table indicates that of the Grants and Benefits general revenue expenditure categories, “Other Medicaid” and “Home Care” spending are the two categories expected to experience the largest average annual change FY 2015 enacted and the FY 2019

**Table 12**  
**Grants and Benefits General Revenue Out-Year Estimates, FY 2015 Budget As Enacted (\$ millions)**

|   | FY 2015E         | FY 2016          | FY 2017          | FY 2018          | FY 2019          | % Change<br>FY '15-'19 | Average<br>Annual %<br>Change | FY 2015E as % of<br>Total FY 2015E<br>Grants and Benefits |
|---|------------------|------------------|------------------|------------------|------------------|------------------------|-------------------------------|---|
| <b>Executive Office of Health and Human Services &amp; Department of Human Services</b> |                  |                  |                  |                  |                  |                        |                               |   |
| Hospitals   | \$34.6           | \$36.4           | \$38.4           | \$40.1           | \$42.5           | 22.7%                  | 5.2%                          | 2.9%  |
| Managed Care  | 571.7            | 605.3            | 636.1            | 671.3            | 714.0            | 24.9%                  | 5.7%                          | 48.1%   |
| Nursing Care  | 81.0             | 86.8             | 92.1             | 98.2             | 105.0            | 29.5%                  | 6.7%                          | 6.8%  |
| Home Care   | 23.8             | 25.6             | 27.6             | 29.9             | 32.3             | 35.6%                  | 7.9%                          | 2.0%  |
| Other Medicaid  | 44.7             | 48.0             | 53.1             | 57.6             | 62.2             | 39.2%                  | 8.6%                          | 3.8%  |
| Pharmacy  | 1.3              | 1.4              | 1.5              | 1.6              | 1.7              | 25.6%                  | 5.9%                          | 0.1%  |
| DEA CNOM  | 3.5              | 3.8              | 4.1              | 4.4              | 4.8              | 35.6%                  | 7.9%                          | 0.3%  |
| Cash Assistance-RIW/CCAP/GPA  | 11.3             | 11.5             | 11.8             | 12.1             | 12.4             | 9.8%                   | 2.4%                          | 0.9%  |
| Cash Assistance- SSI  | 18.6             | 19.0             | 19.5             | 19.9             | 20.4             | 9.7%                   | 2.4%                          | 1.6%  |
| Clawback  | 50.4             | 51.6             | 52.9             | 54.1             | 55.4             | 9.8%                   | 2.4%                          | 4.2%  |
| DSH   | 69.0             | 70.6             | 72.3             | 66.6             | 59.0             | -14.5%                 | -3.8%                         | 5.8%  |
| ACA-MA Population Expansion   | 0.0              | 0.0              | 14.5             | 34.5             | 44.0             | -                      | -                             | 0.0%  |
| <b>Department of Children, Youth &amp; Families</b>                                     |                  |                  |                  |                  |                  |                        |                               |   |
| Children and Family Services  | 91.4             | 94.8             | 99.3             | 103.5            | 107.6            | 17.7%                  | 4.2%                          | 7.7%  |
| <b>Department of Behavioral Healthcare, Developmental Disabilities &amp; Hospitals</b>  |                  |                  |                  |                  |                  |                        |                               |   |
| Developmental Disabilities-Private  | 90.9             | 94.3             | 98.7             | 102.9            | 106.9            | 17.7%                  | 4.2%                          | 7.6%  |
| <b>Other Grants and Benefits</b>  | 96.2             | 98.4             | 100.8            | 103.3            | 105.6            | 9.7%                   | 2.4%                          | 8.1%  |
| <i>Subtotal Grants and Benefits</i>   | <i>\$1,188.5</i> | <i>\$1,247.4</i> | <i>\$1,322.7</i> | <i>\$1,400.0</i> | <i>\$1,473.6</i> | 24.0%                  | 5.5%                          | 100.0%  |
| <b>Total Expenditures</b>   | <b>\$3,445.3</b> | <b>\$3,601.8</b> | <b>\$3,750.6</b> | <b>\$3,914.4</b> | <b>\$4,048.5</b> | <b>17.5%</b>           | <b>4.1%</b>                   | <b>N/A</b>  |

Source: RI Budget Office, FY 2015 Budget as Enacted

projected expenditure levels. However, in terms of magnitude, these two expenditure categories represent only 3.8 percent and 2.0 percent of the overall Grants and Benefits budget, whereas Managed Care is the largest Grants and Benefit expenditure category (as a proportion of total Grants and Benefits spending).

Decisions to alter major Grants and Benefits drivers like Managed Care must carefully consider contextual policy issues. For example, of Grants and Benefits programs, Managed Care serves one of the largest populations of people, yet its cost-per-enrollee is not the highest of Grants and Benefits programs. Also, another factor to consider is that Rhode Island recently opted into, or pursued, major ongoing national healthcare reforms, including Medicaid expansion. The expansion of Medicaid eligibility under the Affordable Care Act; the new enrollees to Medicaid who were eligible under the established Medicaid guidelines; and the enrollment of dual eligible enrollees have increased the state's total Medicaid enrollment, which will ultimately affect out-year expenditures. These examples illustrate the complexity of reducing expenditures, and highlights the need to, moving forward, balance the implications of previous policy decisions with fiscal sustainability.

State Operations (30.8 percent of FY 2015 expenditures as enacted), and Local Aid (14.0 percent of FY 2015 expenditures as enacted but 30.1 percent of only the general fund) also present opportunities for enhanced efficiencies. Policymakers have made improvements over the years, particularly in terms of performance management and modernization of state government. These initiatives should continue, and other options for improving the administrative efficiency of state and

local government should be pursued. Lastly, components of Local Aid should also be reviewed, particularly in light of both: the state aid changes that have been made in recent years (particularly related to the education funding formula); and the opportunities that exist for sharing public services within and across municipalities.

Reducing expenditures by margins significant enough to affect the outer-year projections will require an understanding of policy context and history. Changes should be assessed for how they will affect economic competitiveness and/or fiscal sustainability. Identifying the areas in which Rhode Island's expenditures are outliers compared to other states, should also be a consideration when developing expenditure reforms.

### **Focusing on Economic Growth**

In addition to focusing on the major expenditure drivers, it is also imperative that policymakers build upon the recent, positive changes in the state's economic development policy to encourage continued economic growth. The past two legislative sessions were ripe with improvements to the state's approach to economic development. Specifically, the 2013 legislative session resulted in a series of structural economic development reforms that addressed the need for both short- and long-term change, and the 2014 legislative session resulted in important changes to the state's tax code and workforce development systems. Successful implementation of these laws over the coming months is pivotal. Ultimately, the creation of a new state government presence for commerce, and a revised and rebranded quasi-public economic development agency contributes to a more data-driven, coordinated, and focused approach to economic development in Rhode Island.

## **Conclusion**

The Governor and legislative leaders have made it clear that job creation is a major priority. Accomplishing these goals will require balancing commitments to sustainable fiscal policy with the need for a structurally competitive business climate. This approach necessitates collaboration

between stakeholders across the public, non-profit, and private sectors, and a data-driven, performance-based approach to policymaking. To this end, RIPEC will continue to explore major budget cost drivers; Rhode Island's relative competitive position; and best practices for reducing expenditure growth and promoting economic growth.