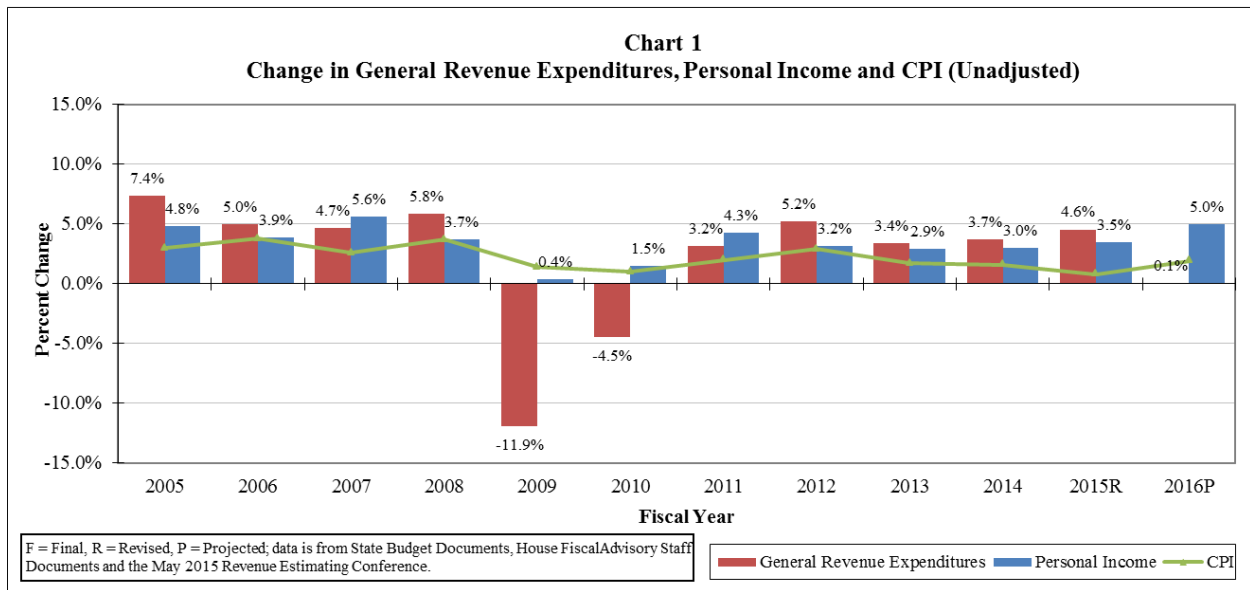


Governor's FY 2016 Budget as Proposed

This RIPEC Comments outlines the Governor's FY 2016 budget request and summarizes key policy issues. The proposed FY 2016 budget includes all funds expenditures of \$8,627.6 million, a decrease of \$152.6 million (1.7 percent) from the FY 2015 enacted budget. FY 2016 general revenue expenditures total \$3,491.6 million in the proposed budget, an increase of \$46.4 million (1.4 percent) from the FY 2015 enacted budget and an increase of \$3.2 million (0.1 percent) from the FY 2015 revised budget.



RIPEC Comments

As the General Assembly considers the Governor's FY 2016 budget proposal, RIPEC believes that there are two primary issues that need to be resolved. The first issue concerns steps that the state can take through the budget process to improve Rhode Island's economic climate and enhance economic development. The second issue relates to steps that can be taken to reduce projected budget deficits in future fiscal years. The short-term budget surplus projected by the May 2015 Revenue and Caseload Estimating Conference (REC/CEC) provides an additional opportunity for policymakers to address each of these issues.

Short-term Budget Surplus

The most recent revenue and expenditure estimates adopted at the May 2015 REC/CEC suggest that the state may have significantly more funds available in FY 2015 and FY 2016 than was anticipated at the time that the Governor's budget proposal was submitted. Compared to the

estimates adopted at the November 2014 REC/CEC, the state is expected to have \$123.7 million more in funds available in FY 2015 (\$106.8 million from higher revenues, \$16.9 million from expenditure reductions) and \$50.0 million in funds available in FY 2016 (\$36.6 million from higher revenues, \$13.4 million from expenditure reductions).

RIPEC believes that the state should utilize an investment-based budget process that seeks to maximize the return on investment when allocating resources. With regards to the surplus funds that are expected to be available to the state, we recommend that two specific areas be prioritized for investment. First, the projected surplus should be used to fund one-time expenses that contribute to economic development in Rhode Island while prioritizing return on investment. Second, the surplus should be used to reduce the state’s projected structural deficit in the outer years. An important qualifier is that policymakers should avoid using surplus funds to establish programs that will require an ongoing financial commitment by the state.

FY 2015	Change
May 2015 REC	\$ 106.8
May 2015 CEC	\$ 16.9
Total	\$ 123.7

FY 2016	Change
May 2015 REC	\$ 36.6
May 2015 CEC	\$ 13.4
Total	\$ 50.0

Note: Change in revenues/expenditures compared to estimates from the November 2014 REC/CEC

SOURCE: May 2015 REC/CEC

Economic Development

In her FY 2016 budget proposal, the Governor recommends a number of economic development initiatives that are intended to increase economic growth in Rhode Island. To fund these initiatives, the Governor proposes refinancing a portion of the state’s existing General Obligation debt to take advantage of low interest rates. As an alternative, RIPEC suggests that the state consider using a portion of the surplus funds available in FY 2015 and FY 2016 to fund economic development initiatives.

The availability of surplus funding in the short-term provides the state with an opportunity to make vital investments in infrastructure, education or other economic development initiatives. It also makes it possible for the state to establish economic development programs, such as those proposed by the Governor, that will provide policymakers with the tools needed to attract and retain businesses. Establishing such programs will help improve Rhode Island’s competitiveness with other states that already have similar incentives. Additionally, the state could explore making needed investments in government infrastructure, such as information technology improvements. As policymakers consider how to allocate the surplus, they should seek to identify projects that maximize the return on investment to the state.

Structural Deficits

Although Rhode Island may currently have a short-term budget surplus, it is also confronted by a long-term, structural deficit in future years. The structural deficit threatens to necessitate future tax increases or spending reductions. The Governor’s FY 2016 budget proposal takes steps to reduce the structural deficit but there are additional steps that can be taken. One possibility may be to continue with the proposed General Obligation debt refinancing but to use the proceeds to

reduce state debt service payments in future years. This would allow the state to take advantage of low interest rates while simultaneously reducing expenditures in future years to help solve the structural deficit. Doing so would help to mitigate the fiscal impact of the proposed pension settlement on outer-year deficits.

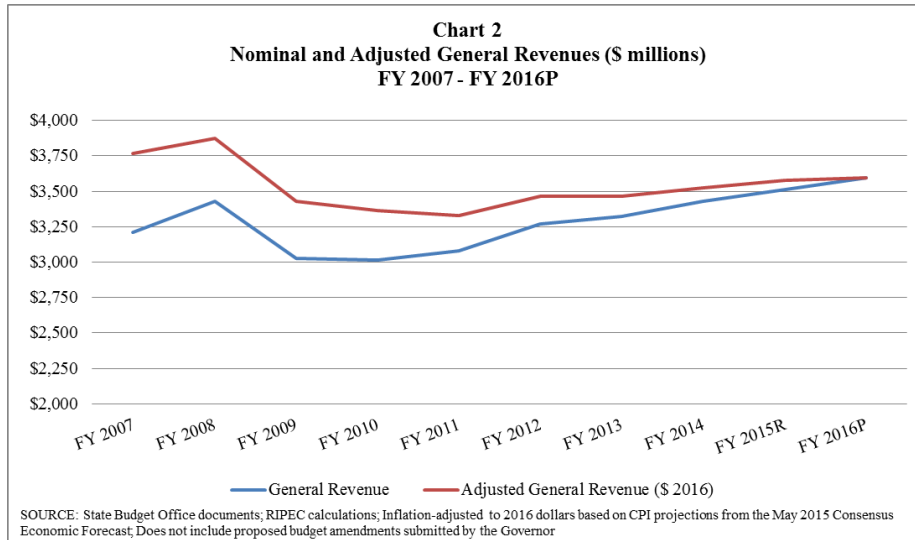
Budget Highlights

The Governor's FY 2016 budget anticipates a FY 2015 \$3.1 million closing surplus – the fifth consecutive year of projected year-end surpluses. The closing surplus for FY 2015 is largely due to a larger-than-anticipated FY 2014 closing, higher-than-expected revenue estimates from the November 2014 Revenue Estimating Conference (REC) and expenditure modifications proposed by the Governor. The FY 2016 budget process began with an anticipated deficit of nearly \$200.0 million, which the Governor proposes resolving through a combination of revenue enhancements and expenditure modifications. Subsequent to the Governor submitting her budget proposal, the May 2015 REC/CEC increased state revenue estimates and decreased expenditure estimates for FY 2015 and FY 2016.

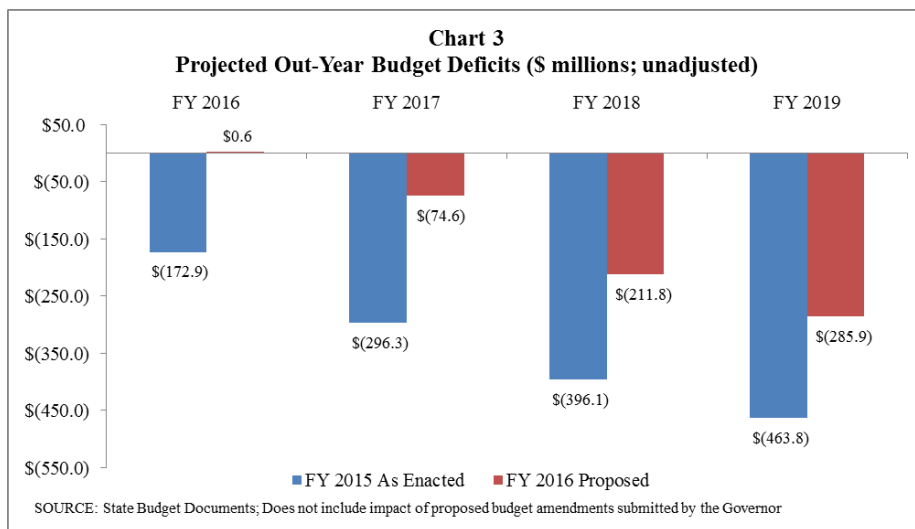
Rhode Island's economy appears to be slowly recovering from the effects of the Great Recession as the unemployment rate decreases and tax revenues increase. However, the decisions made today, as the state adopts a FY 2016 budget, will help create opportunities or barriers for the state's economy as it continues to recover. In her FY 2016 budget submission, the Governor has proposed a number of economic development initiatives that are intended to boost Rhode Island's economy. These initiatives will be discussed at greater length in a separate RIPEC report. Policymakers should be aware of the following proposals and related issues as they consider the FY 2016 budget proposal:

- An economic development package designed to spur economic growth in the state;
- A proposal to refinance the state's existing General Obligation debt to provide funds for the proposed economic development initiatives;
- Proposed reductions in state Medicaid expenditures and other programmatic reforms;
- The use of one-time revenue sources to balance the budget;
- Higher than anticipated revenue collections in FY 2015 and FY 2016;
- Lower than anticipated expenditures on social service programs in FY 2015 and FY 2016;
- The progress of casino gambling in Massachusetts; and
- The outcome of pension reform mediation/litigation.

Although recent revenue and expenditure trends suggest that Rhode Island's economy is continuing to recover from the Great Recession, inflation-adjusted general revenues are still below pre-recession highs. In nominal terms, FY 2016 projected general revenues of \$3,597.1 million have recovered to slightly above FY 2008 levels, as seen in Chart 2. However, inflation-adjusted general revenues for FY 2016 are still 7.1 percent below FY 2008 levels. As a result of continued weakness in Rhode Island's economy, inflation-adjusted general revenues have been virtually flat since FY 2009, with a cumulative increase of just 4.9 percent. Moreover, the state Budget Office projects that general revenue will grow by only 2.1 percent in nominal terms (and substantially less in real terms) between FY 2016 and FY 2020.



In addition to minimal growth in general revenues, five-year projections estimate that state expenditures will increase faster than general revenue collections through at least FY 2020. As illustrated in Chart 3, the Governor’s FY 2016 budget proposal makes some progress in reducing out-year budget deficits. The five-year projection included with the FY 2015 budget as enacted anticipated that deficits would reach \$463.8 million in FY 2019 (the last year in the projection) while the Governor’s FY 2016 budget proposal projects a deficit of \$285.9 million in FY 2019. Although this represents progress in reducing Rhode Island’s structural deficit, it is clear that there is still a structural deficit present in the state’s budget.



Budget Considerations

Numerous economic indicators suggest that Rhode Island is in the process of slowly recovering from the effects of 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 related to the outer years.

Economic Development

The Governor’s FY 2016 budget proposal includes a number of new government programs that are designed to boost economic growth in Rhode Island. These provisions, which have been commonly referred to as economic development tools, are primarily located in Article 29 of the proposed budget. Many of the initiatives proposed by the Governor would be overseen and implemented by the Executive Office of Commerce and the Secretary of Commerce, which are each in their first year of existence following reforms enacted by the General Assembly in 2013.

Rhode Island’s economy has shown some signs of improvement in recent years but the state’s recovery from the Great Recession remains slow and uneven. The most recent Current Economic Indicator briefing released by RIPEC and Bryant University (available [here](#)) found that economic growth in Rhode Island slowed during the fourth quarter of 2014. Although the state has enacted important tax reforms in recent years, including reductions in the corporate income tax and estate tax as well as an overhaul of the individual income tax system, additional action is needed to boost the economy.

Section	Program Title	Description	FY 2016 Cost*	FY 2017 Cost*
1	State Inspections	1. Modifies RI Commerce Corp. Board of Directors; 2. Projects receiving incentives from RI Commerce Corp. are only subject to state building/fire codes and inspections by state officials	\$ 0.3	\$ 0.3
2	Tax Incentive Reporting	Authorizes Secretary of Commerce to promulgate rules & regulations establishing reporting requirements for recipients of certain state incentives	\$ -	\$ -
3	Rebuild RI Tax Credit	Establishes tax credit worth 20% to 30% for real estate projects of at least 25,000 square feet with project costs of at least \$5.0 million and including at least 25 jobs	\$ -	\$ 12.1
4	Tax Increment Financing	Establishes a statewide Tax Increment Financing (TIF) program reimbursing developers for up to 30% of project costs from new tax revenues resulting from the development	\$ -	\$ -
5	Tax Stabilization Incentive	Reimburses municipalities up to 10% of property taxes lost from entering into tax stabilization agreements	\$ -	\$ 0.6
6	First Wave Closing Fund	Provides funding to ensure that certain transactions critical to the state are completed	\$ 5.0	\$ -
7	I-195 Redevelopment Project Fund	Provides funding to promote the development of the former I-195 land	\$ 25.0	\$ -
8	Small Business Assistance Program	Establishes a fund to allow businesses with fewer than 200 employees to gain access to capital	\$ 5.5	\$ -
9	Student Loan Reimbursement Fund	Creates a competitive student loan reimbursement fund for graduates in STEM fields	\$ 2.7	\$ 2.7
10	Main Street RI Streetscape Improvement Fund	Provides funding for improvements to streetscapes such as sidewalks, signage and lighting	\$ 1.0	\$ 1.0
11	Innovation Institute	Establishes a program providing funds for businesses with fewer than 500 employees to purchase research assistance from the state's higher education institutions	\$ 1.0	\$ 1.0
12	Industry Cluster Grants	Provides funding to support activities within industry clusters and to close cluster gaps	\$ 0.8	\$ 1.3
13	Anchor Institution Tax Credit	Establishes a tax credit for businesses that convince other businesses in their supply chain to relocate operations to RI	\$ 1.8	\$ 3.9
Total Article 29 Expenditures			\$ 43.1	\$ 22.9

*General Revenue Expenditures only; in \$ millions
SOURCE: State Budget Documents; House Fiscal Office; Senate Fiscal Office

The proposed economic development initiatives included in the Governor’s budget submission include tax credits, investment funds, grants and loans, an Infrastructure Bank and increased funding for school construction projects. To provide funding for many of these programs, the Governor proposes restructuring the state’s existing General Obligation debt to provide \$83.9 million in available funds over the next two fiscal years (more details are in the next section). Table 2 displays the general revenue expenditures for each program proposed in Article 29 of the Governor’s budget for FY 2016 and FY 2017.

Within the economic development initiatives included in Article 29, the largest portion of funds would be used to establish an I-195 Redevelopment Project Fund. The fund, which would receive \$25.0 million in funds made available through a restructuring of the state’s existing General Obligation debt, would be administered by the I-195 Redevelopment District Commission. The Commission, which oversees the land in downtown Providence made available by the relocation of I-195, would be authorized to use the funding to contribute to capital investment requirements for anchor institutions or “other catalytic project components,” fill project financing gaps, purchase land adjacent to the I-195 land or to finance infrastructure improvements. Use of the fund to finance a stadium or other sporting facility would be prohibited under language included in the Governor’s budget submission.

In addition to the economic development initiatives described above, the Governor also proposes increasing funding for the Rhode Island Commerce Corporation. In the revised FY 2015 budget, the Commerce Corporation had total available funding of \$7.6 million, including \$4.0 million in state appropriations. In FY 2016, the Governor proposes increasing state appropriations to \$11.5 million and redirecting \$6.4 million in state hotel tax revenues to the Commerce Corporation. These changes would provide the Commerce Corporation with total funding of \$20.9 million in FY 2016. The new funds would primarily be used for a \$5.5 million statewide tourism and business marketing campaign and a \$4.2 million Special Projects Fund as well as increased funding for operating expenses.

	FY 2015R	FY 2016P
<i>Opening Balance</i>	\$ 1.5	\$ 1.7
<i>State Appropriations</i>		
Existing Appropriations	\$ 4.0	\$ 7.9
Executive Office of Commerce Program		
Appropriations	-	3.6
<i>Subtotal</i>	\$ 4.0	\$ 11.5
<i>Other Revenues</i>		
Hotel Tax Revenue	\$ -	\$ 6.4
Finance Program Reimbursements	0.7	0.7
Grant Reimbursements	0.8	0.6
Other	0.5	0.1
<i>Subtotal</i>	\$ 2.1	\$ 7.8
Total Funding	\$ 7.6	\$ 20.9

SOURCE: State Budget Documents

Rhode Island government currently lacks many of the economic development tools available to neighboring states and the proposed initiatives are designed to increase the state’s competitiveness in attracting and retaining businesses. A focus on improving and expanding the economic development policy tools available to the state is appropriate given the state’s continued uneven recovery from the Great Recession. However, it is also important to ensure that appropriate checks and balances, such as sufficient legislative oversight and program reporting requirements, exist to protect any financial investment made by taxpayers.

Debt Refinancing

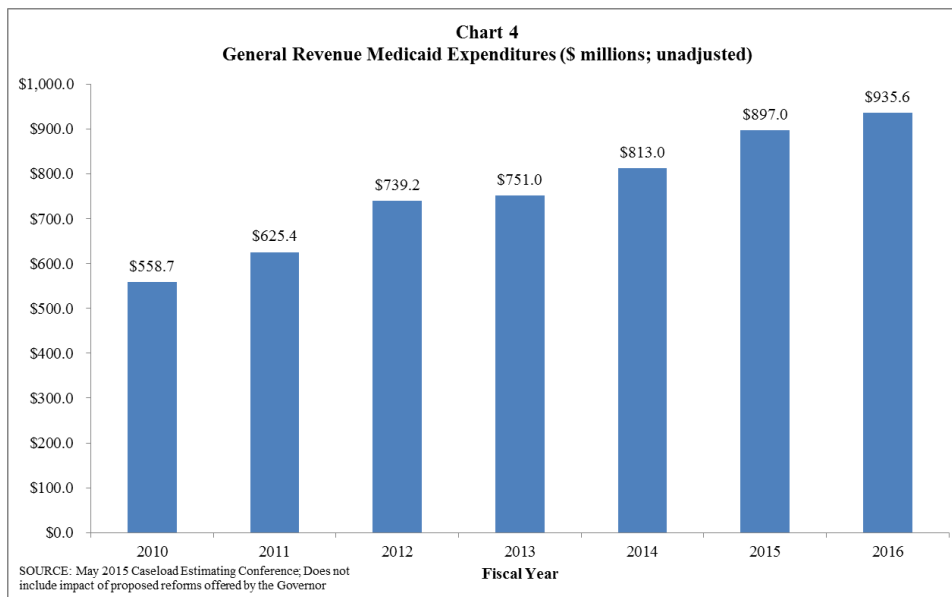
The Governor proposes refinancing Rhode Island’s existing General Obligation debt to fund many of the economic development initiatives included in the FY 2016 budget proposal. Under

the Governor’s proposal, debt payments would be reduced by \$64.5 million in FY 2016 and \$19.4 million in FY 2017 for a combined total of \$83.9 million in newly available funds. Between FY 2016 and FY 2032, state debt service costs would increase by a total of \$13.6 million as a result of the refinancing. However, in net present value terms, the refinancing would result in a total savings for the state of approximately \$0.2 million.

The Governor proposes using the entirety of the \$83.9 million in funds made available over the next two fiscal years to fund the economic development initiatives included in Article 29 and elsewhere in the budget proposal. It is important to remember that these figures represent one model of the costs and savings that would occur from a refinancing of state debt. The actual changes in future debt service resulting from a refinancing will depend on interest rates at the time of the transaction and the amount of debt that is refunded or restructured.

Medicaid Reforms

In her FY 2016 budget proposal, the Governor recommends that significant reforms be made to the Medicaid program. Costs for Medicaid, which accounts for approximately one-quarter of state general revenue expenditures in the FY 2016 proposed budget, have increased rapidly since FY 2010. Between FY 2010 and the Governor’s revised budget for FY 2015, general revenue spending for Medicaid increased by \$338.3 million (60.5 percent). In addition, Rhode Island’s per enrollee costs for Medicaid were the second-highest nationally in FY 2011 according to the Kaiser Family Foundation. Increased expenditures on Medicaid risk potential tax increases or may crowd out government spending on other important priorities, such as education, infrastructure or public safety. In response, the Governor’s budget submission proposes several reforms to Medicaid that are designed to reduce costs. To facilitate this process, the Governor created a Working Group to Reinvent Medicaid by executive order and tasked it with identifying potential savings.



Following the submission of her original budget proposal, the Governor submitted a budget amendment that includes the recommendations outlined in the Working Group to Reinvent Medicaid’s initial report. The updated proposal, which includes the Medicaid expenditure

estimate adopted at the May 2015 CEC, includes a total of \$246.7 million in savings (\$91.3 million general revenue). Of this total, \$105.2 million (\$13.1 million general revenue) results from the May 2015 CEC expenditure revision and \$141.5 million (\$78.2 million general revenue) results from specific programmatic reforms identified in the budget amendment. Many of the recommendations from the Working Group's initial report are incorporated in the amendment are similar to the proposals included in the Governor's original budget submission; Table 4 lists the Medicaid reforms included in the Governor's proposed budget amendment.

Specific reforms to the Medicaid program that are identified in the Governor's budget amendment include (general revenue savings only):

- A revenue increase of \$13.5 million from increasing the Hospital Licensing Fee to 5.846 percent;
- A reduction of \$11.1 million in expenditures by eliminating a scheduled increase in hospital reimbursement rates and then reducing rates by 2.5 percent; and
- A reduction of \$9.3 million in expenditures by eliminating a scheduled increase in nursing facility reimbursement rates and then reducing rates by 2.5 percent.

One-Time Revenue Sources

The Governor's FY 2016 uses a variety of one-time revenue sources to augment normal revenue collections. For example, Article 1 of the budget requires five quasi-public state agencies to transfer a total of at least \$20.7 million in funds from reserve accounts to the General Fund by the end of FY 2016. This includes a transfer of \$11.0 million from the Clean Water Finance Agency, \$5.0 million from the Health and Educational Building Corporation, \$2.8 million from the Narragansett Bay Commission, \$1.5 million from the Resource Recovery Corporation and \$0.4 million from the Airport Corporation.

Relying on one-time revenue sources, such as transfers from agency reserve accounts, represents one way to balance the budget during a single fiscal year but does not reduce out-year structural deficits. In addition, the impact of transferring funds from the reserve accounts of each of the quasi-public agencies identified is unclear. In some instances, quasi-public agencies are directed to transfer funds but subsequently receive separate appropriations. For example, the Governor proposes the creation of a School Building Authority Capital Fund located within the Health and Educational Building Corporation

Table 4
Governor's Proposed Medicaid Reforms (\$ millions)

Budget Amendment Proposal	General Revenue Change*
Suspend hospital reimbursement rate increase and reduce rates by 2.5%	\$ (11.1)
Suspend nursing home reimbursement rate increase and reduce rates by 2.5%; increase bed tax	(11.5)
Increase Hospital Licensing Fee to 5.846%	(13.5)
Pilot hospital-based accountable care org.	(3.0)
Pilot behavioral healthcare-based accountable care org.	(3.0)
Pilot other programs targeting high-risk populations	(2.8)
Expand community-based long-term service/supports	(3.0)
Improve care coordination for children w/ special needs	(2.1)
Payment reform: maternity and childbirth	(1.9)
Refine incentive programs for federally-qualified health centers	(1.7)
Establish lower-cost settings for Eleanor Slater residents	(1.0)
Eliminate Graduate Medical Education pool	(1.0)
All other reforms	(22.6)
Subtotal	\$ (78.2)
May 2015 Caseload Estimating Conference Changes	(13.1)
Total Savings	\$ (91.3)

*Savings compared to November 2014 Caseload Estimating Conference
SOURCE: Senate Fiscal Office

Table 5
Quasi-Public Agency Transfers in the Governor's FY 2016 Budget Proposal (\$ millions)

Agency	Amount
Resource Recovery Corporation	\$ 1.5
Clean Water Finance Agency	\$ 11.0
Narragansett Bay Commission	\$ 2.8
Health and Educational Building Corporation	\$ 5.0
RI Airport Corporation	\$ 0.4
Total	\$ 20.7

SOURCE: State Budget Documents

(RIHEBC) and funded with \$20.0 million from refinancing the state's debt. Similarly, the Governor's budget proposes transforming the Clean Water Finance Agency into an Infrastructure Bank that would fund energy efficiency projects and infrastructure improvements throughout the state. Table 5 displays the agency transfers included in the Governor's FY 2016 budget proposal.

Higher-Than-Anticipated Revenue Collections

As the state considers the Governor's FY 2016 budget proposal, it has received good news in the form of higher than anticipated tax revenues. The May 2015 Revenue Estimating Conference (REC), held during the first two weeks of May, estimated that tax revenues for FY 2015 will exceed the estimate from the previous REC held in November 2014 by \$106.8 million. Similarly, the tax revenue projection for FY 2016 was revised upward by \$36.6 million at the May 2015 REC as compared to the November 2014 REC. The upward revision in both years is primarily the result of a projected increase in personal income and general business taxes compared to the previous estimates. These changes also provide some evidence that there may be some improvement in Rhode Island's economy. Table 6 displays the changes in revenue estimates between the November 2014 REC and May 2015 REC.

Revenue	FY 2014 Audited	Nov-14 REC	FY 2015 May-15 REC	Nov-May Change	Nov-14 REC	FY 2016 May-15 REC	Nov-May Change
Taxes							
Personal Income	\$1,115.5	\$1,167.7	\$1,226.8	\$59.1	\$1,216.6	\$1,228.2	\$11.6
General Business							
Business Corporation	\$114.2	\$112.8	\$143.2	\$30.4	\$119.1	\$138.0	\$18.9
Public Utilities Gross Earnings	101.4	103.6	103.6	0.0	105.0	104.7	(\$0.3)
Insurance Companies	102.4	113.6	123.1	9.5	116.0	126.1	\$10.1
All Other Business Taxes*	61.2	61.7	68.2	6.5	63.3	64.3	\$1.0
<i>Subtotal</i>	\$379.2	\$391.7	\$438.1	\$46.4	\$403.4	\$433.1	\$29.7
Sales and Use Taxes							
General Sales and Use	\$916.1	\$955.0	\$954.0	(\$1.0)	\$1,000.0	\$1,000.0	\$0.0
Motor Vehicle	52.4	49.9	49.9	0.0	39.6	39.1	(\$0.5)
Gasoline	0.5	0.5	(0.2)	(0.7)	0.5	0.5	\$0.0
Cigarettes	139.5	136.8	136.9	0.1	134.2	134.3	\$0.1
Alcohol	18.3	19.0	18.8	(0.2)	13.0	12.4	(\$0.6)
<i>Subtotal</i>	\$1,126.7	\$1,161.2	\$1,159.4	(\$1.8)	\$1,187.3	\$1,186.3	(\$1.0)
Other Taxes	\$52.7	\$36.9	\$41.6	\$4.7	\$29.6	\$31.0	\$1.4
Total Taxes	\$2,674.1	\$2,757.5	\$2,865.9	\$108.4	\$2,836.9	\$2,878.6	\$41.7
Departmental Revenue**	\$360.7	\$349.3	\$349.8	\$0.5	\$199.3	\$194.3	(\$5.0)
Total Taxes & Departmentals	\$3,034.8	\$3,106.8	\$3,215.7	\$108.9	\$3,036.2	\$3,072.9	\$36.7
Other Sources							
Other Miscellaneous	\$6.4	\$7.8	\$9.1	\$1.3	\$1.1	\$1.4	\$0.3
Lottery	376.3	383.3	378.6	(4.7)	334.8	332.5	(\$2.3)
Unclaimed Property	12.7	11.0	12.3	1.3	8.1	10.0	\$1.9
<i>Subtotal</i>	\$395.4	\$402.1	\$400.0	(\$2.1)	\$344.0	\$343.9	(\$0.1)
Total General Revenues	\$3,430.3	\$3,508.9	\$3,615.7	\$106.8	\$3,380.2	\$3,416.8	\$36.6

* Financial Institutions, Bank Deposits and Health Care Provider taxes
** FY 2016 estimated Departmental Revenue does not include the Hospital Licensing Fee, which must be reauthorized every year (estimated \$156.1 million in FY 2016).
Source: November 2014 and May 2015 Revenue Estimating Conference; State Budget documents; RIPEC calculations

Increased revenues in the short-term provide policymakers with the opportunity to potentially make investments in areas that will promote long-term economic growth. For instance, the higher than anticipated revenues could be used to fund some, or all, of the Governor’s proposed economic development initiatives in lieu of the proposed debt refinancing. Alternatively, the revenues could be used to fund infrastructure improvements or improvements in the state’s education and workforce development system. Ideally, unexpected revenues should be used to finance investments in areas that will not require long-term funding commitments so as to avoid worsening the state’s long-term structural deficit.

Decreased Social Service Expenditure Estimates

In addition to higher-than-expected revenue estimates, the May 2015 CEC also revised projected social service expenditures in FY 2015 and FY 2016 downward. For FY 2015, expenditures on Medicaid and cash assistance programs (including Rhode Island Works, Child Care, Supplemental Security Income and General Public Assistance) are now estimated to total \$38.5 million below the enacted budget and \$156.2 million below the November 2014 estimate. However, while general revenue expenditures were revised downward by \$16.9 million compared to the November 2014 estimate, they still total \$20.2 million above the enacted budget. For FY 2016, combined Medicaid and cash assistance expenditures are estimated to total \$106.0 million below the November 2014 estimate. Tables 7 and 8 display the changes in estimated program expenditures between the November 2014 CEC and May 2015 CEC.

	Enacted	FY 2015			Change Enact.-May	FY 2016			FY 2015 -2016 Change
		Adopted Nov-14	Adopted May-15	Adopted May-15		Adopted Nov-14	Adopted May-15	Change Nov.-May	
TANF/RIWP Total	\$ 35.6	\$ 33.3	\$ 31.0	\$ (4.6)	\$ 33.3	\$ 29.2	\$ (4.2)	-5.8%	
Child Care Total	51.1	52.8	53.6	2.5	55.3	58.9	3.7	9.9%	
SSI Total	18.6	18.5	18.2	(0.3)	18.7	18.4	(0.3)	0.9%	
GPA Total	1.4	1.4	1.5	0.0	1.4	1.4	0.0	-0.2%	
Total: Cash Assistance	\$ 106.7	\$ 106.0	\$ 104.3	\$ (2.4)	\$ 108.7	\$ 107.9	\$ (0.8)	3.5%	
<i>Cash Assistance Gen Rev</i>	\$ 29.7	\$ 29.5	\$ 29.3	\$ (0.3)	\$ 29.8	\$ 29.5	\$ (0.3)	0.6%	

SOURCE: RIPEC calculations based on November 2014 and May 2015 Caseload Estimating Conference Data

Although the May 2015 CEC revised projected Medicaid expenditures downward compared to the November 2014 CEC, it is notable that overall expenditures on the program still increase year-over-year. From FY 2015 to FY 2016, total Medicaid expenditures are projected to increase by \$142.0 million (\$38.7 million general revenue), an increase of 6.4 percent (4.3 percent general revenue increase). Much of the growth in Medicaid spending between the two fiscal years is attributable to increasing costs related to the Medicaid expansion authorized under the federal Affordable Care Act. While all expansion costs are currently paid for by the federal government, the state will be responsible for an increasing share of these costs beginning in calendar year 2017.

Table 8
May 2016 Caseload Estimating Conference
Change in Medical Assistance Expenditures (\$ millions)

	FY 2015				Change Enact.-May	FY 2016			FY 2015 -2016 Change
	Enacted	Adopted Nov-14	Adopted May-15			Adopted Nov-14	Adopted May-15	Change Nov.-May	
Hospitals									
Hospitals	\$ 68.3	\$ 78.8	\$ 76.2	\$ 7.9	\$ 80.5	\$ 83.0	\$ 2.5	8.9%	
DSH	138.3	138.3	138.3	-	138.3	138.3	-	0.0%	
<i>Subtotal Hospitals</i>	<i>\$ 206.6</i>	<i>\$ 217.1</i>	<i>\$ 214.5</i>	<i>\$ 7.9</i>	<i>\$ 218.8</i>	<i>\$ 221.3</i>	<i>\$ 2.5</i>	<i>3.2%</i>	
Long-term Care									
Nursing and Hospice Care	\$ 162.1	\$ 176.0	\$ 180.5	\$ 18.4	\$ 191.0	\$ 195.0	\$ 4.0	8.0%	
Home/Community Services	53.8	70.3	70.0	16.2	75.6	73.0	(2.6)	4.3%	
<i>Subtotal Long-term Care</i>	<i>\$ 215.9</i>	<i>\$ 246.3</i>	<i>\$ 250.5</i>	<i>\$ 34.6</i>	<i>\$ 266.6</i>	<i>\$ 268.0</i>	<i>\$ 1.4</i>	<i>7.0%</i>	
Managed Care	\$ 615.4	\$ 636.5	\$ 622.5	\$ 7.1	\$ 660.4	\$ 650.7	\$ (9.7)	4.5%	
Pharmacy	1.4	3.6	(1.0)	(2.4)	4.0	1.9	(2.1)	-290.0%	
Pharmacy Clawback	50.4	50.5	50.2	(0.2)	52.0	53.8	1.8	7.2%	
Other	115.1	114.0	109.5	(5.6)	117.6	113.5	(4.1)	3.7%	
Rhody Health Partners	252.3	280.3	269.0	16.7	301.0	293.4	(7.6)	9.1%	
Rhody Health Options	297.0	277.5	270.7	(26.3)	290.1	275.5	(14.6)	1.8%	
Medicaid Expansion	492.4	539.1	424.6	(67.8)	547.1	474.4	(72.7)	11.7%	
Total: Medical Assistance	\$ 2,246.5	\$ 2,364.9	\$ 2,210.5	\$ (36.0)	\$ 2,457.7	\$ 2,352.5	\$ (105.2)	6.4%	
<i>Medical Assistance Gen Rev</i>	<i>\$ 876.6</i>	<i>\$ 913.7</i>	<i>\$ 897.0</i>	<i>\$ 20.4</i>	<i>\$ 948.7</i>	<i>\$ 935.6</i>	<i>\$ (13.1)</i>	<i>4.3%</i>	
<i>Total Federal Funds*</i>	<i>\$ 1,436.4</i>	<i>\$ 1,517.0</i>	<i>\$ 1,377.7</i>	<i>(\$58.7)</i>	<i>\$ 1,577.3</i>	<i>\$ 1,484.7</i>	<i>(\$92.6)</i>	<i>7.8%</i>	
<i>Total General Revenue*</i>	<i>\$ 906.2</i>	<i>\$ 943.3</i>	<i>\$ 926.4</i>	<i>\$ 20.2</i>	<i>\$ 978.5</i>	<i>\$ 965.1</i>	<i>(\$13.4)</i>	<i>4.2%</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>\$ 10.6</i>	<i>\$ 0.0</i>	<i>0.0%</i>	
TOTAL EXPENDITURES*	\$ 2,353.2	\$ 2,470.9	\$ 2,314.7	\$ (38.5)	\$ 2,566.4	\$ 2,460.4	\$ (106.0)	6.3%	

*Total Cash Assistance and Medical Assistance Expenditures

Source: RIPEC calculations based on November 2014 and May 2015 Caseload Estimating Conference Data

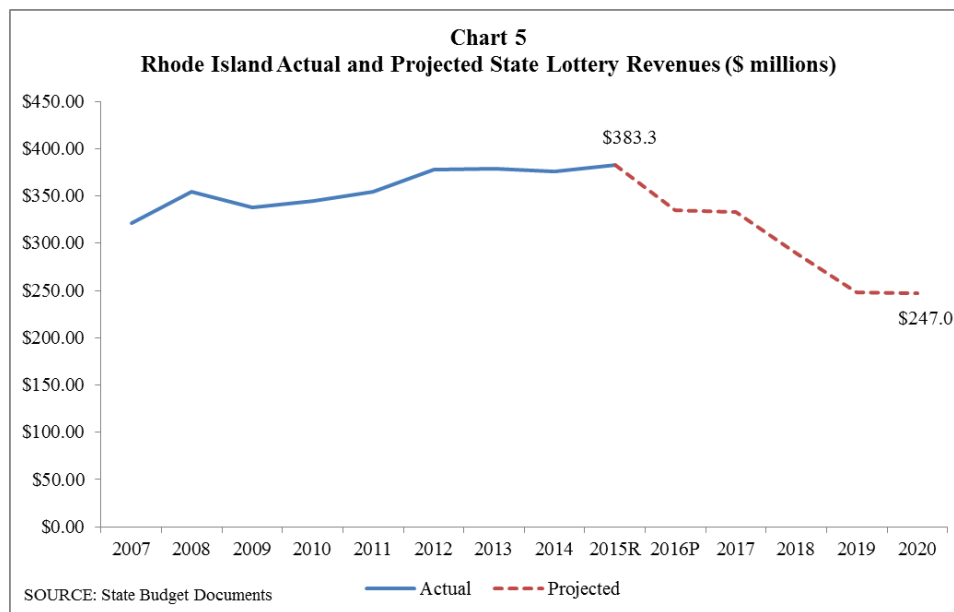
Casino Gambling in Massachusetts

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 Category 1 licenses to MGM for a casino located in Springfield, MA and to Wynn Resorts for a casino in Everett, MA. In addition, 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 process for awarding the final Category 1 license for Region C is ongoing and has been delayed several times.

To estimate the impact of Massachusetts casinos on Rhode Island lottery revenues, the state has commissioned multiple reports from Christiansen Capital Advisors, LLC. The most recent report, presented in November 2014, indicates that the state will experience a significant decline in lottery revenues as a result of the new casinos in Massachusetts. In particular, the casino located in Region C, which is closest geographically to Rhode Island, will draw customers away from Twin River and Newport Grand and result in a substantial decline in state lottery revenues.

The Christiansen report identified Taunton, New Bedford and Fall River as the three most likely locations for a casino in Region C.

The Christiansen report examined the potential revenue loss that Rhode Island may experience as a result of the new Massachusetts casino. In the report, the Springfield and Everett facilities are assumed to open at the beginning at FY 2018 and the Plainville slot parlor is assumed to open at the start of FY 2016. The Region C casino, located in Taunton, New Bedford or Fall River was assumed to open at the start of FY 2019. Depending on the location of the Region C facility, Christiansen estimated that Rhode Island lottery revenues will decline between 36.4 percent and 40.9 percent between FY 2015 and FY 2020. In monetary terms, this represents a revenue loss ranging from \$115.2 million to \$129.3 million.



The Governor’s FY 2016 budget proposal includes a five-year projection that also anticipates a decline in state lottery revenues. The Governor expects that lottery revenues will begin to decline during the upcoming fiscal year, decreasing from \$383.3 million in the FY 2015 revised budget to \$334.8 million in FY 2016. By FY 2020, the five-year projection anticipates that state lottery revenues will decline to \$247.0 million, a decrease of 35.6 percent from the FY 2015 revised budget. Chart 5 displays actual state lottery revenues from FY 2007 to FY 2015 and the Budget Office’s projected lottery revenues from FY 2016 to FY 2020.

State Pension Settlement

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. However, this initial settlement was rejected by a majority of eligible police officers and the parties were directed to resume mediation.

In April 2015, a new settlement agreement between the parties was announced and subsequently approved by six of the nine public employee unions that had filed suit. The settlement is estimated by the state's actuaries to preserve approximately 92 percent of the financial savings that resulted from enactment of RIRSA in 2011. For the settlement to take effect, the General Assembly must approve the terms by enacting legislation implementing the terms. The state's actuaries estimate that if the settlement is adopted and becomes effective at the start of FY 2016, the employer contribution (split between the state and municipalities) to the pension fund will increase by \$31.6 million in FY 2017 (no change in the FY 2016 contribution is anticipated).

FY 2015 Revised and FY 2016 Proposed Budget Summary

FY 2015 Supplemental Budget

The Governor's FY 2015 supplemental budget increases total expenditures by \$59.3 million or 0.7 percent relative to enacted FY 2015 spending. Changes from the FY 2015 enacted budget to the supplemental budget include the following:

- General revenue funds increase by \$43.2 million (1.3 percent);
- Federal funds increase 1.7 percent, or \$54.0 million;
- Restricted receipts decrease by \$4.8 million, or 1.7 percent; and
- All other funds (including the gas tax) decrease 1.7 percent (\$33.1 million).

The FY 2014 closing statements reflect a \$67.8 million closing surplus, \$14.2 million in audit adjustments and a re-appropriated surplus of \$7.4 million. In addition, the November 2014 Revenue Estimating Conference (REC) increased general revenues by an estimated \$15.8 million. The Governor's revised FY 2015 budget includes transferring the Urban Institute Work Support Strategies Grant from general revenue to restricted receipts (for a general revenue reduction of \$0.4 million) as well as a \$1.3 million increase in revenue from National Grid Energy Rebates that the state has qualified for. After the \$1.2 million cash stabilization adjustment, total available general revenues are projected to increase by \$45.7 million relative to the enacted FY 2015 budget. Notably, the Governor's revised budget assumes that surplus revenues from the FY 2014 closing statement will not be transferred to the state pension fund in accordance with current law.

Table 9
FY 2015 Supplemental Budget (\$ millions)

Source of Funds	2015E	2015R	Change
General Revenue	\$ 3,445.2	\$ 3,488.4	1.3%
Federal Funds	3,086.5	3,140.5	1.7%
Restricted Funds	283.1	278.2	-1.7%
Other Funds	1,965.4	1,932.4	-1.7%
Total	\$ 8,780.2	\$ 8,839.5	0.7%

E = Enacted, R = Revised

SOURCE: RIPEC calculations based on House Fiscal Advisory Staff Analysis

Table 10
Changes to FY 2015 Enacted Budget (\$ millions)

	FY 2015 Enacted	FY 2015 Revised	Change
Opening Surplus	\$ 59.2	\$ 67.8	\$ 8.6
Audit Adjustments	-	14.2	14.2
Re-appropriated Surplus	-	7.4	7.4
<i>Subtotal Opening Surplus</i>	<i>\$ 59.2</i>	<i>\$ 89.4</i>	<i>\$ 30.2</i>
Revenues	\$ 3,493.1	\$ 3,493.1	\$ -
November REC Changes to Enacted	-	15.8	15.8
Governor's Changes	-	0.9	0.9
<i>Subtotal Revenues</i>	<i>\$ 3,493.1</i>	<i>\$ 3,509.8</i>	<i>\$ 16.7</i>
Cash Stabilization Fund	\$ (106.6)	\$ (107.8)	\$ (1.2)
Total Available Revenues	\$ 3,445.7	\$ 3,491.5	\$ 45.7
Enacted Expenditures	\$ 3,445.2	\$ 3,445.2	\$ -
November CEC Changes to Enacted	-	37.0	37.0
Reappropriations	-	7.4	7.4
Governor's Changes	-	(1.2)	(1.2)
Total Expenditures	\$ 3,445.2	\$ 3,488.4	\$ 43.2
<i>Total Ending Balance</i>	<i>\$ 0.6</i>	<i>\$ 3.1</i>	<i>\$ 2.5</i>
<i>Transfer to Other Funds</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>
Free Surplus	\$ 0.6	\$ 3.1	\$ 2.5

SOURCE: State Budget Documents; RIPEC calculations

The May 2015 REC increased the total general revenue estimate for FY 2015 by \$106.8 million. Similarly, the May 2015 Caseload Estimating Conference (CEC) reduced projected general revenue expenditures by \$16.9 million. Each of these changes has the effect of reducing the anticipated budget deficit for FY 2015. At the time that this report was released, it was unclear what the impact of these revised projections would be on the proposals made in the Governor's FY 2015 revised budget.

FY 2016 Proposed Deficit Resolution

As of July 2014, the projected FY 2016 deficit was approximately \$172.9 million. Due to the November Revenue Estimating Conference (REC) and the FY 2014 closing totals, this projected deficit increased to approximately \$190.4 million by late November 2014. It should be noted that the May 2015 REC subsequently increased the revenue estimate for FY 2016 by approximately \$36.6 million. At the time that this report was written, it was unclear what impact these additional revenues may have on proposed deficit reduction for FY 2016.

The Governor's FY 2016 budget resolution relies heavily on reduced state expenditures for the Medicaid program, which accounts for 47.5 percent of the total budget solution. Additional expenditure reductions increase the overall share of the budget gap closed by spending modifications to 61.6 percent. The remainder of the Governor's proposed resolution is from revenue modifications, which represent 36.8 percent of the proposed solution. In contrast to budgets from some recent years, only a small component of the budget resolution is attributable to the opening surplus (1.6 percent of the overall solution).

Revenue changes include changes to tax policy and enhanced collections. The budget proposal seeks to delay by one year the transfer of motor vehicle registration fees to the Rhode Island Highway Maintenance Account and would increase cigarette taxes by \$0.25 per pack. The Governor's proposed budget would phase out the sales tax on energy by commercial users over the next five years and exempt Social Security benefits from the state income tax for single filers with a federal adjusted gross income below \$50,000 and for married filers below \$60,000. Finally, the Governor's FY 2016 proposed budget also expands the sales and use tax to hotel resellers, and to bed and breakfasts and timeshares.

The Governor's FY 2016 proposed budget makes a number of expenditure adjustments, with the largest reduction coming from the Medicaid program (\$90.5 million). The Governor's budget proposal identifies \$46.4 million in specific Medicaid spending reductions and tasks the newly established Working Group to Reinvent Medicaid with identifying an additional \$46.0 million in reductions. \$1.9 million in health care provider taxes would be lost as a result of the spending reductions. Following several meetings by the Working Group, the Governor submitted a budget amendment that revises the Medicaid reform proposal to include \$78.2 million in general revenue savings during FY 2016. The Governor's budget proposal would fully fund year 5 of the state education funding formula and provide \$1.4 million for school districts to provide all-day kindergarten.

Table 11
FY 2016 Budget Surplus Statement
as Recommended by Governor

	Amount \$ millions	% of Total
Opening Surplus*	\$ 3.1	1.6%
Revenue Modifications		
Revenue Initiatives**	\$ 70.0	36.8%
Total Revenue Modifications	\$70.0	36.8%
Expenditure Modifications		
Debt Service (excluding restructure)	\$ 11.8	6.2%
Medical Benefits (Medicaid)	90.5	47.5%
Economic Development	(11.4)	-6.0%
Locals	5.2	2.7%
Other Changes	21.2	11.1%
Total: Expenditure Modifications	\$ 117.3	61.6%
Total	\$ 190.4	100.0%

*Net of the Rainy Day Fund Transfer

**Excludes Hospital Licensing Fee

SOURCE: House Fiscal Advisory Staff Documents; RIPEC calculations

The FY 2016 budget as proposed by the Governor would also utilize one-time transfers from state agencies to the general fund totaling \$39.7 million. Among these transfers are \$11.0 million from the Clean Water Finance Agency, \$5.0 million from the Health and Educational Building Corporation, and \$2.8 million from the Narragansett Bay Commission. The Governor's proposed budget would also transfer \$19.0 million in proceeds from a debt restructuring at the Tobacco Settlement Financing Corporation.

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 40.4 percent of all funds in the Governor's FY 2016 budget proposal. The majority of general revenues – approximately 80 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 2015 Revised Revenues

The Governor's FY 2015 revised budget includes a net increase in revenues of 0.5 percent (\$16.7 million) when compared to the FY 2015 enacted budget. The majority of these changes – approximately 95 percent – reflect revisions made during the November 2014 Revenue Estimating Conference (REC). The balance reflects modifications proposed in the Governor's FY 2015 revised budget. These changes include an increase of \$1.3 million resulting from National Grid Energy Rebates that the state qualified for through the replacement of equipment in public buildings and a decrease of \$0.4 million from the transfer of the Urban Institute Work Support Strategies Grant to restricted receipts. The net impact of the two modifications is a revenue increase of \$0.9 million for the state.

Table 12
FY 2015 and FY 2016 Governor's Proposed General Revenue Program (\$ millions)

General Revenues	FY 2014	FY 2015				FY 2016			
	Final	Enacted	Revised	May REC	Change*	Nov REC	Proposed	May REC	Change**
Taxes									
Personal Income Tax	\$1,115.5	\$1,157.1	\$1,167.7	\$1,226.8	6.0%	\$1,216.6	\$1,210.7	\$1,228.2	1.0%
General Business Taxes	379.2	402.4	391.7	438.1	8.9%	403.4	401.9	433.1	7.4%
General Sales & Use Tax	916.0	939.6	955.0	954.0	1.5%	1000.0	1003.4	1000.0	0.0%
Other Sales Taxes (1)	71.2	67.4	69.4	68.5	1.6%	53.1	63.7	52.0	-2.1%
Cigarette Tax	139.5	135.8	136.8	136.9	0.8%	134.2	140.7	134.3	0.1%
Other Taxes	52.7	36.6	36.9	41.6	13.6%	29.6	42.1	31.0	4.7%
<i>Subtotal - Taxes</i>	<i>\$2,674.1</i>	<i>\$2,739.0</i>	<i>\$2,757.5</i>	<i>\$2,865.9</i>	<i>4.6%</i>	<i>\$2,836.9</i>	<i>\$2,862.4</i>	<i>\$2,878.6</i>	<i>1.5%</i>
Department Receipts (2)	\$360.7	\$351.7	\$348.9	\$349.8	-0.5%	\$199.3	\$351.0	\$194.3	-2.5%
Other Sources (3)	395.4	402.5	403.4	400.0	-0.6%	344.0	383.7	343.9	0.0%
Total Revenues	\$3,430.3	\$3,493.1	\$3,509.8	\$3,615.7	3.5%	\$3,380.2	\$3,597.1	\$3,416.8	1.1%

*Change from Enacted Budget to May 2015 REC.

**Change from November 2014 REC to May 2015 REC.

(1) Motor vehicle, motor fuel and alcohol sales taxes

(2) Department Receipts for Nov. REC do not include hospital licensing fee

(3) Includes lottery, unclaimed property and other miscellaneous

Source: State Budget Office documents, RIPEC calculations

The May 2015 REC met subsequent to the Governor's original budget proposal and revised the general revenue estimates for FY 2015 and FY 2016 upwards. For FY 2015, the revised general revenue estimate is \$106.8 million above the estimate from the November 2014 REC and \$122.6 million above the estimate in the enacted budget. Compared to the enacted budget, the May 2015 REC estimates an increase of \$69.7 million in personal income tax collections, \$35.7 million in general business tax collections and \$14.4 million in general sales and use tax collections. It should be noted that the REC bases its revenue estimates on current law; as a result, direct comparisons between the revenue estimates from the May 2015 REC and the Governor's FY 2015 revised budget (which proposes revenue modifications) should be avoided.

FY 2016 Proposed Revenues

General revenues in the Governor's FY 2016 proposed budget increase by 6.4 percent (\$216.9 million) when compared to the November 2014 REC. However, it should be noted that the REC estimates do not include the hospital licensing fee of \$156.1 million, as this payment must be reauthorized every year. Subsequent to the Governor's budget proposal being submitted, the May 2015 REC revised estimated FY 2016 general revenues upwards by \$36.6 million. The overall revenue increase in the Governor's budget proposal is primarily attributable to changes in tax policy and enhanced enforcement of existing taxes. Among other tax changes, some proposed changes include:

- An additional \$6.5 million resulting from an increase in the cigarette excise tax and cigarette floor stock tax;
- An increase of \$5.4 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;
- A decrease of \$3.9 million resulting from exempting Social Security benefits from the state income tax for single filers with a federal adjusted gross income (AGI) below \$50,000 and for married filers with a federal AGI below \$60,000;
- A reduction of \$4.9 million in tax revenue resulting from a phase-out of the sales tax on commercial energy purchases; and
- A decrease of \$3.0 million in revenue resulting from an expansion of the state's Earned Income Tax Credit.

2016 Proposed Tax Changes

The Governor's FY 2016 budget proposal includes a number of provisions designed to increase state tax revenue; these changes are projected to result in a net tax revenue increase of \$25.5 million compared to November 2014 REC estimates. As a result of proposals included in the Governor's budget submission, personal income taxes are projected to generate \$5.9 million (0.5 percent) less in revenue than the November 2014 REC projection. Additionally, a proposed statewide property tax on non-owner occupied residences and vacant residential land with an assessed value at or above \$1.0 million is projected to generate \$11.8 million in revenue (the Governor has subsequently indicated that she does not support moving forward with this proposal). The Governor also proposes delaying by one year the transfer of motor vehicle fees to the Rhode Island Highway Maintenance Account; doing so would provide \$13.2 million in general revenue.

Personal Income Tax Changes

The Governor’s FY 2016 budget proposal includes two changes to the state’s personal income tax system as well as a provision to increase income tax compliance. The first proposed income tax modification would exempt Social Security benefits for individuals with a federal AGI below \$50,000 and for married couples with an AGI below \$60,000. This change would cost the state approximately \$3.9 million in tax revenue.

The second change proposed by the Governor would expand the state’s Earned Income Tax Credit (EITC) from 10.0 percent to 12.5 percent of the federal EITC in tax year 2016. The budget proposal also indicates that the Governor intends to submit a future proposal increasing the state EITC to equal 15.0 percent of the federal EITC.

The Governor’s budget proposal also would allow the Division of Taxation to enter into contingent fee contracts for implementation of compliance programs, increasing income tax collections by \$1.0 million. Overall, the three proposed changes would result in a decrease of \$5.9 million in personal income tax revenue.

General Business Tax Changes

The Governor’s FY 2016 proposed budget includes two modifications to general business tax collections. The first of these changes involves repealing the Enterprise Zone wage tax credit in current law. This is projected to result in an increase of \$0.4 million in business corporations tax revenues.

The second proposed change in the Governor’s budget submission relates to the reduced Medicaid expenditures included elsewhere in the budget. As a result of reduced expenditures on the program, the Governor’s budget anticipates that the state will lose about \$1.9 million in revenue from the insurance companies gross premium tax and the health care provider assessment.

	Proposed
Personal Income Tax	
Exempt Taxable Social Security Benefits (1)	\$ (3.9)
Contingency Fee Contract for Increased Tax Compliance	1.0
Increased Allowable Percentage of Federal EITC	(3.0)
<i>Subtotal</i>	<i>\$ (5.9)</i>
General Business Taxes	
Elimination of Enterprise Zone Wage Tax Credit	\$ 0.4
Reduced Revenues from Decreased Medicaid Expenditures	(1.9)
<i>Subtotal</i>	<i>\$ (1.5)</i>
Sales & Use Taxes	
Phase-out of Sales Tax on Commercial Use of Utilities	\$ (4.9)
Expand Sales Tax to Rental of Vacation Homes and Others	5.4
Impose Sales Tax on Final Retail Price for On-line Room Resellers	0.8
Impose Sales Tax on Unlicensed Rentals for Lodging	0.9
Increased Sales Tax on Cigarettes from Excise Tax Increase	0.7
Taxation Self-Audit Program	0.5
<i>Subtotal</i>	<i>\$ 3.4</i>
Motor Vehicle License and Registration Fees	
Delay License Plate Reissuance to Sep. 2016	\$ (2.6)
Suspend Transfer of Motor Vehicle Fees to RI Highway Account	13.2
<i>Subtotal</i>	<i>\$ 10.6</i>
Cigarette Tax	
Increase Cigarette Excise Tax	\$ 5.9
Cigarette Floor Stock Tax Increase from Excise Tax Increase	0.6
<i>Subtotal</i>	<i>\$ 6.5</i>
Other Taxes	
Controlling Interest Transfer Tax for Real Estate Holdings	\$ 0.7
Statewide Property Tax on Second Homes Assessed \$1.0m or more (2)	11.8
<i>Subtotal</i>	<i>\$ 12.5</i>
Total Proposed Tax Changes	\$ 25.5
(1) For federal AGI of \$50,000 or less for single filers and \$60,000 or less for married or joint filers	
(2) Governor has withdrawn support for this proposal	
Source: State Budget Office documents, RIPEC calculations	

Sales and Excise Tax Changes

The Governor's FY 2016 budget proposal makes several changes to the state's sales and excise taxes. The first change would begin to phase-out the sales tax currently applied to energy purchases by commercial users. The phase-out, which would occur in even increments over the next five fiscal years, would result in a revenue reduction of \$4.9 million in FY 2016. Manufacturing businesses are currently exempt from paying the sales tax for utility purchases but other businesses are not. The proposed modification would exempt purchases of electricity, natural gas, and heating fuels by commercial enterprises.

The Governor also proposes expanding the sales tax to include rentals of vacation homes and bed and breakfasts with fewer than three rooms to rent. Additionally, the sales tax would be expanded to include online resellers of lodging accommodations and unlicensed rentals. Along with the sales tax expansion, the Governor also proposes amending the distribution of the state hotel tax to transfer these funds to the Rhode Island Commerce Corporation. The net impact of the proposed sales tax changes relating to lodging would be an increase of \$3.3 million in general revenue.

Motor Vehicle Fee Changes

The Governor's FY 2016 proposed budget makes two changes relating to motor vehicle fees. First, the Governor proposes a one-year delay in the transfer of motor vehicle license and vehicle registration fees to the Rhode Island Highway Maintenance Account. The FY 2015 budget as enacted required that 25.0 percent of these fees be transferred to the account for road and bridge maintenance in FY 2016. Delaying the transfer by one year would result in \$13.2 million in available general revenues. To replace these funds, the Governor proposes dedicating an additional \$20.0 million in funds from the Rhode Island Capital Plan Fund (RICAP) for transportation projects. Additionally, the Governor proposes delaying the Division of Motor Vehicles plate reissuance program until September 2016, reducing motor vehicle operator license and vehicle registration fees by \$2.6 million. The net impact of these two modifications is an increase of \$10.6 million in general revenues.

Cigarette Tax Changes

The Governor's FY 2016 budget submission proposes to increase the cigarette excise tax by \$0.25 per pack, from \$3.50 to \$3.75 per pack of twenty cigarettes. This proposal is estimated to increase tax revenues by \$5.9 million. In addition, the cigarette floor stock tax, which applies the higher excise tax to packs of cigarettes already available for sale, would generate an additional \$0.6 million as a result of this change. Finally, the higher cost of cigarettes resulting from the excise tax increase would increase sales tax revenue by \$0.7 million. Therefore, the net impact of increasing the cigarette excise tax is projected to total \$7.1 million.

Other Tax Changes

The Governor's original FY 2016 proposed budget includes two additional tax modifications. The first of these changes is a proposal to levy a statewide property tax on non-owner occupied residences and vacant residential land assessed at or above \$1.0 million. This tax would be equal to \$2.50 per \$1,000 of assessed value. The Governor's budget proposal estimates that the tax would generate an additional \$11.8 million in revenue. Subsequent to the budget proposal being submitted to the General Assembly, the Governor indicated that she no longer supports moving forward with this proposed tax.

The final tax change in the Governor’s FY 2016 budget submission involves closing a loophole in the real estate conveyance tax that allows the seller in a transaction to avoid the tax by selling a controlling interest in a business entity that owns property without actually transferring the property to the new owner. The budget anticipates that closing this loophole will increase revenues by \$0.7 million.

Expenditure Summary

As proposed, the Governor’s FY 2016 budget includes all funds expenditures of \$8,627.6 million, a 1.7 percent (\$152.6 million) decrease from the FY 2015 enacted budget. The budget includes projected increases in expenditures for personnel (\$47.4 million), local aid (\$26.9 million), and operating transfers (\$68.2 million) totaling \$142.5 million in increases. The budget proposal also includes decreased expenditures for operating expenses (\$38.4 million), grants and benefits (\$84.9 million), capital expenses (\$95.2 million) and capital debt services (\$76.7 million). The proposed 39.1 percent increase in operating transfers represents the largest percent increase in spending by category between the FY 2015 enacted and FY 2016 proposed budgets.

In terms of state spending by fund, general revenue expenditures of \$3,491.6 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 \$3,003.1 million are 34.8 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 21.9 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 2.7 percent of the total FY 2016 proposed state budget. Table 14 displays state expenditures by category (i.e. personnel, local aid, grants and benefits, etc.) as well as by funding source.

By Category	2006	2015E	2015R	2016P	2015E-16P Change
Personnel*	\$ 1,485.4	\$ 1,862.1	\$ 1,944.4	\$ 1,909.5	\$ 47.4
Operating	611.6	795.8	799.6	757.4	(38.4)
Local Aid	1,189.1	1,205.2	1,198.2	1,232.1	26.9
Grants & Benefits	2,714.8	4,069.2	4,112.9	3,984.3	(84.9)
Capital	221.9	411.1	361.2	315.9	(95.2)
Capital Debt Service	151.4	279.0	248.7	202.4	(76.6)
Operating Transfers	133.4	157.8	174.6	226.0	68.2
Total	\$ 6,507.5	\$ 8,780.2	\$ 8,839.6	\$ 8,627.6	\$ (152.6)
By Fund	2006	2015E	2015R	2016P	Change
General Revenue	\$ 3,073.4	\$ 3,445.2	\$ 3,488.4	\$ 3,491.6	\$ 46.4
Federal Funds	1,981.3	3,086.5	3,140.5	3,003.1	(83.4)
Restricted Funds	97.6	283.1	278.2	239.4	(43.7)
Other Funds	1,355.2	1,965.4	1,932.4	1,893.5	(71.9)
Total	\$ 6,507.5	\$ 8,780.2	\$ 8,839.5	\$ 8,627.6	\$ (152.6)

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

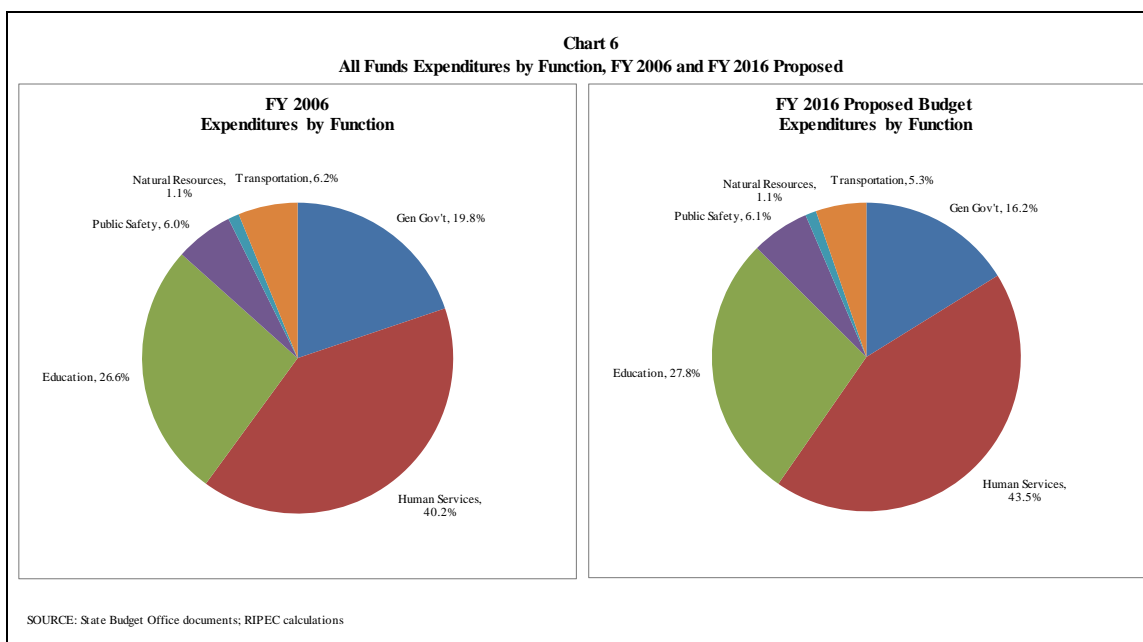
Source: RIPEC calculations based on House Fiscal Advisory Staff Analysis

All Funds Expenditures

Rhode Island allocates expenditures by both function and category. Function indicates spending by agencies with similar programs and purposes and includes general government, human services, education, public safety, natural resources, and transportation. Chart 6 displays state expenditures by function from all funding sources for FY 2006 and the Governor’s FY 2016 proposed budget. Between FY 2006 and the Governor’s FY 2016 budget proposal, state spending has increased in the human services, education and public safety functions as a share of

overall expenditures while it has decreased in the transportation and general government functions. Natural resources expenditures remained constant at 1.1 percent of overall state spending in both years. Notable changes in expenditures by function include:

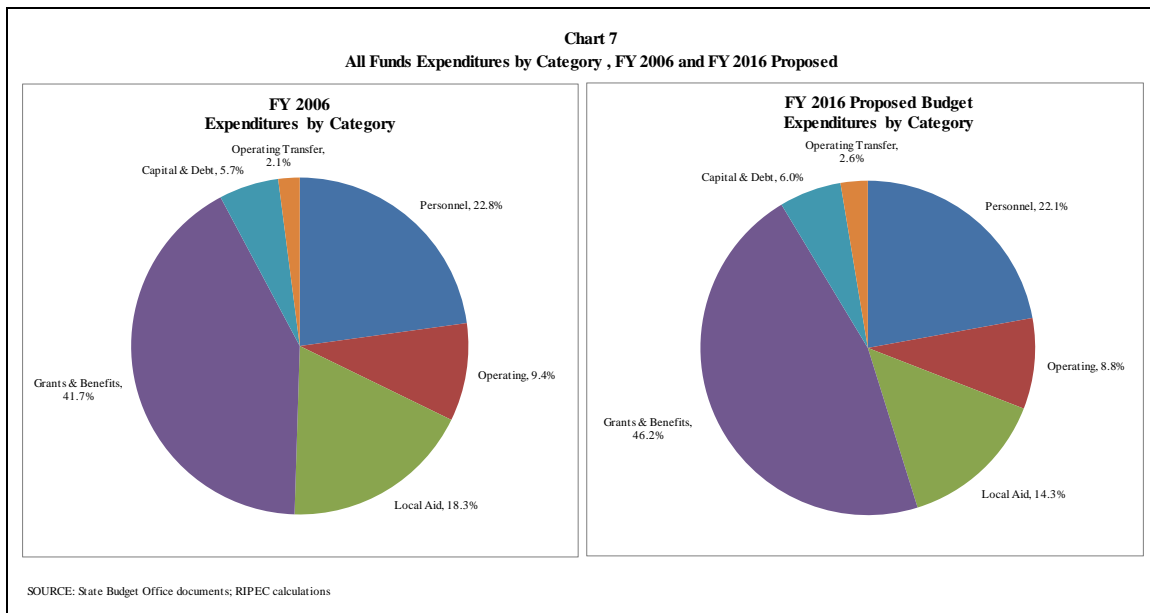
- Human services expenditures, which include spending on entitlement programs (e.g., supplemental security income, cash assistance and medical assistance), elderly services, state hospitals, etc., represent the largest share of total proposed FY 2016 expenditures (\$3,751.3 million, 43.5 percent). Between FY 2006 and FY 2016 (as proposed), expenditures on the human services function have increased from 40.2 percent to 43.5 percent of total state spending.
- The proposed \$2,399.6 million in education expenditures (i.e., elementary and secondary education, higher education, arts, and historical preservation and heritage) represents the second largest function as a percentage of overall state spending. Expenditures in the education function have increased from 26.6 percent to 27.8 percent of total spending between FY 2006 and FY 2016 (as proposed).
- Proposed general government expenditures, that is, spending for programs that support all other functions including general government type activities, account for 16.2 percent of FY 2016 proposed expenditures. This is a decrease from FY 2006, when general government accounted for 19.8 percent of state spending.
- State spending on the transportation function has decreased from 6.2 percent to 5.3 percent of overall expenditures between FY 2006 and FY 2016 (as proposed).



Expenditures are also allocated by accounting categories that reflect spending by budgeting and accounting objects regardless of which agency or department purchased it. The categories used by the state are personnel, operations, local aid, grants and benefits, capital, debt service and operating transfers. Between FY 2006 and the Governor's FY 2016 budget proposal, state expenditures on grants and benefits, capital and debt service and operating transfers increased while expenditures on personnel, operating expenses and local aid decreased.

As shown in Chart 7:

- The Grants and Benefits category represented the largest share of the state budget in FY 2006 and continues to represent the largest share in the Governor’s FY 2016 budget proposal. Spending on this category, which includes payments to individuals and agencies which are not governmental entities, has increased as a percentage of total state spending between FY 2006 and FY 2016 (as proposed). In FY 2006, the Grants and Benefits category accounted for 41.7 percent of all state spending; in FY 2016 (as proposed), this category accounts for 46.2 percent.
- Personnel accounts for the second largest share of state expenditures by category. The percentage of state spending on the Personnel category has remained relatively stable over the past decade (22.8 percent in FY 2006, 22.1 percent in FY 2016 as proposed).
- Local aid, which includes education aid and other direct assistance to municipalities, accounts for the third-largest share of state expenditures. The local aid category has declined as a share of state expenditures between FY 2006 and FY 2016 (as proposed). In FY 2006, local aid accounted for 18.3 percent of state spending but represents 14.3 percent of total expenditures in the Governor’s FY 2016 budget proposal.
- The other three categories of state expenditures, operating expenses, capital and debt service, and operating transfers, remained stable between FY 2006 and FY 2016 (as proposed).

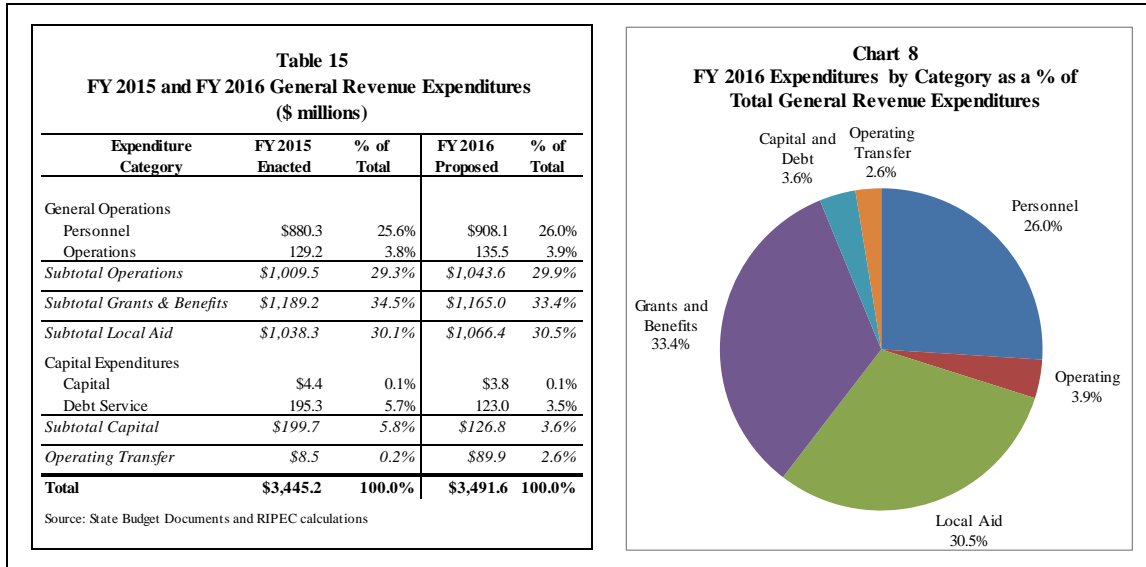


General Revenue Expenditures

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 expenditures). Proposed FY 2016 general revenue expenditures of \$3,491.6 million are 1.4 percent greater than FY 2015 enacted general revenue expenditures and 0.1 percent greater than the FY 2015 revised budget. The primary drivers of the increase in general revenue expenditures between the FY 2015 enacted budget and FY 2016 proposed budget are operating transfers (\$81.4 million), personnel and operations (\$34.1 million) and local aid (\$28.1 million). By

contrast, capital expenditures (including debt service) decrease by \$72.9 million and grants and benefits decrease by \$24.2 million.

As Table 15 and Chart 8 demonstrate, grants and benefits represent the largest percentage of total general revenue expenditures. In the Governor’s FY 2016 budget proposal, they represent 33.4 percent of total general revenue expenditures. Local aid accounts for the next largest percentage of general revenue expenditures (30.5 percent) while general operations, including personnel and other operating expenses, account for the third-largest percentage (29.9 percent).



- Proposed grants and benefits spending of \$1,165.0 million accounts for 33.4 percent of total FY 2016 proposed general revenue expenditures. Proposed FY 2016 expenditures in this category are 2.0 percent (\$24.2 million) below the FY 2015 enacted budget.
- Spending on personnel and operating expenditures accounts for 29.9 percent of the FY 2016 proposed general revenue budget. The proposed \$1,043.6 million in general revenues expenditures is 3.4 percent (\$34.1 million) greater than the FY 2015 enacted budget.
- Proposed local aid expenditures increase from \$1,038.3 million in the FY 2015 enacted budget to \$1,066.4 million in FY 2016, an increase of 2.7 percent (\$28.1 million). Local aid accounts for 30.5 percent of the total FY 2016 proposed general revenue budget.
- Total proposed general revenue expenditures for capital and debt service decrease 36.5 percent, from \$199.7 million in the FY 2015 enacted budget to \$126.8 million in the FY 2016 proposed budget.
- The FY 2016 proposed budget includes an increase in general revenue-supported operating transfer expenditures of 957.7 percent from \$8.5 million in FY 2015 to \$89.9 million in FY 2016.

Budget Drivers

Overview

Table 16 outlines total inflation-adjusted expenditures between FY 2006 and FY 2016 (as proposed) by expenditure category and select subcategories. As shown in 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 section provides a summary of expenditure highlights by category and notes areas of budget growth over the past decade.

General Operations

- Proposed expenditures for FY 2016 general operations (personnel and other state operations) of \$2,666.9 million are 5.5 percent (\$138.0 million) greater than adjusted FY 2006 expenditures. Together, these two categories account for 17.7 percent of the total adjusted growth in expenditures between FY 2006 and FY 2016 (as proposed).
- Since FY 2006, retirement costs for state personnel have increased at a faster rate than any other personnel expenditure (adjusted percentage change of 24.3 percent) and have increased by \$66.4 million on an unadjusted basis.
- Although expenditures on general operations have increased on an adjusted basis, they account for a slightly smaller share of total state spending in the Governor’s FY 2016 budget proposal than in FY 2006 (30.9 percent in FY 2016, 32.2 percent in FY 2006)

Expenditure Category	FY 2006		FY 2016 Proposed		Actual Increase	Percent Change	Share of Increase
	Actual	% of Total	Base	% of Total			
General Operations							
Personnel	\$ 1,791.3	22.8%	\$ 1,909.5	22.1%	\$ 118.2	6.6%	15.2%
Operations	737.6	9.4%	757.4	8.8%	19.8	2.7%	2.5%
Subtotal - Operations	\$ 2,528.9	32.2%	\$ 2,666.9	30.9%	\$ 138.0	5.5%	17.7%
Grants & Benefits							
Income Support (TDI & Employ)	\$ 479.9	6.1%	\$ 613.3	7.1%	\$ 133.4	27.8%	17.1%
Medical Assistance - Mgd Care*	509.9	6.5%	553.0	6.4%	43.1	8.5%	5.5%
Medical Assistance - All Other*	996.9	12.7%	1,829.9	21.2%	833.0	83.6%	107.0%
Development Disabilities	293.8	3.7%	226.8	2.6%	(66.9)	-22.8%	-8.6%
Child Welfare	205.5	2.6%	168.6	2.0%	(36.9)	-17.9%	-4.7%
TANF	81.1	1.0%	33.3	0.4%	(47.8)	-58.9%	-6.1%
Child Care	93.8	1.2%	55.3	0.6%	(38.6)	-41.1%	-5.0%
SSI	32.6	0.4%	18.7	0.2%	(13.9)	-42.6%	-1.8%
Higher Education	149.4	1.9%	302.8	3.5%	153.4	102.7%	19.7%
Other Grants & Benefits	431.1	5.5%	182.6	2.1%	(248.6)	-57.7%	-31.9%
Subtotal - Grants & Benefits	\$ 3,274.0	41.7%	\$ 3,984.3	46.2%	\$ 710.3	21.7%	91.2%
Local Aid							
Education Aid	\$ 984.3	12.5%	\$ 1,026.1	11.9%	\$ 41.8	4.2%	5.4%
Motor Vehicle Phase-out	142.0	1.8%	10.0	0.1%	(132.0)	-93.0%	-17.0%
General Revenue Sharing	78.4	1.0%	-	0.0%	(78.4)	-100.0%	-10.1%
PILOT	32.5	0.4%	35.1	0.4%	2.5	7.8%	0.3%
Incentive Aid	-	0.0%	5.3	0.1%	5.3	-	0.7%
Federal Aid	134.7	1.7%	86.4	1.0%	(48.3)	-35.9%	-6.2%
Other**	63.0	0.8%	69.2	0.8%	6.2	9.8%	0.8%
Subtotal - Local Aid	\$ 1,434.0	18.3%	\$ 1,232.1	14.3%	\$ (202.9)	-14.1%	-26.1%
Capital Expenditures							
Capital Expenditures	\$ 267.6	3.4%	\$ 315.9	3.7%	\$ 48.3	18.0%	6.2%
Debt Service	\$ 182.5	2.3%	\$ 202.4	2.3%	\$ 19.9	10.9%	2.6%
Subtotal - Capital	\$ 450.2	5.7%	\$ 518.3	6.0%	\$ 68.1	15.1%	8.8%
Operating Transfer							
	\$ 160.9	2.1%	\$ 226.0	2.6%	\$ 65.1	40.5%	8.4%
Total	\$ 7,848.0	100.0%	\$ 8,627.6	100.0%	\$ 778.7	9.9%	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.

Note: Inflation-adjusted to 2016 Dollars based on CPI projections from the May 2015 Consensus Economic Forecast

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

Grants and Benefits

- The grants and benefits category is the largest contributor to the increase in total state expenditures between FY 2006 and FY 2016 (as proposed). Between the two fiscal years, inflation-adjusted expenditures in this category have increased by \$710.3 million (21.7 percent).
- Growth in grants and benefits between FY 2006 and FY 2016 (as proposed) is driven by the Medical Assistance (Medicaid) program; adjusted expenditures on the program (including managed care and all other) increased by \$876.1 million (58.1 percent).
- In the Governor's FY 2016 budget proposal, the Medicaid program accounts for 27.6 percent of total state expenditures. In FY 2006, Medicaid accounted for 19.2 percent of total state spending.
- Adjusted spending on state income support programs (such as the Temporary Disability Insurance program) increased by \$133.4 (27.8 percent) between FY 2006 and FY 2016 (as proposed).
- State spending on higher education grants and benefits has increased by \$153.4 million (102.7 percent) on an adjusted basis between FY 2006 and FY 2016 (as proposed).
- Adjusted expenditures on the Temporary Assistance for Needy Families (TANF) program declined by \$47.8 million (58.9 percent) between FY 2006 and FY 2016 (as proposed).

Local Aid

- Local aid expenditures declined 14.1 percent (\$202.9 million), when adjusted for inflation, between FY 2006 and FY 2016 (as proposed). Adjusted FY 2006 local aid spending accounted for 18.3 percent of total expenditures, while FY 2016 local aid accounts for 14.3 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 \$210.4 million (adjusted) since FY 2006.
- Education aid to local governments has increased by 4.2 percent (\$41.8 million), on an adjusted basis, over the past decade. In unadjusted dollars, local education aid increased \$209.9 million (25.7 percent) during the same time period.
- Adjusted expenditures on the Payment-in-Lieu-of-Taxes (PILOT) program increased by \$2.5 million (7.8 percent) between FY 2006 and FY 2016 (as proposed).
- On an adjusted basis, federal aid decreased by \$48.3 million (35.9 percent) between FY 2006 and FY 2016 (as proposed).

Capital, Debt and Operating Transfers

- The remaining categories, which include capital expenditures, debt service and operating transfers account for 8.6 percent of total FY 2016 proposed expenditures.
- Adjusted spending on capital and debt service increased by \$68.1 million (15.1 percent) between FY 2006 and FY 2016 (as proposed).
- Proposed FY 2016 capital and debt expenditures of \$518.3 million represent 6.0 percent of the total budget, compared to adjusted FY 2005 spending of \$450.2 million (5.7 percent of the budget).
- Operating transfers account for 2.6 percent of the FY 2016 proposed budget (\$226.0 million), compared to adjusted FY 2006 spending when they accounted for 2.1 percent of

the budget (\$160.9 million). The increase is primarily attributable to the transfer of funds from the proposed debt refinancing to the Rhode Island Commerce Corporation.

Personnel

Proposed FY 2016 personnel expenditures total \$1,953.8 million, a decrease of \$32.5 million (1.6 percent) compared to the Governor’s revised FY 2015 budget. When compared to the FY 2006 budget without adjusting for inflation, total personnel expenditures increased by \$391.1 million, an unadjusted increase of 25.0 percent. During this time, the unadjusted average cost per full-time employee (FTE) has increased 26.2 percent, from \$79,378 in FY 2006 to \$100,139 in FY 2016 (as proposed).

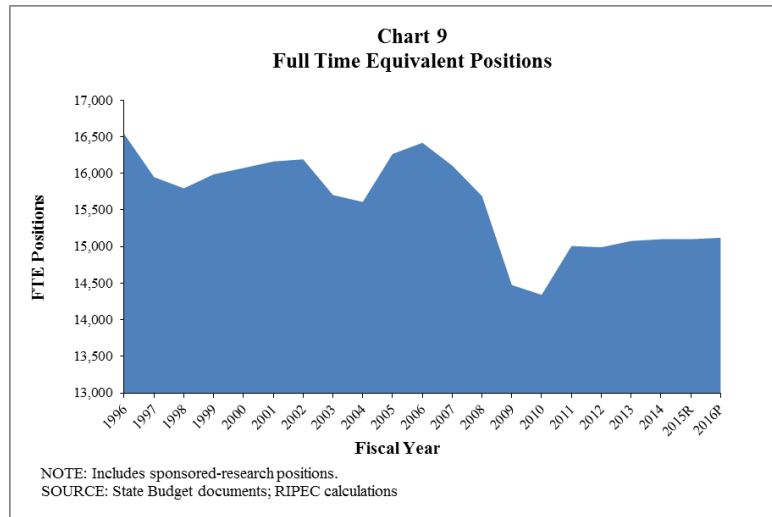
Personnel Costs (Millions)	FY 2006 Actual	FY 2015 Revised	FY 2016 Proposed	FY 2015 Revised - FY 2016	
				Actual Change	Percent Change
Salaries & Benefits					
Net Salaries	\$ 876.3	\$ 988.4	\$ 1,004.4	\$ 16.0	1.6%
Adjustment for Temp	(74.7)	(88.9)	(88.5)	0.4	-0.5%
Overtime	54.3	61.1	58.8	(2.3)	-3.8%
Retirement (1)	127.7	189.1	194.0	5.0	2.6%
Medical	174.4	186.6	195.5	8.8	4.7%
Retiree Health (OPEB) (2)	-	55.9	50.4	(5.5)	-9.9%
Other Benefits/Payroll (3)	83.0	98.7	99.4	0.7	0.8%
<i>Salaries & Benefits</i>	<i>\$ 1,240.9</i>	<i>\$ 1,490.9</i>	<i>1,514.0</i>	<i>\$ 23.2</i>	<i>1.6%</i>
Authorized FTE Positions	15,632.4	15,100.7	15,119.4	18.7	0.1%
Average Cost Per FTE	\$79,378	\$98,729	\$100,139	\$1,410	1.4%
Other Personnel Costs					
Other Payroll Costs (4)	\$ 118.4	\$ 154.1	\$ 155.5	\$ 1.4	0.9%
Purchased Services	203.4	341.3	284.3	(57.1)	-16.7%
<i>Other Personnel</i>	<i>\$ 321.8</i>	<i>\$ 495.4</i>	<i>\$ 439.8</i>	<i>\$ (55.6)</i>	<i>-11.2%</i>
Total Personnel Costs	\$ 1,562.7	\$ 1,986.3	\$ 1,953.8	\$ (32.5)	-1.6%

Note: FTE authorizations presented do not include sponsored-research positions.
(1) Includes Defined Contribution Plan as of FY 2015
(2) Previously included in other costs
(3) Includes FICA, Holiday Pay, Payroll Accrual and Other
(4) Includes "other" costs, including temporary and seasonal payroll, unemployment compensation, statewide benefit assessment, anticipated retroactive payments, and workers compensation
Source: State Budget Office and Personnel Supplements

Retirement costs remain the fastest growing component of total personnel expenditures over the last decade, increasing by an unadjusted \$66.4 million, or 52.0 percent between FY 2006 and FY 2016. In FY 2006, retirement costs accounted for 10.3 percent of salaries and benefits, compared to 12.8 percent in FY 2016. In addition to retirement costs, expenditures for employee medical benefits have also increased during the last decade. On an unadjusted basis, medical benefits have increased by 12.1 percent since FY 2006, from \$174.4 million to \$195.5 million in the proposed FY 2016 budget. However, medical benefits account for a smaller percentage of total salaries and benefits in FY 2016 (as proposed) than in FY 2006 (12.9 percent in FY 2016 compared to 14.1 percent in FY 2006).

FTE Authorization

In order to manage staffing levels in state government, the state allocates Full-Time Equivalent (FTE) positions to all agencies and departments. FTEs attempt to take into account the number of hours worked by an employee to enable a calculation that includes part-time and full-time employees. 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 for comparative purposes.

- The FY 2016 budget authorizes 15,119.4 FTE positions; this is 18.7 positions greater than the FY 2015 revised budget, and 33.4 positions greater than the FY 2015 enacted budget.
- The FY 2015 enacted budget authorized 15,086.0 FTE positions; the FY 2015 revised budget includes a total FTE authorization of 15,100.7 positions, 14.7 more FTE positions than the FY 2015 enacted budget.
- There are a total of 15,119.4 FTEs in the Governor's FY 2016 budget proposal. Broken down by government function, this total includes:
 - General Government: 2,331.8 FTE
 - Human Services: 3,743.6 FTE
 - Education: 4,634.8 FTE
 - Public Safety: 3,228.6 FTE
 - Natural Resources: 428.0 FTE
 - Transportation: 752.6 FTE

Grants and Benefits Programs

Proposed grants and benefits expenditures for FY 2016 total \$3,984.3 million, accounting for 46.2 percent of the total state budget. Of this total, general revenue funds account for \$1,165.0 million of expenditures for grants and benefits, a decrease of \$24.2 million (0.2 percent) from FY 2015 enacted general revenue expenditures. This spending category is particularly impacted by reforms related to implementation of the Affordable Care Act (ACA), particularly Medicaid expansion. In addition, the Governor's FY 2016 budget proposes significant cost reductions in the Medicaid program.

Medical Assistance

The Medical Assistance (Medicaid) program represents the single largest category of state expenditures, as well as the fastest-growing category of spending in the budget. Costs for the program are split between the state and the federal government according to the federal medical assistance percentage (FMAP) formula, which determines each state's share based on per capita income. In FY 2016, the House Fiscal Office projects that the federal government will pay 50.32

percent of Medicaid costs while the state will be responsible for the remaining share. For FY 2016, the Governor's budget submission proposes reducing Medicaid expenditures by \$81.9 million (3.5 percent) compared to the FY 2015 revised budget. This includes a reduction of \$52.1 million (5.7 percent) in general revenue expenditures and \$29.6 million (2.1 percent) in federal funds expenditures.

Subsequent to the submission of her original budget proposal, the Governor submitted a budget amendment that includes updated recommendations for reforming Medicaid. These recommendations are based in part on the initial report of the Working Group to Reinvent Medicaid and include a total of \$78.2 million in general revenue savings in FY 2016. An additional \$13.1 million in general revenue savings resulting from the results of the May 2015 CEC are also included in the Governor's proposal for total general revenue program savings of \$91.3 million. Table 18 illustrates the changes in Medicaid expenditures between FY 2015 and FY 2016; reforms proposed by the Governor in budget amendments subsequent to the submission of her original budget are not reflected in this table.

Medical Assistance Program	FY 2015			FY 2016			FY 2015R - 2016P	
	Enacted	Revised	May CEC	Nov. CEC	Proposed	May CEC	Change	%
Hospitals	\$ 68.3	\$ 77.8	\$ 76.2	\$ 80.5	\$ 51.6	\$ 83.0	\$ (26.2)	-33.7%
DSH	138.3	138.3	138.3	138.3	138.3	138.3	-	0.0%
<i>Subtotal</i>	<i>\$ 206.6</i>	<i>\$ 216.1</i>	<i>\$ 214.5</i>	<i>\$ 218.8</i>	<i>\$ 189.9</i>	<i>\$ 221.3</i>	<i>\$ (26.2)</i>	<i>-12.1%</i>
Nursing Homes	\$ 162.1	\$ 176.0	\$ 180.5	\$ 191.0	\$ 183.8	\$ 195.0	\$ 7.8	4.4%
Home and Community Care	53.8	70.3	70.0	75.6	73.2	73.0	2.9	4.1%
<i>Subtotal</i>	<i>\$ 215.9</i>	<i>\$ 246.3</i>	<i>\$ 250.5</i>	<i>\$ 266.6</i>	<i>\$ 257.0</i>	<i>\$ 268.0</i>	<i>\$ 10.7</i>	<i>4.3%</i>
Pharmacy	\$ 1.4	\$ 3.6	\$ (1.0)	\$ 4.0	\$ 4.0	\$ 1.9	\$ 0.4	11.1%
Part D Clawback	50.4	50.5	50.2	52.0	52.0	53.8	1.5	3.0%
<i>Subtotal</i>	<i>\$ 51.8</i>	<i>\$ 54.1</i>	<i>\$ 49.1</i>	<i>\$ 56.0</i>	<i>\$ 56.0</i>	<i>\$ 55.7</i>	<i>\$ 1.9</i>	<i>3.5%</i>
Managed Care*	\$ 615.4	\$ 636.5	\$ 622.5	\$ 660.4	\$ 553.0	\$ 650.7	\$ (83.5)	-13.1%
Rhody Health Partners	252.3	280.3	269.0	301.0	292.2	293.4	11.9	4.2%
Rhody Health Options	297.0	277.5	270.7	290.1	274.9	275.5	(2.6)	-0.9%
Other	115.1	114.0	109.5	117.6	111.9	113.5	(2.1)	-1.8%
<i>Subtotal</i>	<i>\$ 1,279.8</i>	<i>\$ 1,308.3</i>	<i>\$ 1,271.7</i>	<i>\$ 1,369.1</i>	<i>\$ 1,232.0</i>	<i>\$ 1,333.1</i>	<i>\$ (76.3)</i>	<i>-5.8%</i>
Medicaid Expansion	\$ 492.4	\$ 539.1	\$ 424.6	\$ 547.1	\$ 547.1	\$ 474.4	\$ 8.0	1.5%
Total*	\$ 2,246.5	\$ 2,363.9	\$ 2,210.5	\$ 2,457.6	\$ 2,282.0	\$ 2,352.5	\$ (81.9)	-3.5%
<i>Federal Funds</i>	<i>\$ 1,359.3</i>	<i>\$ 1,440.6</i>	<i>\$ 1,302.8</i>	<i>\$ 1,498.4</i>	<i>\$ 1,411.0</i>	<i>\$ 1,406.3</i>	<i>\$ (29.6)</i>	<i>-2.1%</i>
<i>General Revenues</i>	<i>\$ 876.6</i>	<i>\$ 912.7</i>	<i>\$ 897.0</i>	<i>\$ 948.7</i>	<i>\$ 860.6</i>	<i>\$ 935.6</i>	<i>\$ (52.1)</i>	<i>-5.7%</i>
<i>Restricted Receipts</i>	<i>\$ 10.6</i>	<i>\$ 10.6</i>	<i>\$ 10.6</i>	<i>\$ 10.6</i>	<i>\$ 10.6</i>	<i>\$ 10.6</i>	<i>\$ -</i>	<i>0.0%</i>

Note: Does not include budget amendments submitted by the Governor
Source: Governor's FY 2016 proposed budget; House Fiscal Office; RIPEC calculations

Additional highlights of the Governor's FY 2016 Medical Assistance budget include:

- Total Medicaid savings of \$246.7 million (91.3 million in general revenue) compared to the FY 2016 expenditure projections from the November 2014 CEC expenditure estimate resulting from various programmatic changes. Of this total, \$105.2 million (\$13.1 million general revenue) result from the reduced expenditure estimate adopted at the May 2015 CEC while the remainder results from proposed reforms.

- The continued expansion of Medicaid to non-disabled adults without dependent children earning incomes of up to 138.0 percent of the federal poverty level, which began in January 2014, per the ACA. Program costs associated with the Medicaid expansion are covered entirely by the federal government through the end of calendar year 2016. Between calendar years 2017 and 2020, the federal government's share of Medicaid expansion costs will decrease to 90.0 percent and the state will be responsible for the remaining 10.0 percent. In FY 2016, costs associated with the Medicaid expansion are projected to total \$474.4 million.
- A one-year suspension of the scheduled rate increases for hospital fee-for-service and managed care services as well as a rate reduction of 2.5 percent. These two changes are projected to result in general revenue savings of \$11.1 million in FY 2016.
- A one-year suspension of the scheduled rate increases for nursing care and hospice facility services as well as a rate reduction of 2.5 percent. These two changes are projected to result in combined savings of \$11.5 million in FY 2016.
- An increase in the Hospital Licensing Fee to 5.846 percent, resulting in a revenue increase of \$13.5 million.
- The elimination of Graduate Medical Education program, which supports medical education programs at hospitals in Rhode Island. This proposed change results in general revenue savings of \$1.0 million in FY 2016.

HealthSource RI

The Governor's FY 2016 budget submission includes a proposal to fund HealthSource RI (HSRI), Rhode Island's health benefit exchange under the ACA, through a premium assessment on all health insurance plans purchased on the individual and small group insurance markets. The proposed assessment, which would apply equally to plans regardless of whether they are purchased inside or outside of HSRI, would go into effect on January 1, 2016. Under the Governor's proposal, the Secretary of Health and Human Services would annually set a separate assessment rate for the individual and small group markets based on each market's share of the total insurance premium purchased through HSRI. For FY 2017, the first full fiscal year that the assessment would be in effect, the assessment rates are anticipated to be 3.76 percent for plans on the individual market and 1.05 percent for plans on the small group market. The assessment is projected to generate a total of \$11.6 million in revenue to fund HSRI operations during FY 2017.

Local Aid

Total state aid (aid to local governments excluding federal aid) totals \$1,147.5 million in the Governor's proposed FY 2016 budget proposal. This represents an unadjusted increase of 6.5 percent since FY 2006 and is \$41.3 million (3.7 percent) greater than the Governor's FY 2015 revised budget. Of the total increase, \$42.7 million is related to increases in local education aid, including fully funding the fifth 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 that began in FY 2012. In particular, funding for charter schools increases by \$11.1 million (18.8 percent) from the FY 2015 revised budget 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, declines from \$77.4 million in the FY 2015 revised budget to \$74.0 million in the FY 2016 proposed budget. The primary driver of the decline in state municipal aid is a reduction of \$5.0 million in the PILOT program, which compensates municipalities for property taxes not paid by non-profit entities. This decline reflects a one-time payment of \$5.0 million made in FY 2015; base funding for the program is held constant in FY 2016.

Education Aid Highlights

Total proposed state education aid to local governments for FY 2016 is \$1,026.1 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 2016 spending is \$42.7 million greater than the Governor’s FY 2015 revised budget.

Major State Aid Program	FY 2006	FY 2015R	FY 2016P	2015R-2016P Change
Education Aid				
Direct Education Aid (1)	\$ 657.2	\$ 725.3	\$ 749.7	\$ 24.4
Teacher Retirement	56.1	89.0	92.8	3.8
School Housing Aid	46.6	68.1	70.9	2.8
State Schools (2)	28.2	28.6	27.9	(0.7)
Charter School Aid (direct and indirect)	23.3	59.1	70.2	11.1
Non-Distributed Aid (3)	4.8	13.3	14.6	1.3
<i>Subtotal - Education Aid</i>	<i>\$ 816.2</i>	<i>\$ 983.4</i>	<i>\$ 1,026.1</i>	<i>\$ 42.7</i>
Municipal Aid				
General Revenue Sharing	\$ 65.0	\$ -	\$ -	\$ -
Excise Tax Phase-Out	117.8	10.0	10.0	-
PILOT	27.0	40.1	35.1	(5.0)
Incentive Aid (4)	-	5.2	5.3	0.1
Distressed Communities Aid	10.6	10.4	10.4	-
Other Aid (5)	11.0	11.8	13.2	1.4
<i>Subtotal - Municipal Aid</i>	<i>\$ 231.4</i>	<i>\$ 77.4</i>	<i>\$ 74.0</i>	<i>\$ (3.4)</i>
Pass-through Revenues				
Meals and Beverage	\$ 17.7	\$ 23.6	\$ 24.1	\$ 0.4
Hotel Tax	-	7.4	9.0	1.6
Public Service Corporations Tax	12.2	14.3	14.3	-
<i>Subtotal - Pass-through Revenues</i>	<i>\$ 29.9</i>	<i>\$ 45.3</i>	<i>\$ 47.3</i>	<i>\$ 2.0</i>
Total State Aid	\$ 1,077.4	\$ 1,106.2	\$ 1,147.5	\$ 41.3

(1) 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.
(2) Includes Met School, Davies School, and School for the Deaf
(3) Includes Text Book Expansion, School Breakfast, Telecommunications Access, Early Childhood Demonstration, Transportation Categorical, High Cost Special Ed Categorical, Career and Tech Categorical, and Full-Day Kindergarten
(4) Includes funds carried forward from the previous fiscal year for municipalities that did not meet eligibility requirements.
(5) Includes state library aid and resource sharing, library construction reimbursement and the property revaluation program.
Source: RIPEC calculations based on State Budget documents

Direct education aid, as shown in Table 20, totals \$842.9 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.

The Governor’s budget fully funds year five of the state’s education funding formula. The funding formula includes a core instruction amount of \$8,928, 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 2016 budget include:

- Providing funding for the two new charter schools (Engineering Early College and RISE Mayoral Academy) 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;

- Establishment of a \$20.0 million School Building Authority Fund administered by the Rhode Island Health and Educational Building Corporation to provide funds for school construction projects;
- An appropriation of \$1.4 million to fund full-day kindergarten programs in communities that do not currently have them. The budget also requires that all school districts offer full-day kindergarten by the beginning of the 2016-2017 school year;
- Continuing to fund the Urban Collaborative Accelerated Program through the funding formula for the third year; and
- Providing funding for four of the five categorical aid programs (transportation, high-cost special education, career and technical, and the early childhood demonstration). No districts were eligible to receive aid under the fifth categorical aid program – the regionalization bonus – so no funds were allocated to this program.

	Districts	Charters	Urban Collaborative	State Schools*	Total
Revised FY 2015 Distributed Aid	\$ 724.7	\$ 59.1	\$ 0.6	\$ 22.7	\$ 807.1
Year 5 Formula Change	25.2	11.1	0.3	(1.1)	35.5
Group Home Data Update	(1.1)	-	-	-	(1.1)
Full-Day Kindergarten	1.4	-	-	-	1.4
<i>FY 2016 Proposed Distributed Aid</i>	<i>\$ 750.2</i>	<i>\$ 70.2</i>	<i>\$ 0.8</i>	<i>\$ 21.6</i>	<i>\$ 842.9</i>

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

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. Notable components of FY 2016 municipal aid include:

- Level funding of \$10.4 million for the distressed communities program;
- A reduction of \$5.0 million in funding for the Payment-in-Lieu-of-Taxes (PILOT) program, which reimburses municipalities for property taxes not collected from non-profit entities exempt under state law; and
- 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 2016 proposed budget would fund the program at \$5.0 million, the same amount as in the Governor’s FY 2015 revised budget, distributed proportionally to municipalities based on population. Communities are eligible for the funds in FY 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 2016 proposed capital budget is intended to anticipate the state's need for capital project funding through FY 2020. 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 \$4,395.7 million across all funding sources for capital projects between FY 2015 and FY 2020. However, this total excludes unforeseen projects, or those that have yet to be programmed, particularly for out-years FY 2019 and FY 2020. 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 two general obligation bond proposals that voters will be asked to approve in 2016 worth \$95.7 million in new borrowing authority for the state. Finally, the budget includes an operating transfer of \$226.0 million.

Expenditures by Source	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total	% of Total
Federal Funds	\$ 296.9	\$ 305.1	\$ 291.4	\$ 244.8	\$ 223.4	\$ 220.4	\$ 1,582.0	36.0%
Rhode Island Capital Plan (RICAP)	154.4	147.5	131.2	118.8	107.9	94.1	753.8	17.2%
General Revenue	1.0	1.0	1.0	1.0	1.0	1.0	6.0	0.1%
Restricted Receipts	17.3	9.9	6.2	1.3	0.3	0.4	35.2	0.8%
General Obligation Bonds	101.0	107.0	105.7	96.8	123.3	31.2	564.9	12.9%
Revenue Bonds	59.7	53.6	52.8	50.6	47.8	45.3	309.8	7.1%
Revolved Capitalization Grants	22.6	17.9	18.6	18.9	19.7	19.1	116.7	2.7%
Certificates of Participation	32.5	24.9	5.1	-	-	-	62.5	1.4%
RI Health & Educational Building Corp.	9.8	9.9	6.4	17.1	33.4	39.0	115.6	2.6%
Land Sale Revenue	17.7	10.8	6.1	8.4	1.0	1.0	45.0	1.0%
Grant Anticipation Revenue Vehicle (GARVEE)	26.4	9.3	-	-	-	-	35.7	0.8%
Private Funding	0.5	14.4	0.6	0.2	2.7	-	18.4	0.4%
Other	130.9	110.3	68.8	95.5	169.7	173.8	749.1	17.0%
Totals	\$ 870.6	\$ 821.5	\$ 693.8	\$ 653.2	\$ 730.2	\$ 625.3	\$ 4,394.7	100.0%

SOURCE: State budget documents; RIPEC calculations

Table 22
Governor's Recommended FY 2015 - FY 2020 Capital Project Funding by Function (\$ Millions)

Expenditures by Function	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	Total	% of Total
Education	\$ 137.6	\$ 129.6	\$ 104.0	\$ 130.9	\$ 169.6	\$ 95.1	\$ 766.8	17.4%
General Government	69.8	70.1	44.8	16.8	14.6	11.0	227.1	5.2%
Human Services	20.0	54.6	37.4	11.3	5.6	4.2	133.2	3.0%
Natural Resources	226.0	170.7	139.7	161.0	233.4	235.4	1,166.2	26.5%
Public Safety	45.4	30.1	53.1	31.3	27.8	19.5	207.1	4.7%
Transportation	371.8	366.4	314.8	302.0	279.2	260.0	1,894.2	43.1%
Totals	\$ 870.6	\$ 821.5	\$ 693.8	\$ 653.2	\$ 730.2	\$ 625.3	\$ 4,394.7	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 21. The Governor’s FY 2016 budget proposes spending \$4,395.7 million on capital projects between FY 2015 and FY 2020, including \$821.5 million in FY 2016. Federal funds make up the largest share of the total funding sources between FY 2015 and FY 2020, accounting for 36.0 percent (\$1,582.0 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 2016 elections, total \$564.9 million (12.9 percent) while funds from the Rhode Island Capital Plan Fund (RICAP) are \$753.8 million (17.2 percent).

Between FY 2015 and FY 2020, transportation projects account for the largest percentage of the overall capital budget (43.1 percent; \$1,894.2 million) by government function. Natural resources projects account for \$1,166.2 million (26.5 percent) and education projects account for \$766.8 million (17.4 percent) in capital expenditures over the same time period. Again, it is important to remember that many projects in the out-years (FY 2019 and FY 2020) may not yet be programmed and accounted for in the proposal).

Table 23
Total Estimated Bond Referenda Costs

Project	Principal	Interest	Total
URI Fine Arts Center	\$ 70.2	\$ 40.1	\$ 110.3
URI Engineering Phase II	25.5	14.9	40.4
Total Cost	\$ 95.7	\$ 55.0	\$ 150.7

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

General Obligation Bond Proposals

The Governor’s FY 2016 capital budget proposes that two general obligation bond proposals be placed on the ballot for voter approval in November 2016. The two bond proposals, which are

displayed in Table 23, total \$95.7 million in new borrowing authority plus additional debt service costs estimated to total \$55.0 million. Over 20 years, total borrowing costs for the four bond proposals are expected to be \$150.7 million. The bond proposals are:

- \$70.2 million to complete renovations at the University of Rhode Island (URI) Fine Arts Center. The Center is used by URI’s musical, theatrical, visual and graphic arts programs.
- \$25.5 million for Phase II of the URI engineering building renovation project, which entails renovations and a 20,000 square foot addition to Bliss Hall. Voters approved funding in November 2014 for Phase I of the URI engineering building renovation project.

Debt Burden

Although approximately 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.

The Rhode Island Public Finance Management Board (PFMB) has adopted guidelines to monitor the state’s management of its debt. Credit guideline 1 is that tax-supported debt should not exceed the target range of 5.0 to 6.0 percent of personal income, and annual debt service for tax-supported debt should not exceed 7.5 percent of general revenues. Proposed new issuance of tax-supported debt in the FY 2016 Capital Budget should be analyzed as it relates to these guidelines. Tables 24 and 25 illustrate that the Governor’s FY 2016 budget proposal projects that:

- The ratio of tax-supported debt to personal income is anticipated to decline from 3.86 percent in FY 2013 to 2.31 percent in FY 2020; and
- The ratio of tax-supported debt service to general revenues is anticipated to peak in FY 2018 at 6.85 percent, but will decline in FY 2019 before rising again in FY 2020.

Table 24
Projected Tax-Supported Debt as % of Personal Income (\$ millions)

FY	Personal Income	Net Tax-Supported Debt	Debt Ratio
2013	\$49,007.3	\$1,889.9	3.86%
2014	\$50,451.8	\$1,815.7	3.60%
2015	\$52,487.5	\$1,792.2	3.41%
2016	\$55,593.7	\$1,690.2	3.04%
2017	\$58,557.5	\$1,620.8	2.77%
2018	\$60,822.2	\$1,624.4	2.67%
2019	\$62,714.0	\$1,590.7	2.54%
2020	\$64,518.1	\$1,492.5	2.31%

SOURCE: State budget documents

Table 25
Projected Tax-Supported Debt Service as % of General Revenues (\$ millions)

FY	Adj. General Revenues*	Net Tax-Supported Debt Service	Debt Ratio
2015	\$3,649.5	\$230.8	6.33%
2016	\$3,736.1	\$185.6	4.97%
2017	\$3,742.0	\$236.8	6.33%
2018	\$3,763.3	\$257.9	6.85%
2019	\$3,772.9	\$237.1	6.29%
2020	\$3,813.1	\$250.2	6.56%

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

38 Studios

The repayment of one particular bond issuance has received considerable attention in the past and may once again this year. 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 responsible for repaying the bonds. The Governor’s FY 2016 budget proposal includes \$12.5 million in general revenues to pay for the debt service associated with the 38 Studios bonds.

Operating Transfers

The Governor's FY 2015 proposed budget includes operating transfers of \$226.0 million, an increase of \$62.9 million (38.6 percent) from the FY 2006 adjusted total of \$163.1 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. This category includes the proposed transfer of funds from a refinancing of the state's existing General Obligation debt to the Rhode Island Commerce Corporation.