RIPEC

# Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

## Analysis of Rhode Island's Budget Outlook, Debt Position and 2016 Ballot Initiatives

*The purpose of this RIPEC Comments is to assist voters as they consider the two constitution-related proposals and five bond referenda on this November's ballot. The report provides an updated look at the state's FY 2017 budget and out-years, based on the preliminary FY 2016 closing, as well as Rhode Island's current debt position. The report also summarizes the 2016 ballot initiatives, and although RIPEC does not take a position on the initiatives, it includes a number of questions for voter consideration.*

### Introduction

This November, Rhode Island voters will be asked to consider seven ballot questions, five of which would authorize $364.7 million in additional debt costs, accounting for estimated interest and borrowing costs.[1] To assist voters as they consider these ballot initiatives, this report provides an updated look at the state's FY 2017 budget and out-years, based on the preliminary FY 2016 closing, as well as Rhode Island's current debt position. The report also includes a summary of the 2016 ballot initiatives, and includes a set of questions for voter consideration. The purpose is to provide voters with information regarding the current financial position of the state and other related issues, which may be helpful when deciding whether to approve the referenda.

The preliminary, unaudited FY 2016 year-end statement, released by the State of Rhode Island Office of Accounts and Controls, shows a closing surplus of $167.2 million. One should note that these year-end numbers are preliminary and subject to change in the final audit. Table 1 shows the budget statement for the FY 2016 budget as enacted, and the preliminary closing amounts based on the State Controller's report. Revenues were higher than enacted by $28.6 million, and general revenue expenditures were $16.2 million less than enacted, after taking into account $7.8 million in reappropriations that will be carried over into FY 2017. After the transfer to the budget reserve, the resulting surplus was $44.0 million higher than passed.

Although FY 2016 appears to have closed with a higher-than-anticipated surplus ($167.2 million versus the anticipated $123.3 million in the budget as enacted), out-year budget deficits are projected from FY 2018 onward. Based on RIPEC estimates that incorporate the preliminary FY

[1] Rhode Island Secretary of State 2016 Voter Information Handbook.

2016 closing, Rhode Island will have a projected closing surplus of $43.0 million in FY 2017, though this estimate is subject to change following the ongoing November Revenue and Caseload estimating conference. Despite this potentially encouraging news, expenditure growth is projected to continue to outpace growth in revenues, perpetuating the state's cycle of out-year deficits. By FY 2021, the state will face a deficit ranging between $313.6 and $332.6 million (a more detailed review of the state's current budget position is included in the final section of this report).

Even with the higher-than-anticipated closing, out-year deficits will continue to hamper the state's ability to support long-term investments. Unless the state's structural deficit is resolved, the state will continue to have to choose between making investments in its future and relying on short-term financial fixes and one-time solutions.

**Table 1**

**Preliminary FY 2016 Budget Statement ($ millions)**

| | **Budget** | **Preliminary-Unaudited** |
|---|---|---|
| Opening Surplus/Deficit | $168.0 | $168.0 |
| Reappropriated Surplus | 6.9 | 6.9 |
| General Revenues | 3,635.0 | 3,663.6 |
| *Total FY 2016 Revenues* | *$3,810.0* | *$3,838.5* |
| General Revenue Expenditures | $3,572.6 | $3,548.5 |
| Reappropriations (carried forward to 2017) | - | 7.8 |
| Excess Revenue to Retirement System | - | |
| *Total FY 2016 Expenditures* | *$3,572.6* | *$3,556.3* |
| *Balance* | *$237.4* | *$282.2* |
| Transfer to Budget Reserve | ($114.1) | ($114.9) |
| Transfer to Depreciation Fund | $0.0 | $0.0 |
| **Closing Surplus/Deficit** | **$123.3** | **$167.2** |

Source: House Fiscal Advisory Staff, FY 2017 Budget as Enacted; State Controller, FY 2016 Closing Statements - Preliminary Unaudited, Aug. 31, 2016.

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

Given the state's fiscal and economic outlook, RIPEC encourages taxpayers to think about the following questions when deciding whether to approve new debt in November:

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

## Rhode Island’s Capital Budget & Debt Position

As opposed to state operating budgets, capital budgets provide funding for multiple years and typically include projects that are unique and unlikely to be repetitive; are tangible and readily identifiable; involve a larger financial magnitude than many operating budget projects; and have long-term future consequences. Capital projects for FY 2017 to FY 2021 cover transportation, natural resources, public safety, education, human services, and general government functions.

The Assembly’s adopted plan for the 5-year capital budget encompassing fiscal year 2017 to 2021 includes total capital outlays of $5,444.5 million, financed through the issuance of $1,083.2 million of debt and $4,361.3 million from current revenue streams (pay-go). According to the House Fiscal Advisory Staff, major funding sources include federal funding (34.8 percent), private funding (34.0 percent), the Rhode Island Capital Plan Fund (11.3 percent), and general obligation bond debt issuances (10.8 percent).[2]

**Table 2**
**Rhode Island's Net Tax-supported Debt ($ thousands)**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| **Direct Debt** | | | |
| Various Purpose Bonds Outstanding | $ 1,103,945 | $ 1,022,895 | $ 984,430 |
| Proposed General Obligation Bond Issuance | - | - | 63,000 |
| Subtotal | $ 1,103,945 | $ 1,022,895 | $ 1,047,430 |
| **Other Debt Subject to Annual Appropriation** | | | |
| Convention Center Authority Outstanding | $ 226,900 | $ 216,150 | $ 205,005 |
| EDC-Transportation (motor fuel) | 62,525 | 58,340 | 53,965 |
| EDC-URI Power Plant | 6,565 | 5,600 | 4,585 |
| EDC-Job Creation Guaranty | 73,577 | 64,515 | 54,866 |
| EDC-Projected I-95 Land Sale | 38,400 | 38,400 | 38,400 |
| CP-Attorney General | 505 | 170 | - |
| CP-DLT Howard Complex | 4,705 | 2,865 | 930 |
| CP-Shepard's Building (originally EDC) | 8,320 | 5,710 | 2,940 |
| CP-Pastore Center Power Plant | 13,580 | 11,905 | 10,145 |
| CP-Kent County Courthouse | 33,180 | 31,875 | 30,515 |
| CP-Traffic Tribunal Court Complex | 14,115 | 13,320 | 12,510 |
| CP-Training School | 33,825 | 32,270 | 30,655 |
| CP-Information Technology | 16,890 | 42,865 | 36,195 |
| CP-School for the Deaf | 25,185 | 24,005 | 22,775 |
| CP-CCRI Energy Conservation | 4,925 | 4,290 | 3,635 |
| CP-DOA Energy Conservation | 35,060 | 42,800 | 37,785 |
| CP-URI Energy Conservation | 17,305 | 15,590 | 13,750 |
| CP-RIC Energy Conservation | - | 7,465 | 7,465 |
| Loan Agreement-Historic Structures Tax Credit Fund | 74,400 | 57,390 | 49,605 |
| CP-Division of Motor Vehicle System | 5,110 | 3,025 | - |
| Subtotal | $ 695,072 | $ 678,550 | $ 615,726 |
| **Performance Based Agreements** | | | |
| Econ. Dev. - Fleet | $ 7,710 | $ 7,345 | $ 6,950 |
| Econ. Dev. - Fidelity Building | 13,038 | 11,600 | 10,043 |
| Econ. Dev. - Fidelity Building II | 7,950 | 7,565 | 7,151 |
| Subtotal | $ 28,698 | $ 26,510 | $ 24,144 |
| **Gross Debt** | $ 1,827,715 | $ 1,727,955 | $ 1,687,300 |
| Less: Adjustments for Agency Payments* | $ (12,152) | $ (10,895) | $ (9,507) |
| **Net Tax Supported Debt** | $ 1,815,563 | $ 1,717,060 | $ 1,677,793 |

"CP" stands for certificates of participation; "EDC" stands for the Economic Development Corporation

* As of FY2017, the State anticipates it will be responsible for 100% of the Fidelity II debt service and thus is no longer adjusting these costs from the calculation of Net Tax Supported Debt.

Source: Office of Management and Budget, FY 2017 Capital Budget, Appendix A.

When considering the state’s overall debt position, credit rating agencies take into account a variety of issues, including the state’s total net tax-supported debt. Net tax-supported debt refers to all debt for which an appropriation is or may be required. This includes general obligation debt, which is classified as direct debt (e.g. general obligation bonds backed by the state), guaranteed debt, contingent debt, and other obligations subject to annual appropriations. Essentially, tax-supported debt includes any debt which could be considered a future liability for the state. As of June 30, 2016 net tax-supported debt in Rhode Island totaled $1,677. 8 million (see Table 2). This represents a 2.3 percent decrease from 2015 ($1,717.1 million) and a 7.6 percent decrease from 2014 levels ($1,815.6 million).

Direct debt is debt that is supported by the state’s full faith and credit. It consists of general obligation bonds and notes that are authorized by voters in referendums. As of June

[2] House Fiscal Advisory Staff, FY 2017 Budget as Enacted.

30, 2016, Rhode Island had $1,047.4 million in outstanding direct debt, a 2.4 percent increase from the prior year.

Other long-term debt includes contractual agreements, which the state has entered into, but is subject to annual appropriation by the General Assembly. This includes master equipment lease agreements with financial institutions, revenue bonds issued by the Economic Development Corporation (EDC), and certificates of participation. As of June 30, 2016, Rhode Island had $615.7 million of this type of long-term debt outstanding. Of this, nearly a third was in connection to the Rhode Island Convention Center, including the Dunkin Donuts Center debt.

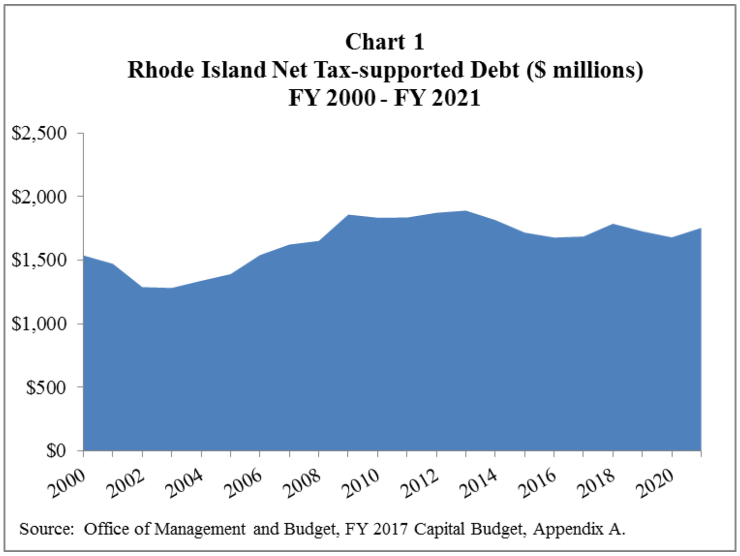



Chart 1 shows a projection of Rhode Island's net state tax-supported debt from FY 2000 to FY 2021. Net tax-supported debt is expected to increase by 4.5 percent from $1,677.8 million in FY 2016 to $1,754.0 million in FY 2021. These projections assume current outstanding obligations and new debt programmed into the state's capital budget.

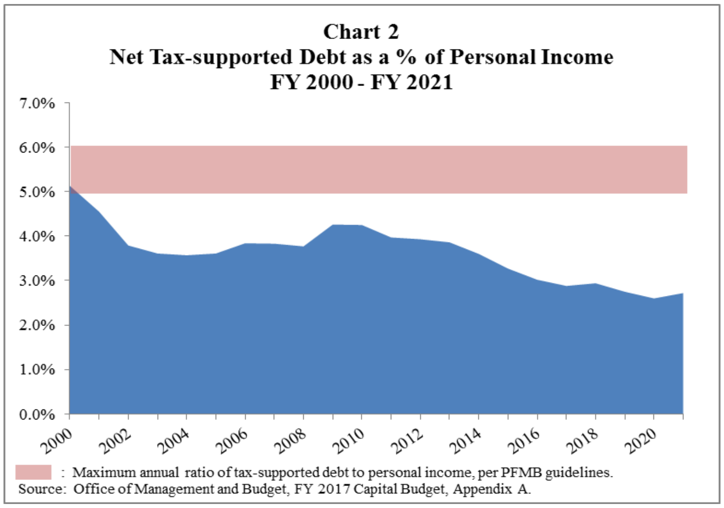
## Overview of State Debt

To better monitor the state's management of its debt, the Rhode Island Treasury developed legislative recommendations to strengthen debt management that were incorporated into the FY 2017 budget proposal and passed into law. Among the changes is the establishment of a Division of Debt Management within the General Treasury's office tasked with gathering information related to public debt in Rhode Island, promulgating best practices for debt management, and working with the Public Finance Management Board (PFMB) to regularly publish studies on the affordability of the state's public debt burden. The debt affordability study, Rhode Island's first since the late 1990s, is scheduled for release in early 2017.

Since 1998, the PFMB has released annual reports detailing Rhode Island's debt management and providing certain credit guidelines to track state debt. The first credit guideline asserts that tax-supported debt should not exceed 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. Credit guideline 2 states that the PFMB should monitor the total amount of tax-supported debt, state supported revenue debt, and agency revenue debt in relation to the state's personal income levels. The final guideline states that in times of economic or financial hardship or when extraordinary infrastructure needs exist, all of the guidelines may be exceeded temporarily so long as the Governor and Legislature recommend a plan to bring debt levels below the target ranges within five years.

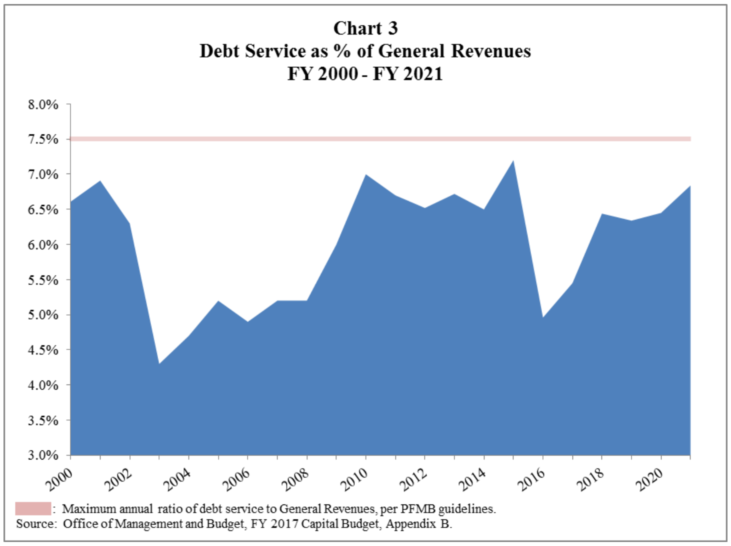
*Debt as a Percent of Personal Income*

Since the adoption of Guideline 1 in 2000, net tax-supported debt levels have not exceeded the target range of 5.0 to 6.0 percent of personal income. The ratios have ranged from a low of 3.0 percent in FY 2016 to a high of 5.1 percent in FY 2000.




The Governor's Fiscal 2017 Capital Budget projects that tax-supported debt as a percentage of personal income will decrease from 3.3 percent reported in FY 2015 to 2.9 percent in FY 2017 and further to 2.6 percent in FY 2020 (See Chart 2). This assumes that the capital budget is not increased over the period. However, past practice suggests that debt levels are likely to be higher than predicted.

*Debt Service as a Percent of General Revenues*




The projected ratio of annual debt service to general revenues is less than the PFMB guideline of 7.5 percent for all the years projected. According to the Governor's FY 2017 Capital Budget, debt service as a percentage of general revenues is estimated to range from 5.0 percent to 6.8 percent over the five years. Low percentages are expected in the earlier years due to the debt restructuring and refinancing in July 2015, which lowered the amount of debt service due in FY 2016 and FY 2017. Additionally, the low percentages are a reflection of strengthened general revenue receipts as the economy continues to recover. Chart 3 displays historical and projected debt service as a percentage of general revenues for the state of Rhode Island.

## How Rhode Island's Debt Level Compares

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

*Debt per Capita*

Tax-supported debt per capita is determined by dividing the state's tax-supported debt by the estimated population. It should be noted that Moody's Investors Service calculation of debt per capita has a time-lag in the data. For example, to determine 2016 debt per capita, 2016 tax-supported debt was divided by 2014 population estimates.

**Table 3**
**Net Tax-Supported Debt**

**Per Capita**

| | 1996* | 2006 | 2016 |
|---|---|---|---|
| U.S. Median | $431 | $754 | $1,025 |
| Connecticut | 2,813 | 3,624 | 6,155 |
| Maine | 523 | 606 | 928 |
| Massachusetts | 2,117 | 4,128 | 5,592 |
| New Hampshire | 681 | 514 | 808 |
| **Rhode Island** | **1,889** | **1,402** | **1,813** |
| Vermont | 984 | 707 | 1,002 |
| RI Rank within U.S. | 4 | 11 | 13 |

**Percent of Personal Income**

| | 1996** | 2006** | 2016** |
|---|---|---|---|
| U.S. Median | 2.1% | 2.5% | 2.5% |
| Connecticut | 9.7% | 8.0% | 9.8% |
| Maine | 2.7% | 2.0% | 2.2% |
| Massachusetts | 8.3% | 9.8% | 9.5% |
| New Hampshire | 2.9% | 1.4% | 1.5% |
| **Rhode Island** | **8.5%** | **4.1%** | **3.7%** |
| Vermont | 4.9% | 2.2% | 2.1% |
| RI Rank within U.S. | 3 | 16 | 15 |

Based on ranking all 50 U.S. states from highest to lowest.
*Based on estimated 1995 population.
**As a percentage of 1996, 2006, and 2016 personal income, respectively.
Source: Moody's Investors Service, State Debt Medians 2016, 2006 & 1996.

Data comparing Rhode Island to other states shows that, while Rhode Island's tax-supported debt is estimated to be within the guidelines adopted by the PFMB, the Ocean State's net tax-supported debt per capita ranks 13th highest in the nation (Table 3). Among the New England states, both Connecticut (1st highest) and Massachusetts (2nd highest) ranked above Rhode Island.[3] Rhode Island's 2016 net tax-supported debt per capita was $1,813. This level of per capita debt exceeds the United States median ($1,025) by $788 (76.9 percent higher than the US median).

*Debt as a Percentage of Personal Income*

Another indicator prepared by Moody's is net tax-supported debt as a percentage of personal income. Tax-supported debt as a percentage of personal income is determined by dividing the net tax-supported debt by total personal income. There is also a lag in the data used by Moody's in this calculation. For example, to determine the 2016 ratio of debt to personal income, the 2016 tax supported debt is divided by 2014 personal income.

As shown in Table 3, Rhode Island's 2016 net tax-supported debt as a percentage of personal income ranks 15th highest. The debt level in the Ocean State equals 3.7 percent of state personal income compared to the U.S. median of 2.5 percent.

[3] Moody's State Debt Medians 2016.

Among the New England states, both Connecticut (ranking 2nd) and Massachusetts (ranking 3rd) had debt levels as a share of personal income higher than the Ocean State[4].

Rhode Island's 1996 net tax-supported debt as a percent of personal income was 8.5 percent. That ratio declined to 4.1 percent in 2006, above 2016 levels. Moody's notes that, nationally, despite continued increases in tax revenue, net tax-supported debt remains below peak levels reached in 2013, with 35 states undergoing a decline in absolute debt levels. However, overall, states' total debt service costs marginally increased by 0.6 percent in 2016.

## State Bond Ratings

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

**Table 4**
**General Obligation Bond Ratings**

| State | Rating | State | Rating |
|---|---|---|---|
| Delaware | Aaa | Hawaii | Aa2 |
| Georgia | Aaa | Arizona | Aa2* |
| Maryland | Aaa | Kansas | Aa2* |
| Missouri | Aaa | | |
| New Mexico | Aaa | Maine | Aa2 |
| North Carolina | Aaa | Mississippi | Aa2 |
| South Carolina | Aaa | Nevada | Aa2 |
| Tennessee | Aaa | Oklahoma | Aa2 |
| Texas | Aaa | **Rhode Island** | **Aa2** |
| Utah | Aaa | Wisconsin | Aa2 |
| Vermont | Aaa | Kentucky | Aa2* |
| Indiana | Aaa* | | |
| Iowa | Aaa* | California | Aa3 |
| | | Connecticut | Aa3 |
| Alabama | Aa1 | Louisiana | Aa3 |
| Alaska | Aa1 | Pennsylvania | Aa3 |
| Arkansas | Aa1 | | |
| Florida | Aa1 | New Jersey | A2 |
| Massachusetts | Aa1 | | |
| Michigan | Aa1 | Illinois | Baa1 |
| Minnesota | Aa1 | | |
| Montana | Aa1 | Nebraska | NA |
| New Hampshire | Aa1 | South Dakota | NA |
| New York | Aa1 | Wyoming | NA |
| Ohio | Aa1 | | |
| Oregon | Aa1 | | |
| Washington | Aa1 | | |
| West Virginia | Aa1 | | |
| North Dakota | Aa1* | | |
| Colorado | Aa1* | | |
| Idaho | Aa1* | | |
| North Dakota | Aa1* | | |

Ratings in Order of Highest to Lowest = Aaa, Aa1,Aa,Aa2,Aa3, A1,A2, A3, Baa1, Baa2, Baa3 (NA=No GO Debt)
* Issuer Rating (No General Obligation Debt Outstanding)
Source: Moody's Investors Service, State Debt Medians 2016, May 6, 2016.

As Table 4 shows, 47 of the 50 states currently have a bond rating from Moody's Investors Service. States that do not have general obligation debt bond ratings typically use pay-as-you-go financing or other methods to fund capital projects. Rhode Island is among 10 states that have a rating of Aa2. The state's current rating represents an improvement over 2009 when Rhode Island's rating was Aa3. Currently, no state has a bond rating lower than Baa1. Although interest rates are favorable for borrowing, it is of paramount importance that the state preserve or improve its current rating level of Aa2 (Moody's), and AA (S&P and Fitch) to ensure continued access to capital markets.

According to Moody's, the state's rating "incorporates the state's strong financial management practices, including multi-year financial planning, consensus revenue forecasting and consistent maintenance of reserves resulting in positive general fund balances; and

[4] Ibid

its narrow but improving liquidity."[5] On April 7, 2016, Moody's Investors Service determined Rhode Island's financial condition outlook was stable, citing stabilizing demographic and economic trends, consistent funding of budget reserves, and positive trends in liquidity management as strengths to the state's outlook.

In the recent outlook, Moody's listed Rhode Island's factors that could lead to an upgrade, which include: "maintenance of stronger reserve levels; sustained economic improvement at least in line with national average based on various metrics including job growth; and established track record of balancing budgets without significant one-time resources." Moody's noted that the state's rating could also go down with: "deterioration of state's liquidity position accompanied by worsening reserve and balance sheet position; persistent economic weakness indicated by lack of employment recovery when the rest of the nation rebounds; and failure to appropriate funds to the state's fulfill moral obligation pledge."

## November 2016 Ballot Initiatives

In the upcoming election on November 8, 2016, Rhode Island voters will be asked to vote on seven ballot initiatives. One initiative would approve the authorization of a state-operated casino gaming facility owned by Twin River-Tiverton, LLC in Tiverton, RI, and another is in regards to the reinstatement of jurisdiction of the independent Ethics Commission over General Assembly members. The remaining initiatives would allow the state to borrow money to invest in different projects through the issuance of general obligation bonds, refunding bonds, and temporary notes. This section delivers an outline of each of the referenda questions and their financial components as well as important questions voters should consider when voting on these proposals. RIPEC does not take a position on any of these questions.

### Constitution-Related Proposals

Voters will be asked to vote on two proposals relating to articles of the state constitution. Each referendum requires no authorization of borrowing.

*Question One: State Constitutional Approval*
The state has proposed an act that would authorize the licensing of a casino in Tiverton, replacing Newport Grand. The new casino, Twin River-Tiverton Casino – which would be owned by Twin River-Tiverton, LLC and regulated by the state – would offer video-lottery games and table games. The casino in Tiverton is projected to improve the state's revenues when compared to the casino remaining in Newport. As required by Article VI, Section 22 of the Rhode Island Constitution, the sanction of any expansion of gambling must be approved by voters in a statewide referendum. As previously mentioned, the referendum does not contain the authorization of any borrowing.

[5] Moody's Investors Service, "Moody's assigns Aa2 to Rhode Island's $117.175M GO Bonds; Outlook stable," April 7, 2016.

Questions to consider include:

- How would the creation of this new casino impact the town of Tiverton?
- Would this casino represent an asset to the town and to the state?
- What are the projected social and economic impacts from this gambling expansion?
- What are the consequences for Twin River if the new casino is not approved?
- What happens to the existing Lincoln facility if the new casino is not approved?
- How realistic are the projected benefits to the state and to Tiverton? How do those benefits compare to potential consequences of not approving the new casino?

*Question Two: Amendment to the Constitution of the State*

The state has submitted amendments to Article III, Section 8 and Article VI, Section 5 that would restore the ability of the Ethics Commission to oversee ethics transgressions by state senators and state representatives. The Ethics Commission was established by Rhode Island voters in 1986 as an independent body to examine and discipline members of the General Assembly in violation of the Code of Ethics. However, in 2009 the Rhode Island Supreme Court ruled that a clause in Article VI, Section 5 gave lawmakers protection from the jurisdiction of the Commission. The proposed amendments would reestablish the power of the Ethics Commission to hear ethics complaints concerning lawmakers as well as require two-thirds approval from the Commission for any new rules to the Code of Ethics.

Questions to consider include:

- Should the ethics commission have jurisdiction over the state's legislative body? How does this impact the separation of powers between the legislature and the state's executive branch, given the body is appointed by the Governor?
- Can the legislature be held accountable for ethics violations during the course of speech and debate? If so, what are the implications for free speech of legislators?
- How will the successful passage of this amendment affect the work of the members of the General Assembly?

**General Obligation Bond Proposals**

Voters will be asked to authorize up to $227.5 million in the issuance of 20 year bonds for capital projects totaling roughly $364.7 million in borrowing costs. For more information see Table 5. A summary of each bond referendum is provided below.[6]

[6] Detailed information on the bond proposals can be found in the Rhode Island 2016 Voter Information Handbook, the Office of Management and Budget FY 2017 Capital Budget, and the HFAS FY 2017 Budget as Enacted.

**Table 5**
**Total Estimated Bond Referenda Costs**

| Project | Principal | Interest | Total |
|---|---|---|---|
| Veterans Home | $27,000,000 | $16,281,371 | $43,281,371 |
| Higher Education Facilities | 45,500,000 | 27,437,126 | 72,937,126 |
| Port Infrastructure | 70,000,000 | 42,210,962 | 112,210,962 |
| Green Economy | 35,000,000 | 21,105,481 | 56,105,481 |
| Affordable Housing | 50,000,000 | 30,150,687 | 80,150,687 |
| **Total Cost** | **$227,500,000** | **$137,185,627** | **$364,685,627** |

Note: Assumes a 20-year amortization with level debt service at 5.0% interest, as of October 12, 2016

Source: Principal payment info from Rhode Island Secretary of State 2016 Voter Information Handbook

*Question Three: Veterans Home Bonds*

The state has proposed issuing $27 million to complete the construction of a new Veterans Home that was approved in 2012 and to finance renovations of the existing facilities in Bristol. The original design of the project was estimated to cost $94 million. In 2012, voters authorized the state to issue up to $94 million in debt to finance the project, with a provision that limits the total issuance to the difference between the total cost of the project and the resources provided by the federal government. Federal reimbursements for the project total $60.5 million, so the state originally issued $33.5 million to finance the rest. Since 2012, the estimated cost of the project has increased to $121 million, so the state needs approval to borrow an additional $27 million. Due to additional federal support, the project will still cost the state $33.5 million less than the $94 million voters originally approved in 2012, despite the increased price tag.

Questions to consider include:

- How would the quality of the facility be altered without the additional funding?
- What are the social and economic impacts of such a facility on the local community?
- How would veterans receive these benefits without this facility?

*Question Four: Higher Education Facilities*

The state has proposed a $45.5 million general obligation bond authorization to pay for construction projects affiliated with the University of Rhode Island. Specifically, $25.5 million would go towards Phase II of the URI College of Engineering Business Renovations project that began with the sanction of $125.0 million in general obligation bonds for Phase I as part of the November 2014 ballot initiatives. The first phase focused on wide-ranging revitalization plans for the existing structures specifically dedicated to the engineering programs at URI. This involved an overhaul of Kirk Hall as well as the demolition of Crawford Hall, Gilbreth Hall, Kelly Hall and Annex, and Wales Hall. Phase II is directed towards the renovation and expansion of Bliss Hall on the Kingston campus. This will consist of an upgrade to the building systems, the expansion of classroom space, modernization of the teaching laboratories, the creation of advanced research facilities, and an addition to Bliss Hall totaling 20,000 square feet.

The additional $20.0 million would go towards building one or more innovation campuses involving university-business partnership initiatives with the University of Rhode Island. The state envisions that these innovation campuses will bolster Rhode Island's economy by supporting inventive research into product, service, and business development. The state will select the location and type of campuses based on a competitive proposal process. Proposal requirements include the involvement of the University of Rhode Island, the inclusion of at least one business partner, the investment of private or federal funds that exceed that of state funds, and the establishment of a considerable number of jobs at a variety of skill levels. Both the URI Engineering Phase II and construction of an innovative campus are anticipated to begin mid-2017 and conclude by 2021, with estimated useful lives of about 45 years.

Questions to consider include:

- Is it appropriate for the state to issue bonds to finance this project, or should alternative funding sources be utilized? For example, how and to what extent has private fundraising for this project been considered?
- Is there sufficient demand for these programs that supports further expansion and renovation at URI?
- To what extent will the development of these higher-education programs improve the state's economic performance through job creation?
- How will the state's education system provide ongoing support for these facilities?

*Question Five: Port Infrastructure*

The state has proposed the issuance of $70.0 million in general obligation bonds towards port infrastructure projects. $50.0 million and $20.0 million are to be allocated to the Port of Davisville at the Quonset Business Park and the Port of Providence, respectively. Infrastructure modernization and maintenance at the Port of Davisville will focus primarily on Pier 2, which handles various cargoes such as automobiles, timber pilings, wind turbine components, defense industry manufactured goods, and cogeneration equipment. The pier is a crucial part of the Port's auto import business, which is rated among the top ten in North America. The improvements are projected to expand the useful lifetime of the pier by another 50 years and increase berthing capacity for docking the auto carriers by an additional 100,000 units per year. Estimates from the Quonset Development Corporation predict that the auto carrier business will increase by 4.5 percent per year over the next 6 years. The total project cost is $90.0 million, with $40.0 million provided through Rhode Island Capital Plan funds and special obligation bonds issued by the Rhode Island Commerce Corporation.

The $20.0 million for the Port of Providence is to be used to purchase up to 25 acres of land between Allens Avenue and Providence River in addition to funding accompanying infrastructure improvements. The goal is to increase the terminal capacity of the port and extend its useful life by 50 years. The state intends to enter into a revenue sharing agreement with the non-profit entity ProvPort, in which the state will own the land while the company will be responsible for managing and marketing it. Both port projects are anticipated to begin in 2017 and finish by 2022.

Questions to consider include:

- How will the infrastructure improvements and repairs increase the efficiency of the ports?

- What are the economic impacts if the state were not to pursue these projects?
- Would these projects generate any social or environmental disturbances?

*Question Six: Green Economy*

The state has proposed the authorization of $35.0 million in general obligation bonds for environmental and recreational purposes to be distributed over seven different projects:

- $4.0 million would go towards capital improvements of state-owned properties such as Goddard Memorial State Park, Fort Adams, Colt State Park, and Brenton Point. Specific projects include the renovation of the bathroom pavilion and facility upgrades at Goddard Park, the construction of a new restroom facility and maintenance building at Fort Adams, the restoration of the historic barn at Colt Park, and the repair of the restroom facility and visitor center at Brenton Point.
- $4.0 million has been allocated for state land acquisition as part of the Stand Land Acquisition Program to preserve and protect open space, farmland, watershed, and recreational lands. The state currently owns or protects 20,250 acres of land through the procurement of land, development of rights, and conservation easements. In general, 75 percent of the funding comes from federal, local, or non-profit sources, with the goal to protect 3,000 acres annually through this program.
- $10.0 million is intended for the construction and completion of bikeways such as Blackstone River Bikeway and the South County Bikeway.
- $5.0 million is proposed for matching grants of up to 80 percent of project costs to public, private, and non-profit entities for the cleanup and repurposing of brownfield sites. In the state of Rhode Island, it is estimated that brownfields encompass up to 120,000 acres of land, primarily in commercial or industrial locations in urban areas. The brownfield remediation project aims to remove hazards and clean up contamination from these sites in the hope of attracting jobs and protecting the urban environment. Additionally, the value of properties near these sights could potentially increase by 2 to 3 percent with the cleanup. Most recent projects include South Street Landing and Paragon Mills in Providence and the Westerly Higher Education and Job Skills Center.
- $3.0 million would go towards the reduction of stormwater pollution, providing up to 75 percent in matching grants to public, private, or non-profit entity projects. The projects entail the cleanup and prevention of stormwater pollution and contamination, which degrades the local water sources used for drinking water and recreational purposes.
- $5.0 million would go towards municipal projects to create, develop, or upgrade local recreational facilities through matching grants of up to 80 percent. Grant applications will be assessed and selected by the State Recreation Resources Committee, composed of state and local government officials as well as representatives from non-profit agencies.
- $4.0 million would be allocated for grants to municipalities, local land trusts, and non-profit organizations matching up to 50 percent for the purchase, development rights, and conservation easements of open space land. In the 30 years this program has been operational, there have been over 160 conservation projects preserving over 10,000 acres of land. Previous projects include Sunset Farms in Narragansett, Weetamoe Woods in Tiverton, Glacier Park in Westerly, and Mount Hope Farm in Bristol.

These environment and recreation investment projects are expected to begin in fiscal year 2018 and conclude by fiscal year 2022. The Department of Environmental Management estimates the useful life of the revitalized recreational facilities and enhancements to park infrastructure to be between 30 and 50 years, while the useful life of the parkland preservation, repurposed brownfield sites, and stormwater pollution reduction to be permanent.

Questions to consider include:

- How will these enhancements and renovations impact social and environmental well-being?
- In what ways are private and non-profit entities involved in the funding of environmental preservation projects such as these?
- To what extent have alternative funding sources, such as federal grants or the state pay-go financing, been considered?
- What is the estimated demand for these projects?
- How have prior bonds for these types of projects been utilized in the past? Have all funds that were previously authorized for such projects been spent?

*Question Seven: Housing Opportunities*

The state has proposed the issuance of $50.0 million in new general obligation bonds to be allocated towards affordable housing development and urban revitalization. $40.0 million is intended for the redevelopment and construction of affordable housing units such as apartments, for-sale homes, and supportive housing. Previous affordable housing bond referendums have been used to build over 1,900 affordable homes and apartments across Rhode Island. The improvements to existing structures and creation of new affordable housing are expected to begin in 2017 and be completed by 2023. $10.0 million is to be implemented for programs aimed at revamping properties that are in need of enhancements. This includes residential and commercial properties and public and community spaces. The urban renovations are likely to commence in 2017 and conclude by 2021. Both projects are expected to yield a minimum useful life of 30 years.

Questions to consider include:

- Will the development of affordable housing and the revitalization of urban properties represent economic and social assets?
- What are the environmental impacts of these projects?
- Have alternative financing sources been explored?
- What is the estimated demand for these projects?
- How have prior bonds for these types of projects been utilized in the past? Have all funds that were previously authorized for such projects been spent?

## Preliminary FY 2016 Closing

### Revenue Changes

Overall, FY 2016 revenues were higher than in the FY 2016 enacted budget. Table 6 provides an overview of the revised state revenues. Total FY 2016 actual revenues were $3,663.6 million – $28.6 million (0.79 percent) more than the enacted revenues of $3,635.0 million. Total tax revenue was $22.7 million (0.8 percent) higher than enacted.

Within this total:

- Personal income tax collection actuals were $7.5 million (0.61 percent) less than enacted, as were sales and use tax collection actuals ($8.7 million lower than enacted);
- General business tax collections were $6.0 million less than enacted. Higher-than-anticipated collections from public utilities gross earnings, financial institutions, insurance companies, and bank deposits were more than offset by business corporations collections, which were $18.6 million (12.1 percent) less than enacted, and healthcare provider collections, which were $0.8 million (1.7 percent) less than enacted;
- Other tax collection actuals were $44.9 million more than enacted. Higher-than-anticipated inheritance and gift tax revenue ($44.9 million, or 179.0 percent, greater than enacted) more than offset losses in other tax revenue categories such as racing and athletics;
- Departmental revenue was 1.06 percent, or $3.8 million, higher than enacted.

**Table 6**
**General Revenues (Preliminary-Unaudited)**
**for the Fiscal Year Ended June 30, 2016 ($ millions)**

| | Final Budget | Actual | Difference | % Difference |
|---|---|---|---|---|
| **Personal Income Tax** | $ 1,224.9 | $ 1,217.4 | $ (7.5) | -0.6% |
| **General Business Taxes** | | | | |
| Business Corporations | $ 153.5 | $ 134.9 | $ (18.6) | -12.1% |
| Public Utilities Gross Earnings | $ 99.5 | $ 103.1 | $ 3.6 | 3.6% |
| Financial Institutions | $ 20.4 | $ 21.1 | $ 0.7 | 3.4% |
| Insurance Companies | $ 121.4 | $ 130.3 | $ 8.9 | 7.4% |
| Bank Deposits | $ 2.4 | $ 2.6 | $ 0.2 | 6.5% |
| Health Care Provider Assess. | $ 44.0 | $ 43.2 | $ (0.8) | -1.7% |
| **Sales and Use Taxes** | | | | |
| Sales and Use | $ 981.0 | $ 971.9 | $ (9.1) | -0.9% |
| Motor Vehicle | $ 39.2 | $ 39.7 | $ 0.5 | 1.3% |
| Motor Fuel | $ - | $ (0.2) | $ (0.2) | |
| Cigarettes | $ 143.0 | $ 142.8 | $ (0.2) | -0.2% |
| Alcohol | $ 19.3 | $ 19.6 | $ 0.3 | 1.7% |
| **Other Taxes** | | | | |
| Inheritance and Gift | $ 25.1 | $ 70.0 | $ 44.9 | 179.0% |
| Racing and Athletics | $ 1.1 | $ 1.1 | $ (0.0) | -3.7% |
| Realty Transfer Tax | $ 10.4 | $ 10.4 | $ 0.0 | 0.3% |
| **Total Taxes** | $ 2,885.2 | $ 2,907.9 | $ 22.7 | 0.8% |
| **Departmental Revenue** | $ 363.8 | $ 367.6 | $ 3.8 | 1.1% |
| **Total Taxes & Departmentals** | $ 3,249.0 | $ 3,275.6 | $ 26.6 | 0.8% |
| **Other Sources** | | | | |
| Gas Tax Transfer | $ - | $ - | $ - | |
| Other Miscellaneous | $ 3.8 | $ 4.1 | $ 0.3 | 7.1% |
| Lottery | $ 370.1 | $ 369.8 | $ (0.3) | -0.1% |
| Unclaimed Property | $ 12.1 | $ 14.2 | $ 2.1 | 17.1% |
| **Total Other Sources** | $ 386.0 | $ 388.0 | $ 2.0 | 0.5% |
| **Total** | **$ 3,635.0** | **$ 3,663.6** | **$ 28.6** | **0.8%** |

Source: State Controller, FY 2016 Closing Statements - Preliminary Unaudited, Aug. 31, 2016.

### Expenditure Changes

Total general revenue expenditures, based on the preliminary unaudited closing statements for FY 2016, were $3,548.5 million, or $24.1 million lower than enacted. The majority of the difference – approximately $22.0 million – was due to lower-than-anticipated expenditures by General Government and Human Services agencies.

Lower-than-anticipated spending for General Government constituted nearly half of the difference between actual expenditure and the enacted budget ($11.4 million, or 2.4 percent).

**Table 7**
**General Revenue Expenditures (Preliminary)**
**for the FY Ended June 30, 2016 ($ millions)**

| | Final Budget | Actual | Variance | % Variance |
|---|---|---|---|---|
| General Government | $466.6 | $455.1 | $11.4 | 2.4% |
| Human Services | $1,382.8 | $1,372.2 | $10.6 | 0.8% |
| Education | $1,251.3 | $1,249.9 | $1.4 | 0.1% |
| Public Safety | $431.1 | $430.7 | $0.4 | 0.1% |
| Natural Resources | $40.8 | $40.6 | $0.2 | 0.5% |
| **Total** | **$3,572.6** | **$3,548.5** | **$24.1** | **0.7%** |

Source: State Controller, FY 2016 Closing Statements - Preliminary Unaudited, Aug. 31, 2016.

Within General Government, the Legislature and the Department of Administration accounted for the majority of the difference between the final budget and actual expenditures, with expenditures of $6.3 million and $3.5 million less than enacted, respectively.

Actual expenditures within Human Services were $10.6 million, or 0.8 percent, less than enacted. Relative to final appropriations, the Office of Health and Human Services accounted for the majority of this difference, with expenditures of $11.4 million less than enacted. In contrast, the Department of Behavioral Health, Developmental Disabilities and Hospitals spent $0.9 million more than appropriated.

Education, Public Safety, and Natural Resources combined expended $2.1 million less than appropriated, accounting for less than 10 percent of the total $24.1 million difference between final appropriations and actual expenditures.

**Budget Reserve and Cash Stabilization Fund**

**Table 8**
**State Budget Reserve**
**and Cash Stabilization Account**
**FY 2016 Preliminary ($ millions)**

| | |
|---|---|
| Opening Balance | $185.4 |
| Calculated transfer from General Fund | 114.9 |
| *Subtotal* | *$300.4* |
| Transfer to Capital Fund | $108.8 |
| **Ending Balance** | **$191.6** |

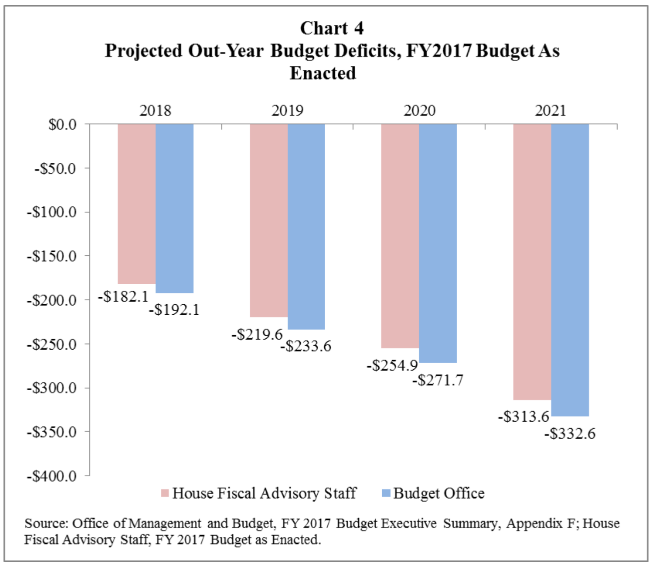
Source: State Controller, FY 2016 Closing Statements - Preliminary Unaudited, Aug. 31, 2016; RIPEC

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

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

As shown in Table 8, the Budget Reserve Fund had an opening balance of $185.4 million in FY 2016. The estimated transfer from the General Fund of $114.9 million resulted in a balance of $300.4 million. After transferring $108.8 million to the Rhode Island Capital Fund, a balance of $191.6 million remained. Based on statutory requirements, the state's "rainy day fund" is currently fully funded.

**Forecast**




The Budget Office's five-year financial projection, based on the Governor's proposed budget submitted in February 2016, indicates that expenditures are anticipated to exceed revenues through FY 2021. Expenditures in this projection are anticipated to increase at an average annual rate of 3.3 percent from the FY 2017 base to FY 2021,[7] ultimately resulting in a FY 2021 deficit of $332.6 million. The House Fiscal Advisory Staff's (HFAS) out-year forecasts, based on the enacted FY 2017 budget, indicate that expenditure growth is expected to outpace useable revenue growth for FY 2018 to 2021, ultimately leading to a FY 2021 projected deficit of $313.6 million. The differences in the Budget Office and HFAS projections are illustrated on Chart 4. Due to publication timing, these forecasts do not include the results of the FY 2016 preliminary audit.

As opposed to the anticipated $0.4 million ending balance for the FY 2017 HFAS forecast,[8] the Budget Office forecast has a $0.5 million for FY 2017 ending balance.[9] It should also be noted that the Controller's preliminary unaudited report states that the ending surplus balance for 2016 is $43.9 million higher than the enacted. An audited report from the Controller could change these projections.

The November Caseload Estimating Conference will provide an update on projected caseloads and expenditures for TANF/RIWP, child care, SSI disability, general public assistance (GPA), and

[7] Office of Management and Budget, FY 2017 Budget Executive Summary.
[8] House Fiscal Advisory Staff, FY 2017 Budget as Enacted.
[9] Office of Management and Budget, FY 2017 Budget Executive Summary.

Medicaid spending.  The Revenue Estimating Conference will also update projected revenues based on the economic conditions in the state and current and projected revenue from taxes, departmental revenue, and other sources. The information from the November conference will represent the first official projections and will be used by the Governor as she develops the FY 2018 budget.

*Risks to the Forecast*

FY 2017 general revenue growth is projected to increase from -1.2 percent in FY 2016 to 3.1 percent. General revenue growth is expected to be moderate at 1.8 percent annually from FY 2018 to FY 2021, after taking into account the impact on state revenues of competition from Massachusetts gaming facilities. Lottery transfers to the state general fund are projected to decrease by a total of $54.2 million over the five year forecast by the State Budget Office, beginning in FY 2018. In FY 2018, there is an expected gain of $3.4 million due to the opening of a 200 room hotel in Twin River. However, in FY 2019, 2020, and 2021 there are projected revenue losses of $50.2 million, $2.4 million and $1.2 million, respectively, due to Massachusetts casino openings. The increase in competition is expected to affect the Rhode Island gaming facilities in Lincoln and Newport. [10]

Another out-year fiscal risk is medical services inflation, utilization, and technological change. A major part of the budget is influenced by medical costs, which have increased at a rapid rate, expanding the cost of the clients the state services and state personnel. The state budget office assumes that state employee health benefit cost growth will average 6.5 percent annually through FY 2021. Additionally, there is a demographic shift for elderly care due to the aging population factored into the end years of the forecast. This, taken together with Affordable Care Act implementation concerns, will impact state expenditures for medical services to Medicaid eligible citizens. [11]

The average employee cost sharing in FY 2009 was 11.0 percent of medical premium costs; in FY 2017 and thereafter, average employee cost sharing is projected to increase to 20.0 percent of medical premiums.  The costs of health care premiums are projected to grow 6.6 percent annually throughout the State Budget Forecast.[12]

Additionally, pension reform legislation from 2011 will reduce required state employee retirement contribution rates from 25.3 percent in FY 2017 to 24.7 percent projected for 2021. Nevertheless, based upon projected payroll growth and retirement contribution rates, state general revenue funded contributions for state employees are projected to increase by an average of 2.1 percent a year, from $104.4 million in FY 2017 to a projected $113.4 million by 2021. Total personnel and operating costs continue to rise at an annual rate of 2.5 percent, with an estimated increase of $122.3 million total by 2021.[13]

[10] Ibid., F1-F4
[11] Ibid.
[12] Ibid.
[13] Ibid.

The House Fiscal Advisory Staff Budget as Enacted estimates that the average expenditure growth rate is 50 percent higher than the average revenue growth rate from FY 2017 to FY 2021. Factors that contribute to the expansive growth in expenditures include assistance in the form of medical assistance programs including Rite Share, Rite Care, cash assistance, and tuition assistance programs. Other operating expenditures from the state include unemployment compensation, workers compensation, consultation services, and salaries and wages.