Governor’s FY 2016 Budget

Staff Presentation to the House Finance Committee
March 26, 2015

- March 12 - Governor announced her FY 2016 Budget via televised address
  - Some supporting documents provided
- March 13 - 2015 - H 5900 introduced and referred to Finance
- March ?? - All required supporting bound documents provided to Assembly
  - Capital still missing; other bound copies delivered March 25
Budget Briefings, Publications & Hearings

- Jan. 29 – Budget Status
- Feb. 4, 11, 25 – Issue Briefings
- March 17 – Budget at First Glance
- March 26 – Governor’s Budget Overview
  - House Fiscal Staff Budget Analysis
- March 31 – Article hearings begin
- Early May – Consensus Revenue and Caseload Estimating Conference

Governor’s FY 2016 Budget

Finance Committee Review

- Briefing - Overview
- Article hearings through April
  - 30 separate articles some with multiple sections affecting different issues
- Subcommittee review of individual agency budgets – April into May
- Governor’s requested amendments and other issues of interest
  - Already received some
References

- Materials are on line on the Assembly website - [http://www.rilin.state.ri.us](http://www.rilin.state.ri.us) under House Fiscal Reports
  - Tabs for 2015 session
  - Links to OMB/Budget Office
  - Includes items prepared by House Fiscal Staff that may be helpful
  - Hearings available “on demand” on Assembly website

Governor’s FY 2016 Budget

- FY 2014 Audited Closing
- FY 2015 Revised Budget
- FY 2016 Revenue-Expenditure Gap
- Governor’s Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears
FY 2014 Closing

- FY 2015 budget counted on surplus from FY 2014 to help fund FY 2015
- Preliminary FY 2014 data showed $8.7 million gain to that assumption
  - Subject to audit adjustment before final
- Audited data $8.6 million
  - Revenues had bigger revision - impacting retirement transfer only

<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$ 111.2</td>
<td>$111.2</td>
<td>$ 0.0</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,416.0</td>
<td>3,430.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(105.6)</td>
<td>(106.0)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Expenditures*</td>
<td>(3,352.4)</td>
<td>(3,336.4)</td>
<td>16.0</td>
</tr>
<tr>
<td>Closing Surplus</td>
<td>59.2</td>
<td>89.0</td>
<td>29.8</td>
</tr>
<tr>
<td>Reappropriation</td>
<td>-</td>
<td>(7.4)</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Txfer: Retirement</td>
<td></td>
<td>(13.8)</td>
<td>(13.8)</td>
</tr>
<tr>
<td>Free Surplus</td>
<td>$ 59.2</td>
<td>$ 67.8</td>
<td>$ 8.6</td>
</tr>
</tbody>
</table>

*Includes $10 million transfer to accelerated depr. fund
Closing – Revenues

- Revenues $14.2 million (0.4%) above
  - Taxes up $18.3 million with personal income and sales tax gains offsetting business taxes
    - Business taxes have been difficult to estimate
  - All other revenues down $4.2 million
    - Lottery receipts down $4.4 million – traditional as well as slots and table games

Closing – Revenues

- Revenues $14.2 million more
  - Law requires final revenues above estimates be transferred to the Employees’ Retirement System to pay down unfunded liability
  - Transfer = $13.8 million which is net of 3% transfer to rainy day fund
  - Prior year transfers
    - $0.2 million in FY 2013
    - $12.5 million in FY 2012
Closing - Expenditures

- General revenue spending $16.0 million (0.5%) below budgeted amounts – but areas of overspending
  - 5 agencies overspent when undistributed COLA funding is considered
  - Appropriation lines overspent even if agency totals were not
    - 31% of general revenue lines were overspent... Ongoing pattern not completely explained by COLA issue
    - Last year it was 22%

Closing - Expenditures

- Spending $16.0 million below:
  - $7.4 million unspent & re-appropriated
  - $8.8 million Medicaid savings
  - $2.5 million overspent in DCYF
  - $1.4 million overspent Public Safety
  - $0.8 million overspent in DOC
  - $0.3 million overspent in DEM
Governor’s FY 2016 Budget

- FY 2014 Audited Closing
- **FY 2015 Revised Budget**
- FY 2016 Revenue-Expenditure Gap
- Governor’s Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears

Current Year

- The *current year* had a projected deficit of almost $30 million
  - Mainly unmet expenditure savings that could affect out-years
  - Major overspending masked by revenue uptick, debt service and other savings
  - Requests for supplemental appropriations exceeded $60 million
  - Q1 reports over $90 million incl. caseloads
  - Governor’s FY 2015 revised ends with $3.1 million balance for use in FY 2016
## FY 2015 – HFAS Jan 29

<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Current</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>$  59.2</td>
<td>$75.2</td>
<td>$16.0*</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,493.1</td>
<td>3,508.9</td>
<td>15.8</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(106.6)</td>
<td>(107.3)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(3,445.2)</td>
<td>(3,505.1)*</td>
<td>59.9</td>
</tr>
<tr>
<td>Total FY 2015</td>
<td>$   0.6</td>
<td>($ 28.3)</td>
<td>($28.8)</td>
</tr>
</tbody>
</table>

* Includes $7.4 million reappropriation

## Current Year HFAS Jan 29 vs FY 2015 Enacted

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reappropriation</td>
<td>$  7.4</td>
</tr>
<tr>
<td>Legislature</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Employee COLAs</td>
<td>20.2</td>
</tr>
<tr>
<td>Debt Service</td>
<td>(20.4)</td>
</tr>
<tr>
<td>OHHS: Caseload Conference</td>
<td>37.0</td>
</tr>
<tr>
<td>OHHS: Other Programs*</td>
<td>11.8</td>
</tr>
<tr>
<td>Corrections*</td>
<td>5.0</td>
</tr>
<tr>
<td>Other *</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$59.9</td>
</tr>
</tbody>
</table>

* Items different than Budget Office Q1 estimates
**FY 2015 – Revised Comparison**

<table>
<thead>
<tr>
<th></th>
<th>HFAS 1/29</th>
<th>Gov</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening*</td>
<td>$75.2</td>
<td>$ 75.2 *</td>
<td>$0.0</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,508.9</td>
<td>3,524.0</td>
<td>15.1</td>
</tr>
<tr>
<td>Rainy Day</td>
<td>(107.3)</td>
<td>(107.7)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(3,505.1)*</td>
<td>(3,488.4)*</td>
<td>(16.7)</td>
</tr>
<tr>
<td><strong>Total FY 2015</strong></td>
<td>($ 28.3)</td>
<td>$3.1</td>
<td>$31.4</td>
</tr>
</tbody>
</table>

*Includes $7.4 million reappropriation

---

**Current Year: Gov. Revised Solution**

<table>
<thead>
<tr>
<th>Jan 29 HFAS est. ending surplus</th>
<th>($28.8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Retirement Transfer</td>
<td>13.8</td>
</tr>
<tr>
<td>Debt Service</td>
<td>5.7</td>
</tr>
<tr>
<td>Statewide Medical</td>
<td>3.4</td>
</tr>
<tr>
<td>UHIP Timing and Sources</td>
<td>4.5</td>
</tr>
<tr>
<td>Hospitals – enacted GME funding</td>
<td>1.0</td>
</tr>
<tr>
<td>Education Aid Formula</td>
<td>1.0</td>
</tr>
<tr>
<td>All Other</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total Gov. Ending Surplus</strong></td>
<td>$3.1</td>
</tr>
</tbody>
</table>
Governor’s FY 2016 Budget

- FY 2014 Audited Closing
- FY 2015 Revised Budget
- **FY 2016 Revenue-Expenditure Gap**
- Governor’s Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears

Budget Year and Out-years

- Budget Office Instructions based on $166 million July deficit projection
  - Includes calculation of current service revenues and expenses
  - Some revisions based on more updated data
  - Other revisions reflect different methodology and “policy choices”
- Impact of November Caseload conference increased that to $190.4 million
Governor’s FY 2016 Budget

- FY 2014 Audited Closing
- FY 2015 Revised Budget
- FY 2016 Revenue-Expenditure Gap
- Governor’s Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears

Governor’s Solution

<table>
<thead>
<tr>
<th>FY 2015 Surplus</th>
<th>$ 3.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>70.0</td>
</tr>
<tr>
<td>Medicaid</td>
<td>90.5</td>
</tr>
<tr>
<td>Locals</td>
<td>5.2</td>
</tr>
<tr>
<td>Commerce</td>
<td>(11.4)</td>
</tr>
<tr>
<td>Debt Service (excl. restructure)</td>
<td>11.8</td>
</tr>
<tr>
<td>Statewide Savings- undistributed</td>
<td>25.3</td>
</tr>
<tr>
<td>All Other</td>
<td>(4.1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$190.4</strong></td>
</tr>
</tbody>
</table>

* Millions
Governor’s Solution

- Revenues
- Medicaid
- Locals
- Economic Development
- Departments and Agencies
  - Debt Service
  - Undistributed Savings
  - All Other

Revenues Changes

Revenues - $70.0 million
- Enhanced Collections - $2.3 million
  - Contingency Fee Contracts - $1.8 million
  - Self-Audit Program - $0.5 million
- New or Increased taxes - $27.5 million
- Tax/Fee Reductions - $(12.7 million)
- Scoops/Transfers - $52.9 million
### Revenues Changes

#### New/ Increased taxes - $27.5 million

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarettes: up 25 cents per pack</td>
<td>$7.1</td>
</tr>
<tr>
<td>Enterprise Zone Credit Elimination</td>
<td>$0.4</td>
</tr>
<tr>
<td>Hotel Room Resale</td>
<td>$0.8</td>
</tr>
<tr>
<td>Small B&amp;Bs/Unlicensed Rentals</td>
<td>$0.9</td>
</tr>
<tr>
<td>Vacation Homes</td>
<td>$5.4</td>
</tr>
<tr>
<td>Real Estate Conveyance expand</td>
<td>$0.7</td>
</tr>
<tr>
<td>State Property Tax - second homes</td>
<td>$11.8</td>
</tr>
</tbody>
</table>

#### Tax/Fee Reductions - $(12.7) million

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Energy Sales Tax*</td>
<td>$(4.9)</td>
</tr>
<tr>
<td>Earned Income Tax Credit *</td>
<td>$(3.0)</td>
</tr>
<tr>
<td>Social Security Exemption*</td>
<td>$(3.9)</td>
</tr>
<tr>
<td>Occupational Licensing</td>
<td>$(0.4)</td>
</tr>
<tr>
<td>Imaging/Surgi Centers Surcharge*</td>
<td>$(0.6)</td>
</tr>
</tbody>
</table>

*Impacts grow in out years, some phased reductions
Revenues Changes

<table>
<thead>
<tr>
<th>Scoops/Transfers - $52.9 million</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco Settlement</td>
<td>$19.0</td>
</tr>
<tr>
<td>Clean Water Finance</td>
<td>$11.0</td>
</tr>
<tr>
<td>Resource Recovery</td>
<td>$1.5</td>
</tr>
<tr>
<td>RIHEBC Transfer</td>
<td>$5.0</td>
</tr>
<tr>
<td>Airport Corp</td>
<td>$0.4</td>
</tr>
<tr>
<td>Narragansett Bay Commission</td>
<td>$2.8</td>
</tr>
<tr>
<td>Motor Vehicle Fees Delay</td>
<td>$13.2</td>
</tr>
</tbody>
</table>

Governor’s Solution

- Revenues
- Medicaid
- Locals
- Economic Development
- Departments and Agencies
  - Debt Service
  - Undistributed Savings
  - All Other
Medicaid

Medicaid Solution: $90.5 million

- $46.4 million - Completed - legislation in budget
- $46.0 million - Tied to Task Force
  - Savings distributed but subject to revision
- Provider Tax Loss - $1.9 million

6 general themes

- Efficiencies & Oversight
- Program Administration
- Hospital Supports to Value Based System
- Long Term Care Supports to Value Based System
- Addressing High Cost Utilizers
- Coordinated Care - those w/ behavioral health care needs
## Medicaid

<table>
<thead>
<tr>
<th>Completed</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiencies &amp; Oversight</td>
<td>$9.5</td>
<td>$19.2</td>
</tr>
<tr>
<td>Hospital Supports Transition</td>
<td>27.9</td>
<td>55.2</td>
</tr>
<tr>
<td>LTC Supports Transition</td>
<td>8.9</td>
<td>17.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$46.4</strong></td>
<td><strong>$92.3</strong></td>
</tr>
</tbody>
</table>

## Medicaid – Completed

<table>
<thead>
<tr>
<th>Impact to Hospitals</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eliminate Upper Payment Limit</td>
<td>$11.3</td>
<td>$22.6</td>
</tr>
<tr>
<td>Rate Freeze &amp; 5% Reduction</td>
<td>15.7</td>
<td>31.6</td>
</tr>
<tr>
<td>Eliminate Graduate Medical Education Payment</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$28.0</strong></td>
<td><strong>$55.2</strong></td>
</tr>
</tbody>
</table>
### Medicaid – Completed

<table>
<thead>
<tr>
<th>Impact to Nursing Facilities</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eliminate Rate Increase</td>
<td>$5.4</td>
<td>$10.9</td>
</tr>
<tr>
<td>3% Rate Reduction</td>
<td>3.5</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>$8.9</td>
<td>$17.9</td>
</tr>
</tbody>
</table>

### Medicaid – Task Force

<table>
<thead>
<tr>
<th>Task Force</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiencies &amp; Oversight</td>
<td>$8.0</td>
<td>$16.1</td>
</tr>
<tr>
<td>Program Administration</td>
<td>1.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Hospital Supports Transition</td>
<td>15.0</td>
<td>30.2</td>
</tr>
<tr>
<td>Addressing High Utilizers</td>
<td>18.5</td>
<td>37.2</td>
</tr>
<tr>
<td>Coordinated Care - BH needs</td>
<td>3.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Total</td>
<td>$46.0</td>
<td>$92.6</td>
</tr>
</tbody>
</table>
# Medicaid – Task Force

## Efficiencies & Oversight

<table>
<thead>
<tr>
<th>Managed Care Plans - Value Based Purchasing</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$8.0</td>
<td>$16.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Selective Contracting</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Share Arrangement</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Program Administration

<table>
<thead>
<tr>
<th>Eligibility Verification &amp; Controls</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.5</td>
<td>$3.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enhanced Death Verification</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consistent Payment Rates</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Connect Care Choice Redesign</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Medicaid – Task Force

<table>
<thead>
<tr>
<th>Transition Hospital Supports</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neo-Natal Services &amp; Child Birth Bundle Rate</td>
<td>$15.0</td>
<td>$30.2</td>
</tr>
<tr>
<td>Readmission Policy to Align with Medicare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery System Reform Incentive Program (DSRIP)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Medicaid – Task Force

<table>
<thead>
<tr>
<th>High Utilizers</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pilot Accountable Care Organizations</td>
<td>$15.0</td>
<td>$30.2</td>
</tr>
<tr>
<td>Community Health Teams</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriate Setting for LTC Services and Supports</td>
<td>3.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Total</td>
<td>$18.5</td>
<td>$37.2</td>
</tr>
</tbody>
</table>
Medicaid – Task Force

<table>
<thead>
<tr>
<th>Coordinated Care</th>
<th>GR</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Mental Health Centers &amp; Inpatient Hospital Services</td>
<td>$3.0</td>
<td>$6.0</td>
</tr>
</tbody>
</table>

Governor’s Solution

- Revenues
- Medicaid
- Locals
- Economic Development
- Departments and Agencies
  - Debt Service
  - Undistributed Savings
  - All Other
**Locals**

**Locals solution $5.2 million**

- **Education Aid**
  - Formula education aid lower than estimated
    - Policy Choices
- **Local Aid**
  - Removes $5.0 million of one-time resources but that was not reflected in the deficit calculation

**Education Aid**

- Funds 5th year of formula
  - Adds $35.8 million based on updated data
  - Includes $1.4 million for full day kindergarten implementation
  - Distributions calculated by Dept. based on transition guidance in law
    - Subject to change in March, updated data
  - Assumes 2 new charter schools open for 2015-2016 school year
**Education Aid**

- **Full-Day Kindergarten**
  - Requires full-day K be offered to every eligible student to qualify for ANY education aid, as of August 2016
  - 7 districts currently do not offer full-day K
    - Coventry, Cranston, East Greenwich, Johnston, North Kingstown, Tiverton and Warwick
  - Language included in Article 6

- **$12.3 million for categorical aid**
  - Enacted level, shifts among categories
  - $4.1 million less than current services
  - Categorical Funds
    - $2.5 million for High Cost Special Ed
    - $3.5 million for Career & Tech
    - $4.0 million for Early Childhood
    - $2.4 million for Transportation
Education Aid

- **Transportation Categorical Funds**
  - Proposes to eliminate requirement to provide transportation to private schools
  - Savings of $2.0 million
  - Language included in Article 6
  - Funding provided is solely for regionalized districts

- **Textbook Reimbursement**
  - Eliminates mandate that local districts provide textbooks to students in non-public schools
  - Eliminates state’s partial reimbursement
    - Article 6, savings of $240,000
  - **School Breakfast – no change**
    - $270,000 - consistent with enacted level
Education Aid

- **Existing School Housing Aid Program**
  - $70.9 million, $3.0 million above enacted
  - Assumes moratorium lifts - current law
- **New School Building Authority Fund**
  - $20.0 million - from debt restructuring savings start the Fund, Article 9
  - Appears to assume continued funding via $80 million commitment less traditional program needs

Education Aid

- **Article 9**
  - Creates School Building Authority Office within Department to oversee the program
  - RIHEBC to administer, make loans & awards
  - Intended to direct resources to more immediate needs
    - Driven by needs assessment
  - Interface with current program not clear in legislation
### Local Aid Programs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dist. Communities</td>
<td>$ 10.4</td>
<td>$ 10.4</td>
<td>$ 10.4</td>
</tr>
<tr>
<td>PILOT</td>
<td>40.1</td>
<td>40.1</td>
<td>35.1</td>
</tr>
<tr>
<td>Motor Vehicle Excise</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Muni Incentive Aid</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 65.5</strong></td>
<td><strong>$ 65.5</strong></td>
<td><strong>$ 60.5</strong></td>
</tr>
</tbody>
</table>

- **Distressed Communities** - $10.4 million
- Same as enacted
- Redistribution among communities based on data

### Local Aid

- 7 municipalities qualify:
  - Central Falls
  - North Providence
  - Pawtucket
  - Providence
  - West Warwick
  - Woonsocket
  - East Providence receives 50% transition payment into program
Local Aid

- Municipal Incentive Aid - $5 million
  - Enacted level
  - Third and final year - not in out year data
  - Tied to actions on local pension plans
    - Coventry’s FY 2014 share reappropriated to FY 2015
    - FY 2015 Revised distribution excludes Coventry and Johnston - have until April 30 to come into compliance to receive funding
    - FY 2016 Recommendation for all municipalities

Local Aid

- PILOT - $35.1 million
  - FY 2014 funding level
  - FY 2015 payments included one-time funding from refinancing tobacco bonds

- Car Tax Phase-Out - $10 million
  - Enacted level
  - FY 2016 distribution to be revised spring 2015
Local Aid

- Library Construction Aid - $2.7 million
  - Full funding
- Property Valuation Reimbursements -
  - $1.8 million – full funding
  - Reimbursements to 15 communities
- $0.1 million for Lt. Gov to give grants to municipalities on regionalization and consolidation efforts Governor’s Executive Order

Governor’s Solution

- Revenues
- Medicaid
- Locals
- Economic Development
- Departments and Agencies
  - Debt Service
  - Undistributed Savings
  - All Other
**Commerce**

**Econ Development Solution: ($11.4) million**
- New $14.0 million for a series of initiatives
  - $11.4 million from current or former general revenues
  - $6.4 million from redirected hotel taxes
    - $3.8 million would have been general revenues
  - $4.0 million from general revenues for Commerce Corporation - doubles
  - $3.6 million for Executive Office programs

**New Programs and Operations Support**

<table>
<thead>
<tr>
<th>Program</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce Corp. Operations</td>
<td>$4.3</td>
</tr>
<tr>
<td>Tourism &amp; Marketing</td>
<td>5.5</td>
</tr>
<tr>
<td>Comp. Student Loan Forgiveness</td>
<td>1.8</td>
</tr>
<tr>
<td>High School Partnership</td>
<td>0.9</td>
</tr>
<tr>
<td>Small Business Initiative Research</td>
<td>0.5</td>
</tr>
<tr>
<td>Innovate Vouchers</td>
<td>0.5</td>
</tr>
<tr>
<td>Building Code &amp; Fire Permit</td>
<td>0.3</td>
</tr>
<tr>
<td>Office of Economic Empowerment</td>
<td>0.3</td>
</tr>
</tbody>
</table>

**Total** $14.0
Commerce

- Economic development
  - Tax credit programs
  - Programs and Investments and Initiatives
    - Legislation included in Article 29
  - Some supported by savings from debt restructuring
    - Spread over two years

Programs & Investments

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-195 Redevelopment Fund</td>
<td>$25.0</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Small Business Assist. Program</td>
<td>5.5</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>First Wave Closing Fund</td>
<td>5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affordable Housing Fund</td>
<td>3.0</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>RI Infrastructure Bank (CWFA)</td>
<td>2.0</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Streetscape Improvement</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1.3</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td><strong>Tax Credits</strong></td>
<td>1.8</td>
<td>16.7</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$44.5</strong></td>
<td><strong>$19.4</strong></td>
<td></td>
</tr>
</tbody>
</table>
Commerce Investments

- First Wave: 195 Development Fund - $25.0 million
  - Additional tools to attract new institutions, employers
  - Funding for infrastructure improvements and other incentives

- First Wave: Closing Fund - $5.0 million
  - Provide flexibility when working with businesses interested in locating to or expanding in Rhode Island
  - Critical investments, resolve complex negotiating issues and obtain technical and legal support when closing transactions
### Tax Credit Programs

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Wave Tax Credits</td>
<td>$ 12.7</td>
<td></td>
</tr>
<tr>
<td>Anchor Inst. Tax Credits</td>
<td>1.8</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$1.8</td>
<td>$16.7</td>
</tr>
</tbody>
</table>

- **First Wave:** Rebuild Rhode Island - $12.7 million in FY 2017 from debt restructuring
  - $7.4 million loss for FY 2017 - grows to $25.1 million in FY 2020
  - Credit up to 30% of project costs
    - DOA decides credits available each year
    - As drafted, no caps but administration will clarify intent
**Commerce Corp. Tax Credits**

- **Tax Stabilization Incentive**
  - Encourage property tax stabilization agreements between locals & developers
    - For $10.0 million of new development or rehab
  - Locals receive reimbursement of up to 10% of foregone revenue
    - For period of stabilization agreement
  - Appear to be included in “First Wave” tax credit $12.7 million total

- **Anchor Credit** - $5.7 in million FY 2016 and FY 2017 from debt restructuring
  - Against corporate income tax
  - For existing RI businesses that attract other businesses to state
    - Physical relocation or specific number of jobs
  - Credit amount determined by Commerce Corporation
  - As drafted, no caps
Commerce Corp. Tax Credits

- Tax Increment Financing
  - Developers receive reimbursements up to 30% of project costs from revenues
    - Up to 75% of revenues that would not have been generated without project
  - Designed to be revenue neutral
    - Determination requires information sharing that may prove difficult

Governor’s Solution

- Revenues
- Medicaid
- Locals
- Economic Development
- Departments and Agencies
  - Debt Service
  - Undistributed Savings
  - All Other
Other Items

- Revamps needs based scholarships and dissolves Higher Ed Assistance Authority
- Indicates a plan to revise uses of workforce funding
- Includes $12.3 million in debt service relating to 38 Studios default as part of the Job Creation Guaranty
- Assume use of Google Settlement funds to seed long term pay-go pension solution
- Add funding for Meals on Wheels

Other Items

- Creates a funding mechanism for HealthSource RI intended to be comparable to cost to use federal exchange
- Proposes changes to budget submission date and scope and process of REC/CEC
- Proposes broad Authority for DCYF director to manage department appropriation
- Assumes passage of minimum wage increase in DEM funding
### Governor’s Solution

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015 Surplus</td>
<td>$ 3.1</td>
</tr>
<tr>
<td>Revenues</td>
<td>70.0</td>
</tr>
<tr>
<td>Medicaid</td>
<td>90.5</td>
</tr>
<tr>
<td>Locals</td>
<td>5.2</td>
</tr>
<tr>
<td>Commerce</td>
<td>(11.4)</td>
</tr>
<tr>
<td>Debt Service (excl. restructure)</td>
<td>11.8</td>
</tr>
<tr>
<td>Statewide Savings- undistributed</td>
<td>25.3</td>
</tr>
<tr>
<td>All Other</td>
<td>(4.1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$190.4</strong></td>
</tr>
</tbody>
</table>

* Millions

### Governor’s FY 2016 Budget

- FY 2014 Audited Closing
- FY 2015 Revised Budget
- FY 2016 Revenue-Expenditure Gap
- Governor’s Recommended Solution
- **Operating Budget Overview**
- Capital Budget Overview
- Outyears
## Expenditures

<table>
<thead>
<tr>
<th></th>
<th>Enacted</th>
<th>Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen. Rev.</td>
<td>$3,445.2</td>
<td>$3,491.6</td>
<td>$46.5</td>
</tr>
<tr>
<td>Federal</td>
<td>3,086.5</td>
<td>3,003.1</td>
<td>(83.4)</td>
</tr>
<tr>
<td>Restricted</td>
<td>283.1</td>
<td>239.4</td>
<td>(43.7)</td>
</tr>
<tr>
<td>Other</td>
<td>1,965.4</td>
<td>1,893.5</td>
<td>(72.0)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,780.2</strong></td>
<td><strong>$8,627.6</strong></td>
<td>($152.6)</td>
</tr>
</tbody>
</table>

## Sources (millions)

### Sources

- Gas Tax
- Restricted Receipts
- Lottery
- Departmental
- Other Taxes
- UI & TDI
- Business Taxes
- All Other
- University and College
- Sales
- Personal Income
- Federal Grants

### Graph

- Bar chart showing the distribution of sources with Federal Grants being the largest.
All Funds by Function: Governor FY 2016

- Gen. Govt. 17.5%
- Transp. 6.3%
- Nat. Res. 1.4%
- Public Safety 6.4%
- Education 28.4%
- Human Svcs. 40.6%

All Funds by Category: Governor FY 2016

- Asst., Grants, Benefits 46.2%
- Local Aid 14.3%
- Personnel & Operating 30.9%
- Operating Xfers 2.6%
- Capital 6.0%
Contracted Services
- Increase of 0.9% from enacted
  - General revenues decrease 2.0%
    - Shifted to available federal funds
- Over the past few years, Assembly required state agencies to be held more accountable for contract services they purchase

Contracted Services
- General Assembly requirements:
  - List privatization contracts
  - Quarterly reports of non-state employee expenditures for legal and other services
  - 5.5% assessment to be paid to the retirement system - Pension Reform
Salaries and Benefits
- Increase of 2.8% from enacted
- General revenues increase 3.2%
- Includes COLA
  - Most contracts expired at the end of last fiscal year
  - Partially offset by increased turnover

Operating Costs
- Decrease 4.8% from enacted
  - 4.9% increase from general revenues
  - 1/3 in Corrections for per diems based on requested increase in population
  - Over another 1/3 for Higher Education for utilities, maintenance and equipment, furniture and supplies for new buildings (Chemistry, LG BTQ)
$3.3 million of undistributed statewide operating savings

$2.0 million from Division of Purchasing and Bureau of Audits review of contracts to ensure state has achieved all possible savings

Will also obtain outside services to identify the savings

$3.3 million of undistributed statewide operating savings

$1.0 million through competitive purchasing and energy efficiency initiatives

$0.1 million in printing costs

DoIT will review state printing to reduce number of office printers
Statewide Operating Savings

- $3.3 million of undistributed statewide operating savings
  - $0.1 million from eliminating unused and underused telephone lines
  - $0.1 million by allowing legal notices and advertisements to be posted electronically in lieu of in a newspaper
  - Amendment received March 26 to withdraw this proposal

- Budget includes $22.0 million in savings from unidentified statewide personnel savings
- Governor plans to negotiate with labor to achieve savings in addition to changes contained in Article 22
  - Removes certain protections and parity provisions to provide flexibility on hires, layoffs and medical benefits
Personnel Initiatives

- **Classification Issues**
  - Proposes allowing DOA director to deem non-union senior agency level positions as unclassified and set their compensation
  - Proposes converting higher classified positions to non-classified positions and removes them from the merit system
    - on a prospective basis
  - Allows more flexibility on hires and layoffs

- **Budgets**
  - Include $1.0 million from general revenues for classification and compensation study
  - Continues work begun with 2013 study and review of the personnel system
Active and Retiree Health Insurance
- Alters requirements for what benefits shall be included in early retiree health plans
- Removes requirement that non-union employees receive same health benefits as union employees
- These changes allow state to have more flexibility on plan selection and co-shares

Longevity
- freezes longevity at amount earned
  - As of the later of last pay period in June 2015 or last pay period prior to expiration of applicable collective bargaining agreements
  - Longevity will not grow with other raises
  - 2011 Assembly froze the rate
Administrative Changes

- Repeals requirement for Assembly approval in determining cabinet directors' salaries
- Directors' salaries would be determined by the director of DOA
- Proposed as part of FY 2015 budget
  - Not approved by 2014 Assembly

Administrative Changes

- Allows Personnel Appeal Board to reverse a personnel administrator action only if Board finds that the action was arbitrary, capricious, or contrary to rule or law
- Proposes to extend the probationary period for all positions from 6 months to 12 months
Full-time Equivalent Positions

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>3rd Party</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014 Avg.</td>
<td>13,322.1</td>
<td>587.5</td>
<td>13,909.6</td>
</tr>
<tr>
<td>FY 2015 Enacted</td>
<td>14,335.2</td>
<td>750.8</td>
<td>15,086.0</td>
</tr>
<tr>
<td>FY 2015 Rev.</td>
<td>14,349.9</td>
<td>750.8</td>
<td>15,100.7</td>
</tr>
<tr>
<td>Governor FY 16</td>
<td>14,373.6</td>
<td>745.8</td>
<td>15,119.4</td>
</tr>
<tr>
<td>Feb 21 Filled</td>
<td>13,231.3</td>
<td>592.6</td>
<td>13,823.9</td>
</tr>
<tr>
<td>Diff from Enacted</td>
<td>(1,103.9)</td>
<td>(158.2)</td>
<td>(1,262.1)</td>
</tr>
<tr>
<td>Diff from Gov.</td>
<td>(1,142.3)</td>
<td>(153.2)</td>
<td>(1,295.5)</td>
</tr>
</tbody>
</table>

Governor’s FY 2016 Budget

- FY 2014 Audited Closing
- FY 2015 Revised Budget
- FY 2016 Revenue-Expenditure Gap
- Governor’s Recommended Solution
- Operating Budget Overview
- Capital Budget Overview
- Outyears
Capital

- FY 2016 – FY 2020
- $3.4 billion outlays
  - Average $676.3 million per year
  - $852.2 million from financing $2,529.3 million from current revenue

Capital Budget Funding

- Pay-go, 74.80%
- Debt Funding, 25.20%
Rhode Island Capital Plan Funds

- 1990 Assembly set up the “rainy day” fund to ensure adequate cash and budget reserves
- Voter referendum in November 1992
- Largest source of state funded pay-go
- State spending limited to 97.0% of general revenues
  - FY 2013 was end of 5-year move from 98.0%

 Remainder goes to Budget Stabilization & Cash Reserve Account
- When account reaches 5.0%, excess flows to the capital account
- Used nearly exclusively for debt service in early part of last decade
- Voters amended constitution in 2006 to limit use for projects only
- Dedication of pay-go sources to capital lessens need to issue debt
Resources in the Fund have grown over time
 Being used for its intended purpose: lowering the state’s borrowing needs

- Annual $27.2 million is being used in lieu of borrowing to match federal transportation funds
Rhode Island Capital Plan Funds

- $599.4 million for FY 2016 – FY 2020
- Approximately $120 million annually
  - 31% for Transportation
    - Includes $20 million for FY 2016 to offset eliminated transfer of certain DMV fees to DOT for FY 2016
    - Current law provides that 25% of these fees are transferred in FY 2016, 75% in FY 2017, and all fees transferred in FY 2018
    - Remaining transfers would still happen
  - 22% for Higher Education

Rhode Island Capital Plan Funds

- Improvements for state buildings
  - Courts, prisons, hospitals
- State facilities
  - Dams, piers, parks
- Designed to extend the life of facilities
  - Prevent the need for costly replacements
Assembly Role

- Appropriate Pay-Go (Articles 1 & 10)
- Approve General Obligation Bond Referenda
  - Voters approve or reject
  - Debt service automatic
- Other Financing (Kushner)
  - Approve or reject resolution
  - Generally appropriate debt service
  - URI proposal in FY 2016 budget $5.1 million

Funding Considerations

- State’s overall debt structure
  - Net tax supported debt would increase by $23.7 million to $1,913.6 million
  - Had dropped to $1.3 billion in FY 2003 after use of tobacco bonds to defease debt
  - Past practice indicates it will be higher as more projects are added
Funding Considerations – Debt Ratios

- Debt as a percent of personal income would decrease from 3.6% in FY 2014 to 3.4% into FY 2015
  - Refunding of state debt
  - Would then drop to 2.3% in FY 2020, but likely to be higher based on projects being added

GO Bond Debt restructuring

- Budget lowers debt service payments in FY 2016 and FY 2017 from restructuring a portion GO debt
- 2 year savings of about $84 million
  - Used for specific budget initiatives
  - Increased debt service begins in FY 2020
- Debt service increases a total $13.6 million over the life of the debt
  - $0.2 million in net present value savings
### Funding Considerations – Debt Service

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Tax Supported Debt Service*</th>
<th>Pct. of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$238.1</td>
<td>6.7%</td>
</tr>
<tr>
<td>2016</td>
<td>$240.7</td>
<td>6.6%</td>
</tr>
<tr>
<td>2017</td>
<td>$236.8</td>
<td>6.5%</td>
</tr>
<tr>
<td>2018</td>
<td>$220.2</td>
<td>6.0%</td>
</tr>
<tr>
<td>2019</td>
<td>$191.5</td>
<td>5.2%</td>
</tr>
<tr>
<td>2020</td>
<td>$182.2</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

*Millions

### Debt Service as Percent of Useable Revenues

![Bar graph showing debt service as percent of useable revenues from FY 2012 to FY 2020. The graph displays a comparison between current debt service and new debt service. The y-axis represents percentages ranging from 3.0% to 7.5%, while the x-axis represents fiscal years from FY 2012 to FY 2020. The bars indicate a steady decrease in the percentage of debt service over the years, with a slight increase in a few years. The legend identifies blue bars for current debt service and orange bars for new debt service.]
Out-year Projections

- Five-year projections required by statutes
- Impact of Mass. gaming begins in FY 2016 with a $45.6 million revenue loss
  - Reaches its peak in FY 2019 where losses would total $125.1 million
  - In that year those losses account for over 40 percent of the projected deficit

Budget Office Deficit Estimates

<table>
<thead>
<tr>
<th></th>
<th>Estimated Revenues</th>
<th>Share Useable Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2017</td>
<td>$(74.6)</td>
<td>2.1%</td>
</tr>
<tr>
<td>FY 2018</td>
<td>$(211.8)</td>
<td>6.0%</td>
</tr>
<tr>
<td>FY 2019</td>
<td>$(285.9)</td>
<td>8.1%</td>
</tr>
<tr>
<td>FY 2020</td>
<td>$(376.7)</td>
<td>10.6%</td>
</tr>
</tbody>
</table>
These gaps continue to be a function of both economic and structural issues
- Some one-time sources used in FY 2016 budget solution
- Revenue reduction initiatives have growing impacts
- Forecast not dynamic - does not estimate revenue growth from budget initiatives or losses from reductions

Staff has not fully evaluated the extent to which proposed new programs are reflected in out years
- Education Aid appears to be understated by at least $10 million
- EITC loss overstated in FY 2017 alone
- Some Medicaid savings may grow, not necessarily reflected
Budget Briefings, Publications & Hearings

- Jan. 29 – Budget Status
- Feb. 4, 11, 25 – Issue Briefings
- March 17 – Budget at First Glance
- March 26 – Governor’s Budget Overview
- House Fiscal Staff Budget Analysis
- March 31 – Article hearings begin
- Early May – Consensus Revenue and Caseload Estimating Conference

Governor’s FY 2016 Budget

Staff Presentation to the
House Finance Committee
March 26, 2015