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# **Section I**

## **Budget at a Glance**

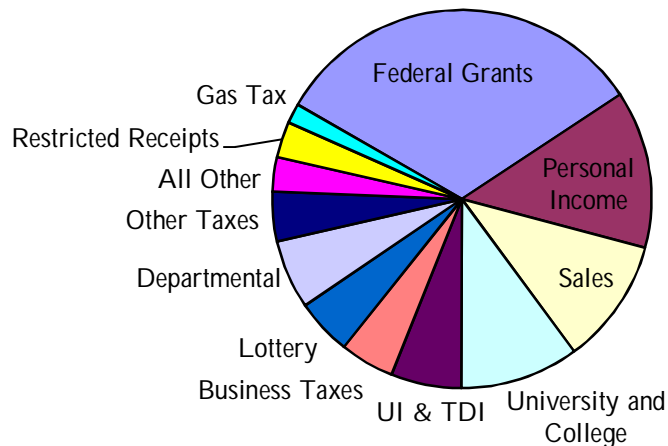
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## FY 2014 Budget at a Glance

The Assembly adopted a budget with total expenditures of \$8,213.1 million, which is \$40.6 million more than the Governor recommended. It contains \$3,359.8 million from general revenues, which is \$39.4 million less than the Governor recommended.

Sources of Funds



### Budget Issues

- **FY 2014 Gap.** House Fiscal Staff estimates that in preparing the FY 2014 budget, the Governor faced a projected revenue-expenditure gap of \$115 million as of November. This was somewhat lower than Staff's FY 2014 forecast in the FY 2013 enacted budget, mainly because of revisions and corrections to expenditure assumptions and continued caseload savings. The Governor's budget resolved a majority of this gap with the prior year surplus in addition to other one-time savings.

Weaker than expected revenue estimates offset by caseload changes adopted at the May 2013 Revenue and Caseload Estimating Conference meant \$30 million less in available resources compared to the Governor's budget. The Assembly's budget closed the May budget gap by accepting only some of the Governor's new spending initiatives, maximizing the benefits available under the Affordable Care Act and making additional spending reductions in agency budgets.

- **Out-Year Projections.** The Governor's budget projected the out-years to be significantly unbalanced, suggesting a \$170.5 million gap for FY 2015, equating to 5.0 percent of useable revenues, that grows to \$468.9 million in FY 2018, 13.4 percent of useable revenues. The FY 2015 gap is due to the significant use of one-time items in the resolution of the current budget gap as well as commitment of future expenses and revenue reductions not reflected in FY 2014. Beginning in FY 2016, the estimate reflects the potential impact of casino gaming in Massachusetts. Those losses account for \$140.8 million or nearly 30 percent of the FY 2018 gap. The Assembly's budget improves, but does not resolve, the out-year budget gaps. Current service expenditures for FY 2015 are likely to exceed available resources under current law by \$137.2 million.

- **Supplemental Pension System Contributions.** The Budget includes the transfer of \$12.9 million to the Retirement System to pay down the unfunded liability because final revenues for FY 2012 exceeded budgeted estimates based on the FY 2012 audited closing.

**Taxes and Revenues (See Section VI, Special Reports: Revenue Changes)**

**Business Taxes**

The Budget includes two changes relating to taxes on businesses. There is no fiscal impact for these changes for FY 2014, but there is a combined impact of \$27.5 million of revenue loss for FY 2015 which decreases to \$4.0 million for FY 2018. The changes are anticipated to result in increased revenue for FY 2019 and thereafter. These changes are summarized in the table below and described separately in the paragraphs that follow.

<b>Business Tax Changes</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
Accelerated Depreciation	\$ -	\$ (30.6)	\$ (23.0)	\$ (15.3)	\$ (7.7)
Domestic Production Deduction Elimination	-	3.1	3.3	3.5	3.7
<b>Total Impact</b>	\$ -	\$ (27.5)	\$ (19.7)	\$ (11.8)	\$ (4.0)

*in millions*

- **Asset Expensing and Depreciation.** The Budget eliminates the \$25,000 expense cap for depreciation of assets from business income that is subject to Rhode Island business corporate tax, bank tax, or personal income tax amending state law to conform to federal law regarding expensing limits and depreciation rules for assets.
- **Domestic Production Deduction.** The Budget amends current law to require corporations to add back to Rhode Island taxable income any amount deducted under the federal domestic production activities deduction. Currently, Rhode Island businesses are able to deduct a percentage of qualified domestic production activities for the purpose of computing Rhode Island tax liabilities due.
- **Corporate Income Tax Rate.** The Budget does not include the Governor’s proposal to decrease the Corporate Income Tax rate from 9.0 percent to 7.0 percent over three years. The rate would have been reduced to 8.0 percent for tax year 2014 and by 0.5 percent each of the following two years until reaching 7.0 percent for tax year 2016. The Budget adjusts revenues accordingly.
- **Jobs Development Act.** The Assembly did not concur with the Governor’s proposal to lower by half the Jobs Development Act rate reduction over two years, beginning in tax year 2014. Under current law, the Jobs Development Act provides for rate reductions of one quarter of one percent (0.25 percent) for each 50 new jobs created by eligible companies for three years past the base year. The reduction cannot be more than six percent. The Governor’s proposal discounted the available reduction by 25.0 percent for tax year 2014 and 50.0 percent for 2015 and thereafter.
- **Enterprise Zone Wage Tax Credit.** The Budget maintains the Enterprise Zone Wage Tax Credit, applicable to the corporate tax, which the Governor had proposed to eliminate. A qualified business in an enterprise zone is allowed a credit against business corporations’ taxes for wages paid to employees that are part of the new employees hired to meet the 12 month, 5.0 percent jobs growth requirement. Prior to 2011, this credit was also allowed against personal income tax for pass through entities.

## ***Other Revenues***

- ***Artists Sales Tax Exemption.*** The Budget expands the scope of sales tax exemptions for sale of qualified original art works, created by qualified artists, to include the whole state beginning on December 1, 2013. This exemption is currently limited to specific districts. Qualified artists in those specific districts will continue to be the only artists eligible for income tax exemptions. The Budget includes a revenue loss of \$825,000.
- ***Scholarship Tax Credit.*** The Budget increases the aggregate cap on the tax credit allowed for business entities making contributions to scholarship organizations from \$1.0 million to \$1.5 million. Currently, the funds are awarded on a first-come-first-serve basis. The maximum credit per tax year is \$100,000 and must be used in the year it is awarded. This change results in a revenue decrease of \$0.5 million for FY 2014.
- ***Liquor Tax Restructuring.*** The Budget includes a revenue loss of \$1.2 million from restructuring the state's sales tax on alcohol purchases. This reflects the elimination of the sales tax on spirits and wine from December 1, 2013 to June 30, 2015, and increasing the excise tax on beer from \$3.00 per barrel to \$3.30, spirits from \$3.75 per gallon to \$5.40 and wine from \$0.60 to \$1.40 per gallon from July 1, 2013 through March 31, 2015. The FY 2014 impact represents \$7.2 million in lost sales taxes offset by \$6.0 million in additional excise taxes.
- ***Mortgage Settlement Payment to the State.*** The Budget includes \$0.9 million in additional revenue from the Office of the Attorney General's mortgage fraud settlement of \$8.5 million to reflect 10.0 percent of the aggregate amount paid to the state as specified in the settlement's documents.
- ***Traffic Light Camera Violations.*** The Budget includes \$0.3 million of additional revenue derived from the state's collection of fines imposed on traffic light violations captured by camera. The Assembly included legislation mandating the use of a universal summons that would allow the state to track and collect its share of revenue from the violations.
- ***Newport Grand Share Increase.*** The Assembly adopted an increase in net terminal income paid to Newport Grand for two years, from July 1, 2013 to June 30, 2015. This temporary increase is intended to help Newport Grand stabilize and implement a short-term business plan, following the implementation of table gaming at Twin River and the legalization of gaming in Massachusetts. The Budget reflects an associated revenue loss of \$1.0 million in FY 2014.
- ***Outside Collection Agencies.*** The Budget includes \$750,000 in additional revenues from a proposal to have the Division of Taxation contract with collection agencies to recover debts owed from non-residents.
- ***Special Investigative Unit.*** The Budget assumes additional revenue of \$1.1 million from adding 2.0 full-time equivalent positions for the creation of a Special Investigative Unit within the Division of Taxation. The unit will review alleged violations of tax laws and recommend criminal prosecutions as warranted.
- ***Hospital Licensing Fee.*** The Budget includes \$141.3 million in revenues from a hospital licensing fee of 5.246 percent in FY 2014 using an updated base year and the same two-tiered fee as included in FY 2013. The licensing fee appears annually in the Appropriations Act.

- ***Overdue Payments from Hospitals.*** The Budget includes revenues of \$4.4 million in FY 2013 and \$5.6 million in FY 2014 from two hospitals paying the license fees owed to the state for FY 2012.
- ***ACA Medicaid Expansion – Gross Premiums Tax Collection.*** The Budget includes \$1.1 million in revenue from anticipated collections from premium payments made by the managed care plans for individuals newly enrolled in Medicaid as part of the expansion opportunity under the Affordable Care Act.
- ***Hazardous Substances Right-to-Know Fee.*** The Budget eliminates the \$42 hazardous substances right-to-know fee that is charged annually to employers who use, transport, store or otherwise expose employees to toxic or hazardous substances. Employers are still required to maintain lists of all hazardous substances, provide employees with readily available information, and certify compliance annually; the Budget assumes a \$0.4 million revenue loss from this change.
- ***Motor Vehicle Surcharge Fees.*** The 2011 Assembly enacted legislation establishing a transportation trust fund that is funded through incremental increases of license and registration surcharge fees as part of a plan to reduce the state's reliance on borrowing for transportation. This reduces the anticipated amount generated from these fees by \$1.1 million in FY 2014 following a review of transactions subject to these fees. The 2013 Assembly included legislation to clarify the application of surcharges on transactions that were not specifically addressed in the 2011 changes.
- ***Accident Reports.*** The Assembly concurred with the Governor's recommendation to eliminate state accident reports, which are required in certain situations but are not often filed because of confusion with the local reports. The Budget assumes a revenue loss of \$287,000 from this change.
- ***Estate Valuation of Farmland.*** The Budget amends current law to allow farmland to be appraised at its current use value, rather than its full and fair cash value, when included as part of an estate and utilized by an estate executor, administrator, heir-at-law, beneficiary, or trustee. No fiscal impact is assumed for FY 2014.

#### **Local Government (See Section VI, Special Reports: State Aid to Local Government)**

- ***Distressed Communities Relief Fund.*** The Assembly provided \$10.4 million in both FY 2013 and FY 2014 for the Distressed Communities Relief Fund. Communities' aid distribution is based on updated qualifying tax levies.
- ***Payment in Lieu of Taxes Program.*** The Assembly provided \$35.1 million in both FY 2013 and FY 2014 to fund the Payment in Lieu of Taxes program, \$2.0 million more than the FY 2013 enacted budget. This program reimburses cities and towns for property taxes that would have been due on real property owned by nonprofit educational institutions of higher learning, nonprofit hospitals, or any state-owned hospital, veterans' residential facility or correctional facility, which is exempt from taxation by state law. Reimbursement is 27.0 percent of the forgone tax, subject to appropriation. Distributions to communities reflect updated data and a ratable reduction to the appropriation. FY 2014 represents a reimbursement of 22.1 percent of the value.
- ***Motor Vehicles Excise Tax.*** The Budget funds the Motor Vehicles Excise Tax program at the enacted amount of \$10.0 million. The 2010 Assembly enacted legislation mandating a \$500 exemption for which the state will reimburse municipalities an amount subject to appropriation. The legislation allows municipalities to provide an additional exemption; however, that additional exemption will not be subject to reimbursement.

- **Library Resource Sharing Aid.** The Budget includes \$8.8 million to fund library operating aid at the enacted level.
- **Library Construction Aid.** The Assembly provided \$2.5 million to fully fund library construction aid requirements in both FY 2013 and FY 2014. The state reimburses libraries up to half the total costs for eligible projects on an installment basis for a period of up to 20 years. The payments do not begin until the state fiscal year following the completion, acceptance, and audit of the project. The 2011 Assembly adopted legislation to set a three-year moratorium on the acceptance of applications for library construction aid projects.
- **Property Valuation Reimbursement.** The Assembly included \$1.6 million for FY 2013 and \$0.5 million for FY 2014 to reimburse communities conducting property valuation updates.
- **Airport Impact Aid.** The Assembly included \$1.0 million for both FY 2013 and FY 2014 to the Economic Development Corporation so that the Airport Corporation can provide impact aid payments to the seven communities that host the six state airports. The community payments are made proportionally based on the number of total landings and takeoffs.
- **Municipal Incentive Aid.** The Budget provides \$5.0 million for a new Municipal Incentive Aid program to encourage sustainable funding of retirement plans and to reduce unfunded liabilities. For FY 2014, a municipality may become eligible for funding three ways. First, if it has no locally administered pension plan; second, if it has submitted an approved Funding Improvement Plan, if one is required, no later than June 1, 2013; or third, if its locally administered plan is not required to submit a Funding Improvement Plan.
- **Municipal Road and Bridge Revolving Fund.** The Budget includes \$7.0 million from bond premium proceeds for the initial capitalization of the Municipal Road and Bridge Revolving Fund, which is to be administered by the Clean Water Finance Agency for municipalities to borrow from to complete large scale road and bridge projects at a lower borrowing cost than could be achieved by the municipalities on the open market. Annual disbursements from the fund cannot exceed \$20.0 million, and no more than 50 percent of available funding in any calendar year shall be dedicated to any one city or town, unless there are no remaining eligible projects.

#### **Education Aid (See Section VI, Special Reports: Education Aid)**

- **FY 2014 Formula Education Aid.** The Budget includes \$769.7 million for school formula aid for school districts including Central Falls, the Metropolitan Career and Technical School, Davies Career and Technical School and charter schools pursuant to the new funding formula. This is \$30.1 million more than enacted and fully funds current estimates.
- **Funding Formula Assumptions.** The Budget funds the third year of the education funding formula adopted by the 2010 Assembly. The calculation for FY 2014 uses March 14, 2013 student enrollment data adjusted for FY 2014 projected charter school enrollments, a per pupil core instruction amount of \$8,897 and state share ratio variables updated with June 30, 2012 data. It assumes that districts that will receive more state funding will have the additional funding phased in over seven years and districts that are going to receive less state funding will have that loss phased in over ten years.
- **Regionalization Bonus.** The education funding formula requires additional funding from the state for a limited two-year bonus for regionalized districts. That requirement covered FY 2012 and FY 2013 for existing districts, and therefore the Budget excludes funds for FY 2014.

- **Special Education Categorical Funds.** The education funding formula allows for additional resources from the state for high-cost special education students when those costs exceed five times the district's combined per pupil core instruction amount and student success factor amount. The Budget includes \$1.0 million for FY 2014. This is \$0.5 million more than enacted and represents a plan to gradually increase funds annually.
- **Early Childhood Categorical Funds.** The education funding formula allows for additional resources from the state to increase access to voluntary, free, high-quality pre-kindergarten programs. The Budget includes \$2.0 million for FY 2014. This is \$0.5 million more than enacted and represents a plan to gradually increase funds annually.
- **Transportation Categorical Funds.** The education funding formula allows for additional resources from the state to districts for transportation costs. The Budget includes \$3.3 million for FY 2014 for the third year of the projected ten-year phase-in. This is \$1.1 million more than enacted. The state will provide funding to mitigate the excess costs associated with transporting students to out-of-district non-public schools and within regional school districts.
- **Career and Technical Education Categorical Funds.** The education funding formula allows for additional resources from the state to help meet the initial capital investment needs to transform existing or create new comprehensive career and technical education programs and offset the higher than average costs of maintaining highly specialized programs. The Budget includes the enacted level of \$3.0 million for FY 2014.
- **School Construction Aid.** The Budget includes \$69.9 million to fund projected costs of school construction aid to local districts for FY 2014, which is \$2.1 million less than the FY 2013 entitlement. The final FY 2013 cost is \$72.0 million or \$2.5 million less than enacted.
- **School Construction Refunding.** The Budget includes legislation to distribute 80.0 percent of the total savings from the local refunding of school housing bonds to the community and the remaining 20.0 percent to the state for any refunding between July 1, 2013 and December 31, 2015.
- **All Day Kindergarten Pilot Program.** The Budget includes \$250,000 for a new full-day kindergarten incentive grant program. This would provide one-time, startup funding for school districts that move from offering a part-time kindergarten to a full-day kindergarten. The Commissioner shall approve up to four eligible districts per year to voluntarily implement a full-day kindergarten program. Funds would be appropriated based upon criteria established by the Commissioner.
- **Group Home Aid.** The Budget reflects group home aid consistent with current law that requires that aid be paid for all beds opened as of December 31, 2012. The FY 2014 budget is \$1.1 million less than the FY 2013 enacted budget.
- **Textbook Reimbursement.** The Budget includes the enacted level of \$240,000 for reimbursements allowed under the textbook loan program for FY 2014. The state reimburses districts for the cost of providing textbooks to non-public school students in the areas of English/language arts and history/social studies in kindergarten through 12<sup>th</sup> grade.
- **School Breakfast.** The Budget includes the enacted level of \$270,000 for the administrative cost reimbursement to districts for the school breakfast program.



- ***Vision Services.*** The Budget shifts expenses for students attending the Rhode Island Vision Services Education Program at the Paul Sherlock Center from the state to local districts over a three year period for eventual savings to the state of \$745,000; there are savings of \$0.2 million included for FY 2014. The Rhode Island Vision Services Education Program provides teaching and consultation services to children who are blind or visually impaired, their families and educational staff within the school environment.

## **Economic Development**

- ***Executive Office of Commerce.*** The Assembly adopted legislation in 2013-H 6063, Substitute B, creating an Executive Office of Commerce to be administered by a secretary of commerce, effective February 1, 2015. The Office will oversee the Commerce Corporation, which will take over duties and functions of the Economic Development Corporation, effective January 1, 2014 as called for in 2013-H 6071 Substitute B. The Assembly also adopted legislation in 2013-H 6067 establishing a Business Development Center within the Corporation.
- ***Economic Development Planning Council.*** Legislation contained in 2013-H 6069, Substitute B creates a 17-member Economic Development Planning Council, which is charged with developing a long-term economic development vision and policy and strategic implementation plan. The plan must be submitted to the Governor and the General Assembly by October 31, 2014.
- ***Council of Economic Advisors.*** The Assembly adopted legislation in 2013-H 6070, Substitute B, which creates a 9-member Council of Economic Advisors, effective January 1, 2014. Among its duties, the Council must be a collection point of data and information on the state's economy and prepare an annual report on the state's economy.
- ***Economic Development Corporation Operations.*** The Budget includes \$3.9 million for FY 2014 from general revenues to support general operations of the Economic Development Corporation.
- ***Experimental Program to Stimulate Competitive Research (EPSCoR).*** The Budget provides \$1.15 million for FY 2014 for participation in the National Science Foundation's Experimental Program to Stimulate Competitive Research.
- ***Innovate Rhode Island Small Business Program.*** The Assembly provides \$500,000 from general revenues to fund the Innovate Rhode Island Small Business program and a bioscience and engineering program, which will be administered by the Rhode Island Science and Technology Advisory Council. Eligible businesses will receive grants to offset costs associated with applying to the U.S. Small Business Administration for Small Business Innovation Research grants or the Small Business Technology Transfer Research grants.
- ***Slater Technology Fund.*** The Budget includes \$1.0 million for FY 2014 for the Slater Technology Fund, which is a state-backed venture capital fund that invests in new projects. This reflects a reduction of \$0.5 million from the FY 2013 funding level and assumes the phase-out of state sources by \$0.5 million each year.
- ***38 Studios Debt Service.*** The Budget includes a \$2.5 million debt service payment relating to 38 Studios as part of the Job Creation Guaranty program. The Budget also includes \$50,000 from general revenues to conduct a market analysis pertaining to the 38 Studios debt.

- **Job Creation Guaranty Program.** The Assembly adopted legislation to repeal the Job Creation Guaranty Program.
- **Historic Tax Credit.** The Budget includes the Governor's proposal expanding the original debt authorization issued to finance historic tax credits to fund new projects to replace those projects that are not progressing. The total amount borrowed cannot exceed the original \$300 million. The General Assembly did not concur with preferences for projects in distressed communities and instead established new criteria for project approval, a maximum \$5.0 million project cap, an aggregate program cap, and reporting requirements.
- **Renewable Energy Development Fund Transfer.** The Budget maintains the Renewable Energy Program in the Economic Development Corporation. The Governor had proposed transferring it to the Office of Energy Resources.
- **I-195 Redevelopment Commission.** The Budget includes \$0.5 million for the I-195 Redevelopment Commission to fund its operations for FY 2014. This is in addition to the \$0.9 million that the Assembly provided for FY 2013.
- **College and University Research Collaborative.** The Budgets includes \$150,000 to establish a College and University Research Collaborative to conduct ongoing economic analysis by the state's public and private higher education institutions.
- **Job Development Fund Assessment.** The Budget includes provisions in Article 14 to sunset the 0.3 percent assessment, which was imposed on employers to pay back the outstanding federal unemployment insurance loans, once the loans are repaid. It also allows for temporary borrowing from the General Fund in order to pay off the loans in November 2014, which will save employers from additional federal taxes of approximately \$32 million in January 2015. Employers will still pay the 0.3 percent assessment until all loans and borrowed funds are repaid. After paying off the federal loans, any funds remaining in this account will be used for benefit payments.
- **Unemployment Insurance Loan Repayment.** The Budget includes \$37.6 million for FY 2013 and \$22.5 million for FY 2014 for the payment of interest and principal on the federal loans made to the Employment Security Trust Fund. The interest payment made in September 2012 totaled \$7.6 million and the FY 2014 interest payment is estimated to be \$7.5 million. The state's Employment Security Trust Fund was depleted by March 2009. Borrowing from the federal government was necessary to continue making benefit payments from the Trust Fund. Employer taxes fund the benefit payments and are used to repay the loans to the Employment Security Trust Fund.
- **Unemployment Insurance Benefits.** The Budget includes \$298.7 million for the payment of unemployment insurance benefits for FY 2014, including \$58.0 million from federal funds and \$240.7 million from the Employment Security Trust Fund. This reflects both the January 2013 extension of federal benefits and reductions from sequestration.
- **Governor's Workforce Board of Rhode Island.** The Budget includes \$10.1 million in FY 2013 and \$7.9 million in FY 2014 from restricted receipts from the Job Development Fund for workforce development activities. This is an increase of \$6.1 million over both years and reflects funds that were not spent in prior years.
- **Job Training Programs and Supports.** The Budget includes \$1.3 million from general revenues for several job training programs and supports, including the Governor's proposed statewide work

immersion and internship program. It also includes programs allowing individuals to continue collecting unemployment benefits while in on-the-job training for up to six weeks, allowing families with income below 180 percent of the federal poverty level to gain access to subsidized child care while attending certain job readiness programs if child care is required for participation, and creates a web-based jobs matching program.

## **Housing**

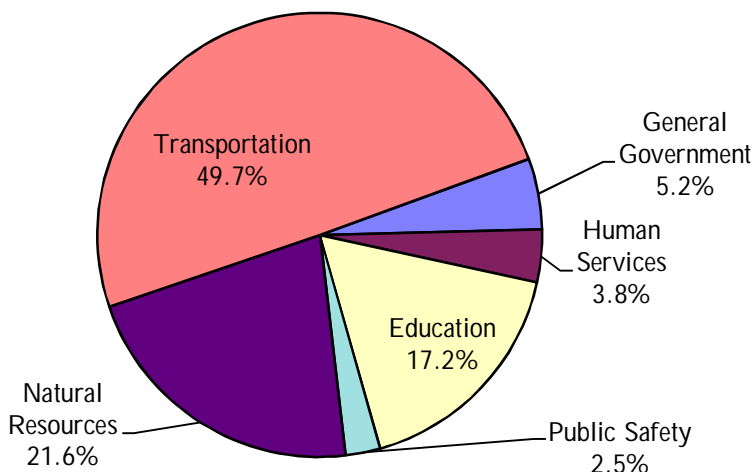
- **Rental Subsidies.** The Budget provides \$750,000 from general revenues to provide rental assistance subsidies, which will be administered by the Housing Resources Commission.
- **Shelter Operations.** The Budget includes \$1.5 million from general revenues to the Rhode Island Housing Resources Commission for emergency shelter operations.
- **Harrington Hall Renovations.** The Assembly provided a total of \$1.5 million from Rhode Island Capital Plan funds, including \$1.0 million in FY 2014 to renovate the facility. This will free up federal funds available to the Housing Resources Commission, which can now be used for emergency winter shelter operations. The renovations will include updating the heating, ventilation and air conditioning system, painting and a new kitchen.
- **Affordable Housing.** The Budget includes \$25.0 million from approved general obligation bond proceeds for affordable housing projects. This assumes use of \$12.5 million each in FY 2014 and FY 2015. The bond proceeds will be used by the Housing Resources Commission to provide state funds to promote affordable housing through redevelopment of existing structures and new construction.
- **Lead Hazard Program.** The Budget includes \$0.6 million from general revenues for the Lead Hazard program, which provides loans and grants to income eligible property owners for lead abatement. Annually, the program provides loans and grants to assist 35 to 55 households.

## **Capital Budget (See Section IV: Capital Budget)**

- **Outlays and Funding.** The FY 2014 through FY 2018 adopted plan includes \$3,327.4 million of outlays on \$9,025.9 million of project estimates. Average outlays would be \$665.5 million per year for the five-year period with \$761.7 million required at the end of the period to complete the projects.
- **General Obligation Bonds Referenda.** Financing for the plan is based on \$365.6 million of general obligation bond debt issuances, including \$167.5 million from new general obligation bonds to be presented to the voters on the November 2014 ballot.
- **Other Debt Approvals.** As in prior years, the Capital Budget includes expenditures from other debt sources but the corresponding legislation required has been excluded from the Governor's recommendations. For Public Higher Education, the Governor's recommendation includes \$213.3 million from revenue bonds, including \$115.5 million in the five-year period for which the Governor did not submit a resolution for Assembly approval of the debt issuance. This is the case for seven revenue bond funded projects for higher education, including two projects that assume expenditures beginning in FY 2014. The adopted plan is based on current law, and because no authorization was ever enacted for these projects, they have been removed from the plan.

- **Financing.** Paying for the five-year outlays includes \$791.6 million from debt financing and \$2,535.8 million from current or pay-go sources. Pay-go represents 76.2 percent with debt funding being 23.8 percent.

### FY 2014 - FY 2018 Capital Projects by Function



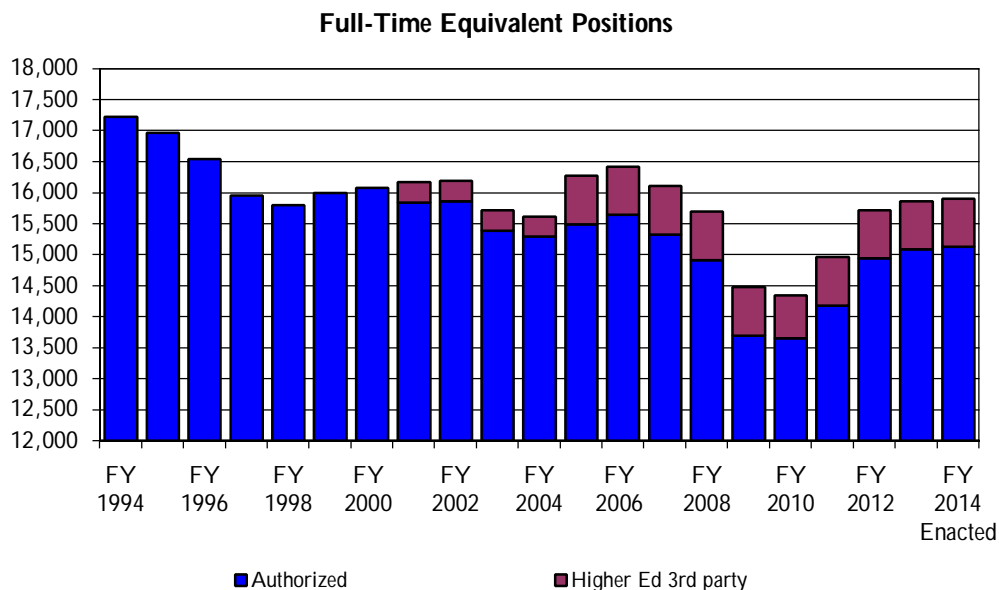
- **Debt Levels.** Total net tax supported debt decreases by \$274.4 million from the \$1,872.6 million reported for the end of FY 2012 during the period through FY 2018 to \$1,598.2 million. However, past practice indicates that debt levels will be significantly higher as more projects are added within the five-year period of this capital budget.
- **Debt Ratios.** Net tax supported debt would decrease from 3.9 percent of personal income reported for FY 2012 to 3.7 percent in FY 2013 before dropping gradually back to 2.5 percent in FY 2018 assuming that the capital budget is not increased. However, as with debt levels, past practice indicates it is likely to be higher than projected.
- **Debt Service.** Debt service in the Capital Budget would increase from 6.9 percent of useable general revenues in FY 2013 to 7.1 percent in FY 2018.
- **Rhode Island Capital Plan Fund.** The recommended plan relied heavily on the use of Rhode Island Capital Plan funds, an important source of pay-go funds designed to reduce the need for borrowing. In many instances the use of funds did not follow past practices, as illustrated in the recommendation for the Rhode Island Public Transit Authority, which includes funding for operating expenditures, traditional maintenance activities and upgrades to its existing fleet. The adopted plan removed these expenditures where appropriate.

### State Government

- **Staffing.** The Budget includes 15,118.3 full-time equivalent positions, including 776.2 higher education positions supported by research or other third-party funds. This is 92.0 positions more than enacted and 53.3 positions less than recommended by the Governor. Among the changes are 15.0 positions for the Health Benefits Exchange, 31.0 positions in the Lottery Division to supervise table gaming operations at Twin River Casino, 16.0 positions for the Office of Health and Human Services, 18.4 positions in the Department of Human Services and 40.2 positions in Behavioral Healthcare,

Developmental Disabilities and Hospitals for nurses, nursing assistants and attendants. It also includes 40.0 positions in the Department of Public Safety for the July 2013 State Trooper Academy.

As of June 29, 2013, there were 13,273.1 positions filled, leaving 584.7 non-research vacancies. In FY 2012, the state averaged 12,981.7 filled positions reflecting an average of 607.6 non-research vacancies.



- Health Coverage for Former Spouses of State Employees.** The Assembly adopted legislation to terminate state sponsored health insurance coverage provided to divorced spouses of state employees, prospectively effective for judgments entered into as of January 1, 2014.
- Medicare Exchange for Post-65 Retirees.** The Budget includes savings of \$2.0 million from all funds and \$1.1 million from general revenues from an initiative to offer a wider array of benefit choices to post-65 retirees that are likely to cost less. It alters retiree health benefit delivery from direct plan provision to an exchange system where the state converts the value of its co-share into a payment to a retiree Health Reimbursement Account with retirees buying benefits from a wider choice of plans in an exchange.
- FICA Alternative Retirement.** The Budget reflects the establishment of an alternative retirement plan for certain seasonal and part-time state employees. New seasonal and part-time employees will no longer pay their contributions to Social Security and instead contribute 7.5 percent of their pre-tax income to a 401(a) account. It is optional for current employees. The Budget assumes savings of \$0.3 million from general revenues.
- Dental Savings.** The Administration was able to renegotiate a rate increase for its dental contract of 3.0 percent for calendar year 2013 and extend the contract for an additional year at a maximum rate increase of 5.0 percent. For the one year extension, the rate will be calculated based on experience. The Budget assumes \$250,000 in savings, including \$140,000 from general revenues.
- Employee Health Benefits.** The Budget includes savings of \$0.7 million from a proposal to exclude the drug Nexium from its prescription formulary, effective July 1, 2013.

- ***Unemployment Insurance Positions.*** The Budget includes the elimination of 70.5 positions in the Department of Labor and Training's unemployment insurance division resulting from the anticipated loss of federal funding for these positions in FY 2014.
- ***Police and Fire Relief Fund.*** The Budget includes \$4.2 million from general revenues for the Police and Fire Relief program for the costs of annuity payments and in-state tuition to eligible spouses, domestic partners and dependents of certain injured or deceased police officers and fire fighters.
- ***Historic Tax Credit Trust Fund Debt Service.*** The Budgets include \$21.3 million and \$23.3 million from general revenues in FY 2013 and FY 2014, respectively, to fund debt service for historic tax credits. This is \$1.25 million more than the \$22.1 million current service estimate to reflect an updated issuance schedule.
- ***Contingency Fund.*** The Budget includes the enacted amount of \$250,000 from the Contingency Fund.
- ***Table Gaming Regulation.*** The Budgets include \$1.6 million from Lottery funds for FY 2013 and \$4.3 million for FY 2014 for the implementation of table gaming at Twin River Casino, including the hiring of 31.0 full-time equivalent positions beginning in February 2013.
- ***License Plate Reissuance.*** The Assembly adopted the Governor's recommendation to delay the issuance of fully reflective license plates until FY 2016, which will allow the Department of Revenue to install the new Registry of Motor Vehicles computer software system before undertaking the license plate reissuance.
- ***Validation Stickers.*** The Budget maintains the requirement for validation stickers to be issued to motorists when updating their registration.
- ***Rhode Island Financial Accounting Network System.*** The Budgets include expenditures of \$1.5 million and \$1.6 million in FY 2013 and FY 2014, respectively, for operational expenditures of the Rhode Island Financial Accounting Network System, which involves installation of a series of modules for each particular service that will form the integrated system.
- ***Electronic Reporting System.*** The Budget includes \$150,000 for FY 2014 for the Board of Elections to modify its electronic reporting system to comply with the state's Disclosure of Political Contributions and Expenditures Act of 2012. This act requires additional electronic reports be filed by individuals, businesses and political action committees making independent expenditures or electioneering communications.
- ***Rhode Island Health Benefits Exchange.*** The Budget includes \$28.3 million from federal funds and staffing of 15.0 full-time positions for the establishment of the Health Benefits Exchange, which will serve as a marketplace for individuals, families and small businesses to purchase health insurance coverage. The Exchange must be operational on January 1, 2014, and be ready to accept applications on October 1.
- ***Technology Investment Fund.*** The Budget assumes use of \$4.6 million from the Technology Investment Fund. The Assembly enacted legislation to allow proceeds from land sales to be deposited into the fund for acquiring information technology improvements, including, but not limited to, hardware, software, and ongoing maintenance. The 2012 Assembly also transferred \$9.0 million into

the Fund and the Department of Administration anticipates new revenues of \$4.5 million in FY 2014 from land sales.

- ***Veterans Memorial Auditorium Land Purchase.*** The Budget provides \$4.15 million from Rhode Island Capital Plan funds, including \$3.15 million to purchase the property adjacent to the Veterans Auditorium and \$1.0 million for site improvement costs. The land would be purchased for future development, though it could be used for parking immediately.
- ***Convention Center Facility Renovations.*** The Capital Budget includes \$5.5 million from Rhode Island Capital Plan funds, including \$0.5 million in the current year for renovations to the Convention Center facility.
- ***Dunkin Donuts Center.*** The Capital Budget includes a total of \$6.5 million from Rhode Island Capital Plan funds, including \$0.9 million in FY 2014 and \$1.4 million each in FY 2015 through FY 2018 for projects at the Dunkin Donuts Center.

### **Health and Human Services**

- ***Medical and Cash Assistance Programs.*** The Budget includes \$2,277.5 million from all sources, including \$1,050.2 million from general revenues to provide Medicaid funded health benefits, long term care, residential and day services to approximately 200,000 individuals, including children and their parents, elderly and disabled individuals. Funding is 30.9 percent of the state budget. The Budget also includes \$110.4 million from all sources to provide cash assistance and subsidized child care to approximately 55,000 individuals in FY 2014.
- ***Affordable Care Act – Medicaid Coverage for Certain Adults.*** The Budget includes \$85.0 million for federal Medicaid funds to provide medical benefits to adults without dependent children, whose annual incomes are at or below 133 percent of poverty, or approximately \$15,500, beginning January 2014. The Budget also extends Medicaid coverage to age 26 for individuals transitioning out of the foster care system.
- ***Affordable Care Act – Current Program Savings.*** The Budget includes general revenue savings of \$7.2 million from newly available medical coverage for individuals receiving certain services through the Medicaid global waiver. This includes adults with behavioral health issues, as well as those receiving medical coverage through the general public assistance and HIV programs.
- ***Affordable Care Act Transition Program.*** The Budget includes \$2.0 million from general revenues to assist in the transition for individuals receiving coverage through the exchange so that there is no interruption of benefits currently being provided through the Medicaid program as optional programs such as mental health and substance abuse services.
- ***Nursing Homes Payments.*** The Budget includes \$361.4 million to support nursing facilities in FY 2014. This is \$10.9 million more than the FY 2013 final budget and includes the one-year suspension of the annual nursing home adjustment, consistent with the Governor’s recommended budget.
- ***Home & Community Care Programs.*** The Budget includes \$98.1 million for home and community care programs in the Office of Health and Human Services. This includes the transfer of the Department of Human Services’ Division of Elderly Affairs’ Medicaid funded home and community care programs to the Office.

- **Managed Care Plans.** The Budget includes \$593.2 million to provide medical benefits to approximately 124,000 children and their parents through the RItE Care program and \$202.3 million for benefits to 14,000 disabled adults through Rhody Health.
- **RItE Care Program.** The Budget lowers the threshold for RItE Care parents to 133 percent of poverty and also eliminates the monthly payment charged to families between 150 percent and 250 percent of poverty. With parents having the opportunity to transition to the Health Benefits Exchange, the elimination of the monthly payment can be used to offset the monthly premiums charged for coverage through the exchange. The Budget also includes a program to assist with any other unsubsidized costs for the commercial coverage.
- **RItE Share Coverage.** The Budget increases the eligibility threshold to participate in the RItE Share program from 175 percent to 250 percent of poverty so children can continue to be covered through a parent's employer sponsored health plan.
- **Hospital Payments.** The Budget includes \$11.1 million for an outpatient upper payment limit reimbursement to be made to the community hospitals in FY 2014.
- **Unified Health Infrastructure Project.** The Budget includes state and federal funding totaling \$14.0 million in FY 2013 and \$20.4 million in FY 2014 to support the Unified Health Infrastructure Project, which replaces the current InRhodes eligibility system with an integrated system to also coordinate with the Health Benefits Exchange.
- **Office of Health and Human Services Strategic Plan.** The Budget includes \$0.2 million, including \$0.1 million from general revenues to develop a strategic plan for the Executive Office.
- **Office of Health and Human Services – Division of Program Integrity.** The Assembly adopted legislation creating the Division of Program Integrity within the Office of Health and Human Services to develop a statewide strategy to coordinate with state and local agencies, law enforcement and other investigative units to address the prevention, detection and prosecution of Medicaid and public assistance fraud. The new unit, which is consistent with the Governor's budget recommendation, will integrate work currently performed throughout the Office of Health and Human Services.
- **Project Sustainability.** The Budget includes \$183.0 million from all sources to provide community based services to approximately 3,600 developmentally disabled adults through Project Sustainability. This is \$2.0 million more than the Governor's recommended budget. The Assembly also directed the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals to explore the option of expanding shared living services to individuals with developmental disabilities.
- **Employment First Initiative.** The Budget includes the Employment First Initiative in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals to encourage employment as the first option to an individual as part of a recovery plan as an alternative to recreational or other day programming activities for the developmental disabilities and behavioral health programs.
- **Emergency Room Diversion Pilot Program.** The Budget includes \$250,000 for a new emergency room diversion pilot program to address the use of emergency room services for non-emergency purposes by individuals with substance abuse issues.



- ***Rhode Island Works Employment Programs.*** The Assembly established a pilot program to support new ways of service delivery for the Rhode Island Works and child care programs. This includes the Department of Human Services drafting an innovative proposal to test new approaches and awarding contracts on a competitive basis to improve work participation rates for Rhode Island Works clients and creating a pilot program increasing the income limit for subsidized child care to 225 percent of federal poverty, when eligible at 180 percent, from October 1, 2013 through September 30, 2014.
- ***System of Care.*** The Assembly includes \$73.7 million in FY 2013 and \$74.3 million in FY 2014 to support the two networks in the System of Care in the Department of Children, Youth and Families' budget. This is \$3.0 million more than recommended to offset additional expenses incurred by the lead networks. These costs include increased one-on-one staffing for high end residential youth placed by family court order, an increased number of youths in residential treatment, an increase to the daily rates paid for therapeutic foster parents, and an increase in the number of Network Care Coordinators and Family Support Partner teams.
- ***DCYF Education Costs.*** The Budget adds \$0.5 million from general revenues to support education costs for children in the Department of Children, Youth and Families' care for a total of \$1.0 million for FY 2014. The Department of Elementary and Secondary Education is currently transitioning some financial responsibility for children in the Department's care attending school outside of their home districts from the schools to the state. This is the second year of a five-year transition process.
- ***Regional Office Consolidation.*** The Budget includes closure of the Bristol regional office of the Department of Children, Youth and Families for savings of \$0.3 million in FY 2014. This would leave regional offices in Wakefield and Providence. The Department closed the North Kingstown office located on Ten Rod Road and moved its offices to the Oliver Stedman building in Wakefield in FY 2013.
- ***Bradley Group Home Rate Reduction.*** The Budget includes \$4.7 million from all sources for Bradley Hospital to operate group homes in East Greenwich, Rumford, North Providence and Warwick for children in the Department of Children, Youth and Families custody.
- ***Emergency Public Communication Access Program.*** The Budget shifts \$80,000 from the Public Utilities Commission's relay surcharge fund to create a new Emergency Public Communication Access program. Funds would be used to provide an emergency services system for the deaf and hard of hearing, communication devices at state facilities and provide training for first responders on how to provide services to this population.
- ***Blood Lead Poisoning Prevention.*** The Budget includes \$0.6 million in FY 2014 for blood lead poisoning prevention in the Department of Health, including \$0.4 million from general revenues and \$0.2 million from federal sources.
- ***New Veterans' Home.*** The Budget includes the expenditure of general obligation bond proceeds approved by the voters in November 2012 for the design and construction of the new Veterans' Home adjacent to the existing home in Bristol, beginning with \$8.0 million in FY 2014.

## Education

- ***Public Higher Education.*** The Budget includes \$1,057.5 million for Public Higher Education including debt service. The Budget includes \$180.0 million from general revenues, which is \$7.3

million more than FY 2013, of which \$6.0 million is intended to ensure that no institution raises tuition for FY 2014.

- **Joint Nursing Building.** The Capital Budget includes funding to complete architectural and engineering plans for the construction of a new nursing and associated health building for the University of Rhode Island and Rhode Island College. The Budget includes \$0.5 million from Rhode Island Capital Plan funds to complete architectural and engineering plans and \$2.0 million to renovate the existing nursing facilities at the University in FY 2014. Each chamber passed a resolution encouraging and supporting the efforts of the Board of Education and the Department of Administration to locate a shared nursing education facility at the South Street Power Station in Providence.
- **STEM Position.** The Budget includes \$121,000 from general revenues to hire an individual to staff the Science, Technology, Engineering, and Mathematics (STEM) Center at Rhode Island College full-time.
- **Telecommunications Education Access Fund.** The Budget provides an additional \$0.4 million from general revenues in FY 2014 to support the Telecommunications Education Access Fund. This fund provides financial assistance to qualified libraries and schools to acquire, install, and use telecommunications technologies to access the Internet. This fund is supported by a \$0.26 monthly surcharge levied upon each residence and business telephone access line.
- **University of Rhode Island Fire Safety.** The Budget includes \$13.4 million from Rhode Island Capital Plan funds over FY 2014 and FY 2015 for fire safety code improvements at the University of Rhode Island's academic buildings.
- **Need Based Scholarships and Grants.** The Budget includes a total of \$12.2 million for need based scholarships and grants for FY 2014, which is \$79,277 less than enacted. This includes \$4.3 million from general revenues, which is \$0.9 million less than enacted, and \$8.0 million from tuition savings funds, which is \$750,000 more than enacted.
- **Adult Education Grants.** The Budget adds \$0.3 million from Human Resource Investment Council funds to support adult education grants. This would provide total funding of \$5.8 million for FY 2014 including \$2.0 million from general revenues and \$3.8 million from Human Resource Investment Council funds.
- **Rhode Island Public Telecommunications Authority.** The Budget provides \$0.3 million in general revenue support for public television for FY 2014. Funding is intended to be the first year of a two-year plan to assist in the transition from a state agency to control of the Rhode Island PBS Foundation.

## Public Safety

- **Prison Population.** Consistent with the Governor's budget recommendation, the Budget assumes a population of 3,152 for FY 2014.
- **Correctional Officer Training Class.** The Budget includes \$0.7 million for each FY 2013 and FY 2014 from general revenues for recruitment and training for one new correctional officer class for each fiscal year. The FY 2014 class is intended to help reduce correctional officer overtime expenses at the Department of Corrections.

- **Medium Price Facility.** The Budget includes annualized savings of \$9.2 million from the closure of the Donald Price Medium Security facility, which occurred in November 2011.
- **Trooper Training Academy.** The Budget includes funding for the 55<sup>th</sup> Trooper Training Academy for FY 2013 and FY 2014. Advertising and recruitment began in the first half of FY 2013. The Academy is scheduled to begin on July 14, 2013.
- **Google Forfeiture Funds.** The Budget includes the enacted amount of \$12.4 million from restricted receipts from Google, Inc. forfeiture funds for modernization efforts in the Department of Public Safety.
- **New Emergency Management Agency Positions.** The Budget includes 5.0 new Emergency Management Agency positions including coordinators and managers for interoperability communication, incident management, critical infrastructure, domestic preparedness and all hazard planning.
- **Hurricane Sandy.** The Budget includes \$12.0 million for expenditures incurred due to damage caused by Hurricane Sandy in October 2012. This includes \$9.0 million from federal funds matched with \$3.0 million from Rhode Island Capital Plan funds during fiscal years 2013 and 2014.
- **Statewide Communications Network.** The Budget includes \$1.9 million from general revenues for the statewide communications network. The amount is \$0.6 million more than enacted to reflect the replacement of lost federal funds as well as an additional position to manage the network.
- **Indigent Defense Program.** The Budget includes \$3.5 million from general revenues in FY 2014 for the Judiciary's indigent defense program, which is \$0.3 million more than FY 2012 expenses.
- **Veterans' Court.** The Budget includes \$0.3 million and 3.0 positions for operational support of the newly formed Veterans' Court within the state's District Court.
- **Domestic Violence Court Advocacy.** The Budget includes \$0.2 million from general revenues in the Judiciary's budget for FY 2014 for domestic violence advocacy within the family court. The total includes an additional \$0.1 million provided by the Assembly to prevent a reduction of advocacy that would have resulted without the additional funding.

## Environment

- **Rocky Point State Park.** The Budget includes \$2.5 million from Rhode Island Capital Plan funds for maintenance and renovations at Rocky Point State Park in FY 2014. The Small Business Administration accepted the state's offer to purchase the Rocky Point property in September 2012, and the state completed the purchase in March 2013, after the federal district court and state properties committee approved the final purchase and sales agreement.
- **Galilee Piers.** The Budget includes \$0.5 million in FY 2013 and \$5.6 million in FY 2014 from state and federal sources for infrastructure improvements at the Port of Galilee. This includes \$2.9 million for a grant from the United States Economic Development Administration awarded after the Governor's original budget submission.
- **Fort Adams Sailing Improvements.** The Budget includes \$1.0 million from Rhode Island Capital Plan funds in FY 2013 and \$3.9 million in FY 2014 for improvements to Fort Adams State Park,

which will allow the state to host large-scale sailing events and construct a mid-park marine educational and recreational facility. The Budget also includes \$2.2 million from restricted receipts to reflect anticipated private donations for the mid-park facility.

- ***Rhode Island Local Agriculture and Seafood.*** The Budget includes \$0.2 million for FY 2014 to administer a new program to promote the marketing of Rhode Island seafood and farm products. This program was created by the Rhode Island Local Agriculture and Seafood Act of 2012.
- ***Natural Resources Offices/Visitor's Center.*** The Budget includes \$125,000 for FY 2013 and \$1.8 million from Rhode Island Capital Plan funds for FY 2014 to construct a new office facility for the Department of Environmental Management's natural resources division in the Arcadia Management Area at Browning Mill Pond. The facility would include office and lab space for mosquito abatement tests and the state veterinarian, as well as a visitor's center.
- ***State Recreation Facilities.*** The Budget includes \$1.1 million for FY 2013 and \$3.4 million for FY 2014 from Rhode Island Capital Plan funds for improvements to Rhode Island parks and management areas. This includes \$0.1 million in FY 2013 and \$0.8 million in FY 2014 to be used for improvements at Brenton Point State Park.

## **Transportation**

- ***Transportation Debt Service.*** The Budget funds \$9.2 million for the Department of Transportation debt service payment from general revenues in FY 2014. This is part of a planned annual funding increase until all of the Department's debt service is paid from general revenues. This is \$0.3 million less than included in the enacted budget, and is consistent with the initiative to transfer debt service payments from the gas tax to general revenues.
- ***Transportation Equipment.*** The Budget includes annual appropriations of \$1.0 million from Rhode Island Capital Plan funds for the Department to purchase heavy equipment.
- ***Rhode Island Public Transit Authority Debt Service.*** The Budget funds the Authority's debt service payments with general revenues in lieu of Authority sources in order to reduce the projected operating shortfalls. This includes \$1.6 million in FY 2013 and \$1.7 million in FY 2014.
- ***Tolling Delay.*** The 2013 Assembly includes legislation that delays the institution of tolls on the Sakonnet River Bridge until August 19, 2013 and further provides for a toll no larger than 10 cents until April 1, 2014. The Assembly also established a Special Legislative Commission to study the funding of all bridges statewide, with a mandate for the Commission to present their findings to the Assembly by January 15, 2014.

