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Overview of the FY 2007 State Budget as Enacted

Rhode Island Public Expenditure Council



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FY 2007 Budget

Overview of Selected Policy Initiatives

- Proposes a Constitutional Amendment to control future spending and to shore up the budget reserve fund;
- Establishes an alternative income tax structure to address the top marginal rate to become more competitive with Massachusetts;
- Continues the phase-out of the excise tax on motor vehicles;
- Reduces the State's funded workforce by 381.4 FTE positions;
- Reforms the State's Welfare Policies; and
- Increases State school aid by \$31.5 million.



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FY 2007 Budget

Overview of Budget

- Compared to the FY 2006 Enacted Budget, the FY 2007 **all funds** budget is \$315.0 million more, or 5.0% greater.
- Total unadjusted **general revenue** budget of \$3.2 billion represents an increase of \$121.3 million, or 3.9% from FY 2006 revised; and
- The FY 2007 Budget defers \$97.8 million in uncompensated care payments to hospitals until July 2007.



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FY 2007 Budget

All Funds

Rhode Island State Spending - All Funds

By Fund	2005	2006E	2006R	2007 E	FY 2007-FY 2006R	
General Revenue	\$2,926.9	\$3,142.1	\$3,100.2	\$3,221.5	\$121.3	3.9%
Federal Funds	1,857.6	1,979.5	2,058.1	1,948.2	(109.9)	-5.3%
Restricted Funds	105.4	110.0	118.0	129.1	11.1	9.4%
Other Funds	1,069.1	1,118.3	1,340.6	1,366.2	25.6	1.9%
<i>Total</i>	<i>\$5,959.0</i>	<i>\$6,349.9</i>	<i>\$6,616.9</i>	<i>\$6,664.9</i>	<i>\$48.0</i>	<i>0.7%</i>
<i>FTE Positions</i>	<i>16,265.5</i>	<i>16,349.1</i>	<i>16,417.4</i>	<i>16,036.0</i>	<i>(381.4)</i>	<i>-2.3%</i>

E = Enacted, R = Revised, HFC=House Finance Committee Recommended

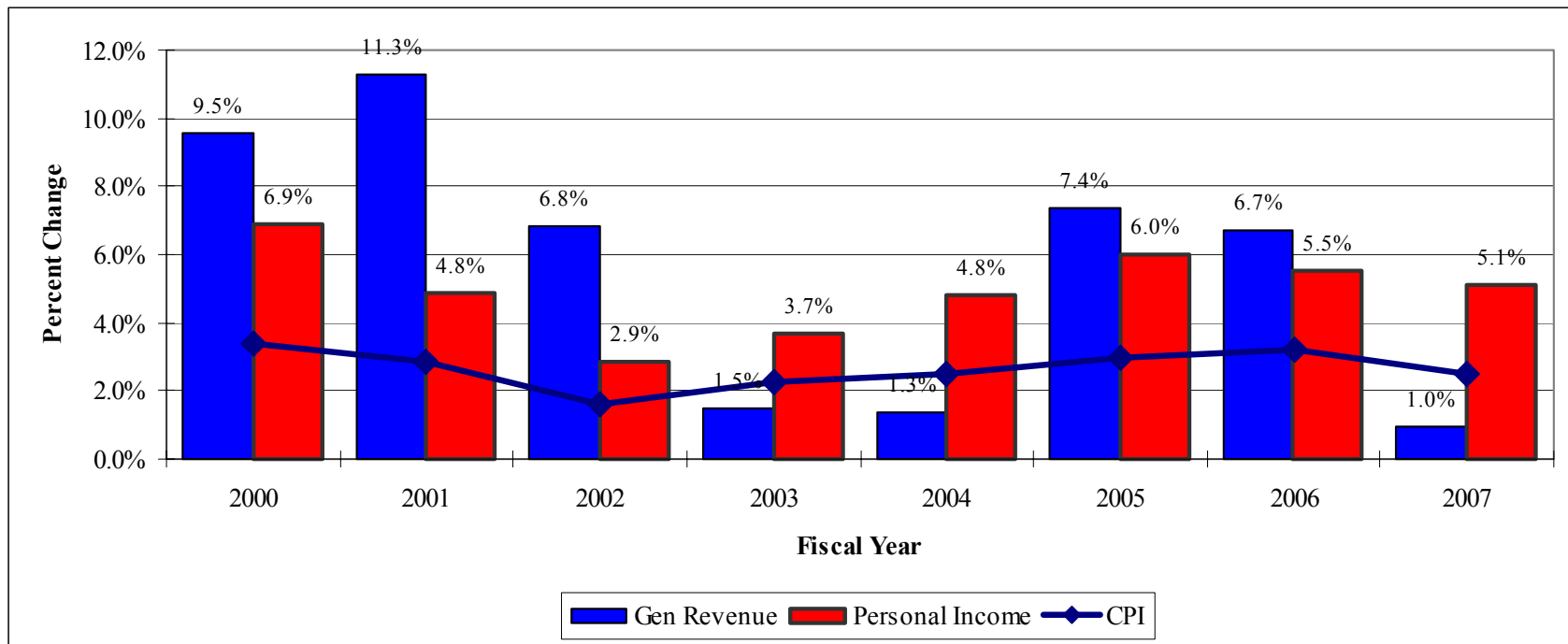
Source: RIPEC calculations based on House Finance Committee Budget H-7120 Sub A



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FY 2007 Budget

General Revenue Expenditures





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FY 2007 Budget Overview of Revenues

General Revenues	FY 2006 Enacted	FY 2006 Revised	FY 2006 Change	FY 2007 Enacted	Change
Taxes					
Personal Income Tax	\$1,033.5	\$994.4	(\$8.7)	\$1,051.8	\$57.4
General Business Taxes	308.7	355.8	0.0	319.6	(36.2)
General Sales & Use Tax	887.9	875.0	0.0	920.8	45.8
Cigarette Tax	126.3	126.6	0.0	123.8	(2.8)
Other Taxes	112.2	111.5	0.0	112.5	1.0
<i>Subtotal - Taxes</i>	<i>\$2,468.6</i>	<i>\$2,463.3</i>	<i>(\$8.7)</i>	<i>\$2,528.4</i>	<i>\$65.1</i>
Department Receipts	312.6	286.1	0.1	296.4	10.4
Lottery	350.5	332.5	0.0	362.5	30.0
Other Sources	33.9	53.4	9.5	76.5	23.1
Total Revenues	\$3,165.6	\$3,135.2	\$0.8	\$3,263.8	\$128.6

Source: FY 2007 State Budget Documents



FY 2007 Budget

Tax Policy Issues – Income Tax

- Budget reduces the State's top marginal rate over a five year period by creating an alternative tax rate for top earners;
- Taxpayers can choose to either pay income taxes under current law, which translates to a top marginal rate of 9.9% of their federal taxable income, or a flat rate of 8.0% of their adjusted gross income (AGI) – without any reductions to the Federal AGI;
- The new alternative would begin in 2007, and over a course of five years, would reduce the flat rate to 5.5%.



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FY 2007 Budget

Tax Policy Issues - Other

- *Earned Income Tax Credit* – A taxpayer who owes the state an amount less than the earned income tax credit would get a refund for 15.0% of the difference, which is an increase from 10.0%.
- *Car Tax Phase-out* – The Budget increases the amount of motor vehicle value exemption to \$6,000, with future increases in \$250 increments.
- *Department of Revenue* – Creates a new department to collect and analyze taxes and tax data. The Department includes existing divisions – taxation, lottery and motor vehicles - and creates two new divisions - property valuation and an office of revenue analysis.



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FY 2007 Budget

Proposal to Limit Spending in the Future

- The Budget includes language that places a Constitutional Amendment before the voters this November that would limit spending and shore up the budget reserve fund. The Proposal would
 - Limit State general revenue spending to 97% (currently 98%) of the estimated revenues from all sources;
 - Deposit the balance into a budget reserve account that can total no more than 5.0% (currently 3.0%);
 - In the event that the payment made to the budget reserve account increases the amount beyond 5.0%, the excess is then transferred to the Rhode Island Capital Fund;
 - The Capital Fund could only be used to finance capital projects - not debt service as currently permitted (this provision would be in effect in FY 2008); and
 - If approved by the voters, it would take effect in FY 2013.



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FY 2007 Budget

Selected Organizational Issues

- General Assembly approved the Governor's proposals to:
 - Consolidate and centralize human resources, facilities planning, information technology and legal into Department of Administration;
 - Establish Human Services Secretariat position in law rather than by executive order; and
 - Move Underground Storage Tank Responsibility Review Fund into Department of Environmental Management.
- However the General Assembly:
 - Established a new Department of Revenue, including the incorporation of the Lottery Commission; and
 - Did not convert Judicial revenue structure to restricted receipt funding as proposed by the Governor.



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FY 2007 Budget

Selected Personnel Issues

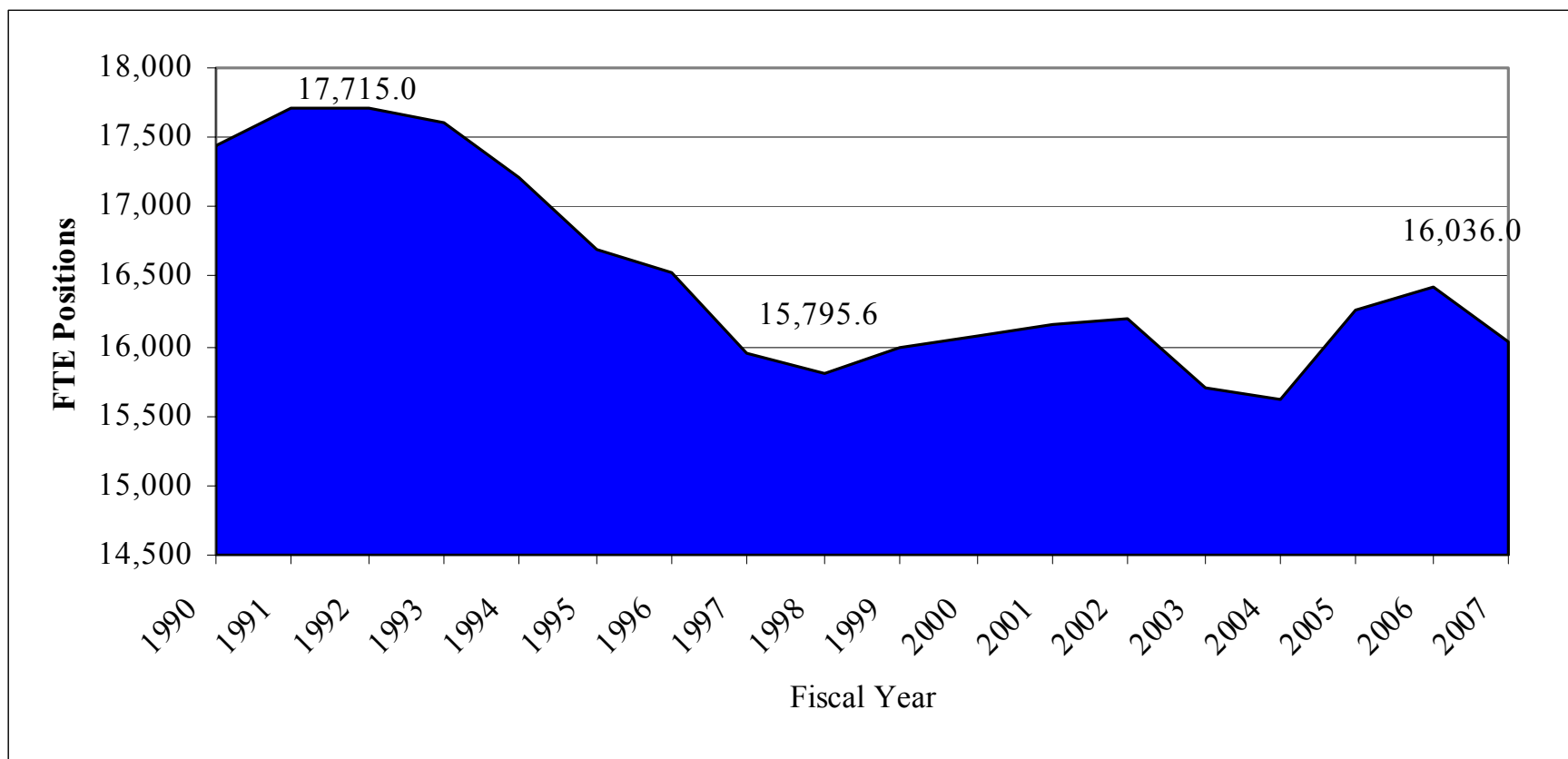
- The FY 2007 Budget includes 16,036 FTE positions, 381.4 FTE positions less than the FY 2006 Revised plan;
- The State staffing level incorporates a workforce reduction program representing a 5.2% turnover rate with a projected \$36.5 million in general revenue savings;
- However, the General Assembly did not enact a number of personnel changes recommended by the Governor, such as:
 - Eliminating payout for sick leave as of July 1, 2006;
 - Eliminating statutory status (20-year rule); and
 - Eliminating all new longevity and freeze existing longevity amounts;



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FY 2007 Budget

Total FTE Positions





FY 2007 Budget

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Family Independence Program - Welfare Reform

- The Governor proposed a series of changes to achieve \$9.5 million in savings - \$5.9 million in cash assistance (FIP) and the \$3.6 million balance in child care;
- The Budget included counting time spent on welfare in other states. The Budget also reduced benefits after 6 months of non-compliance with the employment plan (rather than 18 months);
- The Budget did restore the Governor's proposed reduction in welfare payments, and rather than requiring recipients to work more upfront, the Budget changed the current 30 hours of work now required to allow 10 of those hours to be used for education or training.



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FY 2007 Budget

Changes to Medicaid

- Budget defers approximately \$97.8 million in uncompensated care payments to hospitals until July 2007;
- The General Assembly essentially restored the Governor's proposals to restrict managed care programs; and
- The budget closes the RItE Care program to those who are not U.S. citizens as of January 1, 2007. Anyone enrolled in RItE Care on December 31, 2006 would remain on the program.



FY 2007 Budget

Education Aid

- The Budget included an additional \$31.5 million in school aid distributed in a fashion to provide a 4.8% increase for each school district;
- This represented a \$12.3 million increase over the amount proposed by the Governor.
- The distribution method resulted in a dozen school districts receiving a net decrease of \$1.8 million in school aid as compared to the Governor's distribution program.



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FY 2007 Budget

Proposed Bond Referenda

Item	Amount
Higher Education	
- Pharmacy Building at URI	\$65.0
- Renovations at DCYF Facilities at RIC	7.8
<i>Subtotal - Higher Education</i>	<u>\$72.8</u>
Transportation	
- Highways, Roads and Bridges	\$80.0
- Commuter Rail	7.0
- RIPTA Bus Fleet	1.5
<i>Subtotal - Transportation</i>	<u>\$88.5</u>
Roger Williams Park Zoo	\$11.0
Fort Adams State Park and Restoration	\$4.0
Local Recreation Development Program	\$3.0
Affordable Housing Initiative	\$50.0
Total Referenda	\$229.3