



# Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

## RIPEC

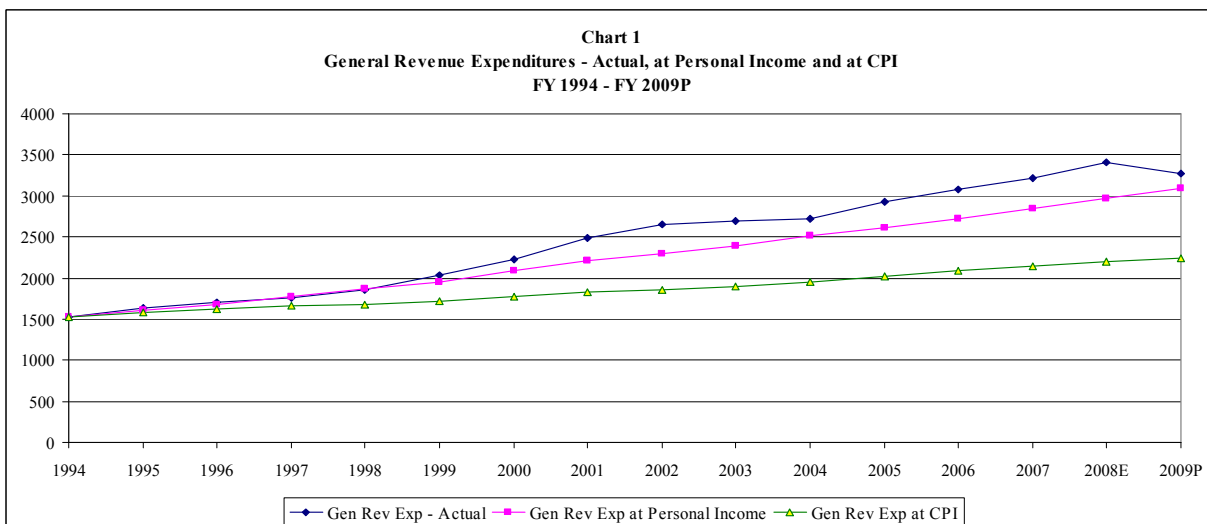
### Summary of the Governor's FY 2009 Budget Request

- RIPEC proposes structural approach for Rhode Island -

The proposed FY 2009 general revenue request of \$3.3 billion represents a 3.9 percent reduction from the FY 2008 Enacted Budget and 2.9 percent lower than the FY 2008 Revised Supplemental Budget. As presented, the budget would, for first time since 1993, actually have a year-over-year reduction in spending. This is a significant change from previous years and is in recognition of the historic growth of spending, which RIPEC has cautioned against.

RIPEC believes that the test of the fiscal soundness of any budget plan is whether ongoing resources are adequate to support current operations, whether current obligations are appropriately funded and revenue realistically projected, whether expenditure priorities are responsive to the needs of citizens, and what the out-year fiscal implications of the proposed spending plan are. There are fundamental questions regarding this budget including the ability to carry out the savings proposals that the Governor has put forward to balance this year and the out years.

The following RIPEC Comments not only outlines the Governor's FY 2009 Budget request and summarizes key policy issues, but also focuses on a Structural Plan that is needed to enable investments in programs that will improve Rhode Island's economy, maintain the State's credit worthiness and eliminate out-year deficits.



June 2008

## **RIPEC Comments – A Structural Approach for Rhode Island**

The State of Rhode Island has for many years faced an annual structural budget deficit with repeated out-year projected deficits which have inhibited the State's ability to make the strategic budget decisions that are needed to stimulate economic growth, support a predictable basic services system and to provide the funding level for long term investments. State budgets with projected out-year deficits had become a common event on Rhode Island's fiscal landscape. This year, however, is an exception.

The backdrop of an economy in a recession, high unemployment, loss of jobs, a housing market collapse and diminishing State revenues necessitates a different approach to the annual budget process. An approach that should have both a short-term and long-term view.

Submission of the Governor's proposed FY 2009 State Budget changes the way the State has previously approached balancing the budget. The proposed budget, as presented by the Governor, is a budget that, for the first time in over ten consecutive years, has been proposed without the use of substantial one time revenues, almost no out-year deficits, and is balanced by substantial expenditure reductions without broad-based tax increases. In the past, some operating budgets were balanced by using non-recurring revenues, and, as a result, budgets have been adopted with a structural deficit, i.e., current operating expenses exceeding current revenues. This budget is proposed without the use of significant one-time resolutions and both the House Fiscal staff and the Budget Office are within a small amount for nearly a balanced budget in their out-year projections.

If Rhode Island is to successfully compete for jobs, grow its economy and sustain necessary government programs, it is essential that the State adopt a structural response to the budget crisis it faces. RIPEC suggests a two step approach to first manage the current fiscal situation and then convert to an Investment-Based Budgeting approach. This year the Governor has taken the first step in proposing a budget balanced on substantial reductions in spending with some additional revenue. Fiscal control is the first difficult step towards balancing the needs of the State within its current revenues.

Such an approach is necessary to guarantee that resources will be available to support programs that will make Rhode Island a more prosperous State in the long-term. The years of excess growth in spending over recurring revenues have been stopped and the State has taken a new approach to stay within revenue limits without using broad-based taxes or one-time revenues to balance the budget. The next steps are to continue this discipline until the economy improves and the State begins to see additional revenues. During this time the State should develop a plan to use an investment based approach to strengthen the long-term economy of the State, and to eliminate the out-year deficit so the State can continue to sustain existing services while reordering priorities. RIPEC has called for such an approach in its FY 2008 budget commentary.

To address some of the concerns, to develop a back-up plan and to undertake a longer term approach to Government, RIPEC recommends a series of steps for the State to undertake as it implements its FY 2009 budget.

## **FY 2009 - The First Step: Spending Control**

In the short-term, RIPEC recommends the State address the spending side to meet its current shortfall. This the Governor and the General Assembly have started. The FY 2008 budget began addressing some of the spending pressure by setting in motion changes that will affect the FY 2009 budget. Several items were contained in the supplemental budget recently approved that will start the process for FY 2009 such as the modification of health care for State employees, funding for local governments and other cost reductions. The FY 2009 budget continues and builds upon the structural modifications of the three key areas of the general fund budget; local aid, personnel cost and grants and benefits.

The Governor's budget proposes all funds expenditures of \$6,888.8 million to support State operations in FY 2009, a decrease of \$88.6 million (1.3 percent) from FY 2008 Enacted. Proposed appropriations from all funds are \$136.0 million (1.9 percent) lower than the FY 2008 Enacted Supplemental budget.

The FY 2009 budget includes expenditure decreases in all categories except for "Other Funds" when compared to FY 2008 Enacted. Recommended general revenue spending of \$3,272.7 million represents a decrease of \$130.9 million (3.9 percent) from the FY 2008 Enacted budget and 2.9 percent less than the FY 2008 Enacted Supplemental budget. If the Governor's budget were to be passed in its current form this would be the first reduction in general revenue expenditures since FY 1993.

The FY 2009 proposed budget, however, is not without issues or concerns. The budget is predicated on many events that will need to be managed and that the General Assembly needs to adopt and support. There have been some concerns discussed during the legislative hearing process and RIPEC raises some caution relating to the timing, and feasibility of implementation of some of the proposals in the Governor's budget. It is, however, a major beginning to stay within the State's ability to afford the government it wants. Further details as to the nature and breath of changes are contained later in this report.

## **Structural Approach**

### **1. Personnel Spending**

The area of personnel cost reflects 22.6 percent of the total budget (24.6 percent of the total General Fund budget) and has risen at a rate of 20.6 percent over the last ten years. It is an area that is in need of modification and revision.

Since FY 1999, personnel expenditures have increased at an average annual rate of 4.2 percent (1.9 percent real growth). However, the FY 2009 budget proposal, amounting to almost \$1.6 billion, includes substantial reductions in personnel costs for the State through reducing the State's workforce by 1,190.8 FTE positions, privatizing a number of functions throughout the State, agency consolidation and mergers, and altering retiree health benefits.

The Governor's personnel budget aims to reduce personnel spending through a series of workforce reduction, benefit reforms and additional potential savings to be negotiated with the Unions.

RIPEC supports the Governor's efforts to limit growth in personnel spending. It will be important to review and understand the impact of the staffing reductions given their duties and impact on the delivery of services. This is also an extraordinary time to examine the structure of government and utilize the change in personnel to reconstruct many of the ways services are provided.

No identification of specific positions to be eliminated can occur until the impact of the health care changes takes place, but with the potential reduction of personnel contemplated in the FY 2009 budget it is an opportune time to reexamine the current structure and service levels of the State. The FY 2008 supplemental budget included a significant change in the provision of health care for State employees. It is assumed that a number of employees would retire to maintain their current level of health care through retirement. It is estimated that in excess of 3,100 employees are eligible to retire before the September 30, 2008 cutoff date. In the original budget, which included a cutoff date of July 1, 2008, it was assumed that the State would rehire all but 300 of those positions for the necessary savings as contained in the proposed budget. With the change to September 30, 2008, it is now assumed that 400 positions will be left vacant. Regardless of the number of employees that retire it is still an appropriate time to review each position through the hiring process before any position is filled. There are many questions that can be asked in this process beyond the need for the position and whether it should be filled. Some of the questions that can be asked are:

- Is this the right position?
- Are there other ways to perform the duties?
- Is the position the right level position?
- Can someone else provide the functions?
- Can there be consolidation of positions?
- Is the service performed necessary?
- Is the service performed in the right department/agency?

There are many other fundamental questions that can form a methodology of change within State government. Using this as an opportunity for change can provide other savings or enhancement of services.

## **2. Purchasing**

Due to the nature and order of magnitude of the financial condition facing the State, it is proper to review in greater detail than normal the spending on the various line items contained in each department and agency budget. It is a time to be innovative and creative when reviewing spending on purchasing. For example, an analysis of spending on capital items might be helpful, which may be modified due to a change in service delivery methods or need. The capital items planned for purchase, space location plans and other related items should be examined in conjunction with the change in work force. It is, however, also important to ensure that any reduction in cost is not too short sighted in postponing costs today that will have a significantly higher cost in the future.

As the State has asked others to jointly purchase, it is recommended that the State, municipal governments, quasi public agencies, school districts and others begin to purchase on a joint and collaborative basis. Such items as fuel, paper products and others could be jointly purchased with results being spread out amongst the many levels of government. Between the many associations that represent various governmental organizations a joint purchasing effort could be started along with the various collaboratives formed by the State for school purchases.

## **3. Responsible Medicaid Reform**

In the FY 2009 budget the Governor proposed a comprehensive reform of the Medicaid program. The reform package includes three major areas:

- Rebalancing the long-term care system and accelerate moving people from institutions to lesser restrictive settings;
- Managing care, including providing a medical home for Medicaid beneficiaries, as well as implementing co-payments for certain services and increasing premium responsibility for beneficiaries; and
- Smart purchasing by increasing competition.

This proposal would also replace the current Medicaid program with a new state-federal global Consumer Choice Medicaid Global Waiver. Based on this proposal, over the next five years Rhode Island would operate its entire Medicaid program under this demonstration project. All persons currently eligible for the Rhode Island Medicaid program would be under the provisions of this waiver. The proposal calls for creating options and programs that would divert and transition individuals from high-cost care venues to less costly but appropriate settings, provide beneficiaries with the necessary information to make informed choices, mandate that all beneficiaries have a medical home, promote personal responsibility and encourage competition and quality. For a detailed discussion, please see also the discussion on page 19 of this report.

RIPEC supports the Governor's recommendation to limit the growth in medical assistance programs given the State's finite resources. In FY 2009, it is estimated that Medicaid spending will account for approximately \$1.9 billion or 28.0 percent of the total State budget, with State taxpayers paying approximately one-half of that amount.

However, decisions to reform and control medical spending will require a clearly articulated, strategic and organizational vision that drives budget choices. Therefore, RIPEC recommends that the following questions be addressed in any effort to reform Medicaid:

- What is the State's risk regarding caseload increases during economic downturns and inflation trends?
- Is the State prepared to move people from long-term institutional settings to less restrictive settings?
- Will the State be able to achieve the savings it seeks given the tenuous nature of predictions regarding health care costs and enrollment?
- What assumptions will be included in the projections that would determine federal Medicaid funding under the global waiver?
- Does the State have the organizational capacity to administer this comprehensive waiver?
- Will the State have the option to opt out of the waiver and under what conditions?
- Should there be legislative oversight in place?
- What would be the impact on the beneficiaries and providers?
- Can the savings, included in the FY 2009 proposed budget, be achieved and what savings could be achieved without a global waiver?

One should also note that these recommendations occur in the context of rising health care costs, which are rendering more people uninsured. The burden for financing the care for these uninsured people will continue to be shifted through complex payment subsidies and Medicaid financing borne by the remaining insured population. Broad efforts to make health care more affordable and to slow the trend of medical expenses must continue.

### **Long-term “Fiscal Discipline Plan”**

Starting with the changes in the governmental structure that began in FY 2009; a longer-term Fiscal Discipline Plan needs to be examined and developed that will maintain the fiscal control that started in FY 2009. This also can provide for if the proposed savings do not come to fruition.

In RIPEC's opinion, the *Fiscal Discipline Plan* should include the following elements:

#### **1. Investment-Based Budgeting**

In RIPEC's view, the initial targets of an Investment-Based Budget should focus resources on programs that support educational initiatives so Rhode Island's workforce has the necessary skills for 21<sup>st</sup> century jobs. In setting these investment targets, there must be specific and measurable goals that go beyond mere rhetoric. Clear targets should be established so that resources are focused on the highest priorities. We might, for example, adopt benchmarks such as:

- Funding a school foundation formula where the State provides approximately 50.0 percent of the cost of education, coupled with initiatives that hold schools accountable for results, enhances operating efficiencies, and allows equitable implementation of the Property Tax Relief Act of 2006. RIPEC, along with other

members of the Funding Our Future Coalition, has prepared the necessary legislation to implement a funding formula.

- Adopting a “fair share formula” to keep public higher education affordable in the Ocean State and to align it with an economic development strategy for the State. Such a goal would help ensure that higher education in State institutions remains affordable, allowing for the development of a better-educated workforce for Rhode Island. The affordability issue signals the urgent need for a comprehensive reexamination of higher education finance. Additional public investment may be essential, particularly to extend higher education opportunities to low-income Rhode Islanders. However, it is critical that questions regarding effectiveness and accountability also be addressed if the State is to realize economic improvement commensurate with such investments.

In addition, the State should identify incentives that can be used to spur research activities at universities and colleges that will enhance investment and job creation.

- Additional benchmarks can be established around the safety net for Rhode Islanders, program service levels and delivery outcomes for the various operating departments.

## **2. Personnel Cost Control**

The State’s long-term ability to control the rate of growth in future personnel costs depends on the consideration of a personnel reform agenda. This agenda should review the State classification system; continue to examine the feasibility of changing the retirement system for future employees from a defined benefit to a defined contribution plan; and renegotiate aspects of the collective bargaining agreement with regard to longevity pay, and use of sick time. Most importantly, the State should look toward the creation of a personnel system that places greater emphasis on performance in all types of human resource decisions. This may be more available as the State has an opportunity to restructure the organization structure of State government.

## **3. Alternative Non-Tax Revenues**

During the review of programs related to personnel changes it is recommended that the fee-and fine-based income for the State be reviewed. Annually there is a review as the budget is compiled, but an off-budget review should occur to assure the adequacy of charges for services, the need for the charges and whether the State can seek additional non tax income. The State currently ranks near the bottom in the United States for income from charges and miscellaneous revenues based upon this classification.

## **4. Define a Sustainable Safety Net**

Concurrent with Medicaid reform as discussed above, there is a need to create a public process to help inform the Governor and General Assembly as they:

- Establish the priorities of government and the outcomes that matter most to citizens;
- Determine how much citizens are willing to spend; and
- Decide how best to deliver and sustain such services.

A starting point for such public input might first consider the question “*What should the Ocean State’s safety net encompass?*” Approximately 41.0 percent of the State budget supports programs for Rhode Island’s most needy citizens. Since fiscal year 1999 over 39¢ of each additional dollar the State has spent was for entitlement and other welfare programs. Given the resources available to balance the annual operating budget, proposals have been made to modify existing human services programs. RIPEC believes that reforming and limiting the cost of entitlement spending is necessary to make State government affordable. However, these tough choices should be based on clearly articulated long-term policy goals and objectives. Unfortunately, this has not always been the case. The kinds of questions that need to be addressed include:

- What are the appropriate means-testing criteria for entitlement programs and should they vary by program?
- What consequences do selected changes to human services programs have on other State supported programs, and to what degree?
- Should per capita State spending in Rhode Island for cash assistance and Medicaid programs continue to rank 5<sup>th</sup> and 3<sup>rd</sup> highest, respectively, in the United States?

## **5. Tax Policy**

Like most states, the largest component of Rhode Island’s general revenues is the personal income tax, followed by the sales tax. As the economy has slowed, both of these revenue streams have declined, exacerbating the revenue gap in both FY 2008 and FY 2009.

RIPEC believes that a *Fiscal Discipline Plan* should include an elimination of the reliance of one-timers to balance the budget achieved, in part, through careful rebalancing of the State’s tax system. However, reforming the State’s taxes will require policy makers to consider how tax policy operates as a system, and the impact changes to taxes have, not only on revenues, but on behavior of individuals and businesses, and on inter-governmental relations. A long-term approach should be taken in order to ensure that all of these impacts are thoroughly and carefully evaluated before actions are undertaken to fundamentally change the system of taxation in Rhode Island.

Recently, progress has been made to improve Rhode Island’s tax climate and to control the rate of growth in local property taxes, including the implementation of the flat tax and reduction in capital gains, as well as the passage of the property tax cap legislation. The State has also taken positive steps with regard to its ability to monitor and analyze tax policy with the creation of the Department of Revenue and the appointment of members to the Governor’s tax policy panel, charged with examining the State’s tax system and recommending reforms. These changes represent positive steps toward creating a high-quality revenue system that is equitable, balanced, sustainable, and competitive.

To reflect the economy of tomorrow and improve Rhode Island's fiscal position, State and local leaders should develop a multi-year strategic tax plan with the objective of:

- Lessening the overall tax burden;
- Ensuring a proper balance between state and local taxes;
- Reducing tax inequities among localities in the State;
- Equitably and efficiently funding public services, particularly education; and
- Improving Rhode Island's competitive position.

In order to achieve these goals, RIPEC recommends:

- 1) Taking a long-term approach to modifications of tax policy: Further tax policy changes must be carefully considered to ensure that the resulting State-local tax structure is equitable, fair, balanced and serves to strengthen the State's economy – in both the short term as well as the long-term. As such, it is important that the State refrain from making significant changes to tax policy until there has been adequate evaluation of the current revenue system by the Department of Revenue and the Governor's tax policy workgroup. It is critical that they be allowed time to assess the economic, fiscal and social effects on various revenue options. Additionally, in 2006 the State awarded a consultant contract to assess the competitiveness of the State's tax structure and make recommendations for changes to the tax structure where appropriate. The results of this study and future reports should be carefully reviewed to determine if the current tax structure has additional opportunities to replace non-recurring revenues without affecting the overall economic capacity of the State. No change to the tax structure is recommended until the impact has been fully analyzed.
- 2) Performing a comprehensive evaluation of tax credits: Existing tax credits should be evaluated to determine if they are achieving their objectives. If they are not, they should be modified and used to help eliminate the structural budget gap, support the creation of jobs or other economic development strategies. For example, the benefits provided under both the Film and Historic Tax Credits have been revisited in FY 2008, but the effectiveness of both of the credits needs to be examined before other changes are made to ensure they are performing the functions they were originally created to accomplish. In addition, a determination should be made as to what tax credits are important to existing Rhode Island businesses. Those that enhance competitiveness should be retained, and those whose benefits cannot be demonstrated should be revised.

A thoughtful tax restructuring effort, distinct from a piecemeal approach will enable the establishment of a tax system that reflects the Rhode Island of tomorrow instead of the Rhode Island of yesterday and will help improve the State's fiscal situation.

## May, 2008 Revenue Estimating Conference for FY 2009

The May 2008 Revenue Estimating Conference (REC) estimated revenues for FY 2009 in the amount of \$3,215.3 million. FY 2009 estimates are \$132.2 million less when compared to the Governor's proposed revenues of \$3,347.5 million for FY 2009; however, it should be noted that the REC did not include revenues achieved through reinstating the hospital licensing fee and other revenue enhancements contained in the Governor's FY 2009 submission.

At the time the Governor proposed his FY 2009 budget, the shortfall was projected to be approximately \$385.0 million. The proposed budget closes this gap through a combination of revenue enhancements and expenditure reductions. Revenue enhancements include items such as reinstating the Hospital Licensing Fee and increasing the rate of assessment (\$110.7 million), and transferring \$4.0 million from the Resource Recovery Corporation. Proposed expenditure reductions include: capping FTEs at 14,796.6; decreasing parental eligibility for RIte Care (\$12.8 million); creating the Ocean State Medicaid Waiver Initiative (projected savings of \$67.7 million); and level-funding municipal aid at reduced FY 2008 Revised levels. Based on REC estimates, if the General Assembly were to accept the Governor's revenue enhancements and expenditure reductions based on his proposed FY 2009 budget, they would have to enhance revenues by approximately \$20 million, reduce expenditures by the same amount, or a combination of both, to balance the FY 2009 .

This has added an additional burden to balancing the FY 2009 budget. The current shortfall may be enlarged to provide for a debt service payment for the change in the Historic Tax Credit enacted in this session of the General Assembly. The amount might also be partially offset by any increase in lottery income due to the extended hours of operation. A rate increase being filed with the Public Utilities Commission by the major energy provider might also provide additional income as well.

## FY 2008 Revised Budget as Enacted

The recently enacted FY 2008 Revised budget includes expenditures of \$7,024.7 million in all funds and \$3,370.4 million from general revenues. This represents a total increase in expenditures of \$47.3 million in all funds from enacted levels of \$6,977.4 million, but a total decrease of \$33.3 million from the FY 2008 Enacted general revenue budget.

<b>By Fund</b>	<b>2008E</b>	<b>2008R</b>	<b>Change</b>
General Revenue	\$ 3,403.6	\$ 3,370.4	\$ (33.3)
Federal Funds	2,010.6	2,039.5	28.9
Restricted Funds	162.6	158.5	(4.1)
Other Funds	1,400.5	1,456.3	55.9
<i>Total</i>	\$ 6,977.4	\$ 7,024.7	\$ 47.3

E = Enacted, R = Revised  
Source: RIPEC calculations based on State Budget Office Data

*FY 2008 Revised Expenditures as Enacted* – The FY 2008 supplemental budget decreases general revenue expenditures by \$33.3 million compared to the enacted budget. Highlights include:

- Requiring a 2.7 percent reduction in most non-payroll expenditure with exclusions for fixed costs;
- Changing retiree health benefits to limit eligibility, increase cost sharing, and moving OPEB to an actuarially-funded system, effective September 30, 2008;
- Reducing FTE positions by 298.6 compared to the enacted budget;
- Eliminating cash assistance to children whose parents reach the 60 month time limit, effective August 1, 2008; and
- Increasing unemployment insurance benefit expenditures by \$25.0 million to reflect increased claims activity offset by trust revenue.

*FY 2008 Revised Revenues as Enacted* – The FY 2008 supplemental budget passed by the General Assembly includes \$3,371.7 million in general revenues, \$33.3 million less than the enacted budget. Revenue highlights include:

- Eliminating the Governor’s proposed Historic Structures Tax Credit cap and enacting changes which include up-front processing fees, a moratorium on new projects, reducing the overall effective credit, and bond issuance to cash out credits;
- Transferring to the General Fund of \$34.6 million from the Rhode Island Housing and Mortgage Finance Corporation, Resource Recovery, the Refunding Bond Authority, and Correctional Industries; and
- Adding \$3.7 million to the opening surplus and \$5.2 million in corporate revenues to offset a FY 2007 audit adjustment.

## FY 2009 Budget

### General Revenues Summary

The Governor's FY 2009 proposed budget anticipated general revenues of \$3,347.5 million, a decrease of \$125.5 million when compared to FY 2008 enacted general revenues. Notable differences include a decline in other source revenue, which was primarily due to tobacco securitization revenues from FY 2008, that are not available in FY 2009, and a 2.5 percent decrease in general sales and use tax collections.

**Table 2**  
**FY 2008 Revised and FY 2009 Proposed General Revenue Program**  
**(\$ million)**

General Revenues	FY 2007 Unaudited	FY 2008 Enacted	FY 2009 Proposed	FY 2009 REC	2008E-2009 Change	%
<b>Taxes</b>						
Personal Income Tax	\$1,065.4	\$1,082.9	\$1,100.3	\$1,120.6	\$17.4	1.6%
General Business Taxes	360.9	397.8	394.7	376.5	(3.1)	-0.8%
General Sales & Use Tax	932.1	971.2	946.9	920.9	(24.3)	-2.5%
Cigarette Tax	120.5	112.5	117.3	114.5	4.8	4.3%
Other Taxes	50.3	46.5	44.4	51.5	(2.1)	-4.5%
<i>Subtotal - Taxes</i>	<i>\$2,529.2</i>	<i>\$2,610.9</i>	<i>\$2,603.6</i>	<i>\$2,584.0</i>	<i>(\$7.3)</i>	<i>-0.3%</i>
Department Receipts	\$277.8	\$362.9	\$349.3	\$241.1	(\$13.6)	-3.7%
Other Sources*	424.0	\$499.3	\$394.6	\$390.2	(104.7)	-21.0%
<b>Total Revenues</b>	<b>\$3,231.1</b>	<b>\$3,473.0</b>	<b>\$3,347.5</b>	<b>\$3,215.3</b>	<b>(\$125.5)</b>	<b>-7.4%</b>

Source: State Budget Documents; May 2008 REC; RIPEC Calculations

\* Includes Tobacco Securitization Revenues of \$124.3 million in FY 2008 only

Revenue initiatives in the proposed budget include:

- Additional income tax receipts of \$21.0 million by capping Historic Structures Tax Credit use at \$40.0 million<sup>1</sup>;
- \$19.0 million from an audit adjustments relating to a FY 2007 overpayment;
- Reinstating and increasing the Hospital Licensing Fee to 4.9 percent of net patient services revenue for an estimated \$110.7 million in revenue; and
- \$2.4 million in various fees and fines, including \$1.1 million in additional revenue by requiring payment for court costs in "Good Driving" dismissals.

<sup>1</sup> It should be noted that recently enacted legislation placed a moratorium on the HSTC, which will impact anticipated FY 2009 income tax collections at a different rate than the Governor's proposal.

Revenues for FY 2009 are projected to be \$3,215.3 million. Compared to the Governor's proposed budget, the May estimates for FY 2009 revenues are \$132.2 million (3.9 percent) lower. However, it should be noted that the REC did not include revenues achieved through reinstating the hospital licensing fee in the amount of \$78.0 million or other revenue enhancements contained in the Governor's FY 2009 submission.

### State Spending Summary

The Governor's budget proposes all funds expenditures of \$6,888.8 million to support State operations in FY 2009, a decrease of \$88.6 million (1.3 percent) from FY 2008 Enacted. Proposed appropriations from all funds in FY 2009 are \$136.0 million (1.9 percent) lower than the FY 2008 Supplemental budget.

<b>By Category</b>	<b>1999</b>	<b>2008E</b>	<b>2008S</b>	<b>2009P</b>	<b>2008E-09P Change</b>
Personnel	\$ 1,036.0	\$ 1,685.1	\$ 1,629.6	\$ 1,558.1	\$ (127.0)
Operating	325.7	557.0	562.5	605.3	48.3
Local Aid	677.7	1,267.3	1,264.3	1,297.5	30.2
Grants & Benefits	1,754.3	2,860.1	2,978.2	2,831.5	(28.6)
Capital	136.9	261.5	222.8	230.2	(31.3)
Debt Service	199.3	194.0	199.1	226.6	32.6
Operating Transfer**	-	152.5	168.2	139.7	(12.9)
<i>Total</i>	<i>\$ 4,129.8</i>	<i>\$ 6,977.4</i>	<i>\$ 7,024.7</i>	<i>\$ 6,888.8</i>	<i>\$ (88.6)</i>
<b>By Fund</b>	<b>1999</b>	<b>2008E</b>	<b>2008S</b>	<b>2009P</b>	<b>Change</b>
General Revenue	\$ 2,036.3	\$ 3,403.6	\$ 3,370.4	\$ 3,272.7	\$ (130.9)
Federal Funds	1,231.2	2,010.6	2,039.5	1,989.7	(21.0)
Restricted Funds	130.7	162.6	158.5	158.2	(4.4)
Other Funds	731.7	1,400.5	1,456.3	1,468.1	67.6
<i>Total</i>	<i>\$ 4,129.8</i>	<i>\$ 6,977.4</i>	<i>\$ 7,024.7</i>	<i>\$ 6,888.8</i>	<i>\$ (88.6)</i>

E = Enacted, S = Supplemental, P = Proposed  
 \*\* - Operating transfer is a change in accounting that was not in place in FY 1999  
 Source: RIPEC calculations based on State Budget Office Data

The largest funding source for the FY 2009 budget is general revenues, which represent 47.5 percent of the total budget. Federal funds, which are primarily Medicaid funds, are the second largest source of revenue, supporting 28.9 percent of all FY 2009 expenditures. Expenditures from "Other Funds" (primarily university and college funds, and employment and training funds) total 23.0 percent of all spending in FY 2009 and are the third largest category. The smallest category of expenditures is from restricted receipts, representing just 2.3 percent of the total State budget.

The FY 2009 budget includes expenditure decreases in all categories except for “Other Funds” when compared to FY 2008 Enacted. Recommended general revenue spending of \$3,272.7 million represents a decrease of \$130.9 million (3.9 percent) from the FY 2008 Enacted budget and \$97.7 million (2.9 percent) less than the FY 2008 Supplemental budget. If the Governor’s budget were to be passed in its current form this would be the first reduction in general revenue expenditures since FY 1993 when compared to the previous year.

### **Selected Highlights of the FY 2009 Spending Plan**

The proposed FY 2009 budget includes a number of significant reductions in personnel, capital expenditures, and grants and benefits. Together, these categories account for \$186.9 million in total reductions in all funds compared to the FY 2008 enacted budget. These spending reductions are offset by \$111.1 million in expenditure increases for operating expenses, local aid, and debt service. Highlights of the Governor’s proposed expenditure plan include:

- Savings \$127.0 million in personnel costs through reducing the State’s workforce by 1,190.8 FTE positions, privatizing a number of functions throughout the State, agency consolidation and mergers, and altering retiree health benefits;
- Decreasing the average FTE cost by 4.9 percent to \$86,218 per FTE. If achieved, this would be the first time since FY 1999 that the average year-over-year FTE cost declined; over the past ten years FTE costs have increased at an average annual rate of 4.9 percent;
- Redesigning both Medicaid and the Family Independence Program; changes to both programs are explained in subsequent sections;
- Limiting the population at the Training School to 160 persons for a savings of \$2.4 million, \$1.2 million of which would be reinvested in community-based post-release programs;
- Expanding and standardizing opportunities to earn time off for good behavior for inmates at the Adult Correctional Institute, savings \$2.2 million. The anticipated savings are offset by increased costs relating to probation and parole, rehabilitation programs, and discharge planning, for a net savings of \$1.0 million;
- Continuing level-funding of distributed education aid, with adjustments for group home beds, and increasing direct funding for charter schools by \$2.8 million. While the budget allows the moratorium on charter school expansion to lapse, no additional funding for new school starts was provided;
- Revising a number of local aid provisions in FY 2008 and maintaining the changes in FY 2009, including reducing general revenue sharing to municipalities, lowering the Motor Vehicle Excise Tax reimbursements to 98.0 percent of the calculated value, and freezing distressed community relief funding; and
- Mandating a number of mergers and consolidations including creating a combined Department of Elderly Affairs and Advocacy, transferring fiscal and legal functions from five health and human service agencies to the Executive Office of Health and Human Services, merging Coastal Resources Management Council and State Water Resources Board into the Department of Environmental Management, consolidating public safety agencies into the Department of Public Safety and merging the Economic Policy Council into the Economic Development Corporation.

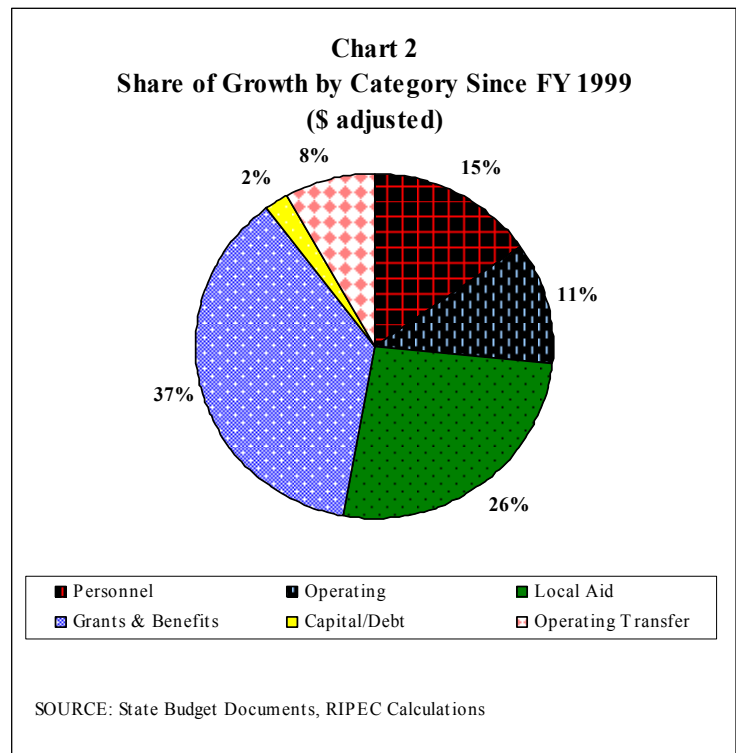
**Table 4  
Rhode Island State Budget Drivers - All Funds (Adjusted)**

<b>Expenditure Category</b>	<b>FY 1999 Actual</b>	<b>% of Total</b>	<b>FY 2009 Proposed</b>	<b>% of Total</b>	<b>Actual Increase</b>	<b>Percent Change</b>	<b>Share of Increase</b>
<u>General Operations</u>							
Personnel	\$1,291.9	25.1%	\$1,558.1	22.6%	\$266.2	20.6%	15.3%
Operations	406.1	7.9%	605.3	8.8%	199.2	49.1%	11.5%
Subtotal - Operations	\$1,698.0	33.0%	\$2,163.4	31.4%	\$465.4	27.4%	26.8%
<u>Grants &amp; Benefits</u>							
Income Support (TDI & Employ)	\$350.3	6.8%	\$433.9	6.3%	\$83.6	23.9%	4.8%
Medical Assistance - Mgd Care	178.5	3.5%	496.1	7.2%	317.5	177.9%	18.3%
Medical Assistance - All Other	653.3	12.7%	852.4	12.4%	199.2	30.5%	11.5%
Development Disabilities	163.6	3.2%	182.6	2.7%	19.0	11.6%	1.1%
Child Welfare	96.2	1.9%	91.3	1.3%	(4.9)	-5.1%	-0.3%
TANF	130.1	2.5%	46.8	0.7%	(83.3)	-64.1%	-4.8%
Child Care	40.0	0.8%	54.0	0.8%	14.0	34.9%	0.8%
SSI	30.2	0.6%	26.3	0.4%	(3.9)	-13.0%	-0.2%
Higher Education	105.7	2.1%	156.1	2.3%	50.5	47.7%	2.9%
Other Grants & Benefits	439.7	8.5%	492.0	7.1%	52.3	11.9%	3.0%
Subtotal - Grants & Benefits	\$2,187.6	42.5%	\$2,831.5	41.1%	\$643.9	31.6%	37.0%
<u>Local Aid</u>							
Education Aid	\$657.9	12.8%	\$889.2	12.9%	\$231.3	35.2%	13.3%
Motor Vehicle Phase-out	27.8	0.5%	139.6	2.0%	111.8	402.4%	6.4%
General Revenue Sharing	24.6	0.5%	55.0	0.8%	30.4	123.7%	1.7%
PILOT	19.8	0.4%	27.8	0.4%	8.0	40.5%	0.5%
Federal Aid*	82.6	1.6%	133.4	1.9%	50.8	61.4%	2.9%
Other	32.4	0.6%	52.5	0.8%	20.1	62.1%	1.2%
Subtotal - Local Aid	\$845.1	16.4%	\$1,297.5	18.8%	\$452.4	53.5%	26.0%
<u>Capital Expenditures</u>							
Capital Expenditures	\$170.7	3.3%	230.2	3.3%	\$59.5	34.8%	3.4%
Debt Service	248.5	4.8%	226.6	3.3%	(22.0)	-8.8%	-1.3%
Subtotal - Capital	\$419.2	8.1%	\$456.8	6.6%	\$37.5	8.9%	2.2%
Operating Transfer	-	0.0%	\$139.7	2.0%	\$139.7	-	8.0%
<b>Total</b>	<b>\$5,149.9</b>	<b>100.0%</b>	<b>\$6,888.8</b>	<b>100.0%</b>	<b>\$1,738.8</b>	<b>33.8%</b>	

Source: RIPEC calculations based on State Budget Data - State Budget Office, DOA

## Spending Patterns by Category

*All Funds Expenditures* – The proposed FY 2009 expenditure plan of \$6,888.8 million, summarized on Table 4, represents an increase of \$2,758.9 million (66.8 percent) since FY 1999. This translates into an average annual rate of growth of 5.2 percent. On an adjusted basis, expenditures have increased \$1,738.8 million (33.8 percent) since FY 1999. The average annual adjusted rate of growth in total expenditures during this time period was 3.0 percent. The following analysis discusses growth in the budget on an adjusted (real) basis. One should note that, as of FY 2008, an additional expenditure category, “Operating Transfers” was included in the budget, reflecting a change in accounting practices. In FY 2009, this category accounted for 2.0 percent of the total budget.



There are five major categories of expenditures: grants and benefits, personnel, local aid, operating, and capital and debt service. These broad categories reflect how the State allocates funding within programs and services.

- Grants and benefits, which include programs that provide direct support to individuals such as Medicaid, child care, and unemployment benefits, are the largest expenditure category, constituting 41.1 percent of total proposed expenditures in FY 2009.
- Since FY 1999, expenditures supporting grants and benefits have increased from \$2,187.6 million to \$2,831.5 million in FY 2009, an increase of \$643.9 million (31.6 percent).
- Of every new dollar spent since FY 1999, \$0.37 has gone to support the increase in grants and benefits. The largest component of this growth is the increase in Medicaid Managed Care programs, which grew by \$317.5 million, or 177.9 percent during this time period.
- The second largest category of expenditures is personnel and operating expenditures, which account for 31.4 percent of FY 2009 proposed expenditures; this is down from 33.0 percent of total expenditures in FY 1999.
- Since FY 1999, personnel expenditures have increased \$266.2 million, or 20.6 percent, to \$1,558.1 million in FY 2009 and operating expenditures have increased \$199.2 million, or 49.1 percent to \$605.3 million in FY 2009.
- Together, personnel and operating expenditures account for \$0.27 of every new dollar spent between FY 1999 and FY 2009.

- Local aid, which includes education aid and other direct assistance to municipalities, is the third largest category of expenditures, constituting 18.8 percent of all FY 2009 proposed expenditures. Increases in local aid account for \$0.26 of every new dollar spent since FY 1999.
- The largest driver of increases in local aid is education aid, which grew \$231.3 million during this time period, accounting for 13.3 percent of the total increase in total expenditures.
- Capital and debt service expenditures account for 6.6 percent of the total FY 2009 proposed budget, down from FY 1999 when the two categories accounted for 8.1 percent of the total budget. The decline is attributable to an 8.8 percent decrease in debt service, from \$248.5 million in FY 1999 to \$226.2 million in FY 2009.
- The \$139.7 million operating transfer category reflects transfers between state and quasi-government agencies. It is important to note that the addition of this category impacts the distribution of funds across categories when comparing FY 1999 expenditures and FY 2009 proposed expenditures.

*General Revenue Expenditures* – General revenues are the largest source of funding for the FY 2009 budget, comprising 47.5 percent of all expenditures. FY 2009 proposed general revenue expenditures total \$3,272.7 million, or 2.9 percent less than FY 2008 Supplemental general revenue expenditures of \$3,370.4 million.

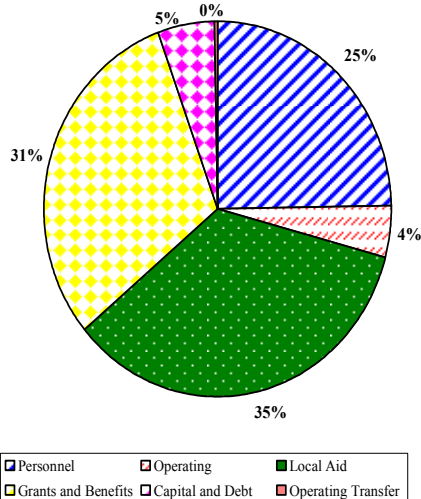
- The largest category of general revenue expenditures is local aid, which accounts for 34.7 percent of total FY 2009 proposed general revenue supported spending. Local aid in FY 2009 totals \$1,135.4 million, a 2.6 percent increase over the FY 2008 Supplemental budget.
- Education aid remains the largest driver of local aid, accounting for 78.4 percent of all general revenue supported local aid expenditures in FY 2009.
- While the proposed FY 2009 budget increases total general revenue support for local aid, the aid increase is only for education aid; state aid to municipalities other than education decreases by \$5.9 million when compared to the FY 2008 Enacted budget.
- Grants and benefits are the second largest category of general revenue supported expenditures. The FY 2009 proposed budget allocates \$1,003.9 million, or 30.7 percent of all general revenue spending. This represents a decrease of 7.8 percent from the FY 2008 Supplemental budget.
- Together, overhead costs, which include personnel and operations, account for 29.1 percent of the total proposed general revenue budget. Total overhead costs are 2.9 percent lower in the FY 2009 budget when compared to the FY 2008 Supplemental budget.
- Compared to the FY 2008 Supplemental budget, personnel costs are estimated to decrease 6.3 percent to \$806.1 million.
- Capital and debt service expenditures constitute the smallest portion of general revenue supported expenditures. The Governor's budget proposes \$167.3 million in total capital and debt expenditures for FY 2009 (5.1 percent of all general revenue expenditures). This represents an increase of 4.5 percent compared to the FY 2008 Supplemental budget.

**Table 5**  
**FY 2008 and FY 2009 General Revenue Expenditures**

Expenditure Category	FY 2008 Supp	% of Total	FY 2009 Proposed	% of Total
General Operations				
Personnel	\$860.7	25.5%	\$806.1	24.6%
Operations	120.7	3.6%	146.4	4.5%
<i>Subtotal Operations</i>	<i>\$981.4</i>	<i>29.1%</i>	<i>\$952.5</i>	<i>29.1%</i>
<i>Subtotal Grants &amp; Benefits</i>	<i>\$1,089.3</i>	<i>32.3%</i>	<i>\$1,003.9</i>	<i>30.7%</i>
<i>Subtotal Local Aid</i>	<i>\$1,106.1</i>	<i>32.8%</i>	<i>\$1,135.4</i>	<i>34.7%</i>
Capital Expenditures				
Capital	\$13.9	0.4%	\$9.8	0.3%
Debt Service	146.2	4.3%	157.5	4.8%
<i>Subtotal Capital</i>	<i>\$160.1</i>	<i>4.8%</i>	<i>\$167.3</i>	<i>5.1%</i>
<i>Operating Transfer</i>	<i>\$33.4</i>	<i>1.0%</i>	<i>\$13.4</i>	<i>0.4%</i>
<b>Total</b>	<b>\$3,370.4</b>	<b>100.0%</b>	<b>\$3,272.7</b>	<b>100.0%</b>

Source: State Budget Documents and RIPEC Calculations

**Chart 3**  
**FY 2009 Expenditures by Category as a Percent of Total General Revenue Expenditures**



### Medical Assistance Expenditures

Medical assistance expenditures from all funds grew at an average annual rate of 9.8 percent, from \$701.1 million in FY 2000 to \$1,348.5 million in the FY 2009 proposed budget (which does not include the Federal share of Medicare Part D related costs). General revenue expenditures have increased at a slightly higher rate of 10.5 percent, approximately doubling during the time period. Note that reliable and comparable Medical assistance data prior to FY 2000 is not available. Medical assistance expenditures as presented on Table 6, reflect Medicaid expenditures incurred by the Department of Human Services. These expenditures account for about two-thirds of the total Medicaid budget and include expenditures related to hospitals, nursing homes, managed care (mainly RItE Care), doctors, as well as pharmacy expenditures.

- The Governor's FY 2009 proposed budget marks the first time since FY 2000 that medical assistance expenditures decrease when compared to the prior year. The proposed expenditures of \$1,348.5 million are 2.1 percent less than the FY 2008 Revised budget and 2.8 percent less than the FY 2008 Enacted budget.
- Of the \$647.4 million increase since FY 2000, \$313.4 million (48.4 percent) of the growth was related to managed care costs, which is primarily RItE Care. This reflects expansions of eligibility pursuant to revisions to State statutes, and the contraction of private employer health coverage, as well as inflation.
- General revenue expenditures of \$650.0 represent a decrease of 4.0 percent compared to the FY 2008 Enacted budget.

**Table 6**  
**FY 2000 - 2009 Medical Assistance Expenditures**

Medical Assistance Program	FY 2000 Audited	FY 2008 Enacted	FY 2009 Governor	FY 2000-09 Change	
				\$	Avg Ann
Hospitals	\$144.2	\$243.6	\$272.4	\$128.2	7.3%
Nursing Homes	245.6	361.8	328.6	83.0	3.3%
Managed Care	190.3	552.7	503.7	313.4	11.4%
Other	121.0	229.5	243.8	122.8	8.1%
<b>Total</b>	<b>\$701.1</b>	<b>\$1,387.6</b>	<b>\$1,348.5</b>	<b>\$ 647.4</b>	<b>7.5%</b>
<i>Gen Rev</i>	<i>\$323.6</i>	<i>\$677.4</i>	<i>\$650.0</i>	<i>\$326.4</i>	<i>8.1%</i>

Source: State Budgets, Governor's FY 2000 proposed budget, and RIPEC calculations.

### **Governor's proposed Medicaid reform**

In his FY 2009 proposed budget and in subsequent documents, the Governor proposes redesigning the Medicaid program. This proposal would replace the current Medicaid program with a new state-federal global Consumer Choice Medicaid Global Waiver that provides flexibility in exchange for federal budgetary certainty. Based on this proposal, over the next five years Rhode Island would operate its entire Medicaid program under this demonstration project. All persons currently eligible for the Rhode Island Medicaid program would be under the provisions of this waiver. During this period Rhode Island would create options and programs that would divert and transition individuals from high end care venues to less costly but appropriate settings, provide beneficiaries with the necessary information to make informed choices, mandate that all beneficiaries have a medical home, promote personal responsibility and encourage competition and quality.

Rhode Island proposes, with the approval of federal authorities, to:

- Enter into a five year agreement with the federal Centers for Medicare & Medicaid Services (CMS) under a section 1115a Waiver. Section 1115 Medicaid waivers are intended to allow states to experiment with alternative ways of operating their Medicaid programs by disregarding some of the federal rules that otherwise govern the program. Historically, Section 1115 Medicaid waivers have been used by many states, including Rhode Island, to expand coverage to groups of people who cannot be covered with federal Medicaid matching funds under "regular" rules;
- Include Rhode Island's RItE Care and RItE Share programs for children and families, and its various Home and Community Based Services (HCBS) waivers as part of the Global Waiver;
- Accept an aggregate federal annual allotment for the State's Medicaid program, to be trended forward at an agreed upon rate; and
- Request that CMS grant the State a defined federal financial contribution in exchange for increased flexibility in designing programs. In exchange for increased flexibility and the potential to capture such savings, the State would assume risk regarding caseload and inflation trends.

The Governor included savings of \$66.7 million in general revenue expenditures and \$137.2 million in all funds in his FY 2009 budget. Of the \$66.7 million in general revenue expenditures, 51.0 percent are projected to be saved by rebalancing the system in favor of community-based care by diverting prospective admissions and developing alternatives. The Governor also anticipates savings of \$26.5 million in general revenue expenditures by requiring individuals to enroll in a managed care delivery system, provide for competitive contracting for children's behavioral health, and implementing co-payments for certain services. Savings of \$6.2 million in general revenue expenditures are anticipated by selective contracting to purchase psychiatric inpatient beds and outpatient non-urgent service.

**May 2008 Caseload Estimating Conference**

One should note that the Caseload Estimating Conference (CEC) met in May 2008 and revised Medicaid expenditures. Based on the CEC, FY 2009 Medicaid expenditures, administered by the Department of Human Services, are estimated at \$1,460.0 million. General revenue expenditures are projected at \$711.5 million (increase of 4.9 percent) in FY 2009.

FY 2009 adopted general revenue expenditures of \$711.5 million are about \$61.5 million higher than what the Governor proposed in his FY 2009 budget. This is mainly due to the fact that about \$13.0 million in general revenue expenditures are not recognized from the Governor's plan to reduce RIte Care eligibility for low-income parents from 185 percent of the Federal Poverty Limit (FPL) to 133 percent FPL. In addition, the CEC did not include savings from the Governor's Medicaid reform plan, such as savings of approximately \$21.0 million from the proposal to divert people from nursing homes to community and home based care settings.

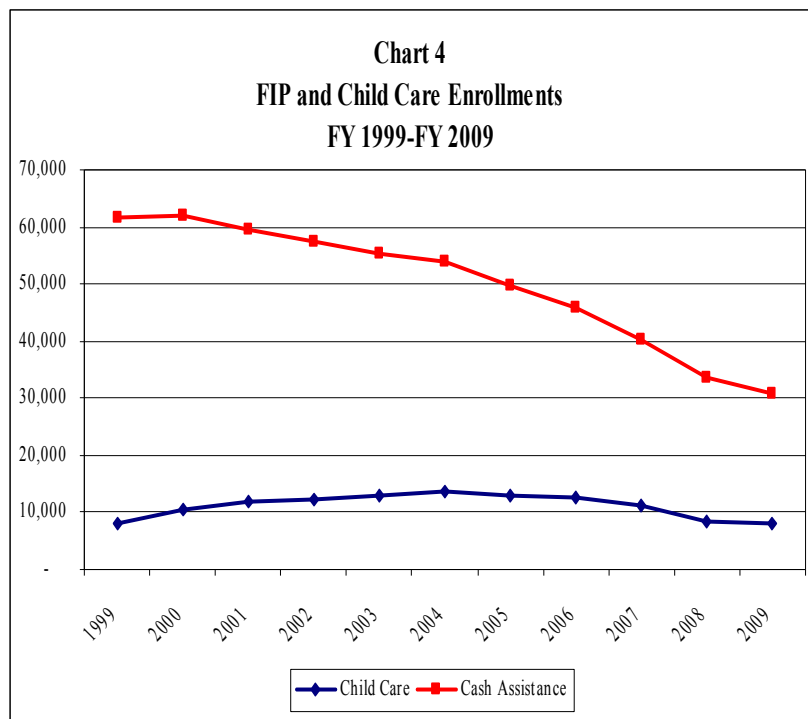
**Table 7**  
**FY 2009 Medical Assistance Expenditures**  
**Based on May 2008 Caseload Estimating Conference**  
**\$ million**

<b>Medical Assistance Expenditures</b>	<b>FY 2009</b>		<b>Change</b>	
	<b>Governor</b>	<b>CEC</b>	<b>\$</b>	<b>%</b>
Hospitals	\$272.4	\$273.5	\$1.1	0.4%
Nursing Homes	328.6	384.1	55.5	16.9%
Managed Care	503.7	590.5	86.8	17.2%
Other	243.8	211.9	(31.9)	-13.1%
<b>Total</b>	<b>\$1,348.5</b>	<b>\$1,460.0</b>	<b>\$111.5</b>	<b>8.3%</b>
<i>Gen Rev</i>	<i>\$650.0</i>	<i>\$711.5</i>	<i>\$61.5</i>	<i>9.5%</i>

Source: RIPEC calculations based on Governor's Budget and May 2008 Consensus Estimating Conference

## Family Independence Program (FIP) and Child Care

In 1996 the State's Family Independence Program (FIP) was enacted to implement the Federal Temporary Assistance to Needy Families (TANF) block grant, which replaced the Aid to Families with Dependent Children program (AFDC). The reforms were designed to move people from welfare to work by creating time limits and work requirements to which recipients must adhere. The program incorporates cash assistance payments, child care and health care to needy children and their families, in order to provide support for families in their work search.



*Cash Assistance* – In FY 1999, Rhode Island spent a total of \$104.7 million (\$170.1 million adjusted) on the cash assistance portion of FIP. The Governor's FY 2009 budget proposes expenditures of \$46.8 million in all funds and \$12.5 million in general revenue expenditures for cash assistance, a decrease of 55.3 percent (68.0 percent general revenues) compared to FY 1999 spending. The budget assumes a caseload of 23,000 for FY 2009, a 56.8 percent decrease from a caseload of 53,243 in FY 1999.

*Child Care* – In contrast to cash assistance, which declined steadily over the past ten years, spending on state-subsidized child care increased until FY 2004 and remains higher than FY 1999 expenditure levels. The FY 2009 budget proposes total child care expenditures of \$54.0 million (\$11.2 million in general revenue spending). Since FY 1999, total expenditures on child care increased \$22.3 million, or 70.3 percent, while general revenue expenditures decreased \$8.4 million, or 42.9 percent. Projected caseloads for child care are 7,900 in FY 2009, a decline of 3.7 percent since FY 1999, at which time child care caseloads totaled 8,206.

The FY 2009 budget makes a number of structural changes to the FIP program, creating a new "Work First" Program including:

- Reducing the time limit for cash assistance for parents and children to 24 months instead of 60 months with some exceptions;
- Increasing the focus on employment by requiring all parents to sign and follow an employment plan and allowing work activities that are consistent with federal law;
- Providing a RIPTA bus pass to FIP families, supported through reinvesting \$5 million savings; and
- Reinvesting savings in FIP program reforms in order to meet Federal maintenance of effort requirements.

*CEC Impact on FIP and Child Care* – The Caseload Estimating Conference (CEC) adopts caseloads for the Family Independence Program (FIP/TANF), Child Care slots, as well as the estimated cost-per-case. As with revenues, the CEC bases its projections on current law. Thus, statutory changes included in the Governor’s budget, such as the proposed elimination of the provider rate increase for child care providers, are not included in the estimates.

The FY 2009 estimates were lowered by 200 cases compared to November estimates due to an addition of 3,400 cases as a result of economic forces and a reduction of 3,600 cases as a result of passage of Article 9 in the FY 2008 Supplemental budget, which terminates cash assistance payments to children whose parents have reached their 60 month cash assistance benefit limit as of August 1, 2008. The annual cost per person was revised down from \$2,118 to \$2,099 per year in FY 2008 and from a November estimate of \$2,148 to \$2,112 in FY 2009. These changes are projected to result in a net decrease of \$4.0 million (\$1.3 million in general revenues) when compared to the Governor’s proposed budget.

**Table 8**  
**May 2008 Caseload Estimating Conference**  
**Change in Cash Assistance Expenditures (\$ millions)**

Expenditures	FY 2009			Governor to May REC Change
	Adopted Nov-07	Governor Proposed	Adopted May-08	
TANF/FIP				
General Revenues	\$12.5	\$12.5	\$11.2	-\$1.3
Total	49.8	46.8	48.5	1.7
Child Care				
General Revenues	\$11.2	\$6.7	\$10.5	\$3.8
Total	58.5	54.0	55.0	1.0
<b>Total</b>	<b>\$108.3</b>	<b>\$100.8</b>	<b>\$103.5</b>	<b>\$2.7</b>
<i>General Revenue</i>	<i>\$23.7</i>	<i>\$19.2</i>	<i>\$21.7</i>	<i>\$2.5</i>

Source: RIPEC Calculations based on November 2007 and May 2008 Caseload Estimating Conference data, and DHS data.

Child care estimates in FY 2009 were revised down by 565 children compared to the November estimates. The FY 2009 annual subsidy cost estimate of \$7,500 is \$535 (7.7 percent) higher than FY 2008 adopted estimates. When compared to the Governor’s proposed FY 2009 budget, child care costs are projected to increase \$1.0 million (\$3.8 million in general revenues). As noted above, the CEC projections do not take into account the proposed elimination of the provider rate increase, which is expected to save \$4.0 million in general revenue funds.

## Personnel Expenditures and Trends

As Table 9 shows, the FY 2009 proposed personnel budget is \$1,558.0 million, \$83.5 million (5.1 percent) less than the FY 2008 Supplemental budget.

Personnel Costs (Millions)	FY 1999 Actual	FY 2008 Revised	FY 2009 Proposed	<i>FY 2009 - FY 2008 Revised</i>	
				Actual Change	Percent Change
<b><u>Salaries &amp; Benefits</u></b>					
Net Salaries*	\$ 667.7	\$ 891.4	\$ 870.0	\$ (21.5)	-2.4%
Adjustment for Temp	(64.4)	(70.1)	(75.9)	(5.8)	8.2%
Overtime	47.9	64.4	51.3	(13.1)	-20.4%
Retirement	62.1	154.2	153.8	(0.4)	-0.3%
Medical	81.2	162.4	138.7	(23.7)	-14.6%
Retiree Health**	-	29.6	26.3	(3.3)	-11.0%
Other Benefits/Payroll***	61.6	84.6	82.3	(2.3)	-2.7%
<i>Salaries &amp; Benefits</i>	<i>\$ 856.0</i>	<i>\$ 1,316.5</i>	<i>\$ 1,246.5</i>	<i>\$ (70.0)</i>	<i>-5.3%</i>
<b>Funded FTE Positions</b>	<b>15,986.6</b>	<b>15,347.9</b>	<b>14,457.9</b>	<b>(890.0)</b>	<b>-5.8%</b>
<b>Average Cost Per FTE</b>	<b>\$53,546</b>	<b>\$85,777</b>	<b>\$86,218</b>	<b>\$441</b>	<b>0.5%</b>
<b><u>Other Personnel Costs</u></b>					
Other Payroll Costs****	\$ 79.2	\$ 117.3	\$ 110.2	\$ (7.1)	-6.1%
Purchased Services	100.8	207.6	201.3	(6.3)	-3.0%
<i>Other Personnel</i>	<i>\$ 180.0</i>	<i>\$ 325.0</i>	<i>\$ 311.5</i>	<i>\$ (13.5)</i>	<i>-4.1%</i>
<b>Total Personnel Costs</b>	<b>\$ 1,036.0</b>	<b>\$ 1,641.5</b>	<b>\$ 1,558.0</b>	<b>\$ (83.5)</b>	<b>-5.1%</b>

Source: State Budget Office and Personnel Supplements

\* Assumes savings from furlough days.

\*\* Previously included in other costs

\*\*\* Includes FICA, Holiday Pay, Payroll Accrual and Other

\*\*\*\* Includes temporary and seasonal payroll, unemployment compensation, statewide benefit assessment, anticipated retroactive payments, and workers compensation

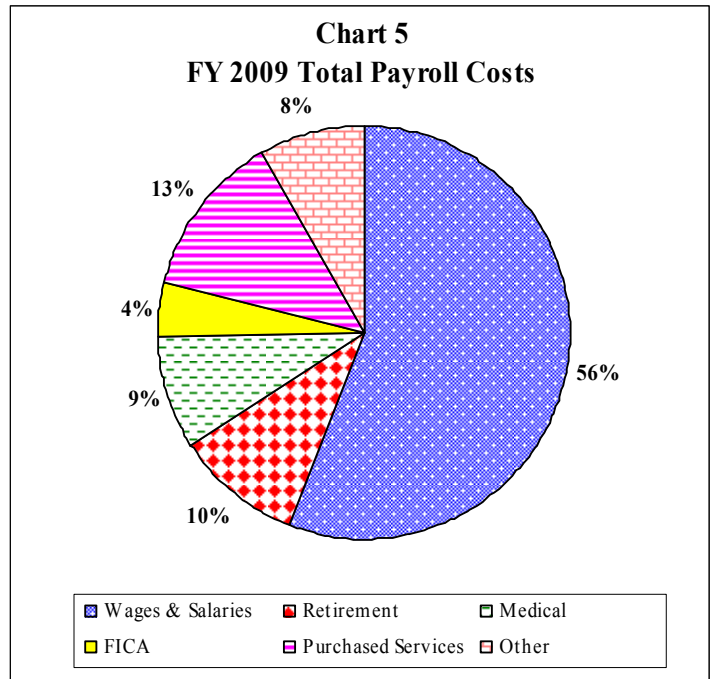
Total personnel costs have increased from \$1,036.0 million (\$1,291.9 million adjusted) in FY 1999 to \$1,558.0 million in FY 2009, which represents an average annual rate of 4.2 percent (1.9 percent real growth). The average cost per FTE has increased from \$53,546 (\$66,771 adjusted), an average annual rate of 4.9 percent (2.6 percent real growth).

The portion of the budget dedicated to personnel expenditures has decreased over the past ten years; in FY 1999, 25.1 percent of all funds were dedicated to personnel expenditures, and in FY 2009, 22.6 percent of all expenditures were for personnel.

The majority of the personnel budget is supported through general revenue, which accounted for 52.7 percent of total expenditures in FY 2009. Federal funds constitute 21.8 percent of total

personnel spending, and the remaining funds (special funds, restricted receipts, and internal service funds) maintain 25.5 percent of the total personnel budget.

Retirement and medical costs continue to be the primary drivers of increases in the average cost per FTE. State employee retirement costs have increased faster than any other personnel expenditure component over the past ten years, from \$62.1 million in FY 1999 (\$76.4 million adjusted), to \$153.8 million in FY 2009. This represents an average annual rate of increase of 9.5 percent (7.1 percent real growth). At the same time, employee medical insurance costs have increased \$57.5 million (\$37.4 million adjusted), a 5.5 percent average annual increase (3.2 percent in real terms).

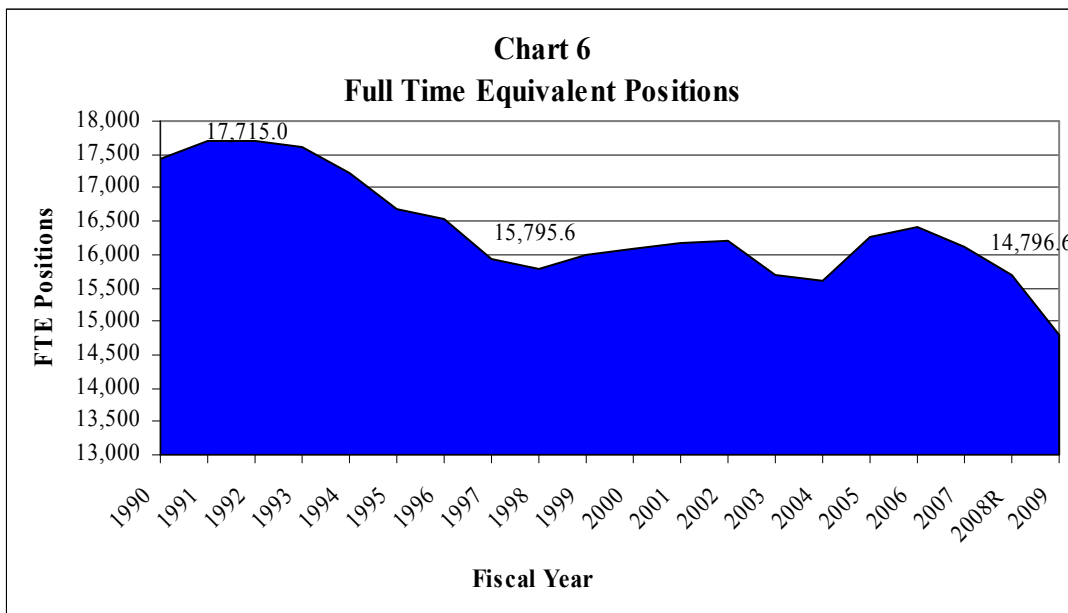


Spending on purchased services has also increased faster than other categories of expenditures, approximately doubling over the past ten years (7.2 percent average annual increase). In real terms, expenditures on purchased services have increased by \$75.6 million (4.8 percent annually).

*FTE Position Authorization and Governor’s Workforce Reduction Plan* – In order to manage the staffing levels in State government, the State allocates FTE positions (full time equivalent positions) to all agencies and departments. These FTE positions now exclude certain positions in higher education that are research oriented and are financed through federal or other third-party sources. However, RIPEC continues to include these positions in the totals for comparison purposes.

- The FY 2008 Supplemental budget includes 15,688.7 FTE positions, a reduction of 298.6 positions from the FY 2008 Enacted levels of 15,987.3 FTEs. The FY 2008 Supplemental budget also decreases the average FTE cost by \$4,852 when compared to FY 2008 Enacted. This decrease is primarily due to the elimination of many vacant positions and the six proposed uncompensated leave days included in the Supplemental budget that have not been negotiated.
- The Governor’s FY 2009 budget request includes a net decrease of 890.0 FTE’s compared to the FY 2008 Supplemental budget, which is an historic low FTE cap of 14,796.6 (including 785.0 FTEs supported by Sponsored Research Funds).
- The budget assumes \$60.6 million in undistributed savings, \$33.4 million in general revenues, achieved through negotiations with employee unions. These savings are reflected as \$33.6 million in medical benefit savings and \$27.0 million in salary and benefit savings.

- The workforce reduction plan includes initiatives such as: targeted layoffs in personnel in certain agencies, the elimination of vacant positions, anticipated retirements, privatization initiatives, and agency mergers and consolidations.
- Targeted layoffs and elimination of vacancies are anticipated to reduce the State's workforce by 629.7 FTE for a savings of \$0.6 million in FY 2008 and \$41.0 million in FY 2009.
- Significant changes to retiree health benefits for State employees retiring by September 30, 2008 including: instituting a minimum of 59 years of age with 20 years of service requirement; increasing the portion of the cost paid by retiree; and establishing an "other post-employment benefit" (OPEB) fund in lieu of the current pay-go system.
- Privatization of functions at the Veteran's Home, Eleanor Slater Hospital, the Department of Corrections, and the State-run Davies and Deaf Schools are expected to eliminate 243 positions, with estimated total savings of \$7.2 million (\$4.6 million from general revenues).
- The FY 2009 proposed budget also recommends repealing legislation enacted by the 2007 General Assembly requiring comparative cost analyses and evaluations of quality performance concerns prior to privatization or closure of a State facility, function or property.
- A number of agency consolidations and mergers, designed to reduce FTE positions and provide services more efficiently, have been proposed in the Governor's FY 2009 budget. They include the transfer of 96.4 positions from the five health and human service agencies to the Executive Office of Health and Human Services.



## State Aid

The Governor's FY 2009 budget includes \$1,134.7 million in total state aid to local governments. This represents a 2.6 percent increase when compared to the FY 2008 Enacted Supplemental budget, and a 1.5 percent increase over the FY 2008 Enacted budget. Since FY 1999, this category of aid has almost doubled, increasing at an average annual rate of 6.7 percent (4.4 percent on an adjusted basis). A significant portion of this increase, \$117.8 million, is due to the increase in the motor vehicle excise tax phase out reimbursement, which was implemented in FY 1999.

Direct education aid continues to be the largest component of aid to local governments, constituting 60.8 percent of total State aid in FY 2009; however, this represents a decrease from FY 1999 when direct education aid was 79.1 percent of total State aid to local governments.

On an unadjusted basis, education aid accounts for 40.6 percent of the total increase in State aid over the past ten years. When one adjusts for inflation, however, the motor vehicle excise tax phase out represents the greatest share of the increase in State aid (28.8 percent of the total, compared to education's share of 26.1 percent)

**Table 10**  
**State Aid to Local Government**

Major State Aid Program	FY 1999	FY 2008E	FY 2008S	FY 2009	2008E-2009 Change
<b>Education Aid</b>					
Direct Education Aid*	\$ 472.1	\$ 689.9	\$ 689.6	\$ 690.4	\$ 0.6
Teacher Retirement	30.5	78.1	80.2	94.8	16.7
School Housing Aid	22.6	52.9	49.7	57.0	4.1
Met School	1.7	11.5	11.5	12.3	0.8
Charter School Aid (direct and indirect)	0.1	28.2	28.1	31.0	2.8
Other Aid**	0.7	5.2	5.0	3.7	(1.6)
<i>Subtotal - Education Aid</i>	<i>\$527.6</i>	<i>\$865.7</i>	<i>\$864.1</i>	<i>\$889.2</i>	<i>\$23.5</i>
<b>Municipal Aid</b>					
General Revenue Sharing	\$ 19.7	\$ 65.1	\$ 55.1	\$ 55.0	\$ (10.1)
Excise Tax Phase Out	21.8	135.5	135.3	139.6	4.1
PILOT	15.9	27.8	27.8	27.8	(0.0)
Distressed Communities Aid	6.2	10.4	10.4	10.4	(0.0)
Other Aid***	6.1	13.4	13.3	12.7	(0.7)
<i>Subtotal - Municipal Aid</i>	<i>\$69.5</i>	<i>\$252.2</i>	<i>\$241.9</i>	<i>\$245.5</i>	<i>(\$6.7)</i>
<b>Total State Aid</b>	<b>\$597.2</b>	<b>\$1,117.9</b>	<b>\$1,106.0</b>	<b>\$1,134.7</b>	<b>\$16.8</b>

Source: RIPEC calculations based on State and House Fiscal Staff Budget Documents

\* Includes local school operations, targeted aid, core instruction equity, student equity, professional dev., early childhood, student tech., student language assist., full-day kindergarten, vo-tech equity, group home funding and Central Falls operations.

\*\* Includes progressive support and intervention, Hasbro hospital, school visit, RIDE professional dev., textbook loans, school breakfast (school food services for FY 1998) and telecomm access funds.

\*\*\* Includes state library aid, statewide reference library resource grant, library construction reimbursement, municipal police incentive pay, municipal fire incentive pay, and property revaluation program.

*Education Aid Highlights* – Total proposed State education aid to local governments for FY 2009 is \$889.2 million, including direct education aid, charter school aid, teacher retirement, school housing aid, and funding for the Met school. State-run schools are not included in this figure. FY 2009 funding levels are \$23.5 million (2.7 percent) higher than FY 2008 Enacted levels.

- Direct education aid is funded at FY 2008 levels with adjustments for group home beds. This marks the third consecutive year that direct State education aid has been level funded.
- The majority of the funding increase (\$16.7 million) is for the State’s contribution to teacher retirement. The only other categories of aid to increase were funding for Central Falls (\$1.3 million), school housing aid (\$4.1 million), and funding for the Met School and charter schools (\$3.6 million combined).
- Legislation has been proposed to provide a 2.0 percent school construction aid bonus to districts that regionalize within five years.

*Municipal Aid Highlights* – Recommended total municipal aid is \$245.5 million in FY 2009, not including pass-through aid and the property revaluation reimbursement. Proposed FY 2009 municipal aid is \$6.7 million (2.7 percent) less than FY 2008 enacted aid.

- Most proposed formula aid was frozen at the FY 2008 Revised levels with the exception of the Motor Vehicle Excise Tax Reimbursement. The FY 2008 Enacted Supplemental budget permanently decreases the reimbursement rate to 98.0 percent of the reimbursement.
- The FY 2008 Enacted Supplemental budget reduces General Revenue sharing by \$10.0 million and maintains this funding level in FY 2009.
- Payment in Lieu of Taxes (PILOT) program funding for FY 2009 is \$27.8 million, which is \$2.0 million less than the statutory 27.0 percent reimbursement rate. Community distributions will reflect updated data from the Office of Municipal Affairs.

### **Outyear Deficits**

The Governor is required to submit a five-year financial forecast with the annual budget to provide a planning tool that allows for examination of the potential impact budget choices will have on future State budgets. The forecast is a useful tool for assessing the long-term affordability of the State’s current policies. As with any forecast, the projections are only as good as the assumptions used to design it.

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<b>Table 11</b>					
<b>Out Year Deficit Estimates (\$ millions)</b>					
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>Avg.</b>
State Budget Office	(17.0)	(1.6)	(20.8)	(12.3)	(12.9)
House Fiscal	(47.5)	(68.6)	(61.0)	(83.2)	(65.1)

Source: State Budget Documents, House Fiscal Staff FY 2009 Presentation, and RIPEC calculations.

The Governor’s Budget request includes a five-year forecast projecting operating deficits ranging from \$17.0 million in FY 2010 to \$12.3 million in FY 2013. This represents an average operating deficit of \$12.9 million during the forecast period. This is significantly lower than the average operating deficit of \$378.3 million that was projected in the FY 2008 proposed budget. The forecast takes into account four major initiatives included in the Governor’s FY 2009 budget which impact the revenue and expenditure estimates – changes to the historic tax credit; Medicaid reform; corrections options; and personnel savings. The House Fiscal staff projects an average annual deficit of \$65.1 million during the same time period.