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Presentation on Rhode Island's
Economy, the FY 2009
Supplemental Budget, and Local
Government Spending

Rhode Island Public Expenditure Council

February 11, 2009



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What is RIPEC?

- Established in 1932
- RIPEC is an independent, nonprofit and nonpartisan public policy research and education organization
- Promotes fiscal responsibility and sound management practices
- Enhances understanding between private sector and State and local governments



Presentation Outline

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- Rhode Island's economy
 - Impact on the State of Rhode Island
 - The context for budget debate
- Financial times: Hard choices or short-term fixes
 - The State's financial condition
 - What are the options?
 - What is next?
- Local Government: Next on the horizon



Rhode Island's Economy

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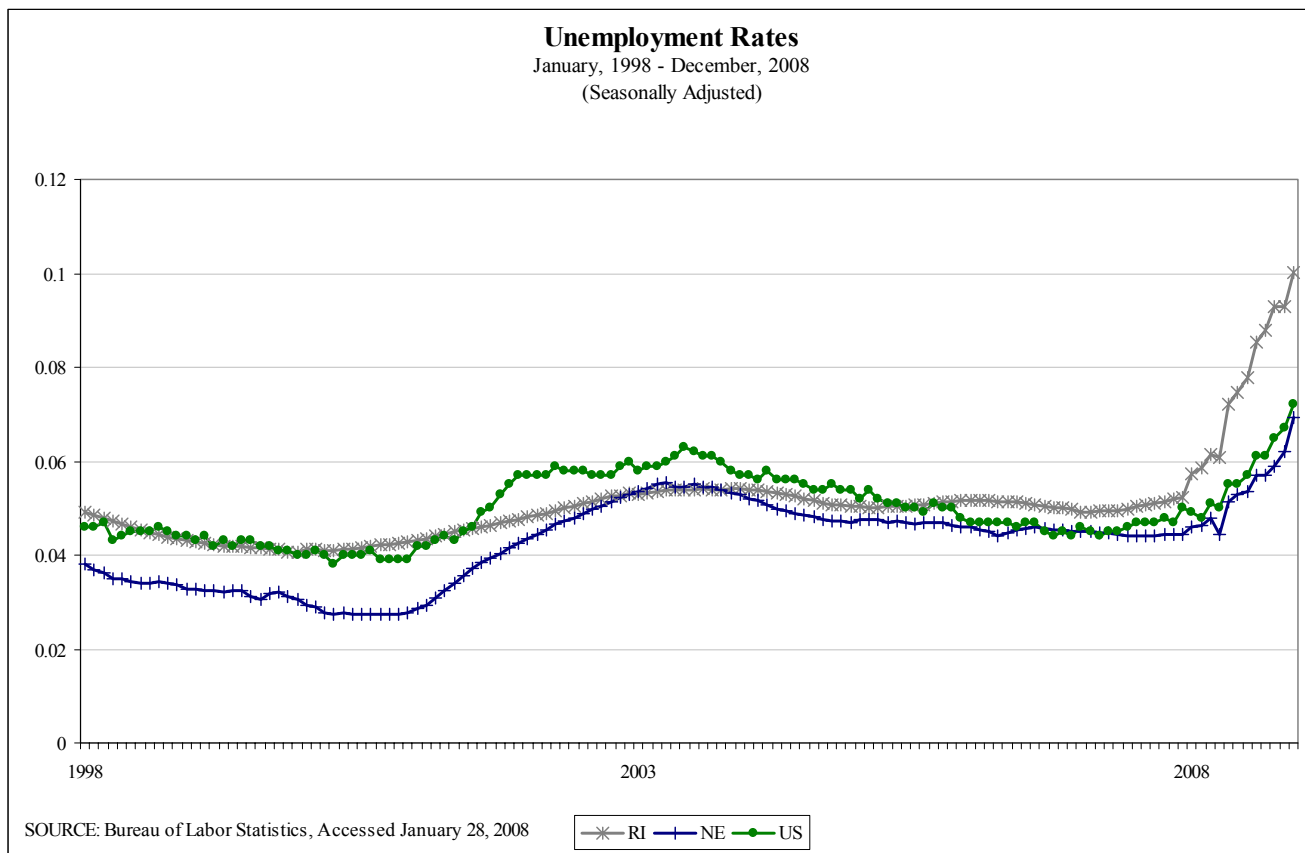
- RI expected to lose about 23,000 jobs from 2007-2009
- Job growth not to begin until 2011
- Significant job losses in RI caused unemployment rate to reach 10% and going higher
- Unemployment rate will not be below 8% until 2012



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Rhode Island's Economy

RI's Unemployment Rate Higher than NE

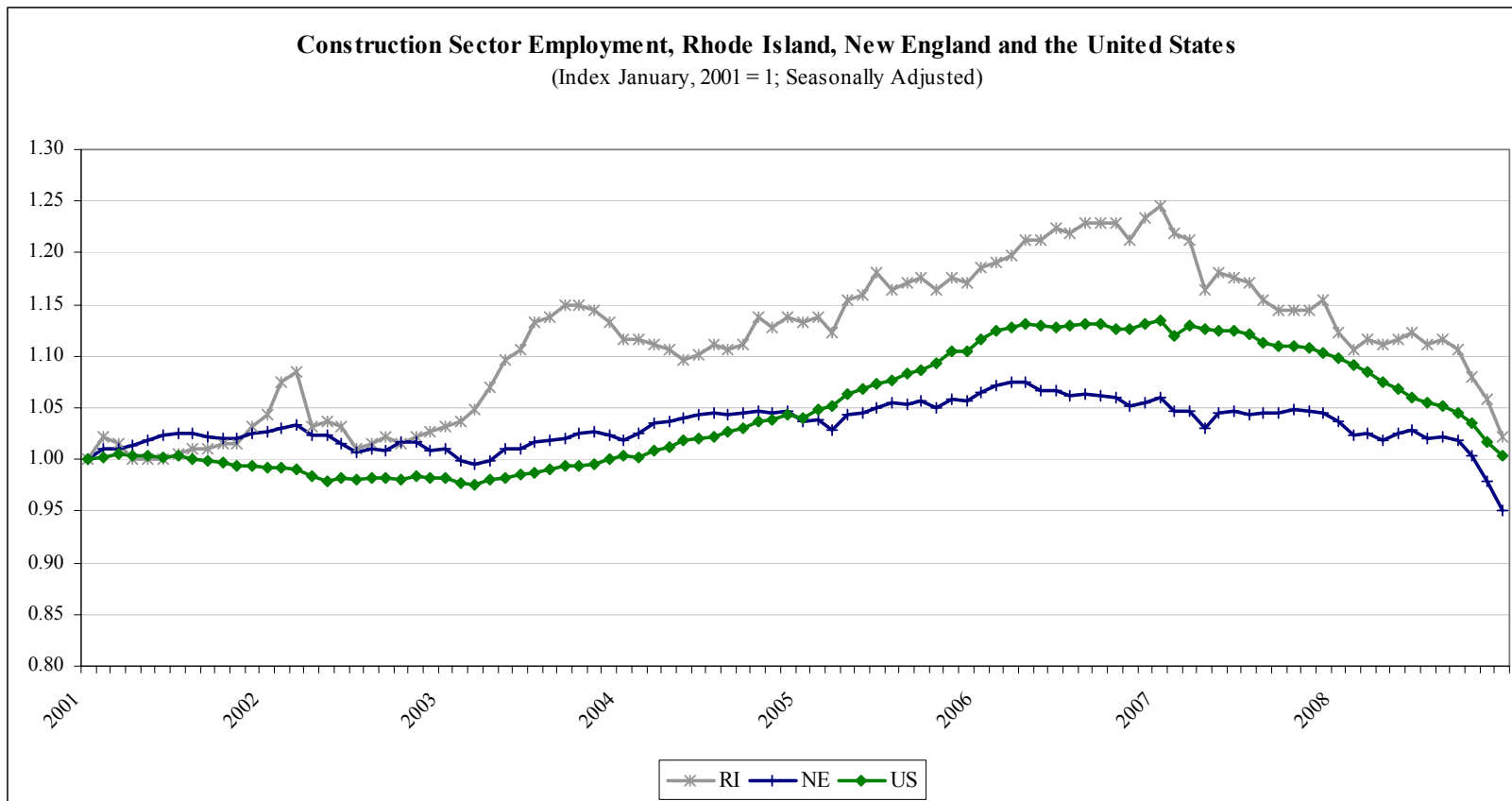




Rhode Island's Economy

Sector Employment

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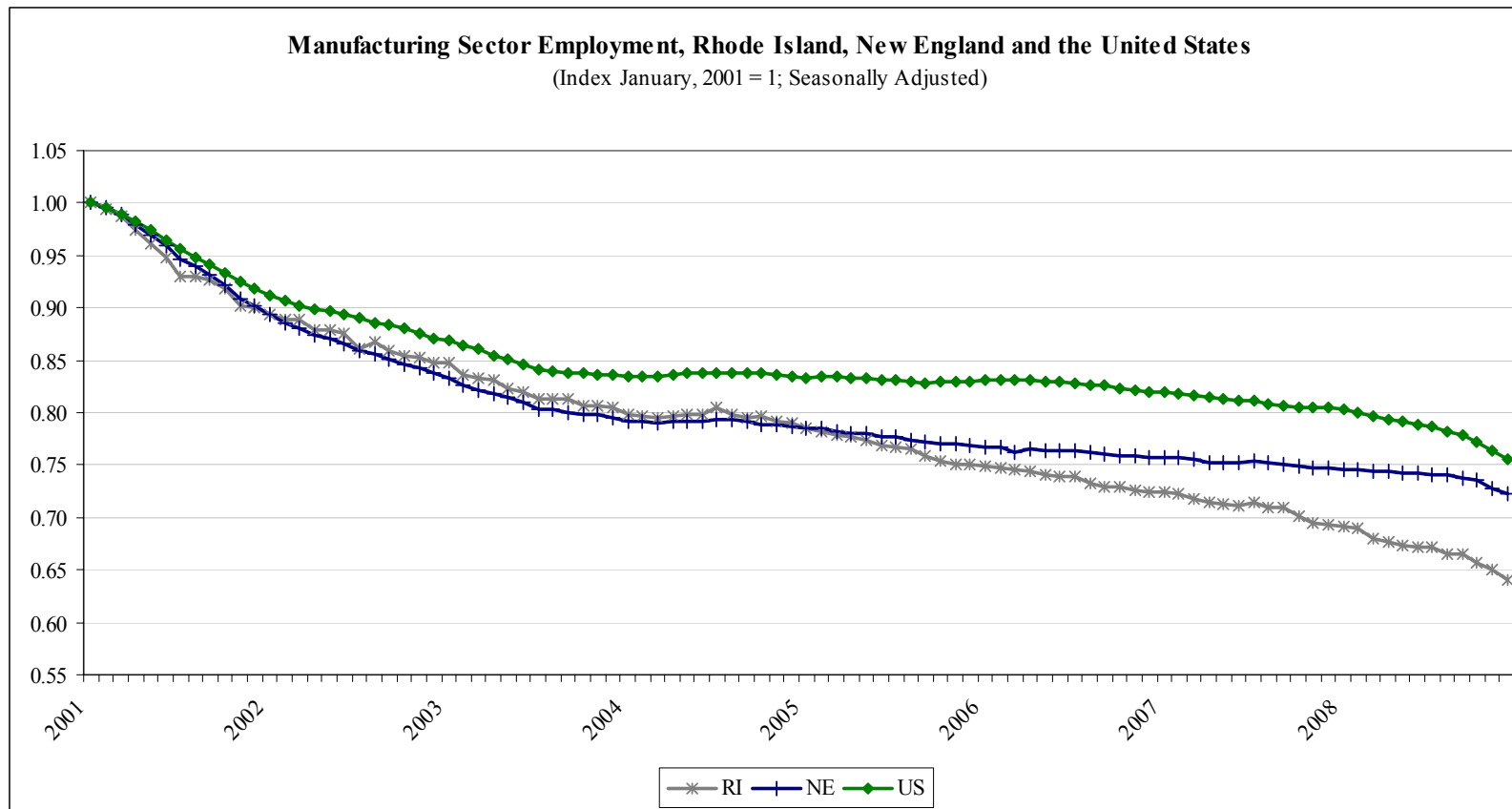




Rhode Island's Economy

Sector Employment

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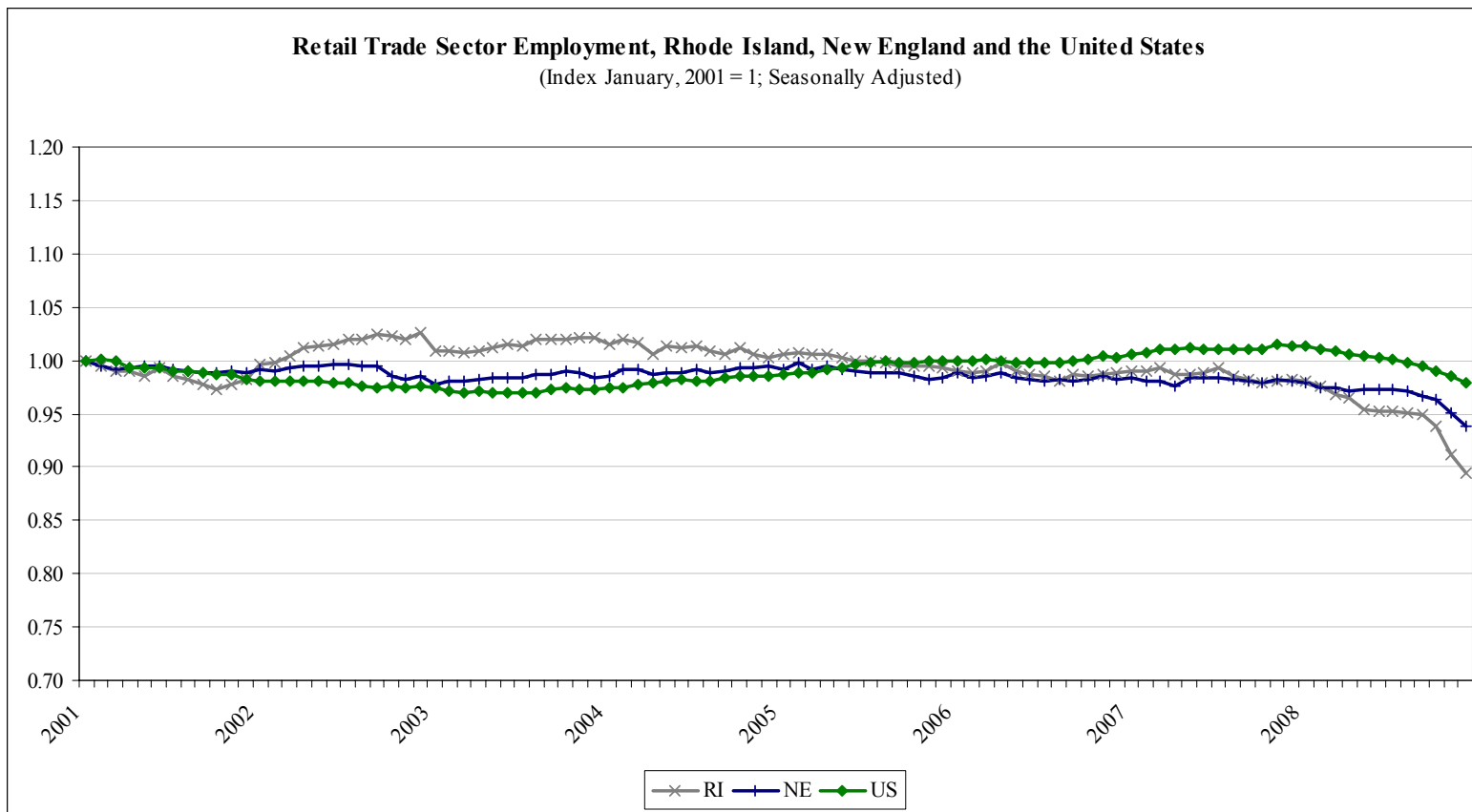




Rhode Island's Economy

Sector Employment

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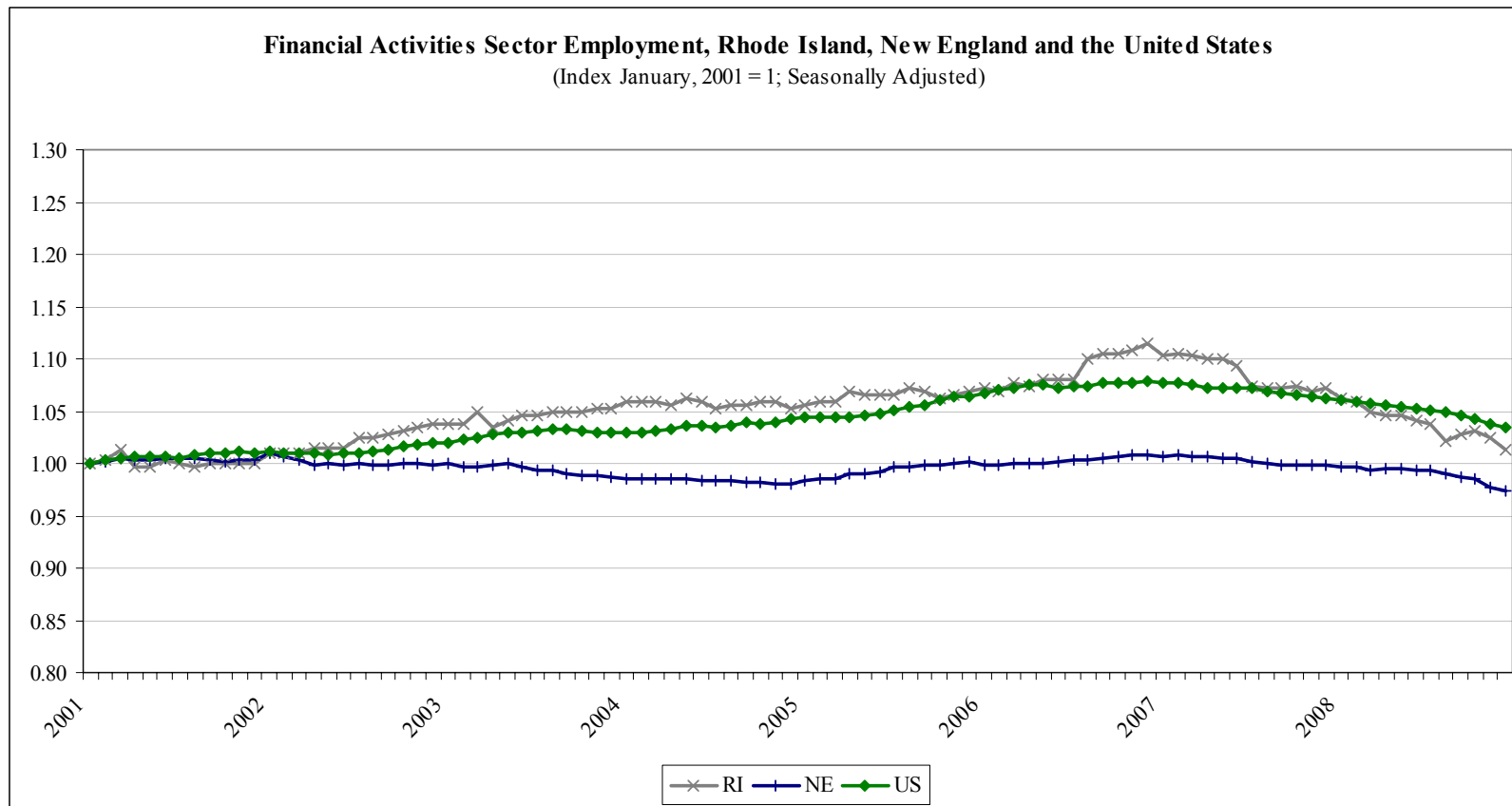




Rhode Island's Economy

Sector Employment

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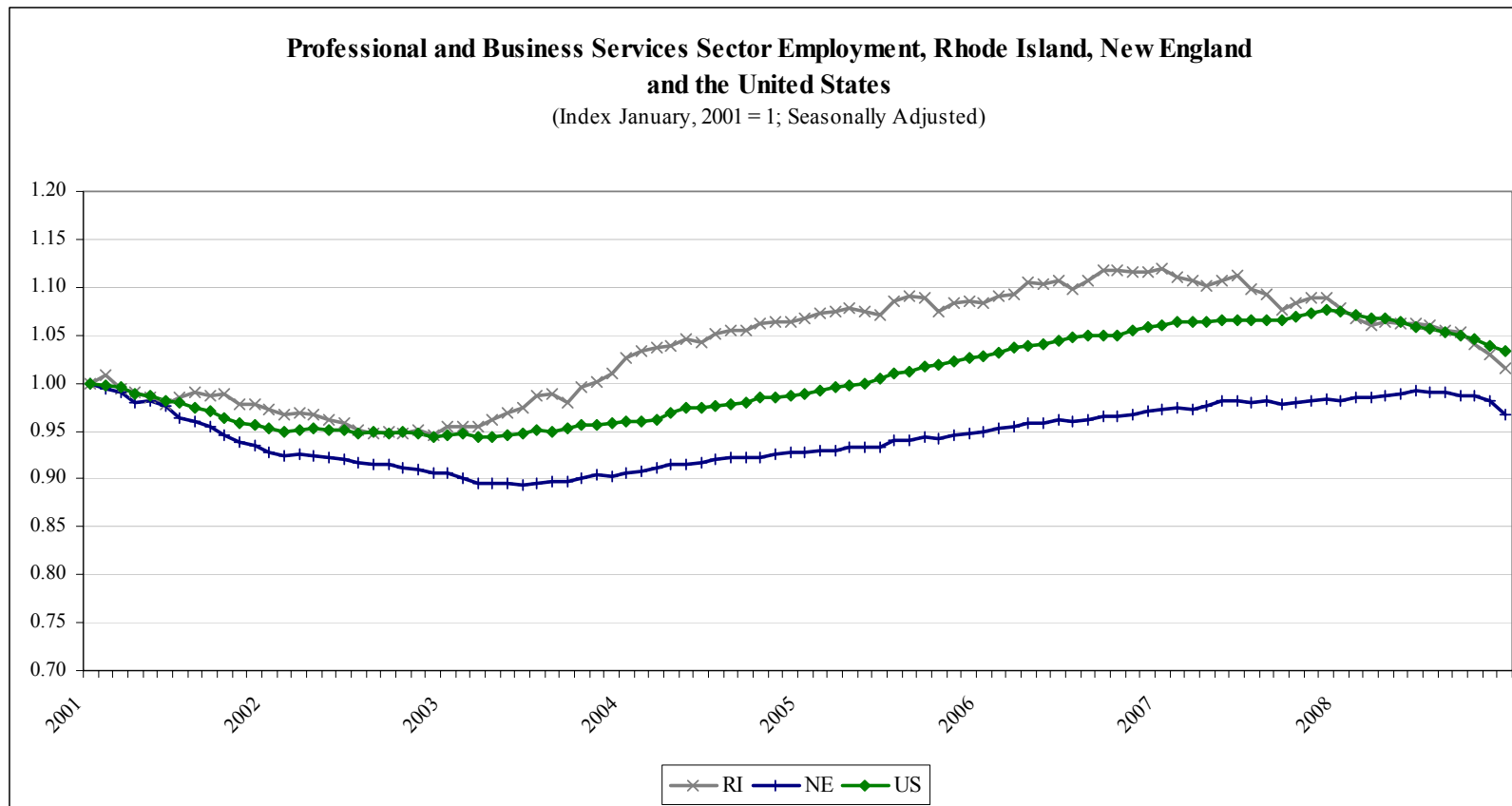




Rhode Island's Economy

Sector Employment

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Rhode Island's Economy

Percent Contribution to GDP By Sector

		1997	2007
Construction	RI	4.6%	4.2%
	NE	3.6%	3.5%
	US	4.1%	4.1%
Finance and Insurance	RI	10.4%	12.1%
	NE	11.0%	11.8%
	US	7.2%	8.1%
Real Estate, Rental and Leasing	RI	13.1%	15.1%
	NE	13.1%	13.7%
	US	12.1%	12.7%
Manufacturing	RI	13.8%	9.6%
	NE	14.8%	10.9%
	US	15.5%	11.8%
Hospitality and Leisure	RI	3.4%	3.8%
	NE	3.1%	3.4%
	US	3.5%	3.7%
Health and Education	RI	10.9%	11.6%
	NE	9.4%	10.9%
	US	7.0%	7.9%
Information, Professional and Technical Services	RI	9.3%	9.1%
	NE	11.5%	13.4%
	US	10.5%	12.0%
Retail	RI	6.2%	6.2%
	NE	6.3%	5.9%
	US	7.0%	6.5%

SOURCE: Bureau of Economic Analysis; RIPEC calculations



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Revenue Estimating Conference

November 2008

Economic Indicator	FY 2008		FY 2009		FY 2010		FY 2011	
	May-08	Nov-08	May-08	Nov-08	May-08	Nov-08	May-08	Nov-08
Employment	-0.8%	-1.3%	-0.8%	-2.8%	0.5%	-0.9%	1.0%	0.7%
Unemployment Rate	5.5%	5.8%	6.0%	8.8%	6.0%	9.3%	5.6%	8.5%
Personal Income	3.4%	3.7%	2.7%	1.3%	3.8%	2.6%	4.4%	4.5%
Consumer Price Index US	3.0%	3.7%	2.5%	2.5%	1.8%	1.0%	1.8%	2.5%

Source: May 2008 and November 2008 Economic Forecast



Rhode Island's Economy

The State of the State

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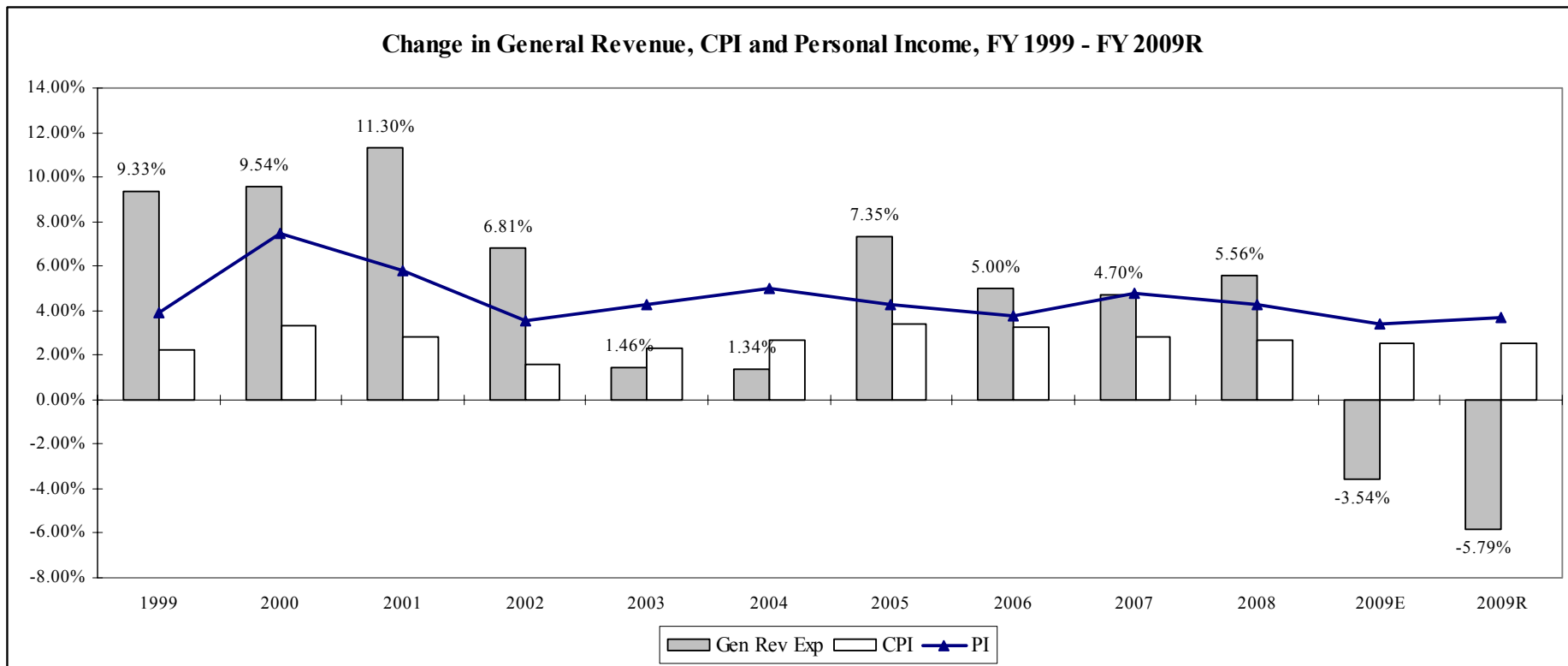
- The State is projected to face a current-year shortfall of \$357.4 million (based on November, 2008 Revenue Estimating Conference), which represents approximately 11 percent of the State's total general revenue expenditures.
- Data from the Center for Budget Policy and Priorities (CBPP) indicates that at least 43 states have projected current-year deficits and 41 states have projected a deficit for FY 2010.
- When measured as a percent of the State's general fund, Rhode Island's projected FY 2009 deficit ranked 4th highest in the country (behind Arizona, California and Alabama).
- Rhode Island's FY 2010 deficit, which the CBPP projected to be 13.7 percent of the State's general revenue fund, is currently estimated to be the 15th highest out of the 34 states that have projected a specific shortfall.
- According to CBPP estimates, the combined total of FY 2009 deficits is \$46.4 billion. This number is projected to increase to approximately \$145 billion in FY 2010.



FY 2009 Supplemental Budget

General Revenue Expenditures, CPI and Personal Income

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FY 2009 Supplemental Budget

Deficit Components (\$ million)

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	Enacted	Nov-08	Enacted-Nov Change
General Revenues			
Taxes	\$2,600.4	\$2,402.1	(\$198.3)
Departmental Revenue	347.6	331.5	(16.1)
Other	398.7	379.5	(19.3)
<i>Subtotal</i>	<i>3,346.7</i>	<i>3,113.1</i>	<i>(233.6)</i>
Adjustments			
Transfer to budget reserve	(\$73.7)	(\$68.5)	\$5.2
Opening Surplus	3.1	0.0	(3.1)
Reappropriated Surplus	0.0	1.7	1.7
Total Available Revenues	\$3,276.1	\$3,046.3	(\$229.8)
FY 2008 Closing			
Budget reserve fund	\$0.0	\$38.4	(\$38.4)
Station Fire Settlement	\$0.0	\$10.0	(\$10.0)
Caseload Estimating			
Cash Assistance	\$47.3	\$46.4	\$0.9
Medical Assistance	649.3	686.3	(37.0)
Other	\$2,579.6	\$2,622.6	(\$43.1)
Total Expenditures	\$3,276.2	\$3,403.7	(\$127.6)
<i>Deficit</i>			<i>(\$357.4)</i>

SOURCE: November 2008 Revenue Estimating Conference; Budget Office "FY 2009 1st Quarter Report"; FY 2009 Budget as Enacted



FY 2009 Supplemental Budget Highlights

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- The FY 2009 Supplemental budget addresses deficit of \$357.4 million.
- Deficit is composed of:
 - \$ 229.8 million revenue shortfall
 - \$ 48.4 million budget reserve repayment and station fire settlement
 - \$ 79.2 million increase in expenditures
- Deficit eliminated through:
 - \$ 240.3 million expenditure modifications (\$95.1 million related to State and local pension payment deferral)
 - \$ 93.0 million one-time revenues/expenditure reduction
 - \$ 24.1 million increase in on-going revenues
- Supplemental Budget focuses on:
 - pension reform
 - personnel reform
 - changes to retiree health care
 - reduction in local aid
 - selected tax increases
 - one-time revenues.



FY 2009 Supplemental Budget

Pension Reform

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- Eliminates cost-of-living adjustment for public employees retiring after April 1, 2009;
- Public employees who leave service after April 1, 2009, will need minimum age of 59 to be eligible for retirement;
- Makes changes to disability pension provisions;
- Lowers the State employer contribution rate for pensions to 25 percent of the required rate for the last five months of the fiscal year, for anticipated general revenue savings of \$25.9 million (\$43.0 million in all funds);
- Reduces the funding requirement for the Teacher Retirement System to 25 percent of the actuarial rate from February 1 to June 30, resulting in general revenue savings of \$28.1 million for the State and local government savings of \$41.1 million;



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FY 2009 Supplemental Budget

Personnel Reform

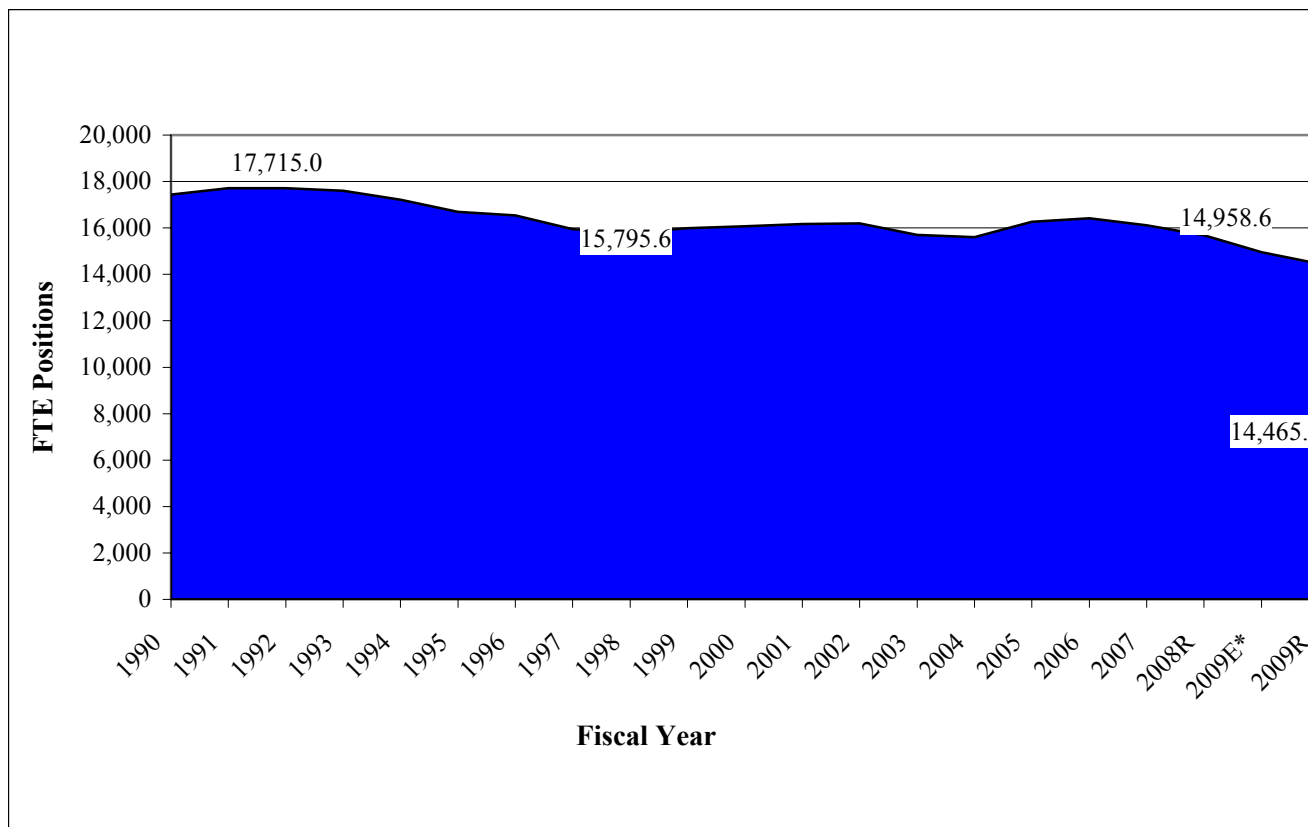
- Any collective bargaining agreement to which the State is a party, must be reviewed and approved by State's chief executive officer;
- Minimum staffing levels, deployment of personnel while on the job, types of equipment utilized and number of or location of any vehicle or facility, shall not be subject of collective bargaining; and
- Limits authority of Personnel Appeal Board to either uphold or overrule disciplinary action taken by State in appeals by persons who have been discharged, suspended or otherwise disciplined.



FY 2009 Supplemental Budget

FTE Count

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FY 2009 Supplemental Budget

Retiree Health Care

- Delays creation of the Retiree Health Care Trust Fund from FY 2009 to FY 2011, continuing the State's funding obligation on pay-as-you-go basis;
- Based upon December 2008 estimates, Budget Office projects a pay-as-you-go funding deficit of \$15 million (\$6 million general revenue expenditures);
- Therefore, the Governor recommends increasing the State contribution from 3.86% of payroll to 5.62% to generate enough revenue to cover claims on pay-as-you-go basis



FY 2009 Supplemental Budget

Local Aid

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- Municipal Aid – Reductions of \$ 59.64 million, including:
 - \$ 55.11 million General Revenue Sharing elimination for FY 2009
 - \$ 4.21 million Motor Vehicle Excise Tax base change
- Education Aid – Reduction of \$ 94.25 million composed of:
 - \$ 40.71 million Teacher Retirement – local savings
 - \$ 30.41 million Teacher Retirement – state savings
 - \$ 9.45 million Providence School Construction (repayment)
 - \$ 4.31 million Permanent School Fund elimination (January – June)
 - \$ 5.83 million cut in Professional Development Fund
- Recommends legislative package to provide local governments tools to build budgets that are affordable to taxpayers
 - Changes to statewide purchasing
 - Eliminates mandates
 - Changes to collective bargaining



FY 2009 Supplemental Budget

Other Changes

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- Recommends reinstating small business tax credit (Article 14);
- Authorizes creation of \$25.0 million Small Business Stimulus Guaranty Program (Joint Resolution as pertained in Article 15);
- Recommends amending law which requires repayment to RICAP fund of \$38.4 million. Budget assumes the fund to be repaid in FY 2010 and capital projects are phased to meet the resources;
- Assumes \$27.5 million additional Medicaid money from federal stimulus package; and
- Assumes savings of \$51.2 million through agency corrective action plans, including \$17.7 million for the rescission of uncompensated care payments to hospitals and \$2.8 million for a correction in payments owed to hospitals under the State's Disproportionate Share Hospital program.



FY 2009 Supplemental Budget

Revenue Highlights

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The proposed supplemental budget includes an increase in one-time revenues/expenditure reductions of \$93.0 million, and of on-going revenues of \$24.1 million.

- One-time revenues/expenditure reductions:
 - \$ 16.0 million land sales
 - \$ 27.5 million Federal stimulus package for Medicaid
 - \$ 38.4 million defer RICAP Repayment
 - \$ 10.0 million defer Station Fire
 - \$ 1.1 million other one-time revenues
- On-going revenues:
 - \$ 17.4 million increase in cigarette tax
 - \$ 3.7 million increase in health care insurers gross premiums rate to 2.0%
 - \$ 3.4 million raising motor vehicle license, registration, and title fee costs



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FY 2009 Supplemental Budget

Local Government Expenditures

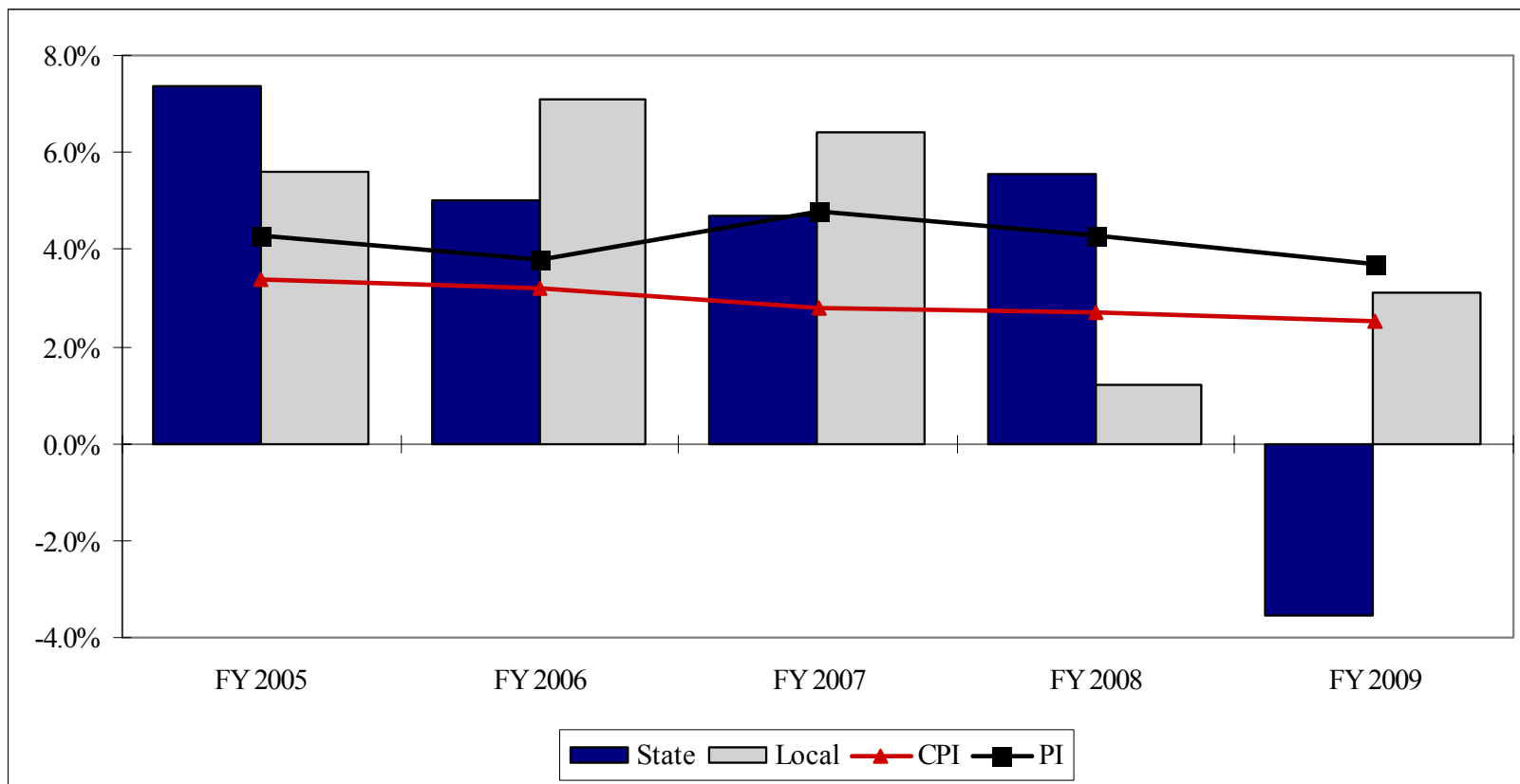
- Local aid expenditures of \$1,311.6 million represented 19.0 percent of total expenditures of \$6,919.1 million.
- In terms of general revenues, local aid expenditures of \$1,136.0 million represented 34.7 percent of general revenue expenditures of \$3,276.2 million in the FY 2009 Budget as Enacted.
- Aid to local governments accounted for the largest category of general revenue spending in the enacted FY 2009 budget.
- As a percentage of all state and local expenditures local government spending represents nearly 41.0 percent (FY 2006, based on Census).



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Growth Rates

State and Local Budgets, CPI, PI





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Municipal General Fund Budgets

\$ million

Category	FY 2004	FY 2009	Change	Share of Growth
Education	\$1,500.6	\$1,808.7	20.5%	52.4%
Municipal Services	1,098.9	1,378.7	25.5%	47.6%
Total	\$2,599.5	\$3,187.4	22.6%	100.0%

SOURCE: Rhode Island Office of Municipal Affairs, various years; RIPEC calculations



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Benefits as Percent of Municipal General Fund Budget \$ million

	FY 2004	FY 2009	Growth
Municipal Services	\$1,098.9	\$1,378.7	25.5%
Total Benefits	\$247.6	\$362.0	46.2%
Benefits as % of Budget	22.5%	26.3%	16.5%

SOURCE: Rhode Island Office of Municipal Affairs, various years; RIPEC calculations



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Budget Articles Affecting Local Government and School Districts

- Article 7 – Eliminates General Revenue Sharing in FY 2009
- Article 17 – Mandates all districts to participate in statewide school food services agreement
- Article 18 – Eliminates requirement to provide school bus monitors
- Article 19 – Removes health/dental benefits and insurance coverage from all collective bargaining agreements covering teachers and municipal employees in the public school system
- Article 20 – Mandates school districts to participate in Statewide purchasing system for goods, supplies and services
- Article 21 – Creates binding arbitration panel to resolve school budget impasse
- Article 22 – Mandates school districts to participate in Statewide system of transportation for special needs students
- Article 23 – Eliminates provision that school nurses must be certified as teachers
- Article 27 – Prohibits strike or “work to rule” action by teachers
- Article 29 – Removes from collective bargaining agreements express management rights



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Budget Articles Affecting Local Government and School Districts, cont.

- Article 31 – Reduces education aid
- Article 32 – Recommends reforms to State employees and teacher pension plans
- Article 40 – Changes the way municipal police and firefighters arbitration panels award binding decisions in unresolved labor disputes
- Article 41 – Creates School Realignment Commission
- Article 42 – Increases potential duration of arbitrated agreements between firefighters or municipal police bargaining agents
- Article 43 – Eliminates minimum staffing issues for firefighters and municipal police from scope of arbitration laws
- Article 44 – Requires that all collective bargaining agreements covering municipal employees and teachers, mandate minimum 25% employee contribution towards health and dental care premium costs
- Article 45 – Provides for reforms to municipal pension plans
- Article 46 – Reduces payments for police officers and firefighters injured on duty from 100% to 80% of their salary and benefits
- Article 47 – Eliminates pre-judgment interest from being applied in civil court cases against municipalities and the State.



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How Rhode Island Expenditures Compare

Ranking for Rhode Island, FY 2006

Expenditures*	Per \$1,000 of PI		Per Capita	
	Amount	Rank	Amount	Rank
Direct General Expenditures	\$211.11	21	\$7,725	10
El. & Sec Education	50.09	16	1,833	8
Higher Education	15.27	41	559	40
Medicaid/Vendor Payments	44.31	2	1,622	2
Highways	10.12	44	370	44
Police	7.33	17	268	13
Fire	6.24	1	228	1

*How RI Compares FY 2006 (released October, 2008), Based on Census data



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How Rhode Island School Finances Compare

Ranking for Rhode Island, 2007-08

Category	Amount	Rank
Expenditures		
Per Pupil	\$11,905	10
Per \$1,000 of PI	45.53	13
Average Teacher Salary	57,168	8
Avg. Instr. Staff Salary	60,995	9

Source: How RI School Finances Compare 2009 Edition,
for year 2007-08, based on NEA



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How Rhode Island Revenues Compare

Ranking for Rhode Island, FY 2006

Revenues*	Per \$1,000 of PI		Per Capita	
	Amount	Rank	Amount	Rank
Selected Tax Revenues				
Property	\$48.32	6	\$1,768	7
Individual Income	26.1	23	955	17
General Sales	21.87	37	800	30
Total State and Local Taxes	119.79	10	4384	12
Charges and Misc Revenues	42.98	43	1573	39
All Revenues**	\$262.94	20	\$9,622	10

*How RI Compares FY 2006 (released October, 2008), Based on Census data

**Revenues include: intergovernmental revenues; all tax revenues; charges and misc. general revenues; utility, liquor store, and insurance trust revenues.



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FY 2009 Supplemental Budget

RIPEC Focus

- Next Steps Options
- Government Operations
 - Pension Reform
 - Personnel Reform
 - Local Aid and Local Tools
 - Tax Reform
 - Medicaid Global Waiver
 - School Consolidation
- Federal Stimulus Consideration

**For further information please visit RIPEC's website
at www.ripec.org or call (401) 521-6320**