RIPEC

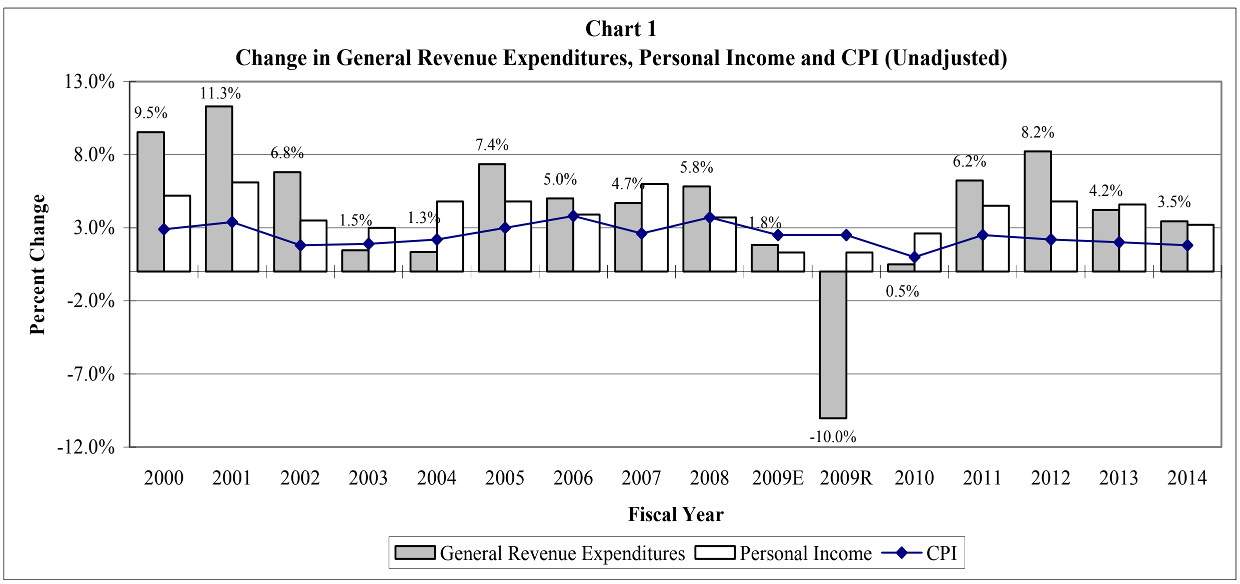
Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

Summary of the Governor's FY 2010 Budget Request

- RIPEC proposes a *Road Map to Recovery* for Rhode Island -

The proposed FY 2010 general revenue request of $3,079.1 billion represents a reduction of 6.0 percent from the FY 2009 Enacted Budget; however, the budget relies heavily on use of Federal fiscal stimulus funding in order to balance the budget. If these funds were excluded, proposed FY 2010 general revenue expenditures would increase slightly over FY 2009 Enacted. In contrast, general revenue expenditures in the enacted FY 2009 Budget decreased for the first time since FY 1993. The chart below illustrates the historical expenditure growth as well as the growth projected by the State Budget office for the next four years.



The following RIPEC Comments not only outline the Governor's FY 2010 Budget request and summarize 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.

April 2009

RIPEC Comments – A Road Map to Recovery

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

On February 17, 2009 President Obama signed into law the American Recovery and Reinvestment Act (ARRA) with the intent of stimulating the American economy and help states emerge from the current recession. This stimulus package was comprehensive and far-reaching in its provision of funds for various purposes. The majority of funds are intended to be spent by state and local governments over the next 18 to 24 months. Rhode Island's share was estimated to be nearly $2 billion with almost half of that amount going directly to the State (see table 10 on page 22 for an analysis of the ARRA funds.

The use of stimulus funds in both FY 2009 and FY 2010 are of great concern as the outer budget years will not be balanced without substantial cuts or increased revenues as the stimulus funds end. In addition, the budget includes increased spending based upon the American Recovery and Reinvestment Act (ARRA). This has the potential to increase demand and service levels which will be hard to reverse when ARRA funds are no longer available. Further, the maintenance of effort requirements contained in ARRA mean that the State has limited ability to modify services through the duration of funding. This will have greater importance in FY 2011 as the stimulus funds end. Due to these limitations, there is a high likelihood that the State will have constructed FY 2009 and FY 2010 budgets that will create significant structural problems beginning in FY 2011 unless there is a plan in place designed to transition away from the use of ARRA funds.

The State of Rhode Island has, for many years, faced an annual structural budget deficit with repeated out-year projected deficits. These deficits 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 funding for long-term investments. State budgets with projected out-year deficits had become a common event in Rhode Island's fiscal landscape. This year is no exception. The table below, which shows projected out-year deficits as prepared by the State Budget office, illustrates this point. It should also be noted that the House Fiscal staff predicts the out-year deficits to be even larger.

Table 1
FY 2011 - FY 2014 Estimated Deficits
$ million

	FY 2011	FY 2012	FY 2013	FY 2014
State Budget Office	**($155.7)**	**($369.9)**	**($429.9)**	**($482.3)**
Deficit as Percent of Available Revenues	-5.0%	-11.7%	-13.2%	-14.5%

Source: RIPEC Calculations based on State Budget Documents

The backdrop of an economy in a recession, high unemployment, a housing market collapse and diminishing State revenues necessitates a different approach to the annual budget process. RIPEC believes that this approach should have both a short-term and long-term view. This time of crisis requires a new approach to balance the state's finances and to be ready to meet the future financial situation after the Federal stimulus funds are no longer available.

The Governor's proposed FY 2010 State Budget only partially changes the way the State has previously approached balancing the budget. While there have been some structural changes, the proposed budget, relies heavily on Federal stimulus funds to balance both FY 2009 and FY 2010. While the use of these funds is understandable given the fiscal restraints faced by the State, they should not be used to avoid the State's responsibility to create the needed structural change for State and local governments. Rather, they heighten the need to develop a plan which will allow the State to regain firm fiscal footing. To do otherwise has the potential to increase demand for State and local services, thus worsening the State's structural imbalance.

Unless there is substantial growth in income and wealth in this State over the next few years – something which we think is unlikely – the State can no longer sustain the level of government services and spending that has developed over the last few decades. Moreover, given the fact that we are already one of the most heavily taxed states in the country and not competitive with our closest neighbors, there is no way we can – or should – address this deficit with new or increased taxes.

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. The years of excess growth in spending over recurring revenues must be limited and the State has to take a new approach to stay within revenue limits without using broad-based taxes or one-time revenues to balance the budget. RIPEC believes a two-step 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. First, the State needs to manage the current fiscal situation, by maximizing the use of stimulus funds. These funds should be used not to supplant general revenues, but, rather, they should be used to reduce the cost of government in the future. Second, the State needs to develop a "Road Map to Recovery" that includes a strategy which will help the State bridge the revenue-expenditure gap that will likely arise in FY 2011 and FY 2012 when the ARRA funds are no longer available.

In FY 2009, the Governor took an initial step towards rebalancing the State's budget by proposing a budget balanced primarily though substantial reductions in spending; however the combination of declining revenues, increasing demand, and the availability of the stimulus funding, has started to reverse the trend. The recently-adopted FY 2009 Supplemental Budget uses the stimulus funds to balance the budget without any new structural changes. Although the Governor's FY 2010 submission contains some structural changes in the area of pensions and Medicaid, the FY 2010 budget also relies heavily on stimulus funds to fill the gap.

RIPEC believes that if the State follows this course without a bridge strategy, it will face extraordinary fiscal difficulties that will require substantially harder choices than it faces today. The out-year projections by the State Budget Office illustrate that, once the ARRA funds are no longer available, the State will face deficits ranging from 5.0 percent in FY 2011 to 14.5 percent in FY 2014.

As mentioned earlier, the second step to fiscal recovery is to plan for the ending of the availability of ARRA funding. The gap between current spending and reduced revenues must be bridged. The additional federal stimulus funding of nearly $530 million has the potential to increase the expectations and reliance of those receiving services. These additional services will not have a funding source after the ARRA funding ends, but the demand may still be there. A strategy designed to minimize the State's reliance on the ARRA funding must be started now in order to have time to implement the necessary changes and to soften the transition.

It is also imperative that the State continue this fiscal discipline until the economy, and thus revenues, improve. During this time, the State should develop a long-term plan to use an investment-based approach to strengthen the long–term economy of the State, and eliminate the out-year deficits so the State can continue to sustain existing services while reordering priorities.

To address some of the concerns, to develop a bridge strategy 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 2010 budget.

Step One: Spending Control

In the short-term, RIPEC recommends the State primarily make changes to the spending side to help address the current-year shortfall in order to use ARRA funding to reduce the cost of government in the outer years or to make other investment based use of the funds and not simply supplant general revenues. The Governor's proposed FY 2009 supplemental budget included a number of cost-savings measures, such as pension reform and budget articles relating to local government reform, that would begin to take effect in the FY 2010 budget, addressing some of the State's and local government spending pressures. However not all the proposed changes were acted upon by the General Assembly and should be revisited. The FY 2010 budget should work to develop structural modifications in three key areas of the general fund budget: local aid, personnel costs and grants and benefits.

Recommended FY 2010 general revenue spending of $3,079.5 million represents a decrease of $197.0 million (6.0 percent) from the FY 2009 Enacted budget and is $46.8 million (1.5 percent) higher than the FY 2009 Final Supplemental budget. The FY 2010 general fund budget includes expenditure decreases for local aid and grants and benefits while increasing the funding for State operations by $78.2 million when compared to the FY 2009 Enacted Budget.

While the FY 2010 budget represents an expenditure decrease compared to the FY 2009 Enacted budget, the savings are predicated on many events that will need to be managed or authorized, and that the General Assembly needs to adopt and support. Furthermore, the proposed FY 2010 budget assumes certain Federal waivers and approvals under the provisions of the ARRA. If these waivers are not granted, the projected savings or revenues may not be achieved. At the same time, however, there are proposals to help the State and local governments to develop and maintain affordable governments. Further details as to the nature and breath of changes are contained later in this report.

Taking a Structural Approach to the State Budget

The following is a list of the areas that will need specific review by the State in order to balancing the budget through a structural approach:

State Operations

The State needs to provide for pension reform both on the State and local level. Neither the State nor local governments can continue to support the ever-increasing cost of pensions and assume the full risk of investments and actuarial assumptions that drive the cost of government upward. Over time, these costs have come to represent a greater share of State and local budgets, reducing the ability of governments to dedicated resources to other programs or services.

The FY 2009 Final Supplemental budget does not contain pension reform. Rather, the General Assembly created an escrow account into which payments will be made, with the goal of implementing pension reform before the end of the year. The funds will stay in the account until the end of the fiscal year, at which time, those funds necessary to fund the State and local pension obligation will be used. Any remaining funds, as the result of pension reform, will be returned to the municipalities and to the State. Those funds could be used to offset ARRA funding or to meet any revenue shortfall from the May Revenue Estimating conference. RIPEC recommends that any ARRA funds which can be offset by pension savings be used strategically to reduce the future cost of State and local government.

In addition to the pension changes discussed above, RIPEC recommends the following two categories be examined:

A) Personnel Spending: Personnel costs reflect 22.6 percent of the total budget (24.6 percent of the total General Fund budget), and have risen at a rate of 52.9 percent over the last ten years, reflecting an average annual rate of 4.3 percent. In contrast to the prevailing trend over the past few years, in which there has been a substantial reduction in FTEs, the FY 2010 budget increases the number of State-supported workers. While half of the total FTE increase is to support ARRA-related initiatives, the balance is funded through general revenues. It should be noted that, as of the end of March, the State's payroll was under the authorized FTE's allotment by almost 1,400 positions.

RIPEC supports the Governor's original efforts to limit growth in personnel spending. It will be important to establish a review process as the State rehires to fill vacant positions due to the health care benefit changes enacted in the FY 2009 budget. Before positions are filled, a review should occur as to the need for the position. 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.

The Governor's proposed FY 2009 supplemental budget included a significant change in the provision of retirement benefits for State employees. The impact of the changes needs to be considered, not just for savings, but for the effect they will have upon State employees and the employment practices of the State. The State should initiate a staffing strategy proposal to determine the long-term needs of the State. This can occur through a proactive examination of the staffing needs of each State department through the Department of Administration in order to institute a hiring review process. During this process fundamental questions regarding filling positions should be explored, including:

- 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 important 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. The creation of a staffing strategy now could attain directions for the future.

B) 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 might be helpful, 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 purchase on a joint and collaborative basis. Currently, there are efforts under way to jointly purchase; however, more could be done among the many associations that represent various governmental organizations, including the various collaboratives formed by the State for school purchases.

<u>Grants and Benefits</u>

The Global Medicaid Waiver also has possibilities for future savings through structural changes. The State should continue its work on rebalancing the long-term care system and accelerating the movement of people from institutions to less restrictive settings. However, implementation of the changes should start with a transition plan to develop alternative delivery services and a system that provides enhanced but less costly services. This plan should be put in place quickly so that the State is able to realize the increased efficiencies and savings as soon as possible.

During the 2008 legislative session the Governor proposed a number of changes to redesign Medicaid, including converting the service-delivery model from provider-based to client-centered; emphasizing personal responsibility; implementing home-and-community based solutions; and working to create innovative delivery of services (see also discussion on page 25 of this report).

In FY 2010, 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. Given the State's limited resources and current fiscal situation, RIPEC supports the Governor's recommendation to limit the growth in medical assistance programs. However, decisions to reform and control Medicaid spending will require a clearly articulated, strategic and organizational vision that drives budget choices. Therefore, RIPEC recommends that the following questions, and others, be addressed in any effort to reform Medicaid:

- What is the State's plan to move people from long-term institutional settings to less restrictive settings?
- What is the organizational structure and capacity to administer the Waiver?
- Where are the departments in their planning and implementation processes?
- What changes to the Medicaid program are anticipated?
- Are legislation and/or regulations needed for implementing changes and what is the timeline?
- Can the savings, included in the FY 2010 proposed budget, be achieved?

Local Aid

There is a clear need to reexamine how the State funds and supports local governments; local aid is the largest category of State government and is one of the fastest growing expenditures over the last ten years. Both the FY 2009 Final Supplemental and the Governor's proposed FY 2010 contain changes to aid to local government.

The reduction of State support of local government works best when local governments can effectively alter the method of providing services and make fundamental changes in the cost of personnel and government through various methods such as:

- Pension changes;
- Joint health care purchases and standard health care plans and co-shares;
- Joint purchasing of common services such as transportation, health, and food services;
- Relief from various collective bargaining requirements; and
- Reestablishment of management rights and authority.

Although many of these items were recommended by the Governor as articles in his FY 2009 Supplemental budget, they were not included in the FY 2009 Final Supplemental and those requiring legislation are still before the General Assembly.

The need to bolster the ability of local governments to continue effective operations with less external funding becomes more important as local governments face future reductions in State and Federal support, coupled with increasing demands for services and programs. To this end, it is necessary to better understand the way local governments can alter working conditions and other related personnel costs. The State, through the General Assembly, has the ability to alter many labor management items in contrast to local legislative bodies that must obtain labor agreement to make similar changes. If there is no agreement on these items, local governments are restricted in their ability to make changes to staffing, health care, pensions and other items.

Local governments are also facing the challenges of the impact of ARRA funding. Over the next two years, local education administrations will be receiving additional funding for IDEA and Title I. However, as with the other ARRA-related support, these funds will no longer be available in FY 2012. It is important that the State and local education administrations address whether these additional funds will create unsustainable service levels and examine what choices, within maintenance of effort requirements, the educational administration have to act.

Step 2: Road Map to Recovery

RIPEC recommends that the Governor, working with the General Assembly, should address the projected out-year deficits, by developing a bridge budget for FY 2012 now. This budget should focus on making needed investments and meeting current needs with ongoing available resources. This effort could include a public process and be charged with formulating broad guidelines in order to balance out-year budgets. Alternatives to meet the out-year shortfalls should incorporate the November, 2009 Revenue Estimating Conference and be presented to the Governor and the General Assembly by December, 2009. By using the most up-to-date revenue estimates, this joint effort will be able to review the structure of State government and make recommendations for ways to create structurally sound budgets for the future.

This public process should also provide suggestions and alternative ways to effectively bridge the revenue-expenditure gap that will result in FY 2012, when the ARRA funds end. It is imperative that the State be ready to meet the fiscal challenges of FY 2012 by developing a plan to respond to increased demand and reduced resources, without relying on one-time revenues or broad-based tax increases.

Local governments need to be a part of this bridge strategy as well as municipalities will also be affected by reduced revenues and changed demands in FY 2012. They must also face the realization that there is no time to waste in reviewing how local governments, as well as school districts, conduct business. The Governor's March Supplemental budget submission recommended, in Article 41, that two realignment committees be formed to analyze both municipal government and school operations. RIPEC supports these changes and recommends the General Assembly implement this legislation.

Article 41 would create two commissions – the Rhode Island School Realignment Commission and the Rhode Island Public Safety and Public Works Realignment Commission – to analyze and recommend changes to the way municipalities provide various public services. The Commissions would review potential areas for intra-local consolidations, and would develop reports from which legislation would be drafted and introduced to the 2010 General Assembly for consideration. If passed by the legislature, these recommendations would be put forth to voters as initiatives on the November 2010 ballot.

In RIPEC's opinion, the "Road Map to Recovery" should also include the following elements:

<u>Personnel Cost Control</u>
The State's long-term ability to control the rate of growth in future personnel costs depends on the implementation 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. With the start of new collective bargaining discussions, the State has the ability to seek structural changes that will

have long-term implications on the cost structure of State employees with little or no impact on current employees.

Alternative Non-Tax Revenues

Concurrent with the review of programs related to personnel changes RIPEC recommends that the fee-and fine-based income for the State be reviewed. Based on the most recent data available, the State currently ranks near the bottom in the United States for income from charges and miscellaneous revenues. RIPEC believes that, while there is an annual review of revenues that is conducted as the budget is developed, there is a need for an off-budget review in order to assure the adequacy of charges for services, the need for the charges and whether the State can seek additional non-tax income.

A Sustainable Safety Net

RIPEC believes that reforming entitlement programs is necessary to make State government affordable. However, these tough choices should be based on clearly articulated long-term policy goals and objectives. Along with the Medicaid reforms 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.

RIPEC, in conjunction with United Way of Rhode Island, has begun the analysis of social service programs and how Rhode Island's programs compare to other New England states. An advisory group that consists of RIPEC, United Way, and other stakeholders will consider a set of basic guidelines to help determine what might constitute an affordable, sustainable and equitable safety net for Rhode Island.

State and local governments have the opportunity to begin the work today to create a fiscally balanced government that can meet the needs of its citizens and be affordable to its the taxpayers. Implementing a strategy now to bridge the gap created by the loss of federal funds in FY 2012 can provide the time to begin discussions around the type and nature of the government we, as citizens, want and can afford.

FY 2009 Current Budget Picture

FY 2009 Budget Deficit - The Governor faced an estimated current-year budget gap of $357.4 million based on the November, 2008 Revenue Estimating and Caseload Estimating Conferences, and first-quarter projections. This gap is the result of both revenue shortfalls (64.3 percent) and increased expenditures (30.1 percent). FY 2009 revenues were estimated to be $3,113.1 million, which was $233.6 million lower than enacted revenues of $3,346.7 million. Current expenditures were estimated to be $127.6 million over the enacted level of $3,276.2 million.

Table 2
FY 2009 Budget Deficit Components
($ millions)

	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)
Subtotal	*$3,346.7*	*$3,113.1*	*($233.6)*
Adjustments			
Tranfer 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)**
Deficit			***($357.4)***

SOURCE: November 2008 Revenue Estimating Conference; State Budget Office Documents; FY 2009 Budget as Enacted; First-Quarter Projections; and RIPEC calculations.

The largest component of the revenue shortfall is the personal income tax. Estimated personal income taxes were approximately $1.0 billion, which is $113.2 million less than enacted. However, on a percentage basis the largest decrease is in business corporation taxes which are expected to fall from $161.0 million to $108.0 million, approximately 33 percent lower than enacted levels.

Almost one third of the projected expenditure increase was due to a negative closing balance in FY 2008 of $38.4 million. This number has subsequently increased to $43.0 million. The second largest component is the increase in Medicaid expenditures within DHS (28.0 percent). These increases are primarily due to unachieved savings resulting from the delayed implementation of initiatives proposed under the global Medicaid waiver. The third largest component of the expenditure increase is within the Department of Children, Youth, and Families (DCYF, 17.3 percent). The department's projected deficit is, in large part, due to time studies that showed that DCYF has been overbilling Medicaid for certain costs; the added general revenue funds now cover costs that should have been State costs.

FY 2009 Revised Supplemental Budget – The General Assembly passed a revised supplemental budget, which became law on April 8. The revised budget (see Table 3) as passed includes anticipated general revenue receipts of $3,032.9 million, and total expenditures of $3,032.3

million. The General Assembly carried over the FY 2008 closing deficit into FY 2009, decreasing total available revenues in FY 2009 by $43.0 million. To balance the budget, the revised budget includes an additional $31.6 million in expenditure reductions when compared to the Governor's March Supplemental budget; as well as $20.0 million in federal stabilization funds that were programmed by the Governor in FY 2010 and FY 2011, freeing up general revenue expenditures; $8.3 million in additional savings from proposed statewide personnel and operating reductions; and a $3.4 million reduction of the FY 2009 free surplus, decreasing from $4.0 million to $0.6 million. Total expenditures in the FY 2009 Final Supplemental total $3,032.3 million. This ratio of revenues to expenditures would result in a FY 2009 ending balance of $0.6 million.

Table 3
Budget Statement ($ million)

Summary	FY 2008*	FY 2009E	FY2009FS
Opening Surplus	**$ -**	**$ 3.2**	**$ (43.0)**
Reappropriated Surplus	3.6	-	1.7
Transfer from Budget Reserve**	43.0	-	-
Total Revenues	**$ 3,429.0**	**$ 3,346.7**	**$ 3,142.3**
Cash Stabilization	$ (68.6)	$ (73.7)	$ (68.2)
Total Available Revenues	**$ 3,406.9**	**$ 3,276.3**	**$ 3,032.9**
Enacted Expenditures	**$ 3,394.8**	**$ 3,276.2**	**$ 3,276.2**
Reappropriations	-	-	1.7
Change to Closing	10.4	-	-
Other Expenditure Changes	-	-	(245.6)
Total Expenditures	***$ 3,405.3***	***$ 3,276.2***	***$ 3,032.3***
Free Surplus	$ 1.7	$ 0.1	$ 0.6
Reappropriations	-	-	-
Total Ending Balance	**$ 1.7**	**$ 0.1**	**$ 0.6**

Source: RIPEC Calculations based on State Budget Documents
E = Enacted; FS=Final Supplemental Budget
* FY 2008 Preliminary Actual Modified
** Reflects a $43.0 million FY 2008 closing deficit and request to the General Assembly for a transfer from the Budget Reserve and Cash Stabilization Fund.

Revenues - The November Revenue Estimating Conference decreased total general revenues by 7.0 percent to $3,113.1 million, when compared to the FY 2009 Enacted budget (see table 4). Almost every revenue stream for the State was projected to decline in FY 2009, with the exception of the public utilities, other business, motor vehicle and cigarette taxes, with a slight increase in unclaimed property revenues. Major changes in estimates are attributable to:

- $113.2 million decrease in personal income tax revenues;
- $46.9 million decrease in business tax revenues; and
- $30.1 million decrease in general sales tax revenues.

The recently passed FY 2009 Final Supplemental budget increased general revenues by $29.2 million over the REC, to $3,142.3 million. Modifications include an anticipated increase in General Business Tax collections due to changes to the health insurance gross premiums tax and an increase in cigarette tax revenues.

Table 4
FY 2009 Revised Proposed General Revenue Program
$ million

General Revenues	**FY 2009 Enacted**	**FY 2009 REC**	**FY 2009 FS**	**REC - FS Change**
Taxes				
Personal Income Tax	$1,124.2	$1,011.0	$1,010.8	($0.2)
General Business Taxes	389.1	342.2	354.6	12.4
General Sales & Use Tax	921.1	891.0	894.8	3.8
Cigarette Tax	114.5	119.6	132.5	12.9
Other Taxes	51.5	38.3	38.3	0.0
Subtotal - Taxes	*$2,600.4*	*$2,402.1*	*$2,431.0*	*$28.9*
Department Receipts	$347.6	$331.5	$330.6	($0.9)
Other Sources	398.7	379.5	380.6	1.1
Total Revenues	**$3,346.7**	**$3,113.1**	**$3,142.3**	**$29.2**

Source: State Budget Documents, House Fiscal Staff documents, RIPEC Calculations

Expenditures – The recently passed FY 2009 Final Supplemental budget includes total expenditures of $3,032.3 million, a reduction of $243.9 million when compared to the FY 2009 Enacted budget. The majority of this expenditure reduction is based on the general revenue offset resulting from the enhanced Federal Medical Assistance Percentage (FMAP) contained in the ARRA. Other changes include:

- Reducing General Revenue Sharing by $30.1 million; and
- Reducing general revenue expenditures for education aid by $50.5 million. This amount is to be partially offset with State Fiscal Stabilization Funds from the ARRA.

One should note that the FY 2009 Final Supplemental budget does not include any savings from State pension changes. Instead, the FY 2009 Final Supplemental sets these estimated savings aside in a separate pending pension fund. The funds would be used to fund the final pension liability for FY 2009 while any unexpended balances as a result of pension changes returned to appropriate funds.

Table 5
Governor's FY 2010 Deficit Solution

Projected Item	Amount (Millions)
Ongoing Revenues	
- Cigarette Tax increase	$ 30.2
- Health Care Insurer Gross Premium Rate Increase and Expansion	13.6
- DMV Fee increases	8.4
- Transfer RIHEBC	1.0
- BCI Checks	0.9
- Mediation Fees	0.2
- Various Change	0.1
- Nursing Home Provider Tax Base	(1.5)
- Estate Tax change	(1.5)
- Gas Tax	(4.5)
- Federal Stimulus Impact	(5.1)
- Group Home Tax	(11.1)
- Business Corporation Tax Reduction	(14.5)
Total Ongoing Revenues	*$ 16.2*
One-time Revenues	
- Federal Medicaid Stimulus Initiative	$ 184.2
- Historic Tax Credit Debt	27.5
- Land Sale to RI Housing - Forand Building and Pontiac and Howard	10.0
Total One-time Revenues	*$ 221.7*
Expenditure Changes	
- Department and Agency savings	$ 96.1
- Eliminate General Revenue Sharing	55.1
- Reduce Education aid (corresponding local retirement contribution savings)	24.7
- Reduce General Revenue Education aid (offset with ARRA funds)	37.0
- Lower State contribution to State Employee retirement	20.4
- Lower State contribution to teacher retirement	19.2
- Expenditures to be Medicaid eligible (CNOM)	15.8
- Other Debt Service Costs	15.4
- Short Term Borrowing costs	5.2
- Employee Medical Insurance	2.3
- Retiree Health Increase	(6.8)
- State retirement contribution increase to 25.03%	(16.6)
Total Expenditure Changes	*$ 267.8*
Net Impact	**$ 505.7**
Estimated Ending Balance:	**$ 1.3**

Source: RI State Budget Office

Based on State Budget Office documents, the Governor faced a projected revenue-expenditure gap of $504.4 million when he submitted his FY 2010 budget. This includes $43.0 million from the proposed FY 2009 RICAP deferral. Table 5 shows the Governor's FY 2010 deficit solution. The gap is closed with $221.7 million one-time revenues (44.0 percent), of which $184.2 million is from the ARRA Medicaid enhancement. It also includes $16.2 million in on-going revenue enhancements, including revenue increases through the changes to the cigarette tax, health care insurer gross premium rate increases, and DMV fee increases. These revenue increases are partially offset through a reduction in revenues from the business corporation tax, estate tax, and gas tax revenues.

One should note that the recently passed FY 2009 Final Supplemental budget will have an impact on the FY 2010 budget. For example, the Governor's proposal included the repayment of $43.0 million of RICAP in FY 2010. However, this is not needed now because the General Assembly did not appropriate funds from the Budget Reserve to cover the FY 2008 deficit. In addition, the General Assembly included a number of other changes that will have an impact on the FY 2010 budget such as:

- Not passing the pension changes included in the Governor's FY 2009 Supplemental budget, amounting to savings of $42.0 million in FY 2009 and $64.3 million in FY 2010;
- Decoupling from the federal income tax, allowing the State to increase revenues by taxing the first $2,500 in unemployment benefits, and capturing the additional sales tax revenues through taxing car sales;
- Modifying the proposed license, registration and title reinstatement fees, reducing the majority of the fee increases proposed by the Governor, and increasing the proposed fee for reinstatement of a license revoked for a DUI; and
- Using all $30.0 million available State Fiscal Stabilization Funds, which the Governor had proposed to spread over the three years of the life of the Stimulus funds. As a result, there are $10.0 million less in Stimulus funds in FY 2010 which the Governor had proposed to use for level-funding distressed communities aid.

In addition to the above-noted impacts of the FY 2009 Final Supplemental, the FY 2010 proposed budget assumes certain federal waivers and approvals under the provisions of the ARRA. If these waivers are not granted, the projected savings or revenues may not be achieved.

General Revenues Summary

The Governor's FY 2010 proposed budget includes anticipated general revenues of $3,146.5 million, a decrease of $200.2 million when compared to FY 2009 Enacted general revenues (see table 6). Anticipated personal income tax collections constitute the largest portion of this decrease; between FY 2009 Enacted and FY 2010, personal income tax collections are projected to decline by $111.6 million, or 9.9 percent. The only revenue component projected to increase is cigarette tax collections, which are set to increase by $29.7 million, or 25.9 percent.

Revenue initiatives in the proposed FY 2010 budget include:

- Reducing the corporate income tax rate to 7.5 percent from the current 9.0 percent, reducing General Business Tax collections by $14.5 million;
- $5.2 million in lower personal income tax collections as a result of changes in the tax code due to the American Recovery and Reinvestment Act (ARRA);
- Increasing the cigarette tax by $1 per pack, for anticipated increased revenues of $8.0 million in FY 2009 and $30.2 million in FY 2010;

- $12.8 million in additional revenues in FY 2009 and $13.6 million in additional revenues in FY 2010 by increasing the health insurance gross premiums tax to 2.0 percent from the current rate of 1.75 percent, and by adding Managed Care plans under Medicare to the base; and
- Selling State-owned land including the Aime Forand building and the Howard/Pontiac parcel for increased revenues of $10.0 million in FY 2010.

Table 6
FY 2010 Revised Proposed General Revenue Program
$ million

General Revenues	FY 2009 Enacted	FY 2009 FS	FY 2010 Proposed	2009E - 2010 Change	%
Taxes					
Personal Income Tax	$1,124.2	$1,010.8	$1,012.7	($111.6)	-9.9%
General Business Taxes	389.1	354.6	335.3	(53.7)	-13.8%
General Sales & Use Tax	921.1	894.8	906.7	(14.4)	-1.6%
Cigarette Tax	114.5	132.5	144.2	29.7	25.9%
Other Taxes	51.5	38.3	36.6	(14.9)	-28.9%
Subtotal - Taxes	*$2,600.4*	*$2,431.0*	*$2,435.5*	*($164.9)*	*-6.3%*
Department Receipts	$347.6	$330.6	$335.1	($12.5)	-3.6%
Other Sources	398.7	380.6	375.9	(22.9)	-5.7%
Total Revenues	**$3,346.7**	**$3,142.3**	**$3,146.5**	**($200.2)**	**-6.0%**

FS= Final Supplemental budget
Source: State Budget Documents, House Fiscal Staff documents, and RIPEC Calculations

One should note that the FY 2009 Final Supplemental budget will have an impact on FY 2010 revenues as noted above.

State Spending Summary
The Governor's budget proposes all funds expenditures of $7,615.2 million to support State operations in FY 2010, an increase of $696.1 million (10.1 percent) from FY 2009 Enacted (see table 7). Proposed appropriations from all funds in FY 2010 are $345.5 million (4.8 percent) higher than the Governor's proposed and $364.9 million (5.0 percent) higher than recently passed FY 2009 Supplemental budget.

The largest funding source for the FY 2010 budget is general revenues, which represent 40.0 percent of the total budget. Federal funds, which are primarily Medicaid funds, are the second largest source of revenue, supporting 34.7 percent of all FY 2010 expenditures. Approximately $250 million in additional Federal funds from the ARRA are included in the FY 2009 budget, while almost $530 million in additional ARRA funds are included in the FY 2010 budget. Expenditures from "Other Funds" (primarily university and college funds, and employment and training funds) total 22.7 percent of all spending in FY 2010 and are the third largest category. The smallest category of expenditures is from restricted receipts, representing just 2.1 percent of the total State budget.

The FY 2010 budget includes expenditure increases in all categories except for general revenues when compared to FY 2009 Enacted. Recommended FY 2010 general revenue spending of $3,079.1 million represents a decrease of $197.0 million (6.0 percent) from the FY 2009 Enacted budget while recommended FY 2010 Federal fund expenditures increase $646.4 million (32.4 percent) over FY 2009 Enacted Federal expenditures. One should note that the decline in general revenue spending is mainly attributable to the supplanting of general revenue expenditures with federal stimulus funds, primarily related to Medicaid.

Table 7
Rhode Island State Spending - All Funds
$ million

By Category	2000	2009E	2010P	2009E-10P Change
Personnel	$ 1,102.7	$ 1,560.4	$ 1,684.8	$ 124.4
Operating	333.9	607.4	637.3	29.9
Local Aid	773.9	1,311.6	1,204.6	(107.1)
Grants & Benefits	1,858.7	2,831.7	3,349.3	517.6
Capital	142.5	242.8	321.5	78.8
Debt Service	214.1	228.2	249.9	21.6
Operating Transfer*		137.0	167.8	30.9
Total	*$ 4,425.9*	*$ 6,919.1*	*$ 7,615.2*	*$ 696.1*

By Fund	2000	2009E	2010P	Change
General Revenue	$ 2,230.6	$ 3,276.2	$ 3,079.1	$ (197.0)
Federal Funds	1,282.9	1,997.9	2,644.3	646.4
Restricted Funds	144.0	152.5	162.1	9.6
Other Funds	768.4	1,492.5	1,729.6	237.1
Total	*$ 4,425.9*	*$ 6,919.1*	*$ 7,615.2*	*$ 696.1*

E = Enacted, R = Revised, P = Proposed

* Operating transfer is a change in accounting that was not in place in FY 2000

Source: RIPEC calculations based on State Budget Office Data

Selected Highlights of the FY 2010 Spending Plan

The proposed FY 2010 budget includes expenditures changes of $267.8 million in order to help close the FY 2010 budget gap. Highlights of the Governor's proposed expenditure plan include:

- Savings of $64.3 million based on changes to pension plans proposed in the Governor's FY 2009 Supplemental budget, including $39.6 million through a reduction in the State share for State employees and teachers and $24.7 million through a reduction in State aid due to corresponding savings in local contributions. The pension changes include: eliminating the annual cost-of-living adjustment and setting the minimum retirement age to 59. These changes would affect all State employees, teachers, judges, and State police that are eligible to retire after July 1, 2009;

- Implementing the Global Medicaid Waiver, which is expected to generate $26.3 million ($12.5 million general revenue expenditures) in savings, as well as an additional $3.8 million ($1.8 million general revenues) in additional Medicaid savings resulting from programmatic changes made at the discretion of the director of the Department of Human Services;
- Savings of $7.9 million ($3.7 million from general revenues) through adopting an acuity-based rate setting system for nursing homes, which would replace the current system;
- General revenue savings of $19.0 million within the health and human services departments through shifting certain State-funded expenses to Medicaid;
- Savings of $38.5 million ($21.4 million from general revenues) from hospitals through changing outpatient and inpatient upper payment limit reimbursements to community hospitals, eliminating State only payments to certain community hospitals, and implementing a new reimbursement system utilizing the diagnostic related group model, thereby replacing the current reimbursement system;
- Savings of $1.1 million by eliminating dental benefits for RIte Care parents;
- Eliminating General Revenue Sharing to local governments, for an expenditure reduction of $55.1 million;
- Level-funding PILOT and Distressed Community aid, supplementing $10.0 million in general revenues with Federal ARRA funds for Distressed Communities;
- Reducing direct education aid (including State schools, the Metropolitan Career and Technical Schools and charter schools) by $55.4 million when compared to FY 2009 Enacted levels;
- Using the State fiscal stabilization funds from the ARRA to increase elementary and secondary education aid (including State schools, the Metropolitan Career and Technical Schools and charter schools) by $37.0 million. The budget assumes the Secretary of Education will grant the State a waiver for the maintenance of effort requirement; and
- Increasing transportation expenditures by $97.4 million (federal funds) as a result of the ARRA funding. These increased expenditures also include an additional 89.0 FTEs for implementation.

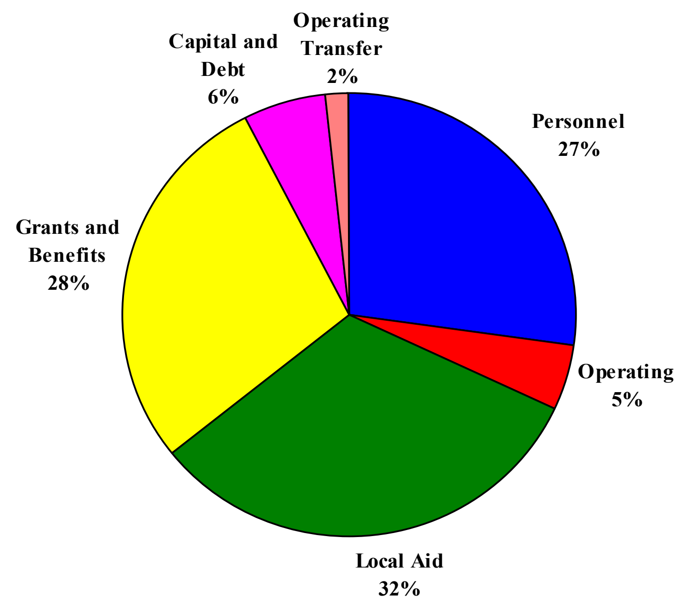
Spending Patterns by Category

General Revenue Expenditures – General revenues are the largest source of funding for the FY 2010 proposed budget, comprising 40.0 percent of the total budget. FY 2010 proposed general revenue expenditures total $3,079.1 million, or 6.0 percent less than FY 2009 Enacted general revenue expenditures of $3,276.2 million.

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.

- The largest category of general revenue expenditures is local aid, which totals $996.3 million in the FY 2010 proposed budget. Local aid accounts for 32.4 percent of total FY 2010 proposed general revenue supported spending. However, the Governor's proposed budget also decreases local aid by $139.7 million (12.3 percent) compared to the FY 2009 Enacted budget, a larger absolute decrease than any other category of spending. One should note that some of that decrease is attributable to the supplanting of general revenue expenditures with Federal stimulus funds.

Chart 2
FY 2010 Expenditures by Category as a Percent of Total General Revenue Expenditures



- Education aid remains the largest driver of local aid, accounting for 82.1 percent of all general revenue supported local aid expenditures in FY 2010.
- The proposed FY 2010 budget decreases education aid by $45.7 million compared to the FY 2009 Enacted budget. Municipal aid is reduced by $59.8 million.
- Together, overhead costs, which include personnel and operations, account for 31.8 percent of the total proposed general revenue budget. Total overhead costs are 2.3 percent higher in the FY 2010 budget when compared to the FY 2009 Enacted budget.
- Compared to the FY 2009 Enacted budget, personnel costs are estimated to increase 3.0 percent, from $812.1 million to $836.5 million. Proposed FY 2010 operating expenses are estimated to decrease by 1.6 percent when compared to FY 2009 enacted.
- Grants and benefits are the second largest category of general revenue supported expenditures. The FY 2010 proposed budget allocates $870.1 million, or 28.3 percent of all general revenue spending. This represents a decrease of 13.1 percent from the FY 2009 Enacted budget. As was the case for local aid, some of that decrease is attributable to the supplanting of general revenue expenditures with federal stimulus funds.
- Capital and debt service expenditures constitute the fourth largest portion of general revenue supported expenditures in FY 2010. The Governor's budget proposes $182.0 million in total capital and debt expenditures for FY 2010 (5.9 percent of all general revenue expenditures). This represents a net increase of $13.1 million (7.7 percent) compared to the FY 2009 Enacted budget.

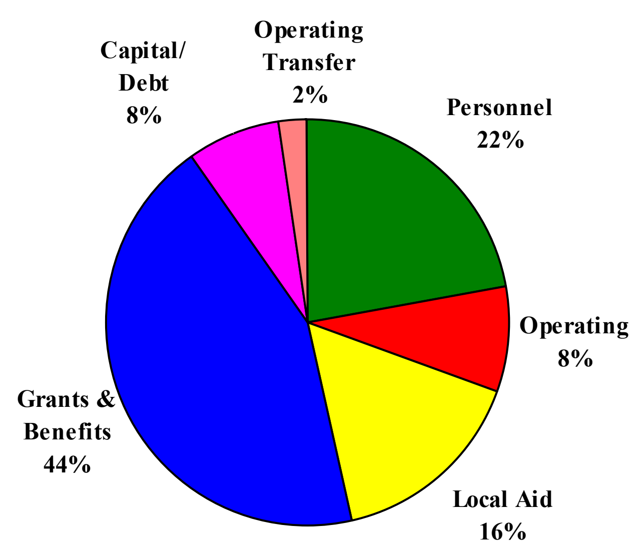
Table 8
FY 2009 and FY 20010 General Revenue Expenditures
$ million

Expenditure Category	FY 2009 Enacted	% of Total	FY 2010 Proposed	% of Total
General Operations				
Personnel	$812.1	24.8%	$836.5	27.2%
Operations	145.8	4.5%	143.0	4.6%
Subtotal Operations	*$957.9*	*29.2%*	*$979.5*	*31.8%*
Subtotal Grants & Benefits	*$1,000.9*	*30.6%*	*$870.1*	*28.3%*
Subtotal Local Aid	*$1,136.0*	*34.7%*	*$996.3*	*32.4%*
Capital Expenditures				
Capital	$9.8	0.3%	$5.5	0.2%
Debt Service	159.1	4.9%	176.5	5.7%
Subtotal Capital	*$168.9*	*5.2%*	*$182.0*	*5.9%*
Operating Transfer	*$12.5*	*0.4%*	*$51.2*	*1.7%*
Total	**$3,276.2**	**100.0%**	**$3,079.1**	**100.0%**

Source: State Budget Documents and RIPEC Calculations

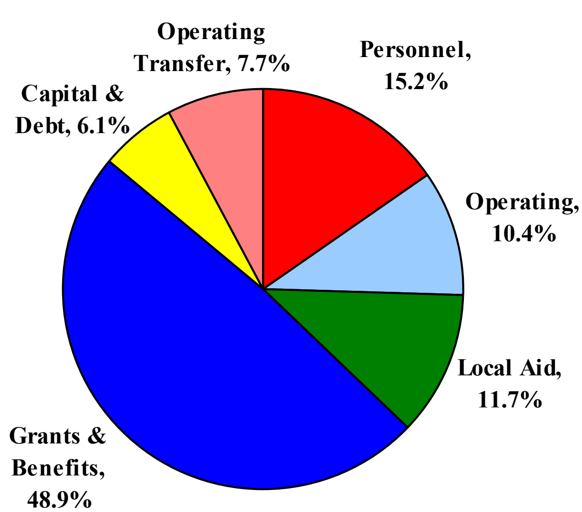
All Funds Expenditures – The proposed FY 2010 expenditure plan of $7,615.1 million, summarized on table 9 represents an increase of $3,189.3 million (72.1 percent) since FY 2000. This translates into an average annual rate of growth of 5.6 percent. On an adjusted basis, expenditures have increased $2,191.8 million (40.4 percent) since FY 2000. The average annual adjusted rate of growth in total expenditures during this time period was 3.5 percent. The following analysis discusses growth in the budget on an adjusted (real) basis. As of FY 2008 an additional expenditure category, "Operating Transfers" was included in the budget, reflecting a change in accounting practices. In FY 2010, this category accounted for approximately 2.0 percent of the total budget. One should note that FY 2010 includes increased expenditures through the use of ARRA funds.

Chart 3
FY 2010 Expenditures by Category



- Grants and benefits, which include programs that provide direct support to individuals such as Medicaid, child care, and unemployment benefits, are the largest all funds expenditure category, accounting for 44.0 percent of total proposed expenditures in FY 2010.
- Since FY 2000, expenditures supporting grants and benefits increased from $2,277.6 million to $3,349.3 million in FY 2010. This represents an increase of 53.5 percent.
- Of every new dollar spent since FY 2000, $0.49 has gone to support the increase in grants and benefits. One should note that a significant portion of these increased expenditures is due to the enhanced FMAP rate through the ARRA.
- The second largest category of expenditures is personnel and operating expenditures, which account for 30.5 percent of FY 2010 proposed expenditures; this is down from 32.5 percent of total expenditures in FY 2000.
- Since FY 2000, personnel expenditures have increased $333.6 million, or 24.7 percent, to $1,684.8 million in FY 2010. Operating expenditures increased $228.2 million, or 55.8 percent to $637.3 million in FY 2010.
- Together, personnel and operating expenditures account for $0.26 of every new dollar spent between FY 2000 and FY 2010.
- Local aid, which includes education aid and other direct assistance to municipalities, is the third largest category of expenditures. In the FY 2010 proposed budget, local aid constitutes 15.8 percent of all expenditures. Increases in local aid account for $0.12 of every new dollar spent since FY 2000.
- The largest driver of increases in local aid is education aid, which grew $138.0 million during this time period, accounting for 19.2 percent of the total increase in total expenditures.
- Capital and debt service expenditures account for 7.5 percent of the total FY 2010 proposed budget. Since FY 2000, capital and debt expenditures have accounted for $0.06 of every new dollar in State expenditures.
- The $167.8 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 2000 expenditures and FY 2010 proposed expenditures.

Chart 4
Share of Growth by Category Since FY 2000
($ adjusted)



SOURCE: State Budget Documents, RIPEC Calculations

Table 9
Rhode Island State Budget Drivers - All Funds (Adjusted)
$ million

Expenditure Category	FY 2000 Actual	% of Total	FY 2010 Proposed Base	% of Total	Actual Increase	Percent Change	Share of Increase
General Operations							
Personnel	$ 1,351.2	24.9%	$ 1,684.8	22.1%	$ 333.6	24.7%	15.2%
Operations	409.1	7.5%	637.3	8.4%	228.2	55.8%	10.4%
Subtotal - Operations	*$ 1,760.3*	*32.5%*	*$ 2,322.1*	*30.5%*	*$ 561.8*	*31.9%*	*25.6%*
Grants & Benefits							
Income Support (TDI & Employ)	$ 358.4	6.6%	$ 627.7	8.2%	$ 269.3	75.2%	12.3%
Medical Assistance - Mgd Care*	233.2	4.3%	597.3	7.8%	364.1	156.1%	16.6%
Medical Assistance - All Other	623.0	11.5%	794.3	10.4%	171.3	27.5%	7.8%
Development Disabilities	169.9	3.1%	188.2	2.5%	18.3	10.8%	0.8%
Child Welfare	99.3	1.8%	133.0	1.7%	33.7	33.9%	1.5%
TANF	121.6	2.2%	38.4	0.5%	(83.2)	-68.4%	-3.8%
Child Care	63.7	1.2%	55.6	0.7%	(8.2)	-12.8%	-0.4%
SSI	31.8	0.6%	22.1	0.3%	(9.7)	-30.5%	-0.4%
Higher Education	104.3	1.9%	175.8	2.3%	71.5	68.5%	3.3%
Other Grants & Benefits	472.4	8.7%	716.9	9.4%	244.5	51.8%	11.2%
Subtotal - Grants & Benefits	*$ 2,277.6*	*42.0%*	*$ 3,349.3*	*44.0%*	*$ 1,071.6*	*53.5%*	*48.9%*
Local Aid**							
Education Aid	$ 719.7	13.3%	$ 857.7	11.3%	$ 138.0	19.2%	6.3%
Motor Vehicle Phase-out	57.9	1.1%	135.3	1.8%	77.4	133.5%	3.5%
General Revenue Sharing	33.8	0.6%	-	0.0%	(33.8)	-100.0%	-1.5%
PILOT	19.7	0.4%	27.6	0.4%	7.9	40.1%	0.4%
Federal Aid	95.8	1.8%	133.6	1.8%	37.8	39.4%	1.7%
Other	21.4	0.4%	50.4	0.7%	29.0	135.3%	1.3%
Subtotal - Local Aid	*$ 948.3*	*17.5%*	*$ 1,204.6*	*15.8%*	*$ 256.2*	*27.0%*	*11.7%*
Capital Expenditures							
Capital Expenditures	$ 174.6	3.2%	$ 321.5	4.2%	$ 146.9	84.1%	6.7%
Debt Service	262.4	4.8%	249.9	3.3%	(12.5)	-4.8%	-0.6%
Subtotal - Capital	*$ 437.0*	*8.1%*	*$ 571.4*	*7.5%*	*$ 134.4*	*30.7%*	*6.1%*
Operating Transfer***	$ -	0.0%	$ 167.8	2.2%	$ 167.8	-	7.7%
Total	**$ 5,423.3**	**100.0%**	**$ 7,615.1**	**100.0%**	**$ 2,191.8**	**40.4%**	

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

NOTE: The FY 2010 Budget includes $529.1 million in Federal Stimulus Funding; $184.2 million of which is the Medicaid FMAP enhancement.

* Prior to the FY 2010 budget year, the category "Rhody Health" was allocated throughout Medical Assistance including Managed Care; it is now designated as a separate category and included in "all other". As such, year-to-year comparisons should be made with caution.

** Includes: Pass-through, distressed communities and library aid; property revaluation program; municipal fire and police incentive pay

*** Operating transfer is a change in accounting that was not in place in FY 2000; prior to FY 2009 these expenditures were either in the grants and benefits category or in operations.

American Recovery and Reinvestment Act Funding (ARRA)

Funding from the ARRA represents a significant portion of both the FY 2009 Supplemental and FY 2010 Proposed budgets. In FY 2009, ARRA funds account for 3.7 percent of total expenditures, while ARRA funds constitute 6.9 percent of total expenditures in the FY 2010 Proposed budget.

Table 10
FY 2009R and FY 2010 American Recovery and Reinvestment Act Allocation by Function
$ million

	FY 2009 Total	FY 2009 ARRA	FY 2009 % ARRA	FY 2010 Total	FY 2010 ARRA	FY 2010 % ARRA
General Government	$ 1,592.6	$ -	0.0%	$ 1,744.2	$ 99.4	5.7%
Education	2,046.0	75.2	3.7%	2,071.3	92.2	4.5%
Public Safety	452.1	30.0	6.6%	446.6	3.8	0.9%
Human Services	2,673.8	143.2	5.4%	2,773.2	234.3	8.4%
Transportation	393.0	20.0	5.1%	483.3	97.4	20.2%
Environment	92.8	-	0.0%	96.6	2.0	2.1%
Total	**$ 7,250.3**	**$ 268.4**	**3.7%**	**$ 7,615.2**	**$ 529.1**	**6.9%**

SOURCE: Rhode Island State Budget Office documents; RIPEC calculations

- The majority of the ARRA funds in both years are for Human Services expenditures, most of which are from the increase in the FMAP rate. These funds account for approximately 40 percent of total ARRA funding over the two-year period.
- General government expenditures account for the second-largest component of ARRA-related expenditures. Included in this category are $31.0 million for energy-related initiatives and $16.1 million for workforce development for FY 2010.
- The Governor includes $97.4 million for transportation agency expenditures in FY 2010.
- Education agencies will receive a total of $167.4 million between FY 2009 and FY 2010. Of the $92.2 million in ARRA funding for education in FY 2010, $35.3 million is for education aid (including Central Falls) and $7.8 million is for higher education.
- The FY 2009 budget allocates the total State share of the State Fiscal Stabilization Funds in the ARRA ($30.0 million) to Public Safety Department and reduces general revenues by the same amount. It appears that this money was used to restore General Revenue Sharing to municipalities.

FY 2009 and FY 2010 ARRA Allocation

Chart 5

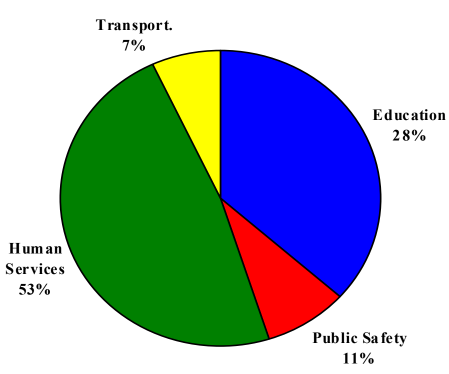
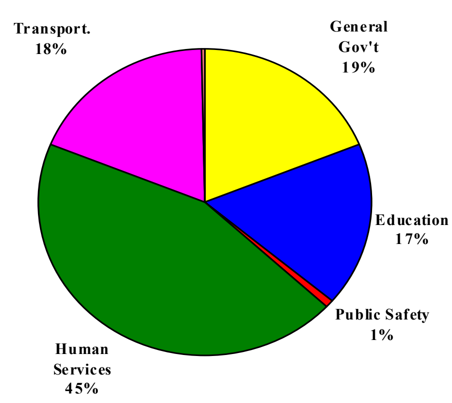


Chart 6



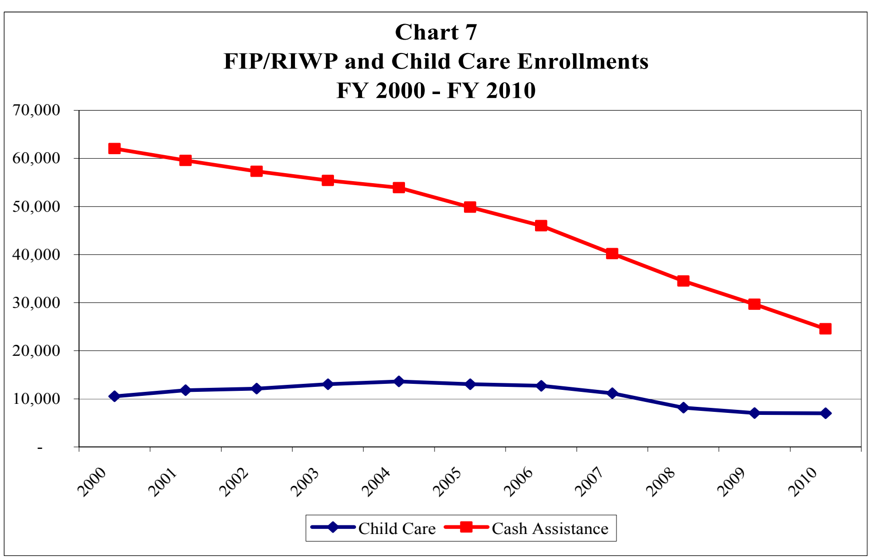
SOURCE: Rhode Island State Budget Office Documents, RIPEC Calculations

Rhode Island Works Program (RIWP) 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). In 2008, FIP was replaced by the Rhode Island Works Program (RIWP), which made a number of significant changes to the program including, but not limited to:

- Shorter time limits for receipt of cash assistance: families are allowed 24 months in any 60-month time period with a lifetime limit of 48 months for most families. Months of assistance received in another state or from the former FIP program are counted against these limits. Benefits for children are also time limited unless the child lives with a parent who receives SSI benefits or is being raised by a caretaker relative;
- Stricter work requirements: as their first activity, most parents must participate in intensive employment services including a job search through a program run by the Department of Labor and Training. After four weeks, if the parent fails to find employment, they are able to participate in "TANF countable" work activities, which may include vocational education;
- Rehabilitation plans: if individuals are unable to work due to serious disabilities they are referred to the Office of Rehabilitative Services and are required to complete a "rehabilitation employment plan" that outlines the steps they need to take to find employment or apply for disability benefits through the Social Security Administration;
- Education options for certain populations: limited literacy or English language ability and little or no work history can participate in a 6-month program being developed by the Office of Adult Education; and
- Stricter sanctions: parents that fail to comply with their work plan requirements will receive reduced benefits. After three months of non-compliance (whether or not consecutive) the benefits are stopped for the entire family.

The aim of both programs is to move people from welfare-to-work by creating time limits and work requirements to which recipients must adhere. In order to achieve these goals, the program(s) incorporate(s) cash assistance payments, child care and health care to needy children and their families, providing support for families in their work search.



Cash Assistance – In FY 2000, Rhode Island spent a total of $99.2 million ($121.6 million adjusted) on the cash assistance portion of FIP/RIWP. The Governor's FY 2010 budget proposes expenditures of $37.5 million in all funds and $0.2 million in general revenue expenditures for cash assistance, a decrease of 62.2 percent (99.5 percent general revenues) compared to FY 2000 spending. The budget assumes a caseload of 17,525 for FY 2010, a 66.0 percent decrease from a caseload of 51,487 in FY 2000.

Child Care – In contrast to cash assistance, which declined steadily over the past ten years, total spending on state-subsidized child care increased until FY 2004 and is approximately equal to FY 2000 expenditure levels. The FY 2010 budget proposes total child care expenditures of $51.8 million ($7.3 million in general revenue spending). Although total expenditures on the program are approximately the same level as in FY 2000, (decreasing by $0.2 million, or 0.3 percent), the program has increasingly been funded through Federal sources. While general revenue expenditures decreased $16.0 million, or 68.7 percent, Federal expenditures for the program have increased 55.2 percent ($15.8 million). Projected caseloads for child care are 7,000 in FY 2010, a decline of 33.7 percent since FY 2000, at which time child care caseloads totaled 10,553.

Medical Assistance
Total proposed FY 2010 Medical Assistance expenditures are $1,386.5 million, $530.0 million of which are general revenue expenditures. This represents a total increase of 72.7 percent since FY 2001 (35.2 percent in general revenues). Since FY 2001, expenditures on medical assistance from all funds have increased at an average annual rate of 6.3 percent. General revenue expenditures on medical assistance have increased at an average annual rate of 3.4 percent. Note that reliable and comparable medical assistance data prior to FY 2001 is not available. Additionally, prior to the FY 2010 budget year, the category "Rhody Health" was allocated throughout Medical Assistance including Managed Care; it is now designated as a separate category. As such, year-to-year comparisons should be made with caution.

Medical assistance expenditures as presented on Table 11 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 (primarily RIte Care), and pharmacy expenditures.

- Total proposed expenditures increase from $1,346.6 million in FY 2009 Enacted to $1,386.5 million in FY 2010. This represents an increase of 3.0 percent.
- Of the $583.4 million in expenditure growth since FY 2001, $366.4 million (62.8 percent) was in managed care. During this time period, managed care was expanded to include children with special health care needs that were previously paid for on a fee-for-service basis. Managed care expenditures include RIte Care, SSI population, transportation and early intervention.
- One should note that a significant portion of the increase in total Medicaid expenditures is due to the increase in Federal funding through the enhanced FMAP rate through the ARRA. In FY 2010, the State will receive an estimated $184.2 million, in additional funding through the ARRA, of which $129.1 million is for medical assistance.

Table 11
FY 2001 - 2010 Medical Assistance Expenditures ($ millions)

Medical Assistance Program	FY 2001 Audited	FY 2009 Enacted	FY 2010 Proposed	FY 2001-10 Change $	Avg Ann
Hospitals	$83.7	$129.6	$65.1	($18.6)	-2.8%
DSH	102.8	117.3	124.1	21.3	2.1%
Subtotal	*$186.4*	*$246.9*	*$189.2*	*$2.8*	0.2%
Nursing Homes	$244.6	$275.1	$284.8	$40.2	1.7%
Home and Community Care	0.8	50.8	59.5	58.7	57.5%
Subtotal	*$245.4*	*$325.9*	*$344.3*	*$98.9*	3.8%
Pharmacy	$0.0	$44.8	$10.8	$10.8	-
Part D Clawback	0.0	41.7	44.7	44.7	-
Subtotal	*$0.0*	*$86.5*	*$55.5*	*$55.5*	-
Managed Care	$230.9	$510.4	$597.3	$366.4	11.1%
Rhody Health	0.0	58.6	119.1	119.1	
Other	140.4	118.3	81.2	(59.2)	-5.9%
Total	**$803.1**	**$1,346.6**	**$1,386.5**	**$ 583.4**	6.3%
Gen Rev	*$392.1*	*$649.3*	*$530.0*	*$137.9*	3.4%

Source: State Budgets, Governor's FY 2010 proposed budget, and RIPEC calculations.

*FY 2010 amounts include $129.1M in ARRA funding which breaks out as follows: $9.3M in hospitals, $34.1M for nursing facitilies, $6.7M for home care, $58.0M for managed care, $13.4M for Rhody Health, and $7.4M for other expenditures.

Global Waiver – In 2008, the Governor proposed the Global Medicaid Global Waiver, which was approved by the Federal Centers for Medicare and Medicaid Services (CMS) on December 18, 2008.

The Global Medicaid Waiver replaces the current Medicaid program and restructures the way that Medicaid is financed. The Waiver establishes a global cap on Federal Medicaid funding coming to Rhode Island, which is, effectively, a cap on the total amount of funds the State can spend on Medicaid. Under the Waiver, Rhode Island will receive a five-year aggregate cap of $12.1 billion. This amount includes both State and Federal Medicaid spending. The trend rate is based on national projections of 7.8 percent annual growth.

Rhode Island will operate its entire Medicaid program over the next five years under this demonstration. All persons currently eligible for the Rhode Island Medicaid program will be under the provisions of this Waiver. During this period, Rhode Island is set to 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. The State will assume risk regarding caseload and inflation trends.

Personnel

Proposed FY 2010 personnel expenditures total $1,685.7 million, an increase of $53.4 million, or 3.3 percent, when compared to the Governor's proposed FY 2009 budget. Note, the FY 2009 figures shown on the table below represent the Governor's proposed budget and thus do not reflect changes made by the General Assembly.

Table 12
State Personnel Costs - Unadjusted

Personnel Costs (Millions)	FY 2000 Actual	FY 2009 Proposed^	FY 2010 Proposed	FY 2000 - FY 2010 Actual Change	FY 2000 - FY 2010 Percent Change	FY 2009 - FY 2010 Actual Change	FY 2009 - FY 2010 Percent Change
Salaries & Benefits							
Net Salaries*	$ 701.3	$ 863.2	$ 925.0	$ 223.7	31.9%	$ 61.8	7.2%
Adjustment for Temp	(67.8)	(75.8)	(75.8)	(8.0)	0.1	0.0	-0.1%
Overtime	47.1	67.5	60.1	13.1	0.3	(7.4)	-10.9%
Retirement	59.6	150.2	155.4	95.8	1.6	5.2	3.5%
Medical	96.9	166.1	178.2	81.3	0.8	12.0	7.2%
Retiree Health**	-	40.4	44.1	44.1	-	3.7	9.2%
Other Benefits/Payroll***	65.6	84.3	88.2	22.6	0.3	3.9	4.6%
Salaries & Benefits	*$ 902.6*	*$ 1,296.0*	*$ 1,375.3*	*$ 472.7*	*52.4%*	*$ 79.3*	*6.1%*
Funded FTE Positions	**16,072.3**	**14,091.8**	**14,446.8**	**(1,625.5)**	**-10.1%**	**355.0**	**2.5%**
Average Cost Per FTE	**$56,160**	**$91,967**	**$95,197**	**$ 39,036.7**	**69.5%**	**$3,229**	**3.5%**
Other Personnel Costs							
Other Payroll Costs****	$ 83.5	$ 129.1	$ 113.1	$ 29.7	35.5%	$ (16.0)	-12.4%
Purchased Services	116.6	207.2	197.3	80.7	0.7	(9.9)	-4.8%
Other Personnel	*$ 200.1*	*$ 336.3*	*$ 310.4*	*$ 110.4*	*55.2%*	*$ (25.9)*	*-7.7%*
Total Personnel Costs	**$ 1,102.7**	**$ 1,632.3**	**$ 1,685.7**	**$ 583.0**	**52.9%**	**$ 53.4**	**3.3%**

Source: State Budget Office and Personnel Supplements

* Assumes savings from fone furlough day in FY 2010

** Previously included in other costs

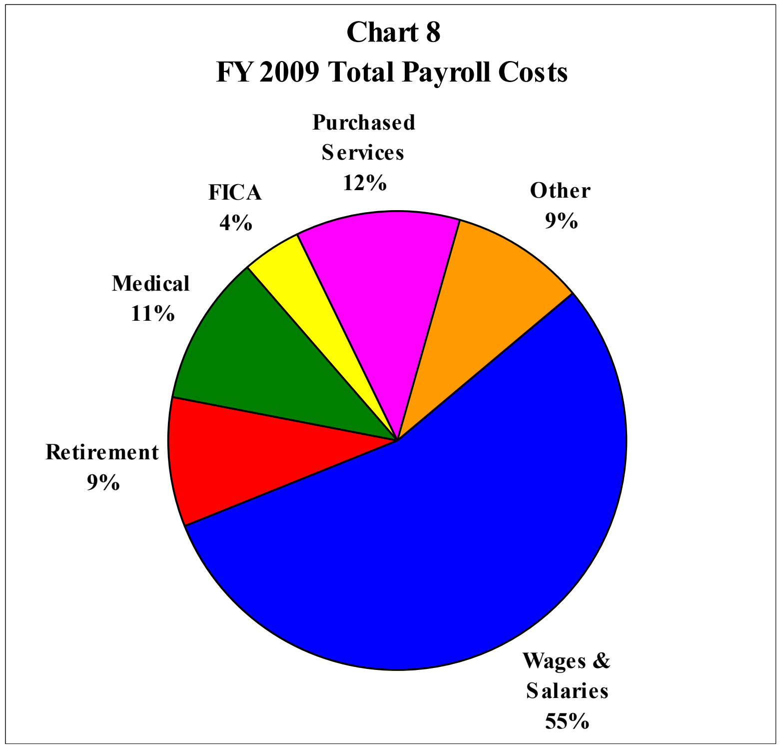
*** Includes FICA, Holiday Pay, Payroll Accrual and Other

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

^ Represents the Governor's FY 2009 proposed budget; does not reflect recent changes made by the General Assembly.

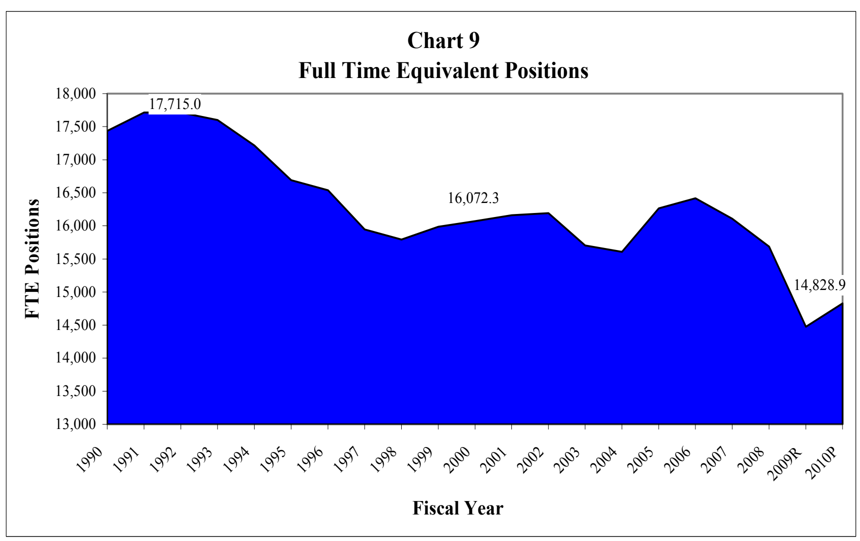
When compared to the FY 2000 budget, personnel expenditures have increased from $1,102.7 million ($1,351.2 million adjusted). This represents an increase of 52.9 percent (24.8 percent adjusted) and an average annual rate of growth of 4.3 percent (2.2 percent in real growth). During this time, the unadjusted average cost per FTE has increased 69.5 percent, from $56,160 in FY 2000 to $95,197 in FY 2010. On an adjusted basis, the average cost per FTE has increased by $26,381, or 38.3 percent.

The fastest growing component of total personnel expenditures during this time was for retirement. Over the ten-year period, expenditures on retirement increased $95.8 million, or 160.6 percent. When these figures are adjusted for inflation, retirement costs increased from $73.1 million in FY 2000 to $155.4 million in FY 2010, or 112.6 percent. In FY 2000, retirement costs accounted for 4.1 percent of operations expenditures, and have increased to 6.7 percent in FY 2010. Medical costs have also increased at a significant rate since FY 2000, growing by 83.9 percent (50.1 percent adjusted). Together, these two categories account for 30.4 percent of the total growth between FY 2000 and FY 2010 (42.4 percent in real terms).



FTE Position Authorization – In order to manage 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 2009 Revised budget that has been passed by the General Assembly includes a total FTE authorization of 14,474.9, which is 483.7 less than in the FY 2009 Enacted budget.
- Due to a number of changes made to State pensions that were included in the FY 2009 budget, approximately 1,400 State employees retired. As a result, the State is currently operating below the authorized level of FTEs; the March 28, 2009 payroll showed a total of 13,453.1 FTEs in the State.



- There are a total of 14,828.9 FTEs authorized in the Governor's FY 2010 budget. This represents an increase of 2.4 percent over FY 2009 Revised Enacted levels.
- A large portion of the FTE increase is due to the implementation of the Global Medicaid Waiver and the increase in Federal stimulus funds from the ARRA.
- While the FY 2009 FTE authorization represents an historic low FTE cap, the FY 2010 FTE authorization is the second lowest FTE cap in the State in the last 20 years.

Aid to Local Governments

Table 13
State Aid to Local Government ($ million)

Major State Aid Program	FY 2000	FY 2009E	Gov FY 2009R	FY 2010P	2009E-2010P Change
Education Aid					
Direct Education Aid*	$515.4	$689.1	$615.4	$631.9	($57.2)
Teacher Retirement	41.0	97.0	76.3	75.3	(21.7)
School Housing Aid	25.5	57.0	54.1	63.7	6.7
Met School	1.8	11.6	11.6	12.2	0.6
Charter School Aid (direct and indirect)	2.9	31.0	30.1	33.4	2.4
ARRA State Fiscal Stabilization**	0.0	0.0	39.3	36.0	36.0
Other Aid***	0.7	17.6	17.6	5.2	(12.4)
Subtotal - Education Aid	*$587.4*	*$903.3*	*$844.4*	*$857.7*	*($45.7)*
Municipal Aid					
General Revenue Sharing	$27.6	$55.1	$31.0	$0.0	($55.1)
Excise Tax Phase Out	47.3	139.6	135.4	135.3	(4.3)
PILOT	16.1	27.8	27.6	27.6	(0.2)
Distressed Communities Aid	9.3	10.4	10.4	0.4	(10.0)
ARRA Distressed Communities Aid	0.0	0.0	0.0	10.0	10.0
Other Aid****	8.2	13.8	12.5	13.6	(0.2)
Subtotal - Municipal Aid	*$108.4*	*$246.7*	*$216.8*	*$186.9*	*($59.8)*
Total State Aid	**$695.8**	**$1,150.0**	**$1,061.2**	**$1,044.5**	**($105.4)**

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 lanugage assist., full-day kindergarten, vo-tech equity, group home funding and Central Falls.
** Includes aid to LEAs, Charter Schools and the Met School
*** Includes progressive support and intervention, Hasbro hospital, school visit, RIDE professional dev., textbook loans, school breakfast, telecomm access funds, and the Permanent Education Fund.
**** Includes state library aid, statewide reference library resource grant, library construction reimbursement, municipal police incentive pay, municipal fire incentive pay, and the property revaluation program.

Total State aid, aid to local governments excluding Federal aid, totals $1,044.5 million in the Governor's proposed FY 2010 budget. This represents an increase of approximately 50 percent since FY 2000. The Governor's proposed FY 2010 local aid budget represents a decrease of $105.4 million when compared to FY 2009 Enacted. The majority of this decrease ($57.2 million) is in direct education aid, while the second largest component ($55.1 million) results from the elimination of general revenue sharing in FY 2010. These reductions are partially offset by a total of $46.0 million in State Fiscal Stabilization Funds from the ARRA.

While direct education aid represents the largest absolute increase in local aid since FY 2000, growing by $116.5 million over the past ten years, this category of aid experienced the least growth on a percentage basis when compared to all other local aid (excluding general revenue sharing). Since FY 2000, education aid has increased by 22.6 percent, while funding for the excise tax phase-out has increased by 186.2 percent. Similarly, education aid accounts for 33.4 percent of the total increase in State aid over the past ten years.

Education Aid Highlights – Total proposed State education aid to local governments for FY 2010 is $857.7 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 2010 funding levels are $45.7 million (5.1 percent) lower than FY 2009 Enacted levels.

- Direct education aid is proposed to decrease by $73.7 million in FY 2009 and $57.2 million in FY 2010 when compared to FY 2009.
- This reduction in aid is to be partially offset by ARRA funds.
- In FY 2009, the decrease in State Education Aid ($31.0 million) is to be diverted into General Revenue Sharing. $12.6 million of these funds are to be returned to school districts in order to meet maintenance of effort requirements under the ARRA.
- The Governor's FY 2009R and FY 2010 budgets also reduce the State contribution to teacher retirement by $23.5 million and $24.5 million, respectively. These cuts in funding are matched by a reduction in the local share of teacher retirement.

Table 14
Changes to Education Aid ($ millions)

	FY 2009R	FY 2010
Enacted FY 09 Aid	$690.4	$690.4
Pension Reform Adj.	($23.5)	($24.5)
Other Aid Adjustments*	(19.2)	1.2
Fiscal Stablization Fund Reduction	(31.0)	(34.0)
Subtotal	*($73.7)*	*($57.2)*
Federal Stabilizaton Funds	$38.3	$34.1
Municipal Aid from GRS**	12.6	-
Subtotal	*$50.9*	*$34.1*
Total* **	**$667.6**	**$667.3**

SOURCE: State Budget Documents; RIPEC calculations

* Professional Development suspension, elimination of Permanent Education Fund, Housing Aid adjustment, supplemental group home aid

** Reflects the portion of General Revenue Sharing funds municipalities would be required to return to their respective school districts to meet maintenance of effort requirements.

*** Total does not reflect additional funding for Title I or IDEA funding.

The FY 2009 Revised supplemental passed by the General Assembly made a number of changes to the Governor's FY 2009 Proposed education aid expenditures. When compared to the January FY 2009 budget, the General Assembly maintained the Governor's proposed cuts in the Permanent Education Fund, Professional Development, and assumed pension savings. They reduced the amount of money Providence was to pay back to the State for an overpayment in housing aid, and they slightly increased group home aid. In addition, similar to the March FY 2009 revised budget, they decreased general revenue aid by the $38.3 million. This decrease is offset by the State Fiscal Stabilization funds available through the ARRA. The General Assembly's FY 2009 Revised budget also does not include the $12.6 million that municipalities would be required to return to their respective districts for maintenance of effort.

Although the recently passed FY 2009 Revised budget does not include pension reform, the budget includes a reduction in education aid in the amount of $40.7 million. The budget includes legislation that would authorize the diversion of scheduled pension contributions to a separate fund, rather than to the pension fund. If the State is able to enact pension reform that produces savings, the necessary contribution to the retirement fund and the balance would revert to the State. Further, the State would restore funding to districts in the amount of State aid that was withheld from school aid.

Municipal Aid Highlights – Recommended total municipal aid is $186.9 million in FY 2010, not including pass-through aid. Proposed FY 2010 municipal aid is $59.8 million (24.2 percent) less than FY 2009 Enacted aid. The Governor's FY 2009 Revised general revenue expenditures represent a decrease of 6.5 percent when compared to the FY 2009 Enacted budget. Proposed FY 2010 general revenue expenditures are an increase of 0.5 percent compared to the FY 2009 Revised budget

- The Governor's original FY 2009 Revised budget submission included the elimination of general revenue sharing for savings of $55.1 million. In the March revision, $31.0 million of these funds were restored.
- The FY 2009 Revised budget, as passed by the General Assembly, restored $25.0 million to general revenue sharing.
- Every category of municipal aid, with the exception of the library construction reimbursement, property valuation reimbursement and distressed communities aid is reduced in the Governor's FY 2010 budget compared to the FY 2009 Enacted budget.
- While distressed community aid is level-funded in FY 2010, $10.0 million of these funds are from the flexible portion of the State Fiscal Stabilization fund, resulting in a general revenue reduction of an equal amount.
- The most significant cut to municipal aid is the proposed elimination of general revenue sharing, accounting for $55.1 million of the total change in FY 2010.

Changes to the Tax Structure

The Governor's FY 2010 budget contained several tax changes, which would not be implemented in FY 2010, but would be phased-in over the next five years. The following lists the changes the Governor has proposed in three broad areas:

- Modifications to the Business Corporations Tax
- Modifications to the Personal Income Tax
- Estate Tax

Corporate Tax
The Governor's proposal is to first phase-out the business corporation tax by reducing the tax rate from 9.0 percent to:

7.5 percent, effective January 1, 2010
6.0 percent, effective January 1, 2011
4.0 percent, effective January 1, 2012
2.0 percent, effective January 1, 2013

Beginning January 1, 2014 the business corporation tax would be fully eliminated. The estimated cost for the FY 2010 year would be $14.5 million. The total estimated cost to the State would be near $84.0 million in FY 2009.

Replacement Tax
Effective January 1, 2014 the Governor's proposal includes the institution of a tiered minimum tax based on the corporation's net income. The payments would be as follows:

Table 15
Proposed Franchise Tax Minimum Payment Structure

	Proposed Franchise Tax Fee
LLCs & S-Corporations	$450
Taxable Income	
Less than $9,999	450
10,000 to 24,999	500
25,000 to 49,999	750
50,000 to 74,999	1,000
75,000 to 99,999	1,500
100,000 to 249,999	2,000
250,000 to 499,999	3,000
500,000 to 999,999	5,000
1,000,000 to 2,499,999	7,500
2,500,000 and greater	10,000

According to the Division of Taxation, the estimated revenue increase is $2.2 million.

Credits
The Governor's business corporation's tax bill reduces the percent rate reduction in the Jobs Development Act as the business corporation's tax rate is phased-out.

Currently, according to a January, 2009 Ernst and Young report, businesses pay a large portion of Rhode Island taxes. The State has also been ranked by the Tax Foundation as having the 46th worst business climate within the United States.

Personal Income Tax

The Governor is proposing to reform the personal income tax system within the State effective January 1, 2011. This would bring Rhode Island's personal income tax system more in line with those of Connecticut and Massachusetts.

The reformed personal income tax would be based on the Federal Adjusted Gross Income with fewer modifications to the AGI and would allow for only a Standard Deduction and Personal Exemptions indexed for inflation as reductions to AGI. Income from all sources including capital gains would be taxed as ordinary income. Table 16 lists the Standard Deductions and Exemptions by filing status.

Table 16
Standard Deductions and Exemptions

Filing Status	Standard Deduction	Exemption Type	Exemption
Married Joint / Widow(er)	$ 15,000	Personal	$2,500
Single / Married Separate	$ 7,500	Dependent	$2,500
Head of Household	$ 11,250		

In conjunction with the change of deductions, the proposal calls for four taxable income brackets going from 3.5 percent to 5.5 percent as the highest marginal tax rate.

Table 17

Taxable Income Bracket	Tax Rate
$0 to $54,999	3.50 %
$55,000 to $109,999	4.00 %
$110,000 to $174,999	4.50 %
$175,000 and more	5.50 %

Also included in the tax reform, effective after December 31, 2010, is the elimination of most of the current tax credits except for the following four, which are allowed against personal income tax liability:

- Income Taxes Paid to Other States;
- Refundable Earned Income Tax Credit at 15.0 Percent of Federal EITC;
- Property Tax Relief Credit; and
- Lead Paint Abatement Credit.

The Governor's proposal also includes several carry-forward amounts for certain tax credits that were used in prior year(s) and could still be used under the reformed personal income tax proposal. They are:

- Historic Structures Tax Credits (HSTC) purchased from developers with qualified projects could be used against liabilities incurred under the reformed personal income tax proposal.
- HSTC amounts used would be reimbursed from the HSTC Fund established by the 2008 General Assembly.
- Carry-forward amounts of all other unused credits as allowed under the current law provisions governing those credits.
- Motion picture production tax credits for motion picture productions completed prior to January 1, 2011.

Estate Tax

The Governor has proposed to increase the exemption amount for Rhode Island estate tax purposes to from the current limit of $675,000 to $1,000,000 effective January 1, 2010. The current exemption amount is the lowest in the United States. The proposed exemption amount is equal to the Massachusetts estate tax exemption amount.

The higher exemption amount would eliminate the payment of estate taxes for 44.8 percent of Rhode Islanders subject to the estate tax at a cost of $1,487,980 in FY 2010.

Table 18 shows the number of Rhode Island resident estate tax returns filed and estate taxes paid in FY 2008 for estates with gross taxable values of $1.0 million or less through $3.5 million or less.

Table 18
FY 2008 Estate Tax
Number of Returns Filed and Paid by Rhode Island Residents

Gross Taxable Estate Value	Number of Returns Filed	% of Total Returns Filed	Estate Taxes Paid	% of Total Estate Taxes Paid
≤ $1,000,000	146	44.8 %	$ 3,237,130	11.1 %
≤ $2,000,000	279	85.6 %	$ 10,882,315	37.4 %
≤ $3,000,000	300	92.0 %	$ 13,613,268	46.8 %
≤$3,500,000	308	94.5 %	$ 15,251,805	52.4 %

Source: Estate Tax section, Rhode Island Division of Taxation

The top row of Table 19 shows revenue costs for the personal income tax. The Governor's proposal does not take effect until January 1, 2011; therefore there will be no impact on the FY 2010 budget.

The cost of implementing the flat tax as of February 6, 2009 is $15.83 million in FY 2010 (this is the "cost" of lowering the rate from 6.5 percent in tax year 2009 to 6.0 percent in tax year 2010) and an additional $20.12 million on 2011. So the net change from 2009 to 2011 is $35.95 million. By instituting a new tax proposal, it would eliminate the need to continue with the tax after the new system has been enacted. The flat tax would have cost the State nearly $20.12 million while instituting the new tax system would cost $42.2 million.

Table 19
Cost Impact
Proposed Tax Changes
(in millions)

Tax	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Personal Income Tax			(20.1)	(42.2)	(43.9)	(45.7)
Corporate Tax		(14.07)	(28.13)	(46.89)	(65.64)	(84.40)
Estate Exemption Increase		(1.49)	(2.98)	(2.98)	(2.98)	(2.98)
New Franchise Fee						2.20
Total Change		**(15.56)**	**(51.21)**	**(92.07)**	**(112.52)**	**(130.88)**
Elimination of Flat Tax			**20.12**			

The foregone tax revenue for the AGI range of $1 to $30,000, which is where the lion's share of the Earned Income Tax Credit (EITC) beneficiaries are, is $17.9 million. One must keep in mind that some of the foregone revenue is attributable to the lower marginal tax rate (3.5 percent vs. 3.75 percent) and the higher combined standard deduction and exemption amounts than current law.