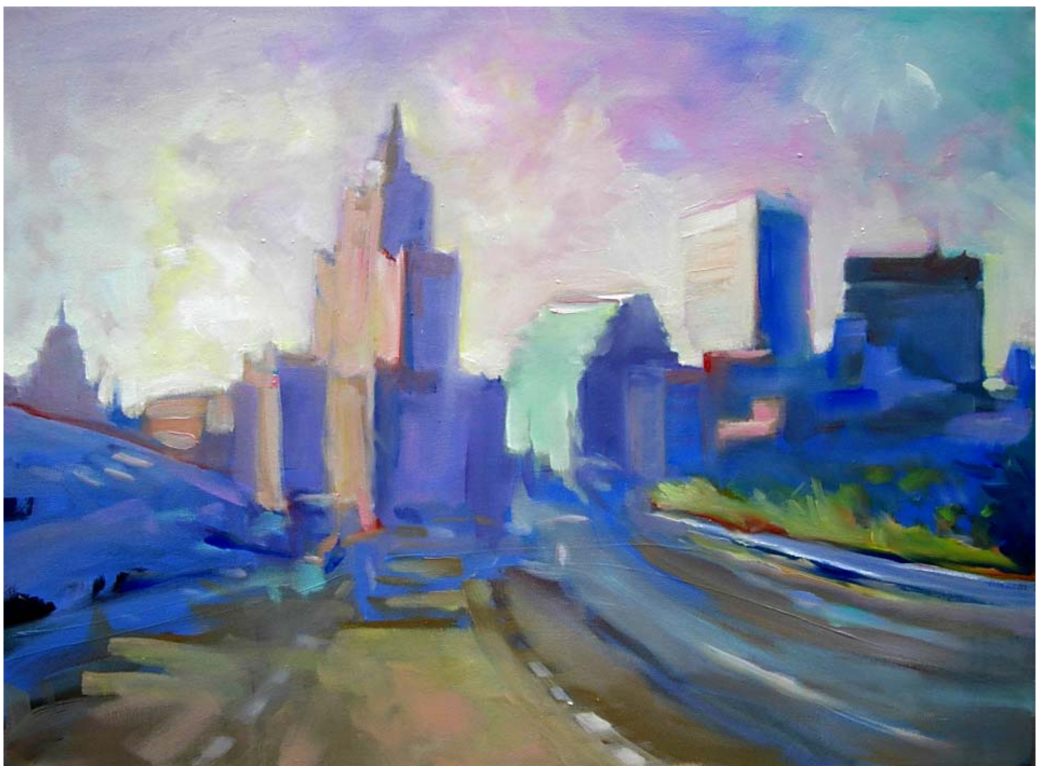
State of Rhode Island and Providence Plantations

Executive Summary



Fiscal Year 2009

Donald L. Carcieri, Governor

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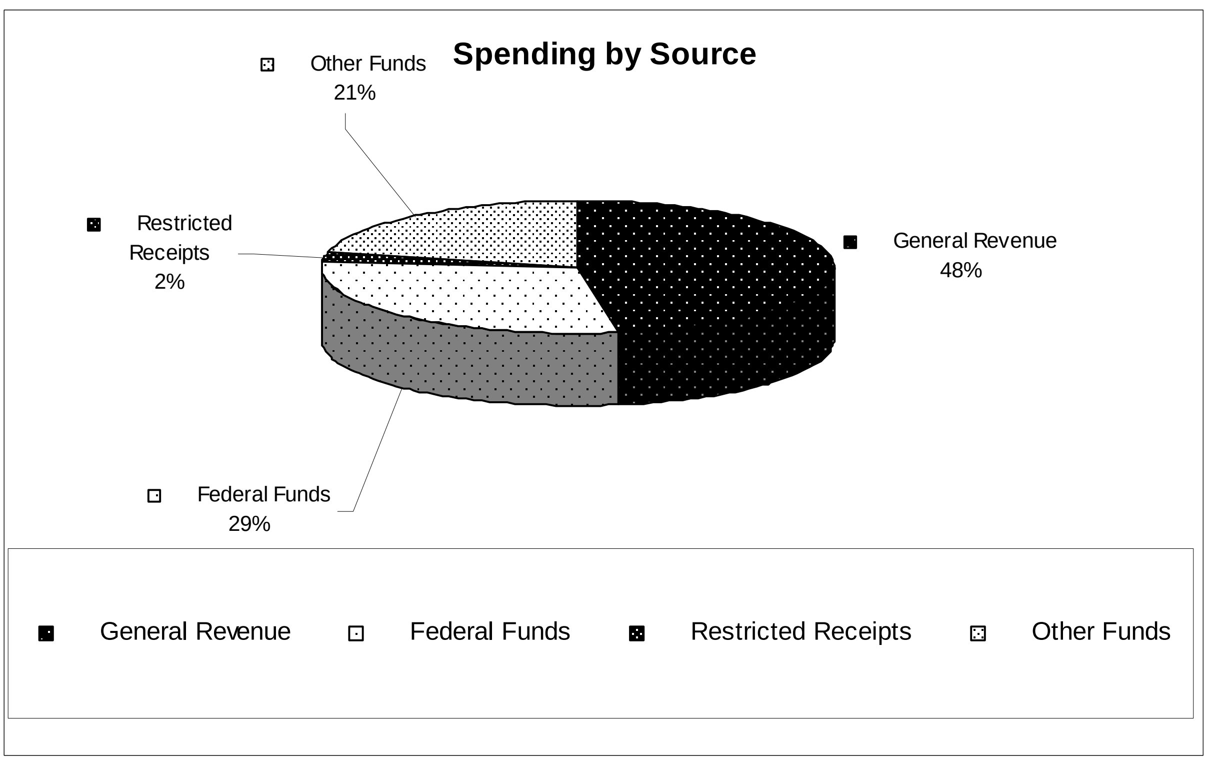
Overview

Rhode Island Governments are at a Crossroad

State and local governments are at a crossroad. The path that is chosen will impact state and local governments' ability to provide necessary services to Rhode Islanders at a cost that is affordable in the future. The Governor's budget recommendations for FY 2009 present a path leading the State to a position of fiscal balance. In order to achieve structural balance, we must constrain our expenditure growth to a rate less than the rate of growth for our revenues. To do this, we must make major changes in the way the State provides services to its citizens and how they are financed. The FY 2009 budget reflects changes in the three largest categories of expenditures: personnel, assistance grants and benefits, and local aid. Savings in personnel, which commenced during FY 2008, will continue in the FY 2009 budget. State government will operate with fewer state employees and contract employees. The State's retiree health benefits will be funded for the first time on an actuarially sound basis, providing for a transparent view of the cost of the promises made to current and future retirees. Major changes to the ways in which Medicaid services are procured and delivered are recommended. The Family Independence Program will be restructured to promote work participation and family units. With respect to local government spending, the Governor recommends legislation which will help local governments take control of their spending and be more accountable to their property taxpayers.

State General Revenue Spending in FY2009 is Less than in FY2008

General revenue funded expenditures in FY 2009 total $3.272 billion. This is $130.9 million less than the FY 2008 enacted budget, a 3.8% reduction. All funds expenditures for FY 2009 are $6.889 billion. Of this total, $3.273 billion, or 47.5 percent, is from general revenue, $1.990 billion, or 28.9 percent, from federal funds, $1.468 billion, or 21.3 percent, from other sources, and $158.2 million, or 2.3 percent, is from restricted or dedicated fee funds.



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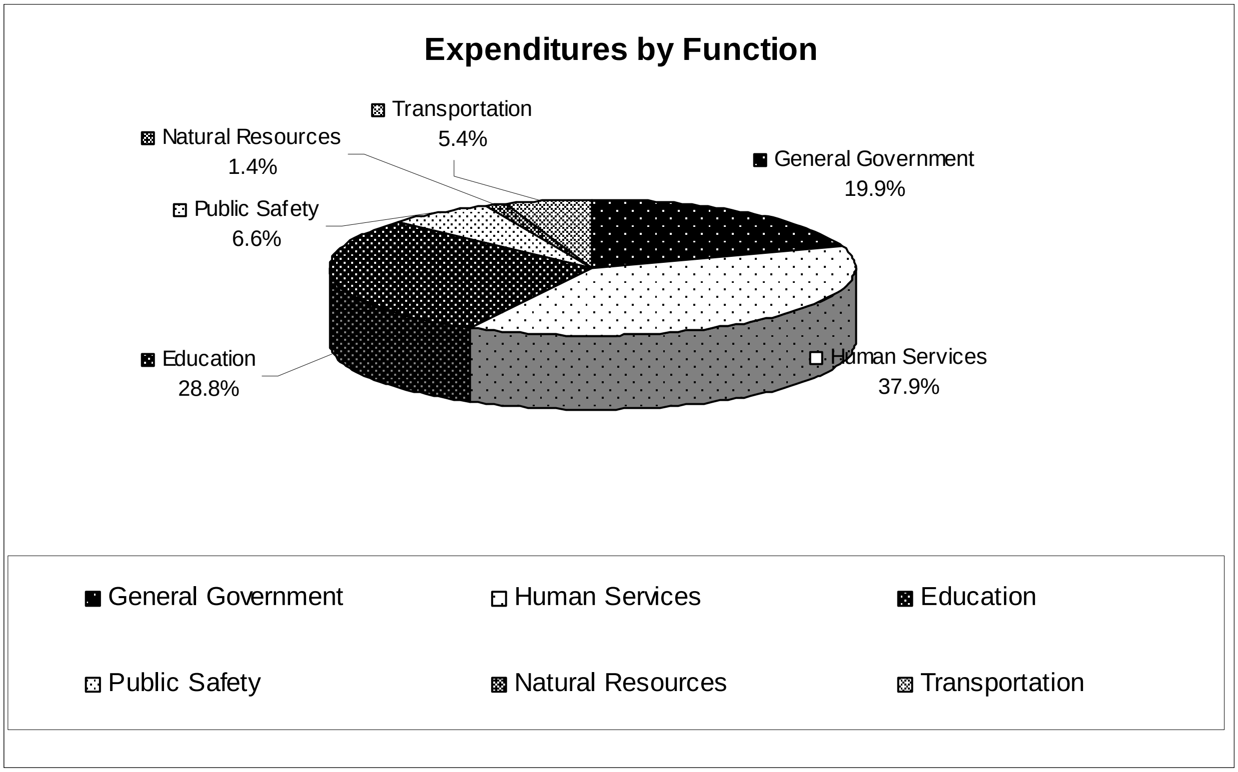
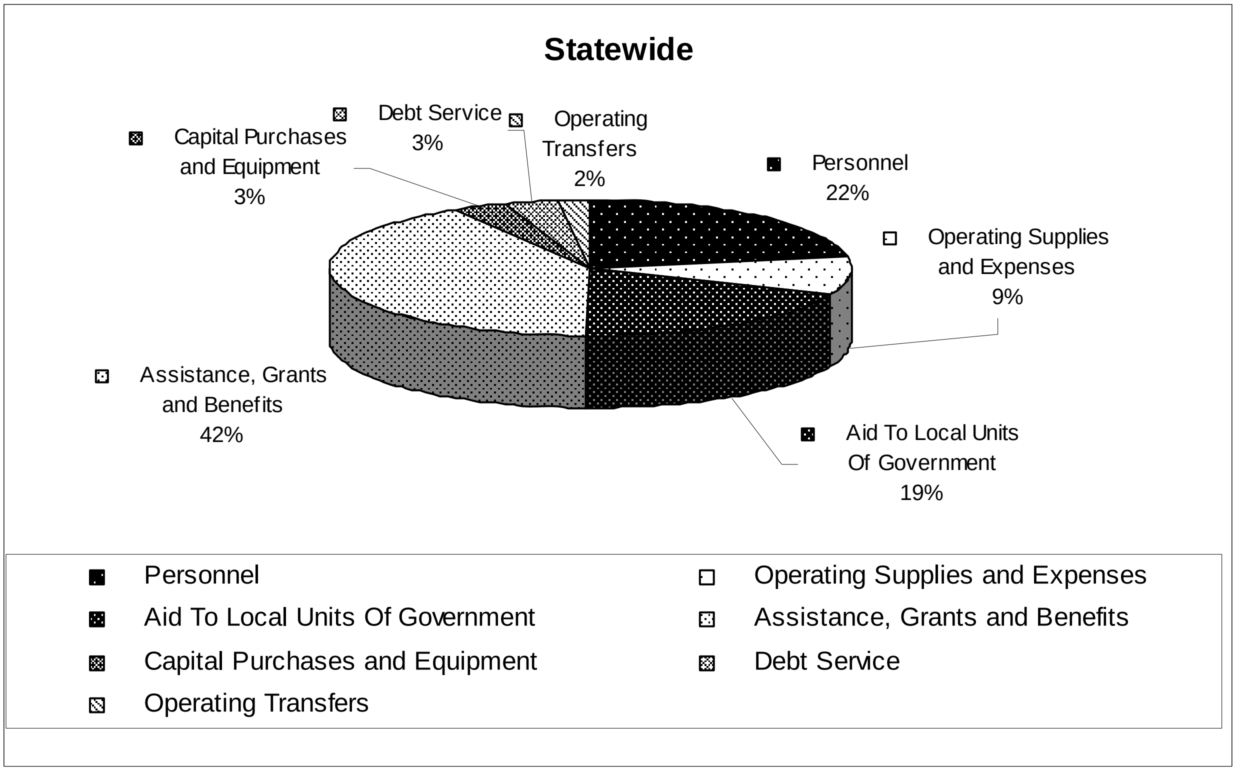
On a functional basis, the largest share of expenditures are made in the Human Services area, which comprise $2.613 billion, or 37.9 percent of the total budget. This is followed by spending for Education of $1.985 billion, which comprises 28.8 percent of all spending, and expenditures for General Government of $1.373 billion, equaling 19.9 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling 917.2 million, or 13.4 percent of the total budget.



The second way to view expenditures is by major category. On this basis, the largest share of the FY 2009 budget is for assistance, grants and benefits equaling $2.831 billion or 41.1 percent of the total. This is followed by personnel expenditures, which comprise 22.5 percent, or $1.549 billion, and local aid expenditures, which make up 18.8 percent, or $1.297 billion of the total budget. Expenditures for capital purchases and debt service total $456.8 million or 6.6 percent, with the balance of spending used to finance operating expenditures and transfers of $139.7 million, or 2.0 percent.

Overview



Expenditures from general revenues total $3.273 billion for FY 2009. By function, spending by Human Services agencies represents the largest share with expenditures, totaling $1.179 billion, or 36.0 percent of the general revenue budget. This is followed by spending for Education, which totals $1.126 billion, or 34.4 percent. General revenue expenditures for General Government and Public Safety comprise $552.2 million (16.9 percent), and $377.5 million (11.5 percent), respectively. Expenditures for Natural Resources comprise $38.3 million, or 1.2 percent of total general revenue spending. Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel. The largest component is local aid expenditures of $1.135 billion, comprising 34.7 percent of total general revenue spending. Grant based expenditures of $1.004 billion represent 30.7 percent of total spending; personnel expenditures of $806.1 million comprise 24.6 percent of the budget; operating expenditures and operating transfers total $159.9 million, or 4.9 percent of the budget; and, capital expenditures and debt service total $167.4 million, or 5.1 percent of the total general revenue budget.

Consolidation of Agencies

The Fiscal Year 2008 budget enacted by the General Assembly contained language requiring the Governor to plan for two new major consolidations. This is in addition to the consolidation of certain Office of Health and Human Services functions, which are reflected as FTE transfers from the agencies within the Office of Health and Human Services for FY 2009. For ease in comparing data, the Governor's budget for FY 2009 reflects historical data associated with the Public Safety and Advocacy on a consolidated basis. The two new major consolidations are described in the following paragraphs.

Overview

Department of Elderly Affairs and Advocacy

The Governor recommends the formation of the Department of Elderly Affairs and Advocacy. In the FY 2008 Appropriations Act, Section 11 of Article 3 Relating to Reorganization provided for the following:

> SECTION 11. The general assembly hereby requires the governor to submit, as part of his FY 2009 budget, necessary legislation to create a department of advocacy, with an effective date of no sooner than July 1, 2008, and no later than January 1, 2009.
>
> The governor shall consult with the child advocate, mental health advocate, commission on the deaf and hard of hearing, developmental disabilities council, and the commission on disabilities in developing the department.
>
> The department shall include the child advocate, mental health advocate, commission on the deaf and hard of hearing, developmental disabilities council, and the commission on disabilities.
>
> The governor with advice and consent of the senate shall appoint the child advocate and the mental health advocate, as detailed in existing statutes. All agencies combined into this new department shall maintain existing duties as set forth in current law.

The Governor has reviewed the proposed composition of the department and recommended only three of the five agencies be merged into the existing Department of Elderly Affairs to create the new Department of Elderly Affairs and Advocacy. Under the leadership of an existing cabinet director, the functions of these agencies would be best integrated within the Health and Human Services Secretariat. It is recommended that the Office of the Child Advocate and Office of the Mental Health Advocate remain independent.

For purposes of budget presentation, the following agencies have been merged into the new Department of Elderly Affairs and Advocacy: Department of Elderly Affairs, Commission on the Deaf and Hard of Hearing, Developmental Disabilities Council, and the Governor's Commission on Disabilities.

Department of Public Safety

The Governor recommends the formation of the Department of Public Safety. In the FY 2008 Appropriations Act, Section 14 of Article 3 Relating to Reorganization provided for the following:

> SECTION 14. The general assembly hereby requires the governor to submit, as part of his FY 2009 budget necessary recommended legislation to create a department of public safety, with an effective date of no sooner than July 1, 2008, and no later than January 1, 2009. The director of the department shall be the superintendent of the state police who shall be appointed by the governor with the advice and consent of the senate.
>
> The governor shall include the state police, E-911, emergency telephone system division, the state fire marshal who shall be appointed by the governor with the advice and consent of the senate, fire safety code board of appeal and review, justice commission, municipal police training academy, sheriffs and capitol police.
>
> The department shall consolidate communications and overhead expenditures.

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The Governor has reviewed the proposed composition of the department and recommends one modification. It is recommended that the Fire Safety Code Board of Appeal and Review remain independent due to opinion that it is not directly related to emergency response, law enforcement and security services, but might be better aligned to the Building Code Commission within the Department of Administration.

For purposes of budget presentation, the following agencies have been merged into the new Department of Public Safety: State Police, E-911 Emergency Telephone System, State Fire Marshal, Municipal Police Training Academy, Sheriffs, Capitol Police, and the Governor's Justice Commission.

Department of Environmental Management Assumes All Environmental Functions

For FY 2009, the Governor also recommends merging the Coastal Resources Management Council and the Water Resources Board into the Department of Environmental Management in order to reduce overhead costs and duplication of efforts. The savings will be realized by eliminating 9.0 FTE positions and replacing contract legal services with a state employee, thereby reducing the number of FTEs required to perform the functions of the Council from 30.0 positions to 22.0 positions. The Water Resources Board will be merged into the Office of Water Resources, and savings will be realized by eliminating 5.0 FTE positions and adding an accountant position and a chairperson position, thereby reducing the number of FTEs required to perform the functions of the Board from 9.0 positions to 6.0 positions.

Movement of State Agencies from Rental Space for Efficiencies and Savings

For FY 2009, the Governor also recommends the movement of several state agencies from their physical locations to create operating efficiencies and savings of taxpayer dollars. This includes agencies moving between state owned properties as is the case of the hospital consolidation plan, the centralization of back office functions within the Office of Health and Human Services, and the consolidation of the advocacy agencies with the Department of Elderly Affairs. The plan also includes the movement of agencies from private rental property to state facilities. The plan includes the movement of the Department of Business Regulation from rented space to the Center General Building as a co-occupant with the Department of Labor and Training, and the movement of the Office of Higher Education, the Labor and Training Board of Review, to the Hazard Building. These moves will save over $1.0 million in FY 2009. Additionally, the State Police will remain at their Scituate location, with Rhode Island Capital Plan funds providing for expanded facilities rather than use the general obligation bonds which were authorized for a larger, more expensive facility. The Governor does not recommend the construction of a new Blackstone Valley Courthouse. The Governor recommends the state re-use of the DCYF Administration/School Building which will be vacated upon completion of the new DCYF facilities. The capital budget uses funds available in the enacted budget to renovate the building for use as the state's Data Center. This will allow for the centralization of all Information Technology personnel at one location, and movement of hardware from the Johnston site.

Overview

Corrections Reform

During FY 2007, the Governor and legislative leaders of the General Assembly requested technical assistance from the Council of State Governments (CSG) Justice Center to develop policy options that would address the accelerated growth in inmate population from 15 percent in the period 1994-2994 to a possible 21 percent over the next ten years. These options were intended to reduce inmate populations (thus reducing spending for corrections), increase public safety, and improve conditions in the neighborhoods to which released offenders would return.

In April 2007, a "working group", consisting of representatives from the District Court, Superior Court, the Attorney General, the Public Defender, the Senate Majority Leader, the House Finance Committee, the Office of the Governor, the Department of Corrections and the Council of State Government, was formed to consider the policy options generated by the CSG. After discussion and suggestions from all members were considered, the group formulated the following measures which are included in Article 7 of the FY 2008 Supplemental Budget request:

Standardized Earned Time for Good Behavior: The current statute allows for good behavior awards at a rate of one day per month for each year of sentence up to ten years, capped at ten days per month, and limited to inmates serving sentences greater than six months. The proposed change would, following the practice in other jurisdictions, extend the reduction to all short-term (one month or more) inmates (except those serving for life or a sentence for violation of sexual offenses). The option is expected reduce the inmate population by an average of 84 in FY 2009, 104 in FY 2010, and 259 in FY 2013.

Earned Time for Participation in Rehabilitation Programs: The proposed change would award a sentence reduction of up to five days per month for each month of active participation in a substance abuse, job training, or other rehabilitative program that has been identified as meeting a need specifically identified in the inmate's case plan, and a thirty day reduction upon completion of such a program. The proposal would create incentives for offenders to use programs that would increase the likelihood of successfully transitioning to the community upon release, and thus would reduce recidivism. The option is expected reduce the inmate population by an average of 55 in FY 2009 and 58 in FY 2010.

Improve Parole Board Use of Data: The proposal directs the Board to develop guidelines for the release of an offender based on his risk to public safety, as determined by a risk assessment analysis being developed by the Board. The proposal would ensure that the decision-making process is both data-driven and science based. The option is expected reduce the inmate population by an average of 43 in FY 2009 and 45 in FY 2010.

Entitlement Reform

In order to secure long-term balance in the state's expenditures, the Governor proposes to redesign both of the state's two largest entitlement programs, Medicaid and Family Independence cash assistance. Reform legislation is included in the budget act for both programs. For Medicaid, the reform will convert the service delivery model from provider based to client-centered in programs in the Departments of Human Services, Children, Youth and Families, and Mental Health Retardation and Hospitals. The program will emphasize personal responsibility, home and community-based solutions, innovative delivery of services. Work First, the new cash assistance program, will also emphasize personal responsibility, with an emphasis on moving parents to unsubsidized employment and stablizing families. Job search and orientation supports will be combined with transportation and child care to create a setting and mindset leading to successful employment outcomes. These reforms will lead to $66.7 million of general revenue savings in FY 2009.

Overview

Local Government Aid and Spending

For FY 2009, the Governor recommends maintenance of total state aid at revised FY 2008 levels. Furthermore, he has proposed a number of initiatives to assist municipalities in reducing costs. In his "Municipal Fiscal Control and Responsibility Act", the Governor proposes initiation of a library collection of all municipal labor contracts. This is supplemented by an Article in the Appropriations Act which requires fiscal impact statements for all new municipal collective bargaining agreements two weeks before they can be signed. The Governor has also proposed applying the property tax cap to fire districts and revisions to retirement age and years of service requirements for municipal employees in the 32 communities which participate in the state administered municipal employees retirement system. This will make the municipal system comparable to the state reforms enacted. This change is projected to save over $4 million per year. In the FY 2008 Supplemental Appropriations Act, the Governor has proposed a statewide health insurance contract which would result in lower administrative fees and would provide for standardized plan designs. He has also proposed that municipal employees be required to share the costs of health insurance at the same levels as state employees. For municipal employees, these two changes would result in annualized savings of over $7.5 million. Savings would be even greater for school district employees. Lastly, he has proposed in the new Appropriation Act that new accounting standards be formulated that are comparable with the new standards recently implemented for all school districts.

Statewide Personnel Savings and Reduction in Force

The Governor recommends that state government operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The Governor recommends targeted reductions and layoffs in personnel in certain agencies based upon specific programmatic reductions (629.7 FTE), reflected as "program reductions". It is projected that this reduction will save $618,473 from all funds in FY 2008 and $31.0 million in FY 2009 in salaries alone. Savings including benefits are estimated to be $41.0 million in FY 2009. These savings are budgeted in the various departments and agencies. These are reflected as program reductions in each agency, and can include both filled and vacant FTE positions. The recommendation also includes $60.6 million in savings, of which $33.4 million is general revenues, for personnel savings that are currently being discussed with union leadership. For display purposes, $33.6 million is reflected in medical benefit savings and $27.0 million in salary and benefit savings. Additionally, the Governor's recommendation assumes $30.5 million in savings from all sources, $16.8 million from general revenues, from permanent position eliminations as a result of retirements for FY 2009. There are currently over 3,100 employees eligible to retire, whether by age or years of service. The Governor's recommendation assumes that 300 non-critical positions will be eliminated upon the incumbent's retirement. Overall, the state employee full time equivalent positions will be reduced from the FY 2008 enacted level of 15,987.3 to 14,796.6 in FY 2009, a reduction of 1,190.8 positions. Additionally, it is the Governor's goal to reduce contract employees by the 158.4 full time equivalent positions.

Uncompensated Leave Days

The Governor's recommendation includes six uncompensated leave days for all state employees in FY 2008 that will reduce salary and benefit expenditures by 2.3 percent. The budget assumes all state employees will receive less pay either for one day less pay per month (two days in May) or reduced paychecks for the remainder of the year. Employees will be credited one day of personnel leave in the pay period in which the salary reduction occurred. The personal leave must be discharged by December 31, 2008, and is not eligible for carry over to the next calendar year or for severance payments upon separation from state service. There are no exemptions for any class of employee, although limited period or seasonal employees will not be affected. Implementation of this measure will save $14.8 million in general revenues, and $25.6 million from all fund sources in FY 2008. These savings are depicted within each department or agency.

Retiree Health Unfunded Liability and Recommended Changes in Eligibility and Co-Share

The Governor recommends that the state fund retiree health benefits on an actuarial basis and amortize the unfunded liability over a thirty year period. This funding mechanism will provide transparency with respect to the true cost of the benefit offered to state employees after employment. In compliance with GASB Statements 43 and 45, "Other Post Employment Benefits," in July 2007, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2005 was estimated to be approximately $534.3 million, including $427.3 million for State employees, $54.6 million for the Board of Governors, $32.2 million for State Police, $17.7 million for the State's share for teachers, $2.6 million for Legislators, and $68,000 for Judges. This was calculated using a long term investment rate of return of 8.25%. The annual required contribution as a percentage of payroll would be 5.46%, 2.81%, 20.06%, .015%, 14.61% and .09% respectively. The enacted FY 2008 budget does not include funding on an actuarial basis, but continues to provide funding for the pay-as-you go costs.

In order to address this unfunded liability and reduce the ongoing cost to the taxpayer, the Governor recommends modifying eligibility requirements and co-share percentages for retiree health. Employees retiring after June 30, 2008 would be eligible for retiree health coverage through the state if they are age 59 or over with a minimum of 20 years of service. Currently an employee with over 10 years of service as of July 1, 2005 is eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and is therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee must be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The Governor's proposal also modifies the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. Currently, early retirees pay a co-share based on years of service on the active employee rate. For employees over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan. The rate of payroll would be reduced from the actuarial required rate of 5.46% without any changes, to 3.86% with the proposed changes. According to the actuary, the rate of payroll charge under the current pay as you go system would be 3.28%. These changes are projected to save $6.1 million from general revenues and $9.8 from all funds in FY 2009.

Savings in Employee Medical Benefits

The Governor's recommendation utilizes a surplus generated in the health insurance fund to offset the costs of FY 2008 medical benefits. State agencies will not be charged for the cost of employees medical benefits for the last three pay periods in FY 2008. This is estimated to save $11.0 million from general revenues and $19.3 million from all fund sources, net of corresponding percent of premium co-share reductions. For FY 2009, the Governor's recommendation lowers the cost of budgeted medical insurance based upon current employee claims data adjusted for inflationary increases of 9.9 percent. This is estimated to save

$6.2 million from general revenue sources and $11.2 million from all fund sources compared to current service levels, which is a reduction of 6.5 percent.

Contract Employee Reductions

In FY 2008, the Governor began a comprehensive review of all contract employee positions in state government. A total of 657 positions were identified in the Executive Branch, and these positions were categorized to determine which positions should remain as contractors and which should be eliminated. Those positions that are either financed exclusively through a federal grant, highly technical, or on-call/intermittent were maintained as contract employees. A total of 193 positions, which comprised a full-time equivalent of 158.4 positions, were identified for elimination. This reduction is estimated to save $9.8 million from all sources of funds in FY 2009. Through the end of December 2007, 58 positions, equating to 50.6 FTEs, have been eliminated resulting in $2.8 million of savings.

Privatization of Dietary and Housekeeping Services

The Governor recommends the privatization of Housekeeping and dietary services at the Eleanor Slater Hospital and dietary services at the Veterans' Home in FY 2009, saving an estimated $4.8 million from all sources of funds, of which $2.5 million is from general revenues.

The Governor's recommendation includes the privatization of dietary services at the Pastore and Zambarano campuses of the Eleanor Slater Hospital. Currently, these services are performed in-house. There are 88.0 FTE positions involved in providing dietary services to the patients at Eleanor Slater Hospital. The total personnel costs associated with these positions in FY 2009 are projected at $5.5 million and the cost of food is $1.3 million. The cost to privatize this function is estimated at $2.1 million, which is derived by multiplying the industry estimate ($5.23) per meal by the total number of meals (410,734). It is estimated that privatization of dietary services in FY 2009 will save $3.5 million from all funds, of which $1.5 million is general revenues, net of unemployment benefits and medical severance costs.

The Governor recommends privatizing the housekeeping services at the Pastore and Zambarano campuses of the Eleanor Slater Hospital. Currently, these services are performed in-house. There are currently 67.0 FTE positions involved in providing housekeeping services to the patients at Eleanor Slater Hospital. The total personnel costs associated with these positions in FY 2009 are projected at $3.9 million. The cost to privatize this function is $2.4 million ($5.50 per cleanable square foot), as determined by a response to a Request for Proposals. It is estimated that privatization of housekeeping services in FY 2009 will save $578,833 from all funds, of which $260,475 is general revenues, net of unemployment benefits and medical severance costs.

The Governor recommends privatizing the dietary services at Rhode Island Veteran's Home. Currently, these services are performed in-house. There are 28.0 FTE positions involved in providing dietary services to the patients at the Veterans' Home. The total personnel costs associated with these positions in FY 2009 are projected at $1.8 million and the cost of food is $812,000. The cost to privatize this function is estimated at $1.5 million which is derived by multiplying the institution estimate ($5.40) per meal by the total number of meals (285,138). It is estimated that privatization of dietary services in FY 2009 will save $686,911 from general revenues.

Overview

Privatization of Corrections Functions

The Governor recommends the privatization of the following activities in the Department of Corrections:

The Governor recommends the privatization of the counseling and case management function. Currently this unit is responsible for the initial classification of inmates (gathering information to assess the risk factors involved in facility assignment), counseling inmates during periodic reclassifications and discipline board actions, counseling concerning good time and other information, and providing information to the Parole Board that enters into the grant of parole. The privatization would change the focus of the unit efforts to initial re-entry services by stressing case management and programming suited to individual inmates. The Department feels that there are several community-based agencies with specialized expertise in providing services, as well as providing a link in the community once the inmate is released. The Department proposes a staff reduction of 33.0 FTE's (27.0 adult counselors, 4.0 classification counselors, 1.0 counseling services coordinator, and 1.0 coordinator of education) with savings of $2.7 million, as well as contract services for counseling and case management services of $2.3 million, for a net savings of $451,247. The budget recommendation also includes $551,370 in unemployment and medical benefit severance costs, for a net additional cost of the proposal of $100,024.

The Governor recommends the issuance of a statewide master contract for dental services, eliminating the need for state employees. Currently a majority of dental services are provided by contracted community based suppliers. Savings from elimination of state employees of $542,498 would be offset by an estimated contract addition of $300,000 for such services. The budget recommendation also includes $100,249 in unemployment and medical benefit severance costs, for a net savings of the proposal of $142,249. This would affect 4.0 FTE's and 10 contract employees (6.0 dentists, 2.0 dental assistants, and 2.0 dental hygienists) would be affected.

The Governor recommends privatization of the Central Distribution Center (CDC). Currently the CDC is responsible for purchasing food staples, janitorial items, and other items for warehousing, and delivery to state agencies, distributing USDA commodities under the Emergency Food Assistance Program to local community action agencies, the Food Bank, soup kitchens, etc., and distributing USDA commodities under the school lunch program to local school districts. Because of increasing salary and benefit costs, the surcharge charged to other state agencies has increased. Despite position eliminations, the program has operated at a deficit for the past two years. Sales have also decreased as agencies seek more economical means of obtaining supplies. Alternative models in such states as Connecticut, Colorado, Oklahoma, Maryland, North Dakota, and Mississippi use private companies and direct distribution, rather than centralized warehousing. The recommendation involves a reduction of 14.0 FTEs in the Internal Service Fund program, as well as a reduction in merchandise purchasing and warehousing expenditures, a total of $6.1 million. The Governor's recommended budget includes $409,258 in general revenue operating savings to be achieved by contracting with a private firm to perform the warehousing function, which would reduce the surcharge on purchased goods. It is expected that savings would occur by reducing the surcharge on food items from 25 percent to 10 percent. Funding of $211,535 was added to the Internal Service Fund budget for unemployment and medical benefit severance costs.

Overview

Privatization of Davies and School for the Deaf Janitorial Services

The Governor recommends the privatization of all janitorial services at both the Davies Career and Technical School and the Rhode Island School for the Deaf. Currently there are 6.0 FTEs at Davies and 3.0 FTEs at Deaf that perform janitorial services, for a total personnel cost of $602,912. The cost to privatize these services is estimated at $358,696. Net of unemployment and medical severance costs, this proposal is estimated to save $122,839 from general revenues in FY 2009.

Capital Budget Calls for Limited New Debt Financing

Transportation and the environment continue to be high priorities of the Governor. The FY 2009 budget includes two proposed bond referenda for the November 2008 ballot. These are a $35.0 million referendum for open space, farmland preservation, recreational development, and Narragansett Bay and Watershed Restoration and an $87.2 million referendum for transportation, including commuter rail and RIPTA buses.

Due to the current fiscal environment facing the state, the Governor has chosen to significantly limit the number and amount of bond referenda this year. The capital improvement plan includes several new bond initiatives, particularly in higher education, that would be proposed for inclusion on the November 2010 ballot.

The Governor is also requesting approval for two new Certificates of Participation issuances in FY 2009. The first would authorize $23.9 million in debt to renovate two buildings at the Pastore Government Center, one for use as office space by human services agencies and the other for use by the Registry of Motor Vehicles as their new headquarters. Once completed, the state will save significant funding due to the elimination of outside rental costs.

The second request is for a $52.0 debt issuance to fund energy conservation projects at both the Pastore Government Center and the Zambarano Campus of the Eleanor Slater Hospital. These projects, once completed, will result in significant reductions in energy use and thereby expenditure savings more than sufficient to cover the debt service costs. To undertake these projects, the State will enter into a contract with an energy services company that will guarantee the savings over the term of the debt issuance.

The Economy

Introduction

The Consensus Revenue Estimating Conference (REC) convenes at least twice each year, typically within the first ten days of May and November. Historically, the purpose of the conference was confined to forecasting current and budget year revenue estimates. During the 1998 legislative session, the Revenue Estimating Conference statutes were modified to also require the adoption of a consensus economic forecast. Prior to the November 2001 conference, the conferees adopted a forecast for Rhode Island total employment, Rhode Island personal income, and the U.S. consumer price index for all urban consumers (CPI-U) covering the state's prior fiscal year, its current fiscal year, and the budget year.

In 2001 the Rhode Island Division of Taxation procured an updated personal income tax simulation model. This acquisition required that additional economic variables be forecasted at the Revenue Estimating Conferences beginning with the November 2001 conference. Thus, in addition to Rhode Island total employment, Rhode Island personal income and the U.S. CPI-U, forecasts for Rhode Island wage and salary income, Rhode Island farm income, Rhode Island non-farm business income, Rhode Island dividends, interest and rent, Rhode Island total transfer payments, the Rhode Island unemployment rate, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills are also agreed upon at the Revenue Estimating Conference. Finally, the consensus forecast of these economic variables now includes the prior calendar and fiscal years, the current calendar and fiscal years, the budget calendar and fiscal years, and the next seven calendar and fiscal years.

ECONOMIC FORECAST

This section describes the economic forecast used as input for the Revenue Estimating Conference's consensus revenue estimates.

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During its November 2007 meeting, forecasts were presented by Moody's Economy.com and Global Insight. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends.

As reported at the November 2007 Revenue Estimating Conference, Rhode Island's labor market continues to display a shift from a manufacturing to a service based economy resulting in a gradual and positive rate of employment growth. The Rhode Island Department of Labor and Training reported that the unemployment rate rose slightly through the third quarter of CY 2007. Rhode Island's total unemployment has consistently been below last year's unemployment figures through the three quarters of CY 2007. Rhode Island's unemployment rate remained above the national average for the fifth straight month in September 2007. Between September 2006 and September 2007, employment gains were made overall (+5,300) and in the following sectors: Leisure and Hospitality (+1,200); Professional and Business Services (+1,800); Educational & Health Services (+1,600); Construction (+1,100); Other Services (+400); Financial Activities (+200); and Information (+100). The sectors experiencing year-over-year losses were Manufacturing (-1,400); Government (-700); and Trade, Transportation & Utilities (-100). At the November 2007 Revenue Estimating Conference, fiscal year forecasts for the following economic variables were agreed upon (all measures are for Rhode Island unless otherwise noted): total employment, total personal income, wage and salary income, dividends, interest and rent, the unemployment rate, the U.S. consumer price index, the interest rate for ten year

U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills. Furthermore, the forecast of these economic variables includes the relevant calendar years and covers the period from 2008 through 2013.

The principals agreed that total non-farm employment would grow from 496.1 thousand jobs in FY 2007 to 501.2 thousand jobs in FY 2008 and 506.2 thousand jobs in FY 2009. This gain of approximately 5,050 jobs in FY 2008 is about 1,283 more than forecasted in May 2007. In addition, the November 2007 REC forecasted job growth in FY 2009 of approximately 5,050 jobs, or 1.0 percent growth, is about 800 more than forecasted in May 2007. Further, forecasted job growth for FY 2010 of 5,300 jobs, or 1.1 percent, is 500 jobs more than forecasted in May 2007. The adopted growth rates for non-farm employment from FY 2011 and FY 2012 of 4,300 and 3,900 represent a revision downward from the May 2007 Conference estimates of 5,100 jobs, or 1.0 percent growth and 5,100 jobs, or 1.0 percent growth, respectively. In November 2007, FY 2013 non-farm employment was estimated, for the first time, at the rate of 0.8 percent, or 3,900 jobs. This employment refers to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

In addition, Rhode Island's unemployment rate is forecasted to increase to 4.9 percent in FY 2008 from 4.8 percent in FY 2007 and then remain at its steady state equilibrium at 5.0 percent for the period through FY 2013.

The November 2007 Conference forecasted that personal income peaked in FY 2007 and will slow through FY 2009 before accelerating in FY 2010 followed by a trailing off through FY 2013. The November 2007 Conference estimates for personal income growth represented an upward revision in FY 2008 from 4.5 percent growth to 4.9 percent growth followed by downward revisions through 2012, averaging 4.3 percent growth for the FY 2009 through FY 2012 period down from an average of 4.8 percent growth. Like non-farm employment growth, personal income growth is expected to jump from 4.3 percent in FY 2009 to 4.5 percent growth in FY 2010 followed by a slowing trend. In FY 2009 personal income growth is expected to grow at a rate of 4.3 percent. The new consensus estimate for FY 2013 is 4.2 percent growth, consistent with the principals' FY 2012 consensus estimate of 4.2 percent personal income growth.

The November 2007 Conference forecasts consumer price inflation to slow to 2.4 percent in FY 2008 from 2.6 percent in FY 2007, bottom out at the trough with 1.9 percent growth in FY 2009, before climbing back to 2.0 percent growth in both FY 2010 and FY 2011, rising further to 2.1 in FY 2012 and FY 2013. The average CPI is 2.1 percent for the six year fiscal period from FY 2008 through FY 2013. Testimony provided by Moody's Economy.com and Global Insight indicated that should oil prices remain in the $90 plus per barrel price range for longer than anticipated, there could be an impact on consumer goods prices that rely on oil as an input or in transport costs.

The consensus economic forecast for the fiscal years 2008 to 2013 agreed upon by the conferees at the November 2007 Revenue Estimating Conference is shown in the following table. This consensus economic forecast reflects the belief that the employment and income growth will remain slow but positive while the unemployment rate remains steady through FY 2013, with lower paying jobs as well as moderating consumer prices which will maintain moderate economic growth in Rhode Island with the regional risk of the positive impacts from continued job creation diminished by lower pay as well as nationwide risk from oil price, financial market, and credit market uncertainty.

The Economy

The November 2007 Consensus Economic Forecast						
Rates of Growth	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Total Employment	1.0%	1.0%	1.1%	0.9%	0.8%	0.8%
Personal Income	4.9%	4.3%	4.5%	4.3%	4.2%	4.2%
Wage and Salary Income	4.5%	3.7%	4.0%	3.9%	3.8%	3.7%
Dividends, Interest and Rent	6.5%	6.1%	6.4%	6.0%	5.4%	4.9%
Nominal Levels						
U.S. CPI-U	2.4%	1.9%	2.0%	2.0%	2.1%	2.1%
Unemployment Rate	4.9%	5.0%	5.0%	5.0%	5.0%	5.0%
Ten Year Treasury Notes	5.0%	5.3%	5.5%	5.5%	5.5%	5.5%
Three Month Treasury Bills	4.3%	4.3%	4.6%	4.6%	4.5%	4.5%

General Revenues

Introduction

The Governor's recommended budget is based on estimated general revenues of $3.440 billion in FY 2008 and $3.347 billion in FY 2009. Annual estimated growth during FY 2008 and FY 2009 is 6.5 percent and −2.7 percent, respectively. Estimated deposits of $68.8 million and $73.7 million will be made to the Budget Reserve and Cash Stabilization Fund during these fiscal years. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 98 percent of estimated revenues in FY 2008 and 97.8 percent of estimated revenues in FY 2009. The revenue estimates contained in the Governor's FY 2008 supplemental and FY 2009 recommended budgets are predicated upon the revenue estimates adopted at the November 2007 Consensus Revenue Estimating Conference (REC) and the Governor's recommended changes to the adopted general revenues.

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

FY 2008 Revised Revenues

The November 2007 REC revised the enacted FY 2008 revenue estimate down by $113.3 million, a decrease of 3.3 percent. As shown in the *General Revenue Changes to Adopted Estimates* table in Appendix A of this document, the Governor's revised FY 2008 budget recommends an increase of $80.6 million in revenues. This $80.6 million in recommended changes to the FY 2008 adopted estimates breaks down as follows:

- $26.0 million from repayment from RI Housing and Mortgage Finance Corporation for expenditures related to the Neighborhood Opportunities Program;
- $24.8 million in various taxes (primarily Personal Income Tax) from capping the usage of Historic Structure Tax Credits at $20.0 million;
- $14.7 million resulting from advancing the Eleanor Slater Uncompensated Care Distribution;
- $5.2 million from adjusting the November Revenue Estimating Conference Business Corporations Tax estimate to avoid double counting the FY 2007 audit adjustment for APC ;
- $5.0 million transfer from the RI Resource Recovery ;
- $2.0 million transfer from the available cash in the Underground Storage Tank (UST) Replacement Fund;
- $1.3 million from transferring the available cash in the Correctional Industries Fund;
- $700,000 for the payment resulting from the Medical Malpractice suit decision;
- $323,976 from transferring the available cash from the Refunding Bond Authority;
- $300,000 from increasing the grant from RI Housing and Mortgage Finance Corporation for providing emergency housing assistance vouchers to eligible clients;

- $275,000 for requiring fees be paid for Traffic Tribunal court costs equal to the amount of the fine assessed in lieu of the fine assessed when the violation is dismissed for a good driving record; and
- $87,500 from fines associated with prohibiting handheld mobile telephone use while driving.

FY 2008 Revised Revenues vs. FY 2007 Unaudited Revenues

Recommended revenues for FY 2008 are based upon a $228.7 million increase in total general revenues over unaudited FY 2007, or growth of 6.5 percent. The largest contributing factor to this increase is the securitization of tobacco settlement proceeds which resulted in general revenues of $42.5 million in FY 2007 and $124.0 million in FY 2008, an increase of $81.5 million. About half of the tax categories are expected to exhibit increased collections. The increases can be found in Personal Income Taxes, Business Corporate Taxes, Public Utilities Gross Earnings Taxes, Insurance Companies Gross Earnings Taxes, Bank Deposit Taxes, the Health Care Provider Assessment, and Alcohol Taxes.

Personal Income Tax collections are forecasted to increase by $4.1 million, or 0.4 percent, due to increased income tax withholding payments of $13.4 million. This increase is largely offset by expected decreases in estimated payments of $7.9 million, final tax payments of $614,790, and increased income tax refund payments of $1.0 million. The revenue gains in personal income tax collections are reduced due to the utilization of the State's Historic Structures Tax Credit (HSTC) program. The HSTC program is estimated to cost the State $38.8 million in personal income tax revenues in FY 2008. The increased Investment Tax Credit (ITC) and Research and Development (R&D) Tax Credits also continue to impact tax collections in FY 2007, as individuals and businesses continue to reap the benefits of an improved tax structure in Rhode Island. Personal income taxes are expected to comprise 31.1 percent of all general revenues collected in FY 2008 and total $1.070 billion.

General Business Tax collections are projected to increase by $34.6 million, due primarily to increases in Insurance Companies taxes of $17.5 million and Business Corporations taxes of $15.4 million. The estimated increase in Business Corporations taxes is mainly due to the estimated $8.3 million in anticipated revenues from including deductible interest expenses and costs and intangible expenses and costs as net income enacted in the 2007 session and $3.5 million anticipated from including gross sales of tangible personal property shipped out of Rhode Island to a state where the taxpayer is not taxable as now taxable enacted in the 2007 session. Insurance Companies taxes are anticipated to generate $74.1 million in FY 2008. The increase in Insurance Companies taxes is mainly due to the expected $15.2 million from the tax on insurance companies to provide for a 1.1 percent gross premium tax on health maintenance organizations, any non-profit hospital or medical service corporations, excluding any business related to Title XIX of the Social Security Act enacted in the 2007 session. Both Business Corporations and the Insurance Companies taxes are impacted by the Historic Structures Tax Credit program. The estimated foregone revenue in Business Corporations taxes is $1.8 million in FY 2008. For Insurance Companies taxes, an estimated $3.8 million less in collections is due to the HSTC program. Public Utilities Gross Earnings taxes are expected to generate $104.0 million in FY 2008. The Health Care Provider Assessment is estimated to yield $52.3 million in FY 2008, an increase of $4.3 million over the $48.0 million collected in audited FY 2007. The Financial Institutions Tax is projected to decrease by $4.5 million in FY 2008 to ─$100,000.

Sales and Use tax collections are forecasted to decrease by $8.2 million or ─0.9 percent over audited FY 2007 collections. Sales and Use taxes represent 25.1 percent of total general revenues in FY 2008.

General Revenues

The strength in sales and use tax collections in Rhode Island is very dependent on the State's housing market. In prior fiscal years, historically low long-term interest rates and multiple rounds of mortgage refinancings by homeowners had made available a significant source of income that was used to remodel primary residences, purchase appliances, and retire personal debt. From the State's perspective, the distribution of this consumption activity is vital, as most of the spending had been concentrated on items that are subject to the 7.0 percent state sales tax. As long-term interest rates began to rise, the State's housing sector cooled substantially and this reduced housing sector activity has slowed the rate of growth in the sales and use tax collections. For FY 2008 sales and use tax collections are projected to be $865.0 million.

Excise Taxes other than the sales and use tax are expected to decrease by $3.6 million in FY 2008. Motor vehicle operators license and vehicle registration fees are expected to reach $44.5 million in FY 2008, a decrease of 5.1 percent from FY 2007 collections. The Motor Fuel tax estimate of $1.2 million is 8.5 percent lower than FY 2007 collections. The revised FY 2008 Cigarette Tax estimate of $119.1 million represents a 1.1 percent decrease over FY 2007 collections. Cigarette Tax collections are expected to decrease by $1.4 million. The State did not change its cigarette excise tax in FY 2007. The cigarette floor stock tax is a one-time revenue that occurs only when the State's cigarette excise tax is increased. No increase in the State's cigarette excise tax was enacted in FY 2007 or FY 2008. As a result, no cigarette floor stock taxes were collected.

Other Taxes are expected to decrease $6.0 million in FY 2008 relative to audited FY 2007. Of the total decrease in Other Taxes, Inheritance and Racing and Athletics tax collections constitute a $121,166 decrease, the Realty Transfer tax constitutes a $1.3 million decrease, and Inheritance and Gift Taxes are expected to yield $4.6 million less in FY 2008 than in audited FY 2007, with estimated collections of $30.1 million. This expected decrease in Inheritance and Gift Tax collections is due to the nature of the tax itself, which can be affected markedly by the passing of a single wealthy taxpayer. Racing and Athletic Taxes are expected to continue their downward trend in FY 2008 totaling $2.8 million, a decrease of 4.1 percent from FY 2007 levels. Realty Transfer Taxes are expected to total $11.4 million in FY 2008, a decrease of 10.5 percent from audited FY 2007 collections.

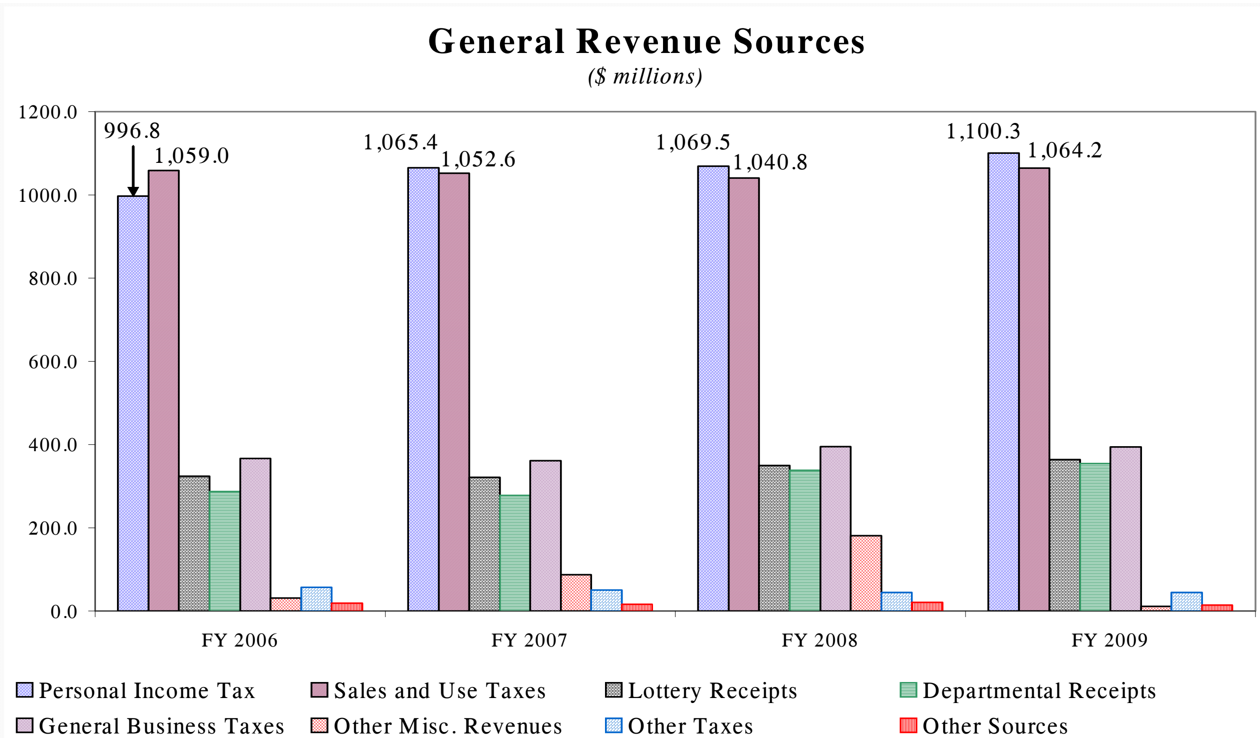
In the Governor's FY 2008 supplemental budget, Departmental Receipts are estimated at $338.8 million, an increase of $61.0 million from audited FY 2007 collections, or 22.0 percent.

In addition to the above general revenue components, increases are forecasted in FY 2008 for the Other Miscellaneous general revenue category, the Unclaimed Property Transfer to the general fund, and the Lottery transfer to the general fund whereas the Gas Tax Transfer to the general fund is forecasted to decrease in FY 2008. In the case of the Gas Tax Transfer, a decrease of $19,602 is forecasted.

In the case of the Lottery Transfer, an increase of $28.5 million to $349.5 million is projected for FY 2008. It is an increase of 8.9 percent from the audited FY 2007 transfer. This increase is attributable primarily to the year-to-date experience of quickening growth in video lottery net terminal and may also possibly be affected by the completion of construction at the Twin Rivers (formerly Lincoln Park) gambling facility as the new owners have refurbished and revamped much of the facility.

In the case of Other Miscellaneous general revenues, a $94.3 million increase to $181.2 million is projected. For FY 2008, Other Miscellaneous revenues are expected to make up 5.3 percent of recommended general revenues. FY 2007 Other Miscellaneous revenues include a proposed adjustment of $19.4 million for the transfer from the Budget Reserve Fund needed to close final FY 2007 with a balanced budget, particularly in light of the proposed audit adjustment to reflect a $19.0 million liability for Financial Institutions Taxes.

The chart below shows the sources of general revenues for the period FY 2006 – FY 2009. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.



FY 2009 Proposed Revenues

The Governor's recommended FY 2009 budget estimates general revenues of $3.347 billion, a decrease of 2.7 percent from the revised FY 2008 level. The Governor's recommendation is comprised of $3.193 billion of revenue estimated at the November 2007 Revenue Estimating Conference and $154.2 million of changes to the adopted estimates. These changes are shown in the schedule *General Revenue Changes to Adopted Estimates* located in Appendix A of this document.

The largest source of FY 2009 general revenues is the Personal Income Tax, with estimated receipts of $1.100 billion, $18.2 million more than the November 2007 REC estimate for FY 2009. Personal Income Taxes are expected to comprise 32.9 percent of total general revenues in FY 2009. The $18.2 million increase over the adopted estimate in Personal Income Tax collections is due to the Governor's proposal to limit taxpayer usage of the Historic Structures Tax Credit to $40.0 million. It should be noted that the Budget Office estimates that the FY 2009 Personal Income Tax estimate adopted at the November 2007 REC incorporated $52.9 million in revenue lost to the Historic Structures Tax Credit (HSTC) program. Relative to the revised FY 2008 budget, recommended FY 2009 Personal Income Taxes are $30.8 million greater, a growth rate of 2.9 percent.

General Revenues

Sales and Use Tax collections are expected to total $888.4 million in FY 2009, or no change from the FY 2009 estimate agreed upon at the November 2007 Revenue Estimating Conference. The Governor's FY 2009 recommended estimate signifies growth of 2.7 percent over the FY 2008 revised estimate. Sales and Use Taxes are anticipated to contribute 26.5 percent to total general revenues in FY 2009.

Motor Vehicle operator license and vehicle registration fees are forecasted to equal $46.3 million in FY 2009, a decrease of $132,452 from the November 2007 REC estimate. This decrease is the result of the Governor's proposal to pay the refunds for the Unified Carrier Registration Act (UCRA) out of general revenue receipts rather than through a restricted receipt account. Motor Carrier Fuel Use Taxes are estimated to reach $1.2 million in FY 2009, the same as the November 2007 REC estimate. The other components of excise taxes, namely Cigarettes Taxes and Alcohol Taxes, remain at the levels adopted by the conferees of the November 2007 Revenue Estimating Conference. Cigarettes Taxes are estimated to decline by $1.8 million, or 1.5 percent, from the revised FY 2008 estimate. This decrease is a result of the estimated drop in cigarette consumption. Alcohol Tax revenues, however, are projected to remain unchanged in FY 2009 from the revised FY 2008 estimate.

General Business taxes represent 11.8 percent of total general revenue collections in the FY 2009 budget year. Business Corporation Tax revenues are expected to yield $160.3 million, an increase of 0.2 percent, or $300,000 from the FY 2009 estimate agreed to at the November 2007 REC. This increase is the result of the Governor's previously referenced proposal to cap usage of Historic Structures Tax Credit which is expected to increase Business Corporations Tax collections by $300,000. Business Corporations Tax collections are projected to be 2.0 percent lower than the revised FY 2008 estimate. The FY 2009 Business Corporations Tax estimate includes a Budget Office estimate of $2.5 million in revenues lost to the use of Historic Structures Tax Credits by corporate income tax filers. Business Corporations taxes are expected to constitute 4.8 percent of total general revenues in FY 2009.

Bank Deposits Taxes are estimated at the levels adopted at the November 2007 Revenue Estimating Conference. Health Care Provider Assessments are estimated to be $275,000 lower than the levels adopted at the November 2007 Revenue Estimating Conference as a result of the Governor's proposal to reduce reimbursements to the nursing home labor cost center principles payments to nursing homes by $5.0 million which will result in a corresponding decrease in the Nursing Home Tax of 5.5 percent of gross revenues. Insurance Premiums Taxes are estimated to be $75.1 million in FY 2009 and are forecasted to be 1.3 percent higher than in the revised FY 2008 budget. They will comprise 2.2 percent of total general revenues in FY 2009. Recommended Insurance Premiums Taxes are higher than the November 2007 REC estimate by $2.1 million as a result of the previously referenced Historic Structures Tax Credit buyback program. The Budget Office estimates that the FY 2009 Insurance Premiums Taxes will be reduced by $5.2 million as a result of the use of Historic Structures Tax Credits. This estimated revenue loss is included in the November 2007 REC estimate for Insurance Premiums taxes. Financial Institution Taxes are estimated at $19.4 million more than adopted levels for FY 2009. The Governor's proposed Historic Structures Tax Credit buyback program is expected to recover $400,000 in Financial Institution Taxes. Further, the Governor has recommended adjusting the November 2007 REC FY 2009 estimate by $19.0 million to account for the proposed audit adjustment to FY 2007. The Department testified that a Financial Institutions taxpayer overpaid their taxes by $19.0 million as testified to at the November 2007 REC by the Department of Taxation. The principals of the conference recorded the liability in FY 2009 based upon the Department's testimony that the taxpayer intended to request a refund in FY 2009, however the Auditor General has proposed to record the refund as a liability against the year in which the overpayment was made. Finally, the Public Utilities Gross Earnings Taxes remain unchanged from the November 2007 REC estimate of $104.0 million which comprises 3.1 percent of general revenues.

Inheritance and Gift Taxes are projected to reach $30.1 million in FY 2009; no change from the level adopted at the November 2007 Revenue Estimating Conference. Realty Transfer Taxes are also estimated at the same level adopted at the November 2007 Revenue Estimating Conference. Thus, Realty Transfer Taxes are expected to grow 2.6 percent from their revised FY 2008 levels, with anticipated collections of $11.7 million. Racing and Athletics Taxes are also estimated at the level adopted at the November 2007 REC. This estimate represents a decline of $200,000, or –7.1 percent, from the revised FY 2008 estimate. Total Racing and Athletics Taxes projected in FY 2009 is $2.6 million. The total of Other Taxes is 1.3 percent of total general revenues in FY 2009.

FY 2009 departmental receipts are expected to generate $15.8 million more than the revised FY 2008 budget. Including all of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $354.6 million in FY 2009, or 10.6 percent of total general revenues. In the licenses and fees category of departmental receipts, $111.3 million is expected as a result of the Governor's proposals. Most of this increase is attributable to the hospital licensing fee. The Governor recommends that the hospital licensing fee be reinstated for one year yielding $78.0 million in FY 2009 in addition to increasing the rate of assessment to 4.94 percent which will yield another $32.7 million. The FY 2009 recommended departmental revenues figure includes the following proposals:

- $78.0 million from reinstituting the Hospital Licensing Fee;
- $32.7 million from increasing the Hospital Licensing Fee rate of assessment to 4.94 percent;
- $1.1 million from requiring court costs equivalent to fine amounts for good driving dismissals;
- $611,919 for charging a permitting fee on cases of bottled water;
- $350,000 (approximately) for fines derived from driving while using mobile phone violations;
- $300,000 million in RI Housing and Mortgage Financing Corporation grants;
- $275,868 from increased Community Corrections fees;
- $1.3 million resulting from licensing mortgage loan originators;
- $100,000 in cost recoveries from proposed restricted receipt accounts for the Energy Office;
- a decrease of $11,900 from discontinuing licensing of massage parlors;
- a decrease of $275,000 from replacing the writ service with constable service;
- a decrease of $1.7 million for converting the newborn hearing and screening fees to restricted receipts; and
- a decrease of $2.1 million for converting the demand side energy grant to restricted receipts.

The Other Sources component total of $389.3 million in FY 2009 represents a decrease of 29.4 percent, or $162.1 million, compared to the revised revenue estimate for FY 2008. The change in other sources of revenue affects only the Other Miscellaneous Revenues.

The Governor's recommended FY 2009 budget for Other Miscellaneous Revenues is $170.0 million lower than the revised FY 2008 level, a decrease of 93.8 percent. This decrease is due in large part to the inclusion of tobacco securitization proceeds worth $124.0 million in FY 2008 that do not repeat in FY 2009. Other Miscellaneous Revenues are anticipated to be $11.3 million in FY 2009, amounting to 0.3 percent of all general revenues.

General Revenues

Within the Gas Tax Transfer component, the Governor's FY 2009 budget shows no change from the revised FY 2008 level. The Gas Tax Transfer is expected to total $4.7 million, comprising 0.1 percent of total general revenues in FY 2009.

Within the Lottery category, the recommended FY 2009 budget is $14.4 million greater than the revised FY 2008 budget, an increase of 4.1 percent. The Governor recommends no changes from the November 2007 REC estimate for Lottery. In FY 2009, the Lottery Transfer is expected to be $363.9 million and comprise 10.9 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. In FY 2009, this transfer is expected to decrease by $6.6 million, or 41.3 percent, from the revised FY 2008 estimate. The source of this decrease is primarily due to the nonrecurring demutualization of FY 2008. The Unclaimed Property transfer is projected to be $9.4 million in FY 2009, and comprise 0.3 percent of all general revenues.

All Sources

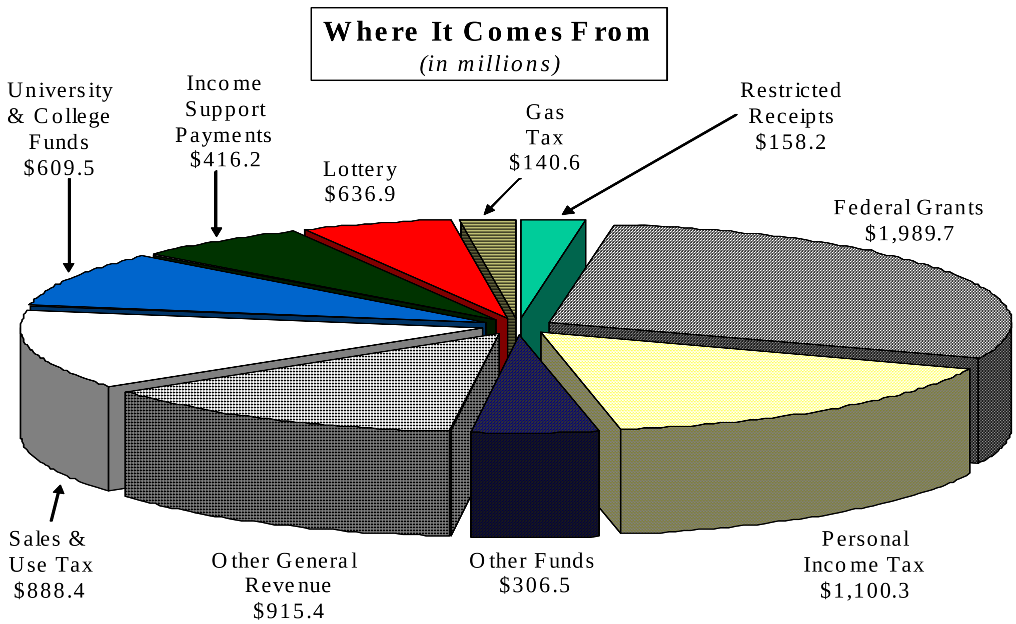
The total budget of $6,888.8 million includes all sources of funds from which state agencies make expenditures.

Federal funds represent 28.9 percent of all funds. Over 69.0 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales and Use Taxes combined represent 28.9 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 8.8 percent, and 6.0 percent of the total, respectively.

Remaining sources include: Other General Revenues (13.3 percent); Gas Tax Revenues (2.0 percent); Lottery Transfers (5.3 percent); Restricted Receipts (2.3 percent); and Other Funds (4.4 percent).



All Expenditures

Approximately sixty-seven percent of all expenditures are for human services and education programs. The budgets for the human service agencies total $2.613 billion, or approximately thirty-eight percent of all expenditures. These programs constitute the state's safety net.

Education expenditures comprise approximately twenty-nine percent of total expenditures, or $1.985 billion. Of this total, $1.051 billion represents funding for aid to local units of government. This is approximately fifty-three percent of all education expenditures, including higher education.

Approximately thirty-five percent of the $1.373 billion expended for general government is for grants and benefits to individuals. Most of these expenditures are for employment and training services or programs, including unemployment compensation.

Transportation expenditures comprise five percent of the total budget and include funds for public transportation, as well as highway, road and bridge expenditures.

In total, expenditures from all funds are recommended to decrease by 5.8 percent from the revised FY 2008 budget.