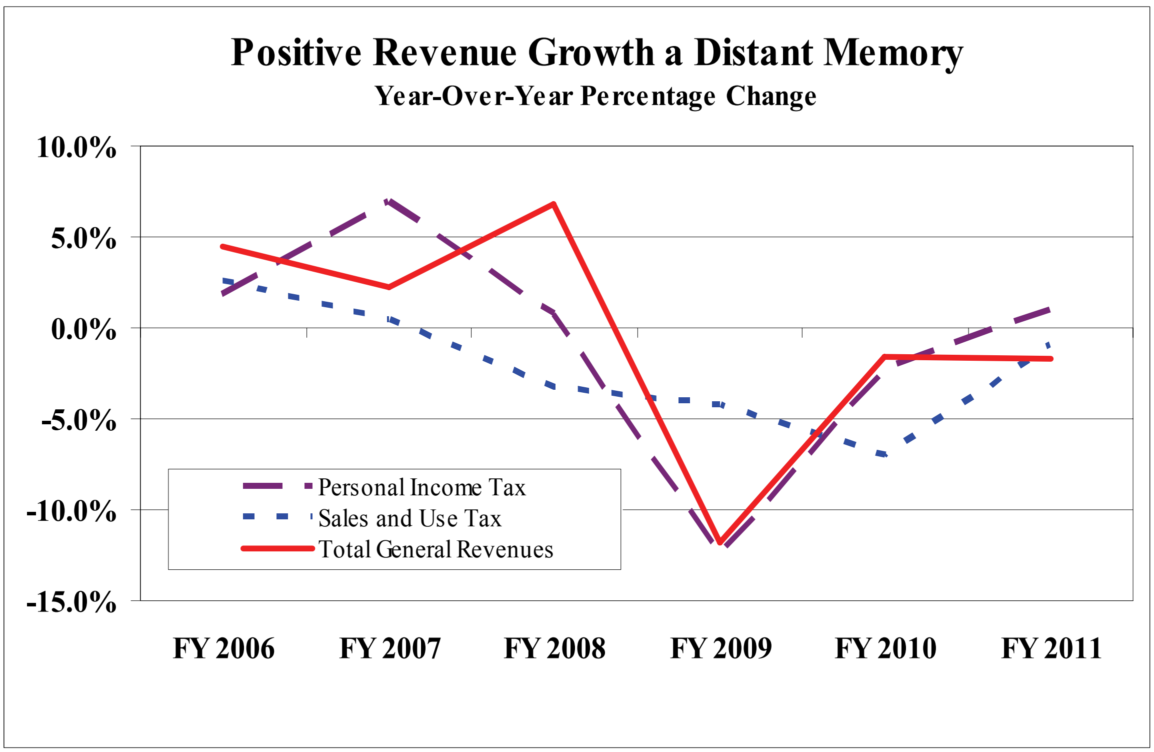
Overview

Rhode Island's Situation is Serious

The nation is feeling the effects of the "Great Recession", the worst economic downturn since the Great Depression. The impact on the State of Rhode Island has been severe, with over 73,500 Rhode Islanders unemployed. Through December 2009, Rhode Island had a net loss of 42,500 jobs from January 2007, the peak of employment in Rhode Island. The jobless rate peaked at 13.0 percent in September and the State currently ranks third in the nation with a 12.9 percent rate of unemployment as of December 2010. The State has depleted the resources it set aside to pay unemployment benefits and is now borrowing from the Federal Trust Fund to make benefit payments to unemployed Rhode Islanders.

The impact of the high level of unemployment has translated into a sharp decline in tax receipts to the State, as less personal income taxes are received from employers through withholding taxes, and taxpayers transmit lower estimated and final payments, but request larger refunds. Personal income taxes are estimated to be $919.2 million in FY 2010 and $927.7 million in FY 2011. This level of personal income tax revenues is $145.9 million less than the peak level of receipts collected in FY 2007 and is only slightly more than what was collected in FY 2004. Uncertainty about the economic future and the contraction of the state's housing market has caused Rhode Islanders to pull back on spending and impacted the State's second largest income stream, the sales and use tax. Sales tax receipts are estimated to be $751.0 million in FY 2010 and $743.7 million in FY 2011. This is $129.5 million less than the peak level of receipts collected in FY 2007 and is approximately what was collected in FY 2002. The business corporations tax, which peaked in FY 2006 at $165.1 million are estimated at $94.1 million in FY 2010 and $85.7 million in FY 2011. Rhode Island's estimated general revenue receipts in FY 2010 and FY 2011 are estimated to be $2.976 billion and $2.927 billion respectively. This is less than the amount which was available in FY 2005.



Overview

Small Business Jobs Growth Initiative

The Governor's recommended FY 2011 budget includes several tax provisions that are intended to provide tax relief to small businesses and reduce the cost of hiring new employees. The Governor recommends the reduction of the State's corporate/franchise minimum tax from $500 to $250. The corporate/franchise minimum tax is paid by businesses organized as subchapter S corporations (S Corps), limited liability companies (LLCs), and subchapter C corporations (C Corps). This tax is paid without regard to whether the business made a profit during the year. Given the severity of the economic downturn in Rhode Island, many small businesses, most of which are organized as S Corps and LLCs, have been hard pressed to turn a profit. The lowering of the minimum corporate/franchise tax to $250 will provide some tax relief to Rhode Island's struggling small businesses and reduce the cost of doing business in the state. The FY 2011 recommended budget includes a revenue loss of $11.5 million as a result of this initiative.

The Governor also proposes the implementation of the Small Business Jobs Growth Tax Credit. This initiative will allow businesses with between 5 and 100 employees in Rhode Island but no more than 200 employees worldwide a tax credit equal to $2,000 per new full-time employee hired provided that the new employee had collected unemployment, received Temporary Assistance to Needy Families payments and/or graduated from a university, college, or technical school at anytime in the last 24 months. The new full-time employee must work at least 30 hours per week, earn at least 250.0 percent of the state's minimum wage in effect when the new employee was hired, and be eligible for employer provided health insurance benefits. The tax credit is intended to offset the unemployment insurance costs incurred by a small business when it hires a new employee. The tax credit is in effect for the July 1, 2010 to December 31, 2011 period and requires that the qualifying small business retain the newly hired employee for 18 consecutive months and have total employment after 18 months that is greater than the company's total employment prior to qualifying for the tax credit. The FY 2011 recommended budget includes foregone revenue of $10.0 million in recognition of the expected 5,000 new hires that will be induced by the tax credit.

No Increases In Broad-Based Taxes – Reductions In Expenditures

The Governor's recommended budget reflects no increases in broad-based taxes and continues to hold the line on state spending. General revenue funding for personnel costs in the FY 2011 Budget are projected to be $797.3 million. This is only $7.5 million higher than the level of spending in FY 2006 of $789.8 million. This is the result of fewer FTE positions, increased medical insurance co-shares, and concessions negotiated with employees for pay reduction days and deferral of cost-of-living increases. Operating expenses are recommended at $141.4 million, $31.1 million less than the peak in FY 2006. Assistance, grants and benefits are recommended at $838.7 million in FY 2011, or $1,043.8 billion after adjusting for the impact of the enhanced federal Medicaid funds under the American Recovery and Reinvestment Act of 2009 (ARRA). This is $37.0 million less than the $1.080 billion spent in FY 2008. Aid to local government is recommended at $838.7 million in FY 2011, or $865.3 million after adjusting for the impact of stabilization funds under ARRA. This is $243 million less than the $1.108 billion spent in FY 2008. With significant cuts in local aid, it is imperative that local governments take action to reduce their own operating expenses. The Governor's Supplemental FY 2010 Budget included legislative changes to help the cities and towns reduce spending. The Governor proposes a major restructuring of state government which will better position the State for FY 2012 and thereafter when federal stimulus drops off. The FY 2011 Budget assumes that the enhanced Medicaid match component of the federal stimulus program will be extended through June 30, 2011. While this may provided $95 million of much needed relief, it makes the “cliff” effect greater in FY 2012. The outyear forecast assumes a long slow recovery, so the FY 2012 projected deficit is large.

Although the five-year financial projection shows serious deficits in FY 2012 and beyond, the proposals contained in the Governor’s recommended FY 2011 Budget do not worsen the long-term projections. The deferral of the repayment of the $22.0 million to the RI Capital Plan Fund is a non-recurring expenditure in FY 2012. In the FY2011 Budget, the Governor has addressed two significant threats to the State’s financial health and future structural balance. The Governor recommends pension reform which reduces the benefit levels by eliminating the automatic cost of increase, and provides funding for the annual required contribution based upon the existing amortization schedule. For pension systems, GASB 25 requires that plans calculate an Annual Required Contribution (ARC) which must include a payment to amortize the unfunded actuarial accrued liability (UAAL). This amortization payment must be computed using a funding period no greater than 30 years. The amortization period for State Employees and Teachers was established as 30 years as of June 30, 1999. Therefore, there are 21 years remaining as of June 30, 2008. The period and amortization method comply with the requirements of GASB 25.

The Governor recommends also recommends funding the retiree health plans on an actuarial basis for the first time in FY2011. The rising cost of health care has been a cause of concern to both individuals and employers who sponsor health care plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their other post employment benefits (OPEB) plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988, the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee’s working lifetime but paid out at a future date. In the GASB’s view, accounting for OPEB should follow the same basic principle as accounting for public plan pension costs. These benefits are compensation for employees’ services and should be accounted for during the period of time that services are performed. Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years. The contribution rates included in the recommended budget include amortization of the unfunded actuarial accrued liability over 8 years for Teachers and 29 years for all other groups.

The proposal to fund retiree health on an actuarial basis recognizes this liability now, as opposed to deferring it to future years. The pension reform included in the FY 2010 Supplemental Appropriations Act would provide structural relief for the long term, and also does not defer funding of liabilities.

Time of Great Opportunity

As dismal as the current situation appears, this challenging time can also be viewed as a period of great opportunity. The strain being felt by many Rhode Islanders has caused leaders to examine state and local government more critically to see if all of the services provided are needed and, if so, if there are more cost-effective ways to provide the necessary services.

Overview

Governor Proposes Legislative Changes to Help Local Governments Achieve Savings

The recommended FY 2010 and FY 2011 budgets reduce local aid and education aid. The Governor again recommends a legislative package to provide local governments with the tools to rebuild budgets that are affordable for their taxpayers. The supplemental budget bill contains the following articles to address the present budget challenges for local governments which will help them build budgets that are affordable for their taxpayers.

- **Relating to Motor Vehicle Reimbursements – Article 2**

  This article suspends payments to municipalities for reimbursement of the state $6,000 exemption on the motor vehicle excise tax. The article also provides a procedure by which municipalities may choose to levy a supplemental tax to recover the revenues lost as a result of the suspended state payments.

- **Relating to Education Aid – Article 9**

  This article, while reducing education aid, also provides for a suspension of the Carrulo process and authorizes the creation of a three member panel to oversee a corrective action plan to resolve education budget issues. The article also requires that city and town councils approve collective bargaining agreements for all school employees.

- **Relating to Police Officers and Firefighters – Injured on Duty - Article 12**

  This article limits injured-on-duty compensation for municipal police officers and firefighters, as well as state quasi-public agency fire fighting and law enforcement officers.

- **Relating to Municipal Retirement - Article 13**

  This article makes a variety of changes to municipal pension plans both for plans administered by the state and plans administered by municipalities. Changes include a reduction in disability pensions for those not totally disabled, years of service and age limitation eligibility for both regular and public safety employees, increased employee contributions, and mandatory cost sharing for retiree health insurance.

- **Relating to Statewide Purchasing for Public Schools - Article 18**

  This article clarifies the authority of the department of elementary and secondary education, acting with the department of administration, to join or allow public schools to join cooperatives for purchasing goods, supplies and services on a voluntary basis. This Article also amends Section 37-2-56 of the General Laws to clarify that municipalities and regional school districts may participate in state master price agreement contracts for the purchase of services, in addition to the purchase of materials, supplies and equipment, as is currently specified in the law. This will remove any obstacle to the extension of statewide efficiencies to this area of purchasing. This article also provides that when purchases are made for public schools by the department of elementary and secondary education under the statewide purchasing system established in R.I.G.L. 16-60-7.3, the department of education may be exempted from the provisions of this chapter, but only with the specific approval of the chief purchasing officer. This provision will enable the department of elementary and secondary education to participate in purchasing consortia and enter into purchasing agreements with public and non-profit entities in order to lower the costs of materials, supplies, equipment and services purchased for the public schools.

- **Relating to School Realignment Commission - Article 20**

  This article creates a school realignment commission. The commission is modeled after the Base Closure and Realignment Commission framework used by the Federal government.

  It creates a fourteen member school consolidation commission which includes five appointees of the Governor, four legislative appointments and four ex officio members. The Commission shall conduct a review of school realignment and recommend cost-sharing efficiencies, including the creation of regional and/or administrative services centers. The Commission shall demonstrate that its recommendations will result in long-term reductions of cost. In developing recommendations, the Commission shall consider infrastructure, physical plant, business operations and support services, the delivery of instructional programs, intra-local cooperation and other factors. The General Assembly shall reject or adopt the recommendations and adopt necessary legislation to place the recommendation on the November 2012 ballot for voter approval. Recommendations will be due by March 30, 2011.

- **Relating to Firefighters' and Municipal Police Manning - Article 21**

  This article amends 28-9.1-4 and 28-9.2-4 by removing any issue(s) relating to minimum manning from the scope of issues which can be negotiated or arbitrated under the policemen's and firefighter's arbitration laws.

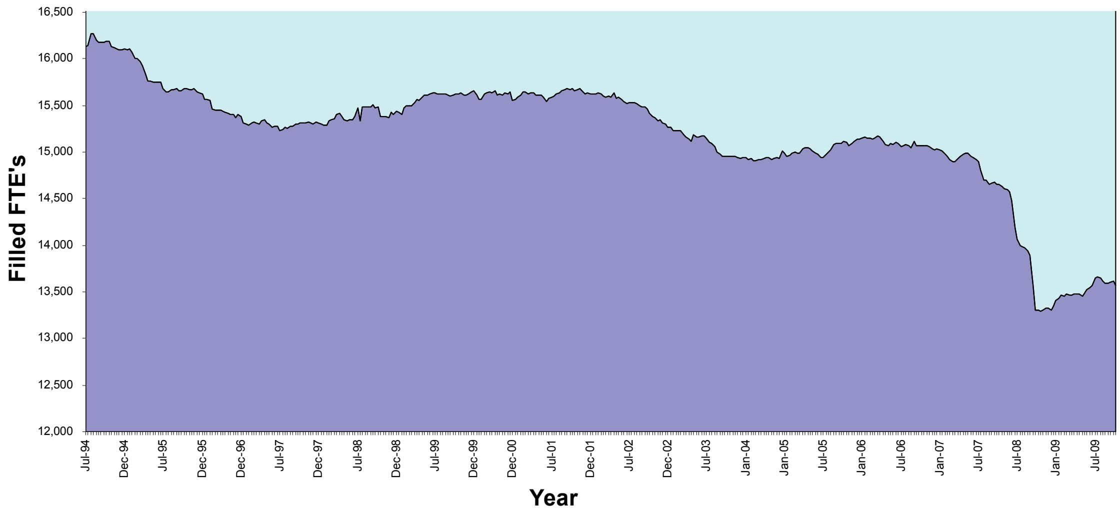
- **Relating to Municipal Health Insurance Cost Sharing - Article 22**

  As the cost of health insurance has escalated, municipalities have been unable to pass part of these cost increases along to employees. This has been the case especially with public safety employees, where binding arbitration has limited the capacity to negotiate changes in cost sharing. The 25% cost sharing requirement included in this Article is the standard cost sharing applicable to all Federal employees.

Essential Government Services Continue to be performed by Fewer State Employees

Personnel costs comprise 22 percent of total recommended spending in FY2011. Since records have been kept on FTE counts, FY 2009 recorded an all time low for filled full-time equivalent positions. Filled positions as of January 16, 2010, which totaled 13,564.9, reflected a reduction of 1,383.4 filled positions compared to July 2007. This is 1,298.1 FTE positions under enacted FY 2010 FTE cap, includes 1,086.5 vacant state positions and 211.6 vacant Higher Education sponsored research funded positions. As can be seen on the following chart, the State has been able to sustain the reduced employment levels occurring at the end of FY2008.

Overview



In order to maintain an acceptable level of critical services and reflecting the availability of federal stimulus funds under ARRA, the Governor recommends an increase in the number of full time equivalent positions. From the FY 2010 enacted level, the Governor recommends an increase of 41.3 to 14,904.3 FTE. The increase is due primarily to the addition of 56.0 ARRA funded positions. Major ARRA additions are in Administration, 15.0 FTEs, Labor and Training, 35.0 FTEs, the Office of the Governor, 3.0 FTEs, Public Utilities Commission, 2.0 FTEs, and the Office of the Public Defender, 2.0 FTEs. These join 98.6 FTE positions in the enacted budget that are funded through ARRA in Transportation, 89.0 FTEs, Office of the Governor, 4.0 FTEs, Corrections 0.5 FTE, Attorney General 1.1 FTEs, Environmental Management, 8.0 FTEs, and Elementary and Secondary Education, 5.0 FTEs. These are offset by the elimination of 9.0 limited period ARRA positions in Administration. Besides ARRA funded additions, the Governor recommends 14.1 additional positions in the Department of Health to be financed primarily by federal grants. The Governor recommends position transfers from Human Services to Administration, from the Office of the Governor to Military Staff (Emergency Management)in the enacted budget.

In FY 2011, the Governor recommends a total FTE level of 14,894.2, a net decrease of 10.1 FTEs from the revised FY 2010 level. Besides an addition of 15.0 ARRA competitive grant FTEs in Elementary and Secondary Education, there are decreases in Labor and Training, -20.1 FTEs (due to conversion to part time status of interviewers in Unemployment Insurance), program reprioritization and eliminations (Violent Fugitive Task Force in the Department of Public Safety, TASC in Mental Health, Retardation and Hospitals and the R.I. Commission on Women), and other vacancy reductions. The Governor recommends the transfer in FY 2011 of the Sheriffs, 180.0 FTEs, from Administration to Public Safety. The Governor recommends position transfers from the Department of Health to the Department of Human Services for the Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Continued Pursuit of Optimal Space Utilization for State Facilities

The Governor's recommended budget reflects continued focus on the cost of space occupied by state agencies and the goal to reduce costs by fully utilizing state owned facilities or consolidating into already rented facilities. The Department of Children, Youth & Families has savings of $513,708 in FY 2011 based on lease savings for a full year for the Pawtucket and North Kingstown Offices. Both rented sites will be vacated before July 1, 2010. This is based on a full year savings from the lease in Pawtucket, which will be relocated to the Friendship Street Facility in Providence and Woonsocket facility. The North Kingstown savings is based on a full year savings, net of the costs associated with the move to the Stedman Government Center in Wakefield. These plans are consistent with the goal to co-locate personnel from the Department of Children, Youth and Families and the Department of Human Services in order to serve clients more effectively.

To improve the level of care and achieve operating efficiencies in the out years, the Governor is proposing to physically restructure the Eleanor Slater Hospital at the Pastore Government Center by consolidating hospital operations into fewer, more appropriate patient settings that meet or exceed Joint Commission on Accreditation and Healthcare Organizations (JCAHO) standards. Over the next three years, the Governor proposes renovations to each of the four wards of the Varley building and each of the four wards of the Mathias building, and moving patients from the Pinel building, the Adolph Meyer building, and the Virks building into the newly renovated Varley and Mathias buildings.

Because severe financial constraints have prevented financing of additional payroll, contract, and operating costs, the Governor recommends retrofitting the now vacant men's Reintegration Center building to a new women's facility. This project will address deficiencies in program space, segregation concerns, and security issues in the current Dix and McDonald facilities. The project will also end the necessity of constructing a new women's facility elsewhere, for a potential savings of $50.9 million. The Governor recommends expenditures of $1.3 million in Rhode Island Capital Plan funds for bathroom, bathing area, and cell modifications, alleviation of privacy concerns, as well as furniture and other equipment. The building's capacity is sufficient to house most medium and high security female inmates currently housed at the McDonald facility. Because of security issues and the need for additional program space, the Governor also recommends the use of the neighboring Bernadette Guay building to house work release and minimum security inmates. This will address the facility issues without incurring significant costs for a new facility.

Capital Budget Request Provides Funding for More Higher Education and Transportation Investments

The Governor's capital budget recommendations include additional investment in Higher Education through the inclusion of several proposed bond referenda for the November 2010 ballot. These include funding of $61.0 million for a new Chemistry Building at the University of Rhode Island, $10.9 million for Infrastructure Modernization and $17.0 million for renovations and an addition to the Art Center at Rhode Island College. Also included on the 2010 ballot would be funding of $80.0 million for the Department of Transportation's Highway Improvement Program and $5.0 million for the construction of new and/or renovations to existing Salt Storage Facilities.

The Governor is also proposing two debt issuances that would be financed with Certificates of Participations. These include one for energy conservation projects at the University of Rhode Island ($12.6 million) and the Community College of Rhode Island ($15.5 million). The other would be to finance renovations to the Mathias and Varley buildings at the Pastore Center as part of a consolidation of facilities for the Eleanor Slater Hospital ($28.3 million).

Proposed Ballots Items
November 2010

<u>Ballot Item #1</u>	
Higher Education Facilities	
University of Rhode Island – New Chemistry Building	**$61.0 million**
Rhode Island College – Infrastructure Modernization	**$10.9 million**
Rhode Island College – Art Center	**$17.0 million**
<u>Ballot Item #2</u>	
Transportation	
Highway Improvement Program	**$80.0 million**
Salt Storage Facilities	**$5.0 million**
Total Ballot November 2010	**$173.9 million**

Proposed Project Costs for New Certificates of Participation Financings

Pastore Center Hospital Consolidation	**$28.3 million**
University of Rhode Island Energy Conservation	**$12.6 million**
Community College of Rhode Island Energy Conservation	**$15.5 million**

Medicaid Reform

The Governor proposed during the 2008 session of the General Assembly to redesign the State's largest entitlement programs in order to secure long-term balance in the state's expenditures for Medicaid. The reform will convert the service delivery model from provider based to client-centered programs in the Departments of Human Services; Children, Youth and Families; and Mental Health, Retardation and Hospitals. Pursued under the auspices of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* (often referred to as the Global Waiver), and in keeping with the Waiver's goals of establishing a more person-centered, opportunity driven, and outcome-based program of medical assistance, these reforms are designed to fundamentally improve modes of service delivery and program integrity throughout the vast landscape of Rhode Island's Medicaid program. Simultaneously, these measures are laying the foundation for a more financially sustainable Medicaid program in the challenging years ahead. In addition, the Global Waiver provides an opportunity for the State to qualify for Medicaid funding and achieve general revenue savings for Costs Not Otherwise Matchable, or "CNOM" items. These are formerly State-only programs that became eligible for federal financial participation under the provisions of the Global Waiver. Note that a "CNOM" does not entail systemic savings, but rather a zero-sum shift of cost between sources of funding.

For FY 2011, the Department has also identified opportunities for reform within its Medicaid program, many of which will provide significant budgetary relief in FY 2011. These initiatives represent a singular departure from past practice with respect to both benefit design and administrative flexibility in Rhode Island's program of medical assistance for the poor. The initiatives are discussed in the Human Service functional section of this document.

Overview

State Government Restructuring

The Governor recommends that an organizational review of certain aspects of state government be performed for a more effective structure under which agencies would operate. The Governor also recommends consolidation of certain activities. The goal of the restructuring is to provide better, more streamlined services by consolidating similar activities into organizational units with coordinated management oversight. The proposed review and restructuring affects public safety, education, and transportation functions.

Restructuring of Public Safety Functions

The Governor proposes further consolidation of the public safety functions into the Department of Public Safety. The Governor proposes that dispatch functions of the Department of Environmental Management be transferred to the Department of Public Safety no later than January 1, 2011. Also, the port security surveillance system will be transferred from the Department of Environmental Management to the Department of Public Safety. The Governor recommends consolidation of these functions being performed by these two state agencies on a 24 hour-a-day, 7 day-a-week basis. This will lead to improved public safety coordination and cost efficiencies over time. The timing of the transfer will be dependent upon the completion of the capital project currently underway in Scituate which will provide space for the consolidated organization. No savings are expected in the near term.

- Move Dispatch unit from Department of Environmental Management to DPS no later than January 1, 2011
- Move Port Security Surveillance from the Department of Environmental Management to DPS no later than January 1, 2011
- Move Sheriffs from Department of Administration to DPS Security Services program with Capitol Police

Seeking Plan to Restructure of Education Functions

The Governor requests that the Legislature require the Board of Governors for Higher Education to develop a plan to integrate the functions of the Higher Education Assistance Authority and the Rhode Island Public Telecommunications Authority (Channel 36) under the Board of Governors' governance structure. The plan would be submitted no later than October 1, 2010, and would consider the services provided by the two organizations now and how they can be better integrated in order to improve the delivery and quality of educational programming in the state. The plan would recognize the goal of improving and coordinating educational programs at the pre-K-12 level as well. The Board of Governors would submit recommendations on the best way to provide for collaboration with these two independent bodies and the university and colleges under the purview of the Board of Governors and the Rhode Island Department of Education.

Seeking Plan to Restructure of Transportation Functions

The Governor proposes that the Legislature require the Director of the Department of Transportation (DOT) to develop a plan to integrate the functions of the Rhode Island Public Transit Authority into the Department of Transportation. The plan would be submitted no later than October 1, 2010, and would consider all financial and operational issues which would need to be addressed under the proposed restructuring.

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The Governor is also requesting that the General Assembly approve legislation which would provide for the long term financing agreement of the new Sakonnet Bridge between the State to the Rhode Island Turnpike and Bridge Authority. The legislation provides for the tolling of the facility. The lease agreement would include a provision for a sharing of the tolls with DOT which would serve as consideration for payment of the Rhode Island's total costs of the bridge. This would provide much needed annual stream of resources to the Department of Transportation for its capital infrastructure program, including an accelerated bridge improvement program to address the State's structurally deficient bridges. Currently there are 164 structurally deficient bridges which cause 815 miles of detours due to the postings of these deficient bridges. Based on daily traffic, 250,000 truck trips are detoured each and every day adding costs to the delivery of products. It is expected that this program would provide the Department of Transportation with $156.6 million over ten years. It is estimated that this program will reduce the number of structurally deficient bridges by 50% within the first six years.

Wage and Benefit Savings

After several years of focused efforts to reduce personnel costs, State government is expected to spend in FY 2011 approximately the same as it did in FY 2006 in the personnel category. In FY 2006, the State spent $789.8 million; in FY 2011 the Governor recommends $797.3 million. The recommended spending levels reflect new pension reform and concessions negotiated with unions for FY 2010 and FY 2011, but also reflect the cumulative impact of two enacted pension reform initiatives, increased employee medical benefit co-shares and plan design changes, a successful wellness program, and a 10% reduction in filled FTE levels.

Pay Reduction Days and COLA Deferral for State Employees

As a result of the continued revenue decline, the Administration entered into negotiations with its collective bargaining units in the summer of 2009. Through a cooperative effort, the parties reached agreement which resulted in wage concession for FY 2010 and FY 2011 in exchange for a "no layoff" provision and language which provides for reassignment as a result of reorganizations. In summary, the language provides an Appointing Authority (Agency Director/Head) with the right to transfer an employee between programs under his/her authority and/or from one agency to another due to transfer, reorganization, elimination or consolidation of functions, programs, units, divisions or departments within the Executive Branch. The language includes provisions regarding notice obligations, the opportunity for the union to present alternatives, and the process for determining placement of the affected employee(s) across bargaining units/unions.

The Governor's recommendation includes eight pay reduction days in FY 2010 and four such days in FY 2011, to apply to all non-union employees and the members of unions that ratified the memorandum of agreement in FY 2010. For each of these pay reduction days, the employees will be entitled to accrue one and one quarter (1.25) additional days of paid leave, for a maximum of 10.0 days in FY 2010 and 5.0 days in FY 2011. Employees may request to discharge an additional leave day during any pay period following the payroll period in which it was earned and/or elect cash payment for four days upon termination from State service. Implementation of this measure will save $17.2 million in salary costs in FY 2010, and $9.0 million in FY 2011, as well as associated fringe benefit costs. These savings are depicted in the Personnel Supplement within each department or agency as a negative amount in the line entitled Pay Reduction Days, while the fringe benefit components (i.e., retirement, FICA, retiree health, and assessed fringe benefits) that are associated with this reduction are reflected in the respective codes associated with each benefit.

Overview

Pay Reduction Days Fiscal Year 2010 (July 1, 2009 – June 30, 2010)

	Pay Period	Paycheck
1	9/27/09-10/10/09	10/16/09
2	10/25/09-11/7/09	11/13/09
3	11/22/09-12/5/09	12/11/09
4	12/20/09-1/2/10	1/8/10
5	1/17/10-1/30/10	2/5/10
6	2/28/10-3/13/10	3/19/10
7	3/28/10-4/10/10	4/16/10
8	4/25/10-5/8/10	5/14/10

Pay Reduction Days Fiscal Year 2011 (July 1, 2010 – June 30, 2011)

	Pay Period	Paycheck
1	1/2/2011-1/15/2011	1/21/2011
2	1/30/2011-2/12/2011	2/18/2011
3	2/27/2011-3/12/2011	3/18/2011
4	3/27/2011-4/9/2011	4/15/2011

In addition, the Governor recommends that the 3.0 percent across the board salary increase (COLA), which would otherwise have been effective July 1, 2010, not be effective until January 2, 2011 for all non-union employees and the members of unions that ratified the memorandum of agreement in FY 2010. Implementation of this measure will save $9.6 million in salary costs in FY 2011, as well as associated fringe benefit costs. The salary reduction savings associated with the COLA deferral is shown as a negative amount in the line entitled COLA Deferral, while the fringe benefit components that are associated with this reduction are retirement, FICA, retiree health, and assessed fringe benefits and are reflected in the corresponding codes associated with each benefit.

The Board of Governors for Higher Education has also adopted a pay reduction of approximately 1.0 percent on an annualized basis for about 300 employees including the presidents, vice presidents, all staff at the Office of Higher Education, and most non-union, non- classified employees who are funded by unrestricted revenue.

It is important to emphasize the contribution that state employees are making during FY 2010 and FY 2011 and the impact that it has on operating budgets in FY 2010, FY 2011, and looking forward to FY 2012. As noted in the Personnel Supplement, the value of the concessions and corresponding budget reductions were roughly equal in FY 2010 and FY 2011. This results in a reduction of previously negotiated salaries of 3.1 percent in FY 2010 and 3.0 percent in FY 2011. In FY 2012, salaries would increase back up to the previously negotiated levels. When reviewing the statewide personnel costs, one must be cognizant of the aggregate dollar savings taken in both the FY 2010 and FY 2011 budget compared to what was previously negotiated and projected as the current service costs. Because these savings are roughly equivalent, the year over year comparison will not show a decrease, but rather an increase. It is also important to note, as discussed in the Five Year Forecast, that the FY 2012 budget is forecasted to have significant growth in personnel costs because the savings from the concessions do not continue and there is a negotiated 3.0 percent cost of living increase.

Overview

Pension Reform

The proposed FY 2010 Pension Reform eliminates the automatic cost of living adjustments for state employees, teachers, judges and state police for employees who are not eligible to retire on the date of passage of the legislation. Employees who are part of the state retirement system and are eligible to retire through the date of passage or those who retired through the date of passage of this legislation shall continue to receive a cost of living adjustment as previously provided. However, as proposed, the General Assembly will have the ability to review annually and give an ad hoc cost of living adjustment to retirees who are not otherwise eligible for a cost of living adjustment up to a maximum amount of 3.0 percent or the Consumer Price Index for all Urban Consumers (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year, whichever is less.

The Governor had proposed pension reform which was contained in Article 32 of the Supplemental Budget submitted in January 2009. The proposal set forth in the budget article included a provision to eliminate the cost of living adjustments for state employees, teachers, judges and state police who were not eligible to retire as of July 1, 2009. The pension reform enacted by the General Assembly did not eliminate the cost of living adjustment as proposed by the Governor.

The proposed savings to state and local governments for state employees and teachers totals $41.7 million from general revenues in FY 2010 and $45.0 million from general revenues in FY 2011 as shown below:

FY2010 Difference between Board Certified and Governor's Recommended Rates

Description	Current Rate	Proposed Rate	Change	General Revenue Savings	Federal Savings	Restricted Savings	Other Savings	Total Savings
Retirement: State Employees	21.64%	18.71%	2.93%	$10,230,218	$4,381,218	$772,838	$2,059,744	$17,444,017
Retirement: State Police	26.03%	22.78%	3.25%	423,587	18,349	0	3,695	445,630
Retirement: Judges	24.06%	21.15%	2.91%	194,028	0	48,942	0	242,970
Retirement: Teachers	8.18%	6.86%	1.32%	12,343,022	0	0	0	12,343,022
Total				**$23,190,854**	**$4,399,567**	**$821,780**	**$2,063,438**	**$30,475,639**
Teachers local	11.89%	9.90%	1.99%	18,464,315	0	0	0	18,464,315
Total State and Local				**$41,655,170**	**$4,399,567**	**$821,780**	**$2,063,438**	**$48,939,954**

FY2011 Difference between Board Certified and Governor's Recommended Rates

Description	Current Rate	Proposed Rate	Change	General Revenue Savings	Federal Savings	Restricted Savings	Other Savings	Total Savings
Retirement: State Employees	21.64%	18.71%	2.93%	$10,641,848	$4,457,792	$911,465	$2,126,637	$18,137,742
Retirement: State Police	26.03%	15.33%	10.70%	1,499,533	47,635	0	12,798	1,559,966
Retirement: Judges	24.06%	14.00%	10.06%	658,020	0	151,891	0	809,911
Retirement: Teachers	8.18%	6.86%	1.32%	12,898,458	0	0	0	12,898,458
Total				**$25,697,859**	**$4,505,428**	**$1,063,356**	**$2,139,434**	**$33,406,077**
Teachers local	11.89%	9.90%	1.99%	19,295,210	0	0	0	19,295,210
Total State and Local				**$44,993,069**	**$4,505,428**	**$1,063,356**	**$2,139,434**	**$52,701,287**

Retiree Health Funded On an Actuarial Basis

The Governor recommends that the Rhode Island finance retiree health benefit costs 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 post employment. In compliance with Governmental Accounting Standards Board (GASB) Statements 43 and 45, "Other Post Employment Benefits," (OPEB) the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits in July 2007. Consistent with the standards provided in GASB 45, the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2007 was determined to be approximately $655.2 million, including $563.6 million for state employees, $47.1 million for State Police, $23.3 million for Legislators, and $11.8 million for Judges, and $8.2 million for the State's share for teachers. This was calculated using an investment rate of return of 5.0 percent and assumes that future financing will be on an actuarial basis. The annual required contribution as a percentage of payroll would be 6.74 percent, 25.67 percent, 95.49 percent and 9.86 percent (no rate for teachers), respectively.

The total contributions made by the State and the other participating employees for retiree medical benefits were $37.8 million in FY 2009. These contributions reflect only a pay–as-you-go amount necessary to provide for current benefits to retirees and administrative costs. The State has not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities, which continue to grow. During the 2008 session of the General Assembly, in order to begin funding this liability, enacted legislation that required the State to finance on an actuarial basis and authorized the creation of a trust fund for retiree medical benefit liabilities. During the 2009 Session of the General Assembly, the actuarial funding requirement was delayed until FY 2011.

For FY 2011, the retiree health insurance rate for most state employees increases to 6.74 percent of salaries. This amount is 19.9 percent higher than the FY 2010 revised budget. This adjustment provides additional resources to the pension fund to finance retiree health benefit costs based on an actuarial basis. This amount would be disbursed to a trust fund, which would pay current benefits and hold assets for investment. It is important to note that the rate does not assume any changes in the administrative costs associated with the determination of the retiree health benefit cost sharing. This determination is currently performed through the Anchor system maintained by the Retirement Division of the Office of the General Treasurer. There are system enhancements under discussion that would appropriately shift the responsibility for costs from the Retirement System to the Retiree Health Care Trust.

There is a significant change in the cost of legislators' retiree health care. As shown in the June 30, 2007 OPEB valuation Report, legislators are allowed to continue health care coverage if they pay the active premium for life. The actuary had previously assumed that upon attaining age 65, legislators would elect Medicare and thus reduce the State's cost. In actuality, far fewer of them were entering Medicare. The actuary changed the assumption from 100.0 percent elect Medicare at age 65 to 25.0 percent transition to Medicare at age 65, in line with actual experience. Since the State is picking up any cost above the active premium paid by the retiree, this benefit is highly leveraged and the net impact of this assumption change was very large. If legislators were required to enter Medicare, this would reduce the cost to the State. The actuary also discussed the fact that fewer of the legislators who are not in the defined benefit plan are actually electing retiree health care. The actuary assumes 60.0 percent will elect retiree health care coverage when eligible, based on historical experience of defined benefit and non-defined benefit legislators.

The estimated cost of transitioning from a pay-as-you-go method to an actuarial based method is $7.9 million of general revenues, and $10.9 million from all fund sources.

Overview

FY2011 Difference between "PayAs You Go" and Acturial Rates								
	Pay Go Rate	Actuarial Rate	Change	General Revenue	Federal	Restricted	Other	Total
Retiree Health: State Employees	5.62%	6.74%	1.12%	$3,969,886	$1,674,752	$341,781	$817,914	$6,804,333
Retiree Health: State Police	14.62%	25.67%	11.05%	$1,808,392	$47,080	$0	$26,713	$1,882,185
Retiree Health: Judges	1.79%	9.86%	8.07%	$697,054	$0	$118,695	$0	$815,749
Retiree Health: Legislators	9.03%	95.49%	86.46%	$1,435,673	$0	$0	$0	$1,435,673
Total Difference				$7,911,005	$1,721,833	$460,477	$844,627	$10,937,940

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.

Beginning with the November 2001 conference, 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 wage and salary income, Rhode Island dividends, interest and rent, 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 five calendar and four fiscal years.

ECONOMIC FORECAST

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

During its November 2009 meeting, the Revenue Estimating Conference a forecast of the U.S. and Rhode Island economies was presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends in Rhode Island. The conferees heard the testimony of Andres Carbacho-Burgos, an economist with Moody's Economy.com, and Robert J. Langlais, Assistant Director for DLT's Labor Market Information unit, on November 4, 2009.

The Revenue Estimating Conference adopted the economic forecast shown below on November 4, 2009 through a consensus process informed by the testimony of Dr. Carbacho-Burgos and Mr. Langlais. The updated economic forecast made significant changes to the consensus outlook adopted at the May 2009 Revenue Estimating Conference.

As reported at the November 2009 Revenue Estimating Conference, Rhode Island's labor market continued to feel the effects of the "Great Recession". The Rhode Island Department of Labor and Training reported that the unemployment rate rose through the third quarter of CY 2009 reaching 13.0 percent in September 2009. This was an increase of 4.5 percentage points from the unemployment rate recorded in September 2008. There was a year-over-year increase of 25,600 unemployed Rhode Islanders in September while the number of employed Rhode Islanders declined by 22,800.

Rhode Island establishment employment also declined over the period resulting in a decrease of 21,600 jobs from September 2008 to September 2009. The sector breakdown of these job losses were as follows: Professional and Business Services, -3,500; Construction, -3,200; Leisure and Hospitality, -1,000; Financial Activities, -900; Other Services, -900; Information, -800; Government, -800; and Educational & Health Services, -700. No broad sector of the Rhode Island economy added jobs year-over-year in September 2009. In fact, since the January 2007 peak employment of 496,400 jobs, Rhode Island businesses have shed 37,700 jobs as of September 2009, a decline of 7.6 percent.

The Economy

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. In FY 2008, total non-farm employment declined by 1.3 percent, followed by a further 3.4 percent decline in FY 2009. Total non-farm employment is projected to dip by an additional 2.7 percent from 471,600 in FY 2009 to 458,900 in FY 2010. The principals anticipate a smaller decrease of 1,400 jobs in FY 2011 before non-farm employment begins to rebound in FY 2012. Over the FY 2012 through FY 2014 period, Rhode Island's economy is expected to add 38,500 jobs. It should be noted that while adopted growth rates suggest a positive trend from FY 2012 through FY 2014, the adopted number for total non-farm employment during these years is below that adopted for the same period at the May 2009 Conference.

The unemployment rate for FY 2011 is projected to decline slightly from 13.4 percent in FY 2010 to 13.2 percent. As recovery takes hold, Rhode Island's unemployment rate is expected to decline rapidly from 13.2 percent in FY 2012 to 6.9 percent in FY 2015. Even at this lower rate, Rhode Island's unemployment rate will be 2.0 percentage points higher than the unemployment rate achieved when the economy peaked in FY 2007.

Personal income is expected to hit bottom at a 0.2 percent rate of growth in FY 2010 down from 0.6 percent growth in FY 2009. The November 2009 Conference estimates for personal income growth suggest a downward revision in FY 2011 through FY 2012 relative to the growth estimates adopted in May of 2009. For FY 2011, the projected growth rate for personal income is 1.4 percent, down from 2.7 percent that was adopted in May. For FY 2012 it is 3.1 percent, down from 3.6 percent that was adopted in May. The personal income growth rate is expected to rise to 4.7 percent in FY 2013 and remain at or above 4.0 percent throughout the remainder of the forecast period. This projection is consistent with the forecast adopted in May 2009.

Similarly, estimates of dividend, interest and rental income are expected to decrease considerably in FY 2010 and FY 2011 before bouncing back in FY 2012 through FY 2014. Wage and salary income growth is estimated to decline from FY 2009 through FY 2013 relative to the estimates adopted in May 2009. In FY 2010 and FY 2011, wage and salary income growth is projected to be -3.2 and -0.6 percent respectively. Wage and salary income growth is expected to improve beginning in FY 2012 with projected growth of 2.4 percent. The rate of growth accelerates in FY 2013 to 4.6 percent and remains steady in FY 2014 at 4.7 percent before decelerating in FY 2015 to 3.7 percent.

The U.S. rate of inflation as measured by CPI-U fell to 1.4 percent in FY 2009 from 3.7 percent in FY 2008. The decrease was mainly due to declines in gasoline, fuel oil and natural gas prices. The CPI-U is forecasted to decrease further in FY 2010 to a 0.8 percent inflation rate before rising to 1.5 percent in FY 2011. In FY 2012 through FY 2015, inflation is expected to be around 2.0 percent annually.

From FY 2010 through FY 2011, the interest rate on three month Treasury bills is expected to remain low with rates of 0.2 and 1.0 percent respectively. In FY 2012, the interest rate on three month Treasury bills rises to 3.0 percent before stabilizing at a rate of approximately 4.1 percent in FY 2013 through FY 2015. The interest rate on ten year Treasury notes is expected to rise from 3.3 percent in FY 2009 to 3.8 percent in FY 2010 to 4.8 percent in FY 2011. The interest rate on ten year Treasury notes is anticipated to peak at 5.6 percent in FY 2012 and then steadily decline to 4.6 percent in FY 2015.

Consistent with the perspective discussed here in, the consensus economic forecast reflects the immediate adverse impacts of the nation's economic crisis in employment, income, and other coincidental economic indicators in the next six years. In particular, employment growth is expected to be negative in FY 2009 through FY 2011 before rebounding in FY 2012. More rigorous employment growth is expected in FY

2013 before the rate of growth declines to more sustainable levels in FY 2014 and beyond. Personal income growth is expected to follow a similar pattern over this same period.

The Consensus economic forecast for the fiscal years 2010 through 2015 agreed upon by the conferees at the November 2009 Revenue Estimating Conference is shown in the following table.

The November 2009 Consensus Economic Forecast						
Rates of Growth	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Total Employment	-2.7	-0.3	2.4	3.4	2.4	1.1
Personal Income	0.2	1.4	3.1	4.7	4.6	4.1
Wage and Salary Income	-3.2	-0.6	2.4	4.6	4.7	3.7
Dividends, Interest and Rent	-2.5	2.0	3.9	7.4	7.0	5.2
Nominal Rates						
U.S. CPI-U	0.8	1.5	2.0	2.0	2.0	2.1
Unemployment Rate	13.4	13.2	10.7	8.6	7.6	6.9
Ten Year Treasury Notes	3.8	4.8	5.6	5.3	4.8	4.6
Three Month Treasury Bills	0.2	1.0	3.0	4.1	4.2	4.1

General Revenues

Introduction

The Governor's recommended budget is based on estimated general revenues of $2.976 billion in FY 2010 and $2.927 billion in FY 2011. Annual estimated growth during FY 2010 and FY 2011 is -1.6 percent and -1.7 percent, respectively. Estimated deposits of $69.9 million and $76.1 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 97.6 percent of estimated revenues in FY 2010 and 97.4 percent of estimated revenues in FY 2011. The revenue estimates contained in the Governor's FY 2010 supplemental and FY 2011 recommended budgets are predicated upon the revenue estimates adopted at the November 2009 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 2010 Revised Revenues

The principals of the November 2009 Revenue Estimating Conference reduced the enacted FY 2010 revenue estimate down by $130.5 million, a decrease of 4.2 percent. As shown in the *General Revenue Changes to Adopted Estimates* table in Appendix A of this document, the Governor's revised FY 2010 budget recommends an increase of $30.0 million in revenues. This $30.0 million in recommended changes to the FY 2010 adopted estimates breaks down as follows:

- A decrease of $8.6 million attributable to the re-categorization of the revenue generated by the statewide student transportation initiative from a general revenue receipt account to a restricted revenue receipt account;
- A decrease of $202,852 from the exemption of the Underground Storage Tank Replacement Fund from the application of the state's indirect cost recovery fee of 10.0 percent;
- An increase of $32,330 in indirect cost recovery fees as a result of increased revenue received by the Telecommunication Education Access Fund;
- An increase of $10.8 million from the sale of the Veterans Memorial Auditorium to the Rhode Island Convention Center Authority;
- An increase of $10.5 million from sales of surplus land by the state. These parcels include the old Training School in Cranston, the state's former computer facility in Johnston, and 2 Metacom Avenue in Bristol;
- An increase of $6.0 million as a result of voluntary payments made by the private operators of group homes for the developmentally disabled;
- An increase of $3.6 million from the transfer of unused monies that reside in the state's Automobile Replacement Fund;
- An increase of $7.2 million from the collection of prior year child support payments;
- An increase of $641,250 in unclaimed property that is due to unclaimed bail accounts presided over by the Judiciary and property forfeited to the Rhode Island State Police.

General Revenues

FY 2010 Revised Revenues vs. FY 2009 Preliminary Revenues

Recommended revenues for FY 2010 are based upon a $47.0 million decrease in total general revenues over preliminary FY 2009, or growth of -1.6 percent. Much of this decrease can be found in Sales and Use Taxes, -$57.1 million; Personal Income Taxes, -$21.3 million; Health Care Provider Assessment, -$11.1 million, Business Corporations Taxes, -$10.3 million; Public Utilities Gross Earnings Taxes, -$6.7 million; Gas Tax Transfer, -$4.3 million; and Inheritance and Gift Taxes, -$1.7 million. These decreases are partially offset by estimated increases in Insurance Companies Gross Premiums Taxes, of $2.0 million; Cigarette taxes of $9.8 million; Other Miscellaneous Revenues of $28.9 million; and the Lottery Transfer of $14.4 million.

Personal income tax collection continues to be the single largest source of state general revenues at 30.9 percent for FY 2010 despite an anticipated decline. Personal income tax collections are estimated to contract at an annual rate of 2.3 percent, or -$21.3 million for FY 2010. Much of this decline is due to decreased income tax withholding payments of $32.0 million, followed by an increase in refund payments of $4.2 million. The overall decline, however, is slightly offset by an estimated increase of $14.9 million in estimated income tax payments. Final income tax payments are expected to remain flat vis-à-vis preliminary FY 2009 collections.

General Business Tax collections are projected to drop by $27.1 million or -7.5 percent, due primarily to an estimated decrease in Business Corporations taxes of $10.3 million; Health Care Provider Assessments of $11.1 million, and Public Utilities Gross Earnings taxes of $6.7 million. The estimated foregone collection in Health Care Provider Assessments is due to the repeal of the assessment on group homes for the developmentally disabled and the rebasing of the nursing home provider tax as a result of the implementation of the Global Medicaid Waiver. These revenue decreases are partially offset by anticipated increases in Insurance Companies Gross Premiums taxes of $2.0 million.

Sales and Use tax collections are projected to drop by $57.1 million or -7.1 percent, over preliminary FY 2009 collections. Sales and Use taxes represent 25.2 percent of total general revenues in FY 2010. This decline incorporates the Office of Revenue Analysis' estimate of $4.6 million of additional registry receipts that resulted from the federal government's "Cash for Clunkers" program that was in effect in late July and early August of 2009. For FY 2010 sales and use tax collections are projected to be $751.0 million.

Excise Taxes other than the sales and use tax are expected to increase by $10.3 million or 5.4 percent in FY 2010 over preliminary FY 2009 collections due primarily to a projected increase in cigarette tax payments of $9.8 million. The state's cigarette excise tax stamp was increased from $2.46 per pack of 20 cigarettes to $3.46 on April 10, 2009. On that same date, the excise tax on other tobacco products was increased from 40.0 percent of the wholesale cost to 80.0 percent of the wholesale cost. FY 2010 is the first fiscal year in which these tax increases will be in effect for the entire year. Motor Vehicle operator's licenses and registration fees are projected to increase by $674,195 in FY 2010 versus preliminary FY 2009 collections. Alcohol excise taxes are estimated to increase by $188,169 in FY 2010 while Motor Carrier Fuel Use tax collections are anticipated to decline by $325,034 in FY 2010.

Other taxes are projected to decrease by $2.5 million, or 6.6 percent in FY 2010 relative to preliminary FY 2009 receipts. Of the total decrease in Other Taxes, Racing and Athletics tax collections constitute a $450,809 decrease, the Realty Transfer tax constitutes a $311,322 decrease, and Inheritance and Gift Taxes are expected to yield $1.7 million less in FY 2010 than in preliminary FY 2009. The expected decrease in Inheritance and Gift Tax collections is due to the fact that the General Assembly increased the estate exemption amount from $675,000 to $850,000 effective January 1, 2010. Racing and Athletic Taxes' downward trend is expected to accelerate as Twin River reduces the number of racing days to the statutory minimum of 125. Racing and Athletics taxes are expected to total $2.0 million in FY 2010 a decrease of 18.4 percent from preliminary FY 2009 collections. Realty Transfer Taxes are expected to total $6.5 million in FY 2010, a decrease of 4.6 percent from preliminary FY 2009 collections.

In the Governor's FY 2010 supplemental budget, Departmental Receipts are projected at $333.2 million, an increase of $13.7 million from preliminary FY 2009 collections, or 4.3 percent. Departmental revenue changes include a decrease in general revenue receipts of $8.6 million as a result of the reclassification of the collections received for the statewide student transportation initiative to restricted revenues, a decrease of $202,852 from the exemption of the Underground Storage Tank Replacement Fund from the state's indirect cost recovery assessment, and an increase of $32,330 from the assessment of the indirect cost recovery fee on increased revenues in the Telecommunication Education Access Fund.

In addition to the above general revenue components, increases are expected in FY 2010 for Other Miscellaneous general revenues of $28.9 million and the Lottery Transfer to the general fund of $14.4 million. The Gas Tax Transfer and the Unclaimed Property Transfer to the general fund are forecasted to decline by $4.3 million and $2.2 million respectively in FY 2010. The decrease in the Gas Tax Transfer is a result of the fact that, effective July 1, 2009, the general fund no longer receives any of the monies collected from the imposition of the state's $0.32 per gallon gas tax. The decrease in the Unclaimed Property transfer is attributable to the testimony provided by the Office of the General Treasurer at the November 2009 REC. It should be noted that the decline in the Unclaimed Property Transfer incorporates the Governor's proposed revenue enhancement of $641,250 from abandoned bail accounts and property forfeited to the State Police that has never been reclaimed.

For FY 2010, Other Miscellaneous general revenues are projected to increase by $28.9 million. This increase includes the Governor's proposed revenue enhancements from the sale of Veterans Auditorium, $10.8 million, the sale of three state-owned buildings and/or land, $10.5 million, and several other proposals totaling $16.9 million. The increased Lottery Transfer in FY 2010 is wholly due to the results of the November 2009 REC which increased the estimated transfer amount from the video lottery terminals installed at Twin River and Newport Grand by $13.6 million and that from instant tickets and on-line games by $747,409.

FY 2011 Proposed Revenues

The Governor's recommended FY 2011 budget estimates general revenues of $2.927 billion, a decrease of 1.7 percent from the revised FY 2010 level. The Governor's recommendation is comprised of $2.834 billion of revenue estimated at the November 2009 Revenue Estimating Conference and $92.3 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 2011 general revenues is the Personal Income Tax, with estimated receipts of $927.7 million, $5.3 million less than the November 2009 REC estimate for FY 2011 or growth of 0.9 percent from the revised FY 2010 amount. This small revenue decrease is the net result of the Governor's proposal to eliminate two existing tax credits and institute a new tax credit, albeit one of a temporary duration. The Governor proposes the elimination of the state's Motion Picture Production Company Tax Credit and the Enterprise Zone Wage Tax Credit. The elimination of these two credits is estimated to increase personal income tax collections by $2.7 million in FY 2011. The Governor further proposes increasing the annual cap for the tax credit given for Contributions to K-12 Scholarship Organizations from $1.0 million to $2.0 million. This proposal is estimated to reduce personal income tax collections in FY 2011 by $730,000.

Finally, the Governor proposes the creation of the Small Business Jobs Growth Tax Credit. The Small Business Jobs Growth Tax Credit would allow employers with between 5 and 100 employees in the state (with no more than 200 employees worldwide) a $2,000 tax credit per new hire provided that the newly hired employee is a resident of the state, has received unemployment compensation or Temporary Assistance to Needy Families (TANF) or has graduated from an accredited higher education institution at any time in the past 24 months. The newly hired employee must be paid 250.0 percent of the state's minimum wage at the time of hire, work at least 30 hours per week, and be offered health insurance by the employer. The employer must employ the new hire for 18 consecutive months and its total employment after 18 months must be greater than it was at the time credit eligible employee was hired. The program runs from July 1, 2010 through December 31, 2011. The Department of Revenue estimates that 3,625 individuals will be hired under this program by business entities that are not subject to the state's Business Corporations, Financial Institutions, or Insurance Companies tax. The estimated foregone personal income tax revenue from the implementation of the Small Business Jobs Growth Tax Credit is $7.3 million.

General Business taxes are projected to represent 11.2 percent of total general revenue collections in the FY 2011 budget year. Business Corporations Tax revenues are expected to yield $85.7 million, a decrease of $14.3 million from the FY 2011 estimate agreed to at the November 2009 REC. This decrease is the result of the Governor's proposals to implement the Small Business Jobs Growth Tax Credit, reduce the minimum corporate/franchise tax to $250, and increase the cap for the Contributions to K-12 Scholarship Organizations tax credit. These proposals are expected to reduce Business Corporations tax collections by $2.8 million, $11.5 million and $180,000 respectively. These revenue reductions are offset in part by increased Business Corporations tax collections that result from the repeal of the Motion Picture Production Company Tax Credit, an increase of $58,691, and the Enterprise Zone Wage Tax Credit, an increase of $150,000. The estimated growth rate in Business Corporations taxes over the FY 2010 revised level is -8.9 percent.

Insurance Companies Gross Premiums taxes are projected to reach $82.4 million in FY 2011. This amount is equal to the revenue estimate for Insurance Companies Gross Premiums taxes adopted at the November 2009 Revenue Estimating Conference and also includes an increase in revenue of $70,078 from the repeal of the Motion Picture Production Company Tax Credit and a decrease in revenue of $90,000 from the increase in the annual cap for Contributions to K-12 Scholarship Organizations tax credit. The recommended growth rate in FY 2011 Insurance Companies Gross Premiums taxes over the FY 2010 revised estimate is 3.0 percent.

FY 2011 recommended revenues for the Public Utilities Gross Earnings tax, the Financial Institutions tax, the Bank Deposits tax, and the Health Care Provider Assessment are at the same levels as were adopted at the November 2009 REC. The respective FY 2011 recommended growth rates for these taxes relative to the FY 2010 revised estimates are 0.8 percent, -50.0 percent, 0.0 percent, and -0.6 percent respectively.

Sales and Use Tax collections are expected to yield $743.7 million in FY 2011, the same level that was adopted at the November 2009 Revenue Estimating Conference for FY 2011. The Governor's FY 2011 recommended estimate signifies growth of -1.0 percent over the FY 2010 revised estimate. Sales and Use Taxes are anticipated to contribute 25.4 percent to total general revenues in FY 2011.

Motor Vehicle operator license and vehicle registration fees are forecasted to equal $48.1 million in FY 2011 the same level that was adopted at the November 2009 REC. Motor Carrier Fuel Use Taxes are estimated to reach $1.0 million in FY 2011 and Cigarettes tax revenues are expected to total $134.6 million. Each of these recommended revenue amounts are the same as the estimates adopted at the November 2009 Revenue Estimating Conference. Alcohol Tax revenues are projected to increase by $100,000 or 0.9 percent in FY 2011 from the revised FY 2010 estimate.

Inheritance and Gift Taxes are projected to equal the $26.0 million amount adopted at the November 2009 REC. Realty Transfer Taxes are estimated at the same level adopted at the November 2009 Revenue Estimating Conference and the revised estimate for FY 2010, with anticipated collections of $6.5 million. Racing and Athletics Taxes are also estimated at the level adopted at the November 2009 REC. This estimate represents a decline of $200,000, or -10.0 percent, from the revised FY 2010 estimate. Total Racing and Athletics Taxes projected in FY 2010 is $2.0 million. Other taxes will comprise 1.2 percent of total general revenues in FY 2011.

FY 2011 departmental receipts are expected to generate $1.3 million less than the revised FY 2010 budget. Inclusive of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $331.9 million in FY 2011, or 11.3 percent of total general revenues. In the licenses and fees category, $129.9 million more is expected due primarily to the Governor's proposal to reinstate the Hospital Licensing fee for one year using the current rate of assessment of 5.237 percent and the current base of FY 2008 net patient revenues. The FY 2011 recommended departmental revenues figure includes the following proposals:

- An increase of $128.8 million from reinstituting the Hospital Licensing Fee;
- An increase of $625,000 from the imposition of a $25 fee for road tests performed by the Division of Motor Vehicles;
- An increase of $130,000 from increasing the fee for a State Issued Identification Card to $25;
- An increase of $116,000 from increasing the motor vehicle dealers license fee to $300 annually;
- An increase of $34,500 from increasing the motor vehicle manufacturer / distributor license fee to $300 annually;
- An increase of $44,000 from increasing the flashing lights permit fee to $25 annually;
- An increase of $37,400 from increasing the registration fee for school buses to $25
- An increase of $26,910 from increasing the fee for an accident report to $15
- A decrease of $3,198,849 from the reclassification of board and support fees for patients at Slater and Zambarano Hospitals from general revenue to restricted receipts;
- A decrease of $15,640,000 from the reclassification of receipts received for the statewide student transportation initiative from general revenue to restricted receipts;
- A decrease of $202,852 from the exemption of the Underground Storage Tank Replacement Fund from the indirect cost recovery assessment;
- An increase of $77,592 from the indirect cost recovery assessment on the Telecommunication Education Access Fund which is expected to have increased revenues in FY 2011

The FY 2011 recommended revenues for the other sources component totals $367.7 million, a decrease of $36.6 million, or 9.1 percent, compared to the revised revenue estimate for FY 2010. The change in other sources of revenue is primarily due to the decrease in Other Miscellaneous Revenues of $41.1 million. Of this amount $21.25 million is related to one-time land sales that are in the revised FY 2010 budget. Other

General Revenues

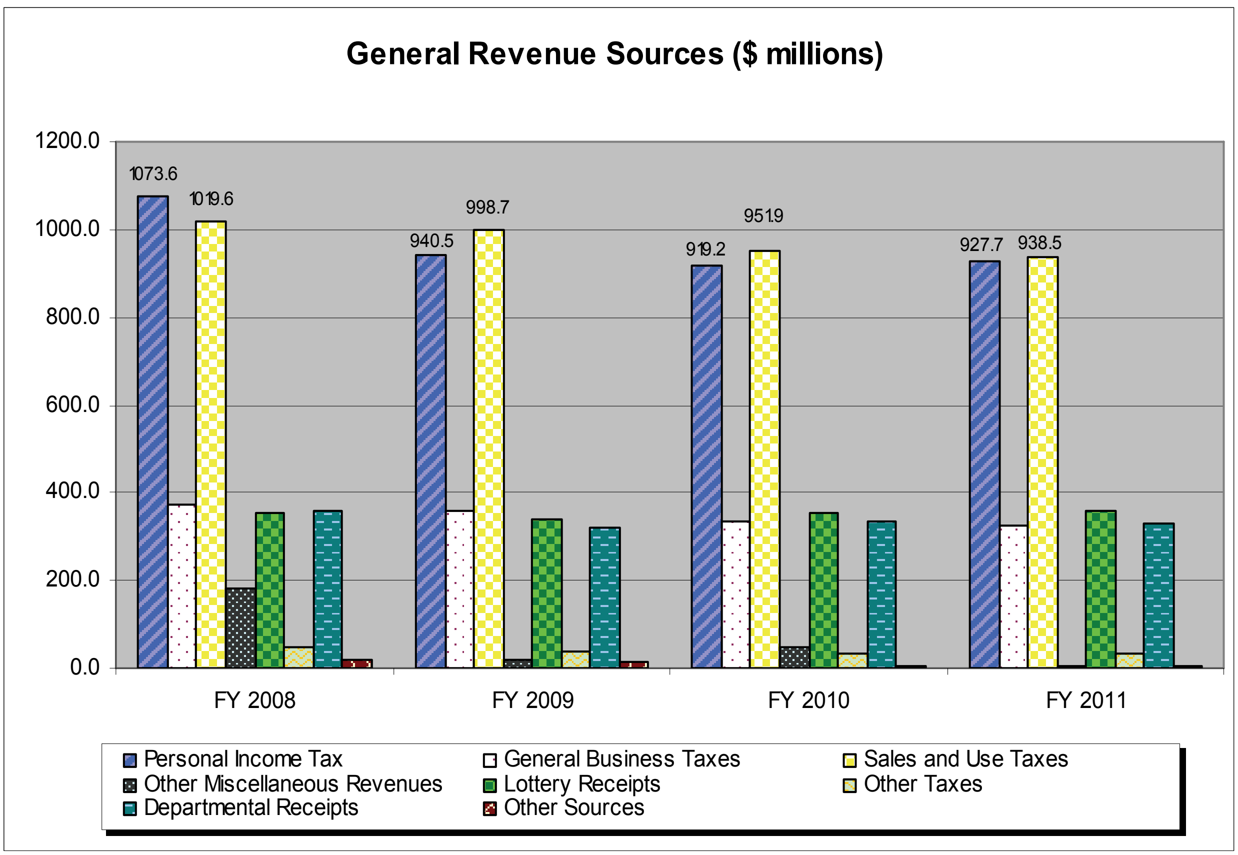
Miscellaneous Revenues are anticipated to generate $5.5 million in FY 2011 an increase of $1.0 million from the level adopted at the November 2009 Revenue Estimating Conference.

Within the Gas Tax Transfer component, the Governor's FY 2011 budget shows no change from the FY 2010 revised estimate. Effective July 1, 2009, the state's general fund no longer receives any of the revenues generated by the state's $0.32 per gallon gas tax.

Within the Lottery category, the recommended FY 2011 budget is $5.0 million greater than the revised FY 2010 budget, an increase of 1.4 percent. The Governor recommends no changes from the November 2009 REC estimate for the Lottery Transfer. In FY 2011, the Lottery Transfer is expected to be $356.9 million and comprise 12.2 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property Transfer. In FY 2011, this transfer is expected to decrease by $541,250, or 9.3 percent, from the revised FY 2010 estimate. The Unclaimed Property Transfer is projected to be $5.3 million in FY 2011, and comprises 0.2 percent of all general revenues.

The chart below shows the sources of general revenues for the period FY 2008 – FY 2011. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.



Restricted Receipts and Other Sources of Revenue

Introduction

The Governor's recommended budget proposes changes to revenue sources other than general revenues for FY 2010 and FY 2011. The revenue estimates in the Governor's FY 2010 supplemental budget contain an additional $9.1 million in restricted receipts. The FY 2011 recommended budget contains an additional $19.7 million in restricted receipts.

FY 2010 Revised Non-General Revenues

For FY 2010, the Governor has proposed reclassifying the monies received under the statewide student transportation initiative from general revenue receipts to restricted revenue receipts. This reclassification reduces general revenues by $8.6 million and simultaneously increases restricted receipts by the same amount in FY 2010. The Governor also proposes exempting the Underground Storage Tank Replacement Fund from the state's indirect cost recovery assessment. By exempting this fund from the assessment, $202,852 is transferred from general revenue receipts to restricted receipts in FY 2010.

Finally, in FY 2010, the Governor's proposes lowering the Telecommunication Education Access fee that is assessed on wireline phones and extend the reduced fee to wireless phones also. The reduction in the Telecommunication Education Access fee reduces restricted receipts from wireline phones by $232,155 while the application of the reduced fee to wireless phones increases restricted receipts by $523,125 in FY 2010.

FY 2011 Recommended Non-General Revenues

In FY 2011, the reclassification of the monies received from the statewide student transportation initiative results in increased restricted receipts of $15.6 million and a concomitant reduction in general revenues of the same amount. The FY 2010 proposal to exempt the Underground Storage Tank Replacement Fund from the state's indirect cost recovery assessment results in an increase in restricted receipts and a decrease in general revenues of $202,852 in FY 2011. The reduction in the Telecommunication Education Access fee on wireline phones and the application of this reduced fee to wireless phones, first proposed in the FY 2010 supplemental budget, is estimated to reduce restricted receipts from wireline phones by $557,172 and increase restricted receipts from wireless phones by $1.3 million in FY 2011.

The Governor also recommends the reclassification of the revenues received from the board and support payments made by patients at the Eleanor Slater Hospital, including those patients cared for at the Zambarano unit, from general revenue receipts to restricted receipts in FY 2011. This reclassification reduces available general revenues and increases restricted receipts by $3.2 million in FY 2011.

All Sources

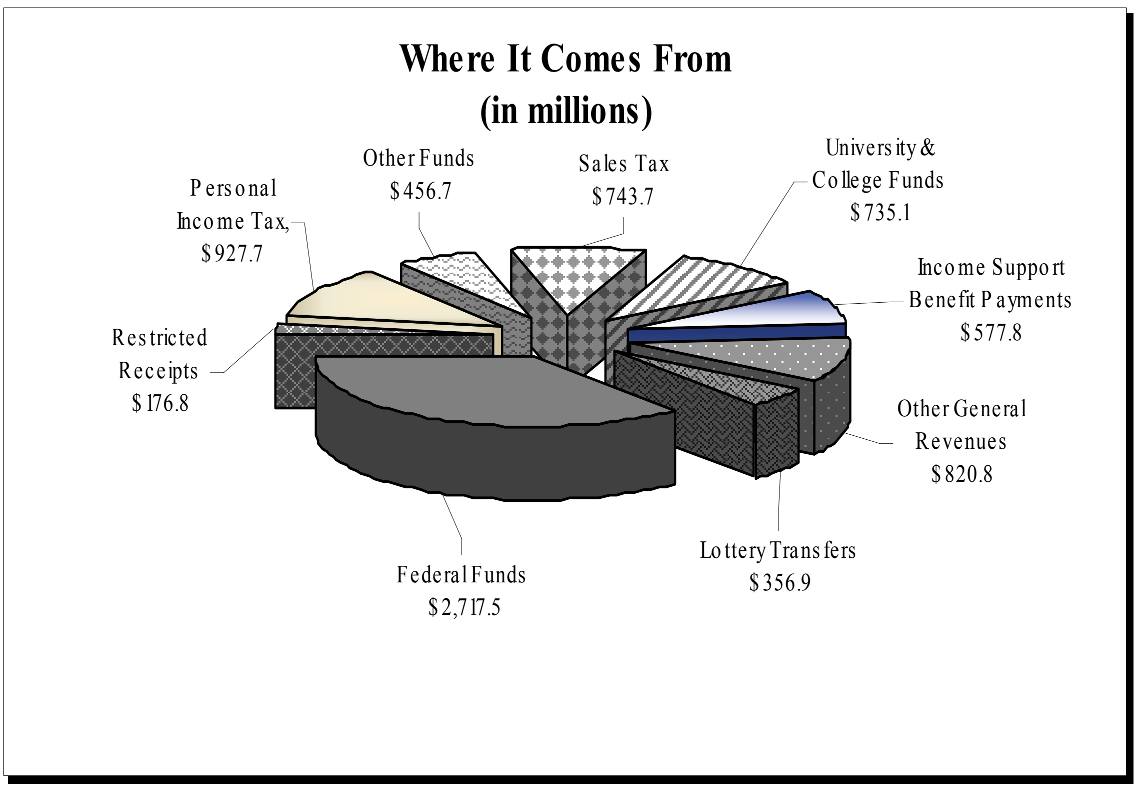
The total budget of $7,512.9 million includes all sources of funds from which state agencies make expenditures.

Federal funds represent 36.2 percent of all funds. Over 68.4 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales Taxes combined represent 22.2 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 9.8 percent, and 7.7 percent of the total, respectively.

Remaining sources include: Other General Revenues, 10.9 percent; the Lottery Transfer, 4.8 percent; Restricted Receipts, 2.4 percent; and Other Funds 6.1 percent.



All Expenditures

The Governor's FY 2011 Budget recommendation is $7,512.9 million all funds comprised of six functional units of state government: human services, education, general government, public safety, transportation, and natural resources.

Approximately thirty-nine percent of all expenditures are for human services, comprised of agencies that engage in a broad spectrum of activities including income support, client subsidies, case management and residential support, and medical regulation, prevention, treatment, and rehabilitation services. The FY 2011 recommended budget for all human service agencies is $2,960.1 million.

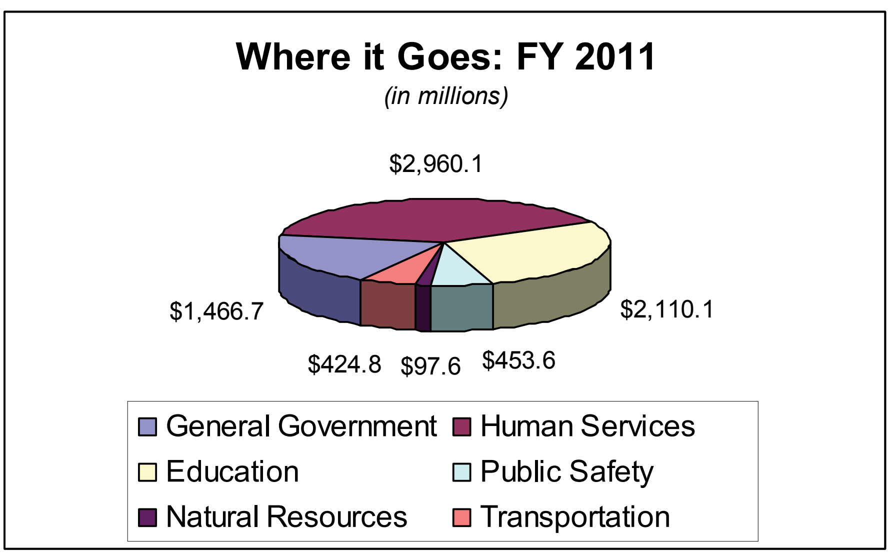
Approximately twenty-eight percent of all expenditures are for education, which includes the Department of Elementary and Secondary Education, Public Higher Education, the Rhode Island State Council on the Arts, the Rhode Island Atomic Energy Commission, the Rhode Island Higher Education Assistance Authority, the Historical Preservation and Heritage Commission, and the Rhode Island Public Telecommunications Authority. The FY 2011 recommended budget for education is $2,110.1 million.

Approximately twenty percent of all expenditures are for general government, which includes agencies that provide general administrative services to all other state agencies, and those that perform state licensure and regulatory functions. The FY 2011 recommended budget for all general government agencies is $1,466.7 million.

Approximately six percent of all expenditures are for public safety, which is the system that provides law enforcement, adjudicates justice, protects life and property, and handles emergencies impacting Rhode Island's citizens. The FY 2011 recommended budget for the public safety system is $453.6 million.

Approximately six percent of all expenditures are for transportation, which provides for the state's maintenance and construction of a quality transportation infrastructure. The FY 2011 recommended budget for transportation is $424.8 million.

Approximately one percent of all expenditures are for natural resources, which includes the Department of Environmental Management, the State Water Resources Board and the Coastal Resources Management Council. The FY 2011 recommended budget for natural resources is $97.6 million.

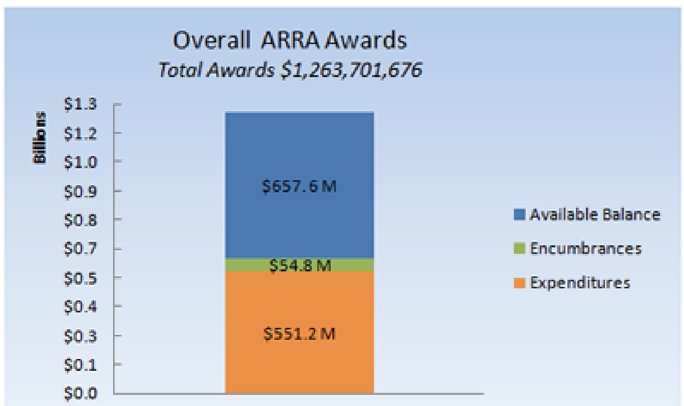


ARRA Stimulus

Federal Stimulus Funds Included in Governor's Recommended FY 2010 and FY 2011 Budgets

Congress proposed and on February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The Act provides $789 billion nationwide through spending programs, tax cuts, and other provisions. Over the life of the stimulus, it is estimated that the bill will provide over $1.4 billion to Rhode Island, not including tax cuts for individuals and businesses.

The Governor has certified Rhode Island's participation in the ARRA and thereby has assumed the responsibility that the funds are used to support activities that will create jobs and promote economic development. Further, the Governor, by Executive Order 09-04, has established the Office of Economic Recovery and Reinvestment (OERR) within the Office of the Governor. The Office will be responsible for administering and complying with ARRA; establishing processes for identifying, evaluating, and tracking ARRA initiatives; and will be responsible for transparency, tracking, and reporting of the funds provided by the ARRA. OERR will be funded through a 0.05 percent administration fee applied to the stimulus funding which has been authorized by OMB memorandum 09-18. To date, over $1.2 billion has been awarded with over $551.2 million already expended.



Source: Office of Economic Recovery and Reinvestment, http://www.recovery.ri.gov/

The Governor has included $774.2 million in the Revised FY 2010 budget and $455.7 million in the FY 2011 budget. The categories in the stimulus act that affect the Governor's recommended budgets include:

- State Fiscal Stabilization Fund – ARRA provides grants to state governors for fiscal relief including funding for local schools and higher education, public safety, and other government organizations. The majority of the stabilization fund must be used for education and the balance is flexible for the Governor to allocate for fiscal relief. The Governor recommends $57.8 million in the FY 2010 revised budget and $26.6 million in the FY 2011 budget. The Governor also recommends a total of $27.3 million over two years for Higher Education, which Higher Education will use for capital projects. This portion of stabilization funding will not offset any general revenues for the state and therefore does not provide direct fiscal relief to the state. In FY 2010, the Governor recommends $47.7 million for the Rhode Island Department of Education, $10.0 million for State Police, and $100,000 for the Department of Corrections. In FY 2011, the Governor recommends $26.6 million for Education which will exhaust the stabilization funds.

ARRA Stimulus

The recommended stabilization allocation is as follows:

Governor's Recommended Stabilization Funding

Department	FY2009 Actual	FY 2010 Rec	FY 2011 Rec	Totals
RIDE	33,207,223	47,715,384	26,645,522	**$107,568,129**
Corrections	19,900,000	100,000	-	**$20,000,000**
State Police	-	10,017,127	-	**$10,017,127**
Subtotal	**$53,107,223**	**$57,832,511**	**$26,645,522**	**$137,585,256**
Higher Education*		16,100,000	11,200,000	27,300,000
Totals	**$53,107,223**	**$73,932,511**	**$37,845,522**	**$164,885,256**

* Higher Education stabilization funds do not directly offset general revenues. The direct general revenue savings for the state due to stabilization are captured by the 'Subtotal' category.

- Health – ARRA includes provisions for increased aid for state health mandates. Of the health categories receiving additional funding, the increased Federal Medicaid Assistance Percentage (FMAP) is especially important to the State. This is the federal cost-share of Medicaid and Foster Care and Adoption Assistance. The increased percentage rate paid by the federal government provides direct relief to general revenues with the exception of the federal share of the LEA Special Education program. The Governor recommends $194.1 million in FY 2010 and $190.7 million in FY 2011, with the appropriation of these federal funds allowing for a withdrawal of an equivalent general revenue amount in the Medicaid program. An addition, the Governor recommends $4.5 million in both years for LEA Special Education.

Governor's Recommended FMAP Enhancement Funding

Department	FY 2009	FY 2010	FY 2011 (Jan 09 ARRA)	FY 2011 Projected	Change FY 2010 - FY 2011
Human Services	104,373,548	141,685,241	70,566,687	141,133,374	(551,867)
Health	90,509	142,752	71,376	142,752	-
Mental Health, Retardation	36,399,656	43,524,930	20,607,241	41,214,482	(2,310,448)
Elderly Affairs	686,286	882,404	441,201	882,402	-
Children, Youth, & Families	8,017,765	7,863,860	3,652,418	7,304,836	(559,024)
Subtotals	**$149,567,764**	**$194,099,187**	**$95,338,923**	**$190,677,846**	**(3,421,339)**
Share of LEA Special Ed.	2,211,992	4,473,222	2,237,175	4,474,350	1,128
Total FMAP Enhancement	**$151,779,756**	**$198,572,409**	**$97,576,098**	**$195,152,196**	**($3,420,211)**

** Due to the continued economic downturn, it is widely believed that the federal FMAP enhancement will be extended from six months in FY 11 through the year. As such, the Governor's recommended budget includes a full year of FMAP enhancement.*

- Human Services – ARRA provides additional grants for child care development, Head Start programs, community services, and child support enforcement. The Governor recommends $15.2 million in the FY 2010 revised budget and $5.6 million in the FY 2011 budget.

- Nutrition – ARRA includes additional funding for the Supplemental Nutrition Assistance Program (SNAP) benefits and administration. The Governor recommends $35.9 million in the FY 2010 revised budget and $43.9 million in the FY 2011 budget.

- Transportation – ARRA provides additional federal grants to state and local governments for transportation-related programs, including funding for federal highways, transit formula grants, fixed guide way modernization, surface transportation grants, competitive airport grants, and passenger rail grants. The Governor recommends $65.6 million in the FY 2010 revised budget and $44.2 million in the FY 2011 budget.

- Education – ARRA provides additional funding through existing K-12 federal-state programs. This includes Title I, Special Education, Education for Homeless Children & Youth, Teacher Incentive Fund, Impact Aid, Vocational Rehabilitation, and the Race to the Top Fund. The Governor recommends $72.4 million in the FY 2010 revised budget and $63.7 million in the FY 2011 budget.

- Employment & Labor Force – Additional grants for employment and labor force programs are included in the ARRA. These programs are the Workforce Investment Act (WIA), Employment Service, and Unemployment Insurance, which are all dedicated to aiding and training the unemployed. The Governor recommends $277.3 million in the FY 2010 revised budget and $29.3 million in the FY 2011 budget.

- Housing & Community Development – ARRA provides additional funding for existing state housing programs including the Community Development Block Grant, neighborhood stabilization grants, HOME funds, and public housing authorities. The Governor recommends $2.7 million in the FY 2010 revised budget and $2.0 million in the FY 2011 budget.

- Energy & Environment – ARRA provides grants to the state for energy and environment improvements in three forms including the State Energy Program, Weatherization Assistance, and the Energy Efficiency and Conservation Block Grant. The Governor recommends $19.5 million in the FY 2010 revised budget and $28.2 million in the FY 2011 budget.

- Public Safety – ARRA provides additional funding for state justice programs including the Edward Byrne Memorial Justice Assistance Grant, the Violence against Women Grant, the Crime Victims Assistance Grant, the Internet Crimes against Children Grant, and the Operation and Maintenance – Army National Guard grant. Aside from the $10.0 million in stabilization funds recommended in Public Safety, the Governor recommends grant funding of $4.0 million in the FY 2010 revised budget and $3.2 million in the FY 2011 budget.

- Natural Resources – ARRA provides additional funding for natural resource programs including the Leaking Underground Storage Tanks Grant, the Diesel Emission Program Grant, the Water Quality Planning Grant, Fish Passage Restoration, and the EPA Brownsfields Program Grant. The Governor recommends $9.6 million in the FY 2010 revised budget and $590,769 in the FY 2011 budget.

The Governor recommends that the stimulus funds are budgeted in twenty-four state agencies by function as follows:

Governor's Recommended Stimulus Budget

Function	FY 2009 Actual	FY 2010 Rec	FY 2011 Rec	3 Year Totals
General Government	38,619,629	299,785,697	59,731,084	$398,136,410
Human Services	158,042,357	251,443,029	246,363,057	$655,848,443
Education	33,212,408	136,613,587	101,647,582	$271,473,577
Public Safety	19,899,999	14,039,112	3,153,255	$37,092,366
Natural Resources	0	6,635,595	590,769	$7,226,364
Transportation	5,408,186	65,643,455	44,199,319	$115,250,960
Totals	**$255,182,579**	**$774,160,475**	**$455,685,066**	**$1,485,028,120**

ARRA Stimulus

Of the stimulus funds anticipated to be received by the state, an estimated $177.6 million will be used for capital projects. The Department of Transportation and Military Staff spending is reflected in the state budget, but the funds received and expended for clean water and drinking water projects are not. They are recorded in the Clean Water Finance Agency, a quasi-public agency of state government.

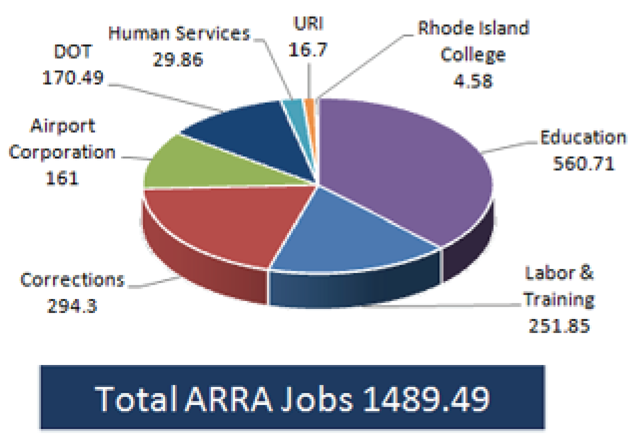
- Additional funds of $137.9 million for the Department of Transportation for highway infrastructure investment which will be spent over three years for sixty-two separate projects throughout the state including highway, road and bridge repair, pavement resurfacing as well as enhancement projects, such as lighting and drainage improvements.

- Additional funds of $604,900 for roof and window replacement to the U.S. Property and Fiscal Office and window replacement to the Federal Maintenance Shop of the Warwick Armory, which is used by the Rhode Island National Guard.

- Additional funds of $36.1 million for the Clean Water Finance Agency for both clean water and drinking water projects that will be selected from the State of Rhode Island's priority project lists. This includes $26.3 for the Clean Water State Revolving Loan Fund and $9.8 million for safe drinking water projects.

- Additional funding of $3.0 million for the Coastal Resources Management Council to continue construction on six high priority fish passage restoration projects that will be completed in the spring of 2010.

With the national unemployment rate at levels not seen since the recession of 1983, a major motivation of passing ARRA was to put Americans back to work. As such, one of the key metrics for measuring the success of the stimulus was the tracking of job created or saved. To date, 1,489 jobs have been created or saved for Rhode Islanders. The breakdown by agency is as follows:



Source: Office of Economic Recovery and Reinvestment, http://www.recovery.ri.gov/

While the ARRA provides needed relief and encourages job creation during this time of fiscal stress, the use of one time money for ongoing expenditures will create a larger structural deficit for the State. It is important that an appropriate "exit strategy" be developed in order to address the fall off in federal revenues which will occur. The five- year financial projection will reveal the significance of the problem.

Unemployment Trust Fund

High Unemployment Benefits Deplete Resources in Trust Fund

The Employment Security Fund is comprised primarily of monies collected from a tax imposed on Rhode Island employers. These funds are used for the sole purpose of paying unemployment insurance benefits to eligible claimants. All funds are deposited in the State's account in the federal Unemployment Trust Fund which is administered by the United States Treasury.

An employer's contribution rate is determined by (a) the level of reserves in the fund and (b) the individual employer's history of unemployment. The level of reserves determines the tax rate schedule in effect for all covered employers in the State for a specific calendar year, while a particular company's experience with unemployment determines the tax rate within that schedule at which that company is assessed.

The balance in the Rhode Island Employment Security Fund was ($120.9) million as of December 2009. This was a decrease of $200.1 million from December 2008. The Rhode Island Department of Labor and Training borrowed $70.3 in FY 2009 and $81.8 million to date (as of January 25, 2010) in FY 10. The Department projects that it will need to continue to borrow as authorized by federal law in order to meet the cost of unemployment benefit payments in FY 2010 and FY 2011. The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 repayment of the outstanding loan balance.

A history of the Employment Security Fund's financial status since 1975 when the first loan was made is presented in the table below. The first column of the chart presents the ending fund balance for each calendar year between 1975 and 2009. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) and employee benefits and loan repayments (disbursements) less any outstanding loan balance.

		Borrowings from Federal Unemployment Account	
Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	.02

Unemployment Trust Fund

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Amount Repaid (Millions)
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	120.9	-0-	-0-

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. In FY 2009, the State received $70.3 million in federal advances. The State has received authorization to borrow up to an additional $35 million, $20 million and $40 million in January, February and March 2010, respectively. Through January 25, 2010, the State has borrowed $24.6 million out of its authorized $35 million for January 2010. It is expected that borrowing will continue throughout FY 2010 and into FY 2011, and could reach $232.1 million by December 2010. Total borrowing is expected to peak at $308.1 million at the end of April 2011.

Unemployment Trust Fund

RI is One of Many States Borrowing to make UI Benefit Payments

Rhode Island is one of 27 states that has borrowed to pay benefits. As of January 21, 2010, states have borrowed a total of $29.7 billion from the federal government to pay UI benefits. The four largest borrowers are California, $6.7 billion, Michigan, $3.3 billion, New York, $2.4 billion, and Pennsylvania, $2.1 billion.

Under ARRA, the loans from the federal account do not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by October 1st of each year. Failure to pay this interest by the due date would result in a loss of state employer FUTA tax credits and the loss of the State's UI Administrative grant. The interest due on federal loans cannot be paid out of the State's UI Trust fund or by UI Grant funds. If the state is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a federal unemployment tax (FUTA) of 6.2% to the federal government less a credit of 5.4% when state UI law is in conformity with federal law. The net federal tax is, therefore, 0.8%. However, after a couple of years of outstanding loans, federal law requires cuts in the federal credit of 0.3% for each additional year that the loans remain outstanding. The additional money raised from the cut in the federal tax credit would be applied against the State's federal loan balance.

Reforms to the Modernize the UI Benefits will Yield Additional Resources to RI

Rhode Island is eligible for up to $23.5 million in Unemployment Insurance Modernization funds provided under ARRA. Rhode Island already qualifies for one third of this amount, $7.8 million, based the alternative base period provision in the Rhode Island UI law. In order to qualify for the remaining $15.6 million, Rhode Island must enact two of four qualifying provisions.

Over the past several months, these options have been studied by the Employment Security Advisory Council. The Employment Security Advisory Council was established (RIGL 28-42-37) to aid the Department in formulating policies and solving problems with the broad goal of improving the state's Unemployment Insurance system.

The Employment Security Advisory Council has made a recommendation that two of the four qualifying provisions be adopted. These changes are:

1) Increase the state's minimum dependent's allowance from $10 to $15. This change includes prorating the dependent's allowance for those who are receiving partial UI benefits in the same manner as is done for individuals receiving benefits under the Workshare program.

2) Do not disqualify individuals who leave work for compelling family reasons from eligibility for UI benefits if they are able and available for work. Compelling family reasons include: (a) victims of domestic violence, (b) caring for an immediate family member due to illness or disability, and (c) leaving a job to accompany a spouse whose location of employment has changed to a place where it is impractical to commute to the former job.

The cost of these changes is estimated by the Department of Labor and Training to be $0.4 million. The monies to be received into the fund, $15.6 million will bolster the resources and help reduce the need to borrow. The addition of these monies into the fund will reduce the potential federal interest cost to the state by an estimated $0.7 million per year.

Unemployment Trust Fund

Governor to Recommend Reforms to the Bring Structural Balance to the UI Fund

The Governor will also recommend changes to the Rhode Island Unemployment programs during this legislative session which will bring structural balance to the program's finances. Given the program's intent, the optimum financial structure would provide sufficient tax revenue to build up fund reserves in the good years, to cover the benefit payments incurred during the periods of economic stress. Also, an important factor to be considered in developing any tax policy is fairness. Over the years, employers should pay into the fund an amount roughly equivalent to the benefits drawn for their employees. The Department of Labor and Training is working with the Employment Security Advisory Council to study the causes for the severe mismatch between resources available and benefits paid under the program. The recommendations may include changes to increase the revenues into the fund, and or changes to the benefit structure. The Governor is also requesting that the Department consider the implications of the loans from the federal account and the interest that will be due on federal loans that must be paid by October 1st of each year. Failure to pay this interest by the due date would result in a loss of state employer FUTA tax credits and the loss of the State's UI Administrative grant.