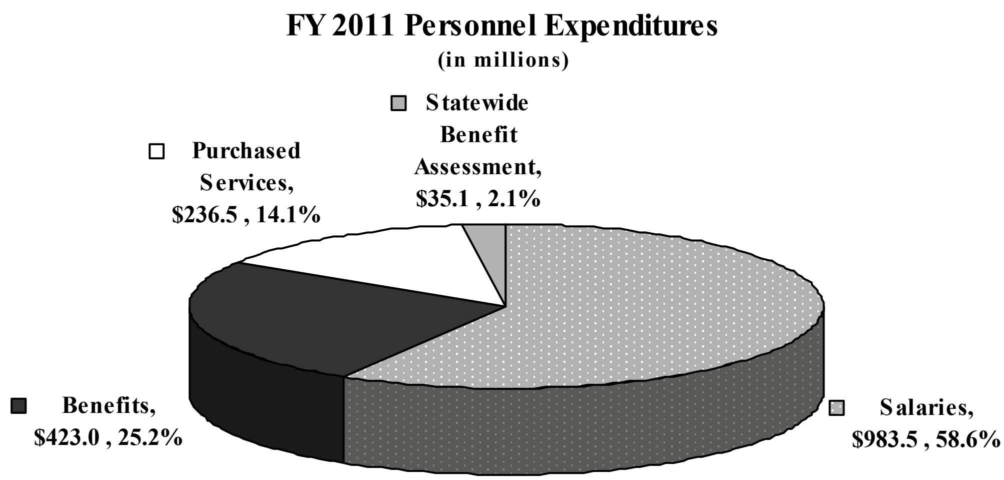
Introduction and Summary

The Governor's FY 2011 recommended budget finances personnel at $1.68 billion. This includes $1.41 billion for salary and benefits (83.8 percent), $236.5 million for purchased services (14.1 percent), and $35.1 million (2.1 percent) for such statewide benefits as severance, unemployment and workers compensation that are funded by a statewide assessment. This total includes expenditures financed from general revenues, federal grants, restricted receipts, other funds, and internal service funds. General revenue finances 47.5 percent of FY 2011 personnel expenditures. Federal funds finance 23.9 percent, other Funds (primarily college tuition funds) and Internal Service Funds finance 23.8 percent, and restricted receipts finance the remaining 4.8 percent. This document contains all expenditures for personnel, including those of the internal service funds, as noted above. Since internal service positions are financed through charges to state agencies categorized as operating expenses, totals shown in this document will differ in some cases from personnel costs shown in complementary documents of the FY 2011 Budget. After adjusting to reflect internal service fund personnel expenditures in the personnel category rather than as an operating expense, personnel expenditures constitute approximately 22.0 percent of the state budget, the second largest category of spending (after assistance, grants and benefits).



Personnel expenditures recommended for FY 2011 include a net increase of $68.5 million, or 4.3 percent, from the FY 2010-revised budget. Direct salaries increase by 5.3 percent. Overtime decrease by 14.2 percent. Fringe benefits increase by 8.0 percent overall, with increases in health benefits (8.8 percent) and retiree health (27.5 percent) as well as a smaller increase in retirement (3.2 percent).

Constrained Hiring/ARRA

The Governor recommends that State Government continue to operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The State experienced significant attrition from retirement in FY 2009. Between May 1, 2008 and October 1, 2008, there were 1,396 state employees who were members of the Employees Retirement System who retired. Overall, the state employee full time equivalent positions have been reduced from the FY 2008 final enacted level of 15,688.7 to 14,863.0 in the FY 2010 enacted budget, a reduction of 825.7 positions. In the FY 2010 revised budget, because of the need to fill certain critical positions, particularly due to the implementation of the global Medicaid waiver and the federal stimulus funds resulting from passage of the American Recovery and Reinvestment Act, the Governor recommends an FTE level of 14,904.3, an increase of 41.3 FTE's from the FY 2010 enacted budget, but a 784.4 FTE decrease from the FY 2008 revised budget. In the FY 2011 budget, the Governor recommends a reduction of 10.1 FTE's from the FY 2010 revised budget, or 14,894.2.

Pay Reduction Days/COLA Deferral

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, 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 have 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 201 and 5.0 days in FY 2011. Employees may request to discharge this 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 $8.99 million in FY 2011, as well as associated fringe benefit costs. These savings are depicted within each department or agency as a negative amount in the line entitled Pay Reduction Days, while the fringe benefit components that are associated with this reduction (retirement, FICA, retiree health, and assessed fringe benefits) are reflected in the respective codes associated with each benefit.

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 three percent (3%) across the board salary increase, which would otherwise have been effective July 1, 2010, shall not be effective until January 2, 2011 for all non-union employees and the members of unions that have 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 2% on an annualized basis 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.

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 (state employees, teachers, judges and members of the state police) are eligible 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 three percent (3%) 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 those 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:

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**

Current Retiree Health Benefit Structure

In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

Funding of Retiree Health Unfunded Liability

The Governor recommends that the State fund retiree health benefits on an actuarial basis and amortize the unfunded liability over a thirty year period. This funding mechanism will provide transparency with respect to the true cost of the benefit offered to state employees after employment. In compliance with GASB Statements 43 and 45, “Other Post Employment Benefits,” in July 2007, the State obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. Pursuant to GASB Statement 45, “Other Post Employment Benefits” 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% and assumes that future funding will be on an actuarial basis. The annual required contribution as a percentage of payroll would be 6.74%, 25.67%, 95.49% and 9.86% (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, which 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 unfunded liability, legislation was enacted which would require the State to fund on an actuarial basis and authorized 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. There are system enhancements under discussion that would appropriately shift of 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 as 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% elect Medicare at 65 to 25% elect it, 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% will elect retiree health care when eligible, based on historical experience of defined benefit and non-defined benefit Legislators.

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

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

Statewide Cost of Living Adjustment

As noted above, the Governor recommends a 1.5 percent cost of living adjustment for salaries and benefits in FY 2011 (3.0 percent in January 2011), reflecting negotiated and/or ratified union contracts with state employees. There was a cost of living increase of 2.5 percent in FY 2010. The adjustment would also apply to non-union employees, as well as to holiday and overtime costs.

State of Rhode Island Earns Gold Level Well Workplace Designation

In July 2009 the State of Rhode Island earned a Gold Level Well Workplace designation by the Wellness Councils of America (WELCOA). Gold Well Workplaces are organizations that have successfully built comprehensive worksite wellness initiatives and are demonstrating and documenting concrete outcomes. By achieving this level of excellence in workplace wellness programming, the State of Rhode Island demonstrates its commitment to protecting and enhancing the health and well-being of its employees. Through its partnership with UnitedHealthcare, the State has offered employees onsite activities and health screenings, annual health risk assessments, stress management and nutrition seminars and physical activity programs. Previously, the State of Rhode Island held a Silver Level designation. Based in Omaha, Nebraska, WELCOA is a national non-profit membership organization that is dedicated to promoting healthier lifestyles for all Americans, especially through health promotion initiatives at the worksite. The State's initiative encourages employees to take action which will improve their health and quality of life, at the same time detecting and preventing illness which could result in lower medical benefit claims costs. These claims costs are born by the State and the employees through the medical benefit co-share.

Savings in Employee Medical Benefits

The FY 2010 enacted budget was predicated on a planning value of $15,085 based upon a weighted average of three cost components consisting of medical, dental, and vision rates for both individual and family plans. The initial FY 2010 working rates set in July were revised to a new total of $14,407, a decrease of 4.7 percent based upon the favorable claims trend experienced in FY 2009. This trend is continuing in FY 2010, and based on the projected balance in the Health

Insurance Fund for FY 2010, the budget assumes there will be no charges for medical insurance for three pay periods during FY 2010. This results in an effective rate of $12,877. This equates to a 10.6% reduction in funding for medical insurance compared to the working rates included in the planning values. These savings have been taken from all general revenue funded accounts, but for most non-general revenue accounts, the savings were reallocated to natural 643799 in order to not reduce the overall budget authority in these accounts. When medical benefit claims cost the State less, the savings are shared with the employees who contribute on the basis of percent of premium. Therefore, it is projected that employees will not be charged for three pay periods in FY 2010.

The FY 2011 budget instructions contained an estimated planning value equal to $15,225; an approximate increase of 0.9 percent from the FY 2009 enacted level. Target totals for medical benefits recognize the savings associated with expanded employee co-share contributions. The budgeted working rates for FY 2011 are also reduced from the planning values by 10%, based upon the claims trend in FY 2009 and FY 2010 year to date. The projected weighted average cost for FY 2011 of $13,824 reflects 7.4% growth from FY 2010 rates in the Governor's recommended supplemental. The table below shows the projected costs for medical benefits and the employee co-shares for the majority of the State's workforce.

	FY 2010 Enacted	FY 2010 Revised Planning Values	FY 2010 Governor Recommended 3 holidays	FY 2011 Planning Values	FY 2011 Governor Recommended
Health Benefits Cost					
Medical	6,324	6,020	5,326	6,369	5,732
Vision	82	83	83	86	86
Dental	334	334	347	347	360
Individual	6,740	6,437	5,756	6,802	6,178
Medical	17,727	16,877	14,929	17,856	16,068
Vision	174	177	177	182	184
Dental	934	934	971	971	1,008
Family	18,835	17,988	16,077	19,009	17,259
Weighted Average Annual Cost Per FTE Position - All Plans					
Medical	14,192	13,511	11,952	14,295	12,864
Vision	145	148	148	152	153
Dental	748	748	777	778	807
Total	15,085	14,407	12,877	15,225	13,824
Growth FY 2011 over FY2010					7.4%

Most employees pay a co-share for medical benefits based on a percentage of premiums. The negotiated schedule provides for sliding co-shares based upon salary level, as shown in the following chart:

FY 2010	
Family Plans Co-Share - Percent of Premium	
Salary Range	
Below $25,000	13.5%
$25,000 - $34,999	13.5%
$35,000-$44,999	13.5%
$45,000- $74,999	20.0%
$75,000-$89,999	20.0%
Over $90,000	25.0%
Individual Plans Co-Share -Percent of Premium	
Salary Range	
Below $45,000	15.0%
$45,000- $74,999	20.0%
$75,000-$89,999	20.0%
Over $90,000	25.0%
Part-Time Employees (individual and family coverage)	
Salary Range	
Below $55,000	15.0%
$55,000 - $90,000	20.0%
Over $90,000	35.0%

FY 2011	
Family Plans Co-Share - Percent of Premium	
Salary Range	
Below $46,350	14.0%
$46,350- $92,700	20.0%
Over $92,700	25.0%
Individual Plans Co-Share -Percent of Premium	
Salary Range	
Below $46,350	17.5%
$46,350- $92,700	20.0%
Over $92,700	25.0%

FY 2012	
Family Plans Co-Share - Percent of Premium	
Salary Range	
Below $47,741	15.0%
$47,741-$95,481	20.0%
Over $95,481	25.0%
Individual Plans Co-Share - Percent of Premium	
Salary Range	
Below $95,481	20.0%
Over $95,481	25.0%

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Full-Time Equivalent Positions (FTE)
The FY 2010 enacted budget contained 14,863.6 full-time equivalent (FTE) positions, including 785.0 FTEs that are federal/sponsored research positions in Higher Education. In order to maintain an acceptable level of critical services and reflecting the availability of federal stimulus funds under the American Recovery and Reinvestment Act (ARRA), the Governor recommends 14,904.3 FTE for FY 2010, an increase of 41.3 FTEs from the enacted level. The increase is due primarily to the addition of 56.0 ARRA funded FTE positions. Major ARRA FTE additions are in Administration (14.0), Labor and Training (35.0), Office of the Governor (3.0), Public Utilities Commission (2.0), and the Office of the Public Defender (2.0). These join 98.6 FTE positions in the enacted budget that are funded through ARRA in Transportation (89.0), Office of the Governor (4.0), Corrections (0.5), Attorney General (1.1), Environmental Management (8.0), and Elementary and Secondary Education (5.0). 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), and from the Office of the Governor to the Department of Public Safety.

In FY 2011, the Governor recommends a total FTE level of 14,894.2, including 785.0 Higher Education federal/sponsored research positions, a net decrease of 10.1 FTE's from the revised FY 2010 level. Besides an addition of 15.0 ARRA competitive grant FTE's, there are decreases in Labor and Training (20.1) (due to conversion to part time status of interviewers in Unemployment Insurance), program repriorization 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 FTE's) 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).

In **General Government**, the Governor recommends a net decrease of 170.3 in FY 2011 from the FY 2010 enacted budget. The decrease from FY 2010 revised is 202.1 FTE's. In addition to ARRA and the Sheriffs/Human Services transfers referred to above, there are reductions in Administration due to the position eliminations in Information Technology and internal service funds, as well as increases in State Purchasing, Energy Resources, and DMV operations. In the Department of Labor and Training, there is an increase of 9.3 FTE's for claims interviewers, offset by reductions of 6.5 FTE's due to vacancies and retirement. An increase of 4.0 FTE's is also recommended in the Department of Revenue for DMV scanners.

In **Human Services**, the Governor recommends a net increase of 13.5 FTE in FY 2010 (and FY 2011), from the FY 2010 enacted FTE cap. The Governor recommends additional federal positions in the Department of Health due to the availability of federal funds, as referred to above, as well as the transfer of SNAP (WIC) FTE's to the Department of Human Services. Other department changes include MHRH (reductions of 2.0 in FY 2011 due to retirement and 1.0 in FY 2011 due to program elimination), Office of Health and Human Services and the Office of the Child Advocate (technical adjustments), and the Department of Human Services (restoration of a mail clerk FTE removed in FY 2010 revised in January).

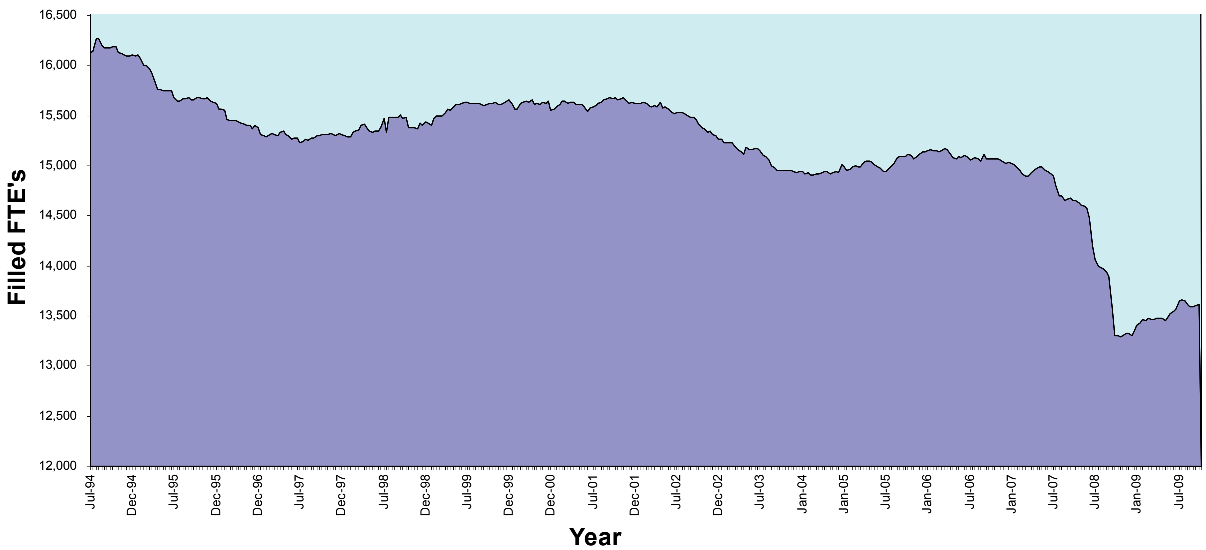
In **Education**, the Governor recommends a net increase of 13.0 FTEs in FY 2011 from the FY 2010 enacted budget, and an increase of 15.0 from the FY 2010 revised budget. Besides vacancy reductions of 2.0 in the Public Telecommunications Authority, the 15.0 FTE increase in FY 2011 reflects the intent to obtain competitive grants in the Race-to-the-Top program in Elementary and Secondary Education.

In **Public Safety**, the Governor recommends a net increase of 178.3 FTEs in FY 2011 from the FY 2010 Enacted budget, and an increase of 1.0 from the FY 2010 revised budget. In addition to the transfer of Sheriffs positions to the Department of Public Safety and other transfers and ARRA funded increases in the Office of Public Safety referred to above, the increase reflects reductions in the State Police of 3.0 trooper FTE's in FY 2010, and 4.0 FTE's in the Violent Fugitive Task Force in FY 2011.

In **Natural Resources**, the Governor recommends a vacancy reduction of 3.0 FTEs in FY 2010 and FY 2011 from the enacted FY 2010 budget. In **Transportation**, the Governor recommends a no change from then acted level of 780.2 in FY 2010 or FY 2011.

As directed by the Governor, the overall filled FTE level must be constrained through careful management by cabinet directors of existing and upcoming vacancies. Actual filled positions totaled 13,565.7 as of January 2, 2010, a 235.0 position increase from 13,330.7 as of the end of 2008, but still 1,517.1 below the 15,082.8 in July 2007. This included 575.6 filled sponsored research positions. Actual filled positions excluding sponsored research positions as of January 2, 2010 were 12,990.1, 1,522.5 less than in July 2007. The filled level of 13,565.7 FTE is 1,297.3 FTEs (8.7 percent) less than the enacted cap of 14,863.0. Since records have been kept on FTE levels, filled full-time equivalent positions are at near all time low. In the FY 2011 budget, turnover (all funds) is estimated to be 4.65 percent of salaries, comparable to the FY 2010 enacted level of 2.2 (The FY 2010 revised rate is 5.3 percent). Because of resource constraints, there are FTE's in the roster that will not be filled in FY 2010.

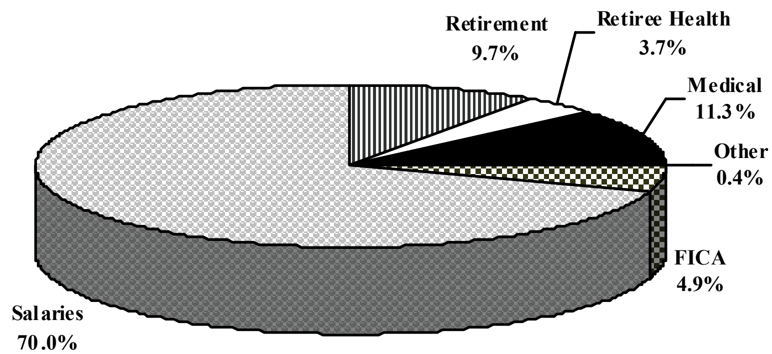
Introduction and Summary



Salaries and Benefits

The largest category of personnel expenditures is for salaries and benefits. Salaries and benefits (including temporary and seasonal) represent $1,406.6 billion or 83.8 percent of total personnel costs. Salaries, including payroll accrual, overtime, holiday, and other salary-related items, equal $983.5 million and fringe benefits equal $423.0 million. Fringe benefit payments include $136.3 million for retirement costs, $159.1 million for medical benefits (including $156.5 million for benefit plans and $2.3 million for medical benefits-salary disbursements), $52.4 million for retiree health benefits, $68.7 million for FICA, and $6.5 million for other benefits, including group life insurance and other contract stipends. In addition, the statewide benefit assessment, is included to finance severance, unemployment, employee assistance, workers' compensation payments and administrative costs, and DLT employer assessments, and totals $35.1 million.

FY 2011 Salaries and Benefits



Direct Salaries (including uncompensated leave day) increase by 3.5 percent in the FY 2010 Revised Budget over FY 2009 (unaudited expenditures), and increase by 4.0 percent in FY 2011 over FY 2010 revised. When adjusted for overtime, which decreases in FY 2010 revised and FY 2011, the respective salary change is a 2.5 percent decline in FY 2010 and a 5.2 percent growth in FY 2010. The FY 2010 revised decrease reflects a limitation on the number of replacement hires so that filled FTE's are near their lowest level in years. On average, the FY 2011 increase after the impact of the wage concession in FY 2010 and FY 2011 is about a 3.1 percent annualized change. As shown below, the value of the concessions was roughly equal in FY 2010 and FY 2011, so the year over year increase is about equal to the cost of living increase. This could be further increased by step and longevity increases which average about 1.7%.

Additionally, $7.3 million is included in salaries and benefits for the RIBCO FY 2010 and FY 2011 base wage adjustment which is currently in arbitration, with no adjustment for possible retroactive payments for FY 2007, FY 2008, and FY 2009.

Fringe benefit adjustments decrease by 3.73 percent in FY 2010 revised over FY 2009, and increases by 8.0 percent in FY 2011 over FY 2010 revised. **Retirement** decreases by 8.7 percent in FY 2010 but increases by 3.2 percent in FY 2011. As previously discussed, the funding levels reflect the Governor's proposed pension reform. Within state agency budgets, state employer retirement contributions are budgeted at 21.64 percent and 21.64 percent of payroll for FY 2010 revised and FY 2011, Savings from the proposed reform is budgeted in the Department of Administration as negative appropriations to be allocated at a later point. Costs would be higher if reform is not adopted**.** **FICA** increases by 5.4 percent in FY 2010 and by 3.5 percent in FY 2011.

For **medical benefits**, the recommended budget for FY 2010 revised of $146.2 million includes an overall decrease of 6.9 percent over FY 2009 actual expenditure levels. For FY 2011, the recommendation of $159.1 million in medical benefits is an increase of 8.8 percent from the recommended revised budget amount for FY 2010, so that the decrease from the FY 2010 enacted budget is 5.1 percent.

Introduction and Summary

The Governor recommends a **retiree health** budget of $41.1 million in FY 2010 revised and $52.4 million in FY 2010, a growth rate of 15.4 percent in FY 2010 from FY 2009, and a 27.5 percent increase from FY 2010 revised to FY 2011, due to the recommended increase for actuarial funding. Therefore the rate has increase to 5.62 percent in FY 2010 and to 6.74 percent in FY 2011 for state employees, which will assumes a transition to actuarial-based funding and amortization of the unfunded liability over a thirty year period. For judges, the rate rises from 1.79 percent to 9.86 percent. For legislators, the rate rises from 9.03 percent to 95.49 percent. For state police, the rate rises from 14.62 percent to 25.67 percent.

Workers' compensation costs budgeted directly in the agencies in FY 2010 and FY 2011 are $124,364 and $128,007 respectively and are funded in the Departments of Corrections and Mental Health, Retardation and Hospitals. These amounts reflect the continuation of wages in excess of those amounts received as a result of the Workers' Compensation statute (primarily as a result of assault cases). Since FY 2001, all workers' compensation costs, as well as unemployment insurance and unused leave severance payments, have been paid from a separate Assessed Fringe Benefits Administrative Fund. The fund is financed by a statewide benefit assessment of a fixed percentage of direct salaries that is charged to every department and agency in this document. The FY 2010 revised budget includes an increase in the assessed fringe benefit rate from the initial planning value of 4.2 percent to 4.54 percent for regular state employees. However, certain agencies and/or certain employee classifications are not assessed the full rate because they do not receive worker's compensation benefits. Also, certain higher education employees do not receive severance payments. The exception rate for Public Safety related position was raised from 2.5 percent to 2.52 percent, and for university faculty from 3.1 percent to 3.4 percent. In FY 2011 the rates decrease to 4.27 percent, 2.3 percent, and 3.28 percent respectively. The assessed fringe benefit rate is applied to all direct salaries, except overtime. The higher rates reflect the higher than originally estimated cost of unemployment compensation payments for state employees, as well as a lower salary base over which the rate increase is applied. Expenditures from the fund have grown from $31.1 million in FY 2008 to $43.1 million FY 2009. The surge in severance payments is due to the large number of employees that retired prior to changes in retiree health benefit provisions, which became effective October 1, 2008. From the FY 2010 revised budget is $35.3 million. The budget in FY 2011 is $35.1 million, a decrease of 0.5 percent.

The Assessed Fringe Benefit Fund is used to fund the following: services provided by the Donley Center; services of the Workers' Compensation Court; the Division of Workers' Compensation administrative costs related to workers' compensation activities; workers' compensation benefit payments to employees; payments to workers' compensation providers; unemployment compensation payments; severance payments to employees for unused leave upon termination form state service; and Cornerstone Program administrative costs for the Flexible Health savings account.. The costs for the Employee Assistance Program are no longer charged to this fund. They are born by the United Health Care contract.

Impact of Negotiated Concessions on Growth in Salary and Benefit Costs

It is important to understand the relevance of the contribution which 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 above 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% in FY 2010 and 3.0% in FY 2011 as shown below. In FY 2012, salaries would increase back up to the previously negotiated levels. For an employee making $50,000 in FY 2010, their pay, after concessions would be $48,462 in FY 2010, $49,958 in FY 2011, and $53,045 in FY 2012. Salary only savings would be $1,538, $1,542 and zero in FY 2010, FY 2011, and FY 2012 respectively.

Impact on Salary Only of FY2010 and FY2011 Negotiated Concessions- Sample $50,000 Salary	Pay with no concessions	Pay with FY2010 & FY2011 concessions
FY2010 Salary Impact		
FY2010 Salary	50,000	50,000
8 pay reduction days		(1,538)
FY2010 Revised Salary	50,000	48,462
Salary Savings in FY2010		(1,538)
Percent Salary reduction in FY2010		-3.1%
FY2011 Salary Impact		
FY2010 Revised Salary	50,000	50,000
3.0% Cola	1,500	1,500
FY2011 Salary	51,500	51,500
Delay six months -3% COLA		(750)
4 pay reduction days		(792)
FY2011 Revised Salary	51,500	49,958
Salary Savings in FY2011		(1,542)
Percent salary reduction in FY2011		-3.0%
FY2012 Salary Impact		
FY2011 Salary	51,500	49,958
3.0% FY2012 Cola	1,545	1,545
Adjustment for concessions in prior year		1,542
FY2012 Salary	53,045	53,045
Salary Savings in FY2012		0
Percent salary reduction in FY2012		0.0%

As one can see on the next chart, when one includes the cost of employee benefits, the savings to the State increase to $2,100, $2,123, and zero in FY 2010, FY 2011, and FY 2012 respectively. This is the result lower contributions that are based on rate of pay, such as FICA. However, the percentage savings compared to the total salary and benefit package decreases slightly to -2.7%, -

2.6% and zero because not all benefits are dependent upon the salary amount (i.e. medical benefits).

Impact on Budgeted Cost of Salary and Benefits of Negotiated FY2010 and FY2011 Concessions- Sample $50,000 Salary	Pay with no concessions FY2010	Pay with Concessions FY2010
FY2010 Salary	50,000	48,462
Retirement, FICA, Retiree Health, Assessed Fringe Benefits*	18,260	17,698
Weighted Average Medical	10,302	10,302
Total FY2010 Salary & Benefits	78,562	76,461
Savings in FY2010		(2,100)
Percent Salary & Benefit savings in FY2010		-2.7%
	FY2011	FY2011
FY2011 Salary	51,500	49,958
Retirement, FICA, Retiree Health, Assessed Fringe Benefits*	19,385	18,804
Weighted Average Medical	11,059	11,059
Total FY2011Salary & Benefits	81,944	79,821
Savings in FY2011		(2,123)
Percent Salary & Benefit savings in FY2011		-2.6%
	FY2012	FY2012
FY2012 Salary	53,045	53,045
Retirement, FICA, Retiree Health, Assessed Fringe Benefits*	19,966	19,966
Weighted Average Medical	11,590	11,590
Total FY2011Salary & Benefits	84,601	84,601
Savings in FY2011		0
Percent Salary & Benefit savings in FY2011		0.0%

Benefit Assumptions:	FY2010	FY2011	FY2012
Retirement	18.71%	18.71%	18.71%
Retiree Health	5.62%	6.74%	6.74%
FICA	7.65%	7.65%	7.65%
Assessed Fringe	4.54%	4.54%	4.54%
Total Benefits Applied to Salary	36.52%	37.64%	37.64%
Weighted Average Medical Benefit Cost	12,877	13,824	14,488
Less Employee Co-share	(2,575)	(2,765)	(2,898)
Weighted Average Medical Benefit Cost	10,302	11,059	11,590

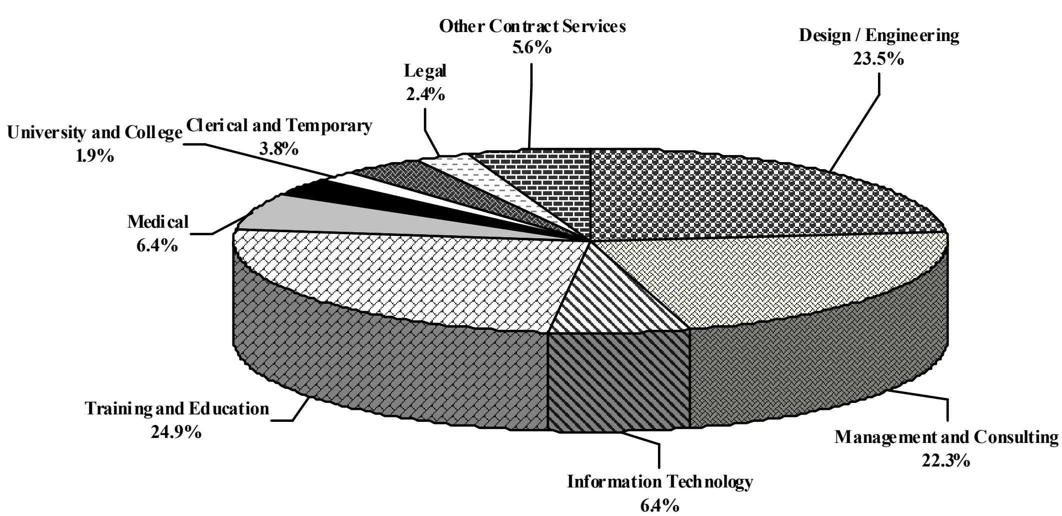
When reviewing the statewide personnel costs, one must be cognizant of aggregate dollar savings taken in both the FY 2010 and FY 2011 budget compared to what was previously negotiated and projected as the current service costs. Because these savings are roughly equivalent, the year over year comparison 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. By using the same $50,000 salary, one can see the growth in estimated the salary and benefit costs for FY 2010, FY 2011, and FY 2012.

Budgeted Cost of Salary and Benefits - Sample $50,000 Salary	FY2010	FY2011	FY2012
FY2010 Salary	48,462	49,958	53,045
Salary Only Dollar Growth		1,496	3,087
Salary Only Percentage Growth		3.1%	6.2%
FY2010 Salary & Benefits	76,461	79,821	84,601
Salary and Benefit Dollar Growth		3,360	4,780
Salary and Benefit Percentage Growth		4.4%	6.0%

Purchased Services

Purchased Services costs in the FY 2011 Budget are $236.5 million, and represent 14.1 percent of total personnel costs. Expenditures in this category are for services provided by outside contractors in cases where special expertise is needed or where it would be less effective to hire full-time employees. Major categories of expenditure are management and consulting services (comprising 22.3 percent of the total), design and engineering services (comprising 23.5 percent), training and education services (comprising 24.9 percent), medical services (6.4 percent), and information technology services (6.4 percent).

FY 2011 Purchased Services



Expenditures in FY 2010 revised are $67.8 million more than FY 2009, a 40.0 percent increase in spending for these services. Expenditures in FY 2011 are $550,062 less than FY 2010 revised. The greatest increase is in training and education services ($14.8 million) and Management and consultant services ($895,636). These increases are offset by declines in information technology services ($4.4 million), design and engineering services ($5.5 million), other contract services ($3.2 million), university/college services ($1.7 million), and clerical and temporary services ($1.5 million). A major reason for the decline is the finalization of project work in FY 2011, and the policy goal to reduce contract employee services. General revenue Increases by $1.4 million due to resumption of current services for stream gauges and Water Allocation Plan studies in the Water Resources Board, 2010 general election expenses in the Board of Elections and the Secretary of State, cost shifts of housekeeping services from Administration to Human Services, and increases in Medicaid management and expanded estate lien recovery contracts

The various sections of the Personnel Supplement contain the personnel costs for each agency and program in state government for FY 2009 and FY 2010. All positions and their respective costs are displayed. Footnotes will assist readers in understanding variances between the years. Footnotes are included in the back section of this document. Additionally, there are a number of terms used in the Personnel Supplement that are not part of every day usage. A Glossary with extended explanations is included in the back of the Personnel Supplement. For more information on the codes used to identify the pay scales, refer to the Glossary. Pay scales are also reflected on the State's Human Resources web site.