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Difficult Times Call for Difficult Decisions

The State has projected structural deficits for several years. The Governor has recommended a series of actions during his administration in order to reduce and eventually eliminate the structural deficit. These recommendations have primarily been to reduce expenditures, as the Governor feels strongly that broad based tax increases will make Rhode Island less competitive and deter future economic growth. The FY 2010 budget continues to pursue the Governor's goal of bringing expenditures in line with underlying revenue growth. The Governor proposes additional pension reforms to lower costs and make public pensions more comparable to those in the private sector. Personnel costs have been reduced and State government will operate with fewer state and contract employees than in years past. The State's retiree health benefits have been modified to make it more affordable to the taxpayers and provide for more transparency on the cost of providing these benefits to current and future retirees. Gradual reforms are in development to change the way in which Medicaid services are procured and delivered. The Family Independence Program has been restructured to promote work participation and family units. With respect to local government spending, the Governor recommends legislation that will help local governments take control of their spending and be more accountable to their property taxpayers.

Federal Stimulus Funds Included in Governor's Recommended FY 2009 and FY 2010 Budgets

The national economy is in a crisis, facing the prospects of a deep and prolonged recession. Initiated by a freeze in the credit markets, home prices across the country have spiraled downward coupled with a drop in consumer confidence and decreased spending. As a result, the stock market has withdrawn to a level that has wiped out a decade of gains, and investors have seen personal and retirement income almost halved in a brief period. The national unemployment rate has reached levels not seen since the recession of 1983. As such, 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 $1.0 billion to Rhode Island, not including tax cuts for individuals and businesses. Based on formula-driven grants, the Governor has included $252.1 million in the Revised FY 2009 budget and $529.1 million in the FY 2010 budget. Potential competitive grant awards have not been included, and any grants awarded to Rhode Island will be budgeted at that time. The categories in the stimulus act that affect the Governor's Budget for FY 2009 and FY 2010 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 $55.0 million in the FY 2009 revised budget and $55.0 million in the FY 2010 budget. The Governor will seek a waiver from the maintenance of effort requirements, and has recommended that the funds be allocated in FY 2009 to Higher Education ($6.6 million), K-12 ($38.3 million), and general purpose funds to the Station Fire settlement ($10.0 million). In FY 2010, the Governor recommends that the funds be allocated to Higher Education ($7.8 million), K-12 ($37.2 million), and general purpose funds to relieve the state of distressed communities' aid ($10.0 million).

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- 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. Again, the general revenue reduction in the FY 2009 and FY 2010 budget is largely driven by the provision of the American Reinvestment and Recovery Act (ARRA) establishing a temporary increase in the Federal Medicaid Assistance Percentage (FMAP), from 52.62 percent to 63.93 percent in (Federal) FY 2010. When applied to the applicable base Medicaid expenditures, the resultant increase in federal participation totals $137.3 million in the FY 2009 revised budget and $184.2 million in the FY 2010 budget, with appropriation of these additional federal funds allowing for withdrawal of an equivalent amount of general revenues in the Medicaid program.

Agency	FY 2009			FY 2010
	FY 2009 Original Supplemental Estimate of Enhanced Match	Final FY2009 Supplemental	Change	Governor's Recommended Enhanced Match
Department of Human Services	($19.5)	($95.0)	($75.5)	($129.0)
Department of Health	(0.1)	(0.1)	(0.0)	(0.1)
Department of Mental Health, Retardation	(6.3)	(35.2)	(29.0)	(45.6)
Department of Elderly Affairs	(0.2)	(0.7)	(0.5)	(0.9)
Department of Children, Youth, and Families	(1.5)	(6.3)	(4.8)	(8.5)
Total	($27.5)	($137.3)	($109.8)	($184.2)

- Human Services – ARRA provides additional grants for child care development, Head Start programs, community services, and child support enforcement. The Governor recommends $3.0 million in the FY 2009 revised budget and $13.9 million in the FY 2010 budget.

- Nutrition – ARRA includes additional funding for the Special Supplemental Nutrition Program for Women and Children (WIC) and the Supplemental Nutrition Assistance Program (SNAP). The Governor recommends $8.1 million in the FY 2009 revised budget and $35.9 million in the FY 2010 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 $20.0 million in the FY 2009 revised budget and $97.4 million in the FY 2010 budget.

Overview

- 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, and Vocational Rehabilitation. The Governor recommends $215,641 in the FY 2009 revised budget and $48.9 million in the FY 2010 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 $17.1 million in the FY 2009 revised budget and $54.8 million in the FY 2010 budget.

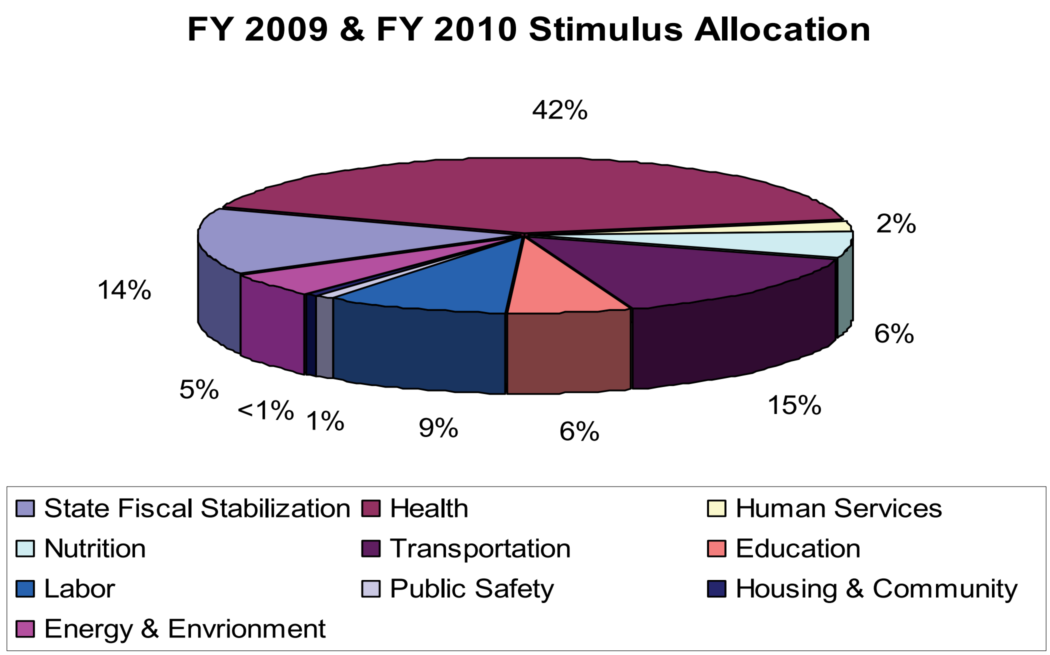
- Housing & Community Development – ARRA provides additional funding for existing state housing programs including the Community Development Block Grant, neighborhood stabilization grants, HOME funds, and public housing authorities. The Governor recommends $270,594 in the FY 2009 revised budget and $3.4 million in the FY 2010 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 $7.0 million in the FY 2009 revised budget and $33.0 million in the FY 2010 budget.

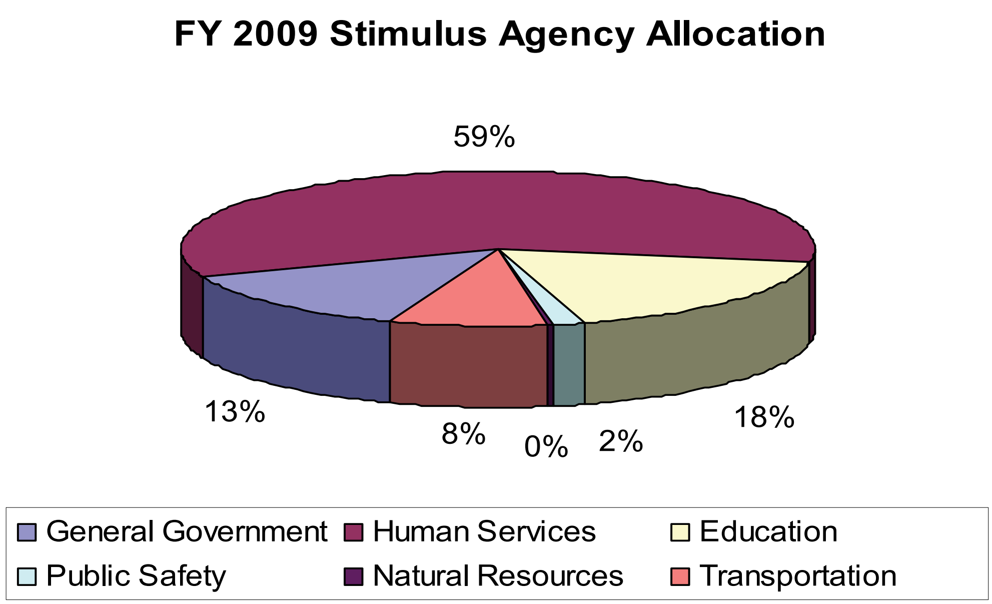
- Public Safety – ARRA provides additional funding for state justice programs including the Edward Byrne Memorial Justice Assistance Grant, the Violence against Women Grant, the Crime Victims Assistance Grant, the Internet Crimes against Children Grant, and the Operation and Maintenance – Army National Guard grant. The Governor recommends $4.4 million in the FY 2009 revised budget and $4.0 million in the FY 2010 budget.

While the ARRA provides needed relief 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. The Governor's recommendation for the stimulus funds over FY 2009 and FY 2010 are allocated by ARRA categories as follows:

Overview



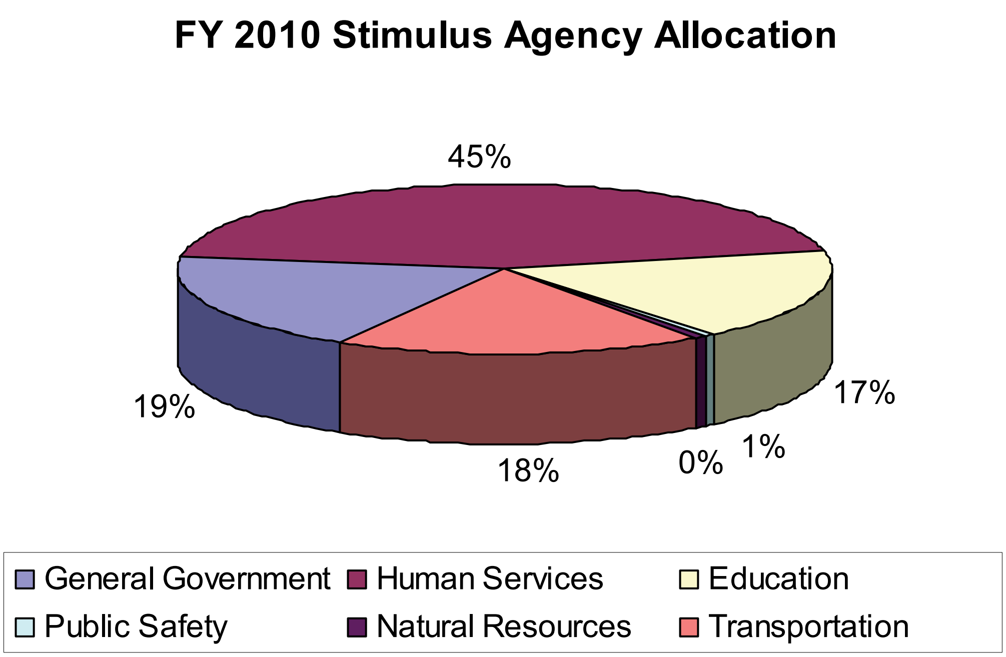
The Governor recommends that the stimulus funds are budgeted in the FY 2009 revised budget in thirteen state agencies by function as follows:



By far the largest amount of the federal stimulus funds is allocated to the Human Service agencies – $148.4 million. Other categories of state agencies anticipating federal funds include: Education - $45.1 million, General Government – $33.6 million, Transportation – $20.0 million, Public Safety – $4.4 million, and Natural Resources – $675,000.

Overview

For FY 2010, the Governor recommends that the stimulus funds are budgeted in fourteen state agencies by function as follows:



In FY 2010, the Human Services agencies expect the most funding – $234.3 million, followed by General Government agencies – $99.4 million, Transportation – $97.4 million, Education – $92.3 million, Public Safety – $3.8 million, and Natural Resources – $2.0 million.

Of the federal funds anticipated to be received by Rhode Island for FY 2009 through FY 2011, an estimated $164.2 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 $137.1 million for the Department of Transportation for highway infrastructure investment, which will be spent over three years for fifty separate projects throughout the state including highway, road and bridge repair, pavement resurfacing as well as enhancement projects, such as lighting and drainage improvements. The Department is also expected to receive a total of $612,000 in fixed guideway infrastructure grants, which are expected to be spent over two years starting in FY 2010.

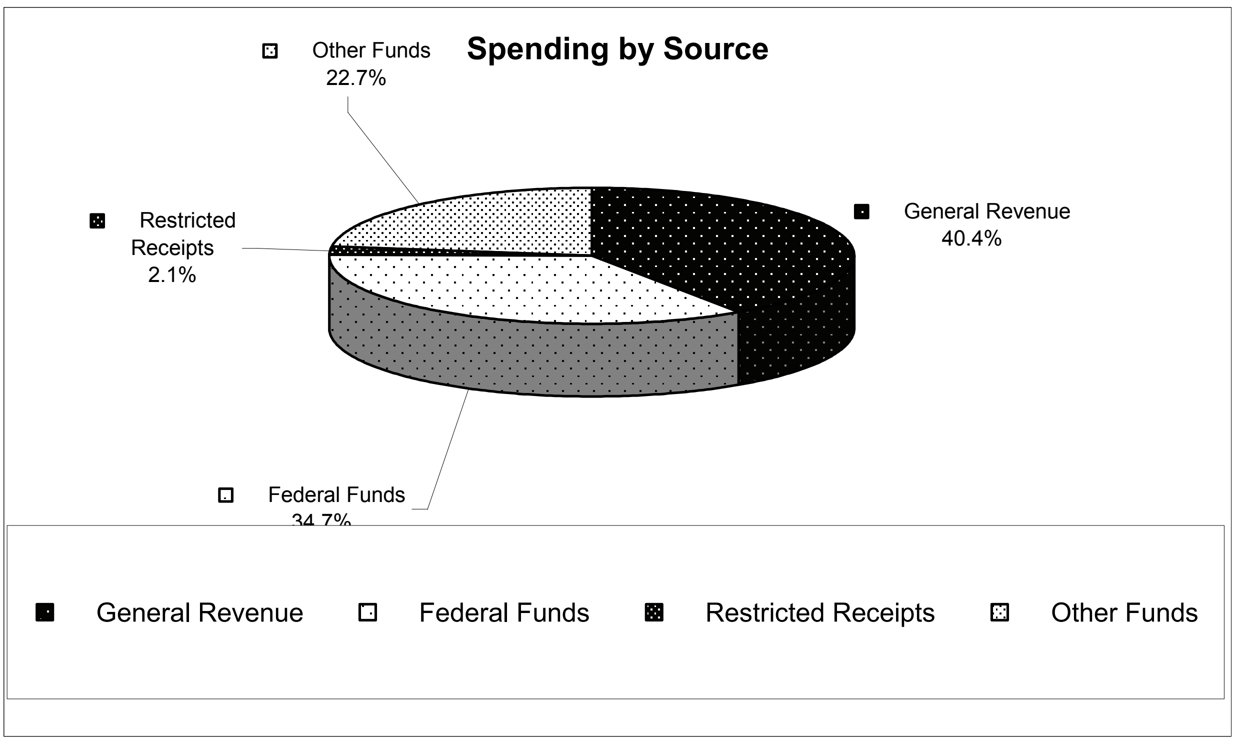
- Additional funds of $604,900 for roof replacement to the U.S. Property and Fiscal Office and window replacement to the Federal Maintenance Shop of the Warwick Armory, which is used by the Rhode Island National Guard.

- Additional funds of $26.5 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. At least 50.0 percent of grants must be devoted to subsidization in the form of loan principal forgiveness, negative interest loans, or grants. A total of 20.0 percent of grants should be devoted to projects that address green infrastructure, water or energy improvements, or other environmentally innovative activities. The grants cannot be used for the purchase of land or easements.

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 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.

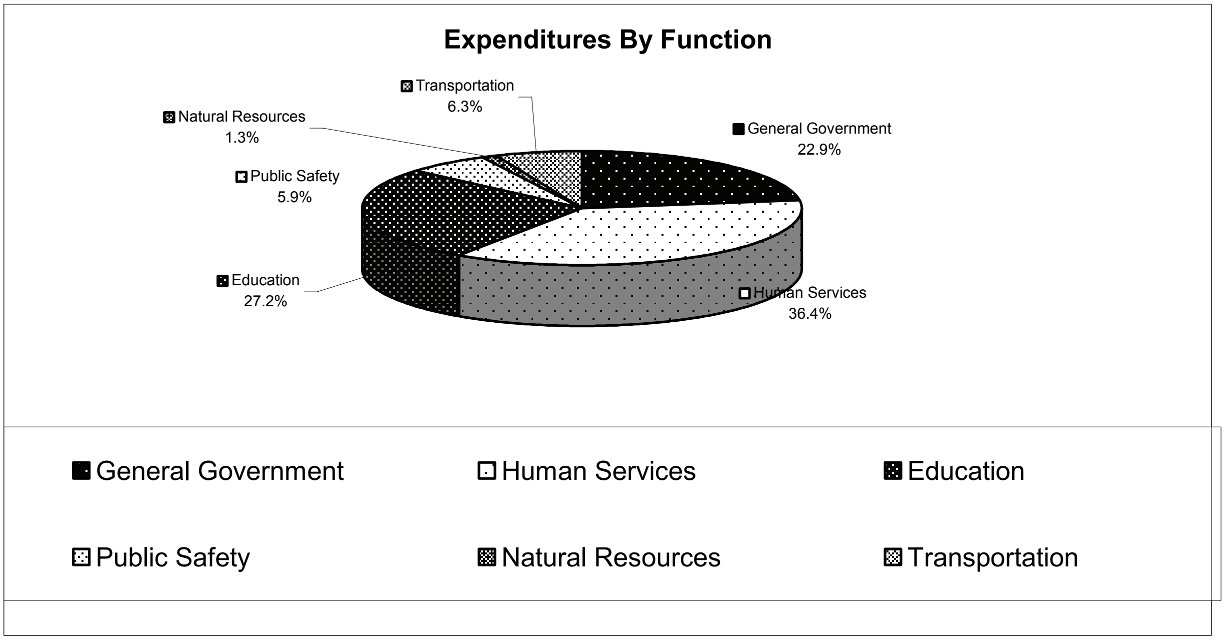
Federal Stimulus Helps Reduce State General Revenue Spending in FY2010 to Less than in FY2009

General revenue funded expenditures in FY 2010 total $3.079 billion. This is $197.1 million less than the FY 2009 enacted budget, a 6.0% reduction. All funds expenditures for FY 2010 are $7.615 billion. Of this total, $3.079 billion, or 40.4 percent, is from general revenue, $2.644 billion, or 34.7 percent, from federal funds, $1.729 billion, or 22.7 percent, from other sources, and $158.2 million, or 2.1 percent, is from restricted or dedicated fee funds.

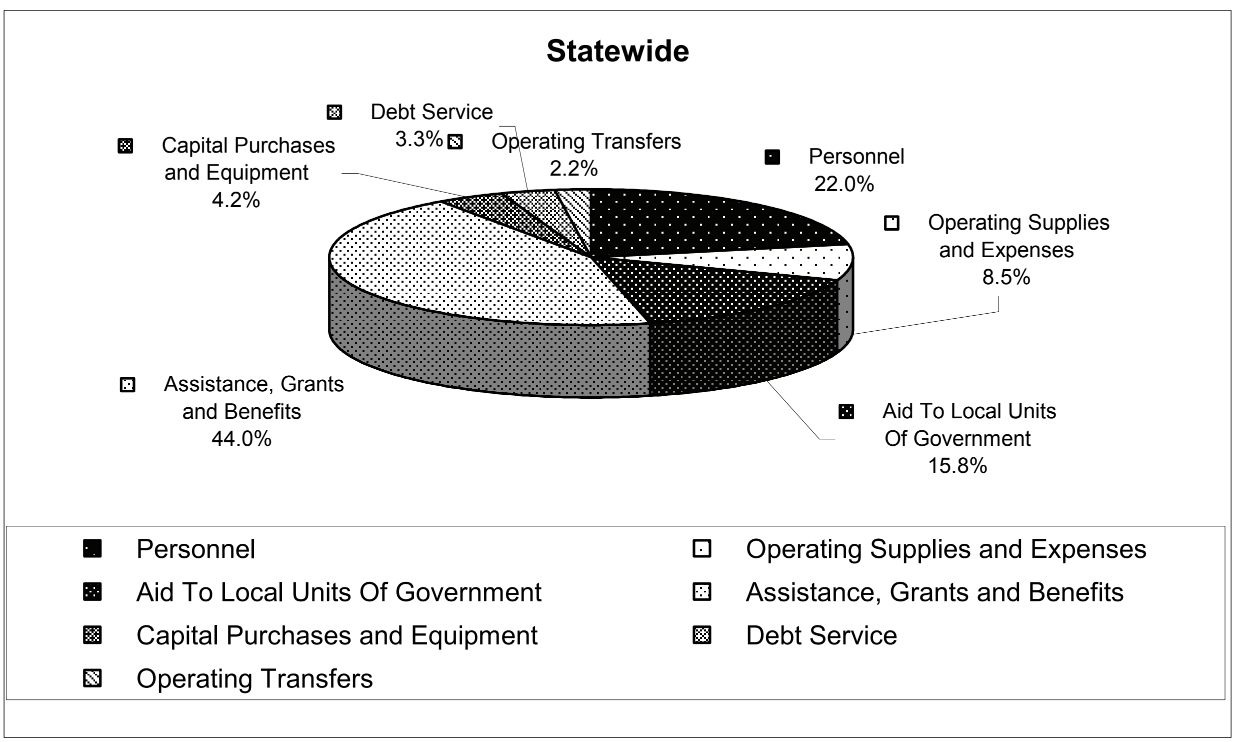


On a functional basis, the largest share of expenditures are made in the Human Services area, which comprises $2.773 billion, or 36.4 percent of the total budget. This is followed by spending for Education of $2.071 billion, which comprises 27.2 percent of all spending, and expenditures for General Government of $1.744 billion, equaling 22.9 percent. Public Safety, Natural Resources and Transportation expenditures make up the balance, totaling $1.026 billion, or 13.5 percent of the total budget.

Overview



The second way to view expenditures is by major category. On this basis, the largest share of the FY 2010 budget is for assistance, grants and benefits equaling $3.349 billion or 44.0 percent of the total. This is followed by personnel expenditures, which comprise 22.0 percent, or $1.677 billion, and local aid expenditures, which make up 15.8 percent, or $1.204 billion of the total budget. Expenditures for capital purchases and debt service total $571.4 million or 7.5 percent, with the balance of spending used to finance operating expenditures and transfers of $813.2 million, or 10.7 percent.



Overview

Expenditures from general revenues total $3.079 billion for FY 2010. By function, spending by Education agencies represent the largest share with expenditures, totaling $1.049 billion, or 34.1 percent of the general revenue budget. This is followed by spending for human services, which totals $1.071 billion, or 33.0 percent. General revenue expenditures for General Government and Public Safety comprise $606.1 million (19.7 percent), and $367.7 million (11.9 percent), respectively. Expenditures for Natural Resources comprise $39.1 million, or 1.3 percent of total general revenue spending. Transportation expenditures are financed by dedicated gasoline taxes and are not a component of general revenue spending.

General revenue expenditures by category are primarily devoted to financing grants, local aid and personnel. The largest component is local aid expenditures of $996.3 million, comprising 32.4 percent of total general revenue spending. Grant based expenditures of $870.1 million represent 28.3 percent of total spending; personnel expenditures of $836.5 million comprise 27.2 percent of the budget; operating expenditures and operating transfers total $194.3 million, or 6.3 percent of the budget; and, capital expenditures and debt service total $181.9 million, or 5.9 percent of the total general revenue budget.

Education Stabilization Funds Provide Opportunity to Partially Restore General Revenue Sharing

The Governor's budget strategy for FY 2009 and FY 2010 incorporates the availability of new K-12 education federal stimulus funds and the desire to provide local government's officials more flexibility to manage efficiently and effectively. In the January FY 2009 Supplement Budget submission, the Governor recommended elimination of $55.1 million in general revenue sharing. As a result of the ARRA, local school districts will receive $38.3 million of unbudgeted federal funds in FY 2009. The Governor recommends a reduction in education aid of $31.0 million, accompanied by restoration of $31.0 million of the general revenue sharing in FY 2009. During FY 2009, municipalities would be required under the Governor's proposal to provide at least 25% of the restored general revenue sharing to support the local school budget. This minimum support level would increase depending upon a series of benchmarks relating to local support of the school budget. Based upon these measures, there would be at least $12.6 million used to support school budgets. The remainder would be available for allocation at the city or town's discretion. For FY 2010, when local education authorities begin to receive increased Title I and IDEA funds, the Governor recommends a decrease in state education aid or $37.0 million. There is no corresponding increase in general revenue sharing.

Governor Proposes Legislative Changes to Help Local Governments Achieve Savings

The recommended FY 2009 Supplemental Budget reduces local aid and education aid. The Governor recommends a legislative package to provide local governments with the tools to build budgets that are affordable for their taxpayers. The supplemental budget act contains articles to address local education issues and other municipal government issues which present budget challenges to local government managers.

- **Relating to statewide school food services program - Article 17**

This article amends chapter 60 of Title 16 to add a new section 16-60-7.5 entitled "Statewide School Food Services Program". This section authorizes the Department of Elementary and Secondary Education, acting in collaboration with the Department of Administration, to procure the services of a food services management company to service all districts and public schools in the state. The resulting statewide school food services agreement will provide all districts and public schools with nutritious school meals, increased participation rates in federally-reimbursed child nutrition programs, cost efficiencies and other program improvements. Participation in the statewide program will be mandatory.

- **Relating to school bus monitors - Article 18**

This article amends 16-21-1 of the R.I.G.L. to relieve school districts of the current requirement to provide school bus monitors on buses transporting students in grades kindergarten through five (5) on all school bound and home bound routes.

- **Relating to statewide school health, vision and dental insurance program - Article 19**

This article amends R.I.G.L. 28-9.3-2 and 28-9.4-3 to remove from the scope of collective bargaining between certified teachers and other employees in the public school system of any city, town or regional school district the subjects of health, vision and dental benefits and health/dental insurance coverage. This article, under Section 16-60-7.4, establishes a Statewide Public School Employees Health, Vision and Dental Insurance Program which will be developed and implemented by the Department of Elementary and Secondary Education, in collaboration with the Department of Administration. The department will procure the services of health, vision and dental insurance carrier(s) to provide health, vision and dental insurance coverage to public school employees and new retirees. The terms of the state health, vision and dental care program, including provisions for billing rates, coverage, plan options, premiums, co-share and buy-back, shall be negotiated and established by a "Healthcare Advisory Council" to be established by the Department of Elementary and Secondary Education. The composition of the Council is specified in the Article. Some minimum provisions for the State Health and Dental Program are also established in the areas of co-sharing, buy-back/waivers, and double benefit coverage. Participation of districts is phased in according to the expiration dates of current collective bargaining agreements and existing contracts with health, vision, and dental insurance carriers. It requires municipal participation unless districts can document that the working rates for their plan would be less than the state plan.

In accordance with the healthcare data collection conducted by RIDE during FY 2007, districts will achieve savings of approximately $17.1 million under this article as a result of competitive bidding, establishment of a limited number of common plan designs resulting in reduced administrative fees, as well as standard co-sharing and buy-back provisions.

- **Relating to statewide purchasing system and programs - Article 20**

This article repeals R.I.G.L. 16-5-34 entitled "Statewide purchasing system" in its entirety so that the provisions of this section can be removed from chapter 5 (which relates to "State Aid") and placed in a more appropriate chapter of Title 16. The new Section, 16-60-7.3 "Statewide purchasing system and programs" is placed in chapter 60 ("Board of Regents for Elementary and Secondary Education") and is amended to add language to clarify the authority of the Department of Elementary and Secondary Education, acting with the Department of Administration, to establish a statewide purchasing system for goods, supplies and services utilized by the public schools. Participation by public schools and districts is also made mandatory. This section also authorizes the Department of Elementary and Secondary Education to establish state-level purchasing and programs for statewide school transportation, food services management, and school employees' healthcare and dental insurance.

- **Relating to school budget resolution - Article 21**

This article makes application of budget caps mandatory in court proceedings seeking additional school funding and creates a three member budget resolution panel to resolve a school budget impasse when state school or general revenue sharing aid is reduced. All other school budget resolution matters would continue to be resolved through the provisions of 16-21.4 relating to school budgets and the right to bring an action in Superior Court.

- **Relating to transportation of pupils - Article 22**

This article amends Sections 16-21-1, 16-21.1-7 and 16-21.1-8 to require that effective upon the implementation of the statewide system of transportation for special needs students and the eventual implementation of the transportation system for all students, each school committee must utilize the statewide transportation system unless it fulfills its transportation obligations primarily through the use of district-owned buses and district employees in which case it may continue to do so. This article also adds Section 16-21.1-9 to provide that management and oversight of the statewide transportation system shall be the responsibility of the department of elementary and secondary education. Should the Department of Elementary and Secondary Education deem outsourcing of the management function to be more efficient, an outside consultant will be retained. Analysis of data under this proposal reveals that approximately $3.5 - $5.0 million in savings will be achieved during the initial phase of this project and additional savings of $8.0 - $10.0 million will accrue as this is applied statewide, both in-district and out-of-district.

Additionally, an amendment to Section 16-21-1 adds subsection (c) which requires districts entering into transportation contracts pending implementation of the statewide transportation system to ensure that such contracts permit eventual participation in the statewide transportation system without penalty to the district. This article will allow districts to achieve cost savings through shared transportation services.

- **Relating to health and safety of pupils – school nurses - Article 23**

This article amends section 16-21-7 to require the Board of Regents to develop policies, procedures, and regulations to ensure a healthful school environment section and maintains the requirement that schools have nurses while section 16-21-8 repeals the need for school nurses to be certified as teachers.

- **Relating to teachers' tenure - Article 25**

This article amends Sections 16-13-2, 16-13-3, 16-13-4, 16-13-6, and 16-13-8, and changes the date for notice of teacher contract non-renewal from March 1st to June 1st. It also makes explicit a school committee's authority to lay off teachers in the event of budget deficiencies without a particular hearing for the teacher being laid off.

- **Relating to collective bargaining fiscal impact statements - Article 26**

This article amends sections 16-2-21.6 and 45-5-22 and requires towns, cities and school committees to post proposed collective bargaining agreements on the appropriate town or city website 30 days prior to contract ratification.

- **Relating to certified school teachers' arbitration act - Article 27**

This article amends section 28-9.3-1 to explicitly prohibit "work to rule" labor actions by certified public school teachers. It also imposes, in section 29-9.3-1.1 and 29-9.3-1.2, the loss of two days pay for each day of a strike and provides that a labor organization that promotes strikes shall lose its representational status and its ability to collect dues from its members for a period of three (3) years. Due process procedures for imposing these penalties are also established under section 28-9.3-1.3.

Overview

- **Relating to intervention and support for failing schools - Article 28**

This article amends section 16-7.1-5 and 16-60-4, and enhances the Department of Education's authority, in school districts under progressive support and intervention, to assign teachers to positions where they are most needed without regard to collective bargaining contractual provisions. This Article also requires the Board of Regents to adopt criteria for fair, accurate, and objective employment evaluations for certified employee's of school districts.

- **Relating to school committees and superintendents- management rights of school committee- Article 29**

This article amends 16-2-9 and 16-2-9.5 to secure school committees management control over issues that are not appropriate for collective bargaining.

- **Relating to school and municipal realignment commission - Article 41**

This article creates a school realignment commission and a public safety and public works realignment commission. The commissions are 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 2010 ballot for voter approval. Recommendations will be due by March 1, 2010. This act provides $150,000 of appropriations in FY 2010 to support the Commission's work.

It also creates a fourteen member public safety and public works consolidation commission which includes seven appointees of the Governor, four legislative appointments and three ex officio members. The Commission will evaluate and make recommendations on public safety and public works consolidations where both lower long term cost, as well as more effective and efficient services will be basic criteria for consolidation recommendations. The General Assembly shall reject or adopt the recommendations and adopt necessary legislation to place the recommendation on the November 2010 ballot for voter approval. Recommendations will be due by March 1, 2010. The act provides $150,000 of appropriations in FY 2010 to support the Commission's work.

- **Relating to firefighters' and municipal police manning - Article 43**

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 44**

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.

- **Relating to municipal retirement - Article 45**

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 police officers and firefighters – injured on duty - Article 46**

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.

Transfer of Agency Functions

In continued pursuit of agency efficiencies and effectiveness, the Governor recommends the transfer of the Building Contractors' Registration and Licensing Board from Administration to Business Regulation, and the transfer of the Forensic Sciences Unit in the Department of Health to Public Safety. The Governor recommends transfer of the Local Government Assistance program from the Department of Administration to Municipal Finance in the Department of Revenue.

Reduction In State Workforce

The Governor recommends that Rhode Island State Government operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The enacted budget included 400 undesignated positions which were expected to be eliminated after October 1, 2008, when provisions relating to retiree health benefits changed. The State experienced significant attrition from retirement. Between May 1, 2008 and October 1, 2008, there were 1,396 state employees who were members of the Employees Retirement System who retired. The Governor recommends reductions in personnel in most agencies based upon the elimination of vacant positions. Overall, state employee full time equivalent positions have been reduced from the FY 2008 final enacted level of 15,688.7 to 14,465.8 in the FY 2009 revised budget, a reduction of 1,222.9 FTE positions. In FY 2010, because of the need to fill certain critical positions, particularly due to the implementation of the global Medicaid waiver and the receipt of federal stimulus funds resulting from passage of the American Recovery and Reinvestment Act, the Governor recommends an FTE level of 14,828.9, an increase of 363.1 from the FY 2009 revised budget, but a 859.8 FTE decrease from the FY 2008 revised budget.

Increased Resources for Transportation

The Governor recommends increased resources to the Transportation Function in the FY2009 revised and FY2010 budget. Starting in FY 2009, 0.5 of the State's 1.0 cent per gallon environmental protection regulatory fee collected by distributors of motor fuel when the product is sold to owners and/or operators of underground storage tanks is recommended to support the Rhode Island Public Transit Authority (RIPTA). Also, starting in FY 2010, the remaining cent currently dedicated to the General Fund is recommended for dedication to the Department of Transportation.

Current Law Gasoline Tax Allocation (in cents)

Recipient	2004	2005	2006	2007	2008	2009	2010
DOT	**20.75**	**20.75**	**20.75**	**20.75**	**20.75**	**20.75**	**21.75**[4]
RIPTA	**6.55**[1]	**6.25**	**7.25**[2]	**7.25**	**7.25**	**7.75**[3]	**7.75**
General Fund	**1.70**[1]	**2.0**	**1.0**[2]	**1.0**	**1.0**	**1.0**	**0**[4]
DEA	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Underground Storage Tank	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**0.5**[3]	**0.5**
Total:	**31.0**	**31.0**	**31.0**	**31.0**	**31.0**	**31.0**	**31.0**

[1] *Average rate for year*
[2] *One additional cent is recommended for RIPTA with an offsetting reduction in the allocation of gasoline tax directed to the general fund starting in FY 2006 to finance a market survey of non-transit users and a management study of the agency*
[3] *Starting in FY 2009, 0.5 of the 1.0 cent Underground Storage Tank fee is recommended for allocation to RIPTA*
[4] *Starting in FY 2010, 1.0 of the remaining cent distributed to the General Fund is recommended to finance Department of Transportation operations*

Negotiated Savings-Uncompensated Leave Day in FY2009, COLA of 2.5% in FY2010

The Governor's recommendation includes one uncompensated leave day during FY 2009 for all non-union employees and members of unions that have ratified the memorandum of settlement agreement. This was the result of months of negotiation prior to the commencement of FY 2009. The decrease is equivalent to a 10 percent reduction in the bi-weekly payroll rate, excluding overtime, and will be effective for one pay period in June 2009. Employees will be credited one day of personal leave in the pay period in which the salary reduction occurs. Employees may request to discharge this additional leave day or elect cash payment for that one day in the fiscal year beginning July 2010 and until June 30, 2012. Implementation of this measure will save $1.9 million in salary costs, as well as associated fringe benefit costs. These savings are depicted within each department or agency. For FY 2010 the recommended budget includes a cost of living increase of 2.5 percent for state employees effective July 1, 2009.

Overview

Negotiated Savings- Increasing Employee Medical Co-Shares

The Governor's recommendation for employee medical insurance is based upon negotiated plan design changes and increased employee co-shares for FY 2009 and FY 2010 as shown below.

FY 2009 For Full Time Employees			
Effective the pay date Friday, August 8, 2008:			
Individual Plan $45,000 to less than $75,000	15%	Family Plan $25,000 to less than $35,000	11.5%
$75,000 to less than $90,000	18%	$35,000 to less than $45,000	12%
$90,000 and above	25%	$45,000 to less than $75,000	15%
		$75,000 to less than $90,000	18%
		$90,000 and above	25%

FY 2010 For Full Time Employees			
Effective July 1, 2009			
Individual Plan Less than $45,000	15%	Family Plan less than $45,000	13.5%
$45,000 to less than $90,000	20%	$45,000 to less than $90,000	20%
$90,000 and above	25%	$90,000 and above	25%

Effective the pay date, August 8, 2008, eligible part time employees (scheduled hours less than 35.0 for a 35.0 hour position or less than 40.0 for a 40.0 hour position) shall contribute toward the cost of health care coverage based on a percentage of premiums for either the individual or family plan as set forth below for medical insurance, dental benefits and/or vision/optical benefits. Said co-share percentages shall apply based on the employee's annualized total rate and shall be via payroll deductions.

FY 2009 for Part time Employees	
Effective the pay date Friday, August 8, 2008: Individual or Family Plan	
Less than $55,000	15%
$55,000 to less than $90,000	20%
$90,000 and above	35%

FY 2010 for Part time Employees	
Effective July 1, 2010 Individual or Family Plan	
Less than $90,000	20%
$90,000 and above	35%

Effective November 23, 2008, the following co-pays were in effect:

- Primary Care office visit co-pay is $10 (includes internal medicine, family practice, pediatrics and geriatrics);
- Emergency room co-pay to increase to $100;
- Urgent Care co-pay to increase to $35;
- Specialist office visit co-pay to increase to $20 (includes all physicians other than primary care physicians);

The drug co-pay for a 31-day supply shall be as follows:

Tier 1	Tier 2	Tier 3
$5.00	$20.00	$40.00

There is no separate co-pay arrangement for 60-day supplies or 100 units. Mail order network pharmacies provide a three month supply of a prescription drug for two co-payments, and the maximum fill is a three month supply.

State Employee and Teacher Pension Reform

The Governor proposed pension reform which was contained in Article 32 of the Supplemental Budget submitted in January 2009. The original proposal set forth in the budget article set a minimum retirement age of 59 for state employees and teachers, and would eliminate cost of living adjustments for state employees, teachers, judges and state police who retire after April 1, 2009. The Governor has submitted an amendment which would change the proposal such that those eligible to retire as of July 1, 2009 would not be impacted. It also modifies wage base for the pension benefit calculation for state police to be comparable to other state employees. It provides that public employees who receive a disability pension in accordance with 36-10-14 will either receive 66 2/3 percent or 50 percent of their allowance depending on a finding by the retirement board of whether the individual is entirely disabled from further employment. For State Police members who are not eligible to retire on July 1, 2009, the retirement allowance will be calculated based on “whole salary”, which is now defined as the average of the highest three (3) consecutive years of compensation. This change is consistent with the calculation for other public employees.

The savings for the revised FY 2009 and FY 2010 budget reflect this amendment to the Governor’s original pension reform proposal. The amendment was recommended because the savings to the plan and the resultant reduction in the unfunded liability are greater if employees eligible to retire remain on the payroll. This also would be preferred as there would be less disruption to state and local operations. Combining State Employees and Teachers, the savings from the amended bill in FY 2010 is $76.4 million ($32.4 for State Employees and $44.0 for Teachers). This represents about a 23 percent reduction in combined contributions for ERSRI for state employees for FY 2010. The State of Rhode Island only achieves 40 percent of the savings for Teachers, since the cities and towns pay 60 percent of the cost for this group. Therefore, the savings for the State is about $39.7 million, with the other $25.2 million going to the cities and towns. As discussed further below, the FY 2009 revised budget reflects no savings for state employees and $42.1 million in savings for teachers.

State Employees Pension Reform

The Governor recommended savings in the FY 2009 Supplemental Budget in anticipation of an actuarial report. Within the recommended revised 2009 agency budgets, there was $134.4 million budgeted statewide for state employee retirement contributions, prior to the proposed savings from the reduced contributions starting in February. The savings estimated for FY 2009 was budgeted as a negative appropriation in the Department of Administration. The General Revenue savings were $25,942,333, Federal Funds savings are $9,055,950. Restricted Receipt savings are $1,966,166 and Other Funds savings are $6,074,607. The amended FY2009 budget restores the funds in the Department of Administration budget for FY 2009, and for FY 2010 the reduced rate is applied to the benefit costs for employees in all agencies.

The reason the funds are restored for FY 2009 for state employees is that in analyzing the proposal, the actuary discovered complications. Article 4 of last year's budget modified the State's post-retirement medical benefits for all members who retired after October 1, 2008. In order to be grandfathered under the benefit structure that was in effect prior to that date, about 1,200 state employees retired between enactment of last year's budget and October 1, 2008. Because of these "Article 4" retirees, the actuary's estimate of the State's payroll for FY 2009 is down from an earlier estimate upon which the original contribution rate was determined. Due to the decrease in payroll, the Employees Retirement System is not collecting enough in amortization payments.

The following table shows the retirement contribution rates as determined for the FY 2009 budget. The Governor recommends no change in the FY 2009 contribution rate.

	FY 2009 Board Certified Rate	FY 2009 Rate Recommended February 2009	Estimated GR FY 2009 Savings (millions)	Estimated All Funds FY2009 Savings
State Employees	21.13%	21.13%	0	0
State Police	26.03%	26.03%	0	0
Judges	27.11%	27.11%	0	0
Total			0	0

The following table shows the retirement contribution rates as determined by the Retirement Board for the FY 2010 budget and those recommended by the Governor based upon the actuarial study. These savings reflect his amendment to grandfather those employees eligible to retire as of July 1, 2009.

	FY2010 Board Certified Rate	FY2010 Rate Recommended February 2009	Estimated GR FY 2010 Savings (millions)	Estimated All Funds FY 2010 Savings
State Employees	25.03%	20.77%	$16.6	$28.2
State Police	26.03%	0.92%	$3.4	$3.5
Judges	27.11%	17.68%	$0.6	$0.7
Total			$20.6	$32.4

Overview

Teachers Pension Reform

The savings for FY 2009 and FY 2010 reflect an amendment to the Governor's original pension reform proposal. The amendment is to grandfather those employees eligible to retire as of July 1, 2009. The amendment is being recommended because the savings to the plan and the reduction in the unfunded liability are greater. This also would be preferred as there would be less disruption to state and local operations if there was not a mass exodus of experienced employees.

The current rate of payroll for the Teacher Retirement system is 25.03 percent. The local share is 60 percent and the State's share is 40 percent, resulting in a local payroll rate of 14.86 percent and a state rate of 10.17 percent for all school districts, except for Burrillville, East Greenwich, Little Compton, New Shoreham, and North Smithfield, which have a local payroll rate of 14.21 percent and a state rate of 9.74 percent. For FY 2009, this would have resulted in total contributions of $138,383,041 from local governments and $94,714,215 from the state. Teachers would continue to contribute at 9.75 percent each biweekly payroll. The state share of the teacher retirement contribution is not reflected as a state personnel cost, but rather is reflected in local aid. The savings contained in the Governor's January supplemental budget were based on reducing the requirement to 25 percent of the rate determined by the actuary in June 2008 for the final five months of the fiscal year. The general revenue savings estimated were $28,128,197. Local governments would have corresponding savings, and the Governor's budget recommended reducing state education aid expenditures by a corresponding amount. The local savings were estimated to be $41,096,932.

For the amended budget article, the actuary indicates the savings from grandfathering in those eligible to retire as of July 1, 2009 for FY 2009 would be similar to the FY 2010 savings for Teachers since the Article 4 retiree impact on the teacher payroll is not significant. The 4.58 percent decrease in the contribution rate would be the same, with the employer contribution decreasing from 25.03 percent (current) to 20.45 percent (H 5019). The FY 2009 budget assumes a total Teacher payroll base of $933.2 million, which produces savings of $42.3 million in FY 2009. The $42.1 million savings is the total savings for the State and the cities and towns. The State would receive $18,379,814 and the local governments would save $23,714,996. The FY 2010 budget assumes a total Teacher payroll base of $975.2 million, which produces savings of $44.0 million in FY 2010. The $44.0 million savings is the total savings for the State and the cities and towns. The State would receive $19,206,910 and the local governments would save $24,786,802.

The following table shows the retirement contribution rates as determined by the Retirement Board for the FY 2009 budget and those recommended by the Governor based upon the actuarial study. These savings reflect his amendment to grandfather those employees eligible to retire as of July 1, 2009.

Teachers	FY 2009 Board Certified Rate	FY 2009 Rate Recommended February 2009	Estimated FY 2009 Savings (millions)
State Share	10.17%	8.18%	$18.4
Local Share	14.86%	12.27%	$23.7
Total	25.03%	20.45%	$42.1

The following table shows the retirement contribution rates as determined by the Retirement Board for the FY 2010 budget and those recommended by the Governor based upon the actuarial study. These savings reflect his amendment to grandfather those employees eligible to retire as of July 1, 2009.

Overview

Teachers	FY 2010 Board Certified Rate	FY 2010 Rate Recommended February 2009	Estimated FY 2010 Savings (millions)
State Share	9.71%	7.72%	$19.2
Local Share	14.17%	11.58%	$24.8
Total	23.88%	19.30%	$44.0

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 in programs in the Departments of Human Services, Children, Youth and Families, and Mental Health Retardation and Hospitals. The program will emphasize personal responsibility, home and community-based solutions, innovative delivery of services. Global Consumer Choice Compact Section 1115 Demonstration (i.e. the "Global Waiver") will provide flexibility to the State to achieve these goals. 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 Consumer Choice Compact Section 1115 Demonstration (i.e. 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 2010, the Department has also identified opportunities for reform within its Medicaid program, many of which will provide significant budgetary relief in FY 2010. Made possible in large part through the adoption of the Rhode Island Global Consumer Choice Compact Section 1115 Demonstration, 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. Specifically, for FY 2010, the Governor recommends the following program realignments and benefit modifications, with the resulting general revenue savings displayed (pre-stimulus enhanced federal match estimates):

- Rebalancing Long Term Care (Nursing Home Diversion and Transition), $5.7 million: Rebalancing long-term care is a core component of the Medicaid Global waiver; this includes efforts such as nursing home transition and diversion and increasing services and options offered through the home and community based care providers.
- Selective Contracting for Durable Medical Equipment, $199,117: Rhode Island's Medicaid program currently uses the Medicare fee schedule to reimburse 80 percent durable medical equipment expenditures. Medicare estimates that use of selective contracting for durable equipment would result significant savings (15 percent per annum).
- Selective Contracting for Shared Living, $74,898: Shared Living arrangements will be procured through selective contracting to secure maximum value for the State, with an emphasis on quality, safety and price. Shared Living services are provided to adults with disabilities who are unable to live independently, as an alternative to institutional services such as nursing facilities.
- Selective Contracting for Outpatient Services, $262,421: The Department will contract with a sole supplier for out-patient services (e.g., occupational therapy, physical therapy, laboratories, speech pathology, imaging, etc.) to the fee-for-service Medicaid population.
- Selective Contractive for Supportive Residential and Assisted Living, $526,762: The flexibility the Global Waiver provides allows the Department of Human Services to pursue a selective

contracting strategy to purchase Medicaid-funded supportive residential and assisted living care settings – as a home and community based service – for a segment of the now SSI-D only group of beneficiaries. The providers selected under this initiative will be limited to charging $700 per month for room and board with minimum personal need allowances of $100.

- RIte Care- Elimination of Dental Benefits for Parents, $525,277: This budget initiative eliminates dental coverage for approximately 38,000 RIte Care parents. Dental coverage is an optional benefit under the Medicaid state plan. This initiative does not include RIte Care children, pregnant women, children with special health care needs, children in substitute care, disabled adults, or the elderly.
- Mandatory Enrollment in Care Management Programs, $2.0 million: There are approximately 2000 beneficiaries remaining in fee-for-service Medicaid, who will be transitioned into either the Rhody Health Partners or Connect Care Choice programs starting in July 2009.
- Intensive Management of High-Cost Cases, $1.9 million: This initiative proposes to intensively manage high cost cases through an inter-agency workgroup. The primary focus of the workgroup will be to address the inpatient utilization of these individuals. Savings will be generated through decreased emergency room utilization; decreased inpatient hospital admissions and re-admissions, and increased ongoing care management.
- Hospital Reimbursement and Financing- Diagnosis Related Groups (DRG) Rate Reform), $5.0 million: Rhode Island's current prospective payment methodology does not reflect the complex marketplace of today and does not support a balanced or rational utilization of health care services. Under this initiative, Rhode Island would move to a DRG system, benchmarking its hospital reimbursement payment to an average pay-to-cost ratio for in-patient services of 100 percent.
- Implementation of Acuity Rate Adjustments for Nursing Facilities, $3.7 million: As part of rebalancing the long-term care system, an acuity rate adjustment for nursing facilities is necessary to ensure that institutions are compensated based on the actual acuity levels of patients residing in nursing home settings.
- Other Services Rate and Procurement Reform, $1.8 million: The Department will pursue the generation of $1.8 million in general revenue savings through a variety of procurement and rate reforms within the Medicaid program. Specific programmatic changes undertaken as part of this initiative are subject to the discretion of the Director of Human Services.
- Emergency Department Visit Benefit Redesign, $1.5 million: This initiative will encourage hospitals to work more closely with primary care and behavioral health care providers to develop alternative treatment arrangements for Medicaid members who frequently use the Emergency Department.
- Program Integrity, $1.0 million: The Governor recommends, several initiatives safeguarding the integrity of Departmental programs. The Department intends to (a) increase recoveries in such areas as casualty, third party liability, class action lawsuits against drug companies, and liens on estates; (b) establish on-line remittance advices; (c) utilize "lesser of" logic in the processing of other insurance claims; (d) modify to the pricing methodology for out-patient crossover dialysis claims.
- Shared Living - This initiative will encourage individuals to live in shared living arrangements rather than institutional settings. The Department of Mental health Retardation and Hospitals estimates $3.0 million of savings in FY2010 from increased placements in shared living arrangements.