

# *FY 2010 Revised Budget and Beyond*



Staff Presentation to the House  
Finance Committee

April 20, 2010

# Summary

- | First of three informational briefings
- | Recap of current and pending Budget Issues
- | Closer Look at Options

# *Budget Issues Recap*

- | *FY 2009 Closing*
- | FY 2010 Deficit and Resolution
- | FY 2011 Deficit and Resolution
- | Out Year Deficits

# *FY 2009 Closing (Unaudited)*

	Enacted	Current	Diff.
Opening	\$ (41.2)	\$ (41.2)	\$ 0.0
Revenues	<b>3,110.5</b>	<b>3,045.4</b>	<b>(65.1)</b>
Rainy Day	(67.0)	(66.1)	0.9
Expenditures	(3,001.1)	(2,999.0)	2.2
Reapprop.	-	(1.0)	(1.0)
Free Surplus	\$ 1.1	<b>\$ (61.8)</b>	<b>\$ (62.9)</b>

# *FY 2009 Closing Expenditures*

- | \$2.2 million less than enacted: 0.1%
- | Overspending issues from last year largely gone
- | Includes \$10.0 million Station fire settlement because of accounting rules

# *FY 2009 Closing Revenues*

- | \$65.1 million less than budgeted
  - u \$52.8 million shortfall in taxes
  - u \$12.2 million less from all other sources
- | Lowest total revenue since FY 2005

# *FY 2009 Revenues*

- | \$52.8 million shortfall in taxes
  - u Personal Income: \$30.1 million less
  - u Business Taxes: \$1.8 million less
  - u Sales and Use: \$18.1 million less
  - u Other Taxes: \$2.8 million
- | Lowest tax revenue since FY 2004

# *Budget Issues Recap*

- | FY 2009 Closing
- | *FY 2010 Deficit and Resolution*
- | FY 2011 Deficit and Resolution
- | Out Year Deficits



# *Current Year Deficit*

- | The *current year* is again a cyclical economic problem exacerbated by unmet expenditure savings
  - u It is mainly a *revenue side* problem caused by major national economic factors
  - u It has caused a current year deficit of \$219 million – 7.6 percent of all expenditures excluding debt service

# FY 2010

	Enacted	Current	Diff.
Opening	\$ 1.1	\$ 1.0*	\$(0.1)
Revenues	3,076.9	2,946.4	(130.5)
Rainy Day	(73.9)	(69.2)	4.6
Expenditures	(3,000.3)	(3,035.2)	(34.9)
FY 2010 Only	3.8	(157.0)	(160.8)
FY 2009 Deficit		(61.8)	(61.8)
Total FY 2010	\$ 3.8	\$ (218.8)	\$ (222.6)

*\*Reappropriation*

# *Current Year Deficit*

- | Revenues are off by \$130.5 million, the major cause of the deficit
- | Expenditures less of cause but still problematic
  - u Caseloads and medical up \$16.3 million
  - u Other appear up \$17.7 million
  - u Debt service and formula local aid adjustments mask size of unachieved expenditure savings

## *Current Year Deficit*

Reappropriation	1.0
Station Fire – booked in 09 closing	(10.0)
Debt Service – revised estimate	(7.2)
ELSEC Transportation – revenue offset	8.6
Formula Local Aid	(6.5)
OHHS Caseload – DHS, DCYF	22.6
Other	26.4

# *Current Year Deficit*

- | Formula Local Aid – \$6.5 million less
  - u Car Tax \$3.2 million less based on updated data
  - u School Construction Aid \$3.2 million less – not all projects done by June 30 deadline
  - u Charter Schools \$150,000 less - estimated adjustment for actual enrollments

# *Current Year Deficit*

- | OHHS Caseload – \$22.6 million more
  - └ Nov Caseload Conference \$16.3 million
    - Cash Assistance \$0.1 million
    - Medical Assistance \$16.5 million
  - └ DCYF \$6.3 million
    - \$5.5 million due to error in Department estimate
    - \$0.8 million based on current trends

# *Current Year Deficit*

- | Assembly budgeted \$67.9 million savings from across the board reductions
  - u 6.25% payroll & operating - \$57.6 million
    - Full year of 5%
    - Additional 2.5% for six months
  - u 10% consultants - \$5.1 million
  - u medical rates - \$3.0 million
  - u fringe rates - \$2.1 million

# *Current Year Deficit*

- | Unachieved ATB savings - \$21.1 million
  - u Pay reductions save \$12.5 million
  - u Higher Ed assigned \$9.4 million
  - u All other agencies Q1 estimate projected \$24.8 million mostly from employee turnover, utility costs
- | Fiscal Staff's original FY 2011 deficit estimate assumed \$67.9 million savings is achieved
- | Budget Office estimate restores



# *Current Year Deficit*

- | Other unachieved savings - \$4.6 million
  - └ MHRH \$1.3 million
    - May be understated
    - Only a fraction of unrealized savings reported in FY 09 closing

# *Current Year Deficit*

- | Other unachieved savings - \$4.6 million
  - └ Corrections population \$3.3 million
    - Enacted budget assumed \$5.0 million savings
    - Based on 241 fewer inmates; 3,767 total
    - DOC projects only \$1.7 million in savings with population further reduced by 98 inmates from enacted

# *Current Year Deficit*

- | Other - \$0.6 million more
  - u All other projected adjustments to agency expenditures
  - u Includes additional medical examiner funding, reduction to Met School, correction to state police retirement estimate, variety of other adjustments

# *Current Year Deficit*

- | The deficit must be made up by June 30
- | The state borrowed \$350 million for cash flow purposes that must be paid on June 30 which requires the deficit be closed
  - u ***Requires actual cash, not merely GAAP balancing***

# *Current Year Deficit*

- | There are major obstacles to closing the gap
  - u Opportunity
  - u Time
  - u Limited gubernatorial authority
  - u Federal Stimulus Limitations
  - u Contracts

# *Current Year Deficit Obstacles*

## I Opportunity

- u Low hanging fruit is long gone
- u Need to preserve options for major downward revenue revisions in May (e.g. one timers, rainy day fund)
- u Experience has shown that further deterioration more likely than the opposite

# *Current Year Deficit Obstacles*

## | Time

- └ Affects actions requiring statutory changes
- └ Actions also requiring rule and regulation changes have even less time

## | Governor submitted plan Dec 15

## | HFC Hearings began that day

# *Current Year Deficit Obstacles*

## I Federal Stimulus

- u Use of ~ \$190 million of enhanced match funds in lieu of general revenues prohibits roll back of Medicaid eligibility
- u Fiscal Stabilization funds - \$164.9 million over 3 years - require maintenance of prior year shares of total spending for higher & lower education



# *Current Year Deficit Obstacles*

## I Labor Contracts

- u Unpaid days swapped for no layoffs and greater authority to reassign work
- u Good through FY 2011

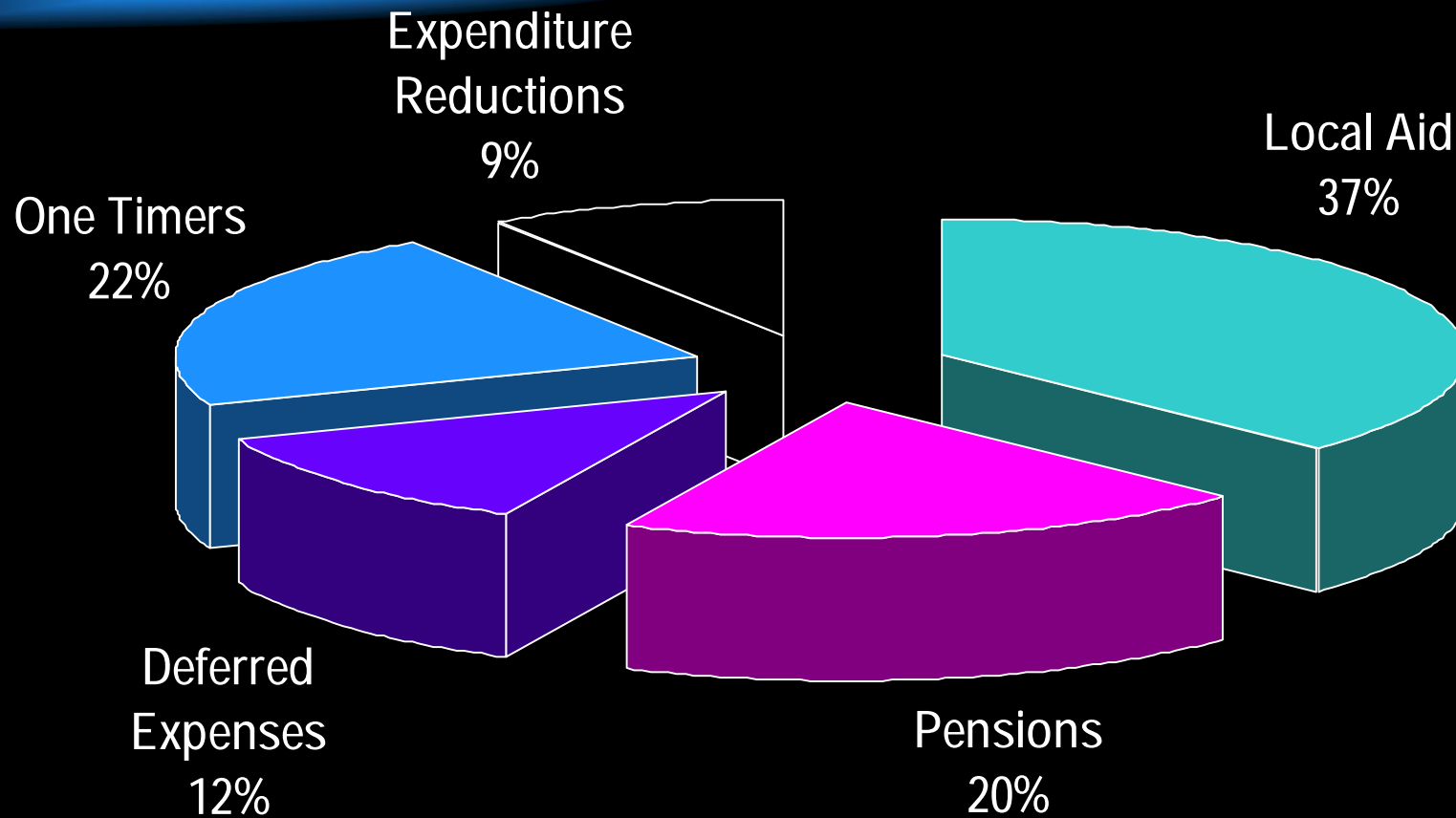
## I Other Contracts

- u Major vendor contracts already renegotiated to meet 10% consultant savings in enacted budget

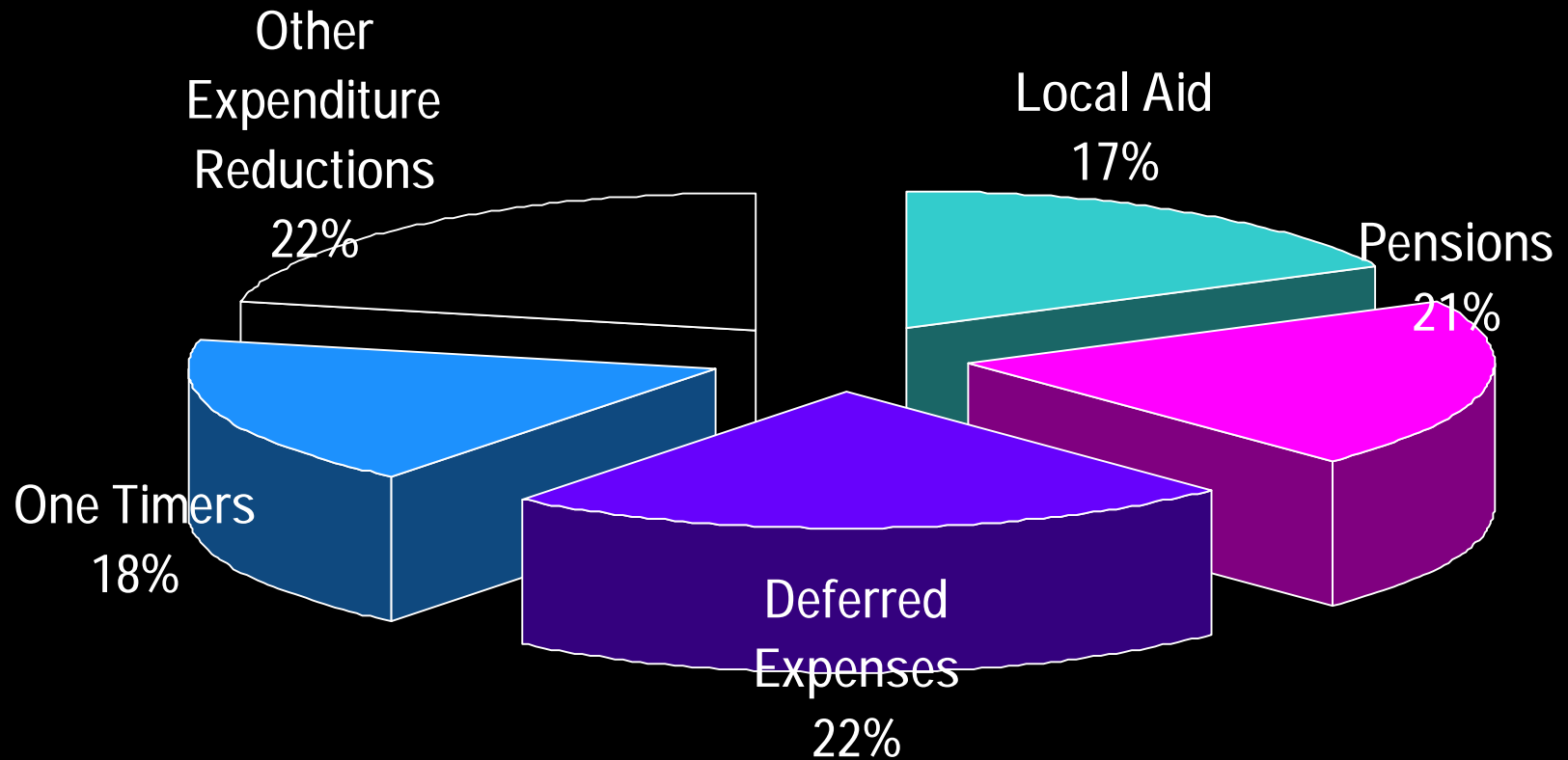
# *Current Year Deficit: Governor's Solution*

- | Local Aid
  - u Car tax
  - u Education Aid
- | Pensions
- | Deferred Expenses
- | One-timers
- | Other Expenditure Reductions

# Current Year Deficit: Governor's Solution



# Current Year Deficit: House Solution



# *Current Year Deficit: Governor's Solution*

- | **Local Aid - Car tax**
- | Deficit estimate assumed \$3.2 million of savings from updated data
- | Governor proposes not making final 2 quarters of the car tax payment
  - └ \$65.1 million compared to enacted
  - └ \$61.9 million towards deficit solution
  - └ Would allow supplemental tax

## *Current Year Deficit: House Solution*

- | Feb 1: 3<sup>rd</sup> quarter payment made on time
  - u \$32.2 million
- | House also restores ~ half of 4<sup>th</sup> quarter
  - u \$16.4 million on top of 3<sup>rd</sup> quarter
  - u \$48.6 million total
  - u Assumes 88% of value from 98% current law
  - u No new tax authority; no FY 2011 resolution
- | 4<sup>th</sup> quarter due May 1

# *Current Year Deficit: Governor's Solution*

- | **Local Aid - Education Aid**
- | Governor proposes 2.8% reduction in state education aid
- | \$19.9 million impact including charter schools
- | Also includes pension and other adjustments affecting aid totals but not direct impact

# *Current Year Deficit: House Solution*

- | **Local Aid - Education Aid**
- | Concur with Governor's 2.8% reduction
- | Concur with including pension and other adjustments affecting aid totals but not direct impact



# *Current Year Deficit: Governor's Solution*

## **I Pensions**

- I Ends COLA for all state employees and teachers not already eligible to retire**
- I \$42.9 million impact –rev to \$41.7m**
  - u State Emp. \$12.0 million – rev to \$10.8m**
  - u Teachers \$30.9 million**
    - Local employer share of \$18.5 million captured through aid reduction**

# *Current Year Deficit: House Solution*

- | **Pensions**
- | *Modify* COLA for state employees & teachers not already eligible to retire
  - u \$13.2 million impact
- | Refinance Unfunded liability
  - u \$31.9 million
- | Total Savings \$45.0 million gen rev.

# *Current Year Deficit: Governor's Solution*

- I Deferred Expenses**
- I Delay \$22 million payback for use of the Rainy Day fund until FY 2011
- I Advance \$5.0 million of federal stimulus funds in lieu of \$5.0 million from general revenues

## *Current Year Deficit: House Solution*

- | **Deferred Expenses**
- | Delay \$22 million payback for use of the Rainy Day fund until FY 2011
- | Use \$16 million more from rainy day
- | Advance \$8.0 million of federal stimulus funds
  - u \$3.0 million more than Gov.

# *Current Year Deficit: Governor's Solution*

- | **One Timers, scoops etc**
- | Land Sales \$21.3 million incl. borrowing to sell Vets to Convention Center
- | DD Provider "Donation" \$6.0 million
- | Employee medical savings \$8.7 million
- | Child Support Recoveries \$7.2 million
- | Auto Replacement Fund, debt service \$4.4 million

# *Current Year Deficit: House Solution*

- | **One Timers, scoops etc**
- | **\$10.8 million in Land Sales – NO to borrowing to sell Vets to Convention Center**
- | **Accept remainder of Gov items**
- | **Add new transfers**
  - **Increase HRIC transfer by \$1.0 million**
  - **Renewable Energy \$1.0 million**

# *Current Year Deficit: Governor's Solution*

- | **Other Expenditure Reductions**
- | Child Care Rates
- | Hospital Rate reduction
- | Unachieved DD savings
- | Agency specific reductions

# *Current Year Deficit: House Solution*

- | **Other Expenditure Reductions**
- | **Child Care Rates**
  - └ No to Jan 1 rate cut
  - └ Add back \$0.6 million
- | **Hospital Rate reduction**
  - └ No to 4<sup>th</sup> Quarter rate cut
  - └ Hospital tax offset
- | **Unachieved DD savings - concur**



# *Current Year Deficit: House Solution*

- **Other Expenditure Reductions**
- \$18.1 million from new federal match on pharmacy clawback payment
- Require indirect cost recovery on all possible federal grants - \$3.7 million
- Additional turnover & operating savings and other specific adjustments - \$14 million
- Eliminate over 600 unfunded vacancies

# *Budget Issues Recap*

- | FY 2009 Closing
- | FY 2010 Deficit and Resolution
- | *FY 2011 Deficit and Resolution*
- | Out Year Deficits

# *FY 2011 Budget Deficit and Resolution*

- | FY 2011 Revenue-Expenditure Gap
- | Governor's Recommended Solution
- | Operating Budget Overview
- | Capital Budget
- | Outyears

# *FY 2011 Budget Deficit and Resolution*

## *| FY 2011 Revenue-Expenditure Gap*

# *FY 2011 Budget Gap*

## FY 2011 Revenue-Expenditure Gap

- | Budget Office estimated \$400 million in November 2009
- | Governor increased by \$27 million
  - u Not repaying \$22 million FY 2009 Rainy Day fund use in FY 2010
  - u Advancing use of \$5 million of ARRA funds

# *FY 2011 Budget Gap*

Where did it come from?

- | FY 2010 Enacted budget included FY 2011 outyear estimated gap of \$177.3 million
- | November revenue estimating conference lowers revenue component by \$122.2 million
- | Balance of \$100.5 million in expenditure changes

# *FY 2011 Budget Gap*

Where did it come from?

- | Balance of \$100.5 million expenditures
  - u Assembly's \$67.9 million of across the board savings assumed to be one time
  - u \$14.0 million in increased DHS caseload costs based on November 2009 estimate
  - u Other agency expenditures including Corrections unachieved population savings

# *Governor's FY 2011 Budget*

- | FY 2011 Revenue-Expenditure Gap
- | *Governor's Recommended Solution*



# *Governor's Solution*

- | American Recovery & Reinvestment Act
- | Debt
- | Revenues
- | Locals
- | Pension Reductions
- | Departments and Agencies

# *American Recovery and Reinvestment Act of 2009*

- | Current legislation lapses enhanced Medicaid match on Dec 31, 2010
- | FY 2011 deficit assumed need to backfill with general revenues
- | Budget assumes \$95.3 million Medicaid Stimulus will be available from future Congressional action to extend enhanced rate

# Debt

- | Debt Saved and Debt Incurred
- | Historic tax credit fund debt service = \$30.5 million (one timer)
- | Other debt service savings
- | Out years contain debt payment for new borrowings including those that were pay-go

# Revenues

Revenues **\$17.4 million** less than current

- | \$2.9 million more from eliminating tax credits
- | \$2.2 million new and increased fees and scoops
- | **\$22.5 million** loss from new and increased tax credits and tax cuts

# Revenues

## Tax Credit Eliminations, Fees & Scoops

End Motion Picture Tax Credit	H 7397	\$1.9
End Enterprise Zone Tax Credit	H 7397	1.0
DMV Fees	H 7397	1.0
UST Indirect Cost Exemption	H 7105	(0.2)
School Internet Fee Increase	H 7105	0.4
RIHEBC Scoop	H 7397	1.0

# Revenues

## New losses, tax cuts

Small Business Job Tax Credit	H 7397	\$(10.0)
Corp minimum tax from \$500 to \$250	H 7397	(11.5)
K-12 Scholarship Organization Contribution Credit	H 7397	(1.0)

# *Local Governments*

- | Eliminate Car Tax exemption and reimbursement = \$135.3 million
- | Education Aid 3.8% reduction across districts and charters = \$26.3 million
- | Pension Savings accruing to locals deducted from education aid totals

## *Pensions: Article 16 H 7105*

- | End COLAs for future retirees not yet eligible to retire
- | State employees, including state police and judges as well as teachers
- | Applies to all employees not eligible to retire by date of passage



# *Pensions: Article 16 H 7105*

- | Estimates savings of \$48.9 million in FY 2011
- | \$45.0 million general revenues
  - u State employees = \$12.8 million
  - u Teachers state share = \$12.9 million
  - u Teachers local share from aid = \$19.3 million

# *Departments and Agencies*

## Medical Assistance

- | Eligibility changes prohibited by MOE requirements of enhanced Medicaid match
- | Delivery and benefit changes = \$74.4 million all funds savings; \$26.6 million from general revenues

# *Departments and Agencies*

## Non Recurring

- | Employee Concessions = \$27.4 million
- | Rainy Day Fund Delay = \$22.0 million

All other reduction net - \$59.5 million

# *Governor's FY 2011 Budget*

- | FY 2011 Revenue-Expenditure Gap
- | Governor's Recommended Solution
- | *Operating Budget Overview*

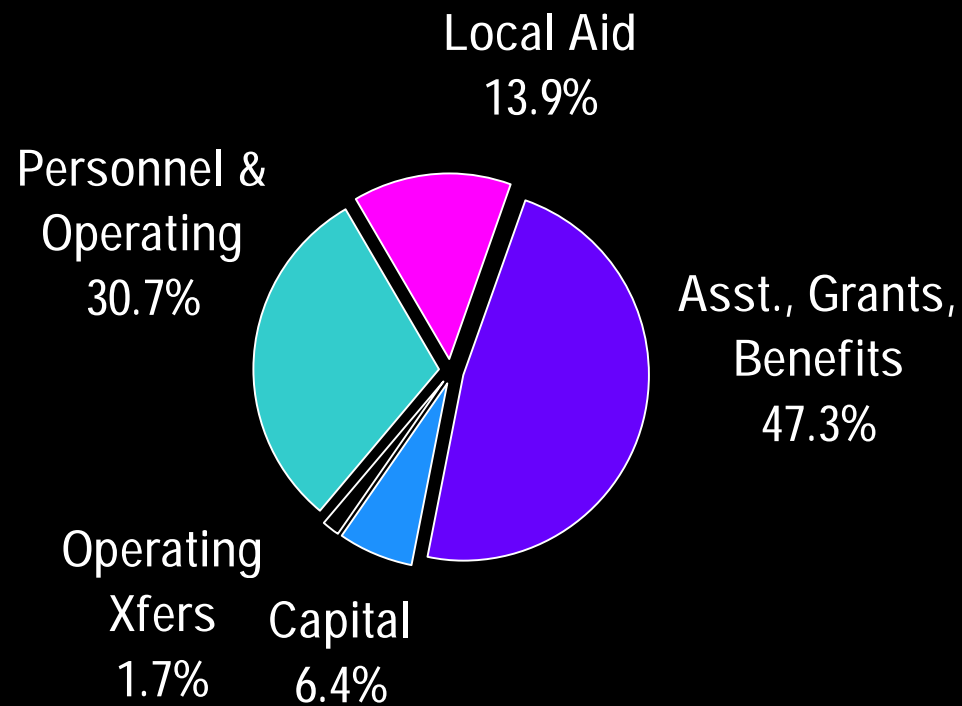
# Expenditures

	Enacted	Budget	Change
Gen. Rev.	\$3,000.3	\$2,849.1	\$(151.3)
Federal	2,828.2	2,717.5	(110.8)
Restricted	162.4	176.8	14.4
Other	1,823.8	1,769.6	(54.1)
Total	\$7,814.7	\$7,512.9	\$(301.8)

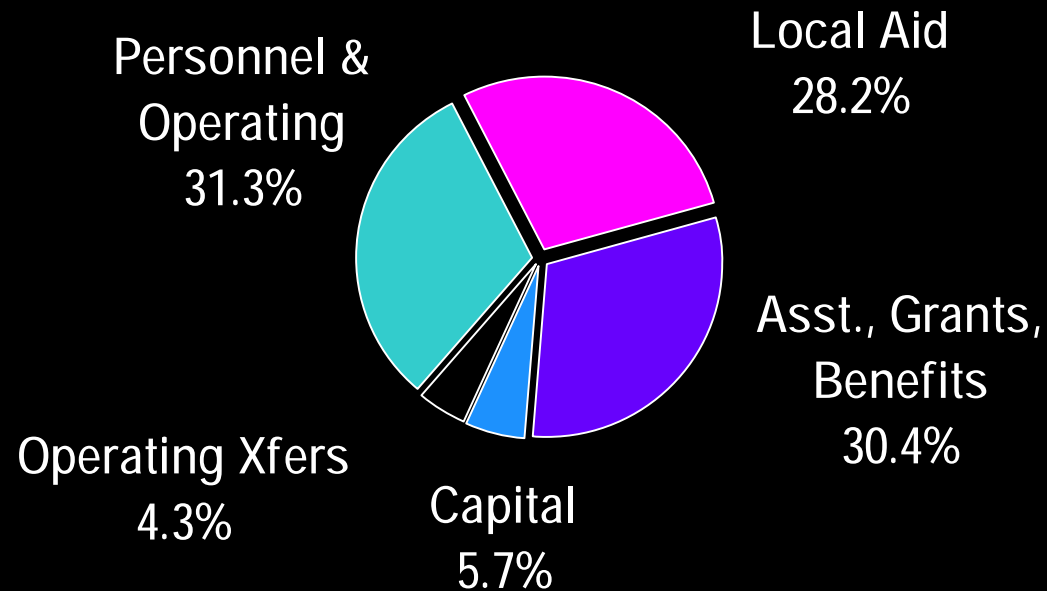
# Sources



# Uses – All Funds by Category

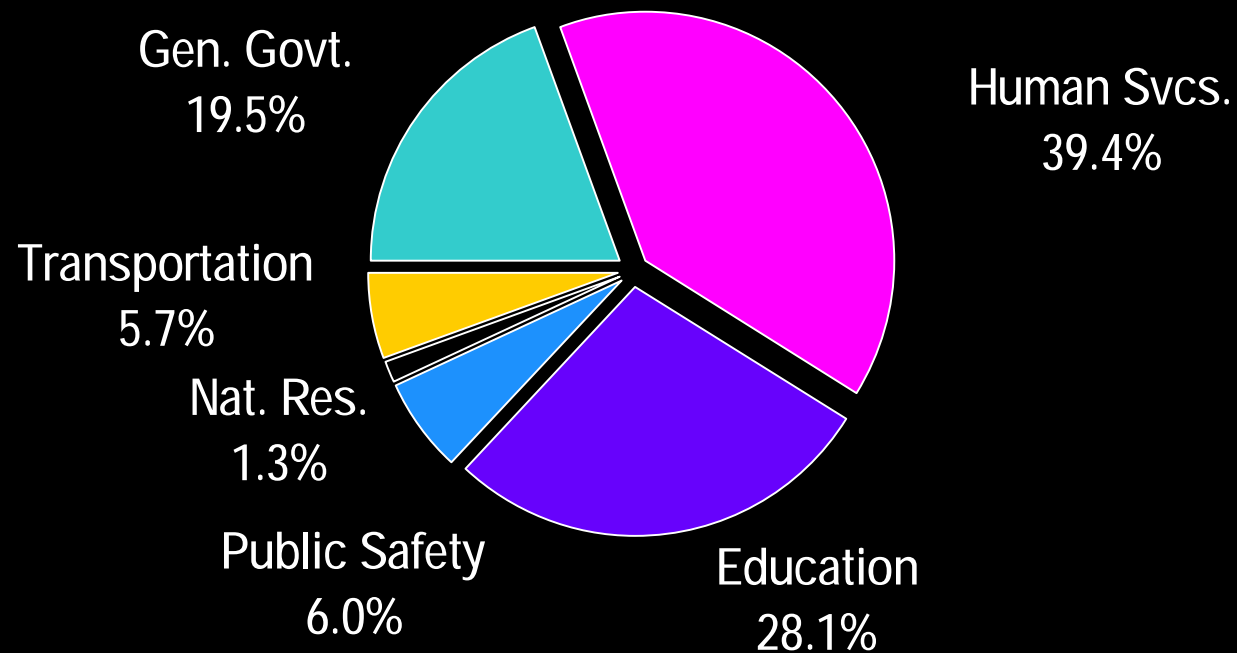


# Uses – General Revenues by Category

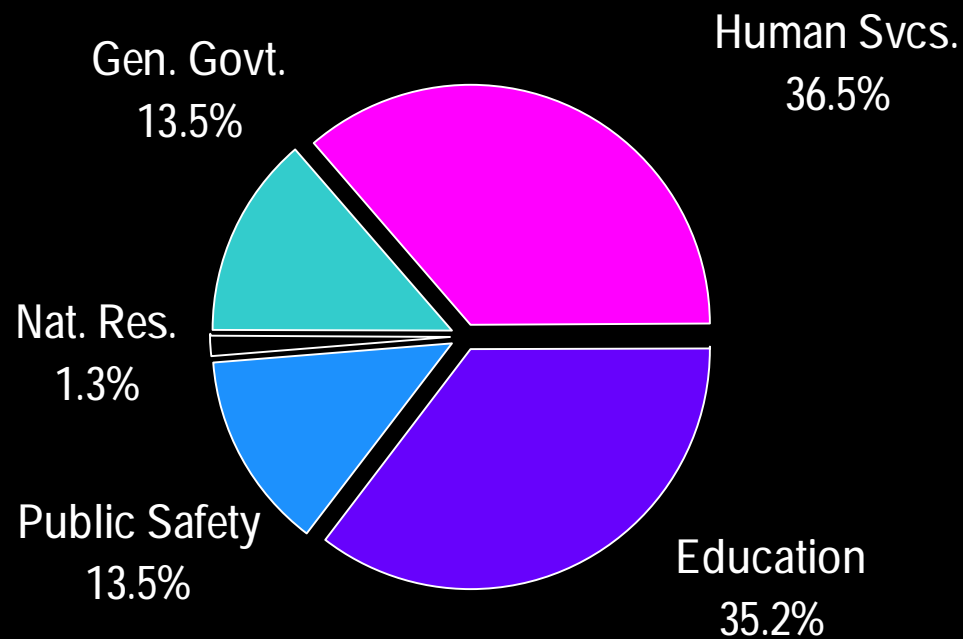




# Uses – All Funds by Function



# Uses – General Revenues by Function



# *Personnel and Operating*

- | Salaries, Benefits, Contracted Services and Operating Costs
- | 4 payless days
- | 3.0 percent COLA Jan 1 ( 6 mo. delay)
- | Increased health insurance co-share
- | OPEB funded on actuarial basis
- | Pension reduction savings

# Full-time Equivalent Positions

	Regular	3d Party	Total
FY 2010 Enact	14,078.0	785.0	14,863.0
FY 2010 Rev.	14,119.3	785.0	14,904.3
Governor	14,109.2	785.0	14,894.2
Jan 30 Filled	12,987.9	578.6	13,566.5
Current Vacant	1,090.1	206.4	1,296.5
House FY 10r	466.5	97.3	563.8

# Hospitals

- | \$26.0 million less net on upper payment limits, uncompensated care
- | New DRG rate system annualized from FY 2010 start, \$8.2 million less all funds
- | \$2.0 million high cost case review savings
  - └ Unachieved savings restored in FY 2010 appears again for FY 2010 revised & FY 2011

# *Assistance, Grants and Benefits*

## Global Waiver

- | Managed Care re-procurement and expansion: Rhody Health & Rite Care
- | Mental Health and DD services
- | Estate Recoveries
- | CNOM

# *Global Waiver*

<b>Providers- DHS</b>	<b>GR</b>	<b>All</b>
Managed Care Organizations	\$15.3	\$42.6
Long Term Care Residents	4.3	12.0
Estate Recoveries	0.4	1.1
Hospice Care	0.1	0.4

# *Global Waiver & Other*

<b>DHS Providers</b>	<b>GR</b>	<b>AF</b>
Pharmacies	\$0.4	\$1.0
Personal Choice & Rehab Waiver	0.1	0.4
Nursing Home High Cost Review	0.7	2.0
Child Care Providers (1 qtr)	0.5	0.5



# *Global Waiver –MHRH Providers*

<b>Providers</b>	<b>GR</b>	<b>All</b>
DD Providers	\$2.5	\$7.0
Community Mental Health Ctrs.	1.3	4.0
Mental Health - Day Programs	0.4	1.0
Mental Health - Treatment Planning	0.1	0.4
Methadone CNOM	0.4	-

## *Local Aid*

	Enacted	Gov.	Diff.
Car Tax	\$135.3	\$0	\$(135.3)
Dist. Communities	10.4	10.4	-
PILOT*	27.6	27.8	0.2
Library Aid	8.7	8.7	-

# *Local Aid*

- | Car Tax eliminated
- | PILOT library aid level funded but below current law allowance
- | Distressed level funded but different distribution
  - u North Providence no longer distressed
  - u East Providence newly qualified

## *Other Local Aid*

- | Amendment updates Municipal Tipping Fee law which sunsets in FY 2010
- | Library Construction Aid \$2.5 million for full funding
- | Property Valuation Reimbursement - Full funding of \$1.0 million

# *Education Aid*

Operating aid 3.8 percent below enacted level

- | Aid reduced by local pension change savings
- | Adjustments for group homes
- | \$24.3 million stimulus substituted for general revenue = outyear problems

# *Governor's FY 2011 Budget*

- | FY 2011 Revenue-Expenditure Gap
- | Governor's Recommended Solution
- | Operating Budget Overview
- | *Capital Budget*

# *Capital Budget*

- **Five year plan**
- \$3,406.7 million of outlays
- Average \$681.3 million per year
- \$2,372.1 million from current, or pay-go, sources
- \$1,034.6 million of debt issuances

# Capital Budget

- | \$582.1 million general obligation debt to go to voters
  - u \$173.9 million November 2010
  - u \$197.1 million in November 2012
  - u \$211.1 million in November 2014
- | \$69.4 million by the 2010 Assembly under the Public Debt Management Act



# *Capital Budget*

- | Net tax supported debt increases by \$34.0 million
- | Net tax supported debt would increase from 4.3 percent of personal income reported for FY 2009 to 4.6 percent in FY 2011
- | Debt service increases from 7.4 percent of useable general revenues in FY 2010 to 8.9 percent in FY 2015.

# *Governor's FY 2011 Budget*

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- | *Outyears*

# *Outyear Projections*

- | Five year projections required by statutes
- | Budget Office documents showing growing outyear deficits
- | Stimulus “cliff” unresolved

# *Out Years HFAS Deficits Estimates*

## *FY 2010 Enacted*

	Est.	Pct. of Useable
FY 2011	\$(177.3)	5.9%
FY 2012	\$(419.4)	13.7
FY 2013	\$(459.8)	14.5%
FY 2014	\$(679.5)	21.1%

# *Out Years Budget Office Deficits*

## *FY 2011 Estimates*

	Est.	Pct. of Useable
FY 2012	\$(362.2)	12.5%
FY 2013	\$(416.2)	14.1%
FY 2014	\$(457.8)	13.1%
FY 2015	\$(535.7)	17.3%

# Growth Rates

Item	Est. Annual Growth
Jobs	0.7%
State Personal Income	2.9%
Taxes	2.3%
Total Revenues	2.2%
Total Expenditures	3.7%
Salaries & Benefits – ~25% of total	4.8%
Medicaid – 21.8% of total	7.9%

# *Outyear Projections*

## Revenues

- | All other FY 2011 changes projected through period

# *Out Years Deficits - Expenditures*

- | Staff used Budget Office expenditures
- | Salaries and Benefits
  - └ Approximately 25 percent of general revenue expenditures
  - └ Negotiated 3% percent for FY 2011 and FY 2012 plus 1.7% auto base change
  - └ CPI plus 1.7% for FY 2013, FY 2014



# *Out Years Deficits - Expenditures*

## I Health insurance

- u Negotiated cost sharing increases from 11% in FY 2009 to 18% in FY 2010 to 19% in FY 2012 +
- u Assumed 5.1% annual cost increases

## I Pension Contributions assume Governor's Article 16

- u Go from 20.8% to 30.7% of salaries

## I OPEB actuarial basis beginning in FY 2011

# *Out Years Deficits - Expenditures*

## I Medicaid

- u Appears to assume 7.4% average annual growth
- u Medicaid actuary estimated 8.3%

## I Other Assistance, Grants and Benefits

- u 2.3% annual cash assistance growth
- u Cash costs will exceed block grant

# Local Aid

- | Car Tax ended in FY 2011
- | Education aid large jump for end of stimulus
  - u FY 2011 = \$788.3
  - u FY 2012 = \$830.6
  - u FY 2013 = \$839.5
  - u No general increases

# *Outyear Deficits*

- | Forecasts subject to revision
  - u The economic data is from the November consensus economic forecast
  - u Subsequent projections have been mixed
  - u May Conference will update

# *Outyear Deficits*

- | FY 2010 Revised budget changes impacts out year deficits
  - u Larger pension savings carry through the 5-year period
  - u Some agency reductions also structural
  - u Additional deferrals worsen FY 2011 problem
  - u Car Tax unresolved

# *Closer Look at Options*

- | Medicaid and Human Services - ***Wednesday April 21, 2010***
- | Locals, Tax Policy and government organization - ***Thursday April 22, 2010***
- | ***Rainy Day Fund***
- | Pensions
- | Other Agency expenses

# *Options: Rainy Day Fund*

- | How does it work
- | Recent Experience
- | Implications of use

## *Options: Rainy Day Fund*

- | Budget Stabilization & Cash Reserve
- | 2.4% of the opening surplus plus all revenues must be deposited in the account in FY 2010
- | Percents increase by 0.2 percent per year until reaching 3.0 percent in FY 2013



## *Options: Rainy Day Fund*

- | Can be used late in fiscal year if revenues are down from enacted estimate and only by legislative action
- | Any amounts used must be replaced in the following year
- | The account is limited; excess revenues are transferred to the Rhode Island Capital Plan account

# Options: Rainy Day Fund

- Maximum amounts by statute increase to 5.0 % in 0.4 % increments to FY 2013
- Implements 2006 referendum to increase fund and limit RICAP use to projects only

% of Revenues	FY08	FY09	FY10	FY11	FY12	FY13
Xfer to Reserve	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%
Max Reserve	3.0%	3.4%	3.8%	4.2%	4.6%	5.0%

# *Options: Rainy Day Fund*

- | Funds used are paid back to RICAP
- | RICAP used to limit debt financed projects

# *Options: Rainy Day Fund*

- | **Recent experience**
- | 2008 Assembly appropriated \$19.4 million from the Budget Reserve to liquidate the FY 2007 closing deficit and repaid that amount to the fund as required by statute

# *Options: Rainy Day Fund*

- | **Recent experience**
- | The Governor recommended that the 2009 Assembly appropriate \$38.4 million from the Budget Reserve to liquidate the FY 2008 closing deficit, but recommended changing the statutes to not repay in FY 2009 as required, deferring the repayment to FY 2010
- | Subsequently, the FY 2008 closing deficit grew to \$43.0 million

## *Options: Rainy Day fund*

- | **Recent experience**
- | Assembly did not concur with use or delayed payback
- | Opening deficit carried to FY 2009 budget and balanced in April 2009 with combination of local aid and personnel cuts and revenue enhancement such as cigarette tax

## *Options: Rainy Day Fund*

- | May 2009 REC showed \$70 million hole for FY 2009 w/ 1 month to solve
- | Final FY 2009 budget used \$22 million from the fund as part of \$70 million solution along with pension savings
- | Budgeted full payback in FY 2010

## *Options: Rainy Day Fund*

- | Final Rainy Day Balance \$102.1 for FY 2009 becomes \$80.1 million
- | Actual closing deficit of \$61.8 million = 77% of rainy day total and 2.1% of revenues



# *Options: Rainy Day Fund*

## I FY 2010

- u Delay of \$22 million payback to RICAP fund until FY 2012 = fewer pay-go projects
- u House use of additional \$16 million will also impact depending on payback schedule
- u House plan leaves Rainy Day Balance of \$94.4 million for FY 2010; 3.3% of revenues
- u Senate plan leaves \$68.4; 2.4%

# *Options: Rainy Day Fund*

## I FY 2010 May Conference

- u Will revised revenues; estimates appear to be holding or slightly ahead with flood impacts unknown
- u Will revise caseloads which are likely up but size unknown \$5, \$10, \$20 million?

## I FY 2010 Closing

- u Recent history not good

# *Closer Look at Options*

- | Medicaid and Human Services - ***Wednesday April 21, 2010***
- | Locals, Tax Policy and government organization - ***Thursday April 22, 2010***
- | Rainy Day Fund
- | ***Pensions***
- | Other Agency expenses

## *Article 16 –Pensions*

- | Gov proposes Article 16 to eliminate COLA for not eligible to retire by passage
- | Same teachers and state employees affected by 2009 changes
- | Adds State Police and Judges
- | Budget assumes \$42.9M general revenue savings in current year

# *Pension Plans Change*

## 2009 Assembly Changes: Major Cost Factors

- | Age
- | Service Credits
- | Salary Basis
- | COLA

# *2009 Session: Governor's Proposal*

- | End COLA for all employees
- | Age 59 for all employees
- | Recommended amendment to be effective July 1 & only apply to those not eligible to retire on that date
- | Projected FY 2010 savings of \$76 million

# 2009 Session: House Commission

House Commission - Age 65 with actuarial reduction to 62

- | Non-compounded COLA at lesser of CPI or 3% beginning 1<sup>st</sup> anniversary after age 65
- | Salary basis is five highest consecutive years (currently 3)
- | Apply to all not eligible July 1, 2009
- | \$90+ million

## *2009 Session: Assembly*

- | Age 62 minimum applied proportionally to time earned toward retirement
- | Freeze Plan A accruals on Oct 1 and accrue at lower Plan B rates thereafter
- | Salary basis is five highest consecutive years (was 3)



## *2009 Session: Assembly*

- | COLA at lesser of CPI or 3% beginning 3<sup>rd</sup> anniversary (Plan B)
- | Apply to all not eligible Oct 1, 2009
- | Lower benefits for new Judges
- | \$59 million total savings

## Article 16 - Pension

- | Teacher pension costs are shared 40/60 state and local
- | 100% of savings would be captured through aid reduction

Teacher Retirement	Savings
State Share – Direct Savings	\$12.3M
Local Share – Aid Reduction	\$18.5M
<b>Total</b>	<b>\$30.9M</b>

# COLA – Considerations

- | Should there be one
  - u Inflation decreases pension over time
  - u Costs tend to increase over time
- | When should it start
- | What amount should it be
- | Should it compound
- | Should it apply to entire pension

# COLA

Option	When	Amount	Compound
Plan A	3 <sup>rd</sup> January	3%	Yes
<i>Plan B</i>	<i>3<sup>rd</sup> Anniversary</i>	<i>CPI/3%</i>	<i>Yes</i>
Governor	None		
House Comm.	Anniversary	CPI/3%	No
Soc. Security	January 1	CPI	Yes

# COLA

- | 2009 Assembly adopted Plan B COLA for all
- | Governor renews proposal to eliminate all COLAs
- | House Finance considers numerous options for limiting the COLA

# *COLA: Revisited*

- | Should there be one
  - u Inflation decreases pension over time
  - u Costs tend to increase over time
- | When should it start
- | What amount should it be
- | Should it compound
- | Should it apply to entire pension

# *COLA Options: Current Law*

Start Date	3 <sup>rd</sup> Anniversary
Application	Total Benefit
Rate	Lesser of CPI or 3%
Type	Compounded

# COLA Options: 15 Scenarios

- Actuaries provided 15 options for reducing and limiting COLA without total elimination

Start Date	Application	Type
3 <sup>rd</sup> Anniv.	Whole Benefit	Compounded
Later of 65 or 3 <sup>rd</sup> Anniv.	First \$50K, \$25K, \$12K	Simple



# *COLA Options: 15 Scenarios*

- | Governor's proposal equaled 3% reduction to payroll rate
- | 15 Scenarios ranged from 0.09% to 1.55%
- | Simple COLA on first \$12K at later of age 65 or 3<sup>rd</sup> Anniversary yielded most savings ~ \$22 million vs. Gov \$42

# *State Retirement - ERS*

## **Contributions**

- | Employee share in statute 8.75/9.5
- | Employer pays the difference between actuarially required contribution
- | Differs for each plan because separate valuation done for each

## *COLA Options: New Scenario*

- | House opted for compounded COLA on first \$35K at later of age 65 or 3<sup>rd</sup> Anniversary
- | Yields approx 1/3<sup>rd</sup> of Gov's savings

# Pension

- Actuarial Cost includes
  - Normal Cost
  - Amortization of unfunded liability

Current Law	Normal	UAAL	Total
State Employees	9.62%	20.77%	30.39%
Teachers	10.53%	19.04%	29.57%
Judges	25.01%	7.8%	32.81%
State Police	25.94%	7.39%	33.33%

# Pension

## I Actuarial Cost includes

- u Normal Cost
- u Amortization of unfunded liability

Article 16 - Gov	Normal	UAAL	Total
State Employees	8.46%	19.00%	27.46%
Teachers	9.12%	17.14%	26.26%
Judges	21.15%	1.60%	22.75%
State Police	22.78%	1.30%	24.08%

# Pension

- Actuarial Cost includes
  - Normal Cost
  - Amortization of unfunded liability

Article 16 – House	Normal	UAAL	Total
State Employees	9.26%	19.77%	29.03%
Teachers	10.00%	18.51%	28.51%
Judges	22.17%	2.82%	24.99%

# Article 16 - Pension

- Funding Ratios: Value of actuarial assets vs. liability
- Plan design and earnings assumptions

	Current	Gov	House
State Employees	61.8%	63.6%	62.3%
Teachers	60.3%	62.5%	61.0%
Judges	81.7%	92.3%	91.0%
State Police	79.6%	91.7%	79.6%

# *Pension Unfunded Liability*

- | Benefits granted for which there were not adequate contributions
- | Failure to meet earnings assumptions

<i>In millions</i>	<b>Current</b>	<b>Gov</b>	<b>House</b>
State Employees	\$1,671.5	\$1,545.2	\$1,631.1
Teachers	2,660.5	\$2,425.7	2,587.0
<b>Total</b>	<b>\$4,332.0</b>	<b>\$3,907.9</b>	<b>\$4,218.8</b>



# *Pension Unfunded Liability*

- | Liability amortized over 30 year period beginning FY 2002
- | Actuaries annually calculate rate needed to reach that goal
- | Rate increases because of liability changes and payroll size
- | Amortization payments = majority of system costs

# *Pension Unfunded Liability*

- | Currently in year 9 of payoff w/ 21 to go
- | House voted to refinance for 25 years instead to lower annual payments
- | Additional costs over 25 year period from lost earnings during prior 20 years
- | Costs in 2030 -2034 exceed savings in prior 20 years by \$2.2B

# *Pension Unfunded Liability*

- | Current out year forecasts suggest difficult budgets in next several years
- | Combination of benefit reductions and re-amortization exceed Governor's savings and are structural
- | \$45 million total
  - u 30% benefit -70% refinance

## *Other Options and Issues*

- | Re-visit prior COLA studies for greater savings
- | Going from \$35k limit on COLA to \$12k yields additional \$8.7 million
- | Revisit age, service credits, contributions for some or all not eligible to retire or new employees

# *Pensions: Future Employees*

- Pension Commission proposed the state consider adopting new plan for future employees
- Modeled on federal employee plan that mixes traditional pension with 401k and social security
- No Actuarial Study or further review

# *Closer Look at Options*

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- | Rainy Day Fund
- | Pensions
- | ***Other Agency Expenses***

# Rating Agencies

- | Rating Agencies Notes: Moody's
- | Weak economy
- | Above average debt burden
- | Low pension funding levels
- | Tight but positive available reserves

# Rating Agencies

## Moody's: *what would improve ratings*

- | Maintenance of stronger reserve levels
- | Sustained economic improvement
- | Restoration of structural budget balance



# Rating Agencies

## **Moody's: *what would lower ratings***

- | Failure to resolve stimulus cliff
- | Deterioration of reserves and balance sheet position
- | Persistent economic weakness = no employment improvement as nation rebounds
- | Increased liquidity pressure: narrow cash margins and short term cash relief measures

# *Closer Look at Options*

- | Medicaid and Human Services - ***Wednesday April 21, 2010***
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- | Pensions
- | ***Other Agency Expenses***

# *Closer Look at Options*

- I Other Agency expenses
  - u Staff continues to monitor vacancies and turnover options
  - u Need to avoid cuts that will result in closing deficit
  - u Consultants – reduced 10 percent from original Governor’s FY 10, further targeted reductions

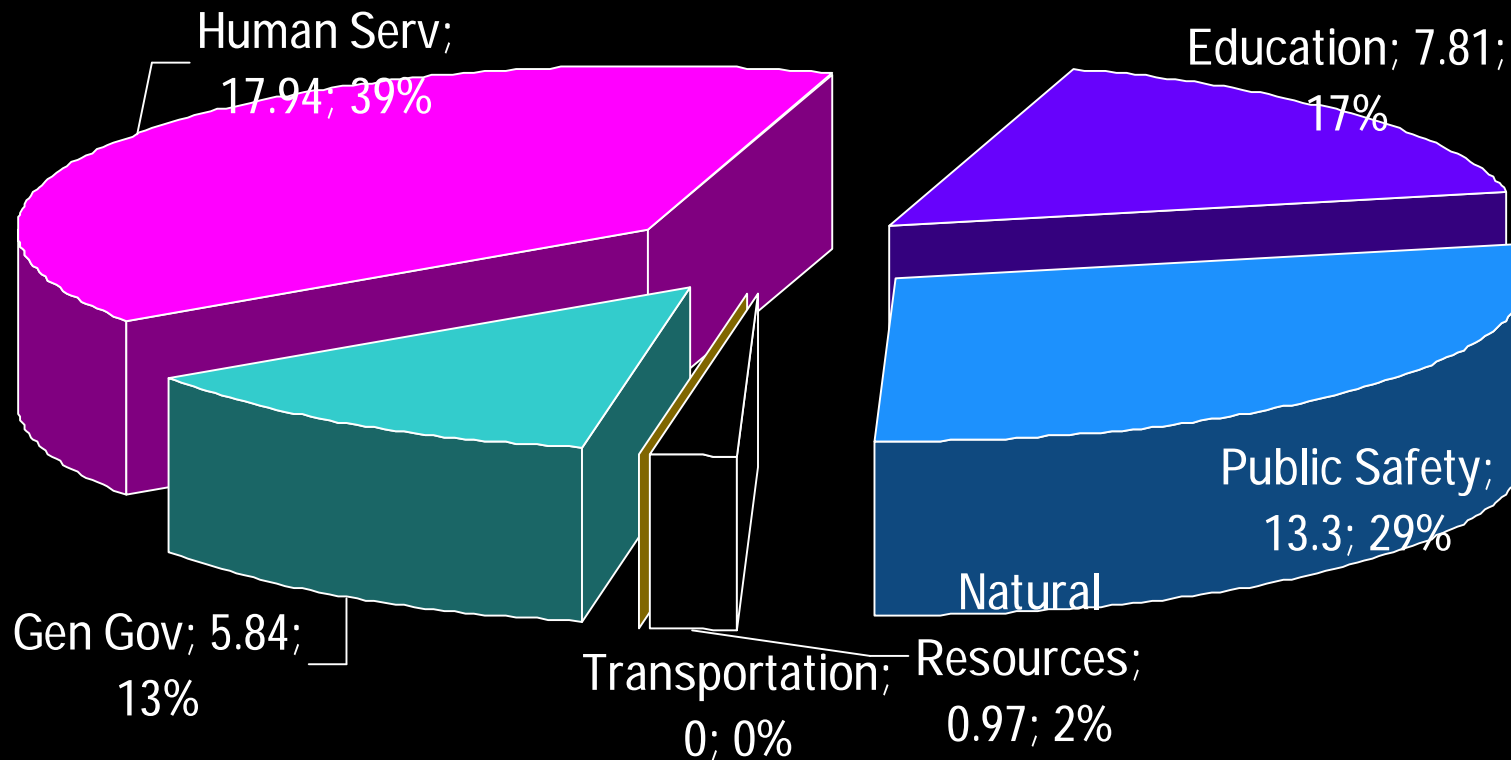
# *Closer Look at Options*

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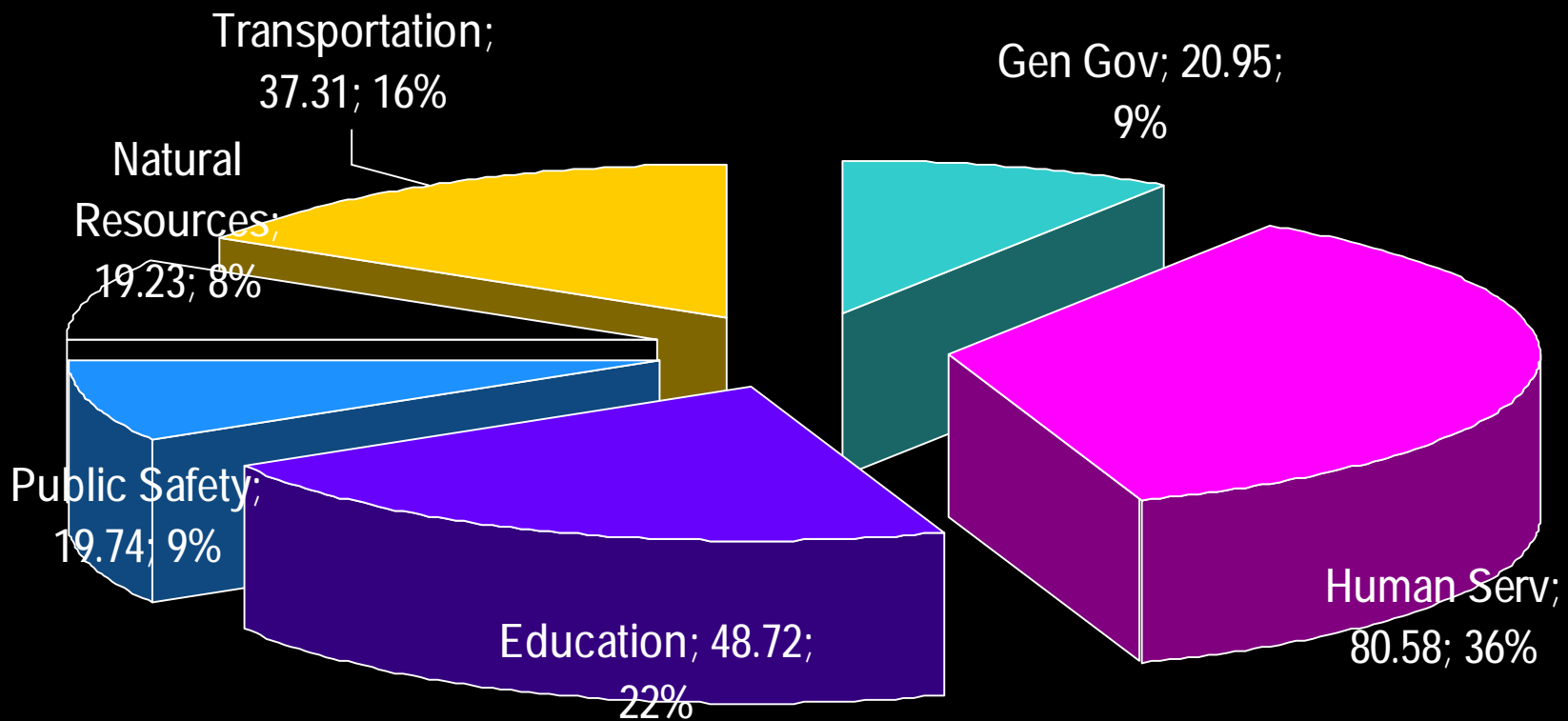
# *Closer Look at Options*

- | **Consultants**
- | Governor's original FY 10: \$51.5 million from gen. rev. \$196.7 million all sources
- | 2009 Assembly Enacted
  - └ \$45.5 million GR; \$190.8 million AF
- | Gov 10 Rev
  - └ \$46.0 GR; \$235.5 million AF
- | 2010 House Revised
  - └ \$45.9 million GR; \$226.5 million AF

# Closer Look at Options Consultants : General Revenues



# Closer Look at Options Consultants All Funds



# *Closer Look at Options*

- | **Additional Staff Briefings**
- | **Medicaid and Human Services -  
*Wednesday April 21, 2010***
- | **Locals, Tax Policy and government  
organization - *Thursday April 22, 2010***