Rhode Island Deficit Response

Steven M. Costantino, Chairman
House Finance Committee
Rhode Island General Assembly
The Process

- Technically process should start a year before
- Administration request budgets from departments with guidance
- November Estimating Conference
- Governor’s Budget Submission (3rd week of January)
The Process

- Hearings on supplemental and fy 2009 budget
- Meetings with advocates and interested parties (alternatives discussed)
- Meetings with Senate Finance (on-going)
- May estimating conference
The Process

- Meetings with sub-committee chairs
- Budget voted out of committee
- Budget voted by House
- Transmitted to Senate
- Senate finance committee votes it out
- Full Senate votes
The Process

- Transmitted to Governor
- Governor signs/veto/override-by June 30
Rhode Island

- Population – 1,067,610 (43rd)
- 1,214 square miles (smallest in country)
- 2d highest population density in US
- Old manufacturing economy
- $37,523 per capita income (17th)
- High cost of living (7th)
Rhode Island

- High energy costs exacerbated by current oil prices stress citizens and act as barriers to business location
- Early housing bubble burst, high foreclosure rates
- No population growth (50th 2004-2005)
- Economic Momentum - 47th
Rhode Island

- Medium tax capacity (28th)
- High tax effort (3rd)
- Generous safety net
  - TANF recipients – 3rd
  - Welfare spending per capita – 1st
  - Per capital Medicaid spending – 3rd
  - Medicaid Percent of Population (16.8%) – 13th
FY 2009 Budget Gap

- 2008 Assembly had to deal with a budget gap approximating $435 million for FY 2009
- Nearly 14 percent of useable revenues
- Measured as the difference between current resources and current services expenditures
- Much of it was structural arising out of prior year budget decisions
FY 2009 Gap

- Difficult to Resolve
- Absence of easy outs
- Running out of targeted tax and fee increases
- Too many years of not addressing the structural issues
- Need to continue actions to make tax structure competitive within region
FY 2009 Governor’s Budget

- Governor submitted balanced budget in January to resolve the current resources – current services gap
- His budget was $130.9 million less than enacted for FY 2008 by the 2007 Assembly
- Enacted budget is $127.5 million less – essentially expenditures as proposed
Governor’s Deficit Solution

- Grants & Benefits: 35.5%
- Employees: 24.8%
- Resources: 20.8%
- Local Aid: 10.9%
- Other: 8.0%
FY 2009 vs. FY 2008 Enacted

- Salaries and Benefits $82.9 million less than FY 2008
  - 65.0 percent of the total change
- Education and municipal aid grew only $18.4 million
  - Includes state share of teacher retirement and school construction
FY 2009 vs. FY 2008 Enacted

- Human Services assistance, grants and benefits are $68.3 million less
- Includes all Medicaid expenditures
- 53.5 percent of the total change
- Why so much?
Medicaid Spending Growth

- Medicaid State Match
- State General Tax Revenue
Current Medicaid Program

- Benefits to approximately 185,000 residents (17.5% of population)
- Tenth lowest uninsured rate in US
- Broad eligibility compared to other states
  - Kids to 250% FPL
  - Adults to 175% FPL
Rhode Island Medicaid Choices

- Unsustainable inflation and massive reductions in services, populations and eligibility
- Options considered
  - Reduce RItte Care eligibility by 34,000, or
  - Reduce DD and elders eligibility by 6,900 or
  - Eliminate pharmacy & dental and
  - Reduce payments to DD providers, nursing facilities and hospitals by at least 15 percent
FMAP

- FMAP is counter-cyclical due to lag
- It goes down when a state needs help the most
- Compounds problem
FMAP Moves with Tax Revenue Change

Blended FMAP
RI Tax Change

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
-8.0% -6.0% -4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0%
57.0% 56.0% 55.0% 54.0% 53.0% 52.0% 51.0% 50.0%
Enacted Budget Choices

• Rite Care for Parents
  - Governor recommended going from 185% FPL to 133%
  - Assembly maintained at 175% by substituting generics

• Rite Care Cost Sharing

• Community Health Center Funding
Enacted Budget Choices

- Child Care Provider Health Benefits
- State Funded Head Start
- Nursing Facilities
  - COLA delay
  - Direct labor cost ceiling
Enacted Budget Choices

- Hospitals
  - Uncompensated Care
  - License Fee
  - Reimbursements
- Global Waiver
  - Long term care shift primary emphasis
FY 2009 Budget

- It was a hard budget
  - Large gaps to cover
  - Limited resources

- It was an easy budget
  - Low expectations
  - Realization that must be solved
  - Easier than most years to have clients and providers help with solutions
Beyond FY 2009 Budget

- Structural gap reduced to approximately $125 - $150 million
- About 3.5% - 4.0% of estimated revenues
- Will grow to near 7.0% by FY 2013
- Slow economic performance
- No easy options left
Threats to Healthcare Services

- Reduced eligibility
- Reduced optional services
- Higher co-pays
- Elimination of state funded only programs
- New theorem
  - From we can’t afford to give up the federal match to we can’t afford the state match
Rivalries Reborn / Investments

- Education vs. Human Services
- Tax policy vs. Program reform
- Status Quo vs. Innovation
  - Renewable Energy
  - Consolidations
  - Healthcare
  - Pensions
Back to the Future

- Unless structural deficit problem solved you can't be innovative and creative with healthcare, education, energy and economic development
- Opportunities to redesign systems of care, consolidate functionally and maximize revenue
I Beg of You

- Whatever the Solution???

- No one timers....A one time federal budget fix for an ongoing program that forces states to continue the funding after federal funds end
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