



Donald L. Carcieri  
Governor

**OFFICE OF THE GOVERNOR  
INTEROFFICE MEMORANDUM**

**TO:** Andy Hodgkin, Beverly Najarian, John Robitaille, Gary Sasse, Rosemary Booth Gallogly, Mike Cronan, Fred Sneesby

**FROM:** Amy Kempe

**RE:** FY 2010 Supplemental budget briefing schedule and message points

**DATE:** December 14, 2009

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**General Message Points (working draft only)**

- The state needs to find \$225.1 million in six months.
  - \$125 million revenue shortfall
  - \$60.8 million carryover from FY 09
  - \$33.9 million agency expenditures, directed related to increased caseloads due to the stress on our social services
  
- By now, we are all aware of the fiscal crisis the State is facing. For the past two years, revenues have continued to decline. Rhode Island is not alone, but we have felt the economic recession longer than other states.
  
- Rhode Island slid into this recession before the rest of the country. As a nation, economists predict that state finances are not expected to recover for at least two years.
  
- Yet, despite being in this longer, we have managed our way through it without raising broad based taxes. And, that must continue.
  
- The state's fiscal situation continues to generate difficult and often painful budget choices. There are no more easy solutions. There are no good choices. There is no more money to be handed out.
  
- The supplemental budget I am submitting today addresses three broad outcomes which is reflective of the continued slide of revenues
  - First, it addresses the FY 09 closing deficit of \$60.8 million through a series of one-time savings

- Second, it resets spending levels on the state side for the remainder of this fiscal year and for future years.
- And third, it gives the cities and towns the tools they need to manage their budgets and reset their spending levels.
- In total, we are reducing general revenue spending by \$155.2 million from the FY 2010 enacted budget.
- To address the FY 09 carryover deficit, I propose a number of land sales. Specifically:
  - The Veteran's Auditorium, valued at \$10.75 million, to the Rhode Island Convention Center Authority. Under the proposal, the Convention Center Authority will issue a \$25 million bond for the purchase and rehab of the Vets Auditorium
  - The former site of the Training School in Cranston, valued at \$6.2 million
  - The current facility housing the estate's centralized IT center, for \$1.5 million, and
  - Two acres situated within Roger Williams University, valued at \$2.8 million
- I am shifting \$5 million of the federal stabilization money from FY 2011 to this year.
- An additional \$7.2 million in federal reimbursement for child support enforcement, from FY 2005 through today. The state will realize savings from this program through federal reimbursement going forward.
- The supplemental shifts \$22 million in repayment to the Rainy Day Fund to FY 2011.
- There is an additional \$6 million from our developmentally developed providers. Under Medicaid, provider donations are allowed without a reduction in the FFP. If we were to resolve the deficit by reducing provider billing, it would require a reduction of \$17 million all funds or a rate reduction of 20 percent, which would have a significant effect on services to individuals.
- Over the past several years, we have made considerable structural changes, reduced personnel expenses by XX percent, redefined eligibility standards for our social service programs, and trimmed states spending across the board. Last year, the General assembly passed significant pension reform.
- But, as I stated last year when I signed the budget, the pension reform did not go far enough. We need to go back at it this year, specifically with regards to COLAs.
- Last year, I proposed sweeping pension reform that included ending COLAs. I am again asking the General Assembly finally do away with COLAs. There is no such thing as a

COLA offered as part of a retirement plan in the private sector. It is archaic idea, and one can no longer afford it.

- Under my proposal, which Rosemary can outline in greater detail, the state will eliminate the COLA for state employees, teachers, judges and state police for employees who were not eligible to retire on September 30, 2009.
- The article does continue COLA for those who are eligible to retire on or before September 30, 2009, and those who became eligible and retire through the passage of the legislation shall continue to receive a COLA
- Further, the article gives authority to the General Assembly to review annually and give an ad hoc COLA adjustment to retirees who are not otherwise eligible
- This will save a total of \$43 million in this fiscal year, and reset our baseline for next and future years.
  - The pension savings break down as follows:
    - \$11.3 million from state employees
    - \$507,950 from State Police
    - \$240,190 from Judges
    - \$18.5 million from teachers, with the savings passed on to the cities and towns
    - \$12.3 million for the state's share of teacher pensions
- We have made significant changes to our personnel budgets in the past few years with the changes to retiree healthcare and last year's pension reform. We continue to tackle personnel costs in this supplemental with the elimination of the pension COLA. We have made significant changes to the social services budget.
- Because of the economic recession, our social services are increasingly pressured. To accommodate for that, we have continued to constrain spending throughout state government. In this budget, we find an additional \$19.6 million in agency reductions.
- Also, we anticipate seeing \$8.7 million in employee medical benefit savings. This is a significant saving that result in the changes to employee cop-pays and our wellness program. We are making a healthier workforce that is making smart healthcare decisions.
- We cannot get through this economic recession without addressing how we fund our cities and towns. I have said this over and over again, and we can no longer
- First, I am proposing withholding the 3<sup>rd</sup> and 4<sup>th</sup> quarter vehicle excise tax from the cities and towns, for a total of \$65.1 million.
- I know that many of our cities and towns have also opened up their labor agreements and negotiated higher health insurance co shares and co pays, and delays of wage increases. I applaud those efforts.

- But, all our cities and towns need to take that cue, and work with labor unions to bring them in line with the private sector, in terms of healthcare costs and a reduction in pay.
- I don't expect our cities and towns to make up for the reduction in aid by renegotiating contracts alone.
- Last year, I proposed a series of budget articles that would give the cities and towns the tools they need to manage their budgets and cut expenditures. The General Assembly did not pass these tools, despite cries from the municipalities and independent analysis that the packet of tools could save cities and towns \$125 million per year.
- Specifically, statewide purchasing system, end to minimum manning, increased health insurance co-shares to be equal to that of the state plan, and a BRAC commission to study school district consolidation.
- I urge the General Assembly to pass the municipal tools articles immediately upon returning to session. There is no need to debate them again this year. Pass them and free the cities and towns to manage their own budgets.
- Of the \$41 million in reduction in education aid, \$18.3 million is offset by the savings from the elimination of the pension COLA. The reduction is further offset by the distribution of \$4.6 million in Recovery Funds
- This leaves approximately \$20.6 million, which mirrors the personnel reduction the state workers accepted this past year.
- This past year, the state employees agreed to take essentially a three percent pay cut. Many municipal employees have done so too. Many municipal employees too have taken a pay cut. I am very appreciative of the understanding by state and municipal employees that we do have good jobs, with good benefits and good working conditions. There are many Rhode Islanders who don't. And, a three percent pay cut is a small sacrifice for the greater good.
- The total personnel budget for schools last year was \$XXX million. Three percent of that total is \$20.6 million. Do the math. \$20.6 million is the exact amount I am proposing we reduce education aid.
- Personnel costs continues to be one of the biggest pieces of municipal budgets, and if we are to get through this economic recession, all employees – including teachers – need to be part of the conversation and solution.
- Over the past several months, my team and I have met with mayors and town managers to alert them of the proposed funding changes, and time and time again, the message they have shared is that they need relief, not only of the many unfunded mandates, but also help in controlling the spending on the school side.
- Once again, I am submitting legislation to suspend the Caruolo Act in any year there is a reduction in state aid. The legislation gives the appropriating authority – the city and town councils – final approval for all school labor contracts. This unifies the budgeting

and taxing functions and ensures school committees are not over promising and thereby putting cities and towns in greater financial danger.

- There are a number of smaller budget items included in this supplemental, which Rosemary and her team can go over in greater detail with you after this.
- As I said earlier, our fiscal situation leaves us with only difficult choices. We have for too long now not tackled the tough issues and given in too early to special interests. We can no longer afford to operate as business as usual.
- Later today, Rosemary and her budget team will present this corrective action plan to the House Committee on Finance. I strongly urge the Committee and the General Assembly to act quickly and pass these much needed changes. If they do not, they will be setting this state, the taxpayers, and those who rely on government services on a much longer road to recovery than we can afford.