

HOW SCREWED ARE WE?

Elected officials and pundits offer their take on Rhode Island's budget predicament

By [IAN DONNIS](#)

June 28, 2007 10:53:12 AM

At a time when most state budgets are flush with surpluses, Rhode Island's fiscal house remains in disrepair. Although lawmakers defend the budget they passed over a gubernatorial veto last week, a lot of people have reason to be unhappy with the results [see "[The worst of your new state budget](#)," TJI]. More ominously, Rhode Island faces budget deficits for the foreseeable future. Without significant changes, painful cuts and partisan polarization will remain as constants on Smith Hill.

Given all this, we decided to ask a bipartisan selection of political observers and elected officials three questions:

1. In the aftermath of the spending plan backed by the General Assembly, how bad is the budget situation facing Rhode Island in future years? What will be the most adverse consequences if the situation isn't corrected?

2. How would you fix the situation?

3. How should cuts in state spending be focused? How should the state raise more revenue?

Here are excerpts of what they had to say.

DARRELL WEST

Professor of Political Science, Brown University

1. Rhode Island's budget situation is a ticking time bomb. There is a mismatch between state spending and income growth, and state leaders continue to make budget decisions at the last-minute without adequate opportunities for public debate. This erodes citizen confidence in government and makes people more cynical about elected officials. Both the governor and General Assembly should give the public more than a week to react to specific proposals. No more popping "solutions" at the last minute without hearings, citizen input, or chance for external review.

2. There needs to be a closer match between increases in the state budget and Rhode Island's overall income growth. In recent years, spending has risen by nearly twice the growth of income in the state. That trend is unsustainable and needs to be corrected immediately. Right now, state government is passing program costs down to the local level which places tremendous fiscal pressure on local property taxes. The state should not force mandates on localities unless it is willing to fund them. Spiraling local property taxes are strangling taxpayers and making it difficult for businesses to remain in Rhode Island.

3. The state should invest in areas such as education that raise Rhode Island's long-term ability to train its citizens and compete with other locations. The standard for cuts is whether an area contributes to long-term development. Rhode Island needs a coherent economic development strategy for job creation. Unless higher paying jobs are created, state revenue will stagnate, and elected officials will be even more tempted to turn to gambling to finance the state budget. Gambling is not a good way to grow the economy in the long run. Rhode Island should take advantage of its current advantages in tourism, financial services, biotechnology, and education to build its long-term economy.

ARLENE VIOLET

WPRI/WNAC-TV analyst

1. Now that the General Assembly has used up most of the bubblegum and pick-up sticks to plug

the hole in Rhode Island's budget, it's time for legislators to make structural changes. If they continue to mortgage the future by such gimmicks as using tobacco money, the state will continue to be below the water line. Sensible people will move out before the deluge inundates them with higher taxes, thereby leaving fewer and fewer taxpayers to tread the water.

2. The recent DOT fiasco is exhibit No. 1 of what is toxic to taxpayers. We pay for this set of people in the agency who don't have the engineering skills to oversee road projects. Rather than saying "sayonara" to them, we just hire another set of consultants to do their jobs. The General Assembly should establish a blue ribbon commission to study the work force and determine what jobs are either unnecessary or filled by incompetents and eliminate the positions.

A statewide health plan for every public employee, including teachers, with reasonable premium costs of 20 percent for those who make more than \$50,000, would conservatively save \$70 million a year. Stop building unnecessary courthouses. There are hundreds of ridiculous expenditures, like the gas-guzzling SUVs driven by general officers (except Frank Caprio) that should be axed.

3. Focus cuts on the absurd budget expenditures, as above. There should be five school districts, paralleling the counties. Rhode Island doesn't need to raise revenue — it only needs to learn how to spend it efficiently. When and if the state becomes a model of efficiency, the money will flow since people will want to come here.

DAVID N. CICILLINE
Mayor of Providence

1. We need accept this for what it is — a crisis. It is the result of bad policy and a lack of strategic planning. There are a lot of serious consequences. Certainly, one of them is that it hinders us from adequately investing in our public schools. That's because the state has been pushing costs down to cities and towns for a number of years and property tax payers are stretched to their limit.

2. The most important step is to craft a thoughtful, strategic five-year plan and then stick to it. To develop that plan, I would convene a group of experts from within and outside of Rhode Island. I would task them with offering recommendations to achieve the following goals: 1) a path to fiscal stability and closing the structural deficit; 2) modernization of state government to provide better services with as few resources as possible; 3) a plan to fund the world's best system for educating children; 4) a restructuring of the tax system to eliminate reliance on the property tax; 5) restoration of the image of Rhode Island. While that plan is being formulated, I would also mobilize an aggressive, full-court press to accelerate economic development. Externally, send Rhode Island ambassadors around the country and the world to meet with global decision-makers. Internally, be more proactive about linking up entrepreneurs and capital with the brilliant researchers, designers, and inventors in our universities and hospitals.

3. It's not enough to nibble around the edges of our existing policies and structures. We need to rethink the way we deliver many services. We have a great example of that in Providence with the Police Department. With roughly the same budget it's always had, we restructured it to be more productive and there's 30 percent less crime than there was five years ago. Many of our departments that have been cut are doing more than they ever have, like Parks. The education funding and administration system in Rhode Island is a prime target for overhaul. Do we need 36 back offices for 36 different school districts across the state? I doubt it.

DONALD L. CARCIERI
Governor of Rhode Island

1. This budget is a fiscally irresponsible disaster for Rhode Island taxpayers, communities, and schools. The Democratic General Assembly once again failed to address our state's structural budget issues, patching over these problems with short-term fixes such as using the tobacco settlement money and by raising taxes. Because of these fiscally irresponsible decisions, I foresee larger deficits in future budget years. In fact, using the tobacco money to plug this year's budget hole means that we will start FY 2009 with a deficit of at least \$200 million.

The consequences of this budget for our state are tremendous. By backsliding on the progress that we have made lowering taxes, by cutting education aid to local cities and towns, and by passing an anti-privatization measure that limits the executive branch's ability to save the state millions of

dollars, we are sending a negative message to businesses and families. Unless the General Assembly gets serious about putting our fiscal house in order, we will drive away high-wage, high-growth jobs, and families from our state.

2. As I pointed out last month, we must focus on where our costs are greatest, where they have been rising, and where they are out of line with similar costs in the private sector. Our state personnel costs, which have nearly doubled in the past 10 years, meet these criteria. Total benefit costs for an average state employee are much higher than similar costs in the private sector.

3. Rhode Island does not have a revenue problem; it has a spending problem. Despite having the seventh-highest tax burden of any state in the nation, all those taxes can't keep up with our insatiable appetite for spending. We cannot tax ourselves to a healthy budget.

In the coming years, we must develop a sustainable budget that is not dependent on yearly tax increases or one-time gimmicks. We must decide what state services we can afford and which we can live without. As part of this process, we must have the courage to examine every area of state spending, from personnel costs to human services. Until we make this commitment, every future General Assembly session will be dominated by arguments about the state's budget woes.

STEVEN M. COSTANTINO
Chairman, House Finance Committee

1. The "out-year" deficits are very serious. If the General Assembly had adopted the exact budget that the Governor had presented to us, we would have started Fiscal Year 2009 (which begins July 1, 2008) with a structural deficit of \$379 million. The Assembly reduced that projected deficit by \$72.7 million. But the goal must be to eliminate the deficit entirely. The Governor's office should begin working on next year's budget right now in order to present us a more realistic document next January. In addition to the structural deficit, the Governor's budget was extremely unbalanced because of overspending in many administrative departments, as well as the reliance on an \$80 million AIG insurance settlement that never materialized.

There are consequences if the situation is not fixed in future years. Ultimately, our bond rating could be lowered, which would cause businesses to be nervous about making investments here.

2. In the coming fiscal year, House Finance will meet on a quarterly basis with department heads to review their expenditures, to be certain they are not overspending the money appropriated by the General Assembly. The Governor and his departments also need to come forward with achievable, workable and well-thought-out plans at a much earlier stage in the budget process. We need to have a better dialogue between the Administration, the General Assembly and the providers themselves before the budget is introduced.

3. From the beginning of this year's budget process, I urged the Administration and labor officials to work together. Clearly, both sides have good ideas on how we can achieve budget savings, and it is unfortunate that they weren't able to work out an agreement. I also strongly believe we can rein in state spending by taking a closer look at the services we provide in relation to other states.

The General Assembly has made strides in recent years by implementing tax policies to attract the biotechnology and financial service industries, but we need a stronger overall statewide economic development strategy. We also need to take a closer look at the efficiencies of our tax policies.

SCOTT AVEDISIAN
Mayor of Warwick

1. The budget situation facing Rhode Island is only going to get worse as one-time revenue enhancers are now depleted. The long-anticipated increase in gambling revenue is not materializing. All of these factors point to years of budget battles that will only be solved by everyone agreeing to put aside differences and work together. The adverse consequences will require a decision by the state to decide what programs we will no longer be able to offer, and what departments and divisions we can no longer afford to fund.

2. Curtail all contract employees until you can decide if the positions are necessary. If the positions are deemed necessary, make them part of state system to save on the employment services for

the outside vendors. Federalize any positions currently on the state payroll that could be paid for with federal funds. Limit department directors and division chiefs to only being able to spend 97 percent of approved budgets amount on discretionary spending — meaning that the additional three percent will revert back to the general fund. Regionalize and consolidate school governance to take advantage of the economies of scale that fewer administrators would mean. Create a stable long-range funding formula for state aid to education that allows communities to be able to do long-range forecasting and planning.

3. Now is the time for the discussion to take place as to what services we should be providing, to whom they are given, and at what cost. Each year that we face a budget crunch, the discussion becomes one of pitting each department against other departments instead of undertaking the needed analysis of what we need to provide and how we can afford to provide those services. We should be going beyond that kind of analysis to really develop plans for change. Revenue is going to be hard to increase without going back to the traditional fees and services increases. Most of the taxes that we have relied on for revenues are now going in the opposite direction and any decision to reverse that trend will most likely not occur. A new system needs to be created.

KATE BREWSTER

Executive Director, the Poverty Institute, Rhode Island College

1. The most adverse consequences of growing deficits are short-sighted program cuts that are harmful to low-wage working families and jeopardize the health and safety of our poorest seniors and people with disabilities. So long as the fastest growing jobs in RI pay low-wages, we must provide work supports, like subsidized health-care and child-care, so that parents can remain in the workforce and have their kids in quality, safe care. More than 1000 low-wage families are about to lose their child-care subsidies as a result of budget cuts. These families will likely find themselves in financial turmoil and potentially be forced to forego other basic needs, like health insurance, that will shift costs elsewhere in the budget.

2. The state does not have sufficient capacity or the tools necessary to analyze tax policies and proposals. Despite being established in last year's budget, the Office of Revenue Analysis has not yet been staffed. This should be a state priority. We also need a careful review of state services to ensure they are being delivered in the most effective and efficient manner possible. It will be interesting, for example, to see how well the Executive Office of Health and Human Services is able to streamline the delivery of services to families and individuals served by the five health and human service agencies.

3. In 2005, the Tax Expenditure Report [outlining credits, deductions, exemptions, and preferential tax rates] documented that the state "spent" at least an estimated \$1.4 billion in tax expenditures. Policymakers should review these expenditures to determine whether they are achieving their stated purpose, are cost-effective, and/or affordable.

To raise more revenue, Rhode Island must increase its business activity by attracting and retaining businesses with good paying jobs. Research shows that a highly skilled and educated workforce is one of the most important factors in business location decisions. There are 167,000 adults without a high school diploma. Rhode Island's economic development strategy should be focused on increasing the skills of our workforce and building human capital.

GIOVANNI CICIONE

Chairman of the Rhode Island Republican Party

1. The underlying structural problem — state spending is far exceeding intake of revenue — was not addressed. Caving to union contract demands, making a desperate grab at tobacco settlement money, abandoning cities, towns, and their school systems, and green-lighting new taxes is hardly fiscal leadership. The \$19 million in lost state aid to education this year is just a grim foreshadow of what is to come. The state faces the danger of collapsing under its own weight if a new commitment to disciplined spending and more realistic personnel pay packages is not achieved going forward.

2. The most critical change needed to get spending under control is to trim personnel costs in the state budget. Those who advocate for the other two major spending areas — social programs and aid to cities and towns — should recognize their priorities are being sacrificed on the altar of the

almighty public employee unions. If the state is to change course, the cultural mindset of union leadership that has to change.

3. The Governor's proposed 1000 state worker-reduction plan must go forward in a thoughtful, responsible way. A planned employee cutback should target excessive overhead and administration first. Trimming workers who are redundant to state operations can be done without hurting delivery of core services. Sources of revenue will grow and expand only if the state can erase its reputation as an expensive and overregulated place, and one that is unfriendly to business. We must make it our mission to simplify government, to lower costs, and increase effectiveness.

ROBERT A. WALSH JR.

Executive Director, National Education Association Rhode Island

1. Unless the situation is remedied, we will see more proposals adverse to children and families — ranging from continued under-funding of public education to more proposed cuts to youth, child-care, and health-care services. Arguably, much of the structural deficit came from tax cuts and tax incentives. Tax cuts included the five-year reduction in income tax rates started during the Almond administration and continued with the car tax reduction, and the more recent upper income (flat tax) and capital gains tax reductions. Had Governor Carcieri successfully kept his promise to deliver 20,000 new, good-paying jobs, or truly conducted a thoughtful examination of government business practices such as the use of outside consultants, Rhode Island could have kept its commitment to our children, afforded some tax breaks, and balanced its budget.

2. In the short term, on the revenue side, balanced budgets will call for the restoration of the capital gains tax, and reining in the upper income tax cuts (there is NO evidence that giving existing high-income residents income tax breaks fosters economic development, and we will never compete with true tax havens or better winter weather when retirement decisions are made). Other tax incentive program must be constantly examined to ensure they are meeting original goals. On the ex-penditure side, a cooperative working relationship with labor will show that there are still efficiencies to be realized while still maintaining or improving existing government services, without demonizing the existing state workforce.

3. The discussion should not focus on "cuts," but the prioritization of government services in sync with Rhode Island values, which will require the generation of sufficient revenues. Good government services promote economic development, job growth, and citizen satisfaction. Real leadership will ensure appropriate revenues are generated, and appropriate taxes imposed, for the effective and efficient provision of these services. In turn, government services must be held to a high standard, and objectively monitored and measured — with no apologies for having fairly compensated, qualified state employees performing the agreed upon functions of government.

GARY SASSE

Executive Director, Rhode Island Public Expenditure Council

1. Out-year projected deficits have inhibited the state's ability to make strategic budget decisions that are needed to stimulate economic growth and support basic services necessary to maintain the quality of life. It is projected that the average annual deficit between FY 2009 and 2012 will be \$396.5 million. If the trend of out year deficits, combined with the reliance of one-time revenues is not reversed, the state will not be in the position to sustain existing services.

2. It is essential that the state adopt an investment-based budgeting process to replace the current method of annually patching budget deficits. RIPEC's "Fiscal Get Well Plan" includes the following elements: three-to-five year binding gap on state spending growth; defining a sustainable safety net; reducing reliance on one-time revenues; reorganizing Medicaid and human services delivery, purchasing and management; and limiting growth in personnel spending.

3. Controlling growth in state spending must be based on an understanding of the factors that are driving this growth. Since FY 1998, approximately 65 percent of the increases in state expenditures have been driven primarily by growth of state personnel, operations, and entitlement spending. The state's long-term ability to control the rate of growth in future personnel costs depends on the adoption of a personnel reform agenda. Furthermore, the state should look toward the creation of a personnel system that places greater emphasis on performance. The state should also address the

question of why per capita spending for cash assistance and Medicaid programs continue to rank third- and fourth-highest, respectively, in the US. Better ways must be found to deliver entitlement programs. Rhode Island's tax burden is currently the eighth-highest in the US, and we cannot address the state's fiscal crisis simply by raising taxes.