



Comments on Your Government

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RIPEC

Rhode Island at a Crossroads Making Transformational Changes 2009 - 2010 Operating Program

Rhode Island is at a pivotal crossroads and must solve its structural budget deficit so the State can turn its attention to promoting a competitive economy and continue to make progress on its long-term goals as a State and a community.

The backdrop of a state economy in a recession, national financial institutions in turmoil, high unemployment and diminishing State revenues has brought into sharp focus the need for Rhode Island to systematically address the factors driving the budget growth in the Ocean State. With a projected FY 2008 shortfall this need has shown to be even more crucial. The State's FY 2009 budget also highlights the need for Rhode Island to structurally address the State's fiscal imbalance by critically examining and realistically addressing the factors driving budget growth. The path the State takes to address these issues is of critical importance in order to establish the basic functions of State and local government in a realistic and affordable manner.

Taking this alternative path will require considerable political will, courage and determination to implement as this would focus on reforms that will enable State and local governments to produce better outcomes with less money. Taking this choice can lead to State and local governments providing high quality affordable public services while improving Rhode Island's ability to make needed investments to enhance job creation, economic growth and a predictable government structure. Achieving this end would require new tools and informed public input to help decision-makers focus on choices, costs and benefits and tax competitiveness.

Therefore, RIPEC's two year *Operating Program* focuses on helping State and local decision-makers identify the transformational changes necessary to alter the way government does business; leading to the ability to make investment-based decisions that will form the future of our governments. This could enable Rhode Island to successfully compete for jobs, create long-term economic growth and provide for an investment-based approach to the funding of long-term investments including necessary infrastructure improvements.

In RIPEC's view, the initial targets of an investment-based approach should focus resources on programs that support educational initiatives so Rhode Island's workforce has the necessary skills for 21st Century jobs. Targets for such investments would include funding for a school foundation formula, a sustainable public higher education system and necessary infrastructure improvements. To aid in the development of an investment-based approach, RIPEC will publish *Rhode Island: 2015*, a report that will include a forecast on how recent demographic and economic changes will influence the level of demand for various State and local government programs beyond the end of this decade. This report could set the stage for discussions around the necessary transformational changes needed in Rhode Island.

RIPEC's 2009 - 2010 Operational Plan is scheduled to be implemented over the next two years by providing policy-makers, researchers and the public with the tools and evidence-based research needed to elicit the transformational changes in the way the State and local governments make tax and spending decisions and to support the transition from structural imbalanced budgets to investment-based, outcome-oriented budget decisions.

A. Addressing Structural Budget Deficit

The current economic turmoil necessitates a different approach to the operation of State government. An approach that could transform State and local governments to live within their ability to support basic services with continued limited resources while providing quality services efficiently and effectually. These needs are to be structured over a short-term while also taking a long-term view.

To help address the current and long-term structural deficit within the State, RIPEC will:

1. Provide assistance and research to help close the State's budget gap by focusing on the following questions:
 - Is this program/activity mandated by State or federal law? If so, what is the level of services that is mandated?
 - Are services being provided in the most cost-effective manner?
 - Are department resources being duplicated within the State?
 - Can the process or processes be improved or streamlined?
 - Would a change result in cost-savings or cost-shifting?
 - What is the long-term financial impact?
 - How will change impact service delivery?
 - What are the actual savings that will be gained in year one and out-years?
2. Work to implement RIPEC's *Fiscal Discipline Plan* (published in RIPEC's analysis of the Governor's FY 2009 budget) by:
 - Supporting implementation of a temporary State overall spending cap at the same level as the FY 2009;
 - Supporting the control of personnel costs by, for example, utilizing the retirement program instituted in the FY 2008 budget to redesign the personnel needs of departments and through the collective bargaining process; and
 - Publishing *How Rhode Island Compares – Expenditures* that will highlight expenditures in the State in comparison to the other states in the country and the United States average, and provide a trend analysis based on expenditures from ten years prior.
3. Work with the State on the long-term view of the State's finances by:
 - Examining the State's economic development strategy, transportation system and policy choices for future investments;
 - Working with the Administration and the Legislature to comprehensively review the economic strategy of Rhode Island with particular emphasis on tax competitiveness, tax expenditures and economic indicators;

- Using the 2002 RIPEC report *Rhode Island at the Crossroads*, which addressed the transportation system in Rhode Island, RIPEC will work with the State's Blue Ribbon Panel on Transportation to propose possible guidelines to inform the discussions to reform the transportation system in Rhode Island; and
- Developing guidelines for future investment strategies and policy choices as the State begins to work through the economic downturn.

B. State and Local Budget Drivers

To assist in determining the major budget drivers as well as to provide options, RIPEC will:

1. Prepare *Rhode Island 2015*:
 - Update RIPEC's report, *Rhode Island 2010* (published in October, 2005) in order to forecast how recent demographic and economic changes influence the level of demand for various State and local government programs beyond the end of this decade.
2. Analyze Entitlement Programs:
 - Monitor and report on the reorganization of the health and human services agencies and identify areas of possible improvement in both the State's reorganization process and human services delivery in the State; and
 - Complete the Safety Net analysis working with United Way. The analysis will look at potential components of a social safety net, given limited resources of the State.
3. Propose State and Local Personnel Reform:
 - Examine the feasibility of changing the retirement system for future employees from a defined benefit to a defined contribution plan;
 - Examine the feasibility of creating a personnel system that places greater emphasis on performance and accountability in human resources decisions; and
 - Monitor implementation of the recommendations relating to municipal pension costs that were recently released by the Auditor General. The Auditor General's recommendations include: pursuing moving active members now covered by locally administered pension plans to the State pension system; contributing no less than 100% of the annual required contribution to locally administered pension plans; considering increasing employee contributions to locally administered pension plans; and considering defined contribution plans for new hires.
4. Analyze Health Care Reform
 - Support the review of the healthcare system in Rhode Island to determine its current status and to review possible cost saving measures.

C. Tax Competitiveness

RIPEC will continue to advocate for a responsible taxation policy in the State by examining certain tax ideas including the following:

1. Review of the Tax Policy Strategy Workgroup Analysis

- The task force, of which RIPEC is a member, established by the Governor in FY 2008, is charged with examining many tax issues including the business tax, estate tax, property tax issues, and capital gains. A report will be issued by the task force by the end of 2008 that outlines their recommendations. RIPEC will prepare additional analyses of the tax structure to determine the impact on the State's overall revenue structure and competitiveness.
2. **Review of Business Taxes**
RIPEC will examine the impact of various business taxes including the following taxes on business location decisions:
 - Unitary (combined) corporate reporting, a structure that requires that companies combine profits from all related subsidiaries before reporting what portion of their profits are taxable in each state. Approximately a third of the states across the country have this requirement in their tax code.
 - Gross Receipts Taxes have been used in other states and may be used to substitute for other business taxes, including income tax on corporations.
 3. **Property Tax Administration**
RIPEC will work with municipal officials, the Tax Policy Strategy Workgroup and others to develop legislation to establish property tax classification parameters. RIPEC will also promote keeping the current property tax reevaluation cycle intact.
 4. **Alternative Non-Tax Revenues**
RIPEC will examine the feasibility for additional non-tax revenue sources. The State currently ranks near the bottom in the United States for income from charges and miscellaneous revenues based upon this classification.
 5. **Prepare the publication *How Rhode Island Compares – Revenues***
This publication will highlight major taxes in the State in comparison to the other states in the country and the United States average. This publication will include revenues from ten years prior for comparison purposes.

D. Rethinking Local Governments

Rhode Island has a population of little over one million citizens who receive local government services from 39 municipalities, 36 school districts and special purpose districts. These units of local government are largely supported by property taxes. This organizational infrastructure may be a contributing factor to Rhode Island's continued high property tax burdens, which are currently the 6th highest in the United States and are 43 percent above the national average.

A comprehensive and systematic analysis of cost-sharing opportunities should be undertaken by focusing on the following question: Should State policy encourage and help identify cost-sharing among local units of government, school district consolidation and other inter-local government arrangements to reduce the cost of delivering local public services?

RIPEC's Rethinking Local Government Project will continue to focus on developing data and building coalitions aimed at:

1. Local Government Cooperation and Reorganization

- Identify potential cost-sharing opportunities for municipal and school governments and assess the economic, fiscal and programmatic benefits of consolidating local government functions.

2. Limit Growth in Local Property Taxes

RIPEC will identify ways to enhance the implementation of Rhode Island's landmark property tax reform legislation S-3050 by:

- Monitoring the efforts to implement property tax relief throughout Rhode Island; and
- Reviewing the effectiveness of systems used in Rhode Island and elsewhere to reconcile municipal school budget disputes.

3. Review the Current Municipal Aid Formula in Rhode Island

- RIPEC will begin the review of the current municipal aid program and potentially propose alternative methods of allocating State funds to municipal government to promote fairness, accountability and equity.

4. Pensions and Health Care Cost Containment

Rethinking local government will require that cities, towns and school districts control the cost of providing health care and retirement benefits. In 2009 RIPEC will:

- Examine the feasibility of, and barriers to, jointly purchasing health insurance for State and local employees;
- Publish a *Local Pension and Health Care Cost Containment* study on how cities, towns and school districts may begin to control the cost of providing health care and retirement benefits. RIPEC will release a series of reports on this topic, the first report to be released in late 2008. Included will be an examination of the feasibility of, and barriers to, jointly purchasing health insurance for State and local employees; and
- Continue to work with various local governments and school districts to analyze the potential for consolidation of services and functions.

5. Update the *Municipal Fiscal Health Check*

- A report that provides an overview of the fiscal condition of Rhode Island's 39 municipalities, based on data from municipal audits.

E. Education Reform

Education is one of the most significant services rendered by governments and has a profound impact on the overall health of the State. In recognition of the vital role of education, and the significant challenges faced by the State's educational system, RIPEC will:

1. Analyze current efforts toward school reform education in Rhode Island including:

- Working with the Governor's panel on urban education to help determine areas of improvement and best practices;

- Examining Rhode Island’s educational system relative to other comparison states to provide accurate and timely information;
 - Publishing *Results: Education in Rhode Island* – Publication that examines education trends in the State, including student enrollment, school finance, and student performance relative to other states; and
 - Preparing *How Rhode Island Schools Compare* – Publication comparing education expenditures, revenues, and salaries in Rhode Island to other states and the United States average.
2. Support School Finance Reform – A critical component of RIPEC’s Education Reform and Rethinking Local Government Project will be to focus on ways to reform public school finance.
- Last year RIPEC played a key role in developing a proposal to reform the way public schools are financed. RIPEC will continue to work with stakeholders with the goal of establishing a school foundation formula where the State provides approximately 50.0 percent of the cost of education, coupled with initiatives that hold schools accountable for results, enhance operating efficiencies, and allow for the effective implementation of the Property Tax Relief Act of 2006 (S-3050); and
 - Examine State and local expenditures to determine if opportunities for enhanced efficiencies exist.

F. Public Education and Technical Assistance

In addition to the program outlined in the preceding pages, RIPEC will continue to publish the following reports:

- State Budget Analyses – A series of reports on the Governor’s proposed budget, the results of the May and November revenue and caseload estimating conferences, and the budget as enacted by the General Assembly. These publications will highlight key points regarding revenues, expenditures, trends, out-year financial forecasts, and general state aid programs.
- How Rhode Island Compares – Annual publication that highlights the major taxes and expenditures in the State in comparison to the other states in the country and the United States average.
- Economic Indicators Report – Development of a potential report working with the Boston Federal Reserve to prepare a set of economic indicators to be published on a periodic basis.
- Technical Assistance – RIPEC will continue to respond to requests from public officials to identify areas where sound practices can help control costs and improve operations.