



Comments on Your Government

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RIPEC

Closing Providence's FY 2004 Deficit A Revenue Driven Plan

Spending Plan Summary

In FY 2004, the City of Providence will spend approximately \$554.2 million, up \$39.5 million from its FY 2003 appropriation. This represents a 7.7 percent increase in total spending. Of the increase, \$20.0 million (50.7 percent) is for additional school spending, \$9.2 million is for additional medical benefits and retirement costs (23.3 percent of the increase), \$4.2 million for debt service expenditures and the \$6.1 million balance will support public safety and municipal services.

The FY 2004 budget represents a \$197.6 million increase in spending since FY 1998 – a 55.4 percent increase during this period. This translates to an average annual growth rate of 7.9 percent during this period, compared to inflation of 2.5 percent during the same period. Medical benefits, retirement and debt service costs increased at 13.4 and 12.3 percent respectively. As the summary table on page 2 shows, the rate of growth in the City's budget has slowed since FY 2001. This is principally due to the reduced rate of growth in the State's education aid program.

Expenditure	1998	1999	2000	2001	2002	2003	2004	Change - 1998-2004	
Education	\$182.5	\$200.9	\$220.8	\$236.5	\$254.5	\$268.2	\$288.2	57.9%	8.3%
Police & Fire	56.1	66.5	63.4	69.8	69.9	73.1	78.2	39.4%	5.6%
Medical & Retirement	34.1	34.5	38.6	44.3	48.5	56.9	66.2	94.0%	13.4%
Debt Service	25.1	26.8	32.7	31.6	39.9	42.6	46.8	86.1%	12.3%
Other Municipal Services	58.7	60.5	65.0	77.4	72.9	73.9	74.8	27.4%	3.9%
Total Budget	\$356.6	\$389.3	\$420.5	\$459.5	\$485.8	\$514.7	\$554.2	55.4%	7.9%
Change	\$26.3	\$32.8	\$31.2	\$39.0	\$26.3	\$28.9	\$39.5	\$197.6	-
Percent Change	8.0%	9.2%	8.0%	9.3%	5.7%	6.0%	7.7%	-	-

Source: City of Providence Budget Documents and RIPEC Calculations

The City allocates approximately 53.0 percent of its budget to support public education, representing the single largest expenditure item for the City. School spending increased from \$182.5 million in FY 1998 to \$288.2 million in FY 2004. This translates into a \$105.7 million increase in spending over this period of time – a 57.9 percent increase.

The \$105.7 million in growth represents 53.5 percent of the total growth in the City's budget over this period of time (\$197.6 million). One should note that the total spending for the school district is understated due to the budget not including Federal and foundation funding that is used to supplement school spending.

Public safety expenditures, including police and fire, represent nearly 14.0 percent of the City's budget. The City's contribution to the pension system (\$32.3 million) and the City's medical insurance costs (\$33.8 million) represent nearly 12.0 percent of City spending (Does not include School Department of Water Supply Board). Debt service payments, totaling \$46.8 million, represent approximately 8.0 percent of the City's FY 2004 Budget. The 13.0 percent balance of the City's budget goes to support a range of services, such as public works, planning and development and the parks department.

Projected Budget Gap

In its January 2003 Management Study, RIPEC estimated the City's operating deficit to total nearly \$34.0 million, with operating deficits projected to exceed \$115.0 million by FY 2008 if no actions were taken. With the assistance of PFM (Public Financial Management, Inc.), the City updated its own forecast, projecting a FY 2004 operating deficit of \$58.9 million, with deficits projected to increase to \$216.0 million by FY 2008.

The major differences between the two forecasts were on the revenue side of the ledger. RIPEC included some anticipated growth in State aid programs, such as school aid and general revenue sharing, and allowed for additional growth in the property tax base. On the expenditure side of the equation, the PFM forecast included salary growth for public safety personnel of 4.0 percent in FY 2004 while RIPEC included 3.0 percent as stipulated in the contract. In addition, the PFM forecast included greater growth in school spending (8.0 percent) than was included in the RIPEC report (7.0 percent).

FY 2004 Providence Budget Summary of Revenues Initiatives		
Revenue Source	Estimated Amount	Percent of Total
City Ordinances	\$4.5	10.5%
State Legislation	3.1	7.2%
Planning/Development	3.1	7.2%
Asset Sales/Leasing	7.1	16.6%
Property Tax Increase	14.9	34.9%
Other Revenue	10.1	23.6%
Total Revenues	\$42.8	100.0%

Source: RIPEC Calculations

According to City Officials, the City reduced budget requests by \$16.2 million, with \$8.2 million coming from the schools and the balance from the city-side of the budget. These reductions included eliminating approximately 120 positions requested in the school department and 30 management positions in the City side of the budget. The City also introduced selected employee health care contributions as well as reduced the vehicle maintenance contract for police vehicles.

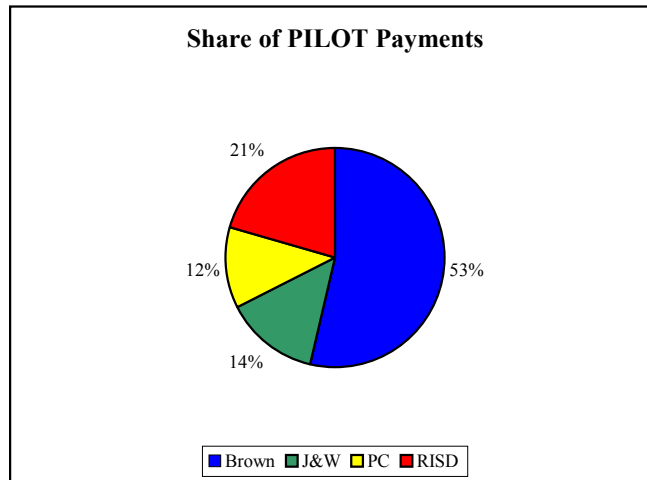
With the City's total budget request reduced by \$16.2 million, the City projected an operating deficit of \$42.8 million in FY 2004 – representing approximately 7.7 percent of the total spending plan. It should be noted that the budget gap essentially represented the estimated growth in spending in FY 2004 (\$39.5 million in net spending growth).

The City has closed this budget gap through a series of revenue initiatives. Approximately three-fourths (75.0 percent) of the additional revenues raised to close the projected budget gap came from four sources – additional property taxes, an increase in state aid, a payment in lieu of taxes agreement between the City and colleges and universities and one-time asset sales and leasing arrangements.

Property Taxes: Thirty-five percent (35.0 percent) of the City's \$42.8 million budget gap solution materialized through an increase in the City's property tax. The City increased property taxes by 8.0 percent, generating an additional \$14.9 million in revenue to the City. The FY 2003 City budget relied on \$222.2 million in property tax collections. This represented 43.1 percent of the City's total revenue plan. In FY 2004, the City is projecting \$237.0 million in property tax collections, which includes the additional taxes collected through the 8.0 percent increase. This level of property taxation will represent 42.7 percent of the City's overall revenue plan in FY 2004.

State Aid: Nearly 15.0 percent of the projected deficit for FY 2004 was closed through additional State aid. The City will receive an \$11.6 million more in State aid than it did in FY 2003, which is \$6.3 million more than originally expected. The \$6.3 million in additional State aid – principally through new school aid – was included in changes made by the State Legislature. Total State aid represents the largest component of the City revenue plan. In FY 2003, State aid of \$234.9 million represented 45.6 percent of the City's overall revenue plan. In FY 2004, the City will receive approximately \$246.5 million in State aid, which will represent 44.5 percent of the City revenue plan.

Local Payment-in-lieu-of-taxes Agreement: The City is projected to collect approximately \$3.8 million in payments in lieu of taxes from the City's colleges and universities in FY 2004. This additional revenue would close nearly 9.0 percent of the projected budget gap. The City and the four major colleges and universities located within its borders entered into a Memorandum of Understanding that provides for voluntary payments over the next 20 years. From FY 2004 through FY 2003, Brown University, Johnson & Wales University, Providence College and the Rhode Island School of Design will pay \$48.5 million in voluntary payments to the City in lieu of property taxes. The following chart shows each institution's share of the total payments over this 20-year period.



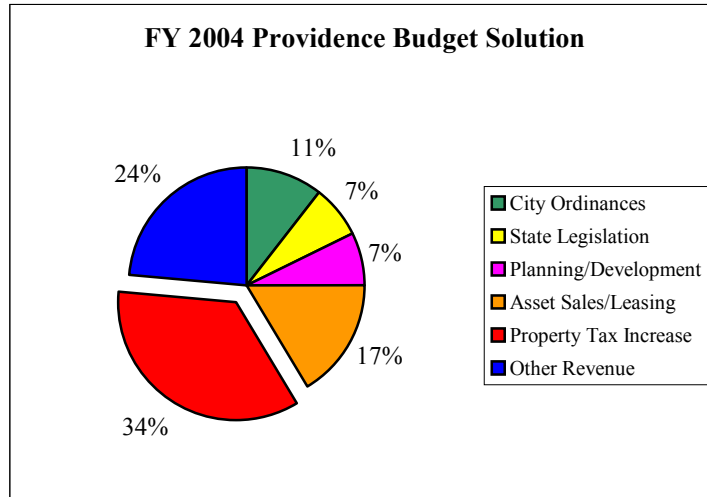
Land Sales and Leasing: Another significant portion of the City’s budget-gap solution was through anticipated land sales and leasing arrangements. The City recognized approximately \$7.1 million in revenue from various actions taken on City owned land. This includes the sale of Parcel 12 and the old public safety building, as well as the lease established for the public safety garage. These actions will provide an additional \$7.1 million in revenues to the City. However, a portion of these revenues will be one-time revenues (if realized), and will require additional action in FY 2005 to replace these revenue sources.

Balance of the Gap: The \$10.7 million balance is projected to be generated from a variety of sources, including more aggressive police ticketing, cameras monitoring motorists running red lights, and a range of permit and fee rate changes. Included in these new or enhanced revenues is the anticipated collections the City will derive from the new 1.0 percent meals and beverage tax enacted by the Legislature. This new tax, created by the Legislature as part of the FY 2004 State Budget (H-6174 – Article 7), is projected to generate \$1.3 million in new revenues for the City.

RIPEC Comments

The City’s FY 2004 budget of \$554.2 million represents an increase in spending of 7.7 percent over FY 2003. The City solution to closing the projected \$42.8 million operating deficit was revenue driven. The City’s package to close the projected budget gap relied heavily on additional property tax revenue (14.9 million), increasing the burden by 8.0 percent from FY 2003. This tax increase is despite the City of Providence’s property tax burden ranking among the highest in the country and the State.

Property tax burdens for Providence families with incomes ranging from \$25,000 to \$150,000 are either the 3rd or 4th highest in the United States. This is based on a report from the Government of District of Columbia comparing property tax burdens among the largest city in each state. (*Tax Rates and Tax Burdens in the District of Columbia*).



Providence’s overall effective property tax rate of \$31.77 in FY 2002 ranked the highest in the State. The City’s FY 2002 property tax levy as a percent of its market value of property was 3.2 percent, ranking highest among the State’s thirty-nine municipalities. This was nearly 50.0 percent higher than the State average (2.2 percent). The City’s average tax on a home ranked 13th in the State, given the homestead provisions in its local tax laws. The City has increasingly relied on residential property for property tax revenues, where this class of property now represents 57.0 percent of the property value Citywide.