



# Comments on Your Government

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**RIPEC**

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## **New Expectations – Making Transformational Changes 2008 Operating Program**

Rhode Island must solve its structural budget deficit so investments can be made to promote a competitive economy and begin to make progress on our long-term goals as a State and a community. Therefore, RIPEC's *2008 Operating Program* focuses on helping State and local decision makers identify transformational changes that will lead to an investment-based budgeting. This objective will not be achieved by a "business-as-usual-approach."

The State's FY 2008 budget brought into sharp focus the need for Rhode Island to systematically address the State's growing structural deficit by critically examining the factors driving budget growth in the Ocean State. The structural deficit, where current operating expenses exceed current revenues, has impaired the State's ability to maintain a comprehensive policy direction enabling Rhode Island to successfully compete for jobs and create long-term economic growth.

In RIPEC's view, the initial targets of an investment-based budget should focus resources on programs to support educational initiatives so Rhode Island's workforce has the necessary skills for 21<sup>st</sup> Century jobs. Targets for such investments would be funding a school foundation formula where the State provides 50 percent of the cost of education coupled with initiatives that hold schools accountable for results and efficient operations, and a "fair share program" to keep public higher education affordable for Rhode Islanders.

The Ocean State has two paths to consider. The first path we know well. This path focuses on near-term solutions, incrementally adjusting policies to fit the immediate need and using creative revenue streams to balance the books. However, the first path has its consequences. The State would continue to experience budget deficits, and spending would continue to be determined by available resources. This will limit Rhode Island's ability to make needed investments to enhance job creation and economic growth.

The second path will take considerable political will, courage and determination to implement. This path is focused on reforms that will enable State and local government to produce better outcomes with less money. Taking this path can lead to caring State and local governments providing high quality affordable public services for the citizens of Rhode Island. Achieving this end will require new tools and informed public input to help decision-makers focus on choices, cost and benefits and tax competitiveness.

Therefore, RIPEC's 2008 Operating Program focuses on providing policy-makers, researchers and the public with the tools and evidence-based research needed to elicit transformational changes in the way the State and local governments make tax and spending decisions.

## A. Addressing the Structural Budget Deficit

The annual structural budget deficit and out-year projected deficits are inhibiting the State's ability to make strategic budget decisions that are needed to stimulate economic growth and sustain basic services.

If Rhode Island is to successfully compete for jobs and maintain necessary government programs, it is essential that the State adopt an Investment-Based Budgeting process to replace the current method of annually patching budget deficits to meet the legal obligation of balancing the budget without addressing the fundamental fiscal imbalance in the State. Such an approach is necessary to guarantee that resources will be available to support programs that will make Rhode Island a more prosperous State. The first step in a get well plan for the State is to eliminate the out-year deficits so the State can continue to sustain existing services while reordering priorities.

**1. Fiscal Get Well Plan** -- RIPEC will work with the Governor and General Assembly to help identify options to close the State's budget gap by focusing on the following questions:

- Are services being provided in the most cost-effective manner?
- Are department resources being duplicated within the State?
- Can administrative processes be improved or streamlined to reduce overhead?
- What will be the fiscal and economic impact of reducing and eliminating State programs? and
- What will be the long-term fiscal impact of fiscal year 2009 decisions?

As a step toward transformational change, RIPEC will also promote a *Fiscal Get Well Plan* that would:

- Implement a three-year binding cap on State spending growth;
- Create a public process to help inform the decision makers on government programs and outcomes that matter most to citizens;
- Define a sustainable safety net; and
- Reduce reliance on non-recurring revenues to fund recurring programs.

**2. Demographic Changes and State Spending** -- RIPEC will enhance and update its recent report (*Rhode Island 2010*) to show the impact select demographic trends will have on the State Budget. There are a number of critical socio-economic factors that influence eligibility for entitlement programs, education services and other government activities. Clearly, the growth in segments of the Ocean State's population have an impact on the resources needed and available to fund State and local government services. RIPEC research in 2008 will highlight key demographic trends that should be considered when looking at future demands in State and local budgets.

3. **Entitlement Programs and Transformational Changes** -- Transformational changes in State fiscal policies will require that attention be focused on entitlement programs. In FY 2008 State spending for grants and benefits accounted for one-third of State general revenue expenditures, and 36 percent of all new State spending over the last ten fiscal years. Recognizing this, steps have been taken to reorganize human service programs. Additionally, reports have examined the utilization of resources allocated for entitlement spending. In 2008 RIPEC will (a) monitor and report progress being made to reorganize health and human services agencies, (b) identify ways to control entitlement costs, and (c) focus on initiatives to better manage Rhode Island's Medicaid program, which will cost taxpayers almost \$2.0 billion.
4. **HR Reform – Putting People First** -- The public's expectations regarding State government in Rhode Island are changing. There is a new focus on performance, higher expectations regarding the quality of basic government services, and a very real expectation that more can be done with less. At the same time, barriers impact State government's ability to meet public expectations and operate in the most cost-efficient manner. One of these barriers is the Ocean State's human resources system.

Government, like the private sector, depends on its people for its success or failure in accomplishing its mission. Therefore, transformational change is linked to improving personnel practices.

In 2008 RIPEC will examine the feasibility of developing a human resources system that places greater emphasis on performance and accountability. RIPEC's personnel reform project will be focused on the following objectives:

- Make performance count;
- Clearly define management rights and responsibilities;
- Reconciliation of merit system and collective bargaining laws;
- Enhance career opportunities for State workers including education and training;
- Create a shared management/labor vision of organizational goals and accomplishments; and
- Create a work environment where risk taking and innovation are rewarded.

## **B. Rethinking Local Government**

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 high property tax burdens, which are currently the 5<sup>th</sup> highest in the United States and are 45 percent above the national average.

For several decades there has not been a comprehensive or systematic analysis of 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 arrangement to reduce the cost of delivering local public services?

RIPEC's Rethinking Local Government Project will be focused on developing data and building coalitions aimed at:

1. Local Government Cooperation and Reorganization – Identify potential cost-sharing opportunities for municipal and school government 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:
  - Continuing to monitor the efforts to implement property tax relief throughout Rhode Island; and
  - Assessing the effectiveness of systems used in Rhode Island and elsewhere to reconcile municipal school budget disputes.
3. School Finance Reform – A critical component of RIPEC's Rethinking Local Government Project will be to focus on ways to reform public school finance.

RIPEC has supported funding 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).

Last year RIPEC played a key role in developing a proposal to reform the way public schools are financed. In 2008 RIPEC will again work with stakeholders to organize a seminar with the goal of reforming school finance in a manner that is linked to enhanced efficiency and effectiveness.

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 2008 RIPEC will:
  - Examine the feasibility of, and barriers to, jointly purchasing health insurance for State and local employees.

- Monitor implementation of the recommendations relating to municipal pension costs recently released by the Auditor General. The Auditor General's recommendations include: pursue moving active members now covered by locally administered pension plans to the State pension system; contribute no less than 100% of the annual required contribution to locally administered pension plans; consider increasing employee contributions to locally administered pension plans; and consider defined contribution plans for new hires.

### **C. Tax Competitiveness**

RIPEC will continue to advocate for responsible taxation policy in the State in 2008 by examining the following:

*Unitary (Combined) Corporate Reporting* – This legislation 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. RIPEC will evaluate the impact this legislation will have on business location decisions, particularly in relation to our neighboring states.

*Gross Receipts Tax* – RIPEC will examine the impact of the “gross receipts tax” on business location decisions and compare it to existing business tax burdens. Gross receipts taxes have largely disappeared as important sources of State revenue. Recently, however, broad-based, low-rate gross receipts taxes have again entered State policy discussions. Therefore, RIPEC will look at the impact such a tax could have on competitiveness, fairness, transparency, and revenue stability as compared to existing business taxes.

*Tax Competitiveness Study* -- In FY 2006 the State commissioned a tax competitiveness study. RIPEC will review the results of this study to determine if additional opportunities exist to replace non-recurring revenues included in the proposed Fiscal Year 2008 State Budget.

*Estate Tax* – RIPEC will also review the State's existing estate tax structure in comparison with other states to determine the impact the tax has on wealth retention.

*Property Tax Administration* – RIPEC will work with municipal officials and others to develop legislation to establish property tax classification parameters. RIPEC will also promote keeping the current property tax reevaluation cycle intact.

*Sales Tax Base Broadening* – The fiscal year 2008 State Budget included funds to develop a sales tax model. The model will enable policy makers to view the economic and fiscal impact of initiatives to expand the sales tax to services. RIPEC will analyze proposals aimed at broadening the State sales tax.

## **D. Public Education and Technical Assistance**

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

*How Rhode Island Compares* – Annual publications that highlight the major taxes and expenditures in the State in comparison to the other states in the country and the United States average.

*How Rhode Island Schools Compare* – Pamphlet publication comparing education expenditures in Rhode Island to those in other states and the United States average. The publication includes information on teacher salaries, revenue source, and expenditures per student.

*State Budget Analysis* – Reports on the Governor’s proposed budget and the budget as enacted by the General Assembly, highlighting key points regarding revenues, expenditures, trends, out-year financial forecasts, and general state aid programs.

*Results Report – Education in Rhode Island* – Publication that examines education trends in the State, including student enrollment, school finance, and student performance relative to other states.

*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.