



**RIPEC**

# **Comments on Your Government**

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## **Summary of FY 2009 and FY 2010 Budget Articles Relating to Structural Changes for Local Governments and School Districts**

Over the last several years, both State and local governments have come under pressure to restructure government. The pressure has increased dramatically with the coming of the recession. With no end in sight to the fiscal problems facing governments, Rhode Island State and local administrations must continue to focus on solutions that will lead to long-term stability. Without substantive restructuring, local governments in particular will not be able to support the current demands for services.

The FY 2009 Supplemental Budget submitted by the Governor included various budget articles, which attempted to provide either structural change or the tools for basic foundational change for both State and local governments that can alter the way both governments operate. In the FY 2010 budget submission, the Governor proposed additional budget articles to impact State and local government.

In the context of the current recession, budgetary crises and ever-dwindling revenues, policymakers should not focus just on short-term solutions, but must work to create long-term structural change. State and local governments can no longer afford to patch current deficits without altering the basic structure of government. If now is not the time for change, what will it take to face the realities around us? There will be difficult and hard policy choices, but now is the time to make the types of changes that will position the State to weather this economic malaise, be ready to accept Federal stimulus funds, and to position ourselves as the national economy turns around over the next years.

The FY 2009 Supplemental Budget proposed many changes, which would begin to restructure government; many of these articles would substantially change the basic cost structure of local government. The proposed changes are not the only method to address the structural issues that exist at the local level, but they go a long way to addressing the type of policy choices that are necessary. A review of the budget articles shows that they provide local government either structural relief or the ability to make the necessary structural changes that will provide budgetary relief over the years to come.

This report identifies the budget articles that affect municipal government and local school districts and analyzes the potential impact on local government.

**June 2009**

**Potential Savings for Local Governments and School Districts from Proposed Budget Articles**

The table below shows the various budget articles that have been introduced by the Governor in his FY 2009 Supplemental budget and have the potential savings for local governments and school districts.

| <b>Potential Savings for Local Governments<br/>and School Districts<br/>From Budget Articles<br/>Proposed by Governor in FY 2009 Supp. Budget<br/>(\$ million)</b>   |                        |
|--|------------------------|
| Issue  | Potential Savings*     |
| <b>Approved Reforms</b>  |                        |
| Statewide School Transportation System   |                        |
| Initial Phase  | \$3.5-\$5.0            |
| Implementation of Statewide System   | 8.0-10.0               |
| <i>Subtotal</i>  | <i>\$11.5-\$15.0</i>   |
| <b>Budget Articles Proposed by Governor</b>  |                        |
| Statewide School Food Service Program  | \$1.6                  |
| Eliminating Mandate for School Bus Monitors  | 11.7                   |
| Statewide School Health, Dental Insurance (\$17.1m over 3 years)   | 17.1                   |
| Joint Purchasing System  |                        |
| Changes to Caruolo Act   |                        |
| Repeals Requirement that School Nurses be Certified Teachers   | 3.3                    |
| Changes to Teacher Layoff Procedures   |                        |
| Requiring Posting of Collective Bargaining Agreements  |                        |
| Prohibits "Work to Rule" Actions   |                        |
| Strengthen RIDE authority to suspend collective bargaining and intervene, and to evaluate teachers   |                        |
| Restores management rights to school committees  |                        |
| Police and Fire arbitration decisions based on last best offer   | **                     |
| Creates Municipal Re-alignment Commission  |                        |
| Modifies scope and criteria of binding arbitration for police & fire   | **                     |
| Removes minimum manning from collective bargaining/arbitration   | **                     |
| Requires 25% health insurance cost-sharing for mun. employees and teachers   |                        |
| Municipal employees***   | 31.0                   |
| Teachers***  | 35.0                   |
| Comprehensive changes to municipal pension and disability programs****   | 14.2                   |
| Limits injured on duty compensation for public safety workers  | 1.2                    |
| Imposes requirements for collective bargaining agreements to which the State is a party  |                        |
| <b>Total*</b>  | <b>\$126.6-\$130.1</b> |
| <p>*Some of these potential savings estimates could not be achieved in one year, but would be phased in over time.</p> <p>**No estimate possible, but potential for significant savings</p> <p>***Savings of app. \$31.0 million are for municipal employees only, of which app. \$20.0 million are for active employees, and app. \$11.0 million for retirees. Based on 2007 data, approximately \$35.0 million could be saved if co-shares for teachers were set at 25%.</p> <p>****The savings represent savings for pension plans within MERS, of which \$7 million are for general municipal employees and \$7.2 million for public safety employees. There is the potential for additional significant savings from locally-administered pension plans.</p> <p>Source: RIPEC compilation based on FY 2009 Supp. Budgets and estimates from RIDE and Division of Municipal Finance.</p> |                        |

The table lists all of the budget articles that were proposed by the Governor in the FY 2009 Supplemental budget. The estimates shown in the table were derived from the Division of Municipal Finance and the Rhode Island Department of Education. For some of the budget articles no estimates were possible, but there is the potential for significant savings.

The largest impact on municipalities relates to requiring a 25 percent health insurance cost-sharing for municipal employees and teachers (Article 44 in FY 2009 Supplemental Budget), and changes to municipal pension and disability programs. According to the Division of Municipal Finance, applying 25 percent health insurance cost-sharing to municipal employees would total approximately \$31.0 million in savings, of which approximately \$20.0 million in savings would come from applying cost-sharing to active employees and approximately \$11.0 million by applying cost-sharing to retirees. According to the Rhode Island Department of Education, approximately \$35.0 million in savings, based on 2007 data, would come from applying a 25 percent cost-sharing to teachers. Based on a study by the actuary to the State, changes, as spelled out in Article 45 of the FY 2009 Supplemental Budget, would lead to savings of approximately \$14.2 million for the pension systems participating in the Municipal Employees' Retirement System (MERS). There is the potential for additional significant savings for locally-administered plans if these pension changes were implemented.

The Rhode Island Department of Education estimates, using FY 2007 data, that savings of approximately \$17.1 million over three years could be achieved by implementing a statewide public school employees' health and dental insurance program through competitive bidding, reduced administrative fees, and standard co-sharing and buy-back provisions.

One should note that one reform, the statewide school transportation system, was approved by the General Assembly. The initial phase of reform is estimated to generate savings of \$3.5 million to \$5.0 million. Full implementation has the potential for savings of \$11.5 million to \$15.0 million, as estimated by the Rhode Island Department of Education.

## Overview of Budget Articles

### **FY 2009 Supplemental Budget, as submitted by the Governor in January 2009**

#### **Statewide School Department Issues**

**Food Service (Article 17):** Requires all districts and public schools to participate in a statewide school food services agreement. The projected savings from the joint purchase according to the Rhode Island Department of Education are approximately \$1.6 million.

**Bus Monitors (Article 18):** Eliminates the requirement that school districts provide school bus monitors, other than the school bus driver, on all school-bound and home-bound routes for children in grades kindergarten through grade five. Passage of this article would not prohibit local districts from hiring bus monitors if they chose to do so. Projected savings: The Department of Elementary and Secondary Education estimates that school districts currently invest \$11.7 million annually for school bus monitors.

**Healthcare (Article 19):** Requires the Department of Elementary and Secondary Education, in collaboration with the Department of Administration, to develop and implement a Statewide Public School Employees Health and Dental Insurance Program. The Governor's proposal would also prohibit the subjects of health care, vision and dental benefits and health/dental insurance coverage from collective bargaining for certified teachers and any municipal employee who is employed by a school district. The Department of Elementary and Secondary Education estimates, based on FY 2007 data, that this Article could save school districts approximately \$17.1 million over three years as a result of competitive bidding, reduced administrative fees, and standard co-sharing and buy-back provisions.

**Joint Purchasing (Article 20):** This Article would mandate public schools and school districts to participate in a statewide purchasing system for goods, supplies and services and would authorize the Department of Elementary and Secondary Education, in collaboration with the Department of Administration, to establish state-level purchasing and programs for statewide school transportation, food services management, and school employees' healthcare and dental insurance. The Article could have a fiscal impact on the State and municipalities; however, the amount of impact cannot be determined as it relates to future purchases.

**School Budget Impasse (Article 21):** Creates a three-member binding arbitration panel consisting of the Commissioner of Education, the Director of Revenue, and the Auditor General, to resolve a school budget impasse when State school or General Revenue Sharing Aid is reduced, and make the application of budget caps mandatory in court proceedings where the school department is seeking additional funding from the municipality. There is no fiscal impact to the State; however, the proposal may have a fiscal impact on municipalities, which would be determined by the outcome of arbitration.

**Student Transportation (Article 22):** Mandates all school districts participate in a statewide system of transportation for special needs students and, upon implementation, the statewide transportation system for all students. Phase I of the statewide transportation plan would be for students with special needs. Phase II would expand the transportation system to include students with disabilities whose needs can be met within the district of residence; and Phase III would include all student transportation services. The first phase of the project is scheduled for implementation in September 2009.

This article was incorporated into the revised enacted budget and adopted by the General Assembly. The projected savings for school districts are estimated to be \$3.5 million to \$5.0 million during the initial phase of the project. Additional savings of \$8.0 million to \$10.0 million are expected to be achieved once a statewide transportation system, both in- and out-of-district, is implemented.

**School Nurses (Article 23):** Eliminates the provision that school nurses must be certified teachers, but maintain the requirement that schools have nurses. The replacement of school nurses/teachers with Registered Nurses is projected to save school districts \$3.3 million in FY 2010.

**Teacher Dismissal (Article 24):** Brings statewide uniformity in teacher dismissal cases by eliminating particular procedures in the Woonsocket and Cumberland School systems. There is no estimated savings for the State or for municipalities associated with this Article.

**Teacher Tenure (Article 25):** Changes the date for notice of teacher contract non-renewal from March 1st to June 1st. This Article gives the school committee greater authority to dismiss or suspend teachers in the event of a reduction in a school's personnel budget. There is no fiscal impact to the State as a result of this proposal. It is implied that school districts will achieve personnel savings as a result of being able to dismiss teachers based on budget information; however, the exact amount of the impact cannot be determined.

**Teacher Strikes (Article 27):** Prohibits a strike or a "work to rule" action by a certified public school teacher. Teachers found engaging in a strike action would lose two days pay for each day of a strike. In addition, any labor organization that promotes a strike would lose its authority to be recognized as a bargaining agent for a period of three years and could not collect any dues during this period. The State could receive revenue into the State's Permanent School Fund as a result of penalties imposed on striking teachers.

**Progressive Support and Intervention (Article 28):** Amends statutes pertaining to intervention and support for failing schools by empowering the Department of Education to assign teachers to positions where they are needed most, without regard to collective bargaining contractual provisions. The potential fiscal impact of this Article cannot be determined at this time, due to the fact that details necessary to estimate costs are not available.

**School Committee Authority (Article 29):** Removes from collective bargaining agreements, and returns to school committee authority, express management rights, including:

- the right to develop and revise the school curriculum;
- the establishment of class size;
- the selection of textbooks for use in the public schools;
- the establishment of policies governing curriculum;
- the establishment of achievement criteria and measurements;
- the development of courses of instruction;
- the establishment of academic organizations within the public schools;
- the selection of supplies and equipment; and
- the designation of supervisory personnel.

There is no direct fiscal impact to municipalities; however, it would allow municipalities flexibility in delivering services and contract negotiations.

**School and Municipal Realignment Commissions (Article 41):** This Article would create two commissions – the Rhode Island School Realignment Commission and the Rhode Island Public Safety and Public Works Realignment Commission – to analyze and recommend changes to the way municipalities provide various public services. The Commissions would review potential areas for intra-local consolidations, and would develop reports from which legislation would be drafted and introduced during the 2010 General Assembly for consideration. If enacted, recommendations would be put forth to voters as initiatives on the November 2010 ballot. The Article provides that \$150,000 would be allocated for each commission in the FY 2010 Budget, for a total appropriation of \$300,000 in General Revenue in FY 2010.

**Health Insurance Cost Sharing (Article 44):** Requires a 25 percent health insurance premium cost-sharing in all new municipal collective bargaining agreements covering public school teachers, police officers, firefighters, or municipal employees. According to the Rhode Island Department of Education, approximately \$35.0 million in savings, based on 2007 data, would come from applying a 25 percent cost-sharing to teachers.

### **Statewide Public Safety Issues**

**Last Best Offer (Article 40):** Requires that the arbitration panels in police and firefighter arbitration base their decisions on either the union's or the municipality's final and last-best offer to resolve all contract issues in dispute. The Article has no State fiscal impact. It could have an impact on municipal finances; however, the impact would vary based on individual arbitration decisions.

**Arbitration (Article 42):** This Article would increase the potential duration of arbitrated agreements between firefighter or municipal police bargaining agents and municipalities from the current 1 year, up to a maximum of 3 years. Additionally, three new criteria are added to the list as required considerations by arbitration panels, including, statutory

limitations on a municipality's ability to increase property tax levies; comparisons of wage rates and other conditions of employment with other bargaining units within the municipality; and comparisons of wage rates and other hourly conditions of employment with those of municipalities of comparable size outside of Rhode Island. Additionally, arbitrated awards related to wages and fringe benefits would be limited based on the property tax levy cap percentage increase that the municipality is required to meet. The Article has no State fiscal impact. The Article could have an impact on municipal finances; however the impact would vary based on individual arbitration decisions.

**Minimum Staffing (Article 43):** Removes issues relating to minimum staffing from the scope of issues which can be negotiated or arbitrated under the Policemen's and Firefighters' arbitration laws. The Article has no State fiscal impact. The Article could have an impact on municipal finances; however, the impact would vary based on individual arbitration decisions.

**Limit Injured-on-Duty Compensation (Article 46):** Reduces injured-on-duty compensation for municipal police officers, municipal firefighters and State quasi-public firefighting and law enforcement officers, from 100 percent to 80 percent of their salary and benefits. This Article impacts both the State and municipalities by reducing compensation for injuries for on-the-job injuries to police officers and firefighters. The Division of Municipal Finance estimates that approximately \$1.2 million could be saved annually by municipalities statewide based on a sample of current injury payments.

### **Other Municipal Issues**

**Health Insurance Cost Sharing (Article 44):** Requires a 25 percent health insurance premium cost-sharing in all new municipal collective bargaining agreements covering public school teachers, police officers, firefighters, or municipal employees. This Article has no State fiscal impact; however, it would have a fiscal impact on municipalities and their employees. The Division of Municipal Finance estimates that savings of approximately \$31.0 million could be achieved if applied to municipal employees, of which approximately \$20.0 million are for active employees and approximately \$11.0 million for retirees.

**Municipal Retirement (Article 45):** This Article would provide a variety of municipal pension plan reforms to municipal pension plans administered by either the State or by municipalities. The reforms would include reductions to the disability pensions where the employee is not totally disabled, sets minimum retirement ages on non-vested municipal employees, including police and firefighters, applies all age, years of service, and contribution rates established under the Municipal Employee Retirement System (MERS) to all municipally administered pension plans and establishes minimum cost sharing requirements for retiree health plans. The Governor's pension reform is based on five components:

1. Establishes a minimum retirement age of 59 for those who retire after July 1, 2009;
2. Changes the maximum benefit for police and firefighters who retire on accidental disability after July 1, 2009;

3. Changes the maximum benefit and establishes reporting criteria for municipal employees who retire on accidental disability after July 1, 2009;
4. Increases employee retirement contribution rates by 1%; and
5. Reforms municipal employee retirement plans: establishes a minimum cost-sharing requirement for retiree health plans and limits the COLA adjustment.

An actuarial estimate assumes savings of \$14.2 million for pension plans in the Municipal Employees Retirement System (MERS), of which \$7.0 million are for general municipal employees and \$7.2 million for public safety employees. There is the potential for additional savings from locally-administered pension plans.

**Public Service Corporation Tax (Article 16):** Freezes the tax rate on telecommunications tangible personal property at a rate equal to or greater than the rate that applied in FY2008. More frequent revaluations, together with a dramatic increase in real estate values, has resulted in a reduced tax rate being applied to PSCT assets, which now carry a lower value. Collections from this tax have decreased from \$18.0 million in FY2003 to \$9.2 million in FY2008. FY2009 collections are estimated to decrease by \$0.6 million to \$8.6 million.

**Collective Bargaining Agreements Posting (Article 26):** Requires cities, towns and school committees to post their proposed collective bargaining agreements, along with the fiscal impact statements, on the appropriate city or town website 30 days prior to contract ratification.

**School and Municipal Realignment Commissions (Article 41):** This Article would create two commissions – the Rhode Island School Realignment Commission and the Rhode Island Public Safety and Public Works Realignment Commission – to analyze and recommend changes to the way municipalities provide various public services. The Commissions would review potential areas for intra-local consolidations, and would develop reports from which legislation would be drafted and introduced during the 2010 General Assembly for consideration. If enacted, recommendations would be put forth to voters as initiatives on the November 2010 ballot. The Article provides that \$150,000 would be allocated for each commission in the FY2010 Budget, for a total appropriation of \$300,000 in General Revenue in FY2010.

**Pre-judgment Interest (Article 47):** Eliminates pre-judgment interest in civil cases against municipalities and the State, and limits the personal liability of employees and officials of cities and towns. This Article could have a fiscal impact on the State and municipalities; however, the fiscal impact cannot be determined as it relates to future judgments in civil actions.

## **FY 2009 Supplemental as Enacted**

**General Revenue Sharing (Article 7):** This Article eliminates \$30.1 million in general revenue sharing for FY 2009, providing \$25.0 million to cities and towns in FY 2009.

**Pupil Transportation (Article 12):** This Article mandates that all future student transportation contracts enable participation in a statewide transportation system. Upon implementation, school committees shall purchase services on a per-pupil fee-for-service basis. This Article provides that any school committee that fulfills student transportation obligations through district-owned buses or with district employees may continue to do so.

**Education Aid (Article 13):** This Article amends FY 2009 State aid for education, including:

- suspends State contributions to the Professional Development Fund for FY 2009;
- reduces school aid by amounts equivalent to savings from reduced payments into teacher retirement funds for districts and charter public schools;
- reduces school aid by \$4.3 million which is equivalent to anticipated Permanent School Fund collections between December 1, 2008 and June 30, 2009;
- appropriates \$38.3 million in Federal American Recovery and Reinvestment Act of 2009 funding, offset by a like amount in general revenues; and
- establishes a formula for calculating multi-year reimbursements for school housing aid repayments.

## **Proposed FY 2010 Budget**

**Education Aid (Article 3):** This Article would make a number of changes to State education aid, including a reduction in aid that is equivalent to the local savings anticipated due to lower teacher pension obligations relating to the Governor's pension reform, a reduction in aid that is supplanted with Federal Stabilization Funds, and changes to funding for Central Falls, charter schools, and group homes. This Article represents a decrease of \$18.5 million in State education aid to municipalities and charter schools over the FY 2009 Budget as Enacted.

**Municipal Elections (Article 4):** This Article would shift the responsibilities and cost of preparing municipal election documents and ballots from the Office of the Secretary of State to cities and towns when these documents involve only local special election or a local question. The State Budget Office estimates that this Article will result in General Revenue savings of \$55,000 in FY 2010.

**Community Support for Schools (Article 6):** This Article would allow municipalities to exclude \$12.6 million from the maintenance of effort calculation for school support, which represents the amount of general revenue sharing funds that were allocated to the schools in the Governor's FY 2009 Supplemental Budget. It would also allow communities to continue to fund 80 percent of the previous year's support for their

community libraries and still be eligible for State Library Aid in FY 2010. This legislation would have no impact on the State revenues; however, municipalities would realize savings due to an ability to decrease funding for local libraries.

**Charter Schools (Article 7):** This Article would grant to new charter schools, and existing charter schools upon renewal of their charter, the same exemptions from State law extended to mayoral academies. These exemptions include paying prevailing wages and benefits, participating in the State teacher retirement system and defining their employees as public employees.