



Comments on Your Government

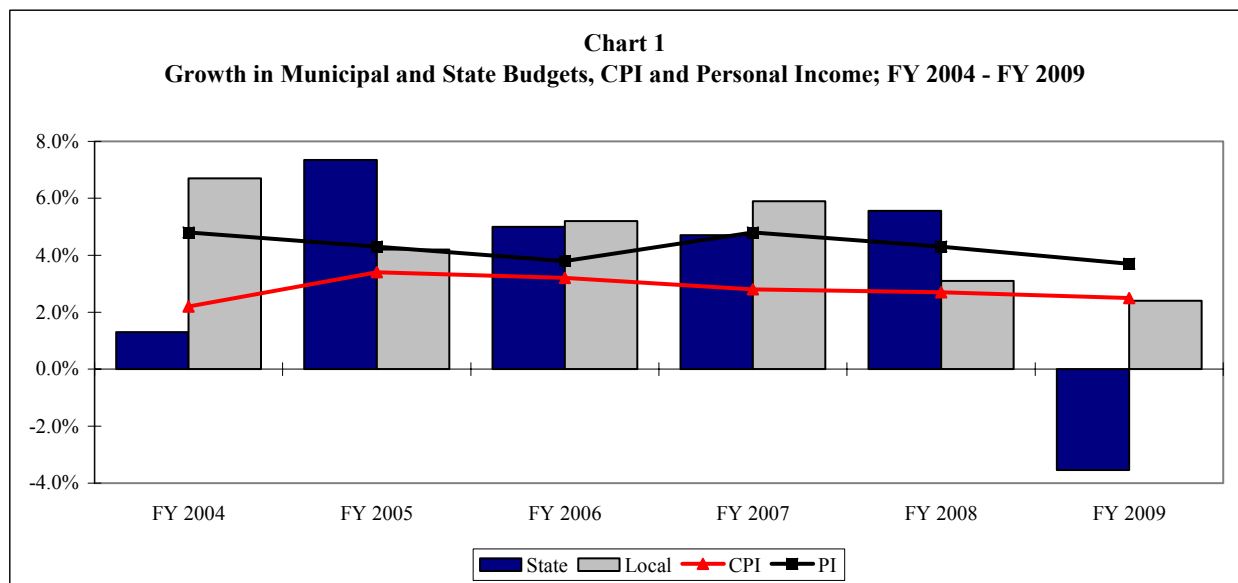
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RIPEC

Summary of Local Government Finances in Rhode Island

In FY 2009, local governments budgeted \$3,189.1 million to support education and municipal services, including police, fire and public works. Since FY 2004, the increase in local government expenditures has outpaced the growth in the State general fund budget, CPI and personal income in almost every year. The majority of this expenditure growth has been to support education spending, which accounts for the majority of local spending; however, spending on employee benefits is the fastest increasing component of municipal budgets.

The following report provides an overview of spending by local governments in Rhode Island between FY 2004 and FY 2009. Included in this analysis is a summary of local revenues and expenditures, including details on selected aspects of both. All data in this analysis are from the Rhode Island Division of Municipal Finance, unless otherwise noted.



May 2009

RIPEC Comments – A Structural Approach for Local Governments

An economy in a recession, high unemployment and continuing job losses, a housing market collapse, and diminishing State and local revenues necessitate a different approach for local government.

In the short-term, RIPEC recommends that municipal governments address the spending side as they work to meet their current projected shortfall. The first step should be for local governments to review what services local governments provide and what they can realistically afford. The next step is to continue the discussions with labor unions to determine personnel cost-control measures and how to implement changes over time that are designed to meet the future cost pressures. Reviewing purchasing and how funds are committed through joint efforts, as well as consolidation of services needs to be accomplished. The following outlines these two proposals in greater detail.

Benefit Spending

Employee benefits costs account for 11.4 percent of municipal spending. These costs have increased faster than any other area of municipal government, growing by 46.2 percent since FY 2004. This was more than double the rate of increase in education spending.

As these costs continue to mount, they crowd out the ability to fund municipal services. In FY 2004, employee benefits accounted for 22.5 percent of municipal budgets (excluding education) throughout the State. By FY 2009, the share of municipal budgets dedicated to benefits increased to 26.3 percent. As municipal governments face lower State support and increasing needs, such as infrastructure and road repair, the need to reform these significant budget drivers is even more apparent.

As RIPEC pointed out in its report on local government pensions, municipalities allocate 10.8 percent of their budgets (excluding education) to cover pension costs in FY 2009. To reduce risk, control the rate of growth in pension expenditures, and to improve the local funding status RIPEC recommends that local governments undertake a review of the current pension system funding and structure. Similar to the House of Representatives' study committee on pensions, municipal governments need to review the current pension system and, where necessary, seek General Assembly approval of pension changes. Communities that are not part of the State Municipal Employees' Retirement System (MERS) should seriously consider merging their self-administered plans into the MERS. Any mergers will not happen quickly; however, they can be phased-in over time to address local needs and capabilities. The full report on local government pensions can be accessed on RIPEC's website at www.ripec.org.

RIPEC supports the Governor's efforts to provide various local tools to limit growth in personnel spending. It will be important to review and understand the impact of the various budget articles originally contained in the Governor's supplemental FY 2009 budget submission. This is also an extraordinary time to examine the structure of local government and utilize the proposed budget articles to reconstruct many of the ways services are provided.

Shared Services, Joint Purchasing

Shared services among municipalities and school districts can create the economies of scale and consistency of process and results that come with more centralized models. For example, shared services among school districts allow them to maintain the benefits of decentralized control, allowing individual administrators to retain oversight of curriculum, education, and other aspects of non-shared processes.

Joint purchasing is another area. As the State has asked others to jointly purchase, it is recommended that the State, municipal governments, quasi-public agencies, school districts and others purchase on a joint and collaborative basis. Currently, there are efforts under way to jointly purchase; however, more could be done among the many associations that represent various governmental organizations, including the various collaboratives formed by the State for school purchases. For example, purchasing of health care, paper products, etc. could be done jointly with the savings being spread throughout all levels of government.

The Governor has submitted legislation allowing for joint purchasing on many levels and additional legislation has been introduced in the 2009 session that would enlarge and authorize more joint purchasing. Included in these articles is legislation enabling the State to purchase on behalf of all local governments including school districts. This should be explored as the potential economies exist as shown by an analysis of purchasing health care, transportation and food services.

Alternative Non-Tax Revenues

During the review of programs related to personnel changes, RIPEC recommends that fee-and fine-based income be reviewed. There should be an annual review of program cost and the fees associated with each program to ensure local governments are pricing services adequately.

Property Tax Policy Classification System

Like most New England states, the largest component of Rhode Island's local government revenue is the property tax. In FY 2009, the property tax accounted for more than 60 percent of total estimated revenues. The Governor's Strategic Tax Policy Workgroup made a series of recommendations to reform local tax assessment practices. Limiting the spread between tax rates for businesses and residential properties is one such recommendation that may be more important now that the real estate market has shifted away from rapidly increasing residential values and business values remain more stable. In addition, RIPEC recommends that there to be a review of exemptions, credits and other reductions of tax liability to be more needs-based.

Long-term sustainability of the level of governmental spending, as illustrated in the budget forecast prepared by RIPEC, cannot be achieved without fundamental changes in how local government provides services and the cost of providing those services.

Municipal Revenues Summary

Local governments typically receive revenues from four main sources: local property taxes, other local sources (such as real estate transfer fees, building permits, and recording fees), state aid, and aid from the Federal government. The majority of local funding is through the property tax, followed by state aid.

Statewide, local governments' FY 2009 budgets anticipated general revenues of \$3,189.1 million. This represented an increase of \$74.9 million (2.4 percent) when compared to FY 2008 enacted general revenues of \$3,114.2 million. All of the increase over the past fiscal year was due to growth in the property tax as revenues from all other sources declined.

Over the past fiscal year, the property tax increased 4.7 percent, from \$1,868.8 million in FY 2008 to \$1,956.8 million in FY 2009. One should note that this rate of increase is below the maximum levy growth mandated by the "Property Tax Relief Act of 2006", commonly referred to as S-3050, which capped levy growth in Rhode Island at 5.0 percent in FY 2009. Since FY 2004, local revenues have grown by 22.6 percent, from \$2,599.5 million in FY 2004 to \$3,187.4 million in FY 2009. This equates to a 3.5 percent average annual rate of growth.

In FY 2009, property taxes accounted for 61.4 percent (\$1,956.8 million) of total local revenues. State aid to local governments was the second largest portion of funding for Rhode Island communities, constituting 28.6 percent of total revenues (\$913.2 million). Non-property tax revenues were the third-largest funding source in FY 2009, and accounted for 9.7 percent (\$308.5 million). Federal sources represented the smallest funding source, constituting just 0.3 percent of total local budgets (\$10.6 million).

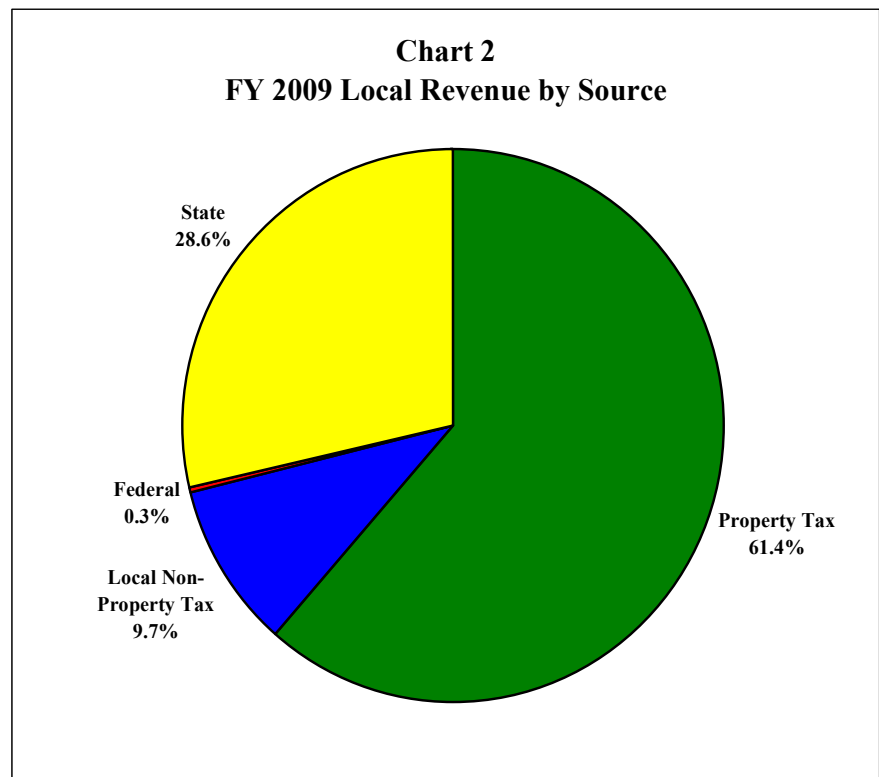


Table 1
Municipal General Fund Revenues
FY 2004-FY 2009 (\$ million)

	FY 2004	FY 2009	FY 2004 - FY 2009	
			Change	%
Property Tax	\$1,562.8	\$1,956.8	\$394.0	25.2%
Local Non-Property Tax	247.2	308.5	61.3	24.8%
Federal	9.1	10.6	1.5	16.6%
State	780.5	913.2	132.8	17.0%
Total Expenditures	\$2,599.5	\$3,189.1	\$589.5	22.7%

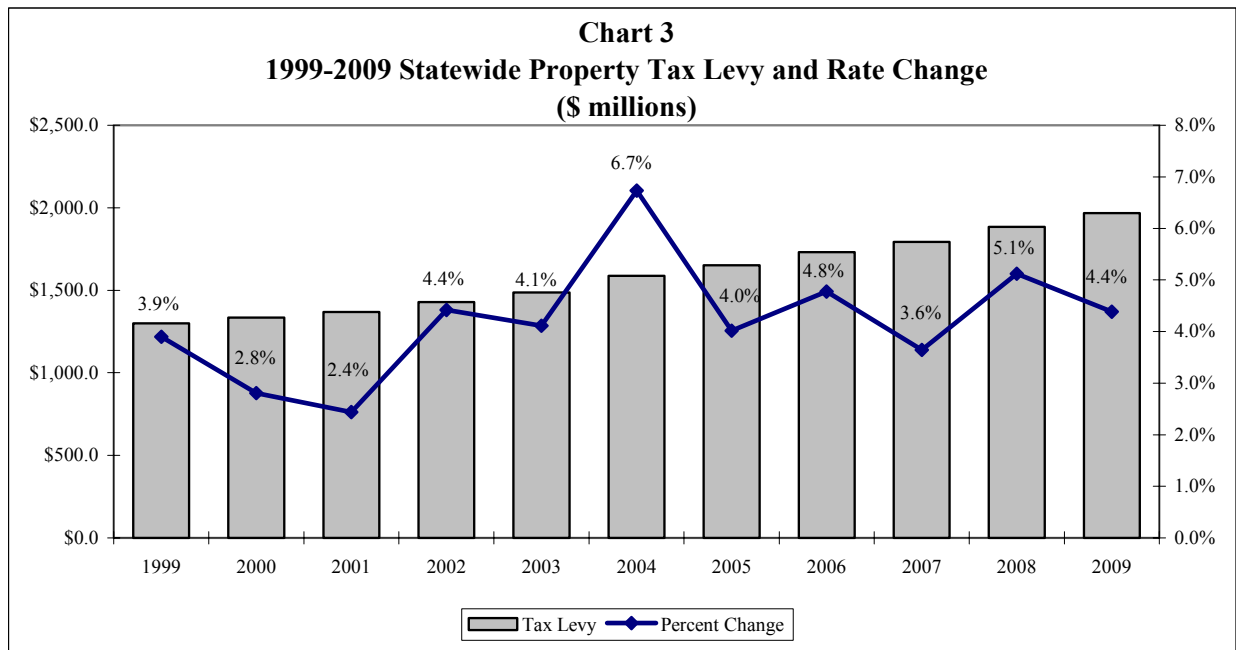
Source: Rhode Island Division of Municipal Finance, RIPEC Calculations

- The majority of the increase between FY 2004 and FY 2009 (67.0 percent) was from growth in the property tax, which increased 25.2 percent. Over the time period covered in this analysis, local property taxes have supported roughly 60 percent of local budget, ranging from a low of 58.9 percent of total revenues in FY 2007 to a high of 61.4 percent in FY 2009.
- During the past six years, state aid has increased 17.0 percent, from \$780.5 million in FY 2004 to \$913.2 million in FY 2009. Although state aid represents the second-largest absolute increase in local revenues, increasing by \$132.8 million during that time frame, the share of local revenues supported by state aid has declined from 30.0 percent of total local revenues in FY 2004 to 28.6 percent in FY 2009.
- Local non-property tax revenue constitutes the third-largest revenue source for local budgets; however, this category of revenues increased at almost the same rate as local property taxes since FY 2004. Over the past six years, local non-property tax revenue has grown by 24.8 percent.
- Between FY 2004 and FY 2009, aid from the Federal government grew \$1.5 million (16.6 percent). As noted above, federal aid accounts for the smallest portion of local budgets, accounting for less than 1.0 percent of local budgets statewide in all years covered in this analysis.

Property Taxes and the Property Tax Relief Act of 2006

Across the United States, property taxes, on average, account for the largest single portion of total tax collections. According to the United States Bureau of the Census, in FY 2006, the most recent year for which nationally comparable data is available, property tax collections were 30.0 percent of all state and local tax collections for the United States as a whole. Similarly, property taxes are the largest source of state and local tax collections in the three southern New England states. However, New England relies more heavily on the property tax to fund local governments than does the rest of the country, in part because the majority of the New England states do not have the ability to levy a local-option sales tax and rely less on fees and other non-tax sources.

Over the past ten years, the total property tax levied by Rhode Island cities and towns has increased from \$1,299.1 million in FY 1999 to \$1,967.5 million in FY 2009. This represents an increase of \$688.4 million, or 51.4 percent during this time period (\$352.6 million, or 21.8 percent in real growth). Since FY 1999, the percent increase in the total statewide levy has ranged from a low of 2.4 percent in FY 2001, to a high of 6.7 percent in FY 2004. Between FY 2008 and FY 2009, the total statewide levy increased 4.4 percent.



In 2006 the General Assembly passed the “Property Tax Relief Act of 2006”, commonly referred to as S-3050. The legislation provided for a cap on the amount the property tax levy can grow annually beginning in FY 2008, changes the criteria for exemptions from the cap, limits the amount of money school committees can request from municipal funds, amended the definition of State mandates, and required the Division of Municipal Finance to conduct a property tax study relating to tax treaties.

Cities and towns were restricted to a 5.0 percent increase in the total property tax levy in FY 2009, with the percent growth to be reduced one-quarter of a percent each subsequent year until FY 2013, when the levy may not grow more than 4.0 percent per year. The Division of Municipal Finance notes that if each municipality increased their levy by the maximum amount allowable under the law (5.0 percent) in FY 2009, the total statewide levy would have been \$1,981.5 million.

Table 2 outlines the municipalities that were below, at, and above the FY 2009 levy cap. Twenty-three of the State’s 39 municipalities, including all the urban core cities (Central Falls, Newport, Pawtucket, Providence, and Woonsocket), were below the maximum levy increase for FY 2009. Seven communities were at the cap, and nine communities exceeded the maximum levy increase.

Table 2
FY 2009 Percent Increase in
Property Tax Levy by Municipality

Below Cap	Rate	At Cap	Permission to Exceed Cap	Rate
Barrington	4.76	Coventry	Bristol	6.23
Burrillville	3.10	Jamestown	Exeter	5.07
Central Falls	4.17	N.Kingstown	Foster	14.11
Charlestown	4.94	Scituate	Glocester	7.76
Cranston	0.94	Smithfield	N. Smithfield	13.19
Cumberland*	3.72	S. Kingstown	Richmond	8.04
E. Greenwich	4.90	W. Warwick	Tiverton	11.02
E. Providence**	3.22		Westerly	5.12
Hopkinton	3.71		W. Greenwich	14.55
Johnston	1.15			
Lincoln	3.81			
Little Compton	4.94			
Middletown	4.59			
Narragansett	4.92			
Newport	4.35			
New Shoreham	4.82			
N. Providence	3.34			
Pawtucket	3.55			
Portsmouth	4.99			
Providence	4.32			
Warren	4.99			
Warwick	4.68			
Woonsocket	3.08			
Average	3.96	5.00		9.45

* Estimate; final levy will be set in May, 2009

** Estimate; final levy will be set June, 2009

SOURCE: Division of Municipal Finance, "Report on the Property Tax Cap, Fiscal Year 2009", December 31, 2008; RIPEC calculations

State Aid to Local Governments, FY 2009 Revised Budget Impacts and FY 2010 Outlook

One should note that State aid, as discussed in the following section, includes aid programs such as the property revaluation program, the State contribution to teacher retirement and aid to charter schools, which are not included in the data provided by the Division of Municipal Finance. The following section relies on data provided by the State Budget Office.

Aid to local governments represents the largest category of State general revenue expenditures, accounting for 33.9 percent of total FY 2010 proposed general revenue supported spending. Education aid is the largest driver of local aid, accounting for 78.4 percent of all general revenue supported local aid expenditures in FY 2009.

Table 3
State Aid to Local Government (\$ million)

Major State Aid Program	FY 2000	FY 2009E	FY 2010P	2009E-2010P Change
Education Aid				
Direct Education Aid*	\$515.4	\$689.1	\$631.9	(\$57.2)
Teacher Retirement	41.0	97.0	75.3	(21.7)
School Housing Aid	25.5	57.0	63.7	6.7
Met School	1.8	11.6	12.2	0.6
Charter School Aid (direct and indirect)	2.9	31.0	33.4	2.4
ARRA State Fiscal Stabilization**	0.0	0.0	36.0	36.0
Other Aid***	0.7	17.6	5.2	(12.4)
<i>Subtotal - Education Aid</i>	<i>\$587.4</i>	<i>\$903.3</i>	<i>\$857.7</i>	<i>(\$45.7)</i>
Municipal Aid				
General Revenue Sharing	\$27.6	\$55.1	\$0.0	(\$55.1)
Excise Tax Phase Out	47.3	139.6	135.3	(4.3)
PILOT	16.1	27.8	27.6	(0.2)
Distressed Communities Aid	9.3	10.4	0.4	(10.0)
ARRA Distressed Communities Aid	0.0	0.0	10.0	10.0
Other Aid****	8.2	13.8	13.6	(0.2)
<i>Subtotal - Municipal Aid</i>	<i>\$108.4</i>	<i>\$246.7</i>	<i>\$186.9</i>	<i>(\$59.8)</i>
Total State Aid	\$695.8	\$1,150.0	\$1,044.5	(\$105.4)

Source: RIPEC calculations based on State and House Fiscal Staff Budget Documents

* Includes local school operations, targeted aid, core instruction equity, student equity, professional dev., early childhood, student tech., student language assist., full-day kindergarten, voc-tech equity, group home funding and Central Falls.

** Includes aid to LEAs, Charter Schools and the Met School

*** Includes progressive support and intervention, Hasbro hospital, school visit, RIDE professional dev., textbook loans, school breakfast, telecomm access funds, and the Permanent Education Fund.

**** Includes state library aid, statewide reference library resource grant, library construction reimbursement, municipal police incentive pay, municipal fire incentive pay, and the property revaluation program.

Total state aid, aid to local governments excluding Federal aid, totals \$1,044.5 million in the Governor's proposed FY 2010 budget. This represents an increase of approximately 50 percent since FY 2000. The Governor's proposed FY 2010 local aid budget represents a decrease of \$105.4 million when compared to FY 2009 Enacted. The majority of this decrease (\$57.2 million) is in direct education aid, while the second largest component (\$55.1 million) results from the elimination of general revenue sharing in FY 2010. These reductions are partially offset by a total of \$46.0 million in State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act (ARRA).

While direct education aid represents the largest absolute increase in local aid since FY 2000, growing by \$116.5 million over the past ten years, this category of aid experienced the least growth on a percentage basis when compared to all other local aid (excluding general revenue sharing). Since FY 2000, education aid has increased by 22.6 percent, while funding for the excise tax phase-out has increased by 186.2 percent.

In order to help close the FY 2009 estimated budget gap of \$357.4 million, the General Assembly made a number of changes that will have an impact on municipal budgets in FY 2009. Legislation affecting local budgets in the FY 2009 Final Revised budget includes:

- Reducing general revenue sharing by \$30.1 million, from \$55.1 million to \$25.0 million;
- Decreasing general revenue education aid by \$38.3 million;
- Partially offsetting the decrease in education aid through use of the State Fiscal Stabilization funds available through the ARRA; and
- Lowering education aid by an amount equal to expected pension savings (approximately \$50 million).

One should note that the FY 2009 Final Supplemental budget does not include any savings from State pension changes. Instead, the FY 2009 Final Supplemental sets these estimated savings aside in a separate pending pension fund. The funds would be used to fund the final pension liability for FY 2009 while any unexpected balances as a result of pension changes returned to appropriate funds.

Based on State Budget Office documents, the Governor faced a projected revenue-expenditure gap of \$504.4 million when he submitted his FY 2010 budget. As a part of the proposed budget deficit resolution, the Governor proposes the elimination of general revenue sharing, a \$10.0 million general fund reduction in distressed community aid, level-funding of the majority of municipal State aid, and a \$55.7 million reduction in State support for schools when compared to the FY 2009 Enacted budget. These reductions are to be partially offset by federal funds from the ARRA.

Education Aid – Total proposed State education aid to local governments for FY 2010 is \$857.7 million, including direct education aid, charter school aid, teacher retirement, school housing aid, and funding for the Met school. State-run schools (Davies and School for the Deaf) are not included in this figure. FY 2010 funding levels are \$45.7 million (5.1 percent) lower than FY 2009 Enacted levels. Direct education aid is proposed to decrease by \$57.2 million in FY 2010 when compared to the FY 2009 Enacted budget. In addition to the changes noted above, the FY 2009 Final Revised budget eliminates professional development funds (which are restored in the Governor's proposed FY 2010 budget), reduces the amount of money Providence was to pay back to the State for an overpayment in housing aid, and slightly increases group home aid.

Municipal Aid – Recommended total municipal aid is \$186.9 million in FY 2010, not including pass-through aid. Proposed FY 2010 municipal aid is \$59.8 million (24.2 percent) less than FY 2009 Enacted aid. Proposed FY 2010 general revenue expenditures are an increase of 0.5 percent compared to the FY 2009 Revised budget.

The FY 2009 Final Revised budget partially restored general revenue sharing to \$25.0 million. However, as noted above, the proposed FY 2010 budget includes the elimination of these funds, reducing total State aid to local governments by \$55.1 million.

Municipal Expenditures Summary

According to the Division of Municipal Finance, FY 2009 local government expenditures in Rhode Island totaled \$3,189.1 million. This represents an increase of \$589.5 million, or 22.7 percent, from the FY 2004 levels of \$2,599.5 million.

	FY 2004	FY 2009	FY 2004 - FY 2009		
			Change	%	Share
Education*	\$1,500.6	\$1,810.5	\$309.9	20.7%	52.6%
Police & Fire	330.5	393.4	62.9	19.0%	10.7%
Benefits	247.6	362.0	114.4	46.2%	19.4%
Debt Service	163.1	182.8	19.7	12.1%	3.3%
Public Works	120.2	150.5	30.3	25.2%	5.1%
Other Municipal Services	237.6	289.9	52.3	22.0%	8.9%
Total Expenditures	\$2,599.5	\$3,189.1	\$589.5	22.7%	100.0%

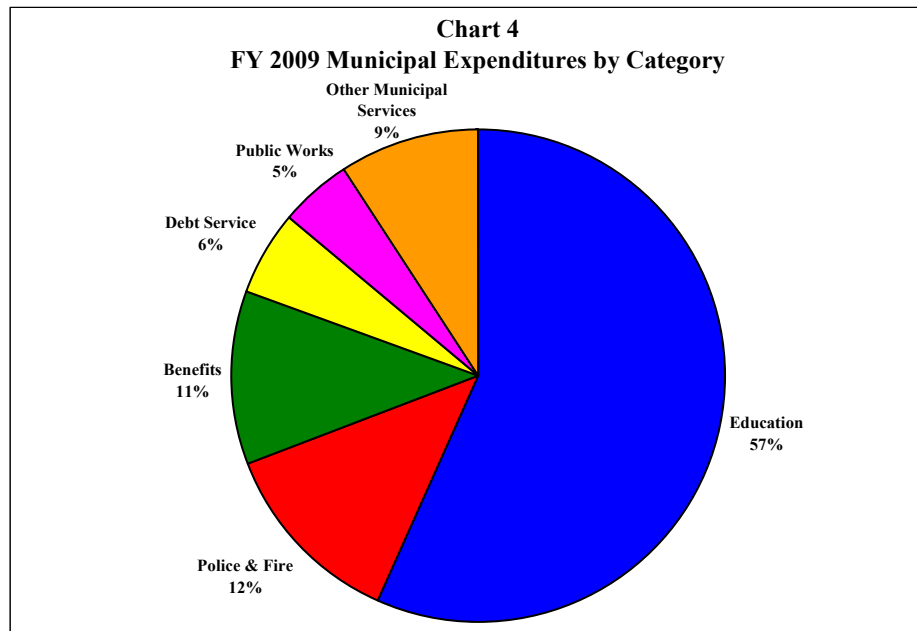
Source: Rhode Island Division of Municipal Finance, RIPEC Calculations
* Includes school debt service

Spending Patterns by Category

Municipal governments provide many services to their residents, including education, public safety and road repair. As noted above, education expenditures constitute the largest portion of municipal spending, accounting for 56.8 percent of total FY 2009 municipal budgets. Municipal services, which comprise police, fire, employee benefits, debt services and other miscellaneous expenditures account for 43.2 percent of FY 2009 local expenditures statewide.

- Of the total growth in municipal budgets between FY 2004 and FY 2009, the majority, \$309.9 million (52.6 percent), is due to increased education spending.
- Employee benefits accounted for \$114.4 million, or 19.4 percent of the total growth over the time period covered in this analysis.
- Police and fire protection expenditures accounted for \$62.9 million, or 10.7 percent of the total increase, which was the third largest share of the total increase in expenditures during this time.
- Expenditures on other municipal services increased by \$52.3 million between FY 2004 and FY 2009.
- Spending on municipal public works grew by \$30.3 million between FY 2004 and FY 2009. This growth accounted for 5.1 percent of the total increase.

- Since FY 2004, municipal debt service grew by \$19.7 million (3.3 percent of the total growth).



Although education aid continues to constitute the largest portion of municipal budgets statewide, the percentage of municipal budgets dedicated to education has declined slightly since FY 2004, when education expenditures were 57.7 percent of all local spending. In FY 2009, education accounted for 56.8 percent of the municipal budget. On the municipal side, police and fire expenditures are the largest portions of municipal services spending, constituting 12.3 percent of all expenditures. Employee benefits currently account for the second largest category of municipal services expenditures (11.4 percent of total local spending).

Education Expenditures and Trends

Spending to support education constitutes the largest portion of local expenditures. In FY 2009, education expenditures accounted for \$1,810.5 million in local government spending, which was 56.8 percent of local budgets statewide. Since FY 2004, education expenditures have grown \$309.9 million, or 20.7 percent.

Table 5
Local Education Expenditures and Enrollment
FY 2004-FY 2009 (\$ million)

	FY 2004	FY 2009	FY 2004 - FY 2009	
			Change	%
Expenditures (\$million)*	\$1,500.6	\$1,810.5	\$309.9	20.7%
Enrollment	156,997	141,852	-15,145	-9.6%
Expenditures per Pupil	\$9,558	\$12,763	\$3,205	33.5%

* Includes school debt service

Source: Expenditure data from Rhode Island Division of Municipal Finance, enrollment data from RIDE, and RIPEC calculations.

As with personnel expenditures, there are a number of ways to examine education spending. The most common measure is per pupil spending, which refers to the total amount of education expenditures divided by the number of students enrolled in the fall. As shown on Table 5, education spending has increased by 20.7 percent since FY 2004, while total enrollment has declined by 9.6 percent. As a result, local per pupil education spending increased from \$9,558 per pupil in FY 2004 to \$12,763 in FY 2009. This represents an increase of 33.5 percent.

Public Safety Expenditures

As shown on Table 6, in FY 2009, per FTE public safety expenditures totaled \$83,924, which was \$2,180 (2.7 percent) higher than FY 2008 public safety expenditures per FTE. Expenditures for fire safety were higher than expenditures for police protection in both years. One should note that data on FTE counts were only available for FY 2008 and FY 2009.

Table 6
Public Safety Expenditures per FTE and Per Capita
FY 2008 and FY 2009

	Per FTE		Per Capita		Per \$1k of Pers. Inc.*	
	2008	2009	2008	2009	2008	2009
Total Expenditures						
Police	\$79,384	\$81,785	\$197	\$205	\$4.87	\$5.00
Fire	84,750	86,670	165	169	4.08	4.13
<i>Subtotal</i>	<i>\$81,745</i>	<i>\$83,924</i>	<i>\$361</i>	<i>\$374</i>	<i>\$8.95</i>	<i>\$9.13</i>

SOURCE: Rhode Island Division of Municipal Finance; US Bureau of the Census; US Bureau of Economic Analysis; RIPEC calculations

* FY 2009 personal income is the average of the first two quarters of the fiscal year

On a per capita basis, total public safety expenditures statewide were \$361 per capita in FY 2008. This amount increased 3.6 percent in FY 2009 to \$374 per capita. In contrast to per FTE expenditures, police expenditures were higher than fire expenditures when measured on a per

capita basis. In FY 2008, per capita expenditures for police totaled \$197 statewide, compared to \$165 for fire safety. These numbers increased to \$205 per capita and \$169 per capita, for police and fire, respectively, in FY 2009.

Total statewide public safety expenditures in FY 2009 were \$9.13 per \$1,000 of personal income, compared to \$8.95 per \$1,000 of personal income in FY 2008. Of the total FY 2009 expenditures for public safety, as measured on a per \$1,000 of personal income basis, 54.8 percent (\$5.00) went to support municipal police, and 45.2 percent (\$4.13) was dedicated to fire safety.

Benefit Expenditures and Trends

FY 2009 municipal benefit expenditures (including employee pension costs) totaled \$362.0 million, which is \$20.6 million (6.0 percent) more than in FY 2008. Since FY 2004, employee benefits have increased \$114.5 million, from \$247.6 million in FY 2004 to \$362.0 million in FY 2009. This translates into growth of 46.2 percent, which was approximately double the rate of growth in all other spending by municipalities during this time period.

- The portion of the municipal services budget dedicated to employee benefit expenditures has increased over the past five years. In FY 2004, 22.5 percent of municipal services expenditures were dedicated to employee benefits, while in FY 2009, these costs accounted for 26.3 percent of municipal services spending.

	FY 2004	FY 2009	FY 04-09 Change
<u>Benefits</u>			
Insurance	10.6%	12.1%	1.5%
Pension	9.2%	10.8%	1.6%
Other Benefits*	2.7%	3.3%	0.6%
<u>All Other Municipal Services</u>	77.5%	73.7%	-3.7%

Source: Rhode Island Division of Municipal Finance, RIPEC Calculations
* Includes FICA, Medicare and Other

- The largest portion of these expenditures is municipal employee medical/dental insurance. In FY 2009, these costs accounted for 12.1 percent of all municipal expenditures, compared to 10.6 percent in FY 2004. Expenditures increased from \$116.4 million in FY 2004 to \$167.1 million in FY 2009.

- Pension costs have also increased their share of municipal budgets. In FY 2004, these expenditures accounted for 9.2 percent of municipal budgets, versus 10.8 percent in FY 2009. Expenditures increased from \$101.5 million in FY 2004 to \$148.9 million in FY 2009.

- Other benefits, which include Medicare and FICA contributions, as well as employee life insurance, account for a relatively small portion of municipal budgets. This category of expenditures has increased its share of municipal budgets from 2.7 percent in FY 2004 to 3.3 percent in FY 2009. Expenditures increased from \$29.7 million in FY 2004 to \$46.1 million in FY 2009.

Chart 5
Employee Benefits as a Percent of Total Municipal Services
FY 2004 - FY 2009

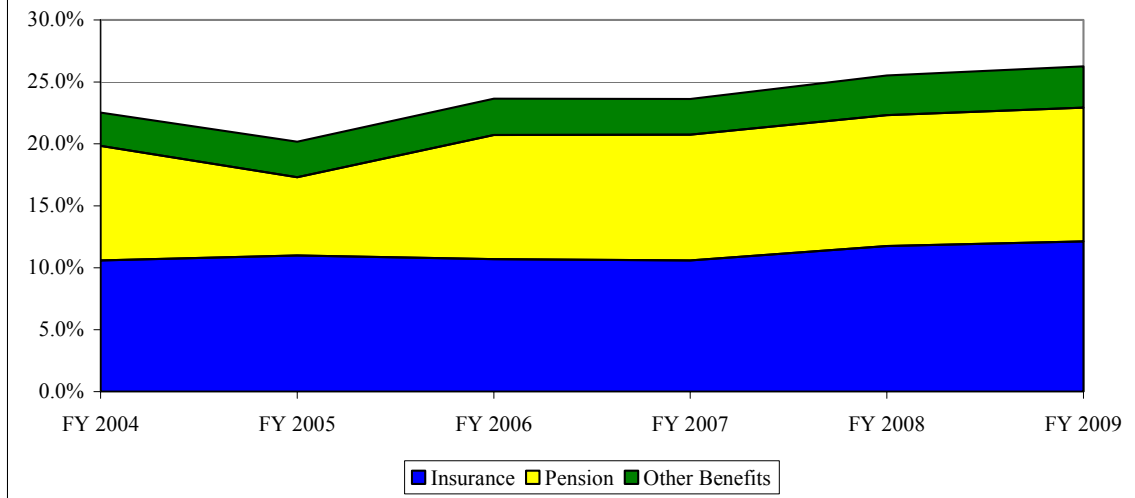


Table 8
Municipal Employees (FTE)
FY 2008 and FY 2009

	2008	2009
Municipal	4,433.8	4,391.2
Police	2,618.5	2,635.5
Fire	2,057.0	2,053.0
<i>Total General Fund</i>	<i>9,109.3</i>	<i>9,079.7</i>
Total Non General Fund	585.1	540.7
Total	9,694.4	9,620.4

SOURCE: Rhode Island Division of Municipal Finance

According to the budgetary survey from the Division of Municipal Finance, as reported by each municipal government, the total number of employees in FY 2008 was nearly 9,695 FTEs. In FY 2009, the number of municipal FTEs decreased by 74.0 FTEs or 0.8 percent, to 9,620.4 FTEs. The majority of the reduction was for municipal employees, which decreased by 42.6 FTEs, or 1.0 percent over the past fiscal year. Fire saw a slight personnel reduction during this time period as well (-4.0 FTEs). Police personnel experienced an increase of 17.0 FTEs during that time frame. The total number of non-general fund municipal employees declined by 7.6 percent (44.4 FTEs) over the past year.

There are

multiple ways to measure the relative burden of public expenditures. Expenditures per FTE can provide information on the average benefit received by public employees. However, this measure does not provide information about how this cost is spread among those who pay for the service. Per capita refers to the level of expenditures divided by the number of residents in the state. Measuring expenditures on a per capita basis shows the distribution of cost. However, this measure does not reflect the ability to pay or the demographic

Table 9
Local Employee Benefits
FY 2008 and FY 2009

	2008	2009
Per FTE	\$37,478	\$37,633
Per Capita	323	345
Per \$1K of Personal Inc.	8.00	8.40

SOURCE: Rhode Island Division of Municipal Finance; US Bureau of the Census; US Bureau of Economic Analysis; RIPEC calculations

characteristics of a state. Per \$1,000 of personal income refers to the amount of public expenditures per every \$1,000 of personal income generated by the state's residents, which provides some measure of a state's residents' ability to pay.

Between FY 2008 and FY 2009, total local employee benefit costs, as measured on a per FTE basis increased slightly (0.4 percent), from \$37,478 in FY 2008 to \$37,633. On a per capita basis, these costs increased 6.8 percent, to \$345 per capita, and on a per \$1,000 of personal income basis, they increased 5.0 percent, to \$8.40 per \$1,000 of personal income.

Pension expenditures

Pensions represent one of the fastest-growing categories of all municipal expenditures (including education) and, as such, merit separate consideration. One should note that the figures presented in Table 6, for police and fire expenditures, do not include expenditures to support pension contributions, which are outlined on Table 10.

In FY 2008, total municipal employee pension costs averaged \$15,511 per FTE. This figure increased 5.7 percent to \$16,397 per FTE in FY 2009. The average pension expenditure per municipal FTE (excluding police, fire, and non general-fund supported FTEs) was \$7,582 in FY 2008, while, in FY 2009, the municipal pension cost per FTE increased by 5.5 percent to \$7,998. In both years, the per FTE cost for fire pensions was the highest of the three categories, totaling \$26,888 per FTE in FY 2009, compared to \$21,317 per FTE for police and \$7,998 for municipal FTEs. Fire pension expenditures per FTE increased by 5.1 percent over the past fiscal year. Police pension expenditures increased at a slightly slower rate, growing by 4.9 percent since FY 2008.

	Per FTE		Per Capita		Per \$1k of Pers. Inc.*	
	2008	2009	2008	2009	2008	2009
Municipal**	\$7,582	\$7,998	\$34	\$36	\$0.83	\$0.87
Police	20,325	21,317	50	53	1.25	1.30
Fire	25,585	26,888	50	53	1.23	1.28
<i>Subtotal</i>	<i>\$15,511</i>	<i>\$16,397</i>	<i>\$134</i>	<i>\$142</i>	<i>\$3.31</i>	<i>\$3.45</i>

SOURCE: Rhode Island Division of Municipal Finance; US Bureau of the Census; US Bureau of Economic Analysis; RIPEC calculations

* FY 2009 personal income is the average of the first two quarters of the fiscal year

** Includes municipal and "other" pensions

When pension expenditures are added to the per FTE cost of police and fire (see Table 6), average expenditures per public safety FTE amount to \$104,384 in FY 2008 and \$107,681 in FY 2009. Per FTE total fire safety expenses, including pensions, were \$113,559 in FY 2009, while the average expenditure on police was \$103,102 per FTE.

Per capita expenditures on total local pension costs grew by 6.1 percent, from \$134 in FY 2008 to \$142 in FY 2009. Of this total (in both years), municipal employees constituted 25.1 percent (\$34 per capita), police pensions per capita accounted for 37.7 percent (\$50 per capita), and fire pension expenditures were 37.2 percent (\$50 per capita). Adding pension expenditures to the per capita cost of public safety increases these expenditures to \$461 total, \$247 of which is for police and \$215 for fire.

Fiscal year 2008 local employee pension expenditures totaled \$3.31 per \$1,000 of personal income. In FY 2009, local pension expenditures increased by 4.4 percent to \$3.45 per \$1,000 of personal income. Municipal employee pensions were \$0.87 per \$1,000 of personal income in FY 2009, while police and fire were \$1.30 and \$1.28 per \$1,000 of personal income, respectively. Adding public safety pension costs to public safety expenditures increases total expenditures to \$11.43 per \$1,000 of personal income in FY 2008, and \$11.71 per \$1,000 of personal income in FY 2009, an increase of 2.5 percent.

Forecast

RIPEC created two models to forecast local budgets. The first model used a five-year average growth in spending for municipal and education services, as well as a five-year average increase in Federal and “other” local revenues. The second model used a two-year average. State aid in both models was assumed to be level-funded, and the models include the Governor’s proposal to eliminate \$55.1 million in general revenue sharing funds. The property tax levy was increased by the maximum allowed under the property tax cap (4.75 percent in FY 2010, 4.5 percent in FY 2011, 4.25 percent in FY 2012, and 4.0 percent in FY 2013 and thereafter).

Based on the five-year average growth model, RIPEC projects municipal deficits ranging from \$80.3 million in FY 2010 to \$425.0 million in FY 2014. While revenues are anticipated to increase by 7.5 percent, expenditures are projected to grow 17.7 percent, which is more than twice as fast as the increase in revenues.

Table 11
Five-Year Forecast (\$ million)
(Five year average)

	2010	2011	2012	2013	2014	FY 2010 - 14	
						Change	%
Expenditure							
Municipal	\$1,442.9	\$1,510.1	\$1,580.4	\$1,650.7	\$1,727.6	\$284.7	19.7%
Education	1,879.8	1,951.9	2,026.7	2,101.5	2,182.0	302.2	16.1%
Total	\$3,322.7	\$3,462.0	\$3,607.1	\$3,752.2	\$3,909.6	\$586.9	17.7%
Revenue							
Levy	\$2,049.8	\$2,142.0	\$2,136.9	\$2,227.7	\$2,222.3	\$172.6	8.4%
State Aid*	858.1	858.1	858.1	858.1	858.1	0.0	0.0%
Other Revenue	334.5	350.7	367.6	385.4	404.1	69.6	20.8%
Total	\$3,242.4	\$3,350.8	\$3,362.6	\$3,471.2	\$3,484.6	\$242.2	7.5%
Gap	-\$80.3	-\$111.2	-\$244.5	-\$281.0	-\$425.0		
As Percent of Revs	-2.5%	-3.3%	-7.3%	-8.1%	-12.2%		

* Assumes elimination of General Revenue Sharing and level-funding of all other state aid

SOURCE: RIPEC forecast based on data from RI Division of Municipal Finance and State Budget Office documents

As shown on Chart 1, the pace of local government expenditures has slowed during the past two fiscal years as housing values have declined, property tax bases have started to erode and State funding has been flat. However, even a two-year average growth model projects deficits in every year, growing from \$35.4 million in FY 2010 to \$173.3 million in FY 2014 (see Table 12).

Table 12
Five-Year Forecast (\$ million)
(Two year average)

	2010	2011	2012	2013	2014	FY 2010 - 14	
						Change	%
Expenditure							
Municipal	\$1,413.3	\$1,448.8	\$1,485.2	\$1,522.5	\$1,560.8	\$147.4	10.4%
Education	1,864.4	1,920.1	1,977.4	2,036.4	2,097.1	232.7	12.5%
Total	\$3,277.7	\$3,368.9	\$3,462.6	\$3,558.9	\$3,657.9	\$380.1	11.6%
Revenue							
Levy	\$2,049.8	\$2,142.0	\$2,136.9	\$2,227.7	\$2,222.3	\$172.6	8.4%
State Aid*	858.1	858.1	858.1	858.1	858.1	0.0	0.0%
Other Revenue	334.5	350.7	367.6	385.4	404.1	69.6	20.8%
Total	\$3,242.4	\$3,350.8	\$3,362.6	\$3,471.2	\$3,484.6	\$242.2	7.5%
Gap	-\$35.4	-\$18.1	-\$100.0	-\$87.7	-\$173.3		
As Percent of Revs	-1.1%	-0.5%	-3.0%	-2.5%	-5.0%		

* Assumes elimination of General Revenue Sharing and level-funding of all other state aid

SOURCE: RIPEC forecast based on data from RI Division of Municipal Finance and State Budget Office documents

Without some form of change between spending and the ability to raise revenue local governments and school districts will be facing a major shortfall in funding and it is likely that local governments will not be able to these shortfalls offset even if the State increased funding.