



RIPEC

Comments on Your Government

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Reductions in Local Aid Will Require Structural Changes for Local Governments and School Districts

Between the FY 2009 enacted and the FY 2011 Budget as proposed by the Governor, the State experienced a reduction in general revenues of \$420.0 million or 12.5 percent. This has required the State to reduce its expenditures. A major part of the reduction in State expenditures is attributable to cuts in local aid.

The FY 2010 Supplemental Budget and the FY 2011 Budget also include various budget articles which would provide structural change and fiscal relief for local governments by altering the way local governments operate. These budget articles, or “municipal tools”, range from changes to municipal pensions and minimum manning provisions, to municipal health insurance cost-sharing and a uniform public school employee health care benefits program. Additional savings could be achieved through budget articles and modifying mandates as proposed by the Governor in his FY 2009 Supplemental Budget.

The timing of implementing these budget articles and modifying the mandates is crucial. If the General Assembly enacts the budget articles and modifies mandates, how soon the effects of the proposed changes can be implemented will be a significant factor in determining to what extent they will affect FY 2010 municipal budgets, as well as the FY 2011 budget and beyond. For example, for those municipalities that are currently in collective bargaining negotiations, implementation of the budget article relating to pension changes could have a potential for savings in the current year. Similarly, there is a question of how much the proposed changes will be able to offset the reduction of State aid in the near term, given the short time frame in which municipalities will have to respond to the changes. In addition, municipalities will be impacted differently by the reductions in State aid depending on the degree to which they rely on State support and the implementation of the budget articles.

The State faces out-year deficits ranging from \$362.2 million in FY 2012 to \$535.7 million in FY 2015, based on State Budget Office projections. 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 not only address the immediate short-falls, but will also lead to long-term stability and structural reform. Without substantive restructuring, local governments, in particular, will not be able to support the current levels of services. Restructuring government will require flexibility with, and modifications to, mandates and collective bargaining requirements.

Impact of Local Aid Reduction on Municipalities

Based on declining revenues, the State's general revenue expenditures have been decreasing from \$3,276.2 million in the FY 2009 enacted budget to \$2,849.1 million in the FY 2011 proposed Budget, a decline of 13.0 percent. The reduction in local aid is a major contributor to the reduction in the State's expenditures; local aid cuts have accounted for 69.6 percent of the total reductions in general revenue expenditures since FY 2009.

Table 1								
General Revenue Expenditures (\$ million)								
By Category	2004	2009E	2010E	2010S	2011P	2009E-2011P		
						Change	%	Share
State Operations								
Personnel	\$711.7	\$812.1	\$762.6	\$751.2	\$797.3	(\$14.8)	-1.8%	3.5%
Operating	161.7	145.8	132.3	130.9	133.8	(12.0)	-8.2%	2.8%
Subtotal:	\$873.4	\$957.8	\$894.9	\$882.1	\$931.1	(\$26.7)	-2.8%	6.3%
Local Aid								
<u>Municipal Aid</u>								
General Revenue Sharing	\$51.4	\$25.0	\$0.0	\$0.0	\$0.0	(\$25.0)	-100.0%	5.9%
Distressed Communities	7.5	10.4	10.4	10.4	10.4	0.0	0.0	0.0%
PILOT	21.7	27.6	27.6	27.6	27.6	0.0	0.0	0.0%
Motor Vehicle Phase-out	105.0	135.4	135.3	70.2	-	(135.4)	(1.0)	31.7%
Other	13.5	12.5	13.4	13.4	12.4	(0.1)	(0.0)	0.0%
Subtotal:	\$199.2	\$210.8	\$186.7	\$121.6	\$50.4	(\$160.4)	-76.1%	37.6%
Education Aid	\$746.8	\$890.3	\$816.6	\$756.4	\$788.3	(\$102.0)	-11.5%	23.9%
Total Local Aid	\$946.0	\$1,136.0	\$1,003.3	\$878.0	\$838.7	(\$297.3)	-26.2%	69.6%
Grants & Benefits	\$906.2	\$1,000.9	\$894.0	\$904.9	\$903.2	(\$97.7)	-9.8%	22.9%
Capital & Debt	64.3	169.1	180.2	170.9	168.4	(0.6)	-0.4%	0.2%
Operating Transfer	0.0	12.5	27.8	9.2	7.7	(4.8)	-38.2%	1.1%
Total	\$ 2,789.9	\$ 3,276.2	\$ 3,000.3	\$ 2,845.1	\$ 2,849.1	(\$427.1)	-13.0%	100.0%

E = Enacted, S=Supplemental, P = Proposed
Source: RIPEC calculations based on State Budget Office Data

Between the FY 2009 enacted and the Governor's proposed FY 2011 Budget, local aid has been reduced by almost \$300.0 million, or 26.2 percent. In the enacted FY 2009 budget, local aid amounted to \$1,136.0 million or 34.7 percent of the State's budget, whereas in the proposed FY 2011 budget, it accounts for 29.4 percent, or \$838.7 million. In FY 2004, local aid accounted for 33.9 percent of the State's budget.

Municipal Expenditures

The following section examines the growth in municipal budgets from FY 2004 to FY 2010. According to data from the Division of Municipal Finance, FY 2010 local government expenditures in Rhode Island totaled \$3,123.2 million. This represents an increase of \$512.9 million, or 19.6 percent, from the FY 2004 level of \$2,610.3 million. The largest share of this increase was education aid (56.2 percent).

Table 2
Municipal General Fund Budgets
FY 2004-FY 2010 (\$ million)

	FY 2004	FY 2010	FY 2004 - FY 2010		
			Change	%	Share
Education	\$1,504.8	\$1,793.0	\$288.2	19.2%	56.2%
Municipal Services	1,105.5	1,330.2	224.7	20.3%	43.8%
Total Expenditures	\$2,610.3	\$3,123.2	\$512.9	19.6%	100.0%

Source: RIPEC calculations based on data from the Rhode Island Division of Municipal Finance

Spending Patterns by Category between FY 2004 and FY 2010

Municipal governments provide many services to their residents, including education, public safety and road repair. The following highlights some spending patterns by the various expenditure categories between FY 2004 and FY 2010:

- Education expenditures constitute the largest portion of municipal spending, accounting for 57.4 percent of total FY 2010 municipal budgets. This percentage has been fairly consistent over the years, accounting for 57.6 percent of municipal expenditures in FY 2004.
- Of the total growth in municipal budgets between FY 2004 and FY 2010, the majority, \$288.2 million (56.2 percent), is due to increased education spending. Education expenditures increased from \$1,504.8 million in FY 2004 to \$1,793.0 million in FY 2010.
- Municipal expenditures increased by \$224.7 million, from \$1,105.5 million in FY 2004 to \$1,330.2 million in FY 2010.

Table 3
Municipal General Fund Budgets
As Percent of Expenditures
FY 2004-FY 2010

<u>Share of Budget</u>	<u>FY 2004</u>	<u>FY 2010</u>
Education	57.6%	57.4%
Municipal Services	42.4%	42.6%
Total Expenditures	100.0%	100.0%

Source: RIPEC calculations based on data from the Rhode Island Division of Municipal Finance

Changes in Spending between FY 2009 and FY 2010

Total municipal expenditures declined from a high of \$3,187.3 million in FY 2009 to \$3,123.2 million in FY 2010, a decline of 2.0 percent. During the same time frame (FY 2009 enacted to FY 2010 enacted budget), the State's general revenue expenditures declined by 8.4 percent. However, one should note that funding from the American Recovery and Reinvestment Act (ARRA) has been used to fill the budget gap in FY 2010 (approximately \$230.0 million). Adjusting general revenue expenditures for these funds, general revenue expenditures declined by 1.4 percent between FY 2009 and FY 2010 enacted budgets.

Table 4
Municipal General Fund Budgets
FY 2009-FY 2010 (\$ million)

	FY 2009	FY 2010	FY 2009 - FY 2010		
			Change	%	Share
Education	\$1,808.7	\$1,793.0	-\$15.7	-0.9%	24.5%
<u>Municipal Services</u>					
Police & Fire	\$393.4	\$375.7	(\$17.7)	-4.5%	27.6%
Benefits	362.0	355.3	(6.7)	-1.9%	10.5%
Debt Service	182.8	189.9	7.1	3.9%	-11.1%
Public Works	150.5	145.7	(4.8)	-3.2%	7.6%
Other Municipal Services	289.9	263.7	(26.2)	-9.1%	41.0%
<i>Subtotal Mun Services</i>	<i>\$1,378.6</i>	<i>\$1,330.2</i>	<i>(\$48.4)</i>	<i>-3.5%</i>	<i>75.5%</i>
Total Expenditures	\$3,187.3	\$3,123.2	-\$64.1	-2.0%	100.0%

Source: RIPEC calculations based on data from the Rhode Island Division of Municipal Finance

- Municipal services (excluding education) declined by 3.5 percent (\$48.4 million) between FY 2009 and FY 2010. During the same time period, education expenditures declined by 0.9 percent, or \$15.7 million.
- The largest decline in expenditures occurred in municipal services other than education, public works and public safety. Other municipal services declined by \$26.2 million or 9.1 percent between FY 2009 and FY 2010.
- Expenditures for police and fire declined by 4.5 percent, or \$17.7 million during that time period.
- Debt service was the only area that grew during that time, from \$182.8 million in FY 2009 to \$189.9 million in FY 2010.

Education Expenditures

	FY 2004	FY 2010	FY 2004 - FY 2010	
			Change	%
Expenditures (\$million)	\$1,504.8	\$1,793.0	\$288.2	19.2%
Enrollment	156,997	141,023	-15,974	-10.2%
Expenditures per Pupil	\$9,585	\$12,714	\$3,129	32.6%

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

- As shown on Table 5, education spending (excluding federal funds that go directly to the districts) has increased by 19.2 percent since FY 2004, while total enrollment has declined by 10.2 percent. As a result, local per pupil spending increased from \$9,585 per pupil in FY 2004 to \$12,714 in FY 2010. Based on InSite data for FY 2008, total per pupil spending amounted to \$14,781 (excluding housing aid).
- Education expenditures constitute the largest portion of municipal spending, accounting for 57.4 percent of total FY 2010 municipal budgets. This percentage has been fairly consistent over the years, accounting for 57.6 percent of municipal expenditures in FY 2004.
- For every new dollar spent between FY 2004 and FY 2010, \$0.56 went to support education statewide.

Public Safety Expenditures Per FTE

- In FY 2010, per FTE fire expenditures totaled \$127,745 and \$114,324 per FTE for police. This includes expenditures such as salaries, pension and health care costs. It does not include expenditures relating to FICA, Medicare, life insurance and other benefit costs.

- Expenditures for fire safety per FTE increased by 3.3 percent between FY 2008 and FY 2010, whereas expenditures for police protection increased by 1.3 percent during the same time period. One should note that data on FTE counts were only available for FY 2008 to FY 2010.

Table 6
Estimated Public Safety Expenditures per FTE

	FY 2008	FY 2009	FY 2010	FY 2008-2010 Change	
				Amount	Percent
Police					
Expenditures	\$79,384	\$81,785	\$79,241	(\$143)	-0.2%
Pension	21,107	21,712	22,519	1,412	6.7%
Health Care	12,413	13,227	12,563	150	1.2%
<i>Subtotal Police</i>	<i>\$112,905</i>	<i>\$116,724</i>	<i>\$114,324</i>	<i>\$1,419</i>	<i>1.3%</i>
Fire					
Expenditures	\$84,750	\$86,670	\$85,433	\$683	0.8%
Pension	26,540	27,894	29,748	3,209	12.1%
Health Care	12,413	13,227	12,563	150	1.2%
<i>Subtotal Fire</i>	<i>\$123,703</i>	<i>\$127,791</i>	<i>\$127,745</i>	<i>\$4,042</i>	<i>3.3%</i>

No comparable data were available for general municipal employees.
 Note: Expenditures do not include costs relating to FICA, Medicare, Life Insurance and other benefit costs.
 FTE costs were calculated by using the total cost divided by the FTE count for each category, based on data from the Division of Municipal Finance

Source: RIPEC calculations based on Division of Municipal Finance data

- Between FY 2009 and FY 2010, per FTE expenditures declined for both fire and police employees. One should note that no comparable data were available for general municipal employees.

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 2010, the number of total municipal FTEs decreased by 388.2 FTEs or 4.0 percent since FY 2008. The majority of the reduction was for general municipal employees, which decreased by 246.7 FTEs, or 5.6 percent over the past two fiscal years. Fire and police personnel saw a reduction during this time period as well, decreasing by 58.0 FTEs (2.8 percent) and 32.5 FTEs (1.2 percent) respectively. The total number of non-general fund municipal employees declined by 8.7 percent, or 51.0 FTEs between FY 2008 and FY 2010.

Table 7
Municipal Employees (FTE)
FY 2008 - FY 2010

	2008	2009	2010	FY 2008-2010 Change	
				Number	Percent
Municipal	4,433.8	4,391.2	4,187.1	-246.7	-5.6%
Police	2,618.5	2,635.5	2,586.0	-32.5	-1.2%
Fire	2,057.0	2,053.0	1,999.0	-58.0	-2.8%
Total General Fund	9,109.3	9,079.7	8,772.1	-337.2	-3.7%
Total Non General Fund	585.1	540.7	534.1	-51.0	-8.7%
Total	9,694.4	9,620.4	9,306.2	-388.2	-4.0%

SOURCE: RIPEC calculations based on data from the Rhode Island Division of Municipal Finance

Impact for Local Governments and School Districts from Proposed Budget Articles

For the last several years the Governor of Rhode Island has proposed budget articles which would provide structural change and fiscal relief for local government as a means to offset reductions in State support (see also RIPEC report from June 2009). These budget articles, commonly referred to as “municipal tools”, range from changes to minimum manning provisions to the establishment of a statewide health insurance contract, have been, and will continue to be, at the forefront of the ongoing public policy debate regarding intergovernmental relations in the State.

In his recent budget submissions, the Governor has again proposed articles, which will have an impact upon the cost of operations for local government. The table on the next page shows the various budget articles that have been introduced by the Governor and its estimated impact on local governments and school districts. The estimates shown in the table were derived from the Division of Municipal Finance, the Rhode Island Department of Education and the Rhode Island League of Cities and Towns. For some of the budget articles no estimates were possible, but there is the potential for significant savings.

The timing of implementing these budget articles will be crucial. If the General Assembly enacts the budget articles, how soon the effects of the proposed changes can be implemented will be a significant factor in determining to what extent they will affect FY 2010 municipal budgets and beyond. For example, for those municipalities that are currently in collective bargaining negotiations, implementation of the budget article relating to pension changes could have a potential for savings in the current year and out years. Similarly, there is a question of how much the proposed changes will be able to offset the reduction of State aid, given the short time frame in which municipalities will have to respond to the changes.

Furthermore, State mandates have a fiscal impact on municipalities. For example, the FY 2009 Supplemental Budget as proposed by the Governor included the elimination of the mandate to have school bus monitors with estimated savings for municipalities in the amount of \$11.7 million, and repealing the requirement that school nurses be certified teachers with estimated savings of \$3.3 million.

The Senate and House have Committees reviewing State mandates not covered by the proposed budget articles. Over the last several months, the Senate Oversight Committee has conducted hearings to determine the impact of State mandates. Modifying some of these could provide for additional savings to communities.

**Table 8
Potential Impact for Local Government and School Districts
From Budget Articles
As Proposed by Governor
(\$ million)**

Estimated Savings from Proposed Budget Articles in FY 2010 Supplemental as Proposed by Governor*	Estimated Impact
(1) Suspending Caruolo Actions (Article 9)	Undetermined
(2) Police Officers and Firefighters (Article 12)	\$0.8
(3) Mun. Retirement (Article 13)	\$14.2
<i>MERS</i>	Undetermined
<i>Locally-administered</i>	Undetermined
(4) Statewide Purchasing (Article 18)	Undetermined
School Realignment Commission (Article 20)	Undetermined
(5) Minimum Manning (Article 21)	Undetermined
Municipal Health Insurance Cost-Sharing (Article 22) for mun. employees and teachers	
(6) <i>Municipal Employees</i>	\$17.6
(6) <i>Teachers</i>	\$35.0
Subtotal Cost-Sharing (Article 22)	\$52.6
(7) School Employee Health Insurance (Article 23)	Undetermined
Estimated savings FY 2010 Governor Supplemental	\$67.6
Estimated Savings from Proposed Budget Articles in FY 2009 Supplemental as Proposed by Governor*	Estimated Impact
(8) Statewide School Food Service Program	\$0.6
(9) Eliminating Mandate for School Bus Monitors	\$11.7
(10) Repeals Requirement that School Nurses by Certified Teachers	\$3.3
Estimated savings FY 2009 Governor Supplemental	\$15.6
Total estimated savings FY 2009 and FY 2010 Governor Supp.	\$83.2

* One should note that savings through implementing budget articles may not be reached in one year. The fiscal impact on cities and towns would be phased in as new contracts are negotiated.

(1) The proposal may have a fiscal impact on municipalities, which would be determined by the outcome of arbitration.

(2) The savings are based on data compiled by the RI League of Cities and Towns, with approximately 50% of the communities responding. Therefore, the savings may be higher than the \$0.8 million stated here.

(3) 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 plans.

(4) There are no savings assumed in the budget

(5) No estimate possible, but potential for significant savings for municipalities. The impact would vary based on individual arbitration decisions and would phase in as new contracts are implemented. In FY 2010, \$375.5 million are budgeted statewide (excluding fire districts) for police and fire services, based on data from the Division of Municipal Finance. Every 1% in savings would amount to \$3.8 million.

(6) Based on data compiled by the RI League of Cities and Towns, \$17.6 million could be saved by cities/towns if this article were passed. Based on 2007 RI Dept. of Education (RIDE) data, approximately \$35.0 million could be saved if co-shares for teachers were set at 25%. The fiscal impact on cities and towns would be phased in as new contracts are negotiated.

(7) There are no savings assumed in the budget from the passage of this article. Information gathered by RIDE during FY 2007 indicates that districts would be able to achieve annual savings of approximately \$17.1 million through competitive bidding, establishment of a limited number of common plan designs resulting in reduced administrative fees, and co-sharing and buy-back provisions. Some districts have implemented such provisions since then, which will lower the overall savings.

(8) According to RIDE, the school districts realized already approximately \$1.0 million in savings in nutrition due to the benchmark the State bid established.

(9) In 2009, RIDE estimated that school districts invest \$11.7 million annually for school bus monitors.

(10) In 2009, RIDE estimated that the replacement of school nurses/teachers with registered nurses would save school districts \$3.3 million.

Overview of Budget Articles

FY 2010 Supplemental Budget, as submitted by the Governor in December 2009

Municipal Issues

Motor Vehicle Excise Tax Phase Out, Article 2

In the FY 2010 Supplemental Budget, the Governor proposes withholding the final two quarters of this reimbursement. For FY 2011 and thereafter, there would be no exemption unless an exemption is specified in the annual appropriations act.

The Article also provides for the ability of municipalities to levy a supplemental tax on motor vehicles equal to the lost revenues without the consent of the General Assembly for FY 2010 and FY 2011. However, communities at or above the cap (or for whom the supplemental levy would place them over the cap) must follow the process for being granted an exemption as set forth in S3050. A supplemental tax can only be levied if the Department of Revenue certifies that the city/town qualifies for an exemption from the tax cap based upon the provisions of Article 44-5-2(d)(1) and supermajority approval may apply pursuant to Article 44-5-2(e) when applicable.

Relating to Police Officers and Firefighters – Injured on Duty, Article 12

This article limits compensation for municipal police and fire personnel as well as state quasi-public agency firefighters and law enforcement officers injured on duty to 80.0 percent of compensation compared to the current 100.0 percent of annual compensation. Compensation for benefits and medical expenses remain the same. According to House Finance Staff, even though the provision applies to a number of State employees, the proportion is small, thus the savings to the State minimal and the revised budget assumes none. However, municipalities would incur savings since use of this provision is more common.

Relating to Municipal Retirement, Article 13

This article provides for a variety of changes to municipal pension plans administered by either the State (MERS) or by municipalities. The changes include reduction to disability pensions, consistent with changes made at the State level last year, changes to years of service requirements and minimum retirement ages for regular and public safety employees, increases employee contributions and mandatory cost-sharing for retiree health insurance for current and future retirees. Specifically, it prohibits locally administered plans from offering more generous benefits than available through the State administered municipal plans.

Relating to Minimum Manning, Article 21

This article removes provisions relating to the scope of issues which can be negotiated or arbitrated under existing arbitration laws, including minimum manning, the deployment of equipment and equipment requirements. Upon passage, manning would be a management right, and the decision would fall upon the chiefs of the respective departments.

Relating to Municipal Health Insurance Cost-Sharing, Article 22

This article requires that all new and extended collective bargaining agreements pertaining to public school teachers, police officers, firefighters or municipal employees must include a minimum of 25.0 percent health and dental insurance premiums co-share as of January 1, 2010.

School Issues

Education Aid and Changes to Caruolo, Article 9

The article reduces education aid by 3.0 percent. It also reduces education aid by the amount of retirement contribution savings proposed in Article 16 (pension changes) and uses \$5.0 million from Federal Stimulus Stabilization funds advanced from FY 2011.

This article also suspends Caruolo actions in any year there is a reduction in State aid and establishes a new three-member panel to resolve funding disputes going forward.

The article also provides authority to withhold aid for nonpayment of statewide transportation services or for services provided at the School for the Deaf. Furthermore, the article includes provisions to have town or city council approval of school committee contracts prior to ratification.

Statewide Purchasing, Article 18

This article authorizes RIDE with the Department of Administration to permit public schools to join cooperatives for purchasing goods, supplies and services on a voluntary basis. It also exempts RIDE from State purchasing laws upon specific approval of the chief purchasing officer. There are no savings assumed in the budget from this article, which would be effective upon passage.

School Realignment Commission, Article 20

This article creates a 14-member school realignment commission modeled after the Base Realignment and Closure Commission process (BRAC) used by the Federal government to analyze school district consolidation opportunities. The Commission must submit their recommendations to the General Assembly by March 31, 2011. The General Assembly shall approve or reject the recommendations and pass necessary legislation to place the recommendations on the November 2012 ballot for voter approval.

School Employee Health Insurance, Article 23

This article removes health care benefits from the teachers and school employees' collective bargaining process and requires that these employees, upon expiration of their current contracts, receive coverage under a new uniform public school employee health care benefits program. This article authorizes the Department of Administration to create uniform health care benefits for all Rhode Island school districts and charter school employees including, but not limited to, medical benefits and prescription drug coverage. The choice of benefit plans from those approved in accordance with the new plan, medical insurance cost-sharing, payment for waiving medical insurance, and providing benefits for retirees shall continue to be negotiated through the collective bargaining

process. The value of any approved plan may not be greater than the value of the State employee health plan.

There are no savings assumed in the budget from the passage of this article. Information gathered by RIDE during FY 2007 indicates that districts would be able to achieve annual savings of approximately \$17.1 million through competitive bidding, establishment of a limited number of common plan designs resulting in reduced administrative fees, and co-sharing and buy-back provisions. Some districts have implemented such provisions since then, which will lower the overall savings.

State Issues

Relating to Pension Reform (Article 16)

This article eliminates the Cost-of-Living-Adjustment (COLA) for State employees, teachers, judges, and State Police who retire after September 30, 2009, with the exception of those employees who were eligible to retire prior to September 30, 2009. The article provides the General Assembly authority to establish an annual ad hoc adjustment, equal to the CPI, but not to exceed a maximum of 3.0 percent, to retirees not eligible to receive COLA adjustments.

This article also provides that no supplemental contributions be made to the Retirement System for FY 2009, 2010 and FY 2011. Rhode Island General Law requires that for any fiscal year in which the actuarially determined State contribution rate for State employees or teachers is lower than that for the prior fiscal year, the Governor shall include an appropriation to that system equal to 20.0 percent of the rate reduction for the State's contribution rate to be applied to the actuarial accrued liability of the system.