



State of Rhode Island and Providence Plantations

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Donald L. Carcieri
Governor

February 26, 2003

To the Honorable, the General Assembly

Today, I present my fiscal year 2004 budget, which is designed to provide structural stability to our state's finances. To accomplish this, we need to stabilize the foundation upon which this budget is built by reining in the cost of government. This will have an impact on most Rhode Islanders, for each and every one of us encounters some service, program or benefit offered by state government. We need to adequately finance the core missions of state government, to provide social services for those who most need our help, to protect our citizens from those who choose not to abide by the laws of the state, and to promote an atmosphere that encourages the advancement of our citizens and society through education. Providing for these core missions requires tough choices to be made as we face a significant budget shortfall.

The imbalance in the fiscal year 2004 budget was projected to be approximately \$175 million. Resources were projected to be \$2.657 billion, or 1.3% less than the current year, and expenditures were projected to be \$2.832 billion, or 6.0% more than the FY 2003 revised expenditures. Approximately \$113 million of this structural problem is caused by non-recurring benefits from the securitization of future tobacco settlement payments. We need to get back on track by funding current expenditures with current revenues. The projected shortfall of \$175 million was 6.6% of the estimated available resources, and presented a significant, but not impossible, challenge for us.

We need to make the tough choices now to resolve the structural deficit caused primarily by one-time revenue schemes and excessive commitments to expenditures. We need to restore Rhode Island capital funds for the numerous projects which were deferred during FY 2002 and FY2003. We need to dedicate more resources to our roads and bridges to ensure the safe travel of our citizens.

While we face budget challenges in FY 2004, they pale in comparison to the budget woes of our neighboring states. Our revenue collections are holding in the current year. Last year our employment growth was fifth in the nation and personal income growth was

second in the nation. Economic indicators show our performance during this recession is significantly better than Rhode Island's performance during the recession of the early 90's, and better than that of most other states currently.

I believe my budget will benefit all Rhode Islanders in the long run, and that by sharing in the pain together in the short term, we can emerge as a state which is financially stable with tremendous opportunities for economic prosperity.

In building this budget, I had to make some hard choices. These choices were presented and evaluated in terms of the appropriate balance between the burden to be borne by the Rhode Island taxpayer, and the burden to be borne by those served by or benefiting from government. I will not ask Rhode Islanders to pay more income tax or sales tax. They pay enough. However, I do think it is appropriate to increase the State's share of resources generated from video lottery terminals, or VLTs, at Lincoln Park and Newport Grand. Other parties have benefited too much from this growing stream of revenue. With the installation of 1,825 new machines, these revenues will be increasing. I propose to change the splits on the VLTs in order to garner an additional \$48.1 million for the taxpayers in FY 2004. I propose accelerating the scheduled increase in the cigarette tax adopted by the General Assembly. This would increase the tax by an additional eleven cents per pack and result in an additional \$8.3 million in revenues in FY 2004.

Even with these increased resources, our budget shortfall is significant. Expenditures for public safety activities are increasing by \$14.3 million or 5.3%. The Department of Corrections has experienced record high population levels, putting tremendous pressure on the budget. I have recommended additional resources for on-site or video arraignments to improve the efficiency of the criminal justice system. We need to investigate alternatives to incarceration and review our sentencing policies. Sentencing reform needs to be the result of a thoughtful process involving many participants, and should not be done in haste. My budget provides the funds we estimate will be needed to keep prisoners locked up based on our current sentencing guidelines. The growth in costs for the Department of Corrections is one of the forces which require other state government expenditures to be constrained or reduced.

Twenty-one agencies in state government will receive fewer state dollars in FY 2004 than recommended for FY 2003, and state hiring will continue to be restrained. Due to the growth in salary and benefit costs for public servants, I am recommending that beginning in FY 2004, state employees and teachers shall contribute two percent more of their salary to the pension fund to reduce the burden on the state. This will reduce state costs by \$18.1 million, \$13.4 million of which is funded by general revenues. This proposal will also result in lower costs for local governments as their required employer contributions for teachers will be reduced by approximately \$9.5 million.

This expenditure relief will assist local governments in dealing with very modest increases in local education aid. State education aid distributed to communities is level funded. Rest assured that no community will receive less than in FY 2003. Taking into account all aid to education, the FY 2004 budget provides \$740.9 million, an increase of \$10.2 million over the FY 2003 revised recommendation. My budget provides a \$1.8

million increase for the first year of the new Metropolitan Career and Technical School in Providence, uses \$3.0 million to finance enrollment expansion at the existing Charter Schools and allocates an additional \$2.4 million to the school construction program. Local governments will benefit as employers when my recommendations to decrease their teacher retirement contributions by two percent and increase the employees. I am recommending modifications to the school construction program to contain this program, which has grown nearly six-fold since 1990 from \$6.9 million in 1990 to \$40.6 million in 2004. These recommendations will impact new projects only, and will result in an affordable assistance program for local governments. These are tough choices, but are necessary to fulfill my commitment to fund only what we can afford.

General state aid to cities and towns is increasing \$8 million in FY 2004. I am recommending that the PILOT program, which reimburses communities for certain tax-exempt property shall be fully funded at 27%, an increase of \$3.6 million from this year. I also recognize the need of some municipalities to reinvigorate their eroding property tax base to generate additional resources for critical educational and municipal services. I am proposing legislation in this budget which will permit cities and towns to begin taxing private non-profit higher educational facilities in their cities and towns. Our communities benefit from the presence of these private higher education facilities, but we need to help our municipalities develop a fair taxing policy for them. I am recommending that the automatic cost-of-living adjustment for the motor vehicle excise tax reimbursement program be eliminated, saving the State an estimated \$3.5 million in FY 2004. I am recommending level funding for general revenue sharing in FY 2004, thereby saving a scheduled increase of \$3.1 million. Further, I propose that the formula for general revenue sharing be set at 2.6% of the second prior year tax revenues in FY 2005 and thereafter.

The cost of higher education has made a college education unattainable for many young Rhode Islanders. We need to have a long-term perspective as the trustees of our children's future. If we make minimal investments in our future, we can expect lackluster returns. My budget includes an additional \$5.0 million to double the State's investment in need-based grants provided by the Higher Education Assistance Authority. Our youth are Rhode Island's future, and this investment is critical to providing opportunity to the future leaders in our State.

We also need to make strategic investments to promote job growth in Rhode Island. My budget includes \$5.0 million of funds for the Slater Centers to enhance the development of home-grown businesses. I have included \$300,000 seed money to assist in the development of a privately financed biotech training facility, which will prepare Rhode Islanders for employment in the growing bioscience industry. I am recommending \$500,000 over two years for the planning of a \$50 million Center for Biotechnology and Molecular Biosciences at the University of Rhode Island. My budget includes \$1.4 million for adult literacy programs which are critical in preparing our citizens for new or better jobs.

However, to address the growing cost of our public assistance programs, I am proposing \$2.1 million of efficiencies in the bureaucracy by ensuring that eligibility for entitlement programs is recertified. I am proposing no reductions in eligibility requirements or benefit payments to individuals in our public assistance programs. Rite Care will continue to provide much needed medical benefits for needy RI families. I am committed to providing \$5.0 million to leverage other funds to generate more affordable housing for Rhode Islanders. I am recommending that provider reimbursements remain flat. Child care rates which were scheduled to increase by \$2.9 million will remain flat under my budget proposal. Payments to hospitals for uncompensated care will be reduced by \$5.9 million. I am hopeful that the federal government will soon approve a medicaid waiver which will provide pharmaceutical benefits for a wider range of drugs for our elderly and needy populations. This waiver will provide benefits to more Rhode Islanders and is designed to be cost neutral.

I have worked hard to develop a budget proposal which resolves the structural problems created by the use of one-time revenues to finance ongoing expenditures. I will reduce our reliance on transfers from other entities like the Rhode Island Resource Recovery Corporation, which was required to transfer \$6.0 million of their funds to the General Fund this year. My administration will work with the Resource Recovery Corporation to establish or enhance programs that will help our cities and towns reduce the cost of waste disposal.

There are many issues which will not be resolved in the FY 2004 budget. For instance, escalating costs for state employee medical benefits will require the cooperation of public employees through collective bargaining. Costs of retiree medical benefits continue to rise and will be the subject of extensive debate as new accounting rules will require governmental entities to disclose and finance on an actuarial basis the unfunded liability for these benefits. The 2004 budget does not address all the issues which could threaten the State's future financial position, but it is the first step in resolving our budget's structural problems.

The budget I propose is one of choices. I encourage debate and discussion on the choices that I have presented. I am optimistic that these recommendations will strategically position the State to be economically competitive and financially strong as we face the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald L. Carcieri", with a long horizontal flourish extending to the right.

Donald L. Carcieri
Governor of the State of Rhode Island and Providence Plantations