BUDGET ANALYSIS

June 2012

# Progress Report

## *2013 Budget Does Not Improve Failing Report Card*

When the RI Center for Freedom & Prosperity released its "Report Card on Rhode Island 'Competitiveness,'" in February, Rhode Islanders had reason to believe that the General Assembly would do *something* to address the state's most pressing issue: jobs. The last time the unemployment rate was below 11% was in June 2009.

Since February, almost two thousand more Rhode Islanders are out of work, and even more than that gave up and left the labor force. Perhaps the worst news, though, is that the legislature and its enacted budget did nothing to improve the economic climate of the state and arguably made things worse.

## The Report Card

The "Report Card on Competitiveness" ranked Rhode Island nationally and regionally in ten categories: tax burden, business climate, spending & debt, employment & income, K-12 education, energy, infrastructure, public sector, health care, and living & retiring in RI. For half of them, Rhode Island received Fs, meaning that the state ranks very poorly in New England and in the United States.

In no category was Rhode Island's grade higher than D+, which the state achieved only in K-12 education.

## Areas Outside the Economy

Because the report card addresses a variety of aspects of life in Rhode Island, it would be possible for the General Assembly to make improvements in one category at the expense of another. A worsening score in the energy category, for example, might correspond with improvements in overall business climate. With its scores so consistently low, however, Rhode Island has no areas of strength to compromise for the sake of improving weaknesses.

The two notable areas in which lawmakers would likely assert positive action, during this legislative session, are education and infrastructure.

With respect to education, the budget made three substantial changes that legislative leaders present as improvements:

- Combining the Board of Regents for elementary and secondary education with the Board of Governors for higher education and creating a "chancellor" position overseeing all public education in the state.
- Accelerating the incremental implementation of the state's new funding formula.
- Creating an Information Technology Investment Fund to consolidate IT improvements and provide a dedicated funding stream from land sales (excluding land freed up along I-195).

Despite grand assertions made by House Finance Chairman Helio Melo (D, East Providence) during the budget debate, however, bureaucratic restructuring is not obviously a route toward improved results. Indeed, if a combined board of education creates the opportunity to stifle the forces of reform, it could be a step backwards for the state.

As for the funding formula, while it may represent a more equitable means of allocating resources where they are most needed, the change represents little more than a reshuffling of dollars. Moreover, money is arguably not the critical area in need of reconsideration.

Even the one provision that looks likely to provide true advancement of the state's education system, investment in IT, is not clearly a net improvement. The IT Investment Fund will receive land-sale proceeds, but the budget gets the ball rolling with an authorization for $45.3 million in new borrowing.

Debt plagues the state's infrastructure advancements, as well. Between T.F. Green Airport and central landfill improvements, the General Assembly authorized an additional $214 million in debt. That is in addition to $209 million of bond authorizations that will appear on the ballot in November.

Rhode Island is already 47th in the nation and fifth (of six) in New England for state and local debt per capita, according to the report card. During the House budget debate, Melo informed the representatives that state government's total debt currently stands at $1.7 billion, requiring annual debt service of $299 million.

This could be the year that the state breaks $2 billion in total direct debt owed. (Additional obligations, such as pensions and other post-employment benefits [OPEB] are exponentially larger.)

## Asphyxiating the Private Sector

Perhaps the most notable example of infrastructure improvement at the expense of other areas of competitive weakness is the authorization of tolls on the Sakonnet River and Jamestown Verrazano Bridges.

It is true that Rhode Island's bridges are the most deficient in the nation, but tolls are not a clear answer for two reasons. First, Rhode Island is also worst in the nation for highway cost effectiveness, meaning that a focus on funding will contribute to, rather than alleviate, the problem. Second, the tolls will place an exorbitant burden on a region that's already suffering.

An analysis by *the Ocean State Current* found that the island and lower bay communities dominated the lists of population and employment loss, over the last decade. Juxtaposing those trends with median income suggests that the people who've been struggling the most are those least able to afford hundreds or thousands of dollars in new transportation expenses.

The imposition of regional tolls is not the only area in which the General Assembly constricted Rhode Island's private sector. Under the guise of cleaning up licensing laws, the budget added an estimated $1.8 million to the direct cost of doing business in the state. Whether it's $25 license renewal fees for hairdressers and manicurists, a $550 fee for in-state wholesalers of frozen desserts, or a $1,090 re-examination fee for physicians, the burden falls most heavily on individuals and small-business owners who are simply trying to participate in the Rhode Island economy.

The same is true of the $11 million in new sales taxes being levied against taxicab drivers, pet groomers, and high-end clothiers, among others. Last year, hairdressers across the state successfully lobbied to avoid taxes on the services that they provide. This legislative session, the restaurants successfully quashed Governor Lincoln Chafee's move to impose a dramatic increase of the meals tax.

It appears that the state government is intent on probing the various segments of Rhode Island's economy to find areas of lobbying weakness. Industries able to mount strong public defenses will be spared while others won't. The first test is taxes; the second is fees.

## Government Self-Preservation

It is true that the General Assembly's budget for fiscal year 2013 (FY13) represents a slight decrease from its revised budget for FY12 — down to $8.10 billion from $8.12 billion. However, the budget that the General Assembly enacted one year ago was supposed to hold FY12 spending at $7.70 billion. In FY11, the final number was $7.72 billion.

In other words, new revenue and debt is translating directly into government expenditures, with a two-year jump of approximately $400 million.

The growth in full-time equivalent (FTE) employees that the budget authorizes is another indication. During the second term of Governor Donald Carcieri, the number of authorized FTEs declined 2,077, from 16,417 in 2006 to 14,341 in 2010 (numbers differ due to rounding). Consequently, the ratio of public workers to private-sector workers brought Rhode Island its only grade above a C on the Center's report card: an A-.

With the FY13 budget, the total FTEs authorized has returned to 15,026, making up approximately one-third of the reduction. At the same time, the state's economy has continued to erode, so the number of FTEs per 100 employed Rhode Islanders has returned to its pre-reduction level. There is a clear disconnect between the public and private sectors.

A specific example may be found in seemingly innocuous government restructuring. In order to process the millions of dollars in federal stimulus money earmarked for Rhode Island, Governor Carcieri created an Office of Economic Recovery and Reinvestment (OERR), currently with a staff of seven. For FY13, OERR will be transformed into the permanent, state-funded Office of Management and Budget, with an initial staff of eleven.

Yet another example of government's preservation of its own interests at the expense of the overall economy can be found in article 22, which allocated $2.6 million as a partial bailout of the locally administered Central Falls pension plan. During the restructuring of the city's finances through the receivership and bankruptcy processes, police and fire retirees experienced benefit reductions up to 55%. With state funds, the maximum reduction will now be 25% through FY16, for most retirees.

In effect, a year and a half of revenue from increased professional licensing fees are going to mitigate the harm that Central Falls' mismanagement did to its personnel. Alternately, the Central Falls bailout could have been funded through the elimination of the OERR now that federal stimulus dollars are drying up.

## Competitiveness Is About Priorities and Decisions

On the night it was unveiled, House Minority Leader Brian Newberry (R, Burillville, North Smithfield) referred to the General Assembly's revision as a "status quo budget." But the status quo for the state of Rhode Island is characterized by economic decline, and continuing on that path is a choice.

Between the February release of the Center's report card and the final passage of the budget, the General Assembly chose to bolster government at the expense of private citizens struggling to build a life in one of the harshest economic environments in the United States. Between now and the legislators' return to their chambers, the next round of choices will be voters'.