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Governor

## **Office of the Governor**

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### **Governor Carcieri Address to the Rhode Island Public**

*January 7, 2009*

Good evening, my fellow Rhode Islanders.

Tonight, I've taken the unprecedented step of speaking to you directly, because we are facing extraordinary circumstances.

The New Year has arrived in the midst of great uncertainty and heightened anxiety. A growing number of you are dealing with unemployment. Some of you are fighting foreclosures on your homes. Still, others are worried about losing your job and paying your bills.

Most of my children and family live here in Rhode Island and they have watched their homes drop in value, and like you are also worried about their jobs.

My goal tonight is for you to understand the magnitude of the problem we face... assure you we are working on every possible solution... and share with you the deficit reduction plan I submitted to the General Assembly earlier today.

While there is a great deal of fear and uncertainty, I am encouraged that there is a renewed sense of cooperation. These are not Democrat problems or Republican problems – these are Rhode Island problems - and we must work together on your behalf and on behalf of the state we love.

Our state faces difficult choices, as we project a \$350 million dollar deficit for the remainder of this year. That's over 10% of our entire budget!

But, we are not alone however - 42 other states are dealing with very large deficits. Just last week, our neighbor, Massachusetts announced the need to fill yet another \$1 billion in revenue shortfalls. That's on top of \$1.4 billion they anticipated just two months ago.

While this doesn't lessen the pain if you are out of work and struggling, it does mean that Rhode Island is in the midst of a national and global economic crisis.

Many of you are asking two questions: Why did Rhode Island get hit so hard; and what are we going to do to solve the problem?

Let me start with the first. Rhode Island began to feel this downturn well over a year ago. Our housing prices have declined steadily, resulting in high levels of foreclosure and a virtual halt of new construction activity.

Just yesterday, it was reported that Rhode Island home values have dropped 20 percent in the past year alone. Concurrently, our unemployment level has been rising slowly every month.

We have been ahead of most of the nation, because over the previous four years, we experienced one of the greatest housing booms in the country. It's hard to believe that just two years ago, we led the nation in the increase of home prices.

At the time, I'm sure many of you were like me, and wondered how your home could be worth so much money. Well, the bubble burst, and its effects have been far-reaching.

At the same time, our situation was made worse by decades of high taxes and overspending, which made the State economically weak and vulnerable.

Businesses that employ people and create prosperity are attracted to states that have lower taxes, and are more business-friendly. Our tax policies have driven successful business people, recent college graduates and retirees out of state. That's not good policy!

When I first came into office, Rhode Island's total tax burden – both state and local - was the 4<sup>th</sup> highest in the nation. After a lot of hard work, last year we dropped to 10<sup>th</sup> - one of the best improvements in the country.

But, by comparison, Massachusetts is at 23<sup>rd</sup>, so we still have a long way to go!

Some have said that the state's economy has not grown fast enough to create the new jobs we so desperately need. I would agree with that, but it reminds me of the story of the restaurant owner who's losing customers! His prices are high, the food's mediocre, and the service is poor ----but, he thinks the solution is more customers and never fixes the problems. If we are to turn this state around, we HAVE to fix our underlying problems.

Recently, we launched a major Small Business Stimulus package. It makes more than \$350 million dollars in new loans available to small businesses to keep Rhode Islanders employed. Small businesses account for over 80% of the total jobs in our state, and they have been severely hurt by this recession.

In addition, we are focusing heavily on workforce development, job training, and streamlining the permitting and regulatory process.

In a few weeks, my Tax Policy Group will submit its recommendations to make our state more economically competitive. We need to lower our tax burden, especially on business.

Unlike the Federal government, we can't print money or operate with a deficit. We have no choice but to close the \$350 million dollar deficit and balance our budget by the end of this fiscal year, June 30<sup>th</sup>.

We have serious challenges, but they could have been worse. We've been working hard to streamline state government, and bring our employee benefit programs in line with what most taxpayers have today.

In the past 18 months, we have reduced the state workforce by nearly 1,800 employees. Our current employee count is at all time low since we began keeping records. This amounts to \$140 million in savings every year.

We negotiated new union contracts, which included 20%-25% health insurance co-shares, and co-pays more in line with industry norms.

The new agreements provided no wage increase in the current year, and include major reforms to retiree health care.

To their credit, in a spirit of cooperation, our public employee unions agreed to these changes.

These new agreements, coupled with the reduced workforce, will save the taxpayers \$90M this year alone, and almost \$200 million per year going forward.

Despite all we accomplished last year, because of the worsening economy, we are still facing a \$350 million dollar deficit.

When things are going well, prosperity has a way of hiding bad policy and practices. It's when times get tough that bad policies and practices become more glaring, and harder to ignore.

I anticipate that things are likely to get worse before they get better. A large portion of our deficit is due to declining tax revenues. People and businesses are spending less, and that means fewer taxes are being collected to support government programs, pay employee salaries and benefits, and provide aid to our cities and towns.

The plan I submitted to the General Assembly today eliminates this deficit, and does so without raising broad-based sales or income taxes.

But, it calls for dramatic changes in three areas of spending: public employee pensions, local aid, and the delivery of social services.

Pension reform is not only necessary – it is critical to our long term financial survival! One of our highest personnel costs are for pensions for state and municipal employees and public school teachers. By comparison to the private sector, those pensions are very generous and no longer sustainable.

The State's current unfunded pension liability alone is a staggering \$7 billion dollars. State and municipal pensions together cost you, the taxpayer, nearly \$500 million each year.

My deficit reduction plan calls for the following changes to public employee pensions:

First, the establishment of a minimum retirement age of 59 years old for all existing state and municipal employees including teachers.

Currently, there is no minimum retirement age for most of these individuals. Many of you at home have been working long past 59 years, and still don't receive a pension.

Allowing employees to retire at relatively young age is a luxury we can no longer afford. Today, people are much healthier and are living longer, more productive lives. We have no choice but to change the minimum retirement age to 59 and bring our state pension plans more in line with those in the private sector.

Second; continuing to add Cost of Living Adjustments to an already generous pension is too expensive, and unsustainable. Currently, most of these pension plans provide a guaranteed 3% per year increase after 3 years of retirement. In addition, most retirees are eligible to collect social security.

We can no longer afford to fund cost-of-living adjustments, and I am recommending we eliminate the COLA provision in all State, Municipal and Teacher Pensions going forward.

And finally, the time has come to offer a “Defined Contribution” retirement plan, similar to a 401K, for all new public employees. Such plans have become commonplace in the private sector over the last twenty years. It’s time government caught up!

None of these changes, however, will apply to those already retired. And, even with these changes, state and municipal employees and teachers will still enjoy an extremely competitive retirement package that rivals the best in the private sector.

For example, at age 59, and after 35 years of service, they will still receive a pension of 75% - 80% of their salary. In addition, they will receive health insurance with a 20% co-pay. Many of you watching tonight don’t have retiree healthcare provided by your former employer.

We estimate the savings from these pension reforms at both the state and municipal level to approximate \$100M per year.

The second major component of my deficit reduction plan is local aid. What some of you may not know is that one-third of the state’s entire budget - some \$1.1 billion - is money the state provides to cities and towns, with \$900M of that to support our public schools.

Various studies show that Rhode Island’s property tax burden is the 7<sup>th</sup> highest in the country. That’s because of the cost of municipal services and public education. Our

school spending per pupil is the 8<sup>th</sup> highest in the nation; spending for fire service is #1 in the nation; and spending for law enforcement is #13.

Let me repeat this... Our spending per pupil is the 8<sup>th</sup> highest; our spending per capita for fire service is highest in the nation; and our spending for law enforcement is #13 in the nation. Is it any wonder that our property tax burden is so high? The state can no longer afford to support this level of expenditure at the municipal level.

My supplemental budget calls for a 6% reduction in local aid - some \$66M for the remainder of this fiscal year. I know this will be difficult on our cities and towns. However, to help offset this reduction in aid - I have asked the General Assembly to enact several changes that will lessen the burden and help our municipalities reduce spending:

One, I am recommending there be a single state-wide health-care contract that would cover all state and municipal employees, as well as teachers. Such a plan would save the cities and towns over \$20M per year and provide the state with added leverage in negotiating future contracts with insurance companies.

Two, I am recommending the elimination of numerous state mandates, such as: minimum staffing levels on public safety vehicles and the requirement for school bus monitors. At the same time, I am recommending state-wide transportation and food

service contracts. In total, these actions will save our cities and towns another \$30-\$40 million.

Third, as the world continues to change, many things in Rhode Island have remained constant. Rhode Island has 39 cities and towns and 36 school districts. While we must preserve the great history and independence of each community, we must begin to better share our resources.

Some states have counties, or cities, with greater populations than our entire state. Many states already regionalize public safety, education and other municipal services at a county level. As an example, last year, Maine reduced its number of school districts from 290 to 80.

In this supplemental budget, I've made a specific proposal to the General Assembly to create a new, high-level Government Reform Commission to study the feasibility of consolidations and regionalization of services in our cities and towns – including public education.

This new commission, unlike others, will have special powers and the authority to make detailed recommendations to the General Assembly for a mandatory vote during the next legislative session. Following that, if necessary, it will be brought to the general public as a referendum during the next election.

The time has come to get serious and decide once and for all if we as a people have the will to come together, break down boundaries, and share our resources. (pause)

The last part of our plan concerns the delivery of our Medicaid-supported social services. These represent the State's second largest expenditure after local aid.

Recently, the Federal Government and the State of Rhode Island reached an historic agreement called the Global Consumer Choice Compact. It will give our state unprecedented flexibility in the design of critical services for our most vulnerable citizens.

Today, almost 190,000 of our citizens are dependent on some form of Medicaid support. It's the core of our social services safety net.

The purpose of this new agreement is to strengthen that safety net by providing more options and choices for beneficiaries – like our seniors, kids on RiteCare and the developmentally disabled.

At the same time it will bring in approximately \$22 million per year in new Federal dollars to cover services currently being paid entirely by the state. This will pay for programs that might otherwise have been eliminated, such as transportation for seniors, substance abuse treatments, and mental health programs.

Unfortunately, some are under the misconception that we are going to remove people from nursing homes. Let me be very clear; we will not remove anyone from a nursing home unless they choose to be moved.

This agreement will give our seniors more choices and support to stay in their homes and communities longer. Many families, including my own, have agonized over the decision to place a loved one into a nursing home.

Now, with the flexibility of the new waiver, families will have more choices and the state will have the ability to deploy the right Medicaid resources to the right level of care.

The General Assembly still needs to okay this historic agreement, and I urge everyone to support it. It holds great promise for protecting and strengthening our social service programs for Rhode Islanders in need. It will cut through Federal government red tape and offer individuals and families more choices – much faster!

Finally, I know there are some out there who believe we need to increase taxes to solve this budget problem. I am firmly convinced that raising broad-based sales or income taxes would be disastrous for our state's future—it will merely prolong the economic decline, hasten job losses, and hurt more of our families.

We have been told that the new Obama administration will move quickly on an economic stimulus package that could mean upwards of \$125 million in immediate relief to Rhode

Island. While nothing is certain at this point, I believe that our state will receive some Federal funds to help us through this crisis.

How much? When? And will there be restrictions on how we can spend it? These are questions that remain unanswered at this time.

Should we receive Federal stimulus funds, we must not look backwards and simply use all of this money to avoid the tough decisions.

We must plan on using most of these funds to lower taxes for individuals and businesses, create jobs and stimulate growth. To do otherwise would be irresponsible.

However, even with all of the actions I have outlined here tonight, I have little choice but to include \$30 million in Federal stimulus dollars into this year's budget.

I am very concerned that the economy is continuing to slide. While this plan closes the gap as of today, we could be facing more shortfalls by the end of this fiscal year. We must save any additional Federal money to guard against worsening conditions.

I have also considered the possibility of closing all non-essential state offices for certain days. At present, I have chosen not to – but it may become necessary.

The twists and turns of history have challenged Rhode Islanders, and they have always responded.

From harnessing the rivers powering the Industrial Revolution, to tapping the wealth of the sea, to weaving the cloth of the nation, to forging the tools of industry ... in every era, in every generation, Rhode Islanders have matched their ingenuity to a changing world and done whatever was necessary to prosper.

History is testing us again. Do not mistake our present economic difficulties for a minor setback or a passing inconvenience. A sea of change is washing over us, a period of profound transformation. The decisions that we make and the actions we take will determine our direction well into this century.

How we decide to cure this deficit will have long lasting consequences for Rhode Island's future. We can avoid the tough decisions and drift into more troubled waters, or we can set a new course that leads to sustainable spending and a brighter, more prosperous future for us all.

By reforming our public employee pension plans, modifying how we provide aid to our cities and towns, and improving how we deliver our social service programs, we will resolve our short term budget problem and set the stage for a better Rhode Island.

The decisions I have outlined here tonight balance our budget without raising broad-based taxes... without removing the safety net from anyone in need... and without putting anyone out of a job.

Crafting these solutions has required not only calculations but care... not only cleverness but wisdom... not only foresight but vision.

Accomplishing this will not be easy. It will require a great deal of cooperation from the General Assembly, our cities and towns, organized labor, and all our employees. It will require sacrifices for the sake of our children and grandchildren.

But, most of all, it will require the support, patience and understanding of you, our citizens. We have a great state that we all love – but we are facing trying times.

May God grant us the resolve, the spirit of cooperation, and the compassion we need to complete this immediate task and to prepare us for the future.

Good night.