

Mayor David N. Cicilline's
Budget Address
Fiscal Year 2008

May 1, 2007

Honorable Members of the Providence City Council,
Honorable Members of the General Assembly,
Members of my administration,
Citizens of Providence,

I am proud to join you in these chambers for my first budget address of the new term.

Those of you who were with me as we began the last term remember a very different time. It was a time of tremendous anxiety for our tax payers, but we came together, we developed a plan, and we stuck with it. The result has been nothing less than a complete transformation.

Our skyline has certainly changed some in the last four years, but that is nothing compared to our bottom line. From a financial perspective, Providence is a whole new city.

The new Providence is a city that holds the cost of government in check. The average increase in the cost of our city government since 2004 is less than that of the federal government, the state government, and less than the growth in the cost of eggs, apples and consumer goods as a whole, the consumer price index.

The new Providence is a city that is financially strong. We have held a disciplined and steady course, and we are now half the way toward eliminating the structural gap we inherited. We have fully funded our cash reserves and have earned A's from all three Wall Street rating agencies.

The new Providence is a city with a growing tax base. Not only have the properties in the city become much more valuable, but properties from the current wave of development are beginning to move onto the tax rolls. \$75 million dollars in new taxable property will be added this year alone.

The new Providence is a city with more diversified revenue sources, with new mechanisms for capturing a fair share from our visitors and our tax-exempt institutions -- leaning less and less on the property tax every year.

The new Providence is a city that innovates, delivering more and more value for every dollar that comes in. Using new models, new technology, new partnerships -- and, most of all, a new attitude -- we have vastly improved old services and created new ones with smart, leveraged investments.

The most important result of this is a government that works better and better – a government that can inspire faith and confidence again – a government that can be a force for positive change.

But there is another important result of this work. Along with all the indicators going up, there is one that's going down – and that is the property tax rate.

This year, the tax rate on every property in the city will go down, and it will go down significantly.

We should be proud of the fact that we in Providence city government do what the state and federal governments do not. When a resident gets a raise at work, income tax rates don't go down to offset the increase in income. But when home values went up three years ago, that is exactly what we did. We lowered the tax rate and that is exactly what will happen again this year. In addition, this budget will increase the veteran and senior exemptions.

At this stage in the state budget process we never know what revenues will be sent back to Providence or to what degree the state will allow us to capture new forms of revenue.

But because we are projecting an increase in the cost of government at 2.57% – less than the average increase in the consumer price index – and because the value of Providence real estate continues to grow at a rate that outpaces the nation – we *will* cut the tax rate. It is only a question of how much.

But let me make something very clear. Despite all of this hard work, Providence and every city and town across the state is subject to a statewide tax system that is out of balance. Even though rates will go down, and even though home values will go up, and even though some residents will actually have a lower tax bill than last year, property taxes are still too high.

The Rhode Island tax system relies far too heavily on the local property tax. Mayors say it. RIPEC says it. And council people and town managers across Rhode Island say it.

I guarantee you that in every budget conversation in every city and town this is *the* central issue as the cost of education rises and the state pays a lower and lower share of it.

It is a system that can't be sustained if Rhode Island is to grow and compete in a global economy. Just as we protect the interests of our residents through strict management of

city finances, we owe it to them to advocate for a more balanced statewide tax system. It affects them just the same.

Still the good news remains that despite a broader environment that seems to be trending in the opposite direction, Providence is growing stronger and healthier.

And before presenting some of the highlights of the Fiscal Year 2008 budget, I'd like to turn your attention to the screens in front of you for a slightly deeper look at some of the points I've just outlined about the condition of our finances.

The graph before you shows a comparison of the increase in the cost of city government compared to that of state government, federal government, and the New England urban consumer price index, which is the aggregate cost of consumer goods.

As we all know, it is a fact of life that the cost of living goes up over time. Things get more expensive, but we are holding those costs at a manageable level.

The structural gap is an indication of projected financial health. A growing structural deficit means that, based on spending trends, you predict growing shortfalls every year. A declining structural deficit means the opposite – that projected revenue will equal or surpass projected spending.

A disciplined plan to eliminate the shortfall has been at the core of our long term financial strategy. We are reining in what were once runaway costs in health care, pensions, and debt service. I'm happy to report that we are right on track. With this budget, we are half way toward completely erasing the city's structural gap.

In addition, we are taking a preemptive step to protect against structural shortfalls down the line with an allocation set aside to offset future retiree healthcare costs.

Another critical element of our long-term financial strategy has been to make the city less reliant on the property tax. We do this to place less of a burden on property owners, and because a more diversified revenue base means the city is better able to weather the ups and downs of any particular source.

As you can see, we have been very effective in creating new avenues for capturing fair revenue from other uses of city resources outside of the property tax.

As budget time takes hold, we can get trapped into the idea that the city budget and city government are the same thing – that government is just a machine for spending tax

dollars. Size and cost are important measurements. But even more important is government's effectiveness -- how much value a tax payer is getting out of each dollar.

Value is something that can't be measured by a fiscal year budget alone.

Take the Providence After School Alliance, for instance. We now have more than a thousand middle school children with a safe, fun and educational place to go after school. But you barely see that in the budget.

The city pays a little. The city coordinates a little. But at least 10 dollars are leveraged for every one we invest thanks to the Wallace Foundation, Bank of America and other tremendous partners.

You also won't find in the budget what gets accomplished by the partnerships forged and fostered by our department of Arts, Culture & Tourism. That small appropriation mixed with effective people and tremendous working relationships with our great artists become Sound Session, First Works, Celebrate Providence, and so much more.

Nor will you find the value of good policy and the coordination involved in our efforts to increase affordable housing. The system of government, non-profit community development corporations, banks and others is complicated. But we've seen what happens when it's being run well. Last year alone, we set ambitious goals for housing production and surpassed those goals in several categories by more than double.

One final example. You won't find a line item in the budget for the lowest crime rate in 30 years. You'll see roughly the same number of salaries and vehicles and the same costs for uniforms as you always have, but you won't see how much more we're all getting out of those dollars.

Members of the City Council, you and I should indeed be proud of these accomplishments. We should be proud that our focus on innovation and effectiveness has yielded the benefits to residents that it has.

But, as I mentioned earlier, while we have control over our own operations, and we have control over our own tax rate, we do not have control over the larger system in which we operate.

We have a longstanding property tax crisis in Rhode Island. And what's worse, it is not accidental. It is intentional. It is state policy. It's been the policy of Rhode Island governors for 12 years.

Behind it is an ideology that has taken hold of our good senses both here in Rhode Island and across the nation. It says that government itself is somehow fundamentally bad – that it's impossible to make it better so you'd should just make it smaller.

The policy that has been implemented here in Rhode Island might best be described as "freeze and squeeze." Freeze income tax, sales tax, corporate tax and fees and then put the squeeze on cities and towns with a reduced share of education costs and a cap on the local tax levy so that they will lower their property taxes.

It may sound reasonable enough, but there are two fatal problems with it. First, it places a higher proportional burden on working families. And second, it ignores the principle of return on investment.

The result is the opposite of its intended effect. It grows the budget without growing the economy.

The worst consequence of freeze and squeeze is that the property tax, as opposed to income taxes, generally hit working families hardest. The property tax is a flat tax. We all pay the same percentage of our home values whether we are struggling or wealthy.

For example, a senior couple with a retirement income of 35,000 dollars a year who own a home valued at \$250,000 pay about \$300 a month -- that's over 10% of their income in property taxes.

On the other hand, a wealthy working couple making \$200,000 a year and who own a \$500,000 home pay about \$700 a month, which is just 4% of their income.

The same is true for businesses. Think of a local bakery with a law office upstairs. They may have very different income levels but are assessed the same commercial property tax.

But if this policy's biggest casualty is working families, the second biggest casualty is its effect on investment spending.

In its most recent report, RIPEC gives a name to the budgeting philosophy that it recommends for the state. It is the same philosophy that has guided us in Providence and that is reflected in this budget. It is called "investment-based budgeting."

It means making critical, strategic investments that pay back over time and insure against annual shortfalls.

By design, freeze and squeeze cuts off those resources, but we end up paying multiples of that cost in the long term.

The slide before you shows something called the pavement deterioration curve. Those in the public infrastructure business are well schooled in this idea, but it's something that many in government need a lesson on.

It shows that for every dollar you don't invest in maintenance when pavement drops from excellent to fair condition, you will pay 8 to 10 times that much just a few years later when it drops to very poor condition.

Ladies and gentlemen, what's true for pavement is also true for police cars and parks equipment and rec centers. And yes, it is also true for school buildings. That is a cost we know all too well.

This same dynamic also applies to economic development. When we miss an opportunity for a smart, strategic investment now, we miss an opportunity for economic growth later. It's like a technology company cutting out its research and development budget to make a little more profit. It looks good in the annual report this year, but how are they going to come up with new products to keep up with the competition in future years?

The most egregious example of this problem as a result of our state economic policy is with education funding. Because of freeze and squeeze and because Rhode Island has been unable to develop a funding formula, we have been in a perpetual school funding crisis.

As you know, I have tried to ring the alarm bell for several years now that Rhode Island critically under-funds its schools, despite the increased effort of Providence and other cities and towns.

Other mayors and I led the push to find some objective measure to get to the bottom of that claim. Now, thanks to that effort, you no longer have to take my word for it.

We now have two expert studies, one from the General Assembly and another from a consortium assembled by RIPEC, that show how seriously we've been under-funding our schools.

Budgets are always hard, and these investments would have required some sacrifice, but think of the different competitive and financial shape our state would be in today if we had begun making these kinds of investments ten years ago. We would have the best educated workforce in the country, and in all likelihood, we'd already be seeing our statewide tax base expand to absorb the cost of this investment.

One thing is for certain. If the proposals from either of these two studies were enacted this year, and the state paid its fair share, property tax payers in Providence and all across the state would be receiving big tax rebates.

Members of the City Council, the policy that we have successfully followed in Providence takes a very different approach, and we are not about to abandon it.

The budget before you tonight is a practical, investment-based budget. It is a budget that is part of a long-term, strategic approach. And it is a budget that seeks to carry out the duties of city government as effectively as possible.

That is why, even though we have a statewide system that is out of balance and even though the budget environment is again difficult this year, I will not pass the buck to future generations by abandoning critical investments.

Clearly, it would be better if these investments were made under a more balanced statewide tax system, but the cost of not making them is unacceptable under any system.

Members of the City Council, when we gathered together for our inaugural, I pledged to you and to every resident and business that I would lead a citywide commitment to our youth. I intend to keep that commitment.

We are seeing progress with improvement in NECAP scores that outpace the state. We have the great school comeback story of our time with Hope High School, which just received full accreditation and has literally written the new manual on Rhode Island high school reform.

This budget reflects this city's strong endorsement of *Realizing the Dream* and the direction that Dr. Evans is taking the Providence Schools. It also reflects our strong

endorsement of Dr. Evans' plan to fully restore arts and music programs into the school curriculum.

I also remain resolved as ever that we must set as aggressive a pace as possible for school reconstruction. This is reflected in the budget as an increase in debt service.

Within weeks, we will begin a discussion about schools that will be in the first phase of this historic effort. I acknowledge that this will not come without sacrifice at the local and state levels, but it is an absolutely critical piece of the local, state, and national strategy to build a competitive economy. We also certainly recognize the importance of assuring our partners in the General Assembly that each dollar will be spent as wisely as possible.

This work could not be more urgent than it is now. Now would be the worst time for the state to take a step back from its commitment to school construction. Every child has a right to go to school in a 21st-century learning environment.

We will continue to invest robustly in our Police Department. Not only has this department achieved the lowest crime rate in 30 years, but it is doing so in a time when federal funding is drying up and the national crime rate is shooting up. This budget includes an academy for a new class of recruits. It is vital that they have the resources they need to continue their vigilance.

To date, we have raised \$7 million dollars in foundation and corporate funds to create a citywide after school program in just three years. In order to attract more investment to build and sustain PASA for the long term, the city must itself begin to make significant investments in after school. This year the city will make its largest commitment ever with \$250,000 in this year's budget.

Every few weeks now, we host delegations of visitors who are studying PASA as a national model for how to run after-school as a citywide partnership. But more importantly, there are the thousand families and counting who can finish their workdays without anxiety. Their children are playing tennis, exploring the Bay, and learning about forensic science under the supervision of caring adults.

Members of the City Council, as I mentioned before, the strides that we have made to restore Providence to financial health would not have been possible without fundamentally rethinking our practices. Without focusing on value, innovation, and efficiency, we would be in the same position we were in at the beginning of the last term. That is our duty to tax payers. For the same reasons, we have asked our partners to do likewise.

Recognizing the difficult financial facts, many of our partners have worked closely with the city to forge new relationships that ask less of Providence tax payers while capturing value from their relationship with the city in other ways. The Roger Williams Park Zoo and the Providence Plan are great examples of organizations that restructured their relationships with the city and are thriving.

We have not yet achieved this kind of success with the Providence Public Library. As you know, the PPL is a private non-profit institution created by philanthropists for the benefit of the city and state. The city, on behalf of the taxpayers, has become the PPL's biggest donor over the course of a century. The state is the second largest donor. Unfortunately, PPL's fundraising efforts have declined and fallen fall short of their full potential.

While a public-private partnership has been a force for energetic revitalization of many institutions in recent years, it has not had that effect with the Library. That is regrettable because we need a thriving public-private partnership more than ever. Representatives from the city and the Library have been working hard to revive it for the 21st century and we remain hopeful.

In the spirit of doing our part to build a 21st century relationship, the City will increase by 10% our support of the Providence Public Library to 3.3 million dollars. The City and library are also discussing possibilities for in-kind contributions like co-location and fuel purchasing.

This budget will continue my administration's policy of making important investments into neighborhood quality of life.

We will continue to repair and reconstruct our roads on a systematic basis. The order of work is dictated not by politics but by a formula that accounts for road condition and number of travelers.

We will continue to invest in a graffiti squad that has already made a major impact across the city, with 814,000 square feet of graffiti that's been abated just since last May. Also, stepped up law enforcement and a reward system is getting results.

We will continue to plant street trees in record numbers – about eleven-hundred last year alone. They beautify our city, reduce pollution and are worth every penny.

One final investment I want to highlight is not just for the future of Providence, but for the future of our world. It will benefit our children, grandchildren, and every generation thereafter.

With this budget, residents of Providence will be more accountable to our fellow human beings for our carbon emissions. It includes the purchase of renewable energy credits to offset greenhouse gas production caused by city government.

But this is only the beginning. Providence has joined the preeminent international organization of local governments for sustainability. We are mapping out a plan to meet the city's ambitious goals to reduce harmful pollutants, starting with a full inventory of our greenhouse gas emissions.

We can no longer wait for action at the federal level. Local governments will have to take the lead, and we don't have a day to lose.

As I pointed out earlier, it has been critical to our fiscal health to successfully identify appropriate new sources of revenue that capture fair compensation for use of city services. This budget reflects the continuation of that practice.

We are working with members of our General Assembly delegation to enact legislation that will create an economic win-win-win relationship between municipalities, the state, and tax-exempt institutions. It creates an incentive for cities to encourage growth in this sector of our economy by using new income tax dollars to reimburse local communities when property is taken off the tax rolls.

Next, we are seeking to end the statewide practice of forcing municipalities to pay rent to their local water systems for fire hydrants. This amounts to a subsidy by property tax payers to tax-exempt customers, which make up some of our city's biggest water consumers.

Further, we are asking the General Assembly to establish a franchise fee. Rhode Island is the last state in the union without a franchise fee on cable. Forty nine states have it because they recognize that the use of public infrastructure by cable companies comes at a cost that should be fairly reimbursed.

Finally, we are working with members of the Providence delegation to ensure that Rhode Island joins the ranks of other states that don't think it's fair for tax payers to subsidize large organizations by maintaining their alarm systems.

These are reasonable reforms that would require little in the way of administration and bring more balance to the system of taxes and fees in Rhode Island.

And as we make these critical investments, we will, of course, continue to place the same urgency on our standing imperative to innovate and reform government to capture new value and efficiency.

We are in extremely productive discussions with our teacher's union to ensure that students are at the center of our teachers contract while honoring the teaching profession and respecting the constraints of taxpayers.

We are exploring opportunities for possible new efficiencies by merging certain city and school department functions like human resources and purchasing. My Chief of Administration and Superintendent Evans are in the process of beginning this feasibility study already.

We are leveraging the talents of experts in the private and non-profit sectors to help the city tackle pressing problems and prevent future ones. These working groups are looking at new approaches to addressing poverty. They are working on a new transit system. And they are looking at our own tax policy to see how it can be more effective and fair.

But the most urgent and pressing area in need of reform is our pension system. Implementing critical changes to our pension system is the most important single initiative our government can take this year.

I congratulate Finance Chair John Iglizzi, with the support of Council President Mancini, Majority Leader Hassett, and Ordinance Chair Solomon, for placing this issue front and center before this body. And I want to take the opportunity to remind you all how much rigorous discussion and thinking went in to the recommendations formed by the Pension Study Committee that were announced last year. I urge you to continue to use those as a framework during your deliberations.

As we continue to operate in a challenging financial climate, this is one area where we can very clearly capture savings while providing a secure retirement for our valued employees. I hope you will agree that the time to act on fundamental pension reform is now.

Ladies and Gentlemen, I know I've packed a lot of information in the last 20 minutes. But that is only because the process of creating a budget, of following a financial

strategy, of managing large city departments, and of building a culture of innovation is a vast and complicated undertaking.

All too often critics of government claim that the solutions to our big challenges are one critical fix away. That if we could make that one structural change or implement that perfect model program, we'd be just fine.

Well, there's usually at least a grain of truth to be gleaned from criticism, and we should always pursue all thoughtful suggestions. But even the best and smartest policy ideas are only as good as the effort that goes into implementing them. And the most important work will always be in the nuts and bolts of delivering core services.

In other words, our mothers were right: There is no substitute for hard work.

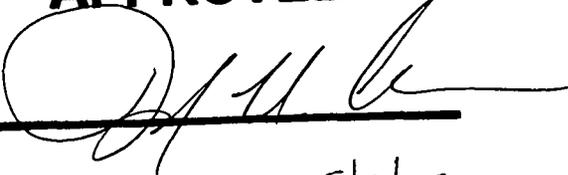
Financial success is a thousand decisions made by hundreds of people every day. It is not just about changing a practice. It is about changing a culture.

Financially, we are a new city in 2007, and that is why.

I want to close by thanking the employees of the City of Providence, the supervisors, and the department heads.

It is a privilege to work in government. It is a privilege to work for our fellow residents. Our public safety officials, teachers, laborers, and employees from every department have a renewed sense of that privilege and they are living up to our high standards.

I thank them and I thank you for joining me here tonight.

APPROVED

MAYOR 5/2/07