

1997-98 BUDGET ADDRESS

Mayor Vincent A. Cianci, Jr.

May 2, 1997

Council President Fagnoli, honorable members of the Providence City Council, ladies and gentlemen:

This is a special moment for the people of Providence, a time when all our hopes for our fair city seem to be within our grasp.

Spring is a season of new beginnings. There is a softening of the air, a brightening of the sky, and a burst of color in nature's palette. In this season of new beginnings, all our hopes are embodied in two enterprises that seem to hold endless promise.

In the center of the city, a decade of preparation is finally being rewarded as we

begin the construction of Providence Place. In the neighborhoods, we finally have the bonded millions we need to rebuild, renew and replenish the spirit of hope.

Elsewhere in America, proud old cities are slowly fading away. All of the energy flows to the suburbs, and the lights of the cities are being extinguished one by one.

In Providence, just the opposite is the case. Providence Place will attract ten million shoppers a year from a fifty-mile radius. We will be reversing a thirty-year trend towards suburban shopping. The new mall will have a flair and sophistication not seen in the bland stretches of suburbia. And Providence Place will spark a building spree in Capital Center that will rebuild our property tax base.

In the neighborhoods, we are ready to accelerate our efforts to renew and rebuild. First it was twenty-five million for the neighborhoods -- now it will be fifty. We will repave streets, refurbish parks and playgrounds, repaint houses, and revitalize shopping areas. We will reinstall our neighborhoods with the spirit of hope. Countless other cities in America are overwhelmed by the forces of deterioration and decline. But Providence is rising to the challenge. We are coming together as a community and improving our schools, reducing crime, combatting litter, vandalism and blight, promoting homeownership, building pride and common purpose.

All over the City of Providence, the lights are being turned on, one by one. We have given the people a vision of the shining city, and the people are supporting us every step of the way. Are we on the right track?

When two-thirds of the people cast their votes in favor of the bond referendum last November, the answer most assuredly was "yes."

But the creation of the New Providence is very much a work in progress. It takes time to bring about the fundamental change that is necessary for Providence to flourish. Today's budget reflects the incomplete nature of this enterprise. There are still five major tasks that we must bring to completion.

First, we need a new, growing source of revenue to supplement the property tax and state aid.

Second, we must dedicate most of this new revenue to property tax relief. If we are going to bring about a renaissance in the

precincts of Downtown Providence, our business taxes must be drastically reduced.

Third, we must convince the state government that the unique requirements of the Providence public schools require a unique response from the State. Providence is preparing tens of thousands of immigrant children to enter the mainstream of American life. Providence -- alone -- bears this responsibility on behalf of the entire state. Only the state government has the financial resources that are needed to provide a quality education to the new arrivals in our midst.

Fourth, the 25-percent reimbursement we receive on behalf of the great colleges and hospitals of this city is inadequate. The State must increase its reimbursement to 50 percent.

Fifth, we must complete our efforts to establish a new working relationship with the unions that represent City workers. I feel that the Mayor and the City Council have forged common bonds with the Laborers union and with the teachers union. We have talked extensively with the police and fire unions, but we have yet to find that common ground. Of course, it is the pension issue that divides us.

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The status of each of these matters has an impact on the budget I have put before you.

Some months ago, I proposed to create a new tax on earned income that would benefit every city and town in this state. Most of the proceeds of this payroll tax would be used to eliminate the tax on

automobiles and phase out the tax on business inventory, computers and other personal property.

I have spoken to many audiences around the state regarding the importance of providing property tax relief. I received strong support from members of this City Council, for which I am grateful.

A statewide poll showed that almost 70 percent of the Rhode Island public agrees with us. Every year, property taxes have been going higher and higher to pay for education, while state funding of education has languished. It is no surprise that the Rhode Island property tax is the ninth highest in the country, while the income tax ranks 28th and the sales tax 38th.

However, it takes time to overhaul the local system of taxation for the first time in

a century. It takes time to build consensus among all affected parties across the state. Discussions are continuing. But I do not believe that the payroll tax legislation will pass this year.

In the coming months, we will continue to explore the best means of providing tax relief for the people of Providence. I am hopeful that suitable legislation will become law in the 1998 session.

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Another matter of great urgency is the funding of public education in this city. To date, the State government has not made a commitment to provide the additional school aid that is needed. Therefore, I am forced to propose the first major increase in the City's contribution in five years.

With each passing year, the cost of education is more and more beyond our means.

Since this decade began, enrollment in the Providence public schools has grown by almost 5,000 students. We have been forced to build more than 200 classrooms, and to hire more than 700 teachers and other employees. Next fall, 700 more students are expected. To accommodate them, we are completing two new schools in the West End. Two more new schools will probably be needed in the following year. Five years from now, the operating cost of the public schools is expected to be at least \$75 million higher than it is today.

The legislature, to its credit, has created a new funding formula that addresses the needs of central cities. However, funding for the new formula is strictly limited.

Providence is slated to receive an additional \$10.5 million.

This is simply not enough. Dr. Zarrella has proposed to increase school spending by \$22 million next year. He must provide teachers for two new schools, implement school reform, and begin to raise teacher salaries, which are currently the lowest in the state.

The Budget Commission created by this City Council says a minimum of \$16 million is needed. The commission calls on the City to provide \$4 million, and the State to provide \$12 million. Therefore, I am proposing to increase the City contribution by \$4 million. The State must also do its part.

It is worth noting that, if the old school-aid formula had been allowed to operate,

Providence would have received an additional 13 million dollars of school aid. I don't see how State leaders can talk about reducing state taxes while underfunding education for our children. The time has come for the State to put the children first, and provide the necessary state funds for education.

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During this decade, the value of tax-exempt property in this city has grown by more than half a billion dollars. Increasingly, the colleges and hospitals of Providence are the anchors of the city economy. If these institutions were taxed, they would represent four of the top five, and seven of the top ten taxpayers in the city.

In order for Providence city government to flourish, we must receive additional revenue from this source. Therefore, I will seek to increase State reimbursement under the PILOT program from 25 percent to 50 percent.

Some may think this is unfair. Keep in mind, however, that most of the colleges, hospitals and other tax-exempt institutions are concentrated in Providence and a few other "host communities." Because the institutions pay no taxes, the taxes that the rest of us pay are that much higher. About one-third higher, in the case of Providence.

State government, meanwhile, collects tens of millions from the employees of these institutions in the form of income and sales taxes. It is only fair that the state government generously share its revenues

with the host communities that provide costly services to the institutions.

A 25-percent rate of reimbursement is simply inadequate. As the Providence economy continues to move in the tax-exempt direction, 50 percent makes more and more sense.

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Providence city employees have sacrificed much more than the employees of other Rhode Island governments. Most unions have gone three years without raises since 1992. Health benefits have been reduced. We have eliminated Blue Cross for Life for families, defunded a number of positions, and privatized a growing list of services. We have had frank discussions with union leaders regarding financial problems we face, and we have enlisted their support in working for lasting solutions. We have found common ground

with Phyllis Tennian of the teachers union and with Joe Virgilio of the Laborers. I felt it was time to pay raises to union members who have sacrificed again and again. I am grateful that this City Council shared my views.

However, we still have not reached agreements with the police and fire unions. We are still arbitrating the 1996 fiscal year as we prepare for fiscal '98. The unions are looking for significant raises in addition to the pension benefits referred to in the consent decree. If these benefits were provided to all past and future retirees, the City's contribution on behalf of police officers and firefighters would rise by more than \$20 million a year. This works out to more than \$20,000 in additional compensation per police officer or firefighter.

It is obvious that the City could not begin to make such payments. And we certainly cannot agree to pay raises while the pension issue is still unresolved. There must be a comprehensive settlement of these issues. The unions must recognize that forcing their demands upon the City would cause financial harm to the pension system upon which all their members depend. Compromise is essential.

As you know, the whole matter of union pensions is still in litigation. To date, we have been told by the court that the consent decree applies to those who retired prior to January 1994. The amount the actuary has recommended that we contribute, based on legal rulings to date, is about \$30 million -- an increase of \$13 million over the current amount.

However, I recommend that the City Council increase the City's contribution by \$4 million instead. A recent decision of the Superior Court gave the Council the right to contribute to the pension fund as it saw fit -- so long as all pension obligations are met.

I felt that the City's first obligations were to put more money into the public schools and keep the tax rate as low as possible. We could not achieve these objectives if the full pension contribution were made this year. Over the next few years, we can gradually increase the pension contribution to the desired level. Today, the needs of students and taxpayers must take precedence.

In consideration of all the factors I have discussed, it is necessary to increase the tax rate by \$2.50. No one likes to raise taxes. Let me point out, however, that this is only the second tax increase in six years. The

average annual increase in the rate is only about 3 percent. This is hardly excessive.

Between 1992 and 1997, our property tax levy grew by only 8 percent. For all 39 cities and towns, by contrast, the levy grew by 20 percent. We were well under half the state average.

I also believe that the circumstances that forced us to raise taxes will change. I am fundamentally optimistic regarding the future course of this city. The economy is on the upswing, and the tax base is growing again. Providence Place will soon become a reality, and we will be putting our bond money to work in the neighborhoods. I am also confident that, with time, we will address the need for education funding, new City revenues, and property tax relief.

I would like to acknowledge the hard work of the Providence City Council in searching for solutions to the structural problems of this city.

Council President Fagnoli and Councilwoman Nolan, in her capacity as chairman of the finance committee, have been particularly helpful. A number of councilmen have pushed and prodded this administration to come up with the best solutions. I am grateful for your assistance.

Of course, much more work remains to be done. Making Providence a great city will always be a work in progress. But I am convinced of the rightness of our cause. If we persevere, Providence will shine in the coming years of the new century.

Vincenta Lancia
Mayor

IN CITY COUNCIL

MAY 2 1997

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WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.

Michael X. Clement
CLERK