



Mayor Jorge O. Elorza

**A LONG-TERM BUDGET
ADDRESS**

And Presentation of Fiscal Year 2017
Budget

Wednesday, April 27, 2016

It's already been a big week for speeches, even by Rhode Island standards. I want to begin by commending the work of our Board of Canvassers and election workers who made yesterday's primary election another successful show of American democracy. I congratulate Bernie Sanders on his victory and I am told that there was a winner in the Republican primary as well.

Tonight, I am presenting a budget that focuses on the long-term. This budget takes bold steps to address our fiscal challenges so that we can invest in economic growth, in strong neighborhoods, and in our schools. This is a budget that will make Providence more resilient today and long into the future.

Right now, Providence has a tremendous amount of opportunity and there are many reasons to be optimistic about our future. We are currently in the midst of an economic resurgence that will see the busiest construction season in over a decade, and will have a positive impact on every neighborhood in the city. We are consistently rated as a top destination for people to live and visit, and we have so much to be proud of.

We are a great city because of our creative, innovative, enterprising, and diverse talent. And what we've built is due to the hard work of so many who have invested in Providence's future over the past many years. We are now the stewards, and it is our responsibility to put in the same hard work and make those similar investments so that this continues to be a great city for generations to come.

I am sure that, by working together, we will make the necessary investments in infrastructure, schools, and our neighborhoods so that we attract businesses and create opportunities. Together, we will ensure that our city is economically competitive and we will address the income inequality that threatens to erode our middle class.

The fact that Providence faces ongoing financial challenges is not new. When Mayor Taveras took office he called attention to a serious cash-flow issue that manifested itself as a \$110 million budget shortfall that very next year. I applaud Mayor Taveras and those who joined him to take action to address that shortfall which could have resulted in the city declaring bankruptcy.

Today, Providence faces a different, yet just as dangerous, financial threat; we have a long-term structural deficit with a \$1.9 billion unfunded liability. While we are not facing imminent insolvency, if we do not resolve our long-term challenges with long-term, sustainable solutions, Providence risks dying a slow and painful death.

But by being proactive and confronting our challenges head-on, we can instead make the investments that we know we need to make. Imagine if Providence were known for its great roads, bridges and infrastructure; it's possible. Imagine if we're known for having first-rate facilities and opportunities in our public schools or in our recreation centers; why not us? Imagine if we had a competitive tax structure that made Providence a destination for entrepreneurs looking to start and grow their businesses. That's what's at stake and that's what's within our grasp.

And so tonight, we draw a line in the sand. It's time for a long-term vision and a sustainable plan that will not only close the growing financial gap, but will empower us to make the investments we need to improve our schools, strengthen our neighborhoods, and secure our economy for the next decade and for the next generation.

This budget begins this process by making fiscally responsible decisions for the upcoming year, and it ushers in long-term budgeting. It makes targeted investments where they are needed and it puts us on course to implement long-term financial changes.

Over the past 16-months, we have been working toward a comprehensive analysis of the city's finances and developing a strategy to address them once and for all. My administration sought and won a White House Initiative grant to look into the city's fiscal health and develop a set of options for long-term financial stability.

We looked at how Providence compares to similarly-positioned cities in the region, to identify areas where we must become more competitive for businesses and investors, and more equitable to residents and families.

We engaged residents, stakeholders, non-profits, business leaders, and experts in municipal finance to discuss options to solve our ongoing financial challenges once and for all.

I want to take a moment to recognize and thank Brown University, the Rhode Island Foundation and the Providence Foundation, whose contributions allowed the city to leverage the grant needed to bring the National Resource Network in to conduct this long-term financial review.

The report showed a number of things that weren't a surprise: it showed that the city is poised to spend \$176 million more than it can afford over the next 10 years; it showed that we currently lack a system for budgeting beyond the current and upcoming year; and that we need a process to make the long-term changes and investments that take more than a year or two to achieve.

The report provides great detail of where and why the budget gap exists. But the report is not all doom- and-gloom; most importantly, the report makes it clear that we have great assets to build off of, resources to leverage, and stakeholders to engage; in essence, the report makes clear that if we all come together, we have the tools to fix it. So, I am making a call to the entire Providence community that you be part of this effort, be a part of the solution, so that now once and for all, we can put our city on track to being the next great American city that we know we have the potential to be.

One of the items the NRN report shows we must address is our tax structure.

Every three years, the state requires each city and town to reassess the value of residential and commercial properties. This year, we completed our revaluation and found that property values have grown in every neighborhood. This is an indicator of our city's economic recovery, but when residents and businesses are already being asked to do more than their fair share, it would be unjust and short-sighted to put the full weight of that growth on their shoulders.

Instead, we will use this opportunity to begin to address the competitive disadvantages and economic inequities that are baked in to our current tax structure.

As the NRN study pointed out, our residents and businesses are saddled with some of the highest tax burdens in the state and the region. In recent years, loss of revenue has caused the city to place even more of a burden on our residents in the form of regressive increases to the car tax – it is too high and it disproportionately affects the residents who are least able to afford it.

My proposed budget lowers the car tax for every vehicle owner in the city by doubling the exemption level to \$2,000. That means that if your car is valued at less than \$2000, you pay no taxes. Under this new structure, 6,500 cars that were taxed last year will no longer owe any car tax. The next 12,500 with the lowest value will see their car tax bill cut in half, and another 22,500 will see a reduction of 33% or more. This is a big first step toward addressing the unfair car tax burden.

In addition, we are lowering residential tax rates to ease the impact of the revaluation on our residents and to keep us competitive with surrounding cities and towns. We are lowering this rate and we are lowering the non-resident tax rate by the same amount.

Our commercial tax rate is among the highest in the region and that discourages businesses from locating here. Three years ago, the city committed to freezing the commercial property tax rate for the next seven years. This budget not only follows the spirit of that goal, it actually makes a small reduction in the commercial rate, and over the long run, we will strive to bring it down even further.

The city also needs to become more competitive in the way it taxes businesses' tangible assets, meaning their equipment, machinery, and inventory. In fact, our tangible tax rate is the highest among our comparable cities in the region and that has a huge impact on businesses' decisions to invest and bring jobs to Providence.

In the coming weeks, I will be submitting an ordinance to create a standardized tangible tax stabilization agreement that is in alignment with our long-term economic development priorities. Under this agreement, any new or expanding business in the food, design, maritime, or biotech sectors will receive predictable tangible tax relief for the first 12 years of their investment.

And to address our long-term reliance on property and car taxes, I will be forming a revenue working group to find alternative sources of revenue. This workgroup will examine the proposals laid out in the NRN report, including a review of the city's fee structure to make sure it is competitive within the state and the region. They will also offer their own ideas and suggestions to make our taxes fairer and more competitive.

Last, and again with an eye towards the future, we are changing the city's practice when it comes to one-time revenue sources. In my first budget, I reduced the reliance on one-time fixes and asset sales to plug holes in our current budget. I have made sure that one-time revenues go to one-time investments so that we're not saddling ourselves with ongoing, long-term costs that we just can't afford.

This is a new beginning, of placing Providence on a sustainable path.

A big part of what makes Providence such a wonderful city is how each and every neighborhood is special. I love walking and biking through this city, meeting residents and business owners. I love to visit our countless restaurants and artistic venues and to shop at the locally owned businesses.

Our neighborhoods are the lifeblood of the city. When our neighborhoods succeed, the city thrives; when they fall on tough times, that struggle is felt throughout. That is why I work every day to make sure our neighborhoods are safe, vibrant and accessible.

Last fall, I launched the EveryHome Initiative, a first-in-the-nation program with the ambitious task of addressing every vacant and abandoned property in the city. Through EveryHome, we are holding the big banks and irresponsible landlords accountable, leveraging federal dollars to create more affordable housing, and putting people to work fixing up our own neighborhoods. Today, we have taken action on about 75 homes and we are actively bringing 25 more on board. We are on track to eliminate the blight and revitalize our neighborhoods by fixing all of our abandoned properties.

As we eliminate blight from our neighborhoods, it is critical that we support the businesses that bring jobs into our communities. I have walked the streets visiting business owners and I have listened to their concerns. They have told me that it's difficult to access capital and that it's difficult to navigate the city's bureaucracy.

Because of this, we have overhauled the Providence Economic Develop Partnership and established the Providence Business Loan Fund, which will put \$1.1 million on the street in the form of low interest loans to entrepreneurs who want to grow their local businesses. In addition, the city is investing in a small business liaison so that small entrepreneurs have a point person in City Hall and an advocate that will help them navigate our city processes.

If you own a small business and want to expand, or if you are ready to make your dream of starting a business a reality, call 3-1-1 and tell them you want information about doing business in Providence. This is where you want to be and we are here to help.

It is equally imperative that our neighborhoods are safe. Our Police department understands that the most effective tool in their arsenal is a strong and trusting bond with the community. My budget will allow us to expand community policing efforts with a dedicated community liaison within public safety and an expanded Police Academy class of 60 cadets, instead of the 32 that we had previously proposed. This capacity will allow us to deploy more bicycle units, bring back foot patrols, and better engage our community throughout the city.

My administration has already doubled the number of active Neighborhood Crime Watch programs in the city and we've dedicated a full-time person to help support and continue that growth.

We are also opening the application process to conduct the city's 51st Fire Academy, which will replenish a number of recent and anticipated retirements.

But our neighborhoods and business centers will only thrive if they have reliable, well-maintained infrastructure around them. My budget proposes a ten-fold increase in our capital budget, bringing it to \$1 million, so that we can make the necessary investments for our long-term growth.

While this is still only a drop in the bucket as it relates to the actual need, it emphasizes my commitment to gradually make the appropriate and necessary investments so that we can stay on top of repairs and maintenance instead of waiting for things to break. And to address our long-term needs, I am creating a Capital and Community Investments workgroup which will examine best practices, engage residents, and develop a policy to sustain and target our investments in the most effective way possible for our neighborhoods.

When I took office, I stated that Providence would be known for having the best city services. Through our innovation initiative we are using new technology to create efficiencies and provide better services with the same or fewer resources. The Mayor's Center for City Services is available to residents in person, on the phone at 3-1-1, and through our PVD311 mobile app.

Thanks to these investments we are filling potholes, addressing graffiti, and sweeping streets faster and more efficiently than ever, and making our customer service the best that it can be. As an example, we are filling potholes so much better and faster, that we have reduced claims against the city for potholes by 80% since 2014. This is a remarkable achievement and I congratulate the entire team for the work they've done.

The success of our neighborhoods is a major priority of my administration and it's critical that any strong urban community be able to educate and prepare its next generation to become leaders and to fulfill their potential.

I visit at least one school every week and I have seen magic happening in the classroom as students learn and teachers bring the curriculum to life. In fact, I am so proud that once again, Classical HS has been named the top public high school in our state. and tonight we're lucky enough to be joined by Classical's principal Scott Barr and 4 of his members of student government Angela Crenshaw, Gabriela Gonzales, and Ashley Rodriguez, Yamil Rivas all outstanding students. When I visited Classical recently, I thought to myself that this is exactly what education should look like and that every single child deserves a high-quality education.

I believe that to ensure long-term success, we must do more to support our students and improve the educational opportunities both during and outside of school. Working with Superintendent Maher, our school committee, partners in government, our teachers, and countless community partners, this budget will:

- provide support for our teachers and principals by creating a more responsive, nimble and data- driven central administration;
- invest in equity in our school department by hiring an EEOC Officer;
- provide better customer service by creating a bilingual call center for parents and students;
- investing in non-violence and restorative justice training so that we're de-escalate situations before they grow;
- and we're bringing new focus to the summer, so that our kids have access to opportunities that allow them to learn and grow.

This budget moves our urban education system into the 21st century by helping us teach the skills that will be in demand when our students graduate. Aligned with the Governor's goal to bring Computer Science into every school, I am proposing a \$500,000 Access to Technology investment in our children, which will provide an infusion of over 1200 new computers in our classrooms in 2017 and help to close the technology gap. Currently, the ratio of students to computers in our district is 2.5 to 1. In a modern school district, this is unacceptable, and this investment will help address that gap so that our graduates are ready for the world that awaits them.

Our investments in education are allowing us to create dynamic classrooms by empowering educators to make the changes they need to help our students succeed. We are also, literally, *building* better classrooms building repairs and improvements over the next two summers.

While we're putting a great deal of attention to our schools, we are also focusing on afterschool and summer activities. With the great work being done by the Parks and Recreation Departments, we are providing more activities for kids and more supports for families. For example, I know how challenging childcare is for our families during the summer; in particular, I know how challenging and expensive it is for single parents. That is why we have expanded our year-round recreation offerings and this entire summer, we have full day activities for kids age 5-12 at a cost of only \$5 a week per child. And if you can't afford the \$5, we work with those parents because we don't turn anyone away.

While there are many steps that the city is taking to invest in families and to address its structural financial challenges, the recent NRN report showed us in no uncertain terms, that the city cannot do it all alone.

Many of the necessary steps will require that we engage and collaborate with stakeholders in state government, our non-profit institutions, our partners in labor, and our businesses and residents.

For starters, Providence would not be the great city that it is today without the contributions of our private colleges, universities and hospitals continue to make to our community. These 'anchor institutions' have helped us define who we are as a city and they are key partners in almost everything we do.

Over the years, these institutions have seen wonderful growth and expansion. Today about 40% of parcels in the city are owned by tax exempt entities. That means that 100 percent of the city's expenses are paid for by only about 60 percent of the taxable base, that's unsustainable. As a result, the cost to maintain services and infrastructure has been largely placed on the homeowners and businesses that do indeed pay taxes.

Most of these institutions are currently stepping up and helping the city. But the current process requires each institution to negotiate its own agreement with the city, usually only for a few years at a time, and at varying rates.

As the report recommends, we will be working with our non-profit anchor institutions to come up with a fair framework for PILOT payments. A framework that is stable, predictable, has parity among similar institutions, and looks at best practices of cities like Boston and New Haven and I look forward to developing this framework in conjunction with our institutional partners.

Another essential component of securing our financial future is sustaining our employee retirement obligations. Our pension system is currently 27% funded, making it one of the worst in the region and one of the worst funded systems in the country. This means that the city's annual obligation to pay the fund is extremely high, it's growing and it's unsustainable.

It also means that current employees and retirees have had to make concessions in the past to fix a problem that they didn't create. There is no simple solution to this issue, but ensuring the sustainability and affordability of our retirement system is essential for the city's long-term success. In the coming weeks, I will continue reaching out and engaging the city's labor unions, retirees and stakeholders so that we put the city's finances on a sustainable path.

Members of the Council, tonight I present you with a fiscally responsible, balanced budget that takes both immediate steps to move us forward and position us to address our long-term challenges.

Ralph Waldo Emerson once said: Don't go where the path may lead, go instead where there is no path and leave a trail.

This is relevant today because the truth is that greatness has never been achieved by following the same, comfortable path. We have a great opportunity before us to blaze a new trail. As President Aponte has pointed out, in 7 years, assuming we all win reelection, there will be a new Mayor and 12 new city council members. What kind of a city do we want to leave behind for them?

Along with all of our residents and stakeholders, this is our chance to leave behind a strong city, a vibrant city, a growing city, and a city on a sustainable path.

Let's seize this moment and address our challenges head on. Together, we will help our families thrive and position Providence as the great American city that we know it should be.

Thank you, goodnight and God bless.