

FY 2010 Revised Budget and Beyond: State & Local Government Structure & Tax Policy



Staff Presentation to the House
Finance Committee

April 22, 2010

Introduction

- | Government Services Overview
- | State and Local Governments
- | Services and Functions
 - └ How are they delivered?
 - └ How are they funded?
- | What are options for change?

References

- | House Fiscal Reports: Revenues, Education and Local Aid
 - ↳ <http://www.rilin.state.ri.us/HouseFinance>
- | Department of Revenue
 - ↳ <http://www.tax.ri.gov>
 - ↳ <http://www.muni-info.ri.gov>
- | RI Dept. of Elementary & Secondary Ed
 - ↳ http://www.ride.ri.gov/Finance/ride_insite/Default.htm

References

- I US Census Bureau

 - u <http://www.census.gov/>

- I Rhode Island Public Expenditure Council

 - u <http://ripec.com>

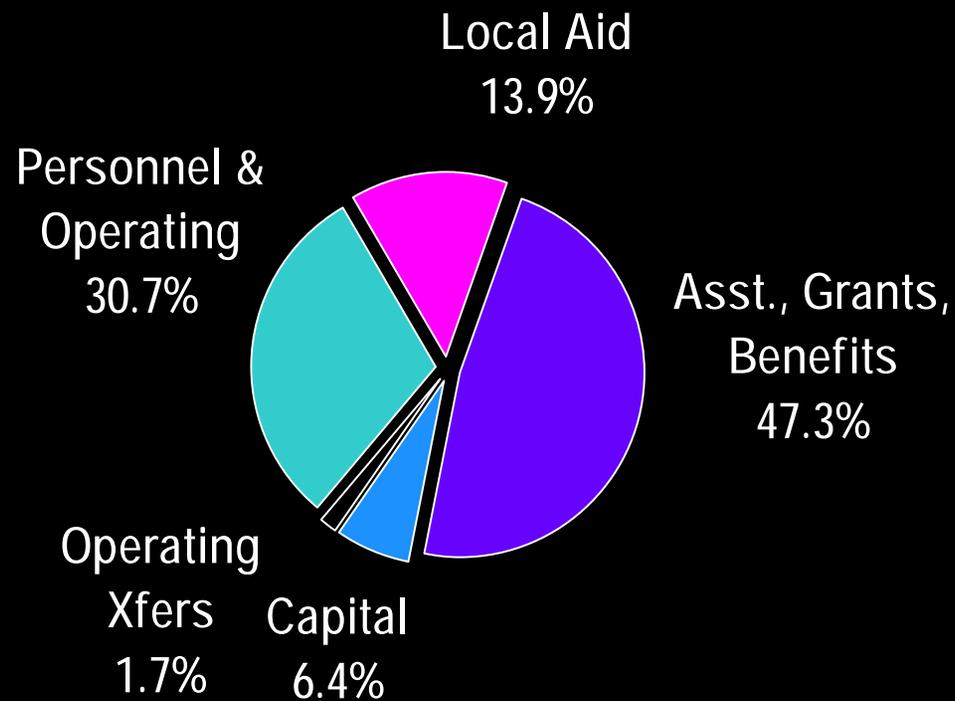
Government Services Overview

- | State of RI = Population 1 million
 - u Five Counties
 - 39 cities and towns
 - 39 municipal governments
 - 36 school districts
 - 38 police departments
 - 52 fire departments/districts

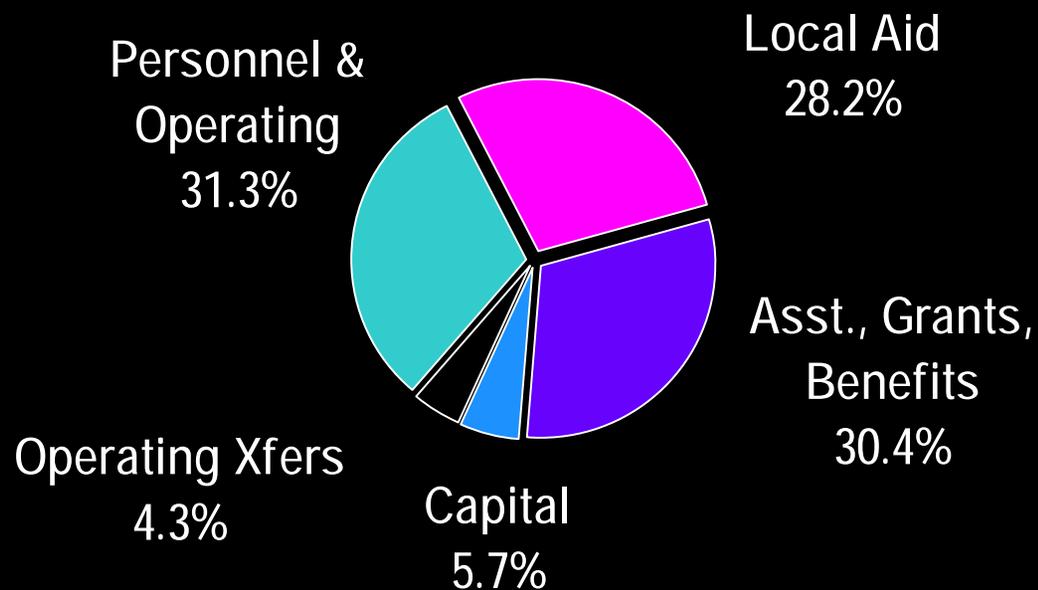
State Expenditures

	FY 2010	Gov 2011	Change
Gen. Rev.	\$3,000.3	\$2,849.1	\$(151.3)
Federal	2,828.2	2,717.5	(110.8)
Restricted	162.4	176.8	14.4
Other	1,823.8	1,769.6	(54.1)
Total	\$7,814.7	\$7,512.9	\$(301.8)

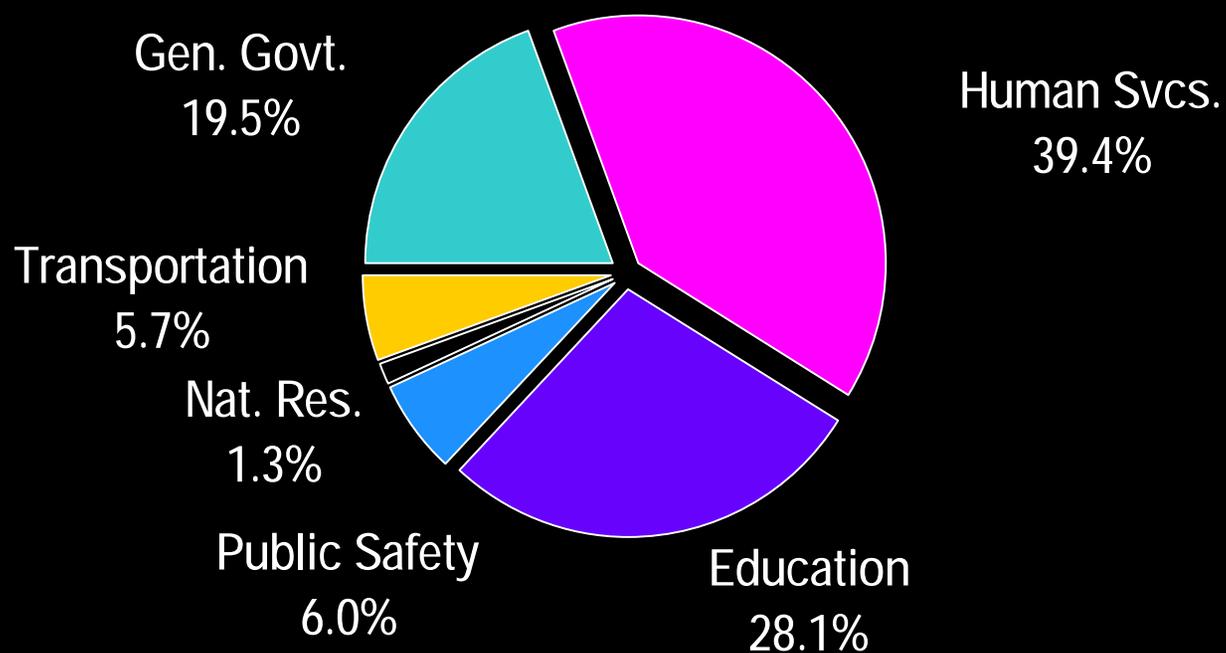
Uses – All Funds by Category



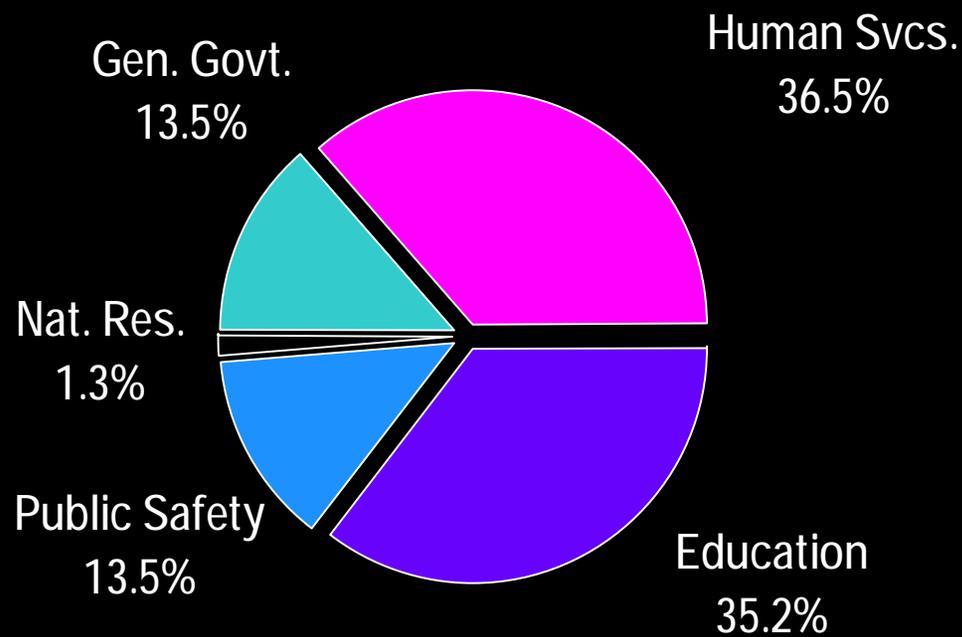
Uses – General Revenues by Category



Uses – All Funds by Function



Uses – General Revenues by Function



State Government Functions

- | 46 departments, agencies, boards etc
- | Quasi-public entities
- | 13,000 -15,000 staff

State Government Functions

- | Safety Net expenses
- | Local Aid
- | All Other
 - u Public Safety - prison, courts, state police
 - u Infrastructure
 - u Regulatory functions
 - u Public Health/Environment
 - u Education – higher ed., policy
 - u Government

State Government Functions

- | Recessions renew review of government structure as well as discrete costs
- | Often focus is on if services are delivered cost effectively, efficiently
 - u How many agencies does a business, come in contact with completing a single job or starting an enterprise ?
 - u How many agencies are involved in the lives of a family in need?

State Government Functions

- | Also need to consider policy choices on the services themselves
- | How much can the economy support?
 - └ What services are essential?
 - └ Necessity vs. Desirability
- | Out year forecasts show current revenue structure does not support current spending patterns

Sources



Revenues: How We Compare

<i>Share of State & Local Taxes (FY 2007 Census)</i>	US	RI
Individual Income	20.4%	20.6%
Property	27.1%	37.2%
General Sales	21.1%	16.6%
Selective Sales	9.9%	9.4%
All Other Taxes	21.5%	16.3%

Revenues: How We Compare

<i>State & Local Taxes Per Capita (FY 2007 Census)</i>	Rank 1997	Rank 2007
Individual Tax Collections	24	26
Property Tax Collections	7	7
Gen. Sales Tax Collections	39	30
Selective Sales Collections	15	23
All Other Taxes Collections	21	15

Revenues

- | Recent Assembly actions attempted to improve these rankings
- | Alternate Flat tax
- | Stronger Property Tax caps
- | Meal and Beverage and Hotel
- | Previous increases in general revenue sharing and car tax phase-out

Evaluating Revenue System

- | Equity
- | Economic Efficiency
- | Competitiveness
- | Revenue Adequacy
- | Revenue Responsiveness & Stability
- | Accountability
- | Simplicity – Ease of Administration

State Revenues

- | Rhode Island has high-rate, low yield revenue structure
- | Exemptions, credits and narrow bases
- | Income and Sales largest sources of general revenues

Personal Income Tax

- 25% of federal liability on the federal rates in effect immediately prior to 2001 tax cut, with brackets adjusted for inflation
- Marginal Rates: Example below for single filers

3.75%	>\$0
7%	>\$33,950
7.75%	\$82,250
9%	\$171,550
9.9%	\$372,950

Personal Income Tax

- | Flat Tax option since 2006
 - u % of federal AGI: no deductions or credits other than taxes paid to other states
 - u The tax rate was 6.5% for 2009 and will be 6.0% for 2010
- | 860 filers in 2007; 1,140 in 2008
- | Most still find current rate structure more favorable because of credits and deductions

Personal Income Tax

- | Recent proposals have sought to replace current system with more simplified brackets
- | Remove “stigma” of 9.9% top marginal rate in state comparisons
- | Issue of winners and losers persists

Business Corporation Tax

- | 9% Percent of Net Income w/\$500 minimum tax
- | 2008 SOI data
 - u 48,597 returns
 - u 45,063 paid minimum
- | \$94.1 million in FY 2010; est. \$100 million for FY 2011

Business Corporations

Governor's FY 2011 budget:

- **\$22.5 million** loss from new and increased tax credits and tax cuts

New losses, tax cuts		
Small Business Job Tax Credit	H 7397	\$(10.0)
Corp minimum tax from \$500 to \$250	H 7397	(11.5)
K-12 Scholarship Organization Contribution Credit	H 7397	(1.0)

Business Corporations: Issues

- | Gross/Net receipts
- | Proposals to phase out tax rate and replace with tiered minimum
- | Combined Reporting

Sales and Use Tax

- | The tax began July 1, 1947 at 1 percent. The current 7 percent rate became effective July 1, 1990
- | State has high rate but narrow base
- | No local option

Sales and Use Tax

- | Comparisons with other states
 - u 46 states levy sales tax (Alaska at local level only)
 - u 2007 Census data ranks RI 30th on per capita collections; 37th on collections as percent of personal income

Sales and Use Tax

- | The tax began July 1, 1947 at 1 percent. The current 7 percent rate became effective July 1, 1990
- | State has high rate but narrow base
- | No local option

Sales and Use Tax

- RI does not generally tax services - declining base relative to consumption
- 21 of 45 states taxing services (7-1-2009)
 - u 17 tax cleaning services
 - u 22 tax repair services
 - u 12 tax transportation services
 - u 6 tax professional/personal services

Sales and Use Tax

Many exemptions that narrow base

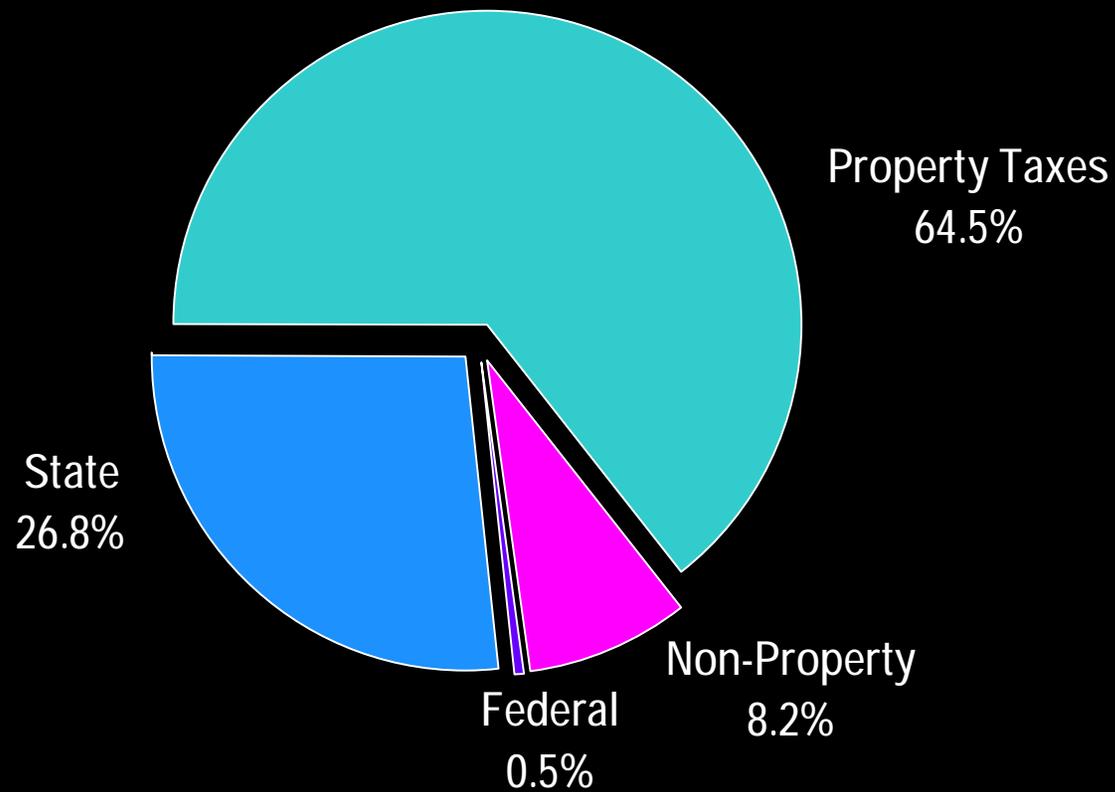
No local sales tax

- u Most states have city/county/special district local option sales taxes
- u When added up, exceed 7% in many cases



Local Government

FY 2010 Local Revenue Sources



Property Tax

I RI Constitution – Article XIII, Section 5

“Nothing contained in this article shall be deemed to grant to any city or town the power to levy, assess and collect taxes or to borrow money, except as authorized by the general assembly.”

Property Tax

I Power to Levy- RIGL

“The electors of any city or town qualified to vote on any proposition to impose a tax or for the expenditure of money, when legally assembled, may levy a tax for the purposes authorized by law, on the ratable property of the city or town, either in a sum certain, or in a sum not less than a certain sum and not more than a certain sum...”

State and Local Property Taxes

<i>(FY 2007 Census)</i>	RI	US	Rank
Per Capita	\$1,850	\$1,282	7
Total State & Local Taxes	\$4,509	\$4,270	12

Property Tax: Statutory Exemptions

I Statutory Exemptions (RIGL 44-3-3)

- u Cemeteries
- u Charitable
- u Church

- u Federal
- u Hospital
- u Libraries
- u Schools

Property Tax: Local Exemptions

- | Elderly Exemptions (RIGL 44-3-13) – Mostly offered to persons over the age of 65
- | Disability Freeze (RIGL 44-3-15) – Freeze tax rate and valuation
- | Elderly Freeze (RIGL 44-3-16) – Freeze tax rate and valuation
- | Veterans' Exemptions (RIGL 44-3-4) – Offered to persons served in military or naval service

Property Tax Cap

- 2006 Assembly capped property tax levy at 5.25% over the prior year, dropping annually by 0.25

Fiscal Year	Levy % incr.
2008	5.25
2009	5.00
2010	4.75
2011	4.50
2012	4.25
2013	4.00

Property Tax Cap

- | Law provides for safeguards to enable communities to exceed the cap when setting initial rates
 - u Loss of non-property tax revenues
 - u Increase in debt service costs
 - u Emergency
 - u Substantial growth in tax base

Property Tax Cap

- | Auditor General reviews and approves exemptions relating to emergencies
- | Municipal Finance reviews and approves exemptions relating to growth
- | Levy in excess of caps must be certified by the DOR
 - u Requires an affirmative vote of at least 4/5ths of the local governing body

Property Tax Cap

I Requested Exemptions

- u 7 municipalities
- u Loss of revenue and debt service increase
- u \$15.9 million above tax cap

I Allowed Exemptions

- u Dept. of Revenue approved all seven
- u \$14.6 million

Local Aid

	FY 2010 Enacted	FY 11 Gov.	Diff.
Car Tax	\$135.3	\$0	\$(135.3)
Distressed Comm.	10.4	10.4	-
PILOT*	27.6	27.8	0.2
Library Aid	8.7	8.7	-

Revenues (Pass-through)

I Public Service Corp. Tax

- u Tangible personal property includes lines, cables, ducts, pipes, machines and machinery
- u Funds are collected by Taxation
- u Statute allows for the use of up to 0.75 % for administrative expenses
- u Distributed to the municipalities based on local population

Revenues (Pass-through)

I Local Meals and Beverage

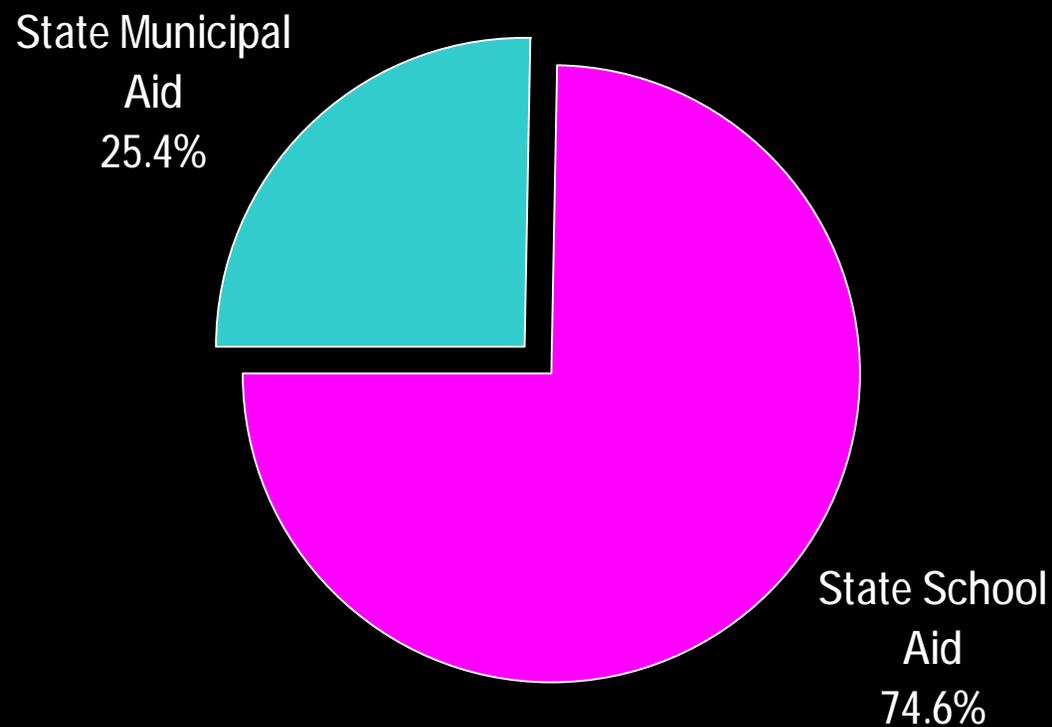
- u 1.0% from retail sales of meals & beverages in/from eating/drinking establishments
- u Meals=sold ready for immediate consumption
- u Collected by Taxation and distributed quarterly to the city or town where the meals and beverages are delivered

Revenues (Pass-through)

I Hotel Tax

- u 6.0 % on any space furnished in buildings or structures with a minimum of 3 rooms
- u Taxation collects the tax for all hotels except those located in the City of Newport
- u Taxes divided among CVBs, locals and state
- u The 2004 Assembly added 1% additional tax on occupancy charges effective January 1, 2005 to dis

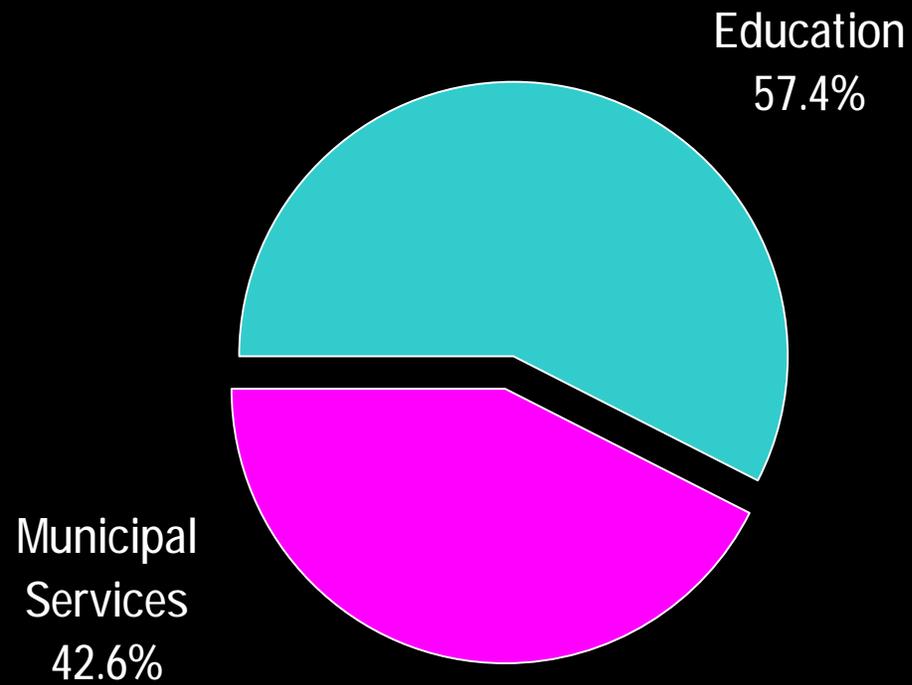
Distributed State Aid



Historical Spending



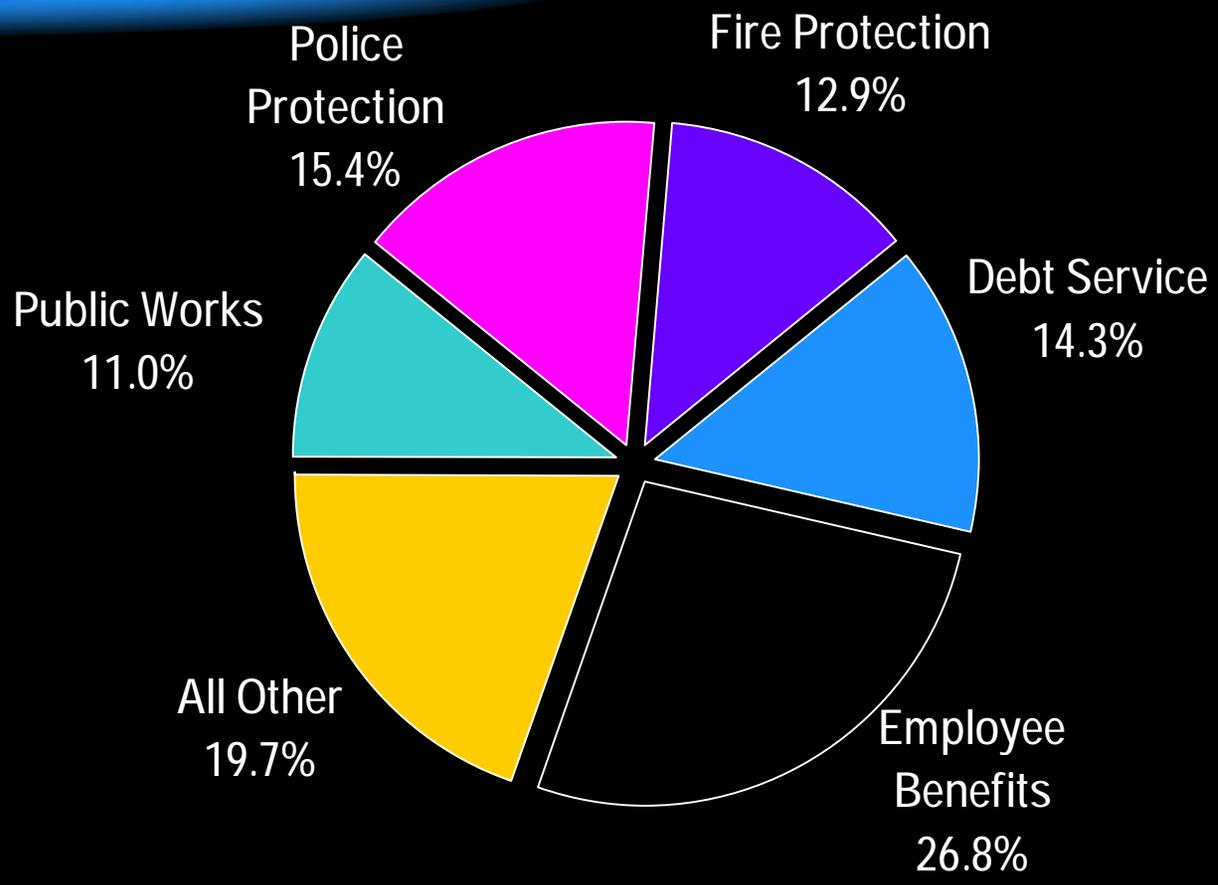
FY 2010 Budget



Historical Spending

- | FY 2004 expenditures
 - u \$2,599.5 million
- | FY 2009 expenditures
 - u were \$3,187.4 million
- | Growth of 22.6% over 5 years
 - u Average of 4.5 percent annually

Municipal Services – Uses



Police Expenses

Fiscal Year	US	RI	RI Rank	MA Rank	CT Rank
1997	\$175	\$171	16	9	10
2007	\$281	\$308	12	15	20

Per capita

Fire Expenses

Fiscal Year	US	RI	RI Rank	MA Rank	CT Rank
1997	\$71	\$131	1	3	5
2007	\$123	\$233	1	8	15

Per Capita

FY 2010 Staffing

Services	Staffing
Municipal	4,187.0
Police	2,586.0
Fire	1,999.0
Other	534.1
Total	9,306.1

Health Insurance Co-Shares

- | Varies by municipality
- | Some municipalities have different rates for different groups of employees:
 - u police, firefighters, public works, etc.
- | Nearly all co-share
 - u Percentage of salary
 - u Percentage of premium

Health Insurance Co-Shares -Examples

I Urban

- Cranston percentage of premium range from 12% - 25%

I Suburban

- Cumberland - police officers \$1,150 per year

I Rural

- Richmond - 15.5% of premium

Municipal Health Waiver Bonus

I Urban

- u Woonsocket: \$3,400 municipal and fire; \$2,000 police

I Suburban

- u Middletown: \$2,600 town hall, \$4,500 public works and police, \$7,000 fire

I Rural

- u Charlestown: \$2,500

Fire Districts

- | Levy separate property tax
- | 2000 Assembly eliminated authority of fire districts to levy motor vehicle excise taxes
- | Fire districts have been reimbursed for 100% of the lost revenues since FY 2001

Fire Districts

Town	Fire Districts
Burrillville	4
Coventry	4
Cumberland	4
E. Greenwich	1
Glocester	3
Lincoln	6
S. Kingstown	2
Tiverton	1
Total	25

State Mandates

- | State law requires state to issue a report on all state mandates enacted since 1979
- | Requires Budget Office forward the costs for unfunded mandates to the governor for consideration
- | FY 2010 report identifies 86 mandates
- | FY 2008 report noted \$1.1 million in costs
 - u FY 1992 was last reimbursement state made

Recent Proposals to Assist Locals

- I Collective Bargaining Issues
 - u Teacher Contract Approval
 - u Minimum Manning
 - u Police and Fire Injured on Duty
 - u Pension Limitations
 - u Retiree Health Limitations

Revenues: How We Compare

<i>State & Local Taxes Per Capita (FY 2007 Census)</i>	Rank 1997	Rank 2007
Individual Tax Collections	24	26
Property Tax Collections	7	7
Gen. Sales Tax Collections	39	30
Selective Sales Collections	15	23
All Other Taxes Collections	21	15

Issues Facing Locals

- | Property Tax Limits and Yields
 - u Foreclosures
 - u Declining revenues
- | Long Term Liabilities
 - u Pensions
 - u Retiree Health
- | Uncertainty of state support

State Mandates

- | State law requires state to issue a report on all state mandates enacted since 1979
- | Requires Budget Office forward the costs for unfunded mandates to the governor for consideration
- | FY 2010 report identifies 86 mandates
- | FY 2008 report noted \$1.1 million in costs
 - u FY 1992 was last reimbursement state made

Recent Proposals to Assist Locals

- | Maintenance of Effort
 - u Library Support
 - u Education Funding
- | Realignment Commissions
- | Statewide Purchasing
- | Statewide Transportation

Local Government: Education

Public Education – Who we are

- | 147,629 Students
- | 36 Districts
- | 4 Regional school districts
- | 13 Charter Schools
 - └ 3 of which are district affiliated
- | State Schools
 - └ School for the Deaf
 - └ Davies Career and Technical School
 - └ Metropolitan Career and Technical School

How do we compare?

Data from the United States Census and National Center for Educational Statistics

Average Number of Students per District - 2008	
Vermont	343
Maine	654
New Hampshire	1,141
Massachusetts	3,178
Connecticut	3,438
Rhode Island	4,101
US Average	3,460

How do we compare?

- | US Average can be misleading
 - u 24 districts in the US have more than 100,000 students
 - u 26% of Texas districts have more than 50,000 students; 24% have less than 5,000 students

How do we compare?

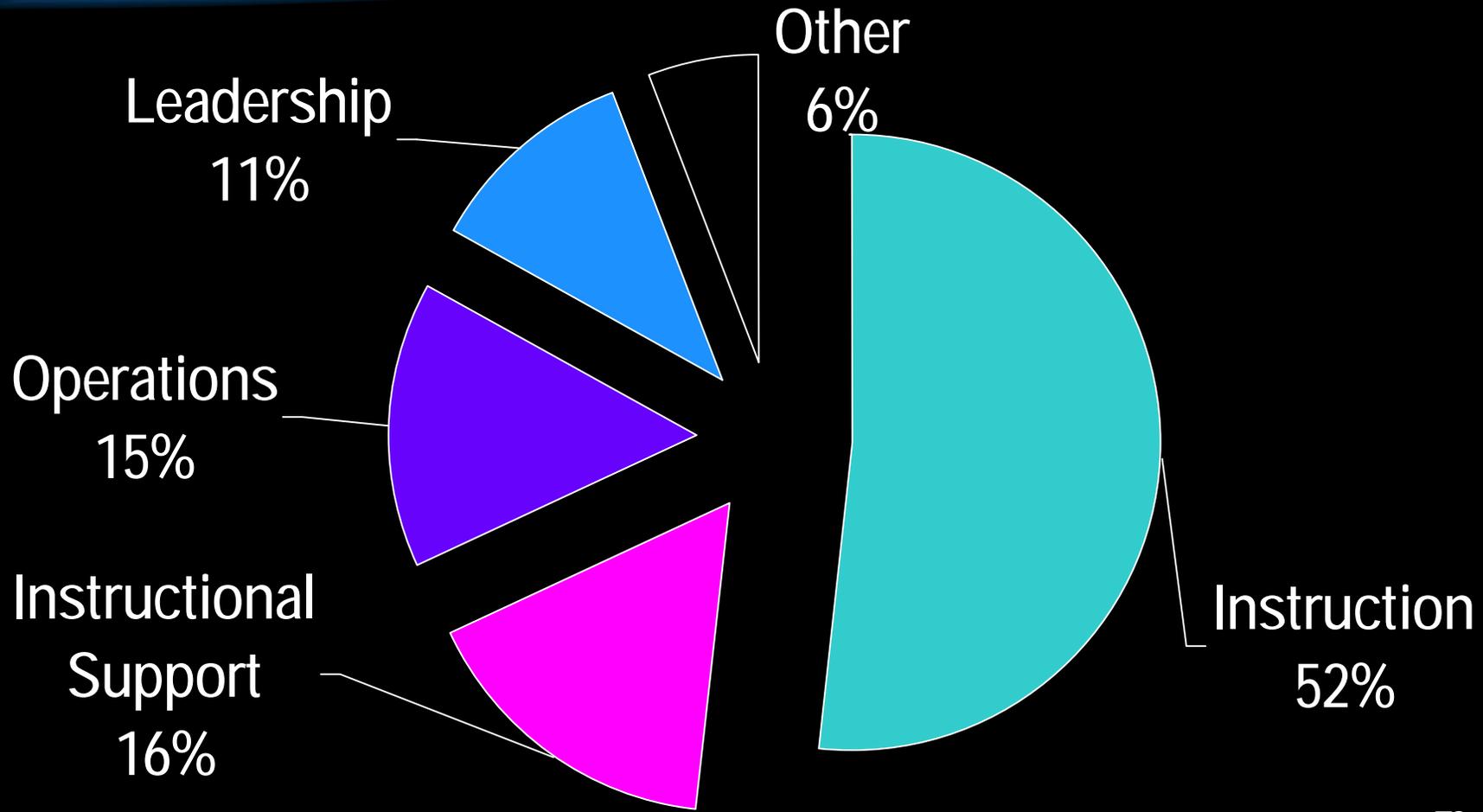
Size of District	# of Districts	
	<i>US</i>	<i>RI</i>
<i>Enrollment</i>		
1 - 299	2,724	2
300 – 599	1,903	2
600 – 999	1,762	1
1,000 – 2,499	3,309	9
2,500 – 4,999	2,012	14
5,000 – 9,999	1,064	5
10,000 – 24,999	590	3
25,000 or more	281	0

Governance

- | City School Boards, Local Boards, County School Boards, Consolidated School Boards
- | Elected vs. Appointed
- | RI: elected local school boards except for
 - u Providence – appointed by mayor
 - u Central Falls – Board of Trustees appointed by state

What do we spend our money on?

FY 2007 InSite Data



Expenditures

- | Instruction – 52%
 - u Salaries and benefits for teachers, substitutes
 - 46.6% of all expenditures
 - u Instructional materials

Expenditures

- I Instructional Support – 16%
 - u Guidance/counseling
 - u Library
 - u Student health services
 - u Staff development
 - u Therapists

Expenditures

- | Operations – 15%
 - u Transportation – 3.5%
 - u Food services
 - u Safety
 - u Building maintenance – 7.3%
 - u Data processing
 - u Business operations

Expenditures

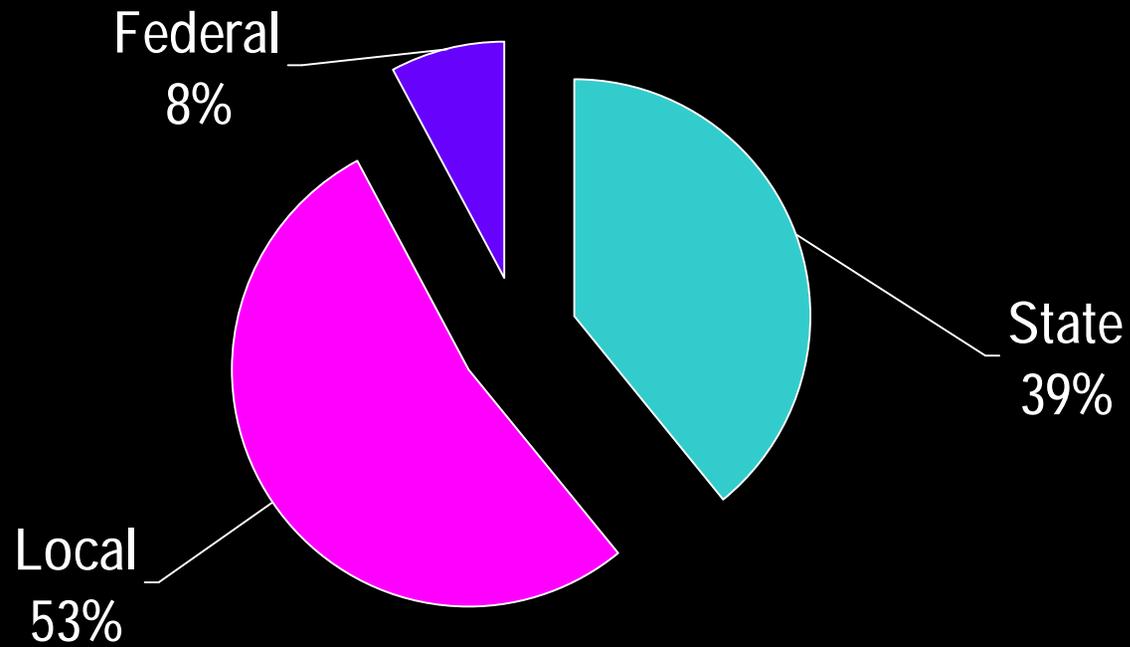
- | Leadership – 6%
 - u Principals/Assistant Principals – 3%
 - u Superintendent
 - u Legal
 - u Administrators

Expenditures

- | Other – 11%
 - u Debt service – 2%
 - u Capital projects
 - u Retiree benefits – 1.6%

How do we pay for it?

Data from United States Census Bureau



How do we pay for it?

I Local

- u Property taxes

I State Aid

- u Direct aid, school construction, teacher retirement

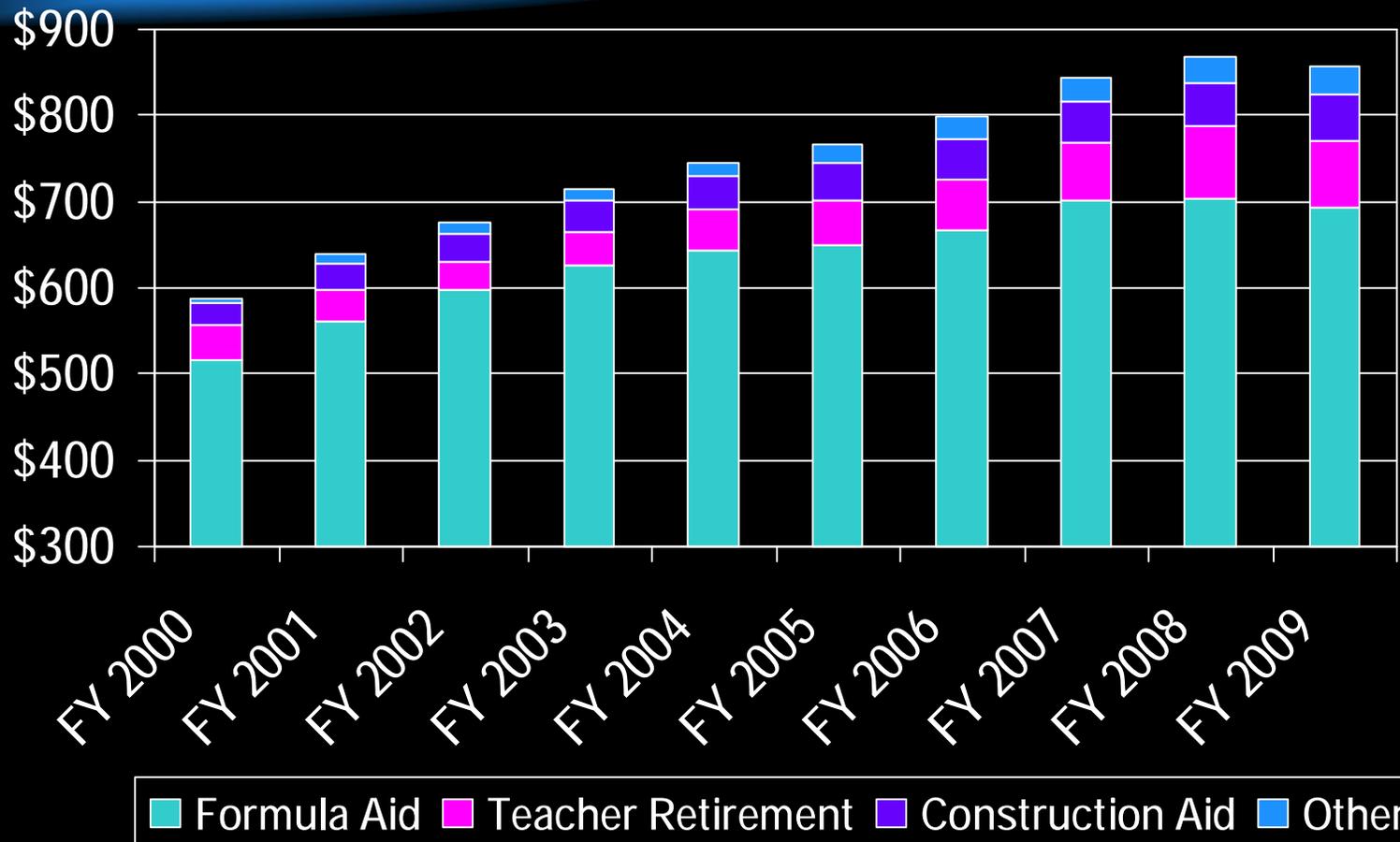
I Federal

- u Title I, IDEA, School Lunch, etc.

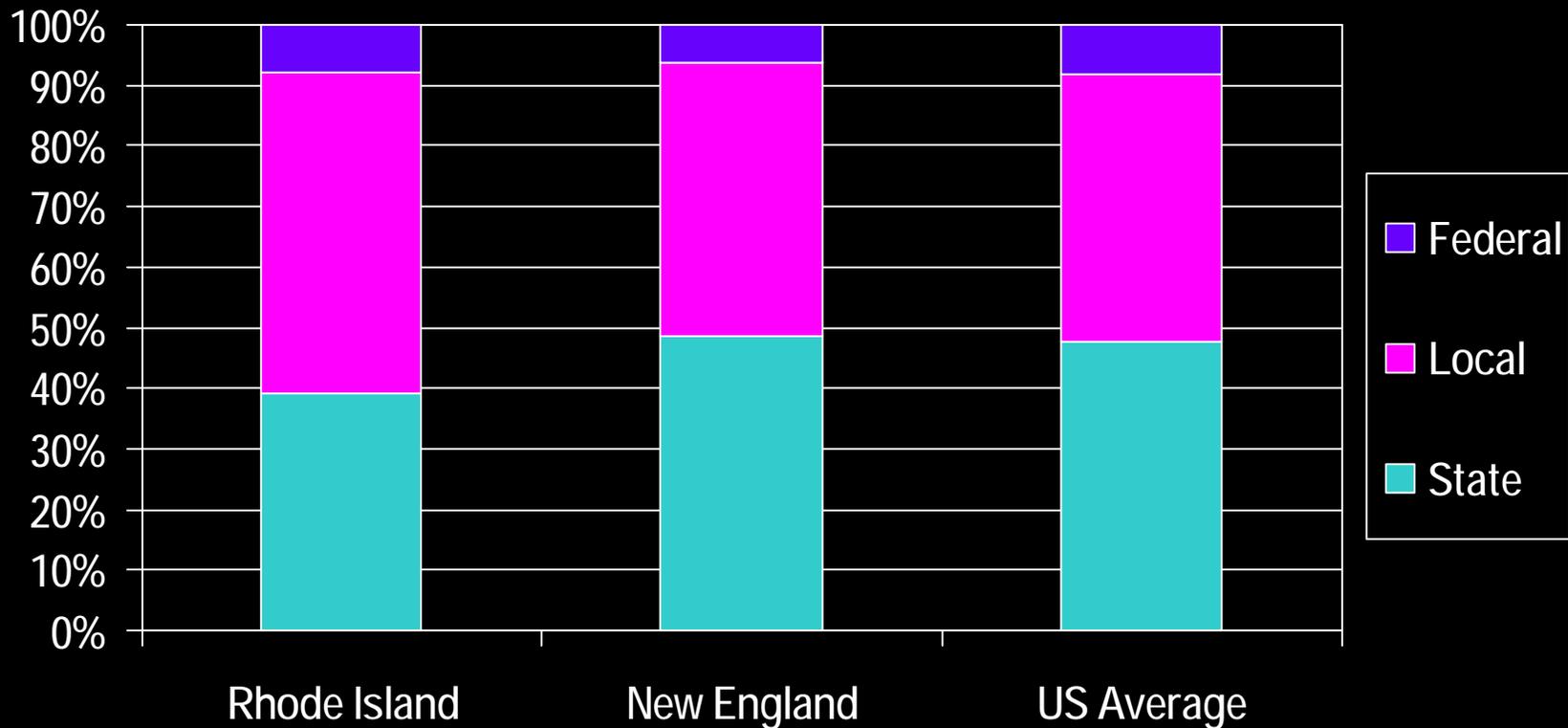
Current State Aid

- | House budget provides \$640.3 million of direct aid
 - u \$595.5 million from general revenue
 - u \$42.7 million from federal stabilization funds
- | State's MOE limits budget options

State Aid History – in millions



How We Compare



Per Pupil Expenditures

Fiscal Year	RI	New England	US	Rank
1997	\$7,381	\$6,914	\$5,882	5
2002	\$9,718	\$9,136	\$7,701	8
2007	\$12,612	\$12,318	\$9,666	7

Per Pupil Expenditures

- | What factors contribute to regional differences?
 - u Teachers' salaries
 - u Student poverty
 - u Cost of living

Recent Efforts for Efficiencies

- | Regionalization
- | Joint purchasing
- | Statewide transportation
- | Collaboratives
- | Health Care

Recent Efforts for Efficiencies

I Regionalization

- u Currently have 3 full and 1 partially regional districts
- u Regionalized between 1958 and 1991
- u Regionalization bonus aid discontinued but exists in base funding
- u Current bonus for school construction aid projects

Recent Efforts for Efficiencies

I Joint Purchasing

- u Voluntary statewide purchasing system for goods, supplies and services
- u Article 18 permits public schools to join cooperatives consisting of two or more states

Recent Efforts for Efficiencies

I Statewide Transportation

- u 2009 Assembly adopted legislation mandating use of statewide system for special needs students and eventual implementation of system for all students
- u Out of district began Sept 2009 with 14 districts
- u Dept estimates savings to districts of \$1.6 million

Recent Efforts for Efficiencies

I Collaboratives

- u Established through districts and school committees
- u Joint educational programs and/or administrative functions
- u 5 regional collaboratives

Recent Efforts for Efficiencies

I Health Care

- u Assembly adopted legislation creating a uniform medical & prescription drug benefit plan for school district & charter school employees
- u Board of Directors designs and approves medical benefits & prescription drug plans
- u Choice of benefit plan from those approved, cost sharing, payment for waiving insurance, eligibility and retiree benefits still negotiated

Recent Efforts for Efficiencies

I Health Care

- u Teacher cost shares for FY 2010 range from 0% - 20%
- u Most between 10% - 15% of plan
- u Most office co-pays between \$10 and \$15

I Waivers range from either

- u \$1,000 to \$6,000
- u 25% to 50% of premium

Proposals for Further Efficiencies

- | Statewide Teacher Contract
- | Realignment Commission
- | Administrative Districts
- | Statewide Food Service Contract

Proposals for Further Efficiencies

I Statewide Teacher Contract

- u 2003 Assembly instructed DOA to conduct cost/benefit analysis of a statewide teacher contract
- u Study found 6 cost drivers related to collective bargaining:
 - Direct salary (scale), longevity, degrees, healthcare, social security participation, student/teacher ratio

Proposals for Further Efficiencies

I Statewide Teacher Contract

- u Found potential savings of up to \$234.0 million using lowest cost structure and potential costs up to \$271.7 using highest cost structure
- u Did not attempt to assess quality issues
- u <http://www.budget.ri.gov/Documents/Special%20Reports/>

Proposals for Further Efficiencies

I Realignment Commission

- u Governor proposed in FY 2009 revised and FY 2010 revised budgets
- u Review and make recommendations for realigning school services in cases where such realignment will be cost effective

Proposals for Further Efficiencies

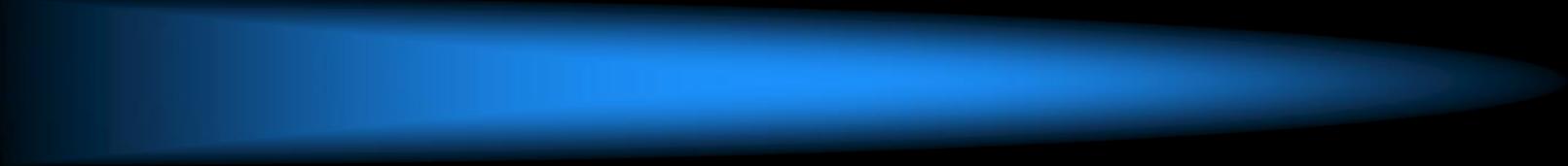
I Administrative Districts

- u Legislation introduced during 2008 session to create 4 administrative districts or regions for administration and purchasing
- u A different bill would have 5 regional districts with regional superintendents and deputy district administrators

Proposals for Further Efficiencies

- I Statewide Food Service Contract
 - u Governor proposed as part of FY 2009 revised budget
 - u Dept of Ed would develop and implement a statewide food services program for all districts, charter schools, state schools
 - u Dept estimated savings to districts of \$3.2 million

FY 2010 Revised Budget and Beyond: State & Local Government Structure & Tax Policy



Staff Presentation to the House
Finance Committee

April 22, 2010