

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Journal of the Senate

JANUARY SESSION of the General Assembly begun and held at the State House in the City of Providence on Tuesday, the fourth day of January in the year of Our Lord two thousand and eleven.

Volume 138, No.18

Tuesday, March 8, 2011

Eighteenth Legislative Day

The Senate meets pursuant to adjournment and is called to order by the Honorable M. Teresa Paiva Weed, President of the Senate, at 4:18 o'clock P.M.

The roll is called and a quorum is declared present with 36 Senators present and 2 Senators absent as follows:

PRESENT – 36: The Honorable President Paiva Weed and Senators Algieri, Bates, Ciccone, Cote, Crowley, DaPonte, DeVall, DiPalma, Doyle, Felag, Fogarty, Gallo, Goodwin, Hodgson, Jabour, Kettle, Lanzi, Lombardo, Lynch, Maher, McCaffrey, Metts, Moura, Nesselbush, O'Neill, Ottiano, Perry, Picard, Pichardo, Ruggerio, Sheehan, Shibley, Sosnowski, Tassoni, Walaska.

ABSENT – 2: Senators Miller, Pinga.

INVOCATION

The Honorable President, by unanimous consent, presents Senator Cote to deliver the invocation.

(See Appendix for Invocation)

PLEDGE OF ALLEGIANCE TO THE FLAG

The Honorable President, by unanimous consent, presents Senator Cote to lead the Senate in the pledge of allegiance to the flag.

APPROVAL OF RECORD

The Senate Journal of the Seventeenth Legislative Day of the 2011 proceedings is read in part.

Upon suggestion of Senator Cote and by unanimous consent, further reading of the Journal is dispensed with and the Journal approved as recorded.

COMMUNICATIONS

The Honorable President presents the following communications:

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
STATE HOUSE**

March 7, 2011

Mr. Joseph R. Brady
Secretary of the Senate
Room 145, State House
Providence, RI 02903

Dear Secretary Brady:

I would like to take this opportunity to respectfully request that the following bill be withdrawn at the sponsor's request. The legislation I would like to have withdrawn is 2011 Senate Bill 035. I appreciate your assistance in this matter. If you have any questions, please feel free to contact me.

Sincerely,

John J. Tassoni, Jr.
Senator – District 22

Read and ordered to be placed on file.

Also:

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
STATE HOUSE**

March 8, 2011

TO THE HONORABLE SENATE:

I have the honor and the privilege to inform you that in accordance with the provisions of R.I.G.L. 8-8-16.2, entitled District Court: Clerk/Magistrate, I have made the following appointment as Clerk/Magistrate of the Rhode Island District Court:

JOSEPH ANTHONY MONTALBANO of North Providence

To this appointment, I respectfully request your advice and consent.

Very truly yours,

Jeanne E. LaFazia
Chief Judge

Read and ordered to the Committee on Judiciary.

CONSENT CALENDAR

In order for the day is taken up as follows:

1. 2011-S 111**BY Lanzi**

ENTITLED, SENATE RESOLUTION RESPECTFULLY REQUESTING THE
STATE TRAFFIC COMMISSION TO INSTALL SAFETY
IMPROVEMENTS IN THE CITY OF CRANSTON

2. 2011-S 137**BY Sosnowski**

ENTITLED, SENATE RESOLUTION RESPECTFULLY REQUESTING THE
BUREAU OF OCEAN ENERGY MANAGEMENT, REGULATION,
AND ENFORCEMENT TO COMPREHENSIVELY INVOLVE
FISHERMEN IN THE DEVELOPMENT OF OFFSHORE ENERGY
PROJECTS

Upon motion of Senator Ruggerio, seconded by Senator Algiere, the measures on today's Consent Calendar, by unanimous consent, are read and passed, upon a roll call vote with 35 Senators voting in the affirmative and 0 Senators voting in the negative as follows:

YEAS- 35: The Honorable President Paiva Weed and Senators Algiere, Bates, Ciccone, Cote, Crowley, DaPonte, DeVall, DiPalma, Doyle, Felag, Fogarty, Gallo, Goodwin, Hodgson, Jabour, Kettle, Lanzi, Lombardo, Lynch, Maher, McCaffrey, Metts, Moura, Nesselbush, O'Neill, Ottiano, Perry, Picard, Pichardo, Ruggerio, Sheehan, Shibley, Sosnowski, Tassoni.

NAYS- 0:

CALENDAR**IN ORDER FOR TUESDAY, MARCH 8, 2011:****1. Nomination of Carolina Baque Bernal (appointment) VICE Anna Cano-Morales to the Board of Regents for Elementary and Secondary Education for a term expiring January 31, 2014.**

Committee on Education recommends that the Senate give its Advice and Consent to this nomination.

Senator Gallo seconded by Senators Ruggerio, Goodwin, DeVall, Doyle and Tassoni moves that advice and consent of the Senate be given this appointment.

Senators Moura, Lanzi and DaPonte discuss the appointment.

The advice and consent of the Senate is given this appointment, upon a roll call vote with 26 Senators voting in the affirmative and 10 Senators voting in the negative as follows:

YEAS- 26: The Honorable President Paiva Weed and Senators Ciccone, Crowley, DaPonte, DeVall, DiPalma, Doyle, Felag, Fogarty, Gallo, Goodwin, Jabour, Lanzi, Lombardo, Lynch, McCaffrey, Metts, Nesselbush, Perry, Picard, Pichardo, Ruggerio, Sheehan, Sosnowski, Tassoni, Walaska.

NAYS- 10: Senators Algieri, Bates, Cote, Hodgson, Kettle, Maher, Moura, O'Neill, Ottiano, Shibley.

GUESTS

Upon suggestion of Senator DaPonte and by unanimous consent, the Honorable President welcomes to the Chamber Carolina Baque Bernal along with her father Francisco Baque, daughter Caroline Bernal, son Christopher Bernal and friend Doris Blanchard.

CALENDAR

2. Nomination of George D. Caruolo (appointment) VICE Robert Flanders to the Board of Regents for Elementary and Secondary Education for a term expiring January 31, 2012.

Committee on Education recommends that the Senate give its Advice and Consent to this nomination.

Senator Gallo seconded by Senators Ruggerio, Lanzi, Picard, Sheehan, McCaffrey, Doyle, Perry, Jabour and Metts moves that advice and consent of the Senate be given this appointment.

Senators O'Neill, DeVall, Shibley, Sheehan, Hodgson, Nesselbush, Crowley, Maher, Pichardo, Gallo and DaPonte discuss the appointment.

The advice and consent of the Senate is given this appointment, upon a roll call vote with 26 Senators voting in the affirmative and 10 Senators voting in the negative as follows:

YEAS- 26: The Honorable President Paiva Weed and Senators Ciccone, Crowley, DaPonte, DeVall, DiPalma, Doyle, Felag, Fogarty, Gallo, Goodwin, Jabour, Lanzi, Lombardo, Lynch, McCaffrey, Metts, Nesselbush, Perry, Picard, Pichardo, Ruggerio, Sheehan, Sosnowski, Tassoni, Walaska.

NAYS- 10: Senators Algieri, Bates, Cote, Hodgson, Kettle, Maher, Moura, O'Neill, Ottiano, Shibley.

GUESTS

Upon suggestion of Senator DeVall and by unanimous consent, the Honorable President welcomes to the Chamber newly appointed Director of Board of Regents for Elementary and Secondary Education George Caruolo and his son Andrew Caruolo.

CALENDAR**3. Nomination of Mathies J. Santos (appointment) VICE Amy Beretta to the Board of Regents for Elementary and Secondary Education for a term expiring January 31, 2014.**

Committee on Education recommends that the Senate give its Advice and Consent to this nomination.

Senator Gallo seconded by Senators Ruggerio, DiPalma, Perry, Pichardo, DeVall, DaPonte and Jabour moves that advice and consent of the Senate be given this appointment.

Senators Perry and Metts discuss the appointment.

The advice and consent of the Senate is given this appointment, upon a roll call vote with 30 Senators voting in the affirmative and 5 Senators voting in the negative as follows:

YEAS- 30: The Honorable President Paiva Weed and Senators Algieri, Bates, Ciccone, Cote, Crowley, DaPonte, DeVall, DiPalma, Doyle, Felag, Fogarty, Gallo, Goodwin, Jabour, Lanzi, Lombardo, Lynch, Maher, McCaffrey, Metts, Nesselbush, Ottiano, Perry, Picard, Pichardo, Ruggerio, Sosnowski, Tassoni, Walaska.

NAYS- 5: Senators Hodgson, Kettle, Moura, O'Neill, Shibley.

4. Nomination of Steven M. Costantino (appointment) VICE Gary D. Alexander as Secretary of the Executive Office of Health and Human Services.

Committee on Health & Human Services recommends that the Senate give its Advice and Consent to this nomination.

Senator Perry seconded by Senators Ruggerio, Goodwin, DaPonte, Doyle, Nesselbush, Crowley, Lynch, Lanzi, Ciccone and Algieri moves that advice and consent of the Senate be given this appointment.

Senators Jabour and DaPonte discuss the appointment.

The advice and consent of the Senate is given this appointment, upon a roll call vote with 35 Senators voting in the affirmative and 1 Senator voting in the negative as follows:

YEAS- 35: The Honorable President Paiva Weed and Senators Algieri, Bates, Ciccone, Cote, Crowley, DaPonte, DeVall, DiPalma, Doyle, Felag, Fogarty, Gallo, Goodwin, Hodgson, Jabour, Lanzi, Lombardo, Lynch, Maher, McCaffrey, Metts, Moura, Nesselbush, O'Neill, Ottiano, Perry, Picard, Pichardo, Ruggerio, Sheehan, Shibley, Sosnowski, Tassoni, Walaska.

NAYS- 1: Senator Kettle

GUESTS

Upon suggestion of Senators Jabour and by unanimous consent, the Honorable President welcomes to the Chamber newly appointed Secretary of the Executive Office of Health and Human Services Steven M. Costantino along with his brothers Allan, Gregory and Joseph Costantino, nephew Christopher Spertini, Stephen Patricia, former State Representative Joe Almeda, Elizabeth Smith and friend Margaret Holland-McDuff.

CALENDAR**5. Nomination of Sandra M. Powell VICE Gary Alexander as the Director of the Department of Human Services.**

Committee on Health & Human Services recommends that the Senate give its Advice and Consent to this nomination.

Senator Perry seconded by Senators Walaska, Lynch, Sheehan, Cote, Bates, Algieri, Ruggerio, Goodwin, Gallo and Nesselbush moves that advice and consent of the Senate be given this appointment.

Senator Walaska discusses the appointment.

The advice and consent of the Senate is given this appointment, by unanimous consent, upon a roll call vote with 35 Senators voting in the affirmative and 0 Senators voting in the negative as follows:

YEAS- 35: The Honorable President Paiva Weed and Senators Algieri, Bates, Ciccone, Cote, Crowley, DaPonte, DeVall, DiPalma, Felag, Fogarty, Gallo, Goodwin, Hodgson, Jabour, Kettle, Lanzi, Lombardo, Lynch, Maher, McCaffrey, Metts, Moura, Nesselbush, O'Neill, Ottiano, Perry, Picard, Pichardo, Ruggerio, Sheehan, Shibley, Sosnowski, Tassoni, Walaska.

NAYS- 0:

GUESTS

Upon suggestion of Senator Walaska and by unanimous consent, the Honorable President welcomes to the Chamber newly appointed Director of the Department of Human Services Sandra Powell along with her mother Charlotte Watkins, brothers James and Russell Watkins, sister Dhana Whiteing, sister-in-law Barbara Watkins, nephew Alan Watkins, niece Tanisha Watkins and great nephews Khalin and Nicholas Watkins.

TRANSMITTAL

By unanimous consent, all matters on the Secretary's desk are ordered to be transmitted to His Excellency, the Governor, the Honorable Secretary of State or to the Honorable House of Representatives forthwith.

ANNOUNCEMENTS

Senator Sheehan announces that the Committee on Health and Human Services will meet tomorrow, at the rise of the Senate, in Room 212 of the State House.

Senator Lynch announces that the Committee on Special Legislation will meet tomorrow, at the rise of the Senate, in Room 211 of the State House.

RECESS

Upon motion of Senator Goodwin, seconded by Senator Ruggerio, the Senate stands at recess at 5:40 o'clock P.M.

FROM THE HOUSE OF REPRESENTATIVES

A message from the House of Representatives transmits with announcement of passage, of the following measure:

House Resolution No. 5829

BY Mattiello, Watson, Newberry

ENTITLED, JOINT RESOLUTION INVITING HER HONOR, THE PRESIDENT OF THE SENATE, AND THE HONORABLE SENATE TO JOIN THE HOUSE OF REPRESENTATIVES IN JOINT SESSION FOR THE PURPOSE OF RECEIVING THE STATE OF THE STATE ADDRESS OF HIS EXCELLENCY THE GOVERNOR {LC2048/1}

Senator Ruggerio requests unanimous consent for immediate consideration.

Unanimous consent for immediate consideration is granted.

Senator Ruggerio moves passage, seconded by Senator Algieri and the entire Senate..

The resolution is read and passed, upon a voice vote.

Appendix**INVOCATION****SENATOR MARC A. COTE**

Almighty Father, let your spirit of wisdom transcend upon the leaders of our State. Tonight as our Governor delivers his first budget address, we look to you to guide his heart and the hearts of all the members of this legislature as we strive to work for a better tomorrow for all our citizens. Amen.

Appendix

CALENDAR

IN ORDER FOR WEDNESDAY, MARCH 9, 2011:

1. 2011-S 110

BY Fogarty P

ENTITLED, AN ACT RELATING TO THE WEST GLOCESTER FIRE DISTRICT

Committee on Housing & Municipal Government recommends passage.

2. 2011-S 157

BY Miller

**ENTITLED, AN ACT RELATING TO FURNISH THE CITY OF PROVIDENCE
WITH A SUPPLY OF PURE WATER**

Committee on Housing & Municipal Government recommends passage.

JOSEPH R. BRADY
Secretary of the Senate

PROCEEDINGS IN JOINT SESSION

Tuesday, March 8, 2011

The Honorable President of the Senate, M. Teresa Paiva Weed, in the Chair.

CALLED TO ORDER

The Joint Session is called to order at 6:44 o'clock P.M.

Upon suggestion of the Honorable President, and by unanimous consent, the reading of the roll of the Senate and the roll of the House of Representatives is dispensed with, there being a quorum of the Senate and a quorum of the House of Representatives present, therefore a quorum of the Joint Session.

The Honorable President, by unanimous consent, appoints Senators Algieri, DaPonte, Goodwin, Nesselbush, Pichardo and Walaska and Representatives Coderre, Lally, McCauley, Newberry, O'Neill and Watson to escort His Excellency, the Governor, Lincoln D. Chafee to the Chamber.

Joint Session attends while members of the Judiciary enter the Chamber.

Joint Session attends while members of the Board of Governors, Board of Regents and Presidents of the Rhode Island Institutions of Higher Learning enter the Chamber.

Joint Session attends while Mayors, Town Administrators and Local City and Town Officials enter the Chamber.

Joint Session attends while Directors of the Executive Departments and invited guests enter the Chamber.

Joint Session attends while the Honorable Gina Raimondo, General Treasurer, enters the Chamber.

Joint Session attends while the Honorable A. Ralph Mollis, Secretary of State, enters the Chamber.

Joint Session attends while Her Honor, the Lieutenant Governor, Elizabeth H. Roberts, enters the Chamber.

Joint Session attends while His Excellency, the Governor, Lincoln D. Chafee, enters the Chamber.

The Honorable President presents His Excellency, the Governor, Lincoln D. Chafee, to the Joint Session. The Governor delivers his Budget Address.

(See Appendix for Governor's Message.)

Upon suggestion of the Honorable President, and by unanimous consent, the Joint Session attends while the committee escorts His Excellency, the Governor, Lincoln D. Chafee, from the Chamber.

ADJOURNMENT

Upon motion of Speaker Fox, seconded by Senate Majority Leader Ruggerio, and by unanimous consent, Joint Session adjourns and the two Houses separate at 7:28 o'clock P.M.

JOSEPH R. BRADY
Secretary of the Senate

Appendix
Governor Lincoln D. Chafee
Fiscal Year 2012 Budget Address:
A Path to Prosperity

March 8, 2011

Mr. Speaker, Madam President, members of the General Assembly, fellow General Officers, members of the Judiciary, distinguished guests, and my fellow Rhode Islanders.

It is a privilege to speak to you from this chamber, a shrine to the democratic debate that has defined our lively experiment since Rhode Island was founded. Every day that I report to work as your Governor, I feel honored by the trust you have placed in me. I intend to show the people of our state that they can again count on their government to make wise financial decisions, protect the common good, and build a 21st century Rhode Island that makes us proud. A Rhode Island that can be great again.

In so many ways, Rhode Island has already achieved greatness. In our early centuries, we were a bastion of democracy, zealous in the defense of rights and liberties. With the Industrial Revolution, we became a beehive of entrepreneurial activity, supplying the American people with textiles, tools, and household objects that were essential to the winning of the west, the winning of wars, and the winning of a better life for millions of immigrants. In the 20th century, we Rhode Islanders did far more than our share to help America suppress tyranny abroad and build prosperity at home.

The 21st century has been more difficult. We have modernized slowly. We have not adapted to new ideas and new markets. We face high unemployment and large budget deficits. Our democracy has certainly been lively, but not always functional. Once again, we need to find a new path to greatness. We have to retool and rethink our place in the world.

That will not be easy. But not one of us in this room was sent here to do a job that we thought would be easy. This is a challenge worthy of all of our talents and energy. I am reminded of Rhode Island's potential for prosperity simply by walking into this building. Our State House was built at enormous cost, over nearly a decade, before it was dedicated in 1904. We imported 327,000 cubic feet of white Georgia marble, along with 15 million bricks and 1300 tons of steel beams. The architects found inspiration from the best features of the US Capitol and the great domed structures of London, Paris and Rome. But it was designed to be a unique Rhode Island statement, visible from the waters of Narragansett Bay as well as the streets of Providence, that our state government was supposed to set a very high standard. They didn't want a building that would last a few years, and so they gave us a structure that has stood the test of time.

Like them, we also need to think ahead, for the benefit our children and their children. How wrong it would be if future historians said of us, "They responded to the issues of their day, but did little to plan for the future." Or even worse, "They failed to respond to the issues of their day." We can't allow that to happen. And so I ask you tonight to think about leadership, and the hard decisions that it can demand. We have those hard decisions before us, but I believe our better future starts today. By directly confronting our challenges, we may take the first steps on a path to prosperity.

Our greatest responsibility this year is to pass a budget that closes the enormous deficit, invests in our schools, and fixes structural problems. In recent years, we have relied on federal funding to close our budget gaps, instead of making tough choices about what services our government should provide, and how much we can afford. The federal stimulus money has ended, and we now face a deficit of \$295 million in Fiscal Year 2012. Obviously, we can no longer delay difficult discussions. My budget aims to close the deficit through a combination of revenue enhancements and program cuts, while ensuring that we do not harm the state investments that are necessary for future growth.

One of the key areas for new revenue we must examine is the sales tax. At 7%, Rhode Island has the highest sales tax rate in New England. Yet because we exempt food, clothing and numerous other items, we also have one of the narrowest sales tax bases in the country. Tonight I am proposing a two-tiered sales tax modernization plan that will address our near-term needs while making our state more competitive. While I do not like the idea of imposing new taxes, we must take this vital step to address our structural deficit.

As I have mentioned in the past, we need to take a close look at the items we currently exempt from sales tax. During the campaign, I recommended taxing currently exempt goods at 1%, and I remain committed to that plan to help us reduce our deficit. However, I also believe that government should always listen to its citizens. In response to concerns that the 1% sales tax may pose a hardship to our more vulnerable populations, I propose maintaining our current exemptions for food, gasoline, prescription drugs and medical devices. All would remain exempt from sales tax.

There is another simple and fair way to increase revenue. Rhode Island businesses are facing unfair competition from Internet sales, which are normally not subject to sales tax. This is no small problem. Rhode Island is projected to lose \$70 million in sales tax revenue to Internet and other remote sales in FY2012. While I believe that Internet sales provide consumers with access to more options, they should not enjoy an advantage over our local businesses by being exempt from sales tax. This is a federal issue, and I am calling on Congress to pass the Main Street

Fairness Act, which would allow states to collect sales tax on Internet purchases from out-of-state sellers. This legislation would level the playing field between out-of-state Internet retailers and Rhode Island businesses. When I was in Washington, DC, at the National Governors' Association conference, I raised this issue with House Speaker John Boehner and Senate Majority Leader Harry Reid, and I will continue to press for passage. The Main Street Fairness Act would aid Rhode Island businesses and would also provide us with enough revenue to allow us to repeal the 1% sales tax.

Until then, the 1% tax is a necessary fix required in difficult times. Looking ahead, we must also modernize our sales tax so that it adapts to a changing economy. When the sales tax was enacted in Rhode Island in 1947, 60% of U.S. personal household consumption was of goods, while 40% was on services. Since then, the United States has moved to a more service-based economy. The average household now spends about 70% on services and 30% on goods, yet the items subject to sales tax have not changed. To modernize our system, I propose expanding our sales tax to include certain services such as dry cleaning, beauty salons and recreational activities.

If we apply our sales tax to a broader base, we can actually lower it to a more competitive rate. And so, I propose reducing Rhode Island's sales tax rate from 7% to 6%, returning it to the level we had in 1990 before the credit union crisis. The new 6% rate would be lower than that of Massachusetts and the proposed rate for Connecticut, encouraging more people to shop in our state and providing a much-needed boost to our retail industry here. It would also send a signal that Rhode Island is committed to attracting new businesses here.

Any talk of taxes is painful in a time of recession. But we have to make our state solvent if we are to rebuild. The sacrifices we make today will be bearable if they are shared equally by all of our citizens and if they lead clearly and unmistakably to a better future for our children. To avoid solving our problems is not only a failure to discharge our responsibility; it is, in the long haul, more expensive. By confronting these problems immediately, we will show the world that we are serious about returning Rhode Island to greatness.

But raising new revenues through a modernized sales tax gets us only about halfway to closing the deficit. If we want to balance the budget in both the short- and long-term, we must make some difficult decisions to cut government spending. Expenditures on health and human services programs are not only the largest portion of state budget, but they are also growing at the fastest rate. Unless we take action, spending on these programs is on track to grow by \$96 million between 2008 and 2012, driven by rising health care costs and federal maintenance of effort requirements. In comparison, spending on other state government agencies climbed \$12 million over those same years because of significant personnel reductions, while municipal aid was cut by

\$195 million. It is time to make hard decisions about what services our government should provide and how much we are willing to pay for them.

Working with the Office of Health and Human Services, we conducted a top-to-bottom review of all five of its departments and identified areas for savings. By reforming payment and service delivery, restructuring existing contracts, and improving oversight of our programs, we can cut spending by over \$60 million in FY 2012, with an even larger amount projected for FY2013. Many of these reforms are common sense, such as paying providers the same rate for comparable services. The changes will make our health care payment system more transparent and allow us to evaluate what we are getting for our tax dollars. Our goal with these spending cuts was to minimize the impact on beneficiaries, but the cuts will still cause controversy. I encourage the General Assembly to discuss and debate these proposals thoroughly. But at the end of the day, I urge you to recognize that we simply cannot continue to fund our current level of services.

I also propose \$20 million in cuts to other departments as a first step in a larger review of their operations and management. State government administers many important programs that affect our citizens, yet we have no systematic way of knowing how well we are doing. I am working with my department directors and their employees to review operations throughout our government. We must identify the most important responsibilities of government, ensure we do them well, and decide how to measure our effectiveness. We will make our departments more accountable and efficient, and then determine which programs are worthy of continued investment and which ones should be modified or eliminated.

A combination of revenue enhancements and cuts will help us close the current deficit, but that is not enough. Our budget must promote economic development for long-term growth. One area of particular attention is our state's business climate. For too long, our economic development strategy has been targeted toward individual companies instead of creating an environment that fosters broad economic growth. One such example is the Jobs Development tax credit, which lowers the corporate tax rate for companies that create jobs. While the program is well intended, in reality, very few companies can navigate its complex reporting requirements, and its effectiveness is difficult to determine.

Our corporate tax code also creates an unfair advantage for multistate companies with operations in Rhode Island by allowing them to send profits out of state to avoid taxes here. Rhode Island companies with most of their sales here enjoy no such advantage. By moving to a system of combined reporting, which is used by the federal government and most New England states, we can treat all of our businesses fairly.

We need a climate where all businesses are encouraged to grow and prosper. Tonight, I propose that we phase out the Jobs Development tax credit and adopt a system of combined reporting for corporate taxation. The revenue we gain from those changes will allow us to lower the corporate minimum tax from \$500 to \$250 for more than 30,000 small businesses. We will also reduce our corporate tax rate over three years from 9.0% – one of the highest in the nation – to 7.5%, putting us on par with Connecticut and lower than Massachusetts. This lower corporate tax rate will benefit existing businesses with plans to expand their operations, as well as make our state more attractive to companies looking to relocate.

Another important factor in promoting economic growth in Rhode Island is developing a well-educated and skilled workforce. Last year, the General Assembly passed historic legislation creating an education funding formula to ensure that our cities and towns have a stable and predictable source of revenue to invest in public education. My budget honors that agreement by providing additional funds necessary to support the school funding formula. I am committed to ensuring a first-class public education system for our students so that they graduate with the skills needed to succeed in life.

We must also make lasting investments in our higher education system. We are fortunate to have three fine public institutions of learning – the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. Each plays an important role in educating our students. Unfortunately, the state's contribution to the Rhode Island higher education system has plummeted in recent years. My budget reverses that trend by proposing an additional \$10 million for our higher education system. We must demonstrate our commitment to higher education and to the young people of this state. There is no more important rung on the ladder to success.

Maintaining our transportation infrastructure is another vital investment in our state's future. One of government's core functions is to build and maintain roads and bridges, yet our method of paying for transportation projects is broken. Right now, the Department of Transportation uses proceeds from the gas tax to fund part of the state share of federal highway projects. We borrow the rest. The number of potholes and closed bridges in our state demonstrates that we need more funding for transportation, but the options are not easy. Rhode Island has one of the highest gas tax rates in the country, and we cannot raise it any higher. Instead, we must break our habit of borrowing money to build roads. In FY2011, Rhode Island will spend \$43.6 million in debt service on transportation bonds. That's more than \$40 million that we could have spent to repave our roads and strengthen our bridges. To fix this problem, I propose a five-year plan to dedicate the revenue we get from driver's license, registration and title fees toward a transportation infrastructure fund. By making incremental additions to this fund over time, we can diversify our

transportation funding sources, avoid increases in the gas tax and reduce our wasteful interest payments.

Another area for urgent action is our state's pension system. Our unfunded liability is about \$5 billion, and the gap could be even larger. The current system is unsustainable and a burden on our taxpayers. In FY2012, the state is contributing \$238 million toward state employee and teacher pensions, and that number will increase to \$422 million by FY2016. That's a 77% increase over four years. The state has made some progress in recent years to address the problem, but we need a comprehensive plan.

Under the terms of an agreement made by the previous administration, state employees received a 3% cost of living adjustment in January and are scheduled to receive another 3% in July. Tonight I propose that all state employees contribute their 3% July raise toward the state pension program. I also ask teachers, state police and other contributors to match the new state employee rate of 11.75% since all of these groups benefit from a strong pension system. This proposal would provide \$40 million in additional contributions this year. In light of the shared sacrifices I am asking all Rhode Islanders to make, I believe this increased contribution rate is reasonable and warranted. These higher funding levels would last until we establish comprehensive pension reform, at which time we can adjust them as necessary. We expect more information in the coming months about the financial state of our pension system. Using that information, I will work with the General Assembly and all interested parties to establish a long-term solution, for new and existing employees, that aligns the interests of Rhode Island taxpayers and our public employees.

Finally, as we work together to tackle our state's problems, we must not ignore the challenges facing our local governments. Like our state, many cities and towns face deficits and underfunded pension programs. Unfortunately, we have contributed to that problem. As I said earlier, we have cut state aid to cities and towns by \$195 million over the last four years in an effort to balance our own budget. If we do not want additional cities and towns to face the problems confronting Providence and Central Falls, we must take action now. My budget includes an additional \$5 million in aid to distressed communities for FY 2011 to help the cities and towns in greatest need. I also propose a new local aid initiative, the Municipal Accountability, Stability and Transparency program. The MAST program will provide nearly \$20 million in additional funds to communities that pursue sound financial planning and budgeting practices. Those cities and towns that do not make the necessary changes in the coming years will forfeit a portion of their state aid. Under this program, the state will be able to work more closely with cities and towns to understand their challenges at an early stage and avoid crisis. The state should

encourage municipalities to get their finances in order, and we must set a good example by demonstrating our own commitment to fiscal responsibility.

I want to say a word about how this budget will affect Rhode Islanders. My barber Ernie will now have to charge a sales tax that will cut into his tips. But he is willing to bear his part of the burden if we live up to our responsibilities in this chamber. If we spend taxpayer funds with discipline, so that our economy recovers and our people are well served, then these sacrifices will have met their purpose. My goal over the long term is to reduce our taxes to be more competitive, and so I want to ask all of you to pledge with me that we will commit to lower taxes as soon as the economy improves.

As those in this chamber know, the budget I am submitting tonight is required to use the revenue projections from last November's revenue estimating conference. We have some indication that the actual revenues for FY2012 may be higher than the November estimates. If those trends hold, I strongly encourage this chamber to use that additional money to lower taxes instead of adding new spending. Ideally, we could lower our sales tax rate to 5.75%, which would be a signal to the region and the nation that Rhode Island is serious about reducing its tax burden.

Over the last thirty minutes, you have listened to numbing phrases such as "unfunded liability," "structural deficits," combined reporting" and "corporate minimum tax." Let me be clear. All of our challenges are made easier by a growing economy. If we demonstrate fiscal discipline, our economy will prosper. I have been a deficit hawk throughout my entire career in public service. My votes and actions as a Senator, Mayor and Councilman are a testament to that. I firmly believe that the reason the nation is in its current economic state is that we lost our discipline and let our deficits soar.

The many challenges facing our state are intimidating, but not insurmountable. This budget proposal does not promise to solve all of our woes in a single year. Instead, it represents the first step on a bold new path to prosperity. Long-term vision is exactly the form of leadership that we need at this turning point in Rhode Island's history.

The 21st century can be another great century for Rhode Island. We must begin to think anew. Getting Rhode Island on the right path will mean making some difficult decisions, but I am confident that we will work together to restore the greatness that still radiates from this State House.

Thank you.