

Budget Press Conference Remarks
Monday, October 15, 2007

It is no secret that the State has faced a persistent deficit. When I first came to office four and a half years ago, I warned our citizens that state government was consistently overspending and living beyond its means.

This problem did not suddenly appear yesterday. It was not created overnight. It has been brewing for many years. In the last five fiscal years, the legislature has relied on over \$600 million of one-time sources of money to pay our bills. Because of that, I vetoed three of those five budgets, each time making the point that state government spending must be cut. Quick fixes were sought instead: using a large Medicaid payment and tobacco bonds to pay our monthly bills. This has not only swept the problem under the rug, it has made it worse. Now, dealing with the deficits has become that much more urgent. It's Red Alert Time!

Every Rhode Island household knows that if you're supporting your daily living expenses by raiding your savings – when those savings are gone you're in big trouble! Well, that's exactly where state government is today – our savings have been drained and we cannot afford the current rate of spending.

As I have reviewed the past years, and our present status, I have concluded that we have a \$200 million gap between the state's revenue and its current rate of spending. Some may argue that it's higher – in any case it's a major problem.

It could have been worse. Just after I became Governor, we started the "Big Audit" and continued that effort with our Fiscal Fitness project. From the beginning, we have been trying to make the government work more effectively and less expensively. As a result of the Big Audit and Fiscal Fitness, we have saved the taxpayers over \$275 million had we not been doing this work all along, the deficit would be approaching \$500 million!!

To avoid a \$200 million spending gap in the coming year, we can do two things. Either we run the government more efficiently and at less cost, or, we raise taxes! You will hear arguments that state government does not have a spending problem but a revenue problem, that it needs more income. That's political speak for raising taxes. I have no intention of doing that!!

I do not believe that we should raise taxes or need to. I know the burden that Rhode Island families already bear in taxes – it is one of the highest in the country. Right now, between federal, state and local property taxes the average Rhode Islander is working from January to the middle of May – some 4.5 months – just to pay their taxes!!

Incredibly, there are some who would raise taxes. I have chosen instead to change how things are done and to make our government a better value for taxpayers. Too many of our families, seniors, young people starting out, and hardworking Rhode Islanders are struggling to pay property taxes, higher gas prices, high home heating oil prices, as well as their own rising health care costs. Rhode Islanders don't need higher taxes.

We don't have a revenue problem. We have a spending problem. And now is the time to take action!

Today, I will outline my plan to reduce state government spending by \$200 million – what I call a “Deficit Reduction Plan: Building a Better Future for Rhode Island”. This plan will eliminate the persistent deficit that has drained our savings.

This plan is the next step toward re-shaping Rhode Island State government. My goal is to create a government that is a support to our citizens, not a burden. Our aim is that when Rhode Islanders look at their state government, they know their tax dollars are well spent.

This plan is composed of three parts. First, a major workforce reduction that will save \$100 million per year; second, significant contract savings in fringe benefits and workrules, some \$50 million and finally, major program changes in government services saving another \$50 million.

This afternoon, I will concentrate on the first part, which will have the largest impact: \$100 million per year. Presently, there are approximately 15,000 state employees, which is some 500 fewer than when I took office. Of that number, 10,072 are under my authority. That number may surprise you, but I'll explain the difference shortly.

In this first step, we are re-engineering how we operate. Building on the Fiscal Fitness Initiative, every department has spent months studying how services might be delivered more efficiently, effectively, and at less cost. We analyzed organizational structures, management layers, and duplicate functions.

As a result of this process, we have completed a detailed plan that will reduce the executive branch workforce by a thousand jobs by the end of the fiscal year – June 30, 2008.

There are three parts to this reduction:

First, after a thorough review of all the contractors providing services to state government, we have concluded that 115 of these contractors will be eliminated as soon as possible.

Second, we have reviewed the normal attrition rate that occurs as employees leave state service, or retire. In the first two months of this fiscal year, approximately 87 have left, and those positions have not been filled. We estimate that in the remainder of this fiscal year, another 400 employees will leave, and those will not be replaced.

Lastly, as a result of the restructuring I outlined, we have identified 414 jobs that will be eliminated. Positions have been identified in every department.

I would also note that these are not all union jobs. Although 15% of the Executive Branch workforce are non-union positions, 20% of the reductions are non-union. Another 22% are outside contractors. Therefore, 42% of the reduction is non-union.

Out of respect for our employees who will be impacted, I will not be sharing more details today regarding the specific positions. The particulars as to the individual people and positions affected will be released as they have been notified. We want to be respectful to all who will be affected and so the process will play out as it should through Human Resources, Directors, and Supervisors.

We will be proceeding as quickly as possible so that the anxiety and unease will not be prolonged. Notification will be provided to contractors by November 1st and by November 15th to those state employees whose jobs have been affected.

Unfortunately, this step has become unavoidable.

Although making these job cuts is necessary and will improve the financial health of the state, it is not a pleasant task or an easy process. Behind every job is a person with his or her own responsibilities. To help those employees affected, we have created an Employee Support Team. Our Human Resources people will be providing information and support to displaced employees about what they can expect. They will review unemployment compensation, contractual benefits, and COBRA options. We have formed Rapid Response Teams at the Department of Labor and Training who will help these affected workers make the transition to new jobs. Our goal is to help place as many people as possible in new job opportunities.

In the second part of our overall plan, we hope to find savings by making the benefit packages of state workers comparable to what is found outside of state government. These adjustments in health insurance, pension, retiree benefits, and other fringe benefit costs will be made as part of the collective bargaining process with the unions who represent the workers and with the legislature when statutory changes are necessary. I have already begun talking with the legislative and union leaders and look forward to working with them to arrive at what is fair both to our employees and the taxpayer.

In the third part of our plan, we are developing several innovative ways to deliver services, that will improve outcomes and reduce costs. Some of these will change procedures, such as how we contract with providers. Other innovations are more administrative but with a strong fiscal impact; for example, changing Medicaid re-imburements to resemble Medicare categories will bring a substantial savings. Other initiatives will try new models of delivering social services that will empower the consumer and support better outcomes.

We are making decisions that have far-reaching effects. The priorities we make and the values we choose will determine whether or not the next decades are years of development or struggle. The reductions we outline today will ensure a better future.

The process in which we are engaged is complex and there are many parties involved. While I expect everyone to advocate for his or her particular interest, I will be advocating for all Rhode Islanders. I also hope that everyone is open to grappling with the financial realities we face and to find the common ground upon which we can stand together. The taxpayers deserve no less!

I have presented the outlines of my plans to cut spending. There is a chance that more money can be saved but I can only make concrete plans for the departments I control, which is just two-thirds of the state employees. The other third of state employees work for the General Assembly, the Judiciary, the General Officers, and the Office of Higher Education. I am calling on them to do their part in sharing the responsibility for reducing costs. It is unfair to expect that the two-thirds of state workers I control and their affected programs bear the burden of reduction. I have met with the House and Senate leadership teams, Chief Justice Williams, the other General Officers, and the Chair of the Board of Governors. Chief Justice Williams and Judge Caprio, Chair of the Board of Higher Education, have committed to help and I am hopeful the others will as well.

I am inviting everyone who has a stake in our future to help put our state on a sound financial footing.

This is going to be one of the hardest things that has ever been done in state government. But we must do it! Not only for our own sake but for the sake of all who will call Rhode Island home in the generations that follow us. Either we do the hard work now or, by doing nothing, we will pass on the burden to our children. They would inherit a nightmare. I want them to inherit a state that is prospering – one full of opportunity and promise. I am sure you do as well!