

**Governor's Remarks**  
**Introduction of the FY 2009 Budget**  
**February 1, 2008**

The submission of the state budget is not just an exercise in accounting. It reveals decisions and choices about the future. The budget for Fiscal Year 2009 that I am submitting for consideration and approval by the legislature will resolve the \$384 million deficit we face in the coming fiscal year without raising any broad-based taxes.

My financial plan for Rhode Island reflects the decisions that need to be made to change the spending practices that have plagued our budgets for years –what we refer to as the “structural deficit.” To do so, we have to say as loudly and plainly as possible that we have a spending problem, and that the solution to our budget difficulties is to control our spending by changing our behavior.

Too many special interests view state government as a big ATM. As far as I'm concerned, ATM means “All Taxpayer Money,” and the taxpayers have had enough.

The choice I have made – a choice that guides this budget – is to reduce our spending to match our revenues without raising taxes. Our citizens are too highly taxed as it is – and our job is to reduce that burden.

The budget I am submitting today is historic. It proposes total FY '09 General Revenue spending of \$3,272 billion, which is a decrease of 3.8 percent -- let me repeat: a decrease – from the 08 budget. This is an historic decline.

I am doing this because the crisis we face is also historic. We are at a tipping point. The history that will be written about Rhode Island at the beginning of the third millennium will either be a tale of struggle and decline or a story of hard work and success. I intend it to be the latter and we begin with this budget.

There are three major areas of spending in the state budget: Personnel Costs, Medicaid and Social Services, and Aid to Cities and Towns. Solving the long-term budget problem of the state requires that we curtail spending in each of those three areas. It cannot involve just one or two of these categories; all three must be a part of the solution.

To achieve this, we have reduced total projected spending by \$311 million.

In Personnel Costs, which represent 24.6% of state spending, we are enacting reductions totaling \$101 million. These reductions are based upon two principles:

- 1) State government must re-design and re-structure to become more efficient. That means operate with fewer people.

- 2) The compensation and benefits of state employees must be comparable to those of the majority of the taxpayers. At present, health care, pensions, and retiree health care are far more generous.

Sixty million dollars of the savings are due to the workforce reduction that is underway. The remaining \$40 million represents changes to the compensation and fringe benefits.

In the area of Medicaid and Social Services, which represents 30.7% of state spending – approximately \$1.0 billion – we are enacting savings of \$137 million. These savings are split almost equally between the Medicaid Reforms we highlighted on Wednesday - \$67 million – and another \$70 million represented by over 20 items that involve eligibility changes and provider reimbursements. There are five principles underlying these changes:

- 1) Protect our safety net for our most vulnerable citizens.
- 2) Give a consumer choice focus to our programs.
- 3) Promote family independence through Work First.
- 4) Encourage provider efficiencies.
- 5) Provide supports only to legal residents, or citizens of Rhode Island

Following these principles will allow our human service programs to be sustainable in the years ahead.

The other major area, spending for Local Aid to Cities and Towns, represents 34.7% of the budget – approximately \$1.1 billion. My budget for next year proposes reductions of \$42 million. This maintains the general revenue share at the same level as proposed in the Supplemental Budget, resulting in a reduction of \$24 million from what had been anticipated. I have also proposed a level funding of local school aid for FY '09 which saves some \$14 million.

There are three basic principles underlying these changes:

- 1) To preserve local school aid
- 2) To encourage efficiencies and cost savings at the municipal level, especially in health care costs
- 3) To recognize that municipal compensation and fringe benefit policies must also be comparable to those of their taxpayers

I am fully aware that this is an unprecedented budget – but these are unprecedented times. We must make the hard decisions and reduce spending at all levels of government.

This budget submission is the beginning of a long conversation. The Legislature will conduct hearings and deliberations on what I have proposed. There will be many voices in that conversation and the loudest ones will be those of the interests that have something to lose as we re-make Rhode Island. But raising broad-based taxes is not an option. Average Rhode Islanders are struggling enough to make ends meet. Government must do the same. It is critical to put our state in a stronger financial position. We need to invest in our roads and bridges, as well as economic development. This budget provides the road map for us to do that!