



State of Rhode Island and Providence Plantations

State House
Providence, Rhode Island 02903-1196
401-222-2080

Donald L. Carcieri
Governor

June 30, 2009

TO THE HONORABLE, THE SPEAKER OF THE HOUSE OF REPRESENTATIVES:

In accordance with the provisions of Section 14, Article IX of the Constitution of the State of Rhode Island and Section 43-1-4 of the Rhode Island General Laws, I transmit, with my signature only, 2009 H 5983, as amended, "An Act Making Appropriations for the Support of the State for the Fiscal Year Ending June 30, 2010."

My signing this budget is not an endorsement of it in its entirety. I had intended to allow this budget to become law without my signature, however it was delivered to my office too late to do so. I am signing for this reason: over forty million dollars of state funding, plus hundreds of millions in Federal FMAP funds are at risk if the budget does not become law before July 1st.

I had the option to veto this ill-conceived budget; however it was overwhelmingly approved by both the House and Senate. A veto would have required both chambers to return to override it before July 1st. It appeared highly unlikely that they would have returned, leaving us with no budget. As Governor, I was not willing to risk forfeiture of this money and the potential of creating an enormous additional burden for our taxpayers.

My original budget proposal, which I submitted in February, balanced our immediate needs, and most significantly presented a plan to address many of the ongoing budget problems that have plagued our state for decades. My goal has always been to build a positive future for Rhode Island. Unfortunately, the General Assembly chose a short-sighted scheme with narrow political goals that addresses some but defers more far-reaching, difficult choices for yet another year.

Rhode Island is facing an extraordinarily challenging economic time. Over the past year, state revenues have declined significantly. Some of our cities and towns are struggling to meet payroll each week, and too many of our citizens are unemployed.

During these challenging times, our General Assembly needed to find the courage to make the tough choices to put our state back on the path to financial health. The FY 2010 budget passed by the General Assembly makes some difficult choices, but not enough to really put Rhode Island on the path to prosperity. We must grow jobs and incomes, and to do that, we need to become more business friendly by reducing spending and our overall tax burden.

In the last few years, my administration has made significant personnel reforms, including changes to the retiree health plan, increased health care co-pays and co-shares for state employees, and a significant reduction in the state's workforce. On the positive side, this year the General Assembly approved the most significant reform yet, with major changes to the pension system. I commend the House and the Senate for their courage in pressing ahead with pension reform, despite the overwhelming pressure from organized labor. However, we need to do more to secure our retirement system, and we must change to a defined contribution retirement system for new hires. Such a change would ensure that over time a state employee's retirement fund would be both portable and sustainable.

Last June, I created a Tax Policy Strategy Workgroup that worked for months and offered several proposals that aimed at making our state more business friendly and competitive with our neighbors. I included many of these recommendations in my 2010 budget, not the least of which was a reduction in the business corporation tax rate, a restructuring and lowering of the personal income tax brackets and a significant increase in the estate tax exemption. Our corporate tax rate at 9% is the highest in New England and is discouraging to business. While the increase in the estate tax exemption to \$850,000 was a move in the right direction, it was not much more than a token. However, I do commend the General Assembly for continuing the reduction in the Flat Tax Option to 6% beginning January 1, 2010.

Thankfully, this budget does not raise broad-based sales or income taxes. However, raising the Capital Gains Tax to the ordinary income rate is discouraging to businesses, and eliminates one area where our tax policy was more attractive than our neighbors. In my opinion, the General Assembly wasted the chance to embrace new tax policies that would have encouraged job growth within our existing businesses and would have had great potential to attract new businesses here. My tax reform proposals were designed to energize our economic development efforts, attract new business and grow jobs.

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Regrettably, the budget approved by the House and Senate does not include structural spending reforms at the city and town level. The cost of services must be reduced by local governments in order to lower the property tax burden as well as the level of state government support. By refusing to pass the 21 recommendations I proposed - that would have saved cities and towns more than \$125 million every year - the cost of municipal services will continue to rise. Relief from mandates, onerous labor contracts, and a parochial view of municipal service delivery is long overdue. If state revenues do not greatly improve next year, the only choice we will have is to significantly reduce local aid much further than what was done in this budget.

The \$70 million in across the board departmental cuts, without any reductions in programs and services, is problematic. With the already significant reduction of the state's workforce and the increased demand on state services, the additional \$70 million in unspecified savings will put in jeopardy existing labor agreements and most likely force further reductions in the workforce and employee compensation. My administration has begun discussing the consequences with union leadership.

As I have said, this budget is not good for Rhode Island in the long run, and my signature should not be seen as an approval of this budget. However, given the little time left before the start of fiscal year 2010, and because of the hundreds of millions of dollars at risk, I have reluctantly signed this budget into law.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald L. Carcieri", with a long horizontal flourish extending to the right.

Donald L. Carcieri
Governor