

SAM ZURIER

July 8, 2011

Dear Fellow East Siders:

Last night, the City's Director of Administration provided a budget update to the City Council Finance Committee. It appears that the City has made sufficient progress on closing the deficits for both the recently concluded fiscal year (July 1, 2010 -- June 30, 2011) and the fiscal year that began last Friday, July 1. This will permit the City Council to finalize a budget and pass it for the current fiscal year. Because the City is expected to run out of cash in the second half of August, the Director of Administration urged the Council to pass the budget next week.

As of today, I expect the Finance Committee to conclude its review of the budget next Monday, July 11. Last night, the Finance Director reported that the Mayor has achieved (a) the contract concessions from the four major unions, (b) increased voluntary payments from the colleges and hospitals and (c) additional aid and cost savings from the General Assembly. The Mayor's budget also included other expenditure savings, and the Finance Committee's review of the budget revealed an additional \$3 million -- \$5 million of further savings, of which the Mayor's office currently has agreed to around \$3 million. The final component of the Mayor's budget is a tax increase of \$15.5 million, which the Mayor proposes achieving through a 13.5% increase in the real estate property tax rate.

It is not clear whether we will be able to use the \$3 million plus in Finance Committee savings to reduce the amount of the tax increase. More specifically, some of the Mayor's numbers are "soft"; for example, he projects the fire fighters' contract to save \$5.5 million instead of the \$6 million budgeted. On the other hand, the City Council is exploring ways to avoid the 13.5% real estate tax increase. Right now, we are discussing extensively an alternative that would raise as much as half of the \$15.5 million through greater automobile tax collections rather than exclusively through the real estate property tax. The primary method of raising the revenue will be to broaden the base, which is currently limited by a \$6,000 exemption that State law imposed until last year, when it was repealed in conjunction with the elimination of a State aid program. We are working on some scenarios which also have the beneficial effect of reducing the auto tax rate, which at \$78.60 is the highest in the State. For example, if we reduce the exemption to \$1,500 while lowering the rate to \$60, the net result may be to produce half of the needed \$15.5 million through the car tax, and thus be able to reduce the real estate tax increase by half. These calculations are complicated, however, by the fact that the efficiency of automobile tax collections are lower than real estate tax collections, and it may be necessary to obtain State approval of a less efficient tax structure based on the Paiva-Weed law.

If these issues can be worked out (as well as other issues concerning the budget), next week should contain three important milestones. On Monday night, the Finance Committee could review the budget and approve a tax structure. If this happens, the Council as a whole will meet on Wednesday and Friday nights to review a final budget for passage. The process has been very difficult; however, we appear to be on the verge of approving our first budget in three years that does not borrow tens of millions of dollars, marking an important step forward on the path of fiscal responsibility.

After the Finance Committee meeting concluded, the Council as a whole met, and passed for the first time the ordinance I proposed to limit the homestead exemption to Providence residents who comply with State law requirements to register their cars in Rhode Island if they are parked or garaged here for at least 30 nights in a calendar year. This reform will ensure that people pay Providence motor vehicle tax on all eligible cars if they wish to retain the benefit of the real estate property tax homestead exemption. Thank you for your interest and ideas.

Sincerely,

