

THE FINANCES OF THE CITY OF PROVIDENCE

CITY GOVERNMENT AND BUSINESS – MEETING THE CHALLENGES TOGETHER

Good morning, ladies and gentlemen, distinguished guests, members of the Board of Directors of the Chamber of Commerce, Jim Hagen, and friends.

Thank you for the kind invitation to be here today.

I welcome the opportunity to apprise you personally of the serious financial difficulties that the city faces, and to report on our early actions.

I also come here today to challenge you, Providence's business and civic leaders, to work as closely with me as you can to help the City put its financial house in order.

Let me be clear. The City of Providence is in deep financial trouble. The numbers I will share with you momentarily are grim, and show no sign of near term improvement.

Worse still, critical financial and administrative offices of the City are reeling from years of poor management, unprofessional conduct, and incoherent systems and practices.

I will be frank. Every week, sometimes daily, my staff and I encounter another shocking example of unacceptable, unethical, or simply incompetent business practice in one or another City department. Often, the areas of greatest weakness are in financial management, documentation, and accountability.

What we are facing is a crisis. While it is tempting – and not altogether unfair -- to lay the responsibility for our current troubles at the feet of my predecessor, I actually feel that there is more than enough blame to go around. What has happened to Providence's city government in the past twenty-five years was, in part, the work of corrupt leadership.

But it also happened, whether we like to admit it or not, on our watch, as citizens and

civic leaders in our own right, with our own rights and responsibilities in a democratic society.

We could have stopped this runaway train long ago, and well before the drastic conditions in which we now find ourselves. Instead, a combination of disaffection, frustration and a refusal to do the dirty work of fighting City Hall made us complicit in the failure and incompetence of city government, just when we should have been fighting our hardest to protect it from its flawed and corrupt leadership.

While we can perhaps set aside the matter of what we did or did not do when the City was so badly and irresponsibly run, we cannot turn away from a similar question about today. Just because there are new leaders, even very skilled, ethical and accomplished ones, does not mean that the problems that the City faces are solved.

In order to move the City forward, the helping hands of every financially sophisticated and civic-minded individual in the city will be needed.

So here is my question: What will *you* be doing this year to help the City become a more professional, effective, and successful financial and business entity? How can *your* institution play a part in the revitalization of the city's government and an improvement and expansion of its efforts? That is the question I want you to have in your minds today, as we go through this very sobering data.

PAUSE

These are the challenges that we must face:

- A projected \$33.8 million deficit in Fiscal Year 2004 could triple in the next three years
- A \$526 million unfunded pension liability weighs heavily on our future
- The City's medical insurance costs climb 18% each year, to \$60 million in this year alone

- Half the City's budget comes from State aid
- Nearly 40% of Providence property is untaxed, because it is owned by tax-exempt institutions
- PILOT – or Payment in Lieu of Taxes -- reimbursements are woefully inadequate
- The City's personnel system is archaic, disorganized, and a drain on the City's resources

As the incoming Mayor, I have tackled these challenges in the following ways:

First, I have worked hard to understand and direct the City's operations and services, even as we plan reform.

Second, my staff and I have schooled ourselves in the ways of City government. We have learned quickly, from some of the best in the industry. Some days, I find myself thinking like the CEO of a half-billion dollar corporation, which is one way to characterize Providence.

I have brought in a fine team of talented people, experts from all over the nation, to examine, study and manage city functions.

At this juncture, I want to pause in my remarks today to acknowledge John Simmons, the Acting Chief of Administration, who will be following up my remarks with some of his own.

As many of you know, John has a long and distinguished career in public service and the private sector, and we are extraordinarily fortunate to have been able to engage his services for the first half of this pivotal year. For the next six months, John will lead the City's development of a comprehensive five-year financial plan, something he will discuss in more detail in just a few minutes.

John is working with Public Financial Management – the national leader in helping government agencies manage their finances and generate revenue. Over the years, PFM has earned a sterling reputation in cities as diverse as Baltimore, Miami, and Philadelphia, helping to improve productivity, increase savings, and boost city revenues, often dramatically.

I pause here to acknowledge John not simply to be polite, or to sing his praises – as deserved as they are. My real purpose here is to point out that the very first and most important action we took in our campaign to reclaim the financial integrity of the city was to find good leadership. We have sought out a top-flight innovator of impeccable character and professional experience, we have asked him to focus on a long-term strategic plan, and we have equipped him with the tools and resources to be successful.

One of the tools that John and his team have at their disposal is the study of the city's finances, commissioned by former Mayor John Lombardi, and conducted by RIPEC, the Rhode Island Public Expenditures Council.

With John's support and leadership, we have adopted many of the core recommendations of the RIPEC report, and are making headway. Our new approach includes a thorough, critical examination of the conduct of City government and city finances. In the next few minutes, I want to review some of the measures we are taking on both spending and revenue.

PAUSE

My absolute first concern is the control of costs and spending. To this end, I have taken a series of actions:

- In keeping with the RIPEC report, I have named a **Hiring Council** consisting of the Chief of Staff, the Chief of Administration and the Chief of Operations. They are examining the most costly part of city government -- personnel -- including all

hiring, promotions, out-of-rank, overtime and acting positions. I expect their analysis to play a critical role in forming new policy.

- I am making **organizational changes in the Personnel Department**. We have hired a professional Director of Personnel, who is building up a talented staff and ensuring that we hire the most qualified and highly skilled people possible. They are creating an orderly process for filling vacancies – including recruitment, screening and hiring.
- We are putting the brakes on careless spending. Critically needed and long overdue **spending controls** will soon be in effect.

Using a conservative approach to spending, and keeping an eye towards short- and long-term savings, I have directed the Acting Chief of Administration to begin a review and approval process for all City spending.

Something as simple – and as commonplace – as Purchase Orders can slow the spending. We are forcing everyone to ask, first, is this item necessary? And if it is, is there a better way of buying it?

We are also researching the chance that we can realize economies of scale through bulk purchasing, either alone or in partnership with other entities.

Applying a new level of scrutiny to the use of City property, we will be monitoring all cell phones, computers, software, vehicles and other equipment.

- We are planning for the creation of **a new senior labor management position**. Most cities nationwide -- certainly large cities -- have experts in labor management within their City Solicitor, Personnel or Human Resource staff. In fairness both to those who work for the City, and to the nearly 175,000 people whom we serve, the City needs an expert in Labor law as a part of its leadership

team. This is particularly true given the size, range and complexity of contracts that are annually negotiated, and the issues that develop between and among the negotiating parties.

- We are gearing up for an intensive focus on **compensation**. The City's largest single expenditure, of course, is on compensation. We know, from RIPEC and from simple commons sense, that this is a subject for extensive and careful study, and decisive action.

We must look at everything from wages, to working conditions, to benefits, to retirement issues – and find the fairest and most effective way of dealing with personnel costs.

With **health care costs** growing at an alarming annual rate, we know that our taxpayers simply cannot afford uninterrupted increases... How do we hold the line?

We will seriously consider co-pays, the range of benefits we provide, and the competitiveness of the individual health care plans.

As we face our unfunded pension liability of more than a half-billion dollars, we plan in the next two fiscal years to provide SOME actuarial funding – but it will not be enough to offset the daunting deficit. We have therefore created a **Pension Review** committee – as recommended by RIPEC and supported by PFM – to evaluate how our retirement plans are structured.

PAUSE

On the other side of the balance sheet, the **REVENUE** portion of our Budget needs a similarly critical examination and response. Here is a short list of current and pending actions:

- We are aggressively exploring additional revenues to bring to the city. We want it understood by all businesses, investors and entrepreneurs that there is a new way of doing business in this city – one that is open and honest, one that invites economic growth.
- We have reached out to Governor Carcieri to collaborate on attracting and retaining business in Providence. We are welcoming all newcomers, emerging entrepreneurs, and well-established Fortune 500 companies.
- These worthwhile efforts will create jobs, expand income, attract more middle class families, encourage local spending, and increase our tax base.
- On another front, we are working to restore the public’s confidence in the **tax assessment** process. What we are planning is an open, swift and responsive process the public can have confidence in – and one that fairly and impartially sets the tax base. Soon, as I have recently done in other areas of city government, I will be announcing a major change in the Board of Appeals and in the office of the Tax Assessor. We will bring professionalism to those offices, and meet the needs of the taxpayer.
- Other revenue strategies include finding ways to improve **non-tax revenues**, through things like dog licenses, and copying fees.
- We are also benchmarking ourselves against cities such as Springfield, New Haven, Hartford and Worcester in the revenue department.
- Finally, we are identifying new revenue streams, such as towing fees, in NEW, OPEN and PUBLIC bidding processes that ensure healthy competition and steady revenue for the City.

PAUSE

In mid-March, I will give my first State of the City Address. Later, I will present an address about our fiscal picture to the Rhode Island General Assembly.

And, on March 28, the Acting Chief of Administration will give me a comprehensive short-term Action Plan that will outline a 5-year budget projection, with an analysis of

budget gap drivers, a non-tax revenue inventory, basic cash and debt management analyses,
the description of major Plan themes and ways to close the so-called gaps in spending and revenues.

We will then have a fuller understanding – A MUCH MORE PUBLIC UNDERSTANDING - of the nature and scope of our financial issues...

And we will have information about the steps we will ALL have to take to make this a healthier, more vital city.

Within six months, building on RIPEC's early work and their own efforts, John's team will produce a clear road map of where we are going, both in the short term and for five years down the road.

Here are the goals I expect to see supported in John's master plan:

- A solid foundation for tax stability
- Increased job opportunity
- A city government that supports and encourages growth, both in downtown and the 25 neighborhoods of the city

PAUSE

This approach to government includes the best practices of good public administration, and good old-fashioned common sense.

It is comprehensive, and it will ask ALL who are engaged in city service to be led by the principles of fairness, honor and integrity.

Righting our city's financial picture means putting everything on the table. Unless everything is considered, and everything is fair game, we cannot begin to dig out from our deep hole.

As you can tell, we are changing the culture of city government. We are sending signals citywide, NATIONwide – that this is a good place to do business. And we have started the process of redesigning government.

Many of you know the names of Carolyn Benedict-Drew and Carol Grant and John Simmons...these are the new chiefs of city government, and respected leaders in their own right.

These chiefs now bear direct authority for working with the respective departments in policy, operations and administration.

Everyone within these departments is taking ownership for how city government works....or doesn't work.

By decentralizing authority in a cabinet structure – but maintaining responsibility in the Mayor's Office - we are better serving the people of the city.

People sometimes think that government is unconcerned about business, except as a source of taxes or fees. This is simply not the case in Providence. In Providence, the very best thing that could happen would be the development of a new, creative economy, focused on the special assets of the city – like its thriving hospitals, colleges and universities, or its exceptional arts and cultural institutions. No one is better positioned to facilitate and accelerate that process than the Mayor, and no Mayor is more committed than I am to the process of attracting new enterprise and opportunity to the City.

These are among the many issues we have addressed in these early weeks, and these are the decisive steps we have taken and will continue to take...for the good of this city, for the good of the people of Providence.

This is just the beginning, and it is a **STRONG** beginning.

PAUSE

Now I would like to return to my opening remark about the depth of the trouble we are in. I want to tell you a story, because it illustrates the nature of the challenge we are up against. This is a story not about finance or business development, directly, but all about what it will take to make our City government better, and worthy of the City it serves.

Many people – veterans of my campaign – have recently urged me to fire a senior administrator in City government because he was such an active and partisan opponent of my candidacy for Mayor. I have been entirely opposed to this approach, since it flies in the face of my commitment to a new, ethical approach to government. Furthermore, as a part of my review of all the functions of City government, I have spent a lot of time in this fellow's department, and I have heard repeatedly, from multiple sources, about the high quality of his work and his central role in the efficacy of his department.

Not only is the idea of firing this guy because he opposed me morally wrong, but it turns out that he is exactly the kind of person we want and need in City government! To follow the old practice of score settling and patronage would be the absolutely worst thing I could do for the department, and for the City. Needless to say, he continues to serve in his former capacity, and I am delighted that he does.

But I find it troubling that I have to explain myself to those who have been fighting so hard for change. Some people are dumbfounded; a smaller group understands my thinking intuitively; but perhaps the largest group is struggling with my decision, and

beginning to think through the principles -- of fairness, integrity, and a commitment to results -- that it raises.

This story illustrates just how difficult it is to make the shift from *talking* about ethics to *practicing* them. My job, and the job of City workers everywhere in Providence, is to behave in a different way, to adopt a new approach. But this can be hard, even for people who are predisposed to try.

Ironically, many of the people prodding me most vigorously to go the old route of rewarding “friends” and punishing “enemies” have been my long-time supporters. Somehow, despite my repeated denunciations of the old ways of doing business, they cannot see that the new approach must apply to everyone if it is to work. Indeed, if it is to be real, a Code of Ethics must apply to those with whom I have worked the longest and most closely as much as – perhaps even more than -- it applies to anyone else.

As much or even more than our fiscal worries, this is what keeps me up at night. Perhaps the most confounding thing about my recent experiences is the capacity of so many essentially good people to be blinded to their own obligation to change. They fail, time and again, to see that the ones who must take responsibility for a change in the political and civic culture of the City are not just the Mayor, or my staff, but each of them as well, each one of you, *all* of us.

In words from another time in the country’s history, if you are not a part of the solution, you are very probably a part of the problem.

Fortunately, this story also puts into stark perspective the positive effects of good practice on the character of government. In the new era, with every passing week, it turns out that the decision about who holds a position in City government is more and more likely to be determined by ability and performance than by something else.

Thanks to the decisions and changes emerging daily from my office, and from the leaders of my administration, the ranks of the incompetent or unethical employees in City Hall are dwindling. Those who by their action or inaction do not deserve to be working in City government, those who are unqualified, those whose jobs are of questionable utility or meaning – these folks are being asked to leave.

At the same time, there are dozens, perhaps hundreds of City employees who are beginning to realize – “Wait, if these personnel decisions get based on merit, maybe I actually have a chance to stick around. After all, my work is good, and maybe if I work a bit harder at it, I can make it even better.”

That’s the kind of leadership and decision-making within local government – and the kind of built-in incentive to excel -- with which the people who work for the City have virtually no experience.

Such opportunity – such a “challenge to change” -- can be heady stuff. It can transform the way people feel about their work. It can motivate people to do better, to take more initiative. It can change hearts, and alter the course of our City.

The fact is, I am counting on it to do so.

This is the good news, the slender ray of light in what feels, at times, like a very dark forest. The old ways of conducting City affairs have put the City, its workers, and its residents in deep trouble. We have to work hard, every day, to continue to understand where we have been, to examine very carefully what it is we are doing, to demand a higher standard, and to meet or exceed that standard.

The good news is that every day, we are applying the new approach in visible, public ways. Each time such actions get taken – each time people see people being held accountable, or leaders stepping forward with imagination and boldness, or old practices being rejected and replaced -- we are moving in the right direction. More and more,

when the new approach is taken, people are beginning to see that it serves the City and its people so much better than they were served before.

Which brings us full circle, to the question I love to put to people all over the City: What is your role in helping Providence to excel? Pretend for a minute that you are not already active volunteers and civic leaders in your own right, as I know so many of you are.

What I am really asking you to think about is this very specific question: How can you play a role in helping the City government to be better than it was, to become as good as it can be?

My answer is this: You can help City government be better by engaging with it. The reason City government is as bad as it is, and serves the people of the City as poorly as it does, is because when its leadership failed it, so did its constituents.

All of us who have lived in this city through the steady decline in its civic legitimacy are uncomfortably aware that even though others were steering the city seriously off course, we were not exercising the full extent of our powers to prevent that. The will of the people is a powerful legacy of this country, and of this City in particular, and we have not always done the work we ought to preserve the special privileges and rights that we enjoy as members of a democratic society.

This is the job I offer to you today. Be critical citizens. Be your city's engaged, knowledgeable, challenging ally. Put your extensive knowledge of your field, your community, and your creative and professional passions to work in service to the City.

Come to the public forums in the coming weeks and months. Read the reports we are generating on the City's finances, public education, youth development, housing, and economic development. Write to me and my staff with your ideas, your criticisms, your support.

Brainstorm with us about business development; cultivate an out of state entrepreneur and ask us to help; form a new company to introduce new products or services; forge alliances with others to leverage greater resources and opportunities.

Finally, when I turn to the City residents and workers and ask for changes – in budgets, in personnel and human resources, in financing, in compensation, in taxes and revenue – speak up. Whether you are for or against my idea or proposal is beside the point – what matters is that you engage, that you raise your voice, that you become, as much as possible, integral to the working of government in your City. When you and your neighbors do that job, you will immeasurably advance the best interests of the City.

Providence has a bright future; and by working together – as we can and we must - we will shape its destiny together.

Thank you for your time, and for taking up these challenges with me, and on behalf of your City's government.