



State Of Rhode Island and Providence Plantations

Lincoln D. Chafee
Governor

March 8, 2011

To the Honorable, the General Assembly:

The Fiscal Year 2012 (FY 2012) Budget that I recommend to you takes bold steps to confront our state's deficit and structural problems so that Rhode Island can promote economic growth and continue to provide essential government services to current and future residents in a cost-effective manner. It is a comprehensive multi-year plan that relies on sustainable growing revenues over time instead of one-time fixes to achieve balance. The deficit resolution component is almost equally divided between increased revenues and expenditure cuts.

The FY 2012 Budget proposes changes to the sales tax and corporate tax structures which will make Rhode Island more competitive and promote economic growth. The sales tax modernization plan would impose a one percent (1%) tax on many goods previously exempt and would expand the base to include certain services not previously taxed. This modernization plan provides for an increased revenue flow less susceptible to economic downturns, while lowering the sales tax rate from seven percent (7%) to six percent (6%). This reduction will place Rhode Island's sales tax at or below our neighboring states' rates. The one percent (1%) portion of the tax modernization plan is designed to sunset upon Congress's enactment of the proposed Main Street Fairness Act, allowing us to recapture sales tax revenue lost to Internet sales and to protect the investments of Rhode Island's retail businesses.

The corporate tax proposal modifies the minimum tax by lowering it for most small business taxpayers, institutes combined reporting, and phases out one of the State's largest tax expenditures, the preferential rate provided under the Jobs Development Act. The State's corporate rate will be reduced over a three-year period from 9% to 7.5%. These changes will make our tax structure more transparent and fair and will place Rhode Island's corporate tax rate at or below those of our neighboring states.

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The budget would also significantly cut government expenditures, focusing primarily in the area of health and human services, which represents the largest and fastest-growing component of State spending. It also demonstrates our commitment to education by fully funding the local education funding formula and increasing aid to our higher education system.

The budget addresses other structural problems facing our state. It resolves funding crises in Rhode Island's Unemployment Trust Fund and the Department of Transportation's capital program. These reforms would be implemented over a multi-year period and would finally address issues that have plagued Rhode Island for years. The FY 2012 budget also includes a new municipal aid program to address the underfunding of certain local government long-term obligations, including pension plans and retiree health benefits. The new program would reward local governments that take steps to appropriately fund these obligations, and would reduce State aid to those that do not.

These changes are needed for structurally sound and sustainable budgets at the State and local level. I look forward to working with members of the General Assembly on the major issues facing us.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Chafee". The signature is fluid and cursive, with a large initial "L" and a distinct "Chafee" ending.

Lincoln D. Chafee
Governor of the State of Rhode Island and Providence Plantations