

Prepared for
RHODE ISLAND GOVERNMENT FINANCE
OFFICERS ASSOCIATION

The Rhode Island Economic Outlook

Edinaldo Tebaldi, Ph.D.

Assistant Professor of Economics
Co-forecast Manager, New England Economic
Partnership (NEEP)

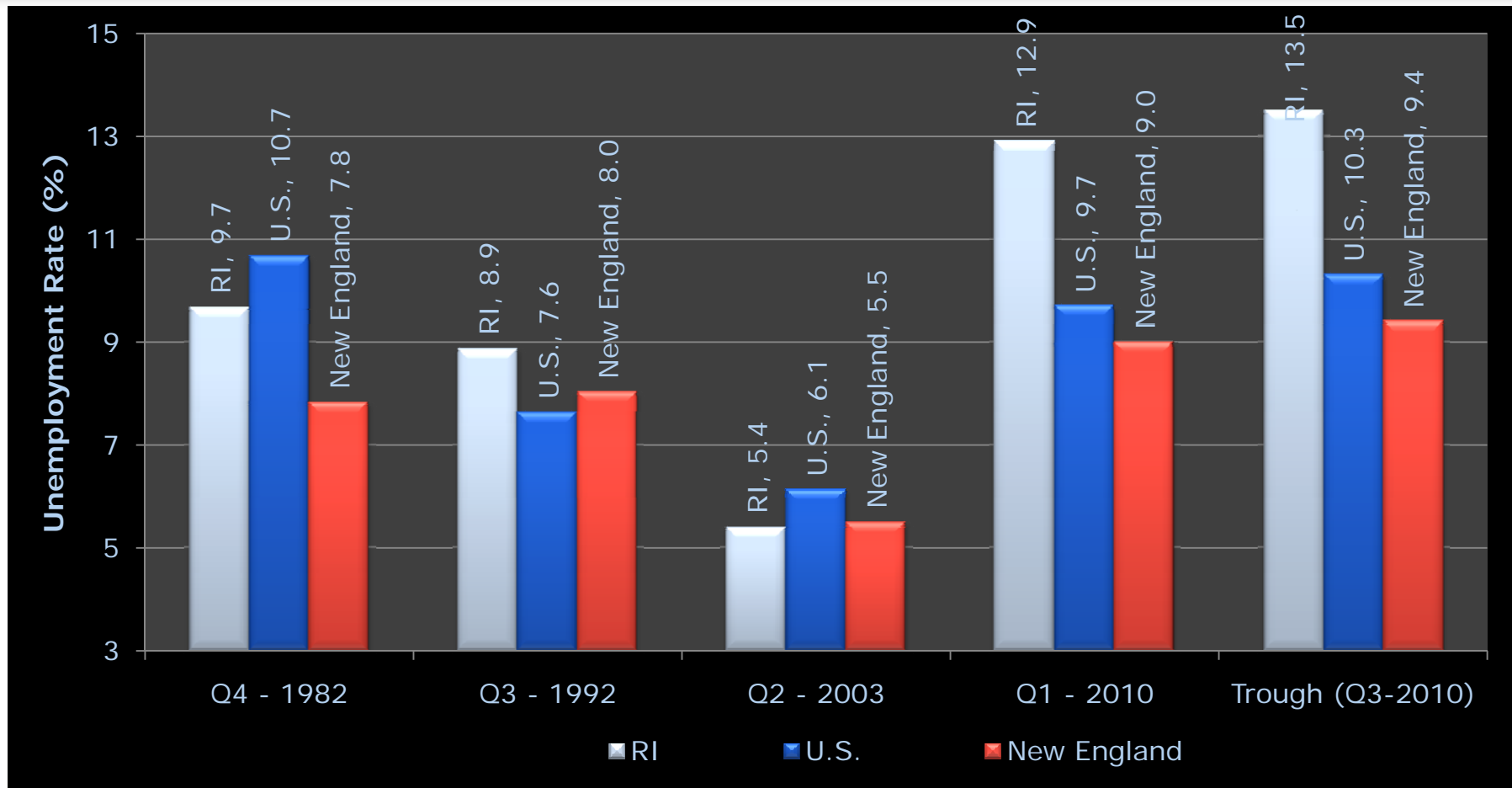


BRYANT UNIVERSITY
The Character of Success

The Great Recession

Current economic conditions in RI are significantly worse than that in the 1970s, 1980s, 1990s and early 2000s's recessions

Unemployment Rates



Source: New England Economic Partnership (NEEP)

Changes in Nonfarm Employment, Rhode Island (thousands)

Significant job losses since Feb/07

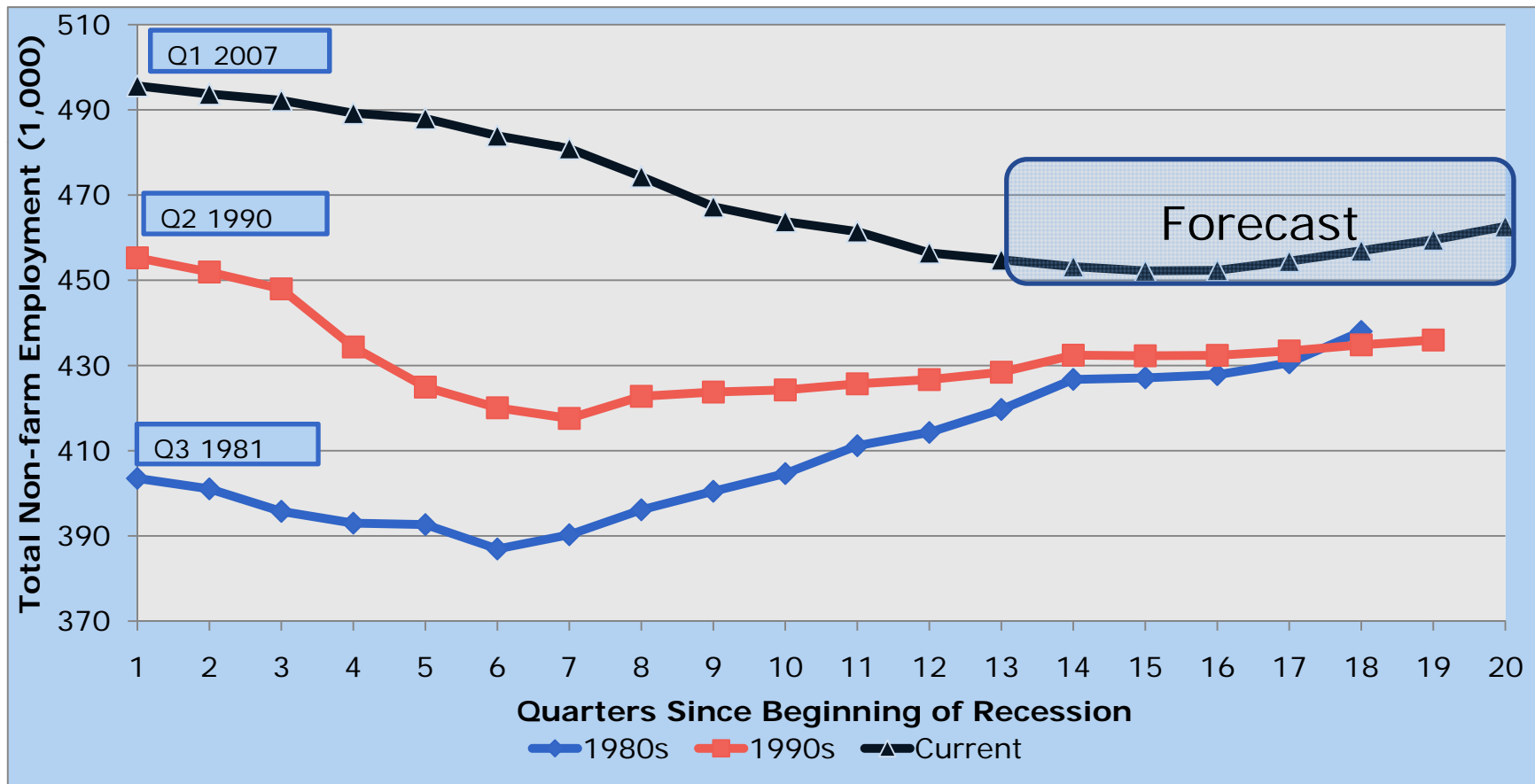
42,300 jobs have been lost since the recession began



Source: Author's compilation using data from the U.S. Bureau of Labor Statistics

NEEP forecasts that an additional 3,000 jobs will be lost by mid-2010

..and the recovery is expected to be very slow



Source: Author's compilation using data from the U.S. Bureau of Labor Statistics

Slow recovery and weak job creation in the near term.

- ☒ **Nonfarm employment is forecasted to be 458,000 in 2011, and 471,000 in 2012**
- ☒ **Sectors adding jobs in 2011**
 - 1,800 jobs in Trade, transportation and utilities
 - 700 jobs in Information
 - 800 jobs in Leisure and hospitality
 - 500 jobs in Education and health services.
 - 800 jobs in the High technology sector
- ☒ **Negative or no growth in 2011**
 - Manufacturing(1% decline)
 - Mining (no growth)
 - Professional and business services (no growth)

Source: New England Economic Partnership (NEEP)

Major Factors affecting the speed and Intensity of the Economic Recovery

☒ Weak regional and National growth

- Rhode Island depends on the economic performance of its neighboring states and the national economy;
- Forecasts for economic recovery are quite dismal

☒ The Rhode Island government has very limited “degrees-of-freedom” to stimulate the state economy;

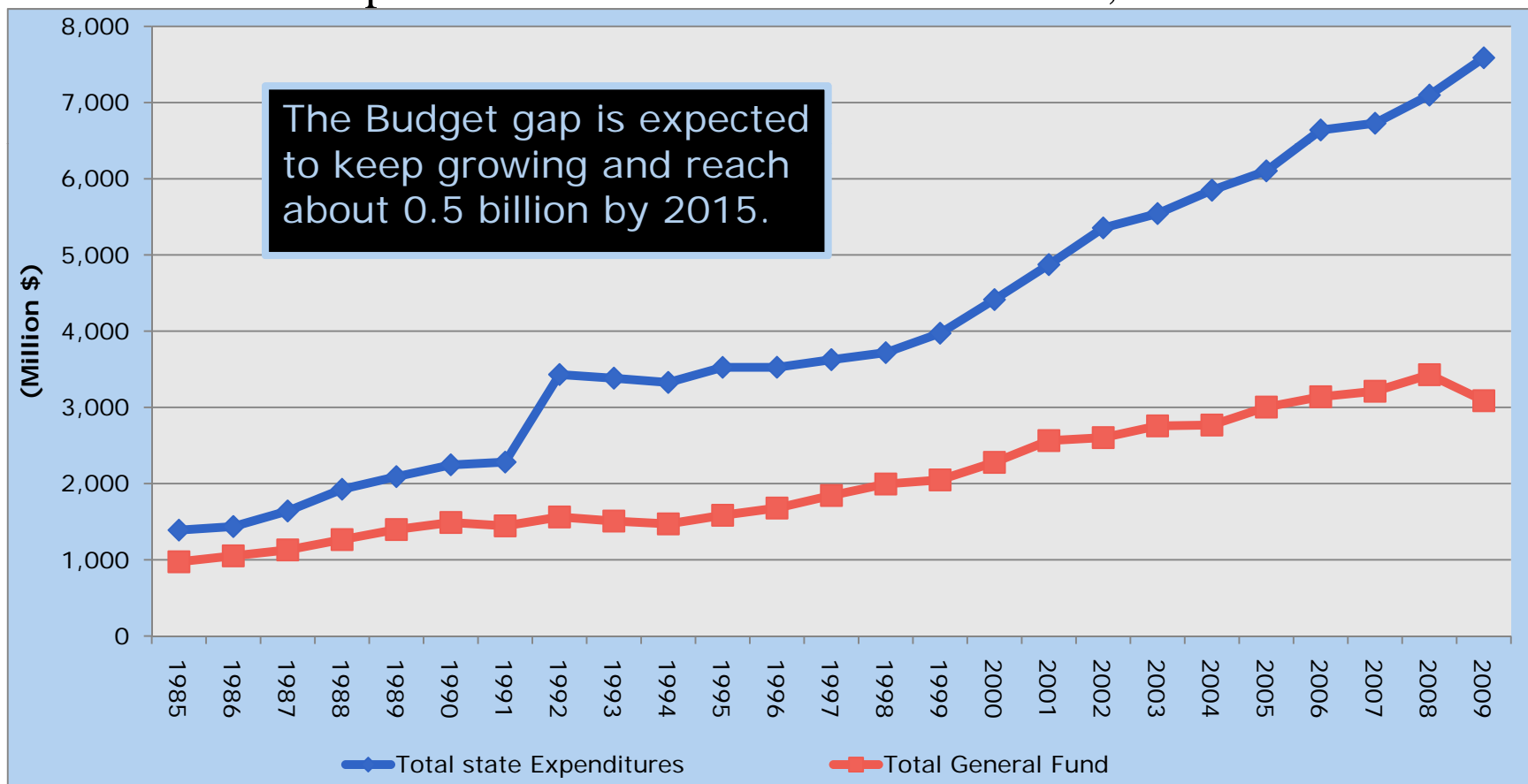
- Structural budget problems

☒ Public services are too costly (local and state level)

☒ High Cost-Structure for Business and Poor Regulatory System

The Unsolved Problem: Growing Budget Gap and Dependence from Federal money

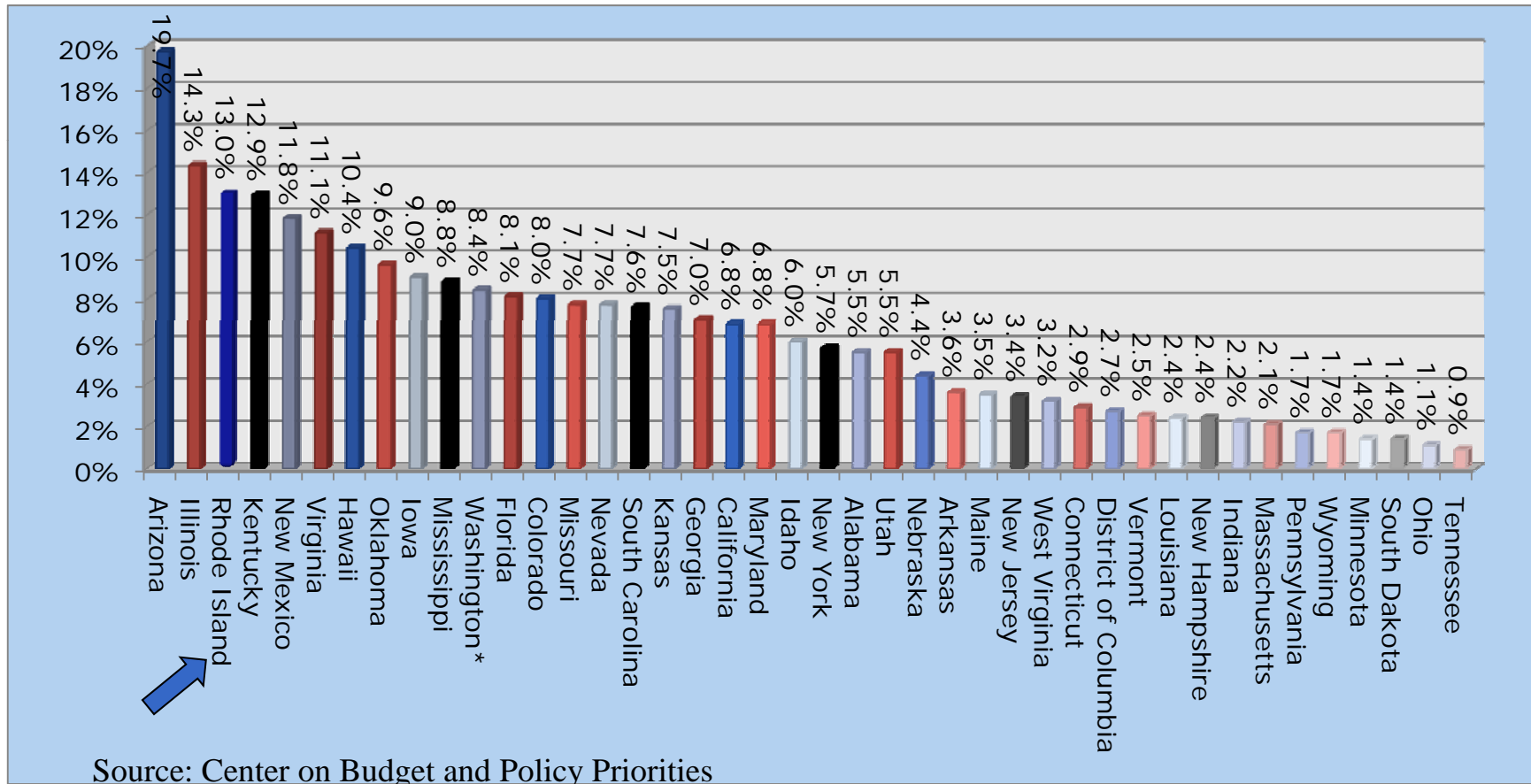
Total State Expenditures and General Fund Revenues, Rhode Island



Source: Author's compilation using data from The National Association of State Budget Officers

PROJECTED MID-YEAR FY2010 BUDGET GAPS

Percent of FY2010 General Fund Budget



And it may get worse

☒ **Most federal Recovery Act assistance will end halfway through this coming fiscal year**

– **Further job losses**

Tightening assistance to towns and Cities;

Cuts to budget

– **Limited recourses to job creation**

restricted capacity to stimulate and attract business projects

– **Cuts to Social Assistance**

☒ **Unfunded Pensions**

– **\$6.8 billion to cover \$11.2 billion in liabilities for state-administered pension plans (Pew Charitable Trusts Center)**

Major Factors affecting the speed and Intensity of the Economic Recovery

☒ Weak regional and National growth

- Rhode Island depends on the economic performance of its neighboring states and the national economy;
- Forecasts for economic recovery are quite dismal

☒ The Rhode Island government has very limited “degrees-of-freedom” to stimulate the state economy;

- Structural budget problems

☒ Public services are too costly (local and state level)

☒ High Cost-Structure and Poor Regulatory System

Public services are too costly in RI

Expenditures Per Capita

	U.S. Amount	Rhode Island Amount Rank	Connecticut Amount Rank	Massachusetts Amount Rank
Fire	123	233 1	136 15	152 8
Medicaid/Vendor Paym.	957	1,679 2	986 18	1,599 3
Government. Admin.	401	557 5	480 12	396 22
Police	281	308 12	261 20	284 15
Housing & Comm. Dev.	154	169 12	195 6	265 3

Source: RIPEC, FY 2007

- Affect the state's capacity to make the investments needed in infrastructure and increase the tax burden
- Increase cost of living and cost of business operations

Major Factors affecting the speed and Intensity of the Economic Recovery

- ⊞ Weak regional and National growth
 - Rhode Island depends on the economic performance of its neighboring states and the national economy;
 - Forecasts for economic recovery are quite dismal
- ⊞ The Rhode Island government has very limited “degrees-of-freedom” to stimulate the state economy;
 - Structural budget problems
- ⊞ Public services are too costly (local and state level)
- ⊞ **High Cost-Structure for Business and Poor Regulatory System**

Lack of **Incentives** to attract and retain business and entrepreneurs

- ⊞ Economic transformations over the last three decades changed the business and employment models and demanded a new regulatory system.
 - The so-called knowledge-based economy
- ⊞ ...and Rhode Island failed to provide the right regulatory system, impacting the incentives for attracting and retaining business and promoting economic growth.

The State Ranks Low in Key Indicators

State	Best State For Business, 2006	Best State For Business, 2009	Regulatory Environment 2009 ^a	Economic Climate 2009 ^b	Business Costs 2009 ^c	Labor 2009 ^d	Growth Prospects 2009 ^d	Quality Of Life 2009 ^e
New Hampshire	20	19	46	26	41	5	5	4
Massachusetts	36	34	22	33	48	16	40	2
Connecticut	33	35	33	31	45	18	37	3
Maine	46	41	32	39	44	25	28	19
Vermont	36	47	44	49	43	13	42	9
Rhode Island	45	50	50	48	40	35	18	21

a Measures regulatory and tort climate, incentives, transportation and bond ratings.

b Reflects job, income and gross state product growth as well as unemployment and presence of big companies.

c Index based on cost of labor, energy and taxes.

d Measures educational attainment, net migration and projected population growth.

e Reflects projected job, income and GDP growth as well as business openings/closings and venture capital investments.

e Index of schools, health, crime, cost of living and poverty rates.

Source: Forbes

State Business Tax Climate Index

State	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
New Hampshire	7	7	7	7	6
Maine	34	40	35	37	43
Massachusetts	36	32	33	34	36
Connecticut	38	37	38	39	41
Vermont	41	43	43	44	46
<u>Rhode Island</u>	<u>44</u>	<u>46</u>	<u>44</u>	<u>49</u>	<u>50</u>

Source: Tax Foundation

Small Business Survival Index, 2007

State	Ranking
New Hampshire	23
Connecticut	38
Vermont	43
Massachusetts	44
Maine	47
Rhode Island	48

Source: Small Business Entrepreneurship Council

...and more bad indicators

Indicator	Source	Rank	Score	US Average Score
E-Gov't (utilization of digital technologies in state governments)	Kauffman	41	4.45	5
Technology in Schools	Kauffman	45	3.73	5
Per Capita State Appropriations for Higher Education	Milken Institute	45	167.77	250.00
% university R&D from State and local gov't	own	41	3.50%	6.40%
% university R&D from Industry	own	40	3%	5.40%

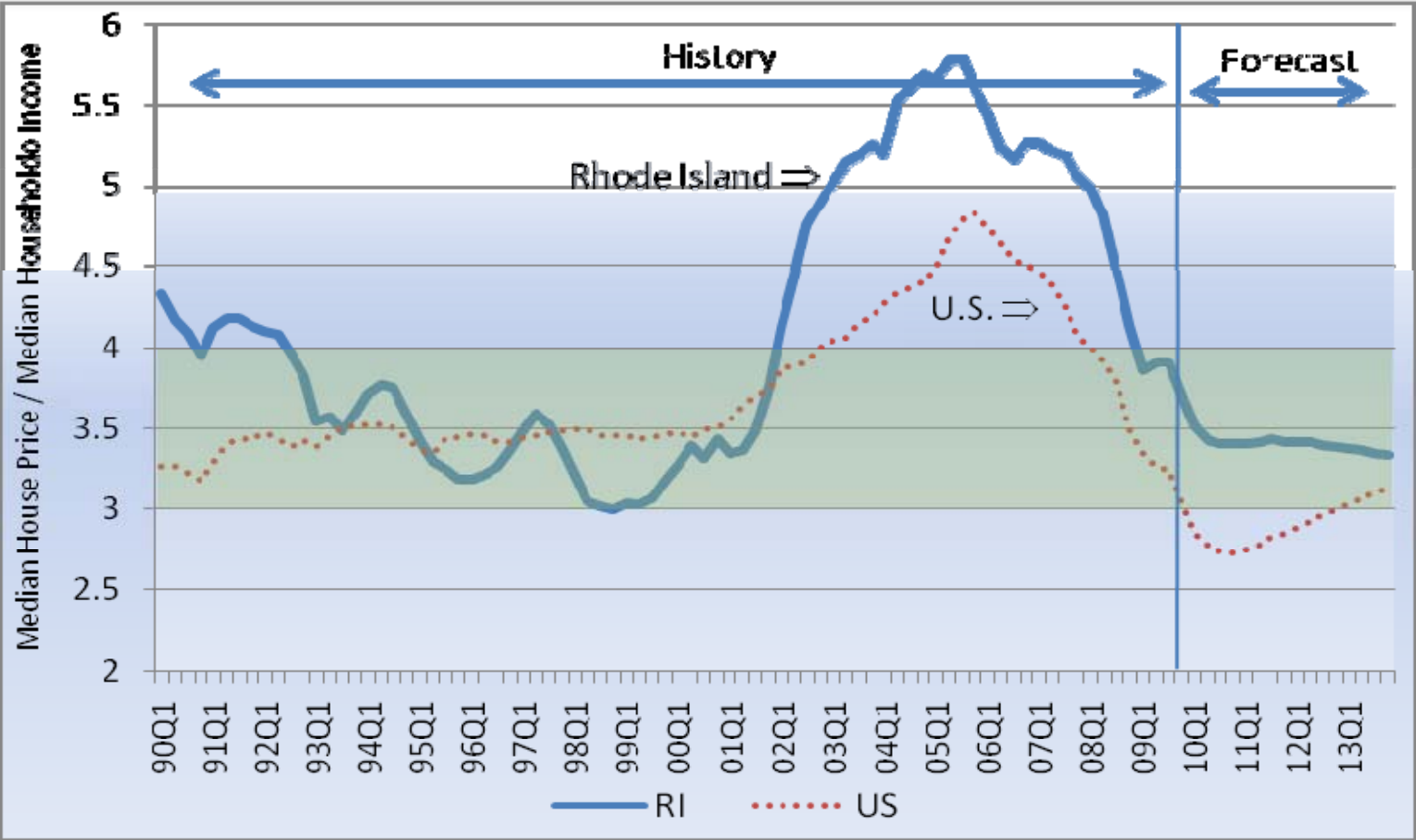
Source: Author's compilation

The Path Ahead

There is light at the end of
the tunnel



Housing affordability is currently at the level observed in the end of 2001



Source: New England Economic Partnership (NEEP), Moody's Economy.com

Rhode Island Has strong Science & Technology Indicators

Indicator	Source	RI Ranking	RI Score	US Average Score
		<u>2008</u>	<u>2008</u>	<u>2008</u>
<u>Business Climate For Technology-based Activity</u>				
High-Tech Industries with I.Q. Higher than 1.0	Milken Institute	11	9	-
State Technology and Science Index	Milken Institute	10	66.69	54
Technology Concentration and Dynamism	Milken Institute	13	66.44	54
Industry Investment in R&D	Kauffman	3	5.23	3.31
R&D Inputs Composite Index	Milken Institute	6	72.44	-
<u>Cyberinfrastructure</u>				
Broadband Telecommunications	Kauffman	2	8.7	5
Health IT	Kauffman	2	9.1	1.9
Internet Domain Names	Kauffman	30	3.52	5.09
Online Population	Kauffman	27	72.48	71.67

Source: Author's compilation

Rhode Island's has a significant pool of well-qualified workers

Indicator	Source	Ranking	Score	US Average Score
Science & Technology Workforce				
Human Capital Investment Composite	Milken Institute	15	62.1	52
Immigration of Knowledge Workers	Kauffman	23	12	11.4
IT Professionals	Kauffman	25	1.25	1.37
Migration of US Knowledge Workers	Kauffman	6	14.1	13.1
Percent of Age 25+ with Bachelors or higher	Milken Institute	15	0.31	-
Percent of Age 25+ with PhD	Milken Institute	29	0.01	-
S&T work force composite index	Milken Institute	13	68.31	56
University Based S&T Research				
Percent of Bachelor Degrees in Sci & eng	Milken Institute	18	0.17	-
Percent of Grad Students in Sci & Eng	Milken Institute	10	0.02	-
Recent PHD Degrees in Sci & Eng per 1,000 workers	Milken Institute	10	0.3	-
Scientists and Engineers as a % of workforce	Kauffman	5	0.49	0.34
% university R&D from Institution funds	own	13	27%	20%

Source: Author's compilation

An Agenda For the Future

- ☒ **Build upon the state's strengths**
- ☒ **Reform the regulatory System**
- ☒ **Reform the Tax System**
- ☒ **Redefine the role of state and local governments.**
 - **Focus on efficiency**

Regulation Matters

- ☒ **To compete for new jobs, new businesses and new markets (domestic and foreign) Rhode Island needs a regulatory system that:**
 - **Promotes transparency and flexibility in public administration**
 - **Lowers the direct and indirect costs of doing business**
 - **Revises and simplifies the tax system**
 - **Supports small businesses**
 - **Attracts and retains highly-skilled workers**

Government Efficiency Matters

☒ The problem is not the size, but rather the quality of local and state governments.

– Move away from ideological and nonproductive disputes

☒ Reorganize the delivery of public services.

– Consortiums

- pool local resources together for increasing scale and achieving efficiency.

- Work a backdoor when consolidation is politically unfeasible.

– Consolidation

☒ Search for market-driven solutions when appropriate.

– Properly regulated, private organizations can deliver public services efficiently.

What About Revenues?

A strong economy will create opportunities that generate revenue to support local and state government expenditures in critical areas such as education and social services.

Let us fix the foundations of the economy, then the economy itself will take care of revenues.

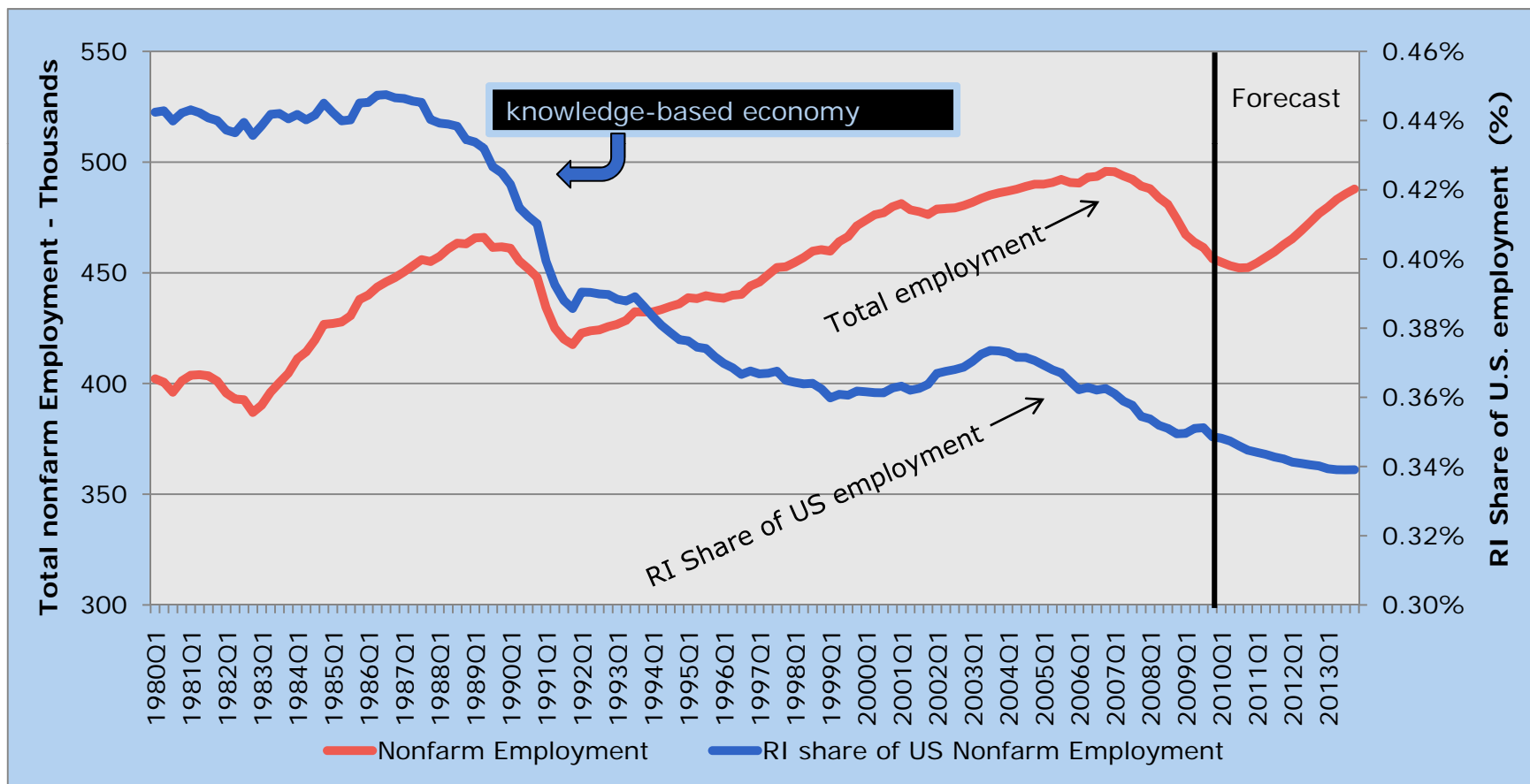
Thanks

Professor Edinaldo Tebaldi

etebaldi@bryant.edu

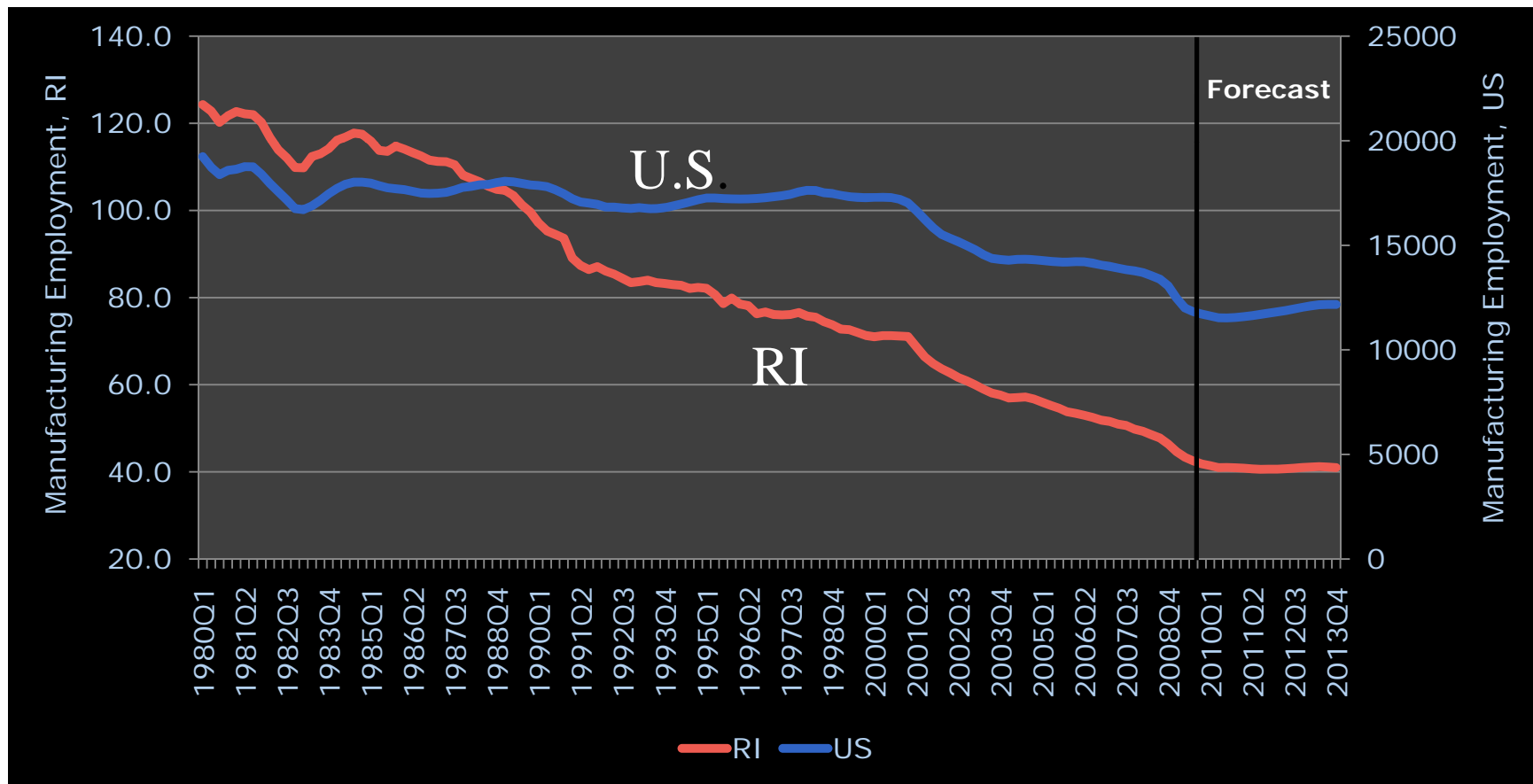
Supporting Slides

The current recession made RI's fundamental economic problems more noticeable... but the state's failure to create new jobs is not a new problem



Source: New England Economic Partnership (NEEP), U.S. Bureau of Labor Statistics

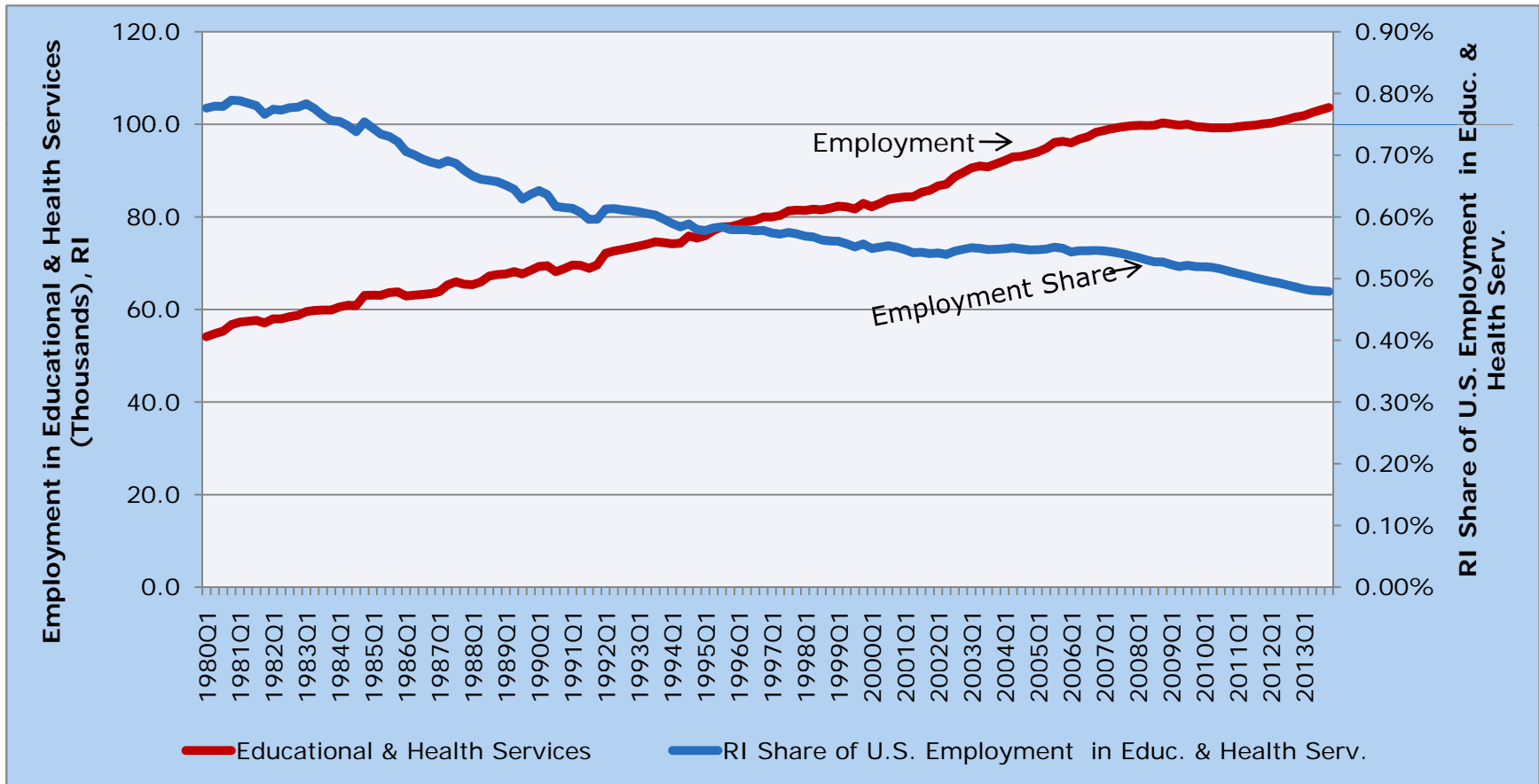
Manufacturing is NO longer the engine of job creation in Rhode Island and the U.S.



Source: New England Economic Partnership (NEEP), Moody's Economy.com

The New Engines of Growth and Job Creation: Education and Health Services

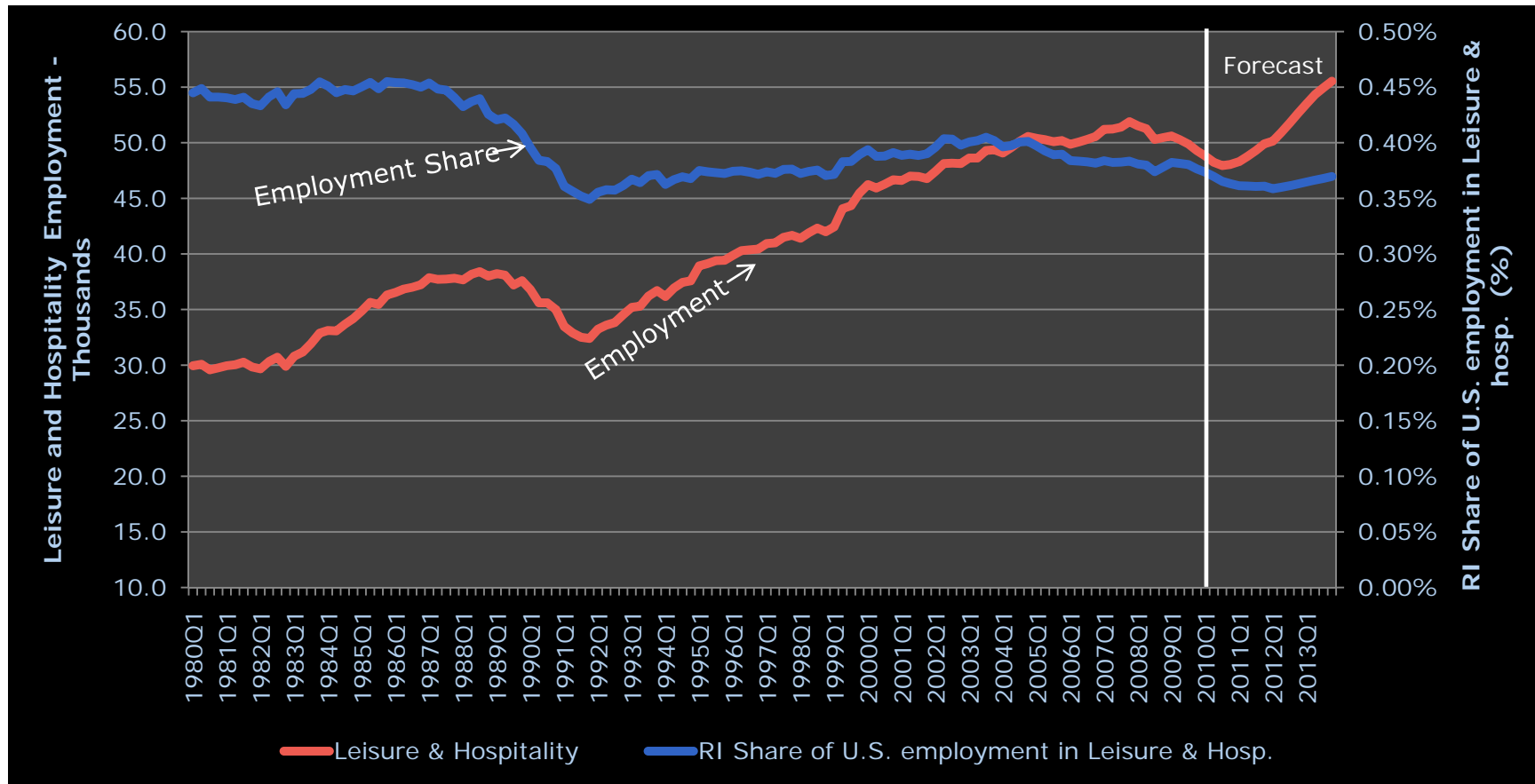
... but RI has been lagging behind the nation in terms of growth since the 1980s



Source: New England Economic Partnership (NEEP), Bureau of Labor Statistics

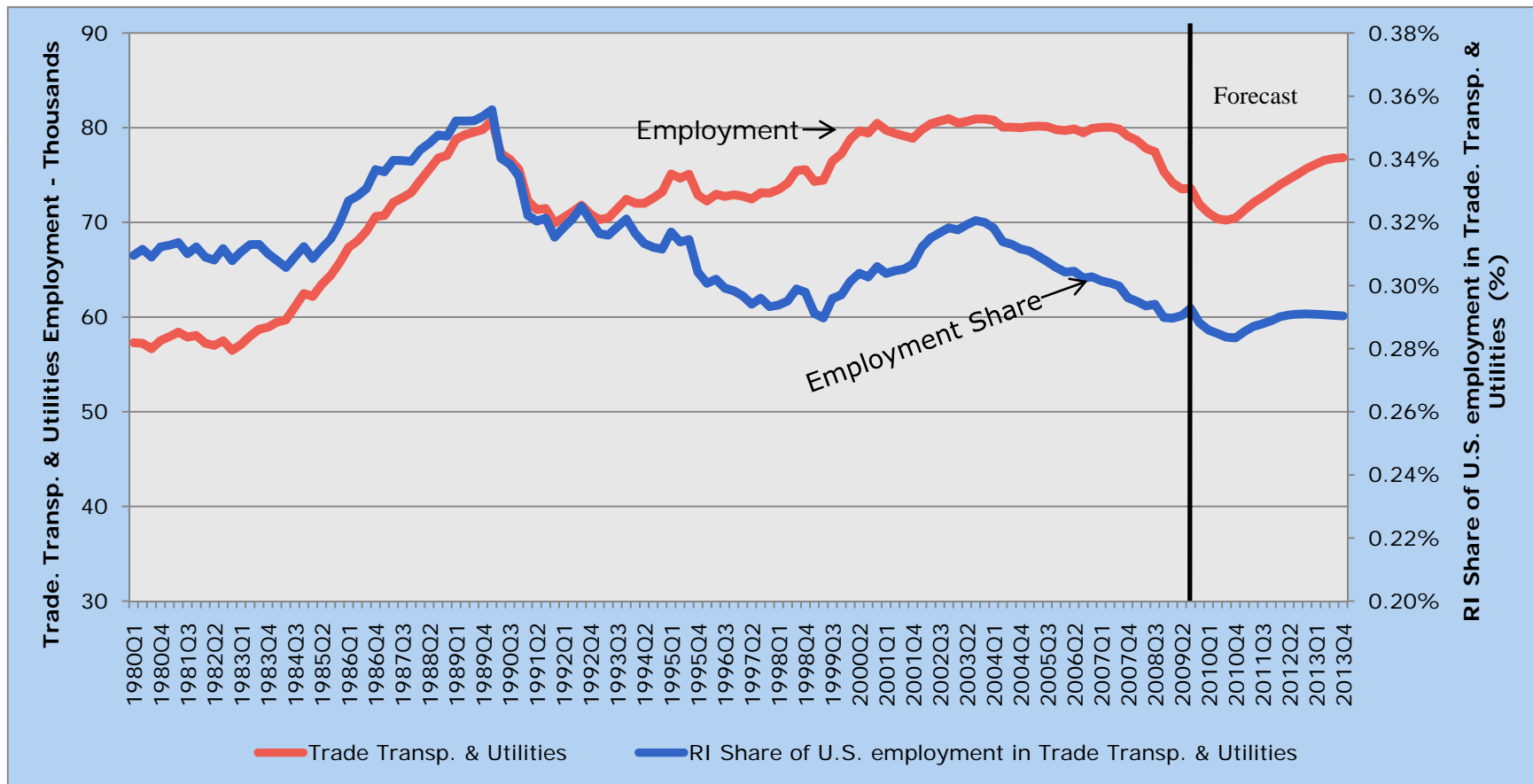
The new engines of growth and job creation: Leisure and Hospitality

... RI lost momentum the early 1990s, and since then the sector has been stagnant compared to the nation as a whole



Source: New England Economic Partnership (NEEP), Bureau of Labor Statistics

No job creation in Trade Transportation & Utilities over the last two decades



Source: New England Economic Partnership (NEEP), Moody's Economy.com