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FISCAL PRESSURE IN SOUTH KINGSTOWN, RHODE ISLAND: A CASE STUDY OF LOCAL GOVERNMENT RESPONSE FROM 1977 TO 1982

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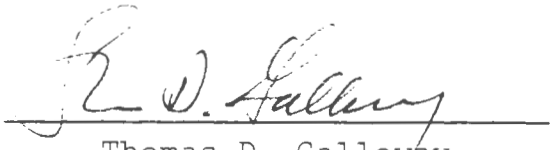
Major Professor 
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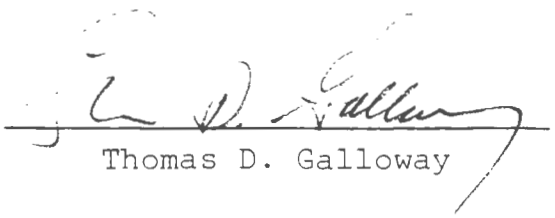
Director 
Thomas D. Galloway

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Chapter One

I. Introduction

Municipal fiscal stress is a problem which has received much attention in recent years at the medium to large sized community level, but not in smaller communities, (under 50,000 population). The distinction in population size is important because small communities face a different set of fiscal problems than medium or large sized cities.[1] Furthermore, fiscal problems may vary in relation to the character of the community: central city versus non-central city. Although the term "fiscal stress" has been given various definitions, it is an indicator of fiscal condition, and results from a "maladaptation of fiscal policies to private sector resources."[2] For the purposes of this paper, this maladaptation is defined as short-term fiscal stress.

No systematic method for defining and measuring fiscal pressure for less urbanized, small communities is evident in the literature, although suggestions abound for responses to it. What the literature does suggest is that the fiscal pressure that may lead to fiscal stress may be related to growth, decline, and/or state imposed limits on spending or taxation. Furthermore, the character of the community (central city versus non-central city), and community size appear to be distinguishing characteristics

that are pertinent to consider when examining the issue of fiscal pressure.

This paper will explore the concept of growth-related fiscal pressure, how to identify it, and patterns of local budgetary response in South Kingstown, Rhode Island from 1977 to 1982. Particular attention was given toward the identification of fiscal pressure in South Kingstown through the examination and comparison of the salient fiscal indicators across several Rhode Island communities of similar population size.

In addition to population, other indicators of fiscal pressure which were examined include: median family income, expenditure growth, expenditure growth per capita, full market value of real property, revenue growth, the ratio of revenue to expenditure growth, property tax revenues per capita, and the local property tax as a percent of own-source revenues.

In general, two types of short-term fiscal stress are evident. First, fiscal stress, sometimes chronic, occurs as a result of a declining tax base, which may be coupled with an increasing demand for governmental services, and/or a reduction in inter-governmental transfers and/or unplanned budget deficits.[3] Underlying factors may also include a community's inability to keep pace with national growth trends, and reductions in population, employment and income. Second, fiscal stress, especially in smaller, non-

urbanized communities, may be induced by an inability to accomodate rapid growth.[4]

The fiscal problems resulting from these underlying factors can be chronic "long-term, and not easily reversed by a quick infusion of public funds."[5] At the same time, formal fiscal limitations on a government's power to tax and to spend can also contribute to short-term fiscal stress.[6] Because Rhode Island has not experienced tax or expenditure limitations similar to California's "Proposition 13 , however, primary attention here will be given mainly to measuring fiscal stress in the absence of such limitations.

In addition to assessing fiscal pressures, various authors have also examined strategies for coping with stress brought about by such pressure. A government's strategic response appears to be dependent not only on the type of fiscal stress experienced, but also on a variety of causative factors. The following discussion illustrates some current interpretations of these general coping strategies. Because there is limited literature regarding the responses of smaller, less urbanized communities, the literature review of necessity must rely on a broad set of local governmental contexts.

Various authors have explored ways in which to define and measure fiscal stress. In one particular study, Bahl and Schroeder[7] have described and analyzed the linkages

between different measures of state fiscal activity and three measures of the economic base - income, employment and population. The context of their analysis was the northern tier states. The authors assume that regional shifts in employment and population are not necessarily undesirable, and should not be the object of remedial public policy.

The data used for their analysis included changes in per capita income, population, economic conditions, state and local expenditures, debt levels and revenue structure. In general, the analysis points out an imbalance between public sector growth and the capacity to finance that growth. The authors conclude that the fiscal problems that exist in the northern tier states are a result of an overdeveloped public sector. The states' resource bases will no longer support the public sector unless tax rates are continually increased, and states must either cut services or slow down the growth of government spending.

As a further governmental response to fiscal stress, Bahl and Schroeder have outlined a number of policy directions left open at the state, local and federal levels:

*Northern tier states include the following: Illinois, Indiana, Michigan, Ohio, Wisconsin, New Jersey, New York, Pennsylvania, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

State and Local Level:

1) Increase the productivity in the public sector. This is a politically popular recommendation because it does not require a cut in services or increase in the tax rate.

2) Increase the tax rate. This may not be conducive to economic development.

3) Reduce service levels. This option is the most likely.

Federal Options:

1) Increase federal assistance.

2) Improve the local economy through regional development subsidies.

These options were developed through an analysis conducted at the state level and do not distinguish between different municipal characteristics. However, they do provide insights into the possible local government responses to fiscal stress.

Through an analysis conducted at the local level, Wolman and Davis define "fiscal pressure" in terms of the following dimensions:

1) A declining revenue base, or growth rate slower than the inflation rate,

2) A reduction in intergovernmental transfers,

3) Unplanned deficits in either the operating budget or the general fund, and,

4) A formal fiscal limitation on local expenditures or revenues.[8]

Based on the response patterns in twenty-three cities, Wolman and Davis also address how urban administrators and politicians respond to fiscal pressure, the consequences of response in terms of urban policy outcomes, and the nature and quality of service.

First, the authors conclude that fiscal pressure may lead to a fiscal crisis but, such pressure is not tantamount to a fiscal crisis. In addition, local government responses to fiscal pressure are limited to: increasing revenue, decreasing expenditures, or some combination of the two. Their analysis shows that the strategies presently pursued in the face of fiscal pressure follow similar patterns as local government's responses are tempered by feasibility and political reality. The types of responses found included: 1) "buying-time responses", 2) increasing revenues, 3) expenditure reduction strategies, and finally, 4) cuts in spending and services.

Buying-time responses are aimed at maintaining existing employment levels and budget totals at the expense of changing the local program mix and priorities.[9] In order to do this, local government will draw down existing fund surpluses, engage in interfund transfers and borrow to support the operating deficit. This is done in order to delay a choice between increasing revenues or reducing expenditures.

Next, local governments will attempt to increase intergovernmental revenues. This strategy includes substituting intergovernmental money for local funds, and the rearrangement of program priorities to keep the same funding levels, although this presupposes that federal/state aid is available. Increasing own-source revenues is the third strategy, and it has not been too popular in light of Proposition 13. Instead, a majority of the cities included in their study reduced expenditures.

Not surprisingly, expenditure reduction is the next strategy, and it concerns the attempt to cut expenditures without cutting service levels. This includes increasing governmental efficiency, privatizing public services through contract, lowering wages, shifting the service delivery burden to either the private sector or another level of government, and substituting intergovernmental funds for own-source funds, (Community Development Block Grants, for example).

Cutting spending and services is the final option in the face of continuing fiscal pressure. Uncontrollable costs such as fixed costs on debt service, and costs mandated through laws (e.g. minimum wage) usually are not cut. Controllable costs which can be cut are personnel expenses and capital outlays.

Local programs may be eliminated before federal programs if significant amounts of matching funds are at

stake. Alternatively, federal programs may be cut if they rank low in priority. Another popular method for expenditure reduction is to make across-the-board cuts. Selective budget cuts on the other hand, are brought about only by extended fiscal pressure. The study found that in terms of percentage reductions, public works programs were cut the most, followed by general government services and social programs, although cuts in social programs have also been caused by reduced federal assistance.

In general, the authors conclude that governmental officials engage in conflict avoidance, by which local governmental services are reduced through inaction. Alternatively, officials may choose to cut the least visible services such as police and fire protection. While Wolman and Davis have extensively examined responses to fiscal pressure under a given definition, they do not place significance on either community size or character.

II. Research Issues

In order to examine the issue of fiscal pressure in South Kingstown, it is necessary to analyze fiscal trends over time and compare trends with all communities of comparable population size. A fifteen-year trend, (1967-1982), allows for the analysis of municipal fiscal trends during a time of fiscal expansion (post World War II to mid-1970's), and retrenchment, (the mid-1970's to the

present). The fifteen-year period will further be broken down into three five-year periods to measure fiscal stress in the short-term, (1967-1972; 1972-1977; 1977-1982).

Through the comparison of South Kingstown to all Rhode island communities of similar population size in terms of short-term measures of fiscal pressure, (defined in five-year increments), and the case study which follows, the analysis has been designed to answer the following questions:

1) What are the major causes of fiscal stress in the case study community?

2) What are the observed local budgetary responses in the case study community?

3) What were the available options?

4) Were the options temporary or permanent in nature?

III. Methods of Analysis

There are a number of tasks which have been constructed to address the research questions. Beginning with all Rhode Island communities of a 1980 population size between 15,000 and 25,000, the following communities were included in the analysis:

Community	1980 Population
Barrington	16,174
Central Falls	16,995
Johnston	24,907
North Kingstown	21,938
South Kingstown	20,414
Westerly	18,580

As a second task, data were collected in five-year increments from 1967 through 1982. The following indicators of short-term fiscal stress will be used:

-Median Family Income
-Expenditure Growth
-Expenditure Growth Per Capita
-Full Market Value of Real Property
-Revenue Growth
-The Ratio of Revenue to Expenditure Growth
-Property Tax Revenues Per Capita
-Local Property Tax as a Percent of Own-Source Revenues

The analyses measured changes in these indicators over the three short-term periods, and over the long-term.

The third task was to compare the case study community to the other five based on the data analysis. A hypothesis of this paper is that fiscal pressure in the short-term will be indicated by a community's performance with regard to the measures as illustrated below:

-Below average percentage changes in full market value, revenue growth, and property tax revenues per capita,

-Above average per capita expenditure growth, and

-A revenue/expenditure ratio of less than one.

Again, the communities will be compared for both the short-term and long-term periods. The rationale for this selection process will be fully explained in the analysis found in Chapter Two.

The fourth task, to be discussed fully in Chapter Three, is the case study analysis of South Kingstown. In order to address the research questions, this chapter will first look at the various indicators which measure change in the commercial and retail sectors of the local economy. Then, local governmental decisions regarding the yearly budget process will be explored. Finally, the last chapter examines the adequacy of the fiscal pressure measures and methodology for small, growing Rhode Island communities and the research questions in light of the findings.

Chapter Two

Analysis of Fiscal Pressure Measures in Selected Rhode Island Communities

I. Introduction

This chapter analyzes the various indicators of fiscal pressure in the following Rhode Island communities: Barrington, Central Falls, Johnston, North Kingstown, South Kingstown and Westerly. The purpose of the analysis is to compare fiscal trends in South Kingstown to the other five communities from 1967 to 1982. These fiscal trends will be described in terms of the following fiscal pressure measures described in Chapter One:

-expenditure growth
-expenditure growth per capita
-full market value of real property
-revenue growth,
-ratio of revenue growth to expenditure growth
-property tax revenues per capita,
-property tax as a percent of own source revenues

Percentage changes will receive more attention as they provide for a more meaningful comparison than actual dollar figures, and all of the corresponding tables are found in Appendix A. As outlined in the previous section, data have been aggregated into five year increments to aid in identifying short-term trends and to provide a better sense of these changes over time. The fifteen-year trend will be most useful in determining communities which have incurred

fiscal pressure over the long-term.

The fiscal pressure measures have been chosen for their usefulness in the development of fiscal condition profiles in each community. The data may not provide the definitive statement on the existence of fiscal stress which is often defined as an excess of expenditure over revenues in any given fiscal year. Rather, the data is intended to indicate the existence of incipient, long-term and short-term fiscal pressure. It is expected that these communities will exhibit both similar and divergent trends.

One of the important contextual elements within the analysis is the effect of national economic trends on the fiscal performance of local government. The major indicator of national economic trends used in this study is the Consumer Price Index (CPI) which measures the effect of inflation on the dollar.

Table 1 Consumer Price Index[1]

Year	CPI	Constant Dollar Value per $100	% Change in Current Dollar Value
1967	100	$100	-
1972	125.3	$ 79.80	-20.2%
1977	181.5	$ 55.10	-31.0%
1982	289.1	$ 34.59	-37.2%
1967	-	-	
1982			-65.4%

By using a base CPI of 100 in 1967, it is interesting to note the enormous impact that inflation has had on the dollar during the fifteen year study period (see Table 1). By 1972, the rise in the consumer price index had caused the value of the constant dollar to fall by 20.2 percent as compared to its 1967 dollar value. By 1977, the value of the dollar in 1967 terms had fallen by another 31 percent, and decreased 37.2 percent by 1982. Overall, this amounted to a 65.4 percent decline in the buying power of the dollar from 1967 to 1982. More dramatically, the same one hundred dollars in 1967 brought only $34.59 dollars worth of goods in 1982. Of course this has had a significant effect on local government, whose revenue bases may not have increased proportionally. Thus, if governments are to maintain or increase the quantity/quality of public goods provided, they must pay for them with increasingly larger sums of money. The analysis has accounted for inflation in each of the measures by indicating both percentage change in current dollars, and percentage change in constant (1967) dollars. Both concepts are useful because local governments are often unable to raise revenues at a rate concomitant with inflation. On the other hand, constant dollar changes can place current dollar growth into a more realistic perspective because they measure the buying power of the dollar.

II. Application of Fiscal Measures

The following table outlines each of the fiscal measures and indicates their applications. It is obvious that a single measure may not be very meaningful within itself. However, it can provide a useful insight into the fiscal condition of local government when analyzed in combination with other indicators.

As Table 2 suggests, a general profile of fiscal pressure in a given community will be indicated by the rates of current dollar increases relative to the mean for all communities. Measures most significant include: full market value of real property, revenue growth, property tax dependence, and property tax revenues per capita. It is also expected that fiscally pressured communities will exhibit above average increases in per capita expenditures. Property tax as a percent of own-source revenues is a contextual variable which is not by itself an indicator of fiscal condition. Rather, it can be used to indicate a community's ability to cope with fiscal pressure by revenue diversification.

The following discussion of these measures applied to the data has been divided into two sections. The first analyzes measures related to population, income, and revenue/expenditure trends, while the second section examines the measures that are related to the property tax.

Table 2

Fiscal Measures and Their Applications

Measure:	Applications:
1) expenditure growth	Measure of the level of public goods provision and may indicate fiscal stress when expenditure growth is more rapid than growth in revenue capacity.
2) expenditure growth per capita	Measure of changes in the level of public goods provision relative to population.
3) full market value of real property	Measure of community revenue capacity.
4) revenue growth	Measure of community resources.
5) ratio of revenue growth to expenditure growth	Indicator of long-term fiscal stress where the ratio is less than one.
6) property tax revenues per capita	Measure of a community's wealth.
7) property tax as a percent of own-source revenue	Measure of a municipality's ability to diversify local revenue sources.

III. Data Analysis

Section I: Population, Income and Revenue/ Expenditure Trends

A) Population:

With the exception of Central Falls, which steadily lost population from 1965 to 1980, the other five communities experienced growth (Table A-1). However, all communities did not exhibit steady increases. For example, Barrington's 1970 population was 17,554; an increase of 7.1 percent over 1965. In 1980, this figure had fallen to 16,174; a decline of 7.9 percent from 1970.

Overall, South Kingstown has experienced a long-term rapid growth, especially from 1965 to 1975. North Kingstown experienced rapid growth from 1975 to 1980, while the population of Johnston and Westerly increased more slowly during this period, (with the exception of Central Falls and Barrington which has lost population since 1970). In general, population increases from 1975 to 1980 have seemed to offset the prevalent losses during the 1970 to 1975 period.

B) Median Family Income:

The median family income in all five communities increased by over 85 percent in all communities from 1965 to 1980, (see Table A-2) while the group average

constituted a 107.3 percent increase. Central Falls realized the smallest increase in median family income, (89.3 percent). In addition, Barrington, Central Falls and Westerly all experienced below average changes in this variable. South Kingstown's median family income increased by 146.5 percent.

Barrington was the most wealthy community in 1970 and 1980 according to this measure. In 1980, the town's median family income was $27,973. This contrasts with Central Falls, whose 1980 median family income was $14,721.

C) Expenditures:

The level of local government expenditure growth may indicate fiscal pressure when expenditure growth is more rapid than growth in revenue capacity. From 1967 to 1982, the overall group average in expenditure growth was 365.3 percent (see Table A-3). This figure falls to 61 percent when adjusted for inflation, an annual average increase of 41 percent. An above average current dollar growth in expenditures occurred in the following communities: Johnston, North Kingstown, and South Kingstown, with increases of 423.6 percent, 395 percent and 412.6 percent respectively. Overall, the rate of expenditure growth in all communities was most rapid from 1967 to 1972; and decreased successively in the following two five year periods.

D) Expenditure Growth Per Capita:

As mentioned in Table 2, this measure may be used to compare changes in population over time. Inferences can subsequently be made as to whether a community's expenditures are proportional to population growth.

The average per capita growth for the six communities from 1967 to 1982 was 321.9 percent, or 37.8 percent in constant dollars (Table A-4). The five years from 1967 to 1972 experienced a 69.1 percent increase, which amounts to a 42.4 percent constant dollar increase. Inflationary growth was the causative factor behind a constant decrease of 3.6 percent in average per capita expenditures from 1977 to 1982, which contrasts with a current dollar increase of 53.5%. Thus, communities were spending less for services which had become more costly.

Similarly, South Kingstown experienced the second lowest current and constant dollar growth in per capita expenditures from 1967 to 1982. As compared to the other communities, this is one indication of fiscal pressure in South Kingstown during these years.

E) Full Market Value:

Full market value of real property, or real estate provides a measure of a community's revenue capacity. The property tax base is primarily derived from taxable real

estate, while intangible, or personal property accounts for a small percentage in Rhode Island communities. Data based on accurate yearly real estate listings of property by town in Rhode Island would have been ideal for determining full market value, but this information was unavailable. For the purposes of consistency, this information was obtained from the Annual State Report on Local Government Finances and Tax Equalization for selected years.[2]

Full market value is derived by dividing the assessed value of real property by the ratio of assessment. Of course the accuracy of this measure is limited to the accuracy of local government assessment policies and practices, and changes in market conditions for residential, commercial, and industrial properties. In years that local reassessments do not occur, the estimation of property value may be biased toward new construction and turnover in the housing market, as these properties provide more current market values for assessment purposes.

Growth in full market value of real property was dramatic in all six communities from 1967 to 1982. However, North Kingstown, South Kingstown and Westerly experienced the most rapid current dollar growth rates of 540 percent in Westerly, 610.3 percent in North Kingstown, and 641.3 percent in South Kingstown (Table A-5). These figures are well above the group average of 452.2 percent and this would seem to indicate that these three

communities have grown significantly in recent years. However, this growth was much greater during the 1967-1971 and 1972-1977 periods in North and South Kingstown. In contrast, Westerly's full market value growth is biased toward the 1977-1982 period (168 percent).

When the data is broken down into five year increments, it may reveal whether each town is experiencing a steady growth or decline in full market value. Accordingly, it may be inferred that property values in Westerly have been appreciating much more rapidly over the past fifteen years than those in North or South Kingstown. In fact, full market value of real property in North Kingstown actually declined by 1.2 percent in real dollar terms.

While Barrington, Central Falls and North Kingstown have been experiencing a slowing growth trend in full market value, Johnston, South Kingstown and Westerly have seen a faster growth trend. The specific reasons for these changes can not be found from this data alone, but would suggest the need for a closer analysis of local property tax assessment practices and market trends.

F) Revenue Growth:

Revenue growth reflects changes in a community's revenue capacity in the sense that it is derived from property values. In Rhode Island localities, yearly

revenues are based on anticipated expenditures for subsequent years. Thus, the town administration projects what its expenditures will be, subtracts federal and state intergovernmental transfers from this amount, and is left with the amount of expenditures, or the "tax levy" which must be raised through property taxes. These distinctions are important, because while revenue growth does measure changes in local revenue capacity or wealth, they must be analyzed in combination with the other dynamics involved in the budget process, especially the political and structural framework through which the yearly budget is approved.

From 1967 to 1982, revenue growth in Johnston, North Kingstown and South Kingstown was well above the group average (Table A-6). Revenue in these towns grew at varying rates during the three study periods. While Johnston's revenues increased the most from 1967 to 1982, (441.6 percent), the rate of growth was highest in the first two periods. North Kingstown saw a considerable growth of 124.1 percent (the highest in the group) from 1967 to 1972; contrasted with only a 33 percent growth from 1972 to 1977. In constant dollars, local revenues were 7.7 percent lower in 1977 than in 1972.

In summary, revenues grew by 260 to over 441 percent in the six towns during the fifteen year period. This growth was the largest in constant dollars from 1967 to

1972, and generally the largest in current dollar growth as well. Changes in revenues will later be compared to changes in expenditures in order to place revenue growth into a better perspective. One conclusion that can be drawn is that the communities which experienced revenue growth over time have experienced significant growth in their local tax bases, such as North and South Kingstown.

G) Ratio of Revenue Growth to Expenditure Growth

This ratio is a measure of fiscal stress which may occur if expenditure growth is more rapid than growth in revenues. Fiscal stress may be characterized by this phenomenon for two reasons. First, while actual expenditures may not exceed revenues on a yearly basis, a revenue growth/expenditure growth ratio of less than one indicates that in the long term (15 year period), the public sector is expanding at a faster rate than revenues.

Secondly, this measure attempts to account for the budgetary relationship between revenue and expenditure patterns. Because the amount of yearly revenues is dependent in part on anticipated expenditures, one would expect revenues to be directly related to expenditures, causing these two figures to be nearly equal. Therefore, the use of a ratio to compare growth trends would provide a means of assessing incipient fiscal stress. Absent fiscal stress, the ratio should be equal to, or greater than one.

This ratio will also be applied to the shorter-term, five-year increments for each of the six towns in order to determine which of these periods also exhibits fiscal stress. Finally, only nominal figures are included in the calculation of this ratio.

Overall, Barrington, Johnston and North Kingstown have revenue/expenditure ratios close to, or greater than one (Table 3). This indicates that growth in revenues was approximately equal to expenditure growth from 1967 to 1982. Both Central Falls and South Kingstown have a ratio of .96, the group average.

While Central Falls' overall ratio was equivalent to the group average, it is notable that this ratio was 1.04 in the first period, .96 in the second, and .89 from 1977-1982; the lowest of the group. Conversely, Westerly has the smallest fifteen year ratio, but the 1977-1982 period exhibited a healthy revenue to expenditure growth trend of 1.06.

On the one hand, revenue growth may be directly related to an increase in the tax burden. Alternatively, when analyzed with expenditure growth, this may provide for an assessment of growth in the public sector related to the ability to finance that growth. This paper assumes that the latter explanation is most accurate.

For example, when revenue and expenditure growth is fairly constant, this indicates that the tax burden over

TABLE 3

RATIO OF REVENUE GROWTH TO EXPENDITURE GROWTH

COMMUNITY:	1967-1972	1972-1977	1977-1982	1967-1982
Barrington	1.05	0.99	0.95	0.99
Central Falls	1.04	0.96	0.89	0.96
Johnston	0.84	1.19	1.16	1.04
North Kingstown	0.93	0.90	1.19	0.99
South Kingstown	0.97	0.99	0.95	0.96
Westerly	0.71	0.88	1.06	0.84
Group Average	0.92	0.99	1.03	0.96

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

time is also constant. When expenditures grow faster than revenues over time, this suggests that the public sector has been expanding at a faster rate than the revenue base, even in the absence of a revenue shortfall from one year to the next. Finally, if revenue growth is greater than expenditure growth over time, this may signify that the revenue base has expanded faster than the public sector.

There appear to be three types of revenue/expenditure growth trends occuring in the six towns: expenditures growing faster than revenues; balanced expenditure and revenue growth; and, revenues growing faster than expenditures. As a group, revenues have increased faster than expenditures during each of the five-year periods. This also happened in Johnston, North Kingstown and Westerly. While expenditures have grown faster than revenues in Barrington and Central Falls, expenditure growth was larger than revenue growth in South Kingstown, but the degree of change was roughly equivalent. Thus, Barrington and Central Falls seem to have the most fiscally stressed revenue/-expenditure growth patterns according to this measure.

It is important here to reemphasize that no single indicator provides a definitive measure of fiscal pressure. This is because the factors which affect a community's fiscal condition may be particular to a specific community, and difficult to generalize from one community to the next. As such, they do not account for every possible cause of

fiscal stress. Rather, these measures are intended to be analyzed in combination for the purpose of identifying episodes of fiscal pressure. The particular causes and results can only be determined through a case study analysis.

Section II: Property Tax Related Measures

A) Introduction

In recent years, local governments have had to rely more heavily on the property tax as their main revenue source due to declining federal and state intergovernmental aid. As a result, the fiscal condition of a community may be greatly affected by the property tax trends.

While property tax from real estate is the major component of the local tax base, personal property, (both tangible and intangible), is a secondary component. According to Burchell and Listokin, "there are four reasons for the heavy reliance on the real property tax:

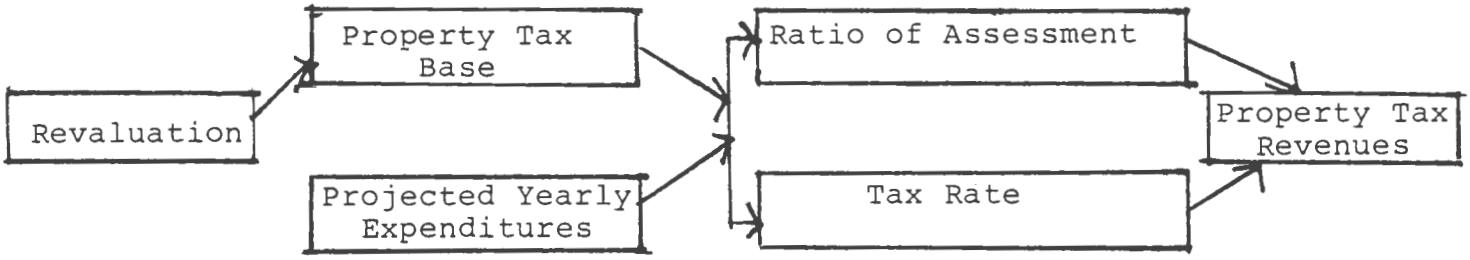
> "First, it is a significant revenue raiser. Second, the receipts are stable and predictable, and allow governments to budget well in advance. Third, the tax is hard to evade, since real property, the major component of the tax base, is difficult to conceal. Fourth, by reasoning that local public services enhance a community and thereby raise property values, it can be concluded that the tax to some extent charges those who benefit from the service it provides."[3]

Of course there are equity issues that surround the funding of services through the property tax. However, the important point to emphasize is that real estate plays a major role in the funding of government services. In addition to a discussion of the property tax framework that includes an analysis of changes in assessment ratios, tax rates and taxes levied per $1,000 of assessed value, the following fiscal stress measures will be discussed in this

section: property tax revenues per capita, and the property tax as a percent of own-source revenue.

B) Property Tax Framework

Property tax revenues in Rhode Island communities are a function of the following model:



This model attempts to capture the variables that affect the property tax and to simplify the process by which property taxes are derived. The relationship of the budget process and political system to this model pose a different set of questions and problems which are worthy of study but will not be considered in depth here.

Local property tax revaluation has been infrequent and sporadic in most Rhode Island communities. This caused the state legislature in 1980 to mandate reassessment for all Rhode Island cities and towns. In the six communities under study, both Johnston and Westerly had never previously undergone revaluation. While Johnston's

revaluation was implemented in 1983, Westerly's went into effect in 1981. Barrington underwent revaluation in 1966 and 1976, and their current revaluation will be implemented in 1985. During 1970 and 1971, Central Falls had a property revaluation and is undergoing one now. Johnston's only revaluation was implemented in 1983. Both North Kingstown and South Kingstown's reassessments went into effect in 1984 and North Kingstown's last reassessment occurred in 1972, while South Kingstown's was done in 1967.

Revaluation is important for two reasons. First, it can provide for a current market value assessment of the local tax base which aids in the determination of appropriate tax rates and assessment ratios for revenue purposes by increasing the monetary value of the tax base which in turn provides the base for property tax collection.

Secondly, there is a notion of fairness. When a community experiences growth or increases in the value of real estate, the new growth must pay a disproportionate share of the property tax absent a periodic reassessment. For example, a homeowner who has lived in the same home for the past twenty years may have realized an appreciation in market value of his home from $35,000 to $130,000 but may still be paying taxes far below the true market value. On the other hand, a new homeowner of an $80,000 house may pay more in property taxes even though the $80,000 home has a

lower market value than the $130,000 home. Thus, the more frequent the community-wide assessment, the more equitable the property tax.

In addition to revaluation and the property tax base, the local property tax in Rhode Island communities is related to projected yearly expenditures which in turn affect the local assessment ratio and tax rate. These are applied to property for tax purposes. As explained in a previous section, the local tax levy to be raised for a subsequent budget year is dependent upon projected expenditures minus federal and state intergovernmental transfers. While the tax rate per $1000 of assessed value is determined by dividing the amount of all taxable property by the projected levy. The ratio of assessed value to market value is actually a ratio of market value to the base year of revaluation. It is derived by comparing the current sales value of property to the base year.

With the exception of Barrington, the other five communities (Central Falls, Johnston, North Kingstown, South Kingstown and Westerly), all experienced a trend of declining assessment rates from 1967 to 1982. This has been counterbalanced by a gradual increase in tax rates (see Appendix B). A possible explanation for this can be found in the dramatic rise in the market value of real estate during recent years. While real estate market

values have increased faster than income from 1967 to 1982, a decrease in the assessment ratio may better reflect a property owner's ability to pay, even though more tax is levied per $1,000 of assessed valuation.

Compared to the rest of the country, the property tax in Rhode Island and New England provides a larger share of local revenue. According to Burchell and Listokin, all of the New England states have the highest reliance in the country on the property tax to support municipal and school district operations.[4] In addition, Rhode Island communities are constrained by state statutes which limit their discretion. As such, they cannot impose different forms of taxation such as sales or payroll taxes.

Rhode Island communities use local revenues to fund most services at the local level, while the vast majority of state aid to localities is for education. Other states across the country rely on special districts, authorities, and other user fees to provide and fund many local services.

Because of dependence on the local property tax in Rhode Island, the property tax can be used in a variety of ways to evaluate the fiscal condition of a community over time.

C) Property Tax Revenues Per Capita

Per capita revenues of the property tax can be used as a measure of community wealth related to population over time. The higher the property tax revenues per capita, the wealthier a community, as this measure indirectly reflects increases in taxable property related to population growth.

North Kingstown has experienced the highest current dollar growth in property tax revenues per capita from 1967 to 1982 (483.1 percent) Table A-7. Most of this growth occurred during 1972 and 1977. The only other community with above average growth was Johnston, (363.7 percent). Again, increases were largest from 1972 to 1977. South Kingstown had the slowest overall change in property tax revenues per capita, (189.9 percent), with most of the growth occuring from 1977 to 1982, (although this five-year growth was below average).

Slower growth can be caused by one of two phenomena: population increasing faster than the property tax base; or population decreasing which reduces the property tax base because this is a per capita measure. It is interesting to note that in the long term, Central Falls experienced the second-to-lowest increase in property tax revenues per capita, while South Kingstown had the lowest increase in property tax revenues per capita and gained in population.

D) Property Tax as a Percent of Own-Source Revenue

The property tax as a percent of own source revenue provides a better measure of the extent to which a community is dependent on the property tax and the local ability to diversify the revenue base. A problematic situation could arise when taxpayer resistance in a given year could substantially limit the amount of revenue collected. Because the yearly amount of property tax as a percent of own-source revenue has not markedly changed in the study communities, and may vary positively or negatively from year-to-year, a fifteen-year trend has been chosen to describe this data.

The fifteen-year average for this variable indicates that the study communities were 88.6 percent dependent on the property tax for own-source revenues, (Table 4). Barrington was the most dependent, (94.3 percent), followed closely by Johnston, (91.9 percent), and Westerly, (90.1 percent). North Kingstown, Central Falls and South Kingstown had below average changes in this variable of 82.3 percent, 86 percent and 86.8 percent respectively.

Although this variable is more contextual than the previous ones, it provides useful insight into the property tax framework under which a town operates. According to Burchell and Listokin, "significant dependence on the property tax versus own source revenue to support municipal functions is defined as property tax revenues financing

TABLE 4

PROPERTY TAX AS A PERCENT OF OWN-SOURCE REVENUE

COMMUNITY:	1967 - 1982 Average:
Barrington	94.3%
Central Falls	86.0%
Johnston	82.3%
North Kingstown	91.9%
South Kingstown	86.8%
Westerly	90.1%
Group Average	88.6%

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization, Rhode Island Department of Community Affairs, selected years.

more than 60 percent of operation supported by own source revenues."[5] Thus, because the fifteen-year averages for the study communities range from 82.3 percent to 94.3 percent, they are all substantially dependent on the property tax which would suggest that revenue diversification would be difficult when necessary.

IV. Summary of Fiscal Trends and Thier Relationship to the Case Study Community

It is evident through this analysis that there are community-level dynamics which affect the community performance for each of these measures. To summarize, fiscal pressure is indicated by the following criteria: below average percentage changes in full market value, revenue growth, and property tax revenues per capita; above average per capita expenditure growth; and, a revenue/expenditure ratio of less than one, in either the long-term, or any one of the three short-term periods.

The Summary Comparison of Communities, (Table 5), illustrates how each of the communities have performed according to the above fiscal pressure criteria and their conclusion in the Table indicates fiscal pressure. Table 6 condenses this information was was derived by rank-ordering the communities according to the number of times that each appeared in the fiscally stressed categories listed above. This was done for both the long-term fifteen year period,

and the shorter-term five year periods. Communities which received the same scores have been listed together. Overall, the analysis suggests that fiscal stress may be related to different factors in the short versus the long-term. In the long-term, (1967-1982), Barrington received the highest score. Although it could be classified as a higher-income community (see "Median Family Income" in Appendix A), it has had much slower long-term population growth than Johnston, North Kingstown, South Kingstown or Westerly. This long-term fiscal pressure may also have affected Barrington's high rating in two of the short-term periods as well.

In the short-term, different communities seem to be fiscally pressured according to these measures, although the particular community varies for each period.

From 1972 to 1977, both Westerly and Barrington scored the highest, followed by North Kingstown, South Kingstown and Johnston. From 1977 to 1982, Barrington and South Kingstown both received the highest scores.

To summarize, Barrington, Westerly and South Kingstown all appeared "fiscally pressured" according to this methodology. However, the ranking system is not sensitive enough to measure the degree to which each of these three communities has experienced fiscal pressure.

A possible explanation behind Barrington's results in this study is that it is a community experiencing a

Table 5

Summary Comparison of Communities

I. Below Average Percentage Changes:

	Full Market Value:	Revenue Growth	Property Tax Revenue Per Capita
1967-1982	Barrington Johnston	Barrington Westerly	S Kingstown Westerly Barrington
1967-1972	Westerly Johnston Barrington	Barrington Westerly S Kingstown	N Kingstown Westerly S Kingstown Barrington
1972-1977	Johnston Barrington Westerly	N Kingstown Barrington Westerly	S Kingstown Westerly Barrington
1977-1982	N Kingstown Barrington S Kingstown	Johnston Barrington	Johnston S Kingstown Westerly

II. Above Average Percentage Changes:

Per Capita Expenditures

1967-1982	N Kingstown Johnston
1967-1972	N Kingstown Johnston
1972-1977	N Kingstown
1977-1982	Barrington S Kingstown Westerly

III. Revenue/Expenditure Ratio Less Than 1:

Barrington N Kingstown S Kingstown Westerly
S Kingstown N Kingstown Johnston Westerly
Barrington S Kingstown N Kingstown Westerly
Barrington S Kingstown

Table 6

Summary Rank-Order of Communities

1967-1982

Barrington
Westerly
Johnston, North Kingstown
South Kingstown

1967-1972

Westerly
Barrington, Johnston, North Kingstown
South Kingstown

1972-1977

Barrington, Westerly
North Kingstown
South Kingstown
Johnston

1977-1982

Barrington, South Kingstown
Johnston, North Kingstown, Westerly

population decline. Although Barrington is not what one would think of as a central city community like Central Falls, it is an older, urbanized community, with related public service requirements. Even though it received a high fiscal stress rating in the summary analysis, the relationship of fiscal stress to long-term population decline is well-documented.

On the other hand, both Westerly and South Kingstown grew by large margins. Each community ranked highest in one or more of the five-year periods, which suggests that fiscal stress might be related to decline in the long-term, and growth in the short-term.

Because South Kingstown has been chosen for a further case study of the relationship between fiscal pressure and community growth, the causes and consequences of fiscal pressure in Westerly will not be studied further, although this provides a subject for complementary research. The case study will entail an analysis of the pertinent issues which have affected the budget process in South Kingstown from 1977 to 1982 in order to discover the major causes of fiscal stress during this time, and the community's response to it.

Chapter 3

Case Study of South Kingstown

1. Introduction

The purpose of the previous chapter was to provide a comparison of South Kingstown to the other communities in terms of selected fiscal pressure measures. This comparison has demonstrated that South Kingstown was experiencing fiscal pressure from 1977 to 1982. The case study of South Kingstown from 1977 to 1982 will attempt to determine major issues that affected budgetary decisions, and the specific coping strategies that South Kingstown chose to pursue in light of actual issues and constraints. Of particular interest is whether South Kingstown was constrained to pay for rapid population growth and inflation toward the later 1970's and early 1980's.

The first part of thise case study will include a concise profile of general growth trends in South Kingstown from 1967 through 1982. The second element will include an analysis of revenue and expenditure trends by category, and, a comparison of per capita real dollar revenue and expenditure trends. The actual budget process will then be studied for each year from 1977 through 1982, in order to illustrate significant reasons for these budget trends.

II. Profile of South Kingstown, 1967 - 1982

For the purpose of illustrating general growth trends in South Kingstown, variables were selected which, when analyzed in combination provide a general picture of economic condition such as population growth, growth in retail sales, and growth in housing starts.

South Kingstown is heavily dependent on the property tax as its major source of revenue. Thus fluctuations in housing starts may indirectly affect revenues and expenditures through impacting the property tax base. While retail sales data was only available from 1973 through 1978, it will indicate the enormous retail growth that South Kingstown experienced during the 1970's. As a related measure, employment figures are also shown, although they may not be the most accurate measure of commercial growth, because of South Kingstown's significant commuter and seasonal population.

Increases in population, total expenditures, housing starts, employment and retail sales have been included for the fifteen years from 1967 through 1982 for the purpose of examining general trends, with particular attention given to the five years from 1977 to 1982.

During the fifteen years chosen for this study, most of South Kingstown's population growth occurred from 1965 to 1970 (17.4 percent), and from 1970 to 1975 (16.4 percent), as opposed to the five years from 1975 to 1980

(3.6 percent). Compared to all Rhode Island cities and towns of similar population size, South Kingstown had an overall growth of 41.7 percent during these fifteen years, by far the largest increase of any city or town in South Kingstown's population class (15,000 - 25,000 in 1970).

In view of this population growth, the data found on Tables 7, 8, and 9 show trends in single-family housing starts, employment and South Kingstown's expenditure growth.

The percentage change in housing starts (Table 7) from 1969 through 1983 illustrates "peaks" and "valleys" that correspond to years of regional/national economic growth and recession. Three such cycles may be found from 1967 through 1982. What is of interest to this study, is that two "recessionary" valleys appear during the latter part of the study period.

As a measure of growth in the commercial and retail sectors of South Kingstown's economy, employment for each major SIC group may not be the most accurate due to South Kingstown's significant commuter and seasonal population (see Table 8). However, it does indicate that growth in South Kingstown's employment from 1967 through 1982 shows a similar pattern to housing starts during the same period. This may mean that local employment is related to similar national and regional economic trends that affected single-family housing starts in South Kingstown during this time.

Table 7

Single-Family Housing Starts for South Kingstown

1969 - 1983

YEAR	HOUSING STARTS	% CHANGE
1969	73	-
1970	94	28.8%
1971	135	43.6%
1972	208	54.1%
1973	181	-13.9%
1974	126	-30.4%
1975	190	50.8%
1976	260	36.8%
1977	153	-41.2%
1978	181	18.3%
1979	194	7.2%
1980	95	-51.0%
1981	96	.01%
1982	81	-15.6%
1983	118	45.7%

SOURCE: Rhode Island Builders Association

Table 8

Total Employment for Major SIC Groups in South Kingstown

1967 - 1983

YEAR	EMPLOYMENT	% CHANGE
1967	1429	-
1968	1518	6.2%
1969	1680	10.7%
1970	1897	12.9%
1971	1860	-2.0%
1972	2515	35.2%
1973	2956	17.5%
1974	2929	- .9%
1975	2861	-2.3%
1976	2955	3.3%
1977	3338	13.0%
1978	3780	13.2%
1979	3830	1.3%
1980	4326	13.0%
1981	4503	4.0%
1982	4618	2.6%
1983	4645	.5%

SOURCE: Rhode Island Division of Employment Security

A more accurate measure of local retail growth in South Kingstown is shown in Table 9, Retail Sales, although data was only available from 1973 to 1978. As indicated, retail sales for South Kingstown nearly doubled during these years, a total increase of 95.7 percent. This is significant when compared to the average increase for the State, which is 16.0 percent. Growth in South Kingstown's retail sales indicates that for these years only, South Kingstown's retail growth was not subject to the same recessionary cycles that affected housing starts and employment in the community from 1973 to 1975, and from 1975 to 1978.

In summary, it appears that growth in housing, employment and population were more rapid prior to the 1977 - 1982 period in South Kingstown. Additionally, South Kingstown seems to have experienced a short recession as gauged by fluctuations in housing starts during these five years, while overall expenditure growth by the town continued to rise. Although retail sales were strong in 1978, their growth or decline from 1978 to 1982 cannot be determined.

This profile has been included in order to acknowledge growth in South Kingstown, because this study is focusing on fiscal pressure related to growth. In retrospect, an indication of community growth that is more closely related to fiscal trends is an analysis of growth in residential,

Table 9

Retail Sales for South Kingstown

1973-1978

YEAR	RETAIL SALES	PERCENT CHANGE
1973	$40,821	
1974	55,418	
1975	53,277	
1976	76,473	
1977	86,080	
1978	79,897*	

1973-1978	South Kingstown	95.7%
1973-1978	Rhode Island	16.0%

*Decrease in sales subject to tax in 1977 and 1978 due in part to the elimination of sales tax on clothing effective June 1, 1977.

SOURCE: Basic Economic Statistics, Rhode Island Development Council, 1982

commercial, and industrial properties as part of the local tax base. Although this is not included in this study, it would provide for a stronger assessment of the types of local growth and the related service demands which different types of growth generate.

III. Local Revenue and Expenditure Trends

A comparison of growth in expenditures, revenues and the tax rate illustrates basic budgetary relationships in South Kingstown from 1977 through 1982. While local expenditure growth measures the level of public goods provided to a community in a general sense, it may indicate fiscal stress when expenditure growth is more rapid than revenue growth, as revenue growth is a measure of community resources. In property tax dependent communities like South Kingstown, revenues and particularly own-source revenues are tied directly to the property tax base and assessed value of property. Because South Kingstown did not undergo a property revaluation between 1967 and 1983, the tax rate will be analyzed as the best indicator of tax burden.

As illustrated in Table 10, expenditures grew approximately 4 percent faster than revenues from 1977 to 1982. However, yearly revenue growth was greater than expenditures during this time. Own-source revenues increased nearly 7 percent faster than expenditures from

TABLE 10

SUMMARY OF BUDGET TRENDS IN SOUTH KINGSTOWN: 1977-1982

YEAR:	EXPENDITURES	% CHANGE:	OWN-SOURCE REVENUES	% CHANGE:	TOTAL REVENUES	% CHANGE:	TAX RATE (per $1,000)	% CHANGE:
1977*	$ 8344865	-	$ 6181015	-	$ 8415273	-	$46.30	-
1978	9671077	15.9%	71215768	16.7%	9786634	16.3%	50.40	8.9%
1979	10588140	9.5%	8120949	12.5%	10922512	11.6	54.72	8.8%
1980	11480468	8.4%	8923811	9.9%	11883601	8.9%	56.64	3.5%
1981	13134365	14.4%	9978794	11.8%	13537497	13.9%	61.00	7.7%
1982	14550807	10.4%	10949115	9.7%	14330335	5.9%	63.24	3.7%
1977-1982	-	73.8%	-	77.1%	-	70.3%	-	. %

*Each year corresponds to the fiscal year. For example, figures for the 1977 budget year cover July of 1976 through June of 1977, and so on.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

1977 to 1982, a possible indication that funding from federal and state sources was declining. Similarly, own-source revenue growth was greater than total revenue growth in every year except from 1980 to 1981.

While expenditures growing at a faster rate than revenues indicates a certain degree of stress, the property tax rate was also increasing. Although this paper does not attempt to measure the specific ability of South Kingstown residents to pay for community services, it is significant that the local tax rate jumped from $38.50 per $1000 of assessed value in 1976 to $63.75 per $1000 in 1982; an increase of 65.6 percent. The year 1976 has been included here to indicate a 20.3 percent increase in the tax rate between 1976 and 1977 alone, and was to become a significant budget issue during the following year. From 1977 to 1982, South Kingstown's tax rate grew by 37.7 percent.

A. Growth in Expenditures by Category

An analysis of expenditure trends by category, (Table 11), illustrates some notable deviations from the 84.9 percent average category increase in expenditures from 1977 through 1982. For example, Sanitation expenditures grew by 127 percent, Miscellaneous expenditures by 116.5 percent, and expenditures for Libraries by 110.2 percent.[1] In contrast, school operating expenditures increased by 64.9

TABLE 11

EXPENDITURE GROWTH BY CATEGORY

CATEGORY:	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1977-1982
General Government	7.7%	6.9%	4.4%	17.1%	5.8%	48.9%
Finance	4.0%	5.7%	6.4%	34.1%	8.3%	69.9%
Public Safety	10.3%	18.9%	15.6%	6.8%	16.7%	71.2%
Public Works	12.5%	5.2%	5.7%	19.8%	1.6%	64.4%
Sanitation	86.1%	-20.8%	18.8%	40.1%	13.2%	177.8%
Public Health	53.4%	-30.8%	-33.6%	55.8%	91.6%	110.2%
Public Welfare	31.3%	0.7%	-6.4%	19.5%	24.1%	83.5%
Libraries	63.9%	7.0%	6.6%	8.9%	11.4%	127.0%
Recreation	28.8%	4.7%	13.2%	3.5%	7.7%	70.2%
Miscallaneous	53.1%	20.8%	17.6%	17.8%	-15.5%	116.5%
Schools:						
-Operating Expense	9.5%	10.6%	6.5%	14.5%	11.6%	64.9%
-Debt Service	28.1%	-2.8%	-2.9%	-3.0%	-3.0%	13.8%
Total	15.9%	9.5%	8.4%	14.4%	10.4%	73.8%
Average Change*	32.4%	2.2%	4.3%	±9.6%	15.3%	84.9%

*Excluding the "Total" Category.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization, Rhode Island Department of Community Affairs, selected years.

percent, and 13.8 percent for school debt service. General Government expenditures only grew by 48.9 percent and expenditure growth for public works, public safety and recreation was also below average.

On a yearly basis, expenditure growth was greatest from 1977 to 1978, (32.4 percent), and significant from 1980 to 1981, (19.6 percent) and from 1981 to 1982 (15.3 percent). From 1978 to 1979, the average increase was only 2.2 percent, and 4.3 percent from 1979 to 1980. Thus it would appear that 1979 and 1980 are key budget years, where expenditure growth decreased dramatically.

Overall, percentage change in expenditures by category from 1977 to 1982 provide for the most accurate assessment of yearly expenditure priorities because yearly expenditure levels for each category fluctuate widely. The following table of expenditures by rank-ordered category indicates relative budgetary priorities from 1977 to 1982.

In general, expenditure priorities in terms of rate of growth are different when expressed in actual dollars. A high percentage of growth for service categories may be reflective of the fact that these categories had a smaller base from which to calculate growth in 1977. For example, School Operating Expenses grew at a slower rate as compared to other categories (64.9 percent). But when expressed in actual dollars, this category increased the greatest, or by $3,458,481.

TABLE 12

RANK-ORDER OF EXPENDITURE GROWTH

BY CATEGORY: 1977 - 1982

RATE OF GROWTH:		ACTUAL DOLLAR GROWTH:	
1. Sanitation	177.8%	1. School Operating Expense	$3,458,481
2. Libraries	127.0%	2. Miscellaneous	801,268
3. Miscellaneous	116.5%	3. Public Safety	579,639
4. Public Health	110.2%	4. Public Works	258,895
5. Public Welfare	83.5%	5. Sanitation	132,980
6. Public Safety	71.2%	6. General Government	120,863
7. Recreation	70.2%	7. Public Welfare	119,622
8. Finance	69.9%	8. Libraries	106,741
9. School Operating Expense	64.9%	9. Finance	91,740
10. Public Works	64.4%	10. Recreation	53,583
11. General Government	48.9%	11. School Debt Service	45,013
12. School Debt Service	13.8%	12. Public Health	36,167

While School Debt Service increased the slowest over time, it did grow by 28.1 percent from 1977 to 1978. South Kingstown incurred further debt for its schools during this period as two new elementary schools were opened in early 1976.

South Kingstown also began to pay for a public sewer system in 1977, and the cost is reflected both in the Sanitation category and through a "Wastewater Fund" incorporated in the Miscellaneous Category. The construction of sewers cost South Kingstown residents a considerable amount of money that was paid through debt service in the late 1970's.

B. Growth in Revenue

Although South Kingstown could be classified as a property tax dependent community, an analysis of own-source revenue over time illustrates the degree to which South Kingstown diversified its revenue sources, in the face of declining federal support and high inflation.

Table 13 indicates that between 1977 and 1982, own-source revenues accounted for 73.4 percent to 76.4 percent of total revenues, gradually increasing over the five year period. On the other hand, the property tax, which accounted for over ninety percent of the own-source revenues during this period, decreased very slightly. Because property tax revenues were decreasing at the same

TABLE 13

ANALYSIS OF OWN-SOURCE REVENUE

YEAR:	TOTAL REVENUE	OWN-SOURCE REVENUE	% OF TOTAL REVENUE	PROPERTY TAX REVENUES	PROPERTY TAX AS A PERCENT OF OWN-SOURCE
1972	$ 5232482	$ 4025752	76.9%	$3497325	86.9%
1977	8416273	6181015	73.4%	5837651	94.4%
1978	9786634	7215768	73.7%	6737884	93.4%
1979	10922512	8120949	74.4%	7553786	93.0%
1980	11883601	8923811	75.1%	8139606	91.2%
1981	13537497	9978794	73.7%	9112681	91.3%
1982	14330335	10949115	76.4	9887217	90.3%

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

TABLE 14

REVENUE GROWTH BY CATEGORY

CATEGORY	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1977-1982
Property Tax	15.4%	12.1%	7.8%	12.4%	8.5%	69.4%
Licences and Permits	26.6%	42.4%	-5.0%	-9.0%	-42.9%	-11.0%
Fines and Penalties	100.0%	-16.1%	-5.1%	-84.5%	41.6%	232.3%
Rents and Interest	-28.2%	63.1%	59.7%	25.5%	-2.0%	366.6%
Shared Taxes	214.8%	10.5%	16.7%	17.3%	21.3%	**
Grants	9.0%	14.5%	8.7%	11.7%	4.5%	58.4%
Departmental Revenue	105.0%	-2.9%	48.0%	8.3%	27.0%	305.2%
Miscellaneous	25.9%	-9.1%	-8.8%	62.4%	-37.2%	6.5%
Total Own-Source	16.1%	12.5%	9.9%	11.8%	9.7%	77.1%
Total Revenue	16.3%	11.6%	8.9%	13.9%	5.9%	70.3%
Average Change*	58.6%	14.3%	15.3%	26.6%	2.6%	146.8%

*The Average Change figure includes all categories of revenue listed above except Total Own-Source and Total Revenue.

**There were no revenues from Fines and Permits in 1977 and 1982.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

mirrored in some trends for expenditure growth. The year 1977 would seem to be a key budgetary year in South Kingstown, and a study of the budget process will later determine whether the relevant budgetary issues explain these trends.

IV. Inflation and Per Capita Revenue and Expenditure Trends

A. Inflation

Perhaps the one contextual factor that exerted the greatest influence over local revenue and expenditure trends in U.S. communities was the dramatic rise in inflation. This is partially evident in South Kingstown. From 1977 to 1982, the Consumer Price Index rose 57.8 percent. During the same period, however, growth in assessed value of property wnich is a measure of the local tax base was 20.8 percent.[2]

Consumer Price Index: 1972 = 100

CPI	Percent Increase
1972 - 100	-
1977 - 146.2	46.2%
1982 - 230.6	57.7%
1972 - 1982:	130.6%

SOURCE: Bureau of Labor Statistics.

An increase in prices from 1972 to 1982 was even more extreme, as the cost of goods and services increased by 130.6 percent.

It is assumed that because South Kingstown had a population growth from 1970 to 1980 of 20.7 percent, (see Table 3, Chapter 2), the demand for services also increased, although it is not apparent whether this demand increased proportional to population growth.

From 1972 to 1982, the assessed value of property in South Kingstown grew by 60.8 percent. This is significant because the property tax accounted for nearly 87 to 93 percent of own-source revenues, and 67 to 70 percent of total revenues during this time. Because the tax base expanded almost three times faster than residential population growth, the demand for services was adequately met. However, inflation increased by 130.6 percent from 1972 to 1982, and was most rapid from 1977 to 1982.

In addition, the tax rate grew from $36.00 per $1000 of assessed value in 1972 to $63.24 per $1000 in 1982, an increase of 75.7 percent. While the tax rate was $38.50 per $1000 in 1976, (an increase of 6.9 percent from 1972), it increased 20.3 percent from 1976 to 1977 alone, and 36.7 percent from 1977 to 1982. This would suggest that the existing tax base was not expanding fast enough to support service demand and revenues had to be made up through the tax rate.

In order to account for inflation, and relate expenditure and revenue trends to population growth, per capita expenditures and revenues have been compared in real

dollars for changes from 1972 to 1977, 1977 to 1982, and from 1972 to 1982.

B. Real Dollar Expenditure Growth Per Capita

For the ten years from 1972 to 1982, total per capita expenditures increased by .7 percent overall, while the average per capita expenditure change within the categories was 20.0 percent (see Table 15). This indicates that expenditures for some service categories were rising rapidly, like Sanitation, (84.5 percent), Public Welfare, (58.8 percent), Libraries, (46.1 percent), Miscellaneous (31.3 percent), and Operating Expenditures for Schools (29.1 percent). It is significant that per capita expenditure growth was very slow in real dollars, or even declined for Recreation (7.4 percent), Finance (2.2 percent), Public Health (2.1 percent), General Government (06.6 percent), and Public Works (-22.4 percent). This indicates that over time, South Kingstown initiated few new programs under these service categories.

In addition to total real dollar per capita expenditures, four categories of expenditures were less per capita in 1977 than in 1972. They included Public Works, (-22.8 percent), Public Health (-20.8 percent), Miscellaneous (-5.1 percent), and Finance, (-1.9 percent). Increases in expenditures for Public Welfare, (41.5 percent), School Debt Service, (28.1 percent), School

TABLE 15

REAL DOLLAR PER CAPITA GROWTH IN EXPENDITURES
BY CATEGORY: 1972-1977; 1977-1982; 1972-1982

CATEGORY:	1972	1977	% Change: 1972-1977	1982	% Change: 1977-1982	% Change: 1972-1982
General Government	$ 7.38	$ 8.59	16.4%	$ 7.82	-9.0%	-6.0%
Finance	4.64	4.55	-1.9%	4.74	4.2%	2.2%
Public Safety	25.62	28.72	10.3%	29.61	0.6%	15.6%
Public Works	18.08	13.95	-22.8%	14.03	0.6%	-22.4%
Sanitation	2.39	2.60	8.8%	4.41	69.6%	84.5%
Public Health	1.44	1.14	-20.8%	1.47	28.9%	2.1%
Public Welfare	3.52	4.98	41.5%	5.59	12.2%	58.8%
Libraries	2.89	2.92	1.0%	4.05	38.7%	40.1%
Recreation	2.57	2.65	3.1%	2.76	4.2%	7.4%
Miscellaneous	24.09	22.87	-5.1%	31.64	38.3%	31.3%
Total Municipal Expenditures	305.79	289.74	-5.2%	308.04	6.3%	0.7%
Schools:						
-Operating Expense	1085.86	1278.10	17.7%	1401.46	9.7%	29.1%
-Debt Service	60.98	78.14	28.1%	59.13	-24.3%	-3.0%
Average Change*	-	-	4.7%	-	16.0%	20.0%

*Excludes Total Municipal Expenditures.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

operating expenditures, (17.7 percent), and General Government, (16.4 percent) were significantly above the average category change of 4.7 percent.

It is interesting to note that South Kingstown spent more money per capita in 1982 for Public Safety, Sanitation, Public Welfare and miscellaneous expenditures as compared to 1972 levels. Most importantly, South Kingstown spent only three dollars more per capita for total municipal services in 1982 than during 1972. Thus, South Kingstown maintained similar service levels at the expense of changing the category mix.

B. Real Dollar Revenue Growth Per Capita

Total real dollar per capita revenues decreased by 1.6 percent from 1972 to 1982, which is below the overall expenditure increase (Table 16). Per capita revenue declined for Departmental Revenue, (-9.2 percent), Grants, (-11.3 percent), Licenses and Permits, (-47.6 percent), and Shared Taxes, (-49.5 percent), Table 9. On the other hand, revenues increased from Rents and Interest, (80.1 percent), and the Property Tax (1.6 percent).

From 1972 to 1977, most of the per capita revenue categories declined, including decreases in Shared Taxes, (-82.4 percent), and Departmental Revenue (-63.4 percent) being most extreme. From 1977 to 1982 however, Departmental Revenue, (148.2 percent), and Rents and Interest, (103.1 percent), increased significantly. This

TABLE 16

REAL DOLLAR PER CAPITA GROWTH IN REVENUES BY CATEGORY:

1972-1977; 1977-1982; 1972-1982

CATEGORY:	1972	1977	% Change: 1972-1977	1982	% Change: 1977-1982	% Change: 1972-1982
Property Tax	$206.79	$202.69	-2.0%	$210.03	3.6%	1.6%
Licences and Permits	2.67	2.59	-3.0%	1.41	-45.6%	-47.6%
Rents and Interest	5.02	4.45	-11.4%	9.04	103.1%	80.1%
Shared Taxes	5.27	.93	-82.4%	2.66	186.1%	-49.5%
Grants	66.07	60.47	-8.5%	58.61	-3.1%	-11.3%
Departmental Revenue	13.34	4.88	-63.4%	12.11	148.2%	-9.2%
Miscallaneous	10.21	16.21	55.8%	10.56	-34.9%	3.4%
Total Revenue	309.38	292.23	-5.5%	304.42	4.2%	1.6%
Average Change*	-	-	-16.0%	-	51.1%	-4.9%

*Excludes Total Revenue.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

could provide an indication of ways in which South Kingstown attempted to diversify revenues from 1977 to 1982.

When growth in real dollar revenues per capita is compared with real dollar growth in per capita expenditures, it becomes evident that expenditures for services were rising at a faster rate than revenues. Explained another way, additional population growth from 1972 to 1977 was costing .3 percent more in services than the revenues which were generated, in relation to population. Furthermore, population growth from 1977 to 1982 was costing 2.1 percent more in services than it was creating in revenues.

This data analysis has provided a background for examining relevant budgetary issues that may explain why growth in real dollar expenditures per capita and total growth in expenditures exceeded overall revenue growth from 1977 to 1982, possibly contributing to fiscal pressure in the short-term. However, in support of this approach, South Kingstown's substantial increase in tax rates while the property tax base grew at a relatively slow, constant rate would indicate significant budgetary issues which the community faced from 1977 to 1982, and particular coping strategies that were pursued as a response.

V. Analysis of South Kingstown's Budget Process: Fiscal Years 1977 - 1982

This final section will examine the major actors within the budget process, what the major budgetary issues were, and what decisions were made during each year from FY 1977 to FY 1982. This will enable an assessment of what the yearly budgetary constraints were, and which particular coping strategies were chosen. The majority of the information for this analysis has been gathered from local newspaper accounts of these events from approximately January through May of each year.[3]

Like most other Rhode Island communities, South Kingstown's registered voters have the final power to approve or disapprove all elements of the local budget at the yearly Financial Town Meeting. Their ability to organize and articulate concerns is a powerful force that may ultimately determine the provision of local services and the tax rate. Research in South Kingstown suggests that unless taxpayers are faced with a substantial increase in the tax rate from one year to the next, little organization and interest is evident.

In South Kingstown, the yearly proposed municipal budget is submitted to the Town Council by the Town Manager for initial consideration in January. Similarly, the school budget is prepared by the School Superintendant and initially submitted to the Town Council by way of the Town

Manager for review. While the Council can exercise power to eliminate specific items to the municipal budget, the Council is limited by Town Charter from cutting specific items from the school budget. It can only mandate a bottom line budget cut figure to the School Committee.

Another key actor in the budget process has been the South Kingstown Teachers Association, which negotiates contracts on a yearly basis and normally settles them during or just after the local budget is adopted in late April. Difficulties resulting from this yearly negotiation process were noted by the School Committee in 1977, as "much of the (school budget) problem comes from the School Committee's 'cat and mouse game' with the teachers' union. There was concern among school officials that if the teachers know how much is budgeted for an anticipated pay hike, it could be turned into a bargaining advantage."[4] It was estimated that salaries accounted for 80 percent of the proposed school budget in Fiscal Year 1977.

In 1976, there were a number of important and controversial issues that eventually influenced the FY 1977 budget.[5] Debt service became an important fixed cost, as South Kingstown began to pay for the construction of West Kingston and Matunuck schools, as well as a regional sewer system. According to a March 4, 1976 Narragansett Times article entitled "Taxes Up, Programs Down", most of the budget was tied up in "debt service, capital improvements,

educational salaries and state and federal mandates for education."[6] The School Board expressed concern that "future cuts in the operating budget would come in support services which are not contracted with the State, or locked through contract negotiations."[7]

Additionally, the state placed a freeze on State Aid to Education which in February accounted for nearly $6.00 of the proposed $11.00 tax rate increase that had to be made up in local revenue. Furthermore, local revenues were anticipated to drop by $50,000; and by $600,000 from state and federal sources. In short, South Kingstown was facing a massive tax hike which led to the active participation of the South Kingstown Association of Taxpayers (SKAT) who called for a complete elimination of the capital improvements budget prior to the Financial Town Meeting. As reported in a March 4, 1976 Narragansett Times editorial, "South Kingstown has grown substantially but has had only a 7 percent increase over the past 6 years in the tax rate to $38.50. The new budget requires a 25 percent hike."[8]

For FY '77, major increases were proposed for the following: new equipment, a second well pumping station for the South Shore Water System, water main and sewer extensions, park improvements, a road resurfacing program and new tax assessor's maps. In late January, the Council made cuts in proposed school renovations, funds for the

development of a new solid waste disposal site, two new proposed classroom additions, and proposed Town Hall renovations. During early March, the Council further cut summer help at Town Hall, and $50,000 from the school budget, the likely result being the elimination of the school's capital improvement program. It also eliminated funds to complete a second well pumping station for the South Shore Water System. The School Committee further reduced funds for interscholastic activities, school furnishings, audiovisual supplies, and classroom supplies.

Reductions in these services were not enough to satisfy taxpayers at the Financial Town Meeting, and one of the targets was the Town Manager, as "Angry Taxpayers Slashed Manager's Salary" by $2,700.[8] This was a strong expression of local dissatisfaction over such a large increase in the tax rate.

Other cuts at the Financial Town Meeting included: an attempt to cut the Town Planner's position, reductions in the school budget of $125,000, reductions in various other departmental salaries, a $3,128 reduction in public health, and, signficant cuts in funding to develop a new landfill site. Voters also rejected petitions for new classrooms, and for high school renovations; items previously cut from the budget.

Budget matters were not settled until June, as the School Committee was directed from the Financial Town

Meeting to reduce their budget by an additional $125,000. The School Committee was forced to make further cuts in support services because approximately 80 percent of the school budget went to teacher salaries. As a result, reductions occurred in the Teacher's Aide Program, Athletic Equipment, the elimination of aid for school lunches and the elimination of three support staff positions.

While the town adopted a 20 percent increase in the tax rate for FY '77, choices had to be made regarding priorities. Overall, reductions were most evident in the deferment of capital improvements, maintenance, equipment purchases, and cuts in support services, as inflation, salaries, increasing debt service, transportation and other fixed costs combined with projected reductions in local, state and federal revenues presented the major constraints to budgetary decisions in FY '77.

The controversial rise in the tax rate for FY '77 set the general budget tone for the following year, although the increase in the tax rate was to be 8.9 percent as opposed to a 20.3 percent increase for FY '77. The FY '78 budget could be characterized as containing similar deferments in public improvements, and additional teacher layoffs. Although the town expected organized taxpayer opposition at the Financial Town Meeting, very little was evident. An interesting outgrowth from the previous year's Financial Town Meeting was an expressed interest by the

School Committee of having their budget be considered separate from the annual meeting, although nothing came of this proposal.

School budget issues were similar this year, as fixed costs for salaries, transportation, fringe benefits and debt service were difficult to contain. The greatest increase in the total budget for FY '78 was educational debt service, which was projected to be 41 percent greater than in FY '77. Furthermore, the school committee based its budget request on a $200,000 salary increase but the Council would only accept an increase of $125,000 and the School Committee was forced to make $75,000 in additional cuts in programs just prior to the Financial Town Meeting.

In response, the School Committee in early April proposed to eliminate sports and extracurricular activities, close school during January and February, or eliminate a bus, the adult education program, and a paid volunteer coordinator. The following week, the committee decided to eliminate the purchase of a new bus, late bus transportation for the junior and senior high schools, and eliminated three federal programs for special students. Also reduced were funds for intramural sports, extra-curricular activities, classroom supplies, and office equipment. In order to make up these cuts, the School Committee sought a $75,000 petition at the Financial Town Meeting to replace these budget items.

Other major budget cuts by the Council and the School Committee for the FY '78 budget included: water line extensions in southern South Kingstown, public works equipment, cuts in the town's human development program, reductions in a proposed road widening program, elimination of funds for a groundwater study, the elimination of funding for school drainage improvements, and the elimination of a lot resurfacing program for the police department. Additional cuts occurred through the layoff of seven teachers, cuts in the adult education program, and a reduction in aid to the South County Chapter of Retarded Citizens. The Town Manager's salary was also reduced by $4,000.

Only 75 residents approved the FY '78 budget, and approval was given with little discussion. Because the Council expected an extended budget battle, it had previously reduced the budget item for the Financial Town Meeting from three nights to one night. Among the petitions for additional funds were:

1. $350,000 to develop a Waste Transfer Station,
2. $75,000 for the school budget,
3. $2,000 for the South County Chapter of Retarded Citizens,
4. $27,000 for the Kodachrome School Program.

While the first petition was defeated, the remaining three were approved, all items that had previously been cut from the budget.

During FY '78, the increase in the tax rate would have been greater due to rising costs in expenditures. It was kept down because of increases in non-property tax revenues, federal revenue sharing, a federal employment program and a substantial increase in state aide to education, as compared to previous years.[10] As in FY '77, major reasons for budget increases were due to inflation, salaries and benefits, debt services and operation of the regional sewer system, and educational debt service, all of which were fixed costs. No new programs were funded. Part of the School Committee's coping strategy for the past two years in the face of budget cuts has been to take their case to the voters at the Financial Town Meeting through petitions in order to make up for budget cuts.

Approval of the 1978-1979 budget, (FY '79), can best be described as quiet, with no new programs, few new employees and increases dominated by "funding which met the external demands of federal regulations, union contracts, utilities, insurance programs and inflation."[11]

Major budget cuts occurred in improvements to the South Shore Water System for the third year in a row, cuts in the drainage improvement program, and cuts in various recreational programs. Some of the major increases

included seven percent pay increases for non-school employees, and increasing costs for the operation of and debt service on the sewer system. Rises in fixed costs and inflation were possible causes of deferments in capital improvements for infrastructure this year.

The following year (FY '80) saw an attempt by town officials to diversify revenues and lessen the impact of growth and its related service costs. Of particular interest was the impact of growth on the local tax rate. Although South Kingstown's options were constrained by state enabling legislation, the Town Council explored a number of growth control options:

1. Increased taxes on development to pay for services.
2. A new townhouse ordinance as an alternative to single family development.
3. A development moratorium.
4. Staggered growth control.

According to Town Planner Anna Praeger, "residential developments often hurt the town because they cost more in services than they contribute in taxes."[12] Consequently, South Kingstown was exploring alternatives to make growth pay for itself.

The following month, the Town Council voted to examine growth regulation alternatives by looking at the local powers allowed through the state's zoning enabling legislation. Among their recommendations were: a limit on

building permits; a limit on the rate of residential development; the use of impact taxes; and, the formation of a new town commission to annually review all proposed development.[13]

Decisions regarding the FY '80 budget in early 1979 were important because of slower growth in non-property tax revenues. As the town was losing federal funds, it was paying more of the sewer system debt. Interestingly enough, the Council chose not to accept a $160,000 matching fund for state public assistance, because it felt that this large expense could not be justified. Thus, a $160,000 decline in revenues was expected.

As in FY '77 through FY '79, most of the school budget for FY '80 was tied into contracts for salaries. Although this was approximately 80 percent during these years, it had grown to 85 percent for FY '80, which is an indication that the town had to pay more for salaries and make cuts in other areas. When the school administration had to choose between cuts in supplies and cuts through employee attrition, it chose the latter, and very few retirement positions opened due to retirement were filled from 1977 through 1982.

The largest new expenditure for FY '80 was $30,000 for a new dog pound. Other major proposed increases included money for equipment maintenance and replacement, which was previously deferred to a large extent, funds for special

education, athletics and school equipment, a new environmental master plan, drainage improvements, road improvements, park improvements, high school renovations and money for the Water Enterprise Fund. The School Committee was also looking for funding for a disabilities teacher, the Gifted Children's Program, and two full-time elementary school principals.

In subsequent budget sessions, the Town Council cut one-fourth of the drainage improvement program, funding for Family Services, Inc., and funding for an administrative services coordinator; a position that was previously federally funded. The School Committee made further cuts through employee attrition, and the full-time principal proposal.

The Financial Town Meeting was relatively quiet, with the only petition for support to Washington County Mental Health which was approved. While FY '79 was a year of no growth in services, the Council did succeed in increasing the following revenues: parking fines; fees for zone changes; fees for building permits; fees for various licenses; non-resident parking fees for Moonstone Beach; and, fees for commercial haulers at the landfill. The final increase in the tax rate was $54.72 per $1000; or 8.9 percent greater than the previous year.

In deciding the 1980-1981 budget, (FY '81), the town seems to have recognized that deferred maintenance and

capital improvements finally were a priority for FY '81. In another development, the school system was $195,000 in debt because protracted teacher negotiations were not settled until September of 1980, and cost the town $195,000 more than was budgeted. Combined with high energy costs and inflation, the School Committee agreed to eliminate any new programs for FY '81.

Besides the need for capital improvements, equipment maintenance and replacement, other major proposed increases included: salaries, six new positions to replace the expiring CETA program, human service agency support, an animal shelter, the Water Enterprise Fund, the Sewage Treatment Fund, and, school improvements.

Because of this fiscally constrained year, the School Committee cut two part-time speech therapists, two elementary teachers, the adult education program, an outdoor recreation program, and computer scheduling for the junior and senior high schools. Furthermore, the Council eliminated funding the CETA positions, and cut a substantial portion from the equipment replacement fund.

It would seem that both the Town Council and School Committee recognized the need for fiscal restraint, and this kept the number of increased funding proposals to a minimum. In fact, the Town Manager noted that a budget increase of 15 percent was necessary just to keep government operating at the same level.

In response, however, many petitions were up for consideration at the Financial Town Meeting. They included:

1. $90,000 by the School Committee for high school and elementary school repairs, and two full-time principals.
2. $79,449 for special education personnel.
3. $28,470 for two full-time principals, (included also in the first petition).
4. $6,264 in additional funds for the Gifted Children's Program.
5. $48,738 in order to replace capital improvement items cut from the budget.
6. $32,000 for two former CETA positions.
7. $18,000 for a new ambulance.
8. $14,893 for a Seniors Program.

All of the above petitions were defeated except the last two, and South Kingstown settled for no new programs, small increases in equipment, deferred maintenance, and cuts in special education support services including those for learning disabilities and gifted children.

During the final year of this study, (1982 - 1983), the major element of the FY '82 coping strategy in the face of rising costs beyond local control was the move to make the water and sewer systems user-supported. While the town had approved a 30 percent hike in water rates in 1979, another 20 percent increase was approved in 1981. In addition, the Council approved a 50 percent increase in

sewer fees in 1981.

In terms of the school budget, per-pupil costs in South Kingstown were the fourth largest in the state, while the town experienced the third largest drop in enrollment, mostly from the elementary levels.[14] During 1981, huge increases in capital improvements were needed to renovate the high school, Peace Dale and Hazard schools, improvements which were largely deferred over the last few years. Approximately 90 percent of the school department's budget was locked through salaries, fuel and utilities. This represents a ten percent increase over FY '77, which would suggest that South Kingstown has had to make cuts in school programs, support services and maintenance, and other areas which are not tied through contract.

Significant proposed budget elements included sidewalk and bridge improvements, equipment replacement, school improvements, a $195,000 track, and a new solid waste management plan. The school budget also requested $416,431 for improvements and school maintenance, an increase from $67,389 over the previous year.

There were a number of cuts from the school budget including supplies and materials, parking lot paving, teacher layoffs, employee attrition, and the high school track. The Council ordered the School Committee to make additional cuts. Accordingly, the Committee cut insurance, the school bus aide payroll, and $11,000 to refurbish the high school.

The Financial Town Meeting was non-controversial this year, but voters did approve the $195,000 high school track which was submitted on a petition. Overall, the $2.75 increase in the tax rate to $63.75 was due to inflation, fixed costs, salaries, and the new high school track.

In summary, fixed costs, teacher's salaries, public improvements, operation of the sewer and water systems, and two new schools have contributed to fiscal pressure during a time of high inflation and declining non own-source revenues. Decisions regarding the FY '77 budget were key as they seemed to set the tone for tax increases that were needed to pay for growth, and provided a message to local officials that such future tax increases would not be acceptable. Because of these constraints, the town pursued a strategy of cuts. This strategy was to defer maintenance improvements and equipment replacement, items that would only cost more due to inflation. Major cuts were made through employee attrition which was preferred over cuts in supplies, especially for schools. Cuts in school support services were significant for those related to special education, such as learning disabilities, speech therapy and gifted children. It should be noted however, that cuts could not be made below levels mandated by the state and federal governments. The town also attempted to diversify its own-source revenue through increasing fees. Finally, South Kingstown shifted a greater burden for the operation

of the town water and sewer systems to users.

In reviewing the local revenue and expenditure data, it appears that substantial increases in the tax rate brought few, if any, new services or programs from 1977 to 1982 as South Kingstown was forced to pay for rising fixed costs and debt services. Major increases in per capita expenditures for Sanitation over time reflects these increasing costs, mainly for debt service. On the other hand, a decline in public works expenditures reflects deferments in equipment purchases, maintenance and other capital improvements. Moreover, per capita real dollar expenditures increased slightly faster than per capita real dollar revenues lending support to the contention that fiscal pressure was evident from 1977 to 1982. Although fiscal stress doesn't necessarily indicate crisis, it is an important fiscal problem that initiates the community to respond in different ways.

Chapter Four

This research has attempted to accomplish two distinct but related tasks. First, it presents a methodology for measuring short-term fiscal pressure in small, less urbanized communities, and then analyzes fiscal pressure in South Kingstown. It is necessary to re-examine this methodology in light of the findings in order to gauge the accuracy of certain assumptions and to address the initial research questions developed in Chapter One.

An assumption has been that various community characteristics are related to fiscal stress which can be distinguished by the following: central city versus non-central city, growth versus decline, and small size versus large size. The question of size was a "given" aspect of the analysis. Although the intention here was to purposefully study a non-central city community, as fiscal pressure related to decline is well documented, Central Falls was included in the initial analysis of the fiscal measures because of its population size. It is also the only community of the group that could be described as having central-city characteristics such as a declining tax base and a loss in population over the past several years.

Even though Central Falls was excluded in the final selection process because of these characteristics, the

Table 17A

Summary Rank-Order of Communities

A. With Central Falls

1967-1982

Central Falls
Barrington
Westerly
Johnston, N Kingstown, S Kingstown

1967-1972

Westerly
Johnston, N Kingstown, S Kingstown
Barrington
Central Falls

1972-1977

Barrington, Central Falls, Westerly
N Kingstown
S Kingstown
Johnston

1977 - 1982

Barrington, Central Falls, S Kingstown
Johnston, Westerly
N Kingstown

Table 17B

Summary Rank-Order of Communities

B. Without Central Falls

1967-1982

Barrington
Westerly
Johnston, N Kingstown, S Kingstown

1967-1972

Westerly
Barrington, Johnston, N Kingstown, S Kingstown

1972-1977

Barrington, Westerly
N Kingstown
S Kingstown
Johnston

1977-1982

Barrington, S Kingstown
Johnston, N Kingstown, Westerly

growth expanding faster than the local community's ability to provide services.

While the communities were rank-ordered according to the methodology, the measures were not sensitive enough to indicate "degrees" of fiscal pressure in the short-term. Thus, the possibility exists that fiscal pressure according to the measures may not indicate whether or not fiscal problems are actually perceived within a given community. This distinction is important because recognition of a problem or issue may be closely associated with a policy or budgetary response by a community.

In the case of South Kingstown, fiscally pressured years as shown through the analysis were not particularly problematic according to town officials, although they may have become so if prolonged. A major conclusion of this study is that if the measures are modified to be sensitive to different degrees of fiscal pressure in small non-urbanized communities, their accuracy would be enhanced.

In relation to the fiscal indicators developed in Chapter Two, South Kingstown experienced rapid growth, particularly from 1965 through 1975, while median family income increased 111.9 percent from 1970 to 1980, above average for all communities within the same population-size class.

While this would appear to reflect a fiscally sound, growing community in the long-term, many of these

indicators provide for a different assessment in the short-term, from 1977 to 1982. Although data for median family income was not available for any of the short-term periods, population growth in South Kingstown was much slower from 1975 to 1980. This is related to the fact that South Kingstown experienced above average expenditure growth per capita only from 1977 to 1982; an indication that slowed expenditure growth was not concomitant with the slowed growth in population. Expenditure growth was also above average in the long-term, and from 1977 to 1982. Expenditure growth also outpaced revenue growth in the short and long-term, but especially from 1977 to 1982.

Growth in the full market value of property was above average in the long-term, and in all periods except from 1977 to 1982. This would also suggest that growth in South Kingstown's revenue capacity was significant overall, but slower from 1977 to 1982. Finally, growth in property tax revenues per capita was below average in the long-term and all short-term periods except from 1977 to 1982, which suggests that during these five years, the residential property tax burden increased substantially. Other growth indicators in South Kingstown include retail sales, housing starts, and employment which, in South Kingstown's case point toward rapid growth from 1967 through 1983.

When all of these elements are considered together, it is evident that overall, South Kingstown experienced

significant growth from 1967 to 1982 as compared to Rhode Island communities of the same population size. This presents an interesting contrast to the study's finding of fiscal pressure from 1977 to 1982. Thus, the hypothesis that South Kingstown experienced rapid growth from the mid-1960's to the mid-1970's and was constrained in paying for them during a time of slower growth from 1977 to 1982.

The case study analysis of South Kingstown has supported this hypotheses and provided the major explanation for this relationship. The primary causes of fiscal stress in South Kingstown can not be separated from the fact that the fiscal indicators are sensitive to changes in population and national, state, and local economic trends. Thus fiscal pressure in the short-term in South Kingstown appears to have three causes. First, growth in public expenditures was necessary during the 1960's to mid-1970's in order to meet the needs of a growing population. This resulted in an imbalance between public sector growth and the ability to finance that growth through the tax rate. Secondly, inflation and recession combined to limit the buying power of revenues. Third, residents were unwilling to incur further increases in tax rates. The key to this relationship is found in South Kingstown's high dependence on the property tax and the political and structural relationships that are an inherent part of the yearly budget process.

More specifically, South Kingstown has a high dependence on the residential component of the property tax base. As compared to the other Rhode Island communities of the same population size since 1967, South Kingstown has experienced the second highest growth in Median Family Income, the highest growth in Full Market Value of Real Property, and the lowest growth in Property Tax Revenues Per Capita. This would suggest that South Kingstown has been taxed below its capacity. Because residential property is the dominant source of local revenue, this indicates that fiscal pressure in South Kingstown has been brought about by taxpayer perceptions of tax burden and not from taxation to capacity.

The final control over taxpayer willingness to pay for growth rests in the yearly Financial Town Meeting, while the willingness and ability to pay may not be synonomous. In South Kingstown's case, many of these growth-related costs were strongly rejected by taxpayers for the FY '77 year, although a substantial increase in tax rates was still the result. However, this had the effect of limiting proposed budget increases by the council and administration to a bare minimum in order to avoid such overwhelmingly negative taxpayer resistance at subsequent Financial Town Meetings.

This political relationship should be the key element of any effort to assess the specific consequences of these

budget decisions. Although not studied in-depth for the purpose of this paper, an analysis of the relationship between service delivery and community power among the various local groups may suggest that a strong link exists between groups which are politically powerful and the outcome of budget decisions.

Other forces which affected the South Kingstown budget from 1977 to 1982 were inflation, fixed costs and negotiated contracts which were all beyond local government control. Increases in the budget over time were basically a reflection of these factors as South Kingstown instituted few new programs or services, and it made selective cuts in public works by deferring maintenance.

In recognition of these constraints and the fiscal costs associated with growth, South Kingstown did attempt to diversify own-source revenues through increasing fees, shifted the burden of operating the sewer and water systems to users, and examined other strategies to make growth pay for itself.

In light of the findings, it appears that South Kingstown pursued a pattern of budgetary response that is similar to the response analysis of Wolman and Davis. However, South Kingstown did not follow the same pattern of implementing one strategy to the next, but instead pursued a combination of strategies at the same time. This included shifting the burden to local residents for certain

services, cuts in controllable costs and selective budget cuts; especially for public works. Furthermore, in real dollars, South Kingstown maintained a constant level of expenditures per capita from 1972 to 1982, which indicates that total budget levels were maintained at the expense of the program mix.

Wolman and Davis define a strategy in terms of a series of linked budgetary decisions in which administrators pursue selective budget cuts in the face of extended fiscal pressure. Although the argument can be made that this was the case in South Kingstown, an important distinction must be made between fiscal pressure brought about by the inability of the local revenue base to keep pace with public sector demands, and fiscal pressure brought about by a local unwillingness for further taxation in a community that is taxed below its capacity.

As South Kingstown is again experiencing rapid, post-recessionary growth which is expected to be a continuing trend, its ability to respond to future episodes of short-term fiscal pressure will be directly related to its ability to diversify local revenue sources away from the residential component of the property tax, possibly through the formulation of an economic development program, and its ability to lessen the fiscal impacts of growth. Both of these strategies are narrowly proscribed by the state's enabling legislation, and their relationship to this

legislation is an interesting area for further research.

NOTES

CHAPTER ONE

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[4]Thomas F. Stinson, "Overcoming Impacts of Growth on Local Government Finance", in Rural Development Perspectives, September: 1981, pp.12-19.

[5]Robert Burchell and D. Listokin, eds., Cities Under Stress, (Rutgers: The Center for Urban Policy Research, 1981), pp.1-10.

[6]Jerome Rose, ed., Tax and Expenditure Limitations, (Rutgers: The Center for Urban Policy Research, 1982), pp. 1-4.

[7]Roy Bahl and Larry Shroeder, "Fiscal Adjustments in Declining Cities", in Cities Under Stress , eds. Burchell and Listokin, pp. 301-326.

[8]Wolman and Davis, pp. 231-232.

[9]Ibid, p. 233.

CHAPTER TWO

[1]U.S. Department of Labor, Bureau of Labor Statistics, CPI Detailed Report, (Washington, D.C.: Government Printing Office). These figures were computed from the yearly "All Items Average" from 1967 to 1983.

[2]The Rhode Island Department of Community Affairs publishes this annual report.

[3]Robert Burchell and David Listokin, The Fiscal Impact Handbook, (Rutgers: The Center for Urban Policy Research, 1978), p. 160.

[4]Ibid., p. 161.

[5]Ibid., p. 160.

CHAPTER THREE

[1]Miscellaneous expenditures in South Kingstown generally include the following: unclassified, contingencies, retirement, capital outlay, water fund, waster water fund, and other fund transfers.

[2]The Assessed Value of Property in 1977 was $104,871,042; and in 1982 increased to $126,725,674.

[3]Primary information for this section was provided through issues of the Narragansett Times.

[4]The Narragansett Times (Rhode Island), 9 April 1977, p.7.

[5]Ibid., p. 18.

[6]Ibid., 4 March 1976, p. 1.

[7]Ibid., 23 April 1976, p. 1.

[8]Ibid., 4 March 1976, p. 4.

[9]Ibid., 29 April 1977, p. 1.

[10]Ibid., 17 April 1977, p. 1.

[11]Ibid., 20 April 1978, p. 1.

[12]Ibid., 23 January 1978, p. 3.

[13]Ibid., 1 February 1979, p. 1.

[14]Ibid., 20 February 1981, p. 5.

APPENDIX A

TABLE A-1

POPULATION: 1965 - 1980

COMMUNITY:	1965*	1970**	% Change: 1965-1970	1975***	% Change: 1970-1975	1980**	% Change: 1975-1980	% Change: 1965-1980
Barrington	16,390	17,554	7.1%	17,300	-1.4%	16,174	-6.5%	-1.3%
Central Falls	18,677	18,716	0.2%	16,800	-10.2%	16,995	1.1%	-9.0%
Johnston	19,547	22,037	12.7%	24,100	9.4%	24,907	3.3%	27.4%
North Kingstown	23,013	29,793	29.5%	19,200	-35.6%	21,938	14.3%	-4.7%
South Kingstown	14,405	16,913	17.4%	19,700	16.4%	20,414	3.6%	41.7%
Westerly	15,711	17,248	9.8%	17,500	1.5%	18,580	6.1%	18.3%
Group Average	17,957	20,377	12.8%	19,100	-3.3%	19,835	3.6%	12.1%

SOURCE:
*Rhode Island Census - 1965.
**U.S. Census Reports.
***Rhode Island Population Projections by County, City and Town, Technical Paper #83, Rhode Island Office of Statewide Planning, 1979.

TABLE A-2

MEDIAN FAMILY INCOME

COMMUNITY:	1970	1980	% Change:
Barrington	$14,058	$27,923	98.6%
Central Falls	7,778	14,721	89.3%
Johnston	10,259	20,112	96.0%
North Kingstown	9,002	22,191	146.5%
South Kingstown	10,052	21,302	111.9%
Westerly	10,074	20,284	101.4%
Group Average	10,204	21,089	107.3%

SOURCE:
U.S. Census Reports.

TABLE A-3

EXPENDITURE GROWTH*

COMMUNITY:	1967-1972	1972-1977	1977-1982	1967-1982
Barrington	51.4% (20.8%)	46.5% (1.2%)	63.1% (2.4%)	261.9% (25.5%)
Central Falls	91.3% (52.7%)	58.8% (9.6%)	45.5% (-8.7%)	342.0% (52.9%)
Johnston	114.8% (71.4%)	64.5% (13.6%)	48.2% (-7.0%)	423.6% (81.1%)
North Kingstown	133.8% (86.8%)	37.5% (-5.0%)	54.0% (-3.3%)	395.0% (71.3%)
South Kingstown	82.8% (45.9%)	61.4% (11.4%)	73.8% (9.0%)	412.6% (77.3%)
Westerly	79.0% (42.9%)	53.2% (5.8%)	66.5% (4.5%)	356.8% (58.0%)
Group Average	92.2% (53.4%)	53.7% (6.1%)	58.5% (-0.5%)	365.3% (61.0%)

*Constant dollar percentage changes are indicated in parentheses.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

TABLE A-4

EXPENDITURE GROWTH PER CAPITA*

COMMUNITY:	1967-1972	1972-1977	1977-1982	1967-1982
Barrington	41.4% (12.9%)	48.7% (2.6%)	74.4% (9.5%)	267.1% (33.1%)
Central Falls	52.4% (90.9%)	76.9% (22.1%)	43.8% (-9.7%)	385.9% (68.0%)
Johnston	90.5% (52.0%)	50.4% (3.8%)	43.3% (-10.0%)	310.8% (42.1%)
North Kingstown	111.3% (44.2%)	82.4% (47.3%)	34.8% (-15.0%)	419.4% (24.6%)
South Kingstown	55.7% (24.3%)	38.5% (-4.4%)	67.7% (5.3%)	261.7% (25.1%)
Westerly	63.1% (30.1%)	51.0% (4.2%)	56.8% (-1.5%)	286.2% (33.6%)
Group Average	69.1% (42.4%)	56.0% (12.6%)	53.5% (-3.6%)	321.9% (37.8%)

*Constant dollar percentage changes are indicated in parentheses.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

TABLE A-5

GROWTH IN FULL MARKET VALUE OF REAL PROPERTY*

COMMUNITY:	1967-1972	1972-1977	1977-1982	1967-1982
Barrington	82.5% (45.7%)	52.2% (5.0%)	55.8% (-2.2%)	332.7% (49.7%)
Central Falls	25.5% (-1.4%)	46.3% (2.6%)	93.1% (21.1%)	254.4% (22.6%)
Johnston	55.9% (24.4%)	28.2% (-11.5%)	138.4% (49.7%)	376.6% (64.9%)
North Kingstown	126.7% (28.3%)	99.1% (37.5%)	54.7% (-1.2%)	610.3% (74.2%)
South Kingstown	128.9% (82.0%)	90.0% (31.3%)	71.0% (7.3%)	641.3% (156.4%)
Westerly	48.8% (18.8%)	60.5% (10.8%)	168.0% (68.2%)	540.2% (121.4%)
Group Average	77.9% (33.0%)	62.7% (31.3%)	97.3% (16.6%)	459.3% (98.2%)

*Constant dollar percentage changes are indicated in parentheses.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

TABLE A-6

REVENUE GROWTH*

COMMUNITY:	1967-1972	1972-1977	1977-1982	1967-1982
Barrington	54.1% (23.0%)	46.0% (0.8%)	60.1% (0.5%)	260.0% (24.6%)
Central Falls	95.2% (54.4%)	56.5% (8.0%)	40.7% (-11.7%)	330.0% (48.7%)
Johnston	96.3% (56.7%)	76.7% (22.8%)	56.1% (-2.0%)	441.6% (87.3%)
North Kingstown	124.1% (78.9%)	33.7% (-7.7%)	64.5% (3.3%)	393.0% (70.5%)
South Kingstown	80.7% (44.2%)	60.8% (11.0%)	70.3% (6.9%)	394.9% (71.2%)
Westerly	56.0% (27.7%)	46.7% (1.3%)	70.5% (7.0%)	300.0% (38.4%)
Group Average	84.4% (47.5%)	53.4% (5.9%)	60.4% (0.7%)	353.3% (56.8%)

*Constant dollar percentage changes are indicated in parentheses.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Departmentof Community Affairs, selected years.

TABLE A-7

PROPERTY TAX REVENUES PER CAPITA*

COMMUNITY;	1967-1972	1972-1982	1977-1982	1967-1982
Barrington	48.4% (18.4%)	51.6% (4.6%)	75.8% (10.4%)	295.3% (36.7%)
Central Falls	62.5% (29.7%)	17.0% (-19.2%)	58.6% (-0.5%)	201.6% (4.3%)
Johnston	59.9% (27.6%)	80.8% (24.8%)	60.4% (0.7%)	363.7% (60.4%)
North Kingstown	46.2% (16.7%)	137.9% (64.3%)	67.6% (5.2%)	483.1% (101.7%)
South Kingstown	48.1% (18.2%)	43.5% (-1.0%)	63.4% (2.6%)	189.9% (20.1%)
Westerly	47.9% (18.0%)	50.0% (3.6%)	64.0% (3.0%)	264.0% (25.9%)
Group Average	52.2% (21.4%)	63.5% (12.9%)	65.0% (3.6%)	299.6% (41.5%)

*Constant dollar percentage changes are indicated in parentheses.

SOURCE:
Annual State Report on Local Government Finances and Tax Equalization,
Rhode Island Department of Community Affairs, selected years.

APPENDIX B

GROWTH IN LOCAL TAX RATES

(PER $1,000 OF ASSESSED VALUE)

YEAR:	Barrington	Central Falls	Johnston	North Kingstown	South Kingstown	Westerly
1967	$45.40	$41.00	$38.00	$27.00	$45.25	$44.80
1968	33.00	46.00	42.00	30.80	47.65	48.40
1969	37.00	46.00	44.00	31.00	27.50	49.00
1970	41.20	50.00	59.00	33.50	NA	53.00
1971	44.60	50.00	49.50	37.40	36.45	53.00
1972	45.60	47.00	49.50	37.40	36.00	56.00
1973	49.40	47.00	49.50	27.40	36.10	56.00
1974	51.00	48.35	54.90	32.20	36.00	57.80
1975	54.00	48.35	59.00	32.40	38.50	60.60
1976	56.00	48.35	62.75	32.00	38.50	58.00
1977	61.80	48.35	62.75	33.00	46.30	63.00
1978	30.60	57.00	65.60	36.70	50.40	63.00
1979	32.00	59.00	68.50	40.80	54.72	63.00
1980	33.60	65.50	68.50	41.80	56.64	72.20
1981	37.20	69.00	72.00	45.80	61.00	75.90
1982	40.20	60.00	76.28	50.40	63.24	15.58

SOURCE:

Annual State Report on Local Government Finances and Tax Equalization, Rhode Island Department of Community Affairs, selected years.

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