

# The Providence Journal

## Budget includes tax cuts, uses stimulus funds to trim deficit

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PROVIDENCE — It was supposed to be among the most difficult decisions in his political career. Facing a crippled state economy, Governor Carcieri was charged with crafting a plan to fill what may be the largest budget deficit in state history.

But flush with cash from President Obama's economic stimulus package, the Republican governor proposed a \$7.6-billion tax-and-spending plan yesterday that would increase overall state spending by 10 percent — about \$700 million — in the next year. With the help of the stimulus funds, he wants to cut taxes for businesses and most individuals, scale back proposed cuts to cities and towns and delay pension benefit cuts for anxious state workers and teachers.

Carcieri called the stimulus money “a bridge” to better times, as he defended budget plans for the current and next fiscal year aimed at closing combined deficits exceeding \$860 million.

And while it wasn't all bad news yesterday, there may be losers.

Carcieri calls for raising the state's cigarette tax by \$1 a pack to what apparently would be the highest level in the nation and cutting dental coverage for 38,000 parents on the subsidized health care program, RIte Care. His tax revisions could result in income tax increases for about 110,000 middle-class Rhode Islanders. And he would give school districts far less than they could receive under the federal stimulus package.

The General Assembly will spend the coming months debating Carcieri's budget plans, before adopting its own version before the end of the legislative session. Assembly leaders immediately blasted the governor's budget plans as irresponsible.

“It exposes the state to tremendous risk. There are very few hard decisions that have been made in this budget. They restore cuts with money they don't know they have,” said House Finance Committee Chairman Steven Costantino, referring to stimulus-related spending that might not be allowed. “I see this plan needing major revisions.”

Further, there was broad concern yesterday that the governor is using temporary funding to fill ongoing budget needs.

He would help fill the budget shortfalls using a \$321.5-million Medicaid windfall over two years from the stimulus package and \$110 million from the stimulus “fiscal stabilization fund.”

“In 2012, when that stimulus money is no longer here and cities and towns say to his successor, ‘Governor, we need this money, it was designed to help communities,’ the new governor is going to say, ‘I don't have that money because it has gone to provide tax breaks for the business

community,’” said Dan Beardsley, executive director of the Rhode Island League of Cities and Towns. “There’s not going to be any money. He’s digging a hole even worse than it is.”

Additionally, the governor’s budget officer, Rosemary Booth Gallogly, acknowledged the governor’s use of the stimulus funds may not be legal.

“That’s true. I don’t think there’s any state that knows exactly what they can do with their stabilization fund,” she said, adding that state education officials were in Washington yesterday trying to clarify the rules. National Education Association Rhode Island reported that its legal team is reviewing the proposal.

Overall, Rhode Island would spend \$7.62 billion (including federal funds) if the governor’s 2009-10 budget becomes law. The current-year budget totals \$6.92 billion. Excluding federal dollars, however, Carcieri’s budget for next year would cut state-only spending by \$197 million.

While the spending numbers dominated attention, buried within the thick stack of budget documents were proposals that will directly affect people’s lives.

On the one hand, the governor wants to provide state-subsidized medical coverage — not currently available — to the parents of children removed from their homes by the state, on the theory that mental health and addiction counseling might reunite the family.

But on the cost-cutting side, his human services budget hinges on a 600-person reduction in the Medicaid-financed nursing home population, an annual 12-visit cap on emergency room visits, and “selective contracting” to nail down the cheapest price for medical equipment and some medical services, such as outpatient tonsillectomies.

And he proposed cuts that may affect public schools or Rhode Islanders who depend on municipal services.

On the local aid front, for example, the governor’s plan eliminates millions of dollars in state revenue sharing altogether for communities in the coming year.

For the current year, however, the plan for local communities and their school districts is complex. It calls for cutting state aid to education by about \$31 million before the end of this fiscal year and replacing it with stimulus funding. The state money would then be used to restore \$31 million of the \$55 million in proposed cuts to local government.

There would be strings attached.

Communities would be required to funnel at least 25 percent of that money to their schools on a sliding scale. Cities and towns that traditionally allot only a small amount of their budgets to schools would be required to dedicate a larger share of the restored funding.

Next year’s budget would again depend on stimulus funds to supplant state education aid without the local aid piece. And the plan also calls for state charter schools, including a new class of schools known as mayoral academies, to see a \$4.4-million funding increase in the coming fiscal year.

Meanwhile, on taxes, Carcieri is proposing a swath of tax cuts, including an expansion of the earned-income tax credit for the poor, a five-year phase-out of the 9 percent corporate income tax, and an increase in the estate tax exemption to \$1 million.

While most will see a tax cut, others will not.

An estimated 110,179 filers will each pay an average of \$1,261 more in income taxes, according to Carcieri's tax study commission. The vast majority of them are individuals and couples making less than \$75,000 annually, as commonly used deductions for mortgage interest and local property tax payments are replaced with a new standard deduction.

Carcieri said his intent was to provide tax relief to as many people as possible, but inevitably "people will slip from one bracket to another."

"I can't think of a more irresponsible use of the federal stimulus funds ... than to cut taxes for corporations," said Kate Brewster, executive director of Rhode Island College's Poverty Institute.

Even from within Carcieri's own party, there was pushback against tax hikes, including the cigarette tax bump.

"I am disappointed that this budget apparently is reliant upon raising taxes in order to balance a budget," said House Minority Leader Robert Watson. "I will not support balancing the budget on the backs of those men and women that get out of bed and go to work everyday for a living."

Meanwhile, despite the massive infusion of federal stimulus dollars, Carcieri is pushing ahead with his plan to rein in public-employee pension costs.

Initially targeted for April 1, the benefit cuts are now set for July 1. If approved by the General Assembly, the state would no longer provide 3 percent guaranteed annual pension hikes to state employees and teachers who retire after that date, and it will require retirees to be at least 59 years old to start drawing a pension. Under current rules, long-time employees can retire at any age after 28 years of service.

But in an effort to avert another mass exodus of employees from the schools and state government, Carcieri's latest plan would exempt from these cutbacks anyone eligible to retire as of July 1.

Other budget proposals include:

- Allowing police to stop drivers for failure to wear a seat belt. The fine would drop from \$85 to \$30. Currently, drivers can only be fined for failing to buckle up if they're stopped for another reason.
- Increase fees from \$5 to \$25 for background checks that many job seekers are required to get from local police departments.

- A \$200 hike in the fee for reinstating suspended driver's licenses and registrations, from \$50 to \$250.

- The abolition of the Rhode Island Pharmaceutical Assistance to the Elderly program that subsidizes medication costs for about 25,000 seniors.

- The budget would allow the Department of Transportation hire 89 workers to help supervise work on the 53 projects that the department plans to build with \$138 million from the federal economic stimulus program.

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