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Rhode Island's Budget: A most delicate balance

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PROVIDENCE — A key legislative committee Wednesday unveiled and approved a \$7.76-billion state budget that political leaders described as the most challenging in the history of Rhode Island.

But buoyed by [federal stimulus](#) dollars and low expectations, lawmakers voted 16 to 1 for the plan that filled the largest budget hole in decades with few objections from the horde of lobbyists and interest groups that clogged the dark hallway outside the House Finance Committee.

There was one notable exception: the state's labor unions immediately threatened suit over proposed pension changes.

The budget for the fiscal year that begins July 1 — which heads to the full House of Representatives next Wednesday — rolls back a host of looming cuts aimed at the elderly and poor Rhode Islanders, but relies on a 2-cent gas tax increase, broad pension changes for public employees and the reversal of a recently adopted capital gains tax break to pay for it.

“I think it shows a lot of heart,” said Linda Katz, policy director for Rhode Island College's Poverty Institute.

There were no sales or income tax increases, as have been proposed in other cash-strapped states such as Massachusetts. Separate proposals to raise taxes on beer or taxing new services such as car repairs weren't included. And lawmakers left untouched a tax break for the wealthy, known as the flat-tax alternative, which was the subject of intense lobbying from both organized labor and some rank-and-file lawmakers.

“We've tried to balance a budget that is fair to the taxpayers of this state, that is fair to the state employees, that is fair to the neediest Rhode Islanders,” said Finance Committee Chairman Steven M. Costantino. “This is probably, if not the most difficult budget we've had to deal with, certainly one of the most difficult we've had to deal with in the history of this state.”

The average Rhode Islander may feel a pinch, however, if the current proposal is ultimately approved by the House and Senate.

A plan to raise the gas tax by 2 cents a gallon to 33 cents as of July 1 will generate almost \$9 million to help subsidize mass transit under the Rhode Island Public Transit Authority.

The proposal is not new. Legislators rolled out the same 2-cent hike in the spring, but that measure was ultimately shelved amid criticism from legislators and convenience store owners. Local homeowners may be indirectly affected as well. Lawmakers cut \$55 million from general revenue sharing for municipalities, eliminating the program created two decades ago to help control property tax rates across the state. Cities and towns are already cutting a host of services to meet budget pressures.

And the man currently overseeing health insurers' requests for double-digit rate increases is set to lose his job. Lawmakers plan to save \$700,000 by eliminating the Office of the Health Insurance Commissioner, Chris Koller, folding his oversight duties into other state departments.

But those cuts may have been far larger without the infusion of federal dollars that flowed to Rhode Island from the federal stimulus package signed by President Obama earlier in the year. While much of the package was earmarked for infrastructure projects, hundreds of millions of dollars were freed for state leaders to use as they wish.

The Assembly's budget, the subject of several weeks of closed-door negotiations with Senate leaders, uses \$226.5 million in federal dollars that will dry up in the coming years. But Costantino acknowledged, "That's why the exit strategy is a concern."

Projections released Wednesday by the House fiscal office detail an estimated \$422.7-million budget hole for fiscal 2012, the first year the federal stimulus funds aren't available.

The proposal is expected to be debated by the full House of Representatives next Wednesday, giving rank-and-file members and interest groups time to fight for changes. Once approved by the House, the budget could go to the Senate the following day.

And while Republican [Governor Carcieri](#) doesn't have enough support in the Democrat-dominated legislature to sustain a veto, he said in a statement: "While the budget does make some very difficult choices and includes pension reform, it does not include much needed structural changes that will move the state forward and make us competitive to create jobs and grow our economy."

Other budget proposals include:

PENSIONS:

Despite threats of a legal challenge, the committee voted for a slate of pension cuts aimed at public school teachers and state employees, including new judges, which could save an estimated \$55 million next year. The National Education Association "made it very clear to folks from the beginning of these conversations that we would end up in court," said executive director Robert Walsh.

The package does not go as far or save as much money as plans proposed by either Carcieri or a House study-commission.

And none of the changes would apply to anyone already eligible to retire on Sept. 30, a move aimed at averting the kind of mass exodus the state saw in the weeks before the last major retiree benefit change.

But for others, the new rules would take effect Oct. 1.

Under the new rules, the state would adopt age 62 as the new “target” age for retirement. However, the minimum age for retirement would vary for each employee depending on how long the employee had worked and how close he or she was to qualifying for retirement under the current rules. For example: a state employee who started work at age 25 who could retire today at age 53 and collect an immediate pension, would have to wait until age 53 and three months.

The new plan would also key pension calculations — now based on a three-year salary average — to a worker’s highest five-year salary average.

For judges hired after July 1, there would be a cutback in benefits from a maximum of 100 percent of pay for the longest-serving judges to either 65 percent or 80 percent of their five-year average, depending on their age and years of work. Correctional officers and a cadre of state nurses who can retire at age 50 now, would have to work at least five years longer.

TAXES AND FEES:

The plan eliminates preferential treatment for taxpayers who profit from the sale of stocks, bonds and other such investments, generating an estimated \$23.6 million for the state by treating all capital gains as ordinary income, according to House fiscal office projections.

Lawmakers also rejected Carcieri’s plans to cut the state’s corporate income tax. While embraced by local businesses, the proposal would have cost the state \$14.5 million in lost tax revenue next year.

But in a small victory for the governor, the Assembly favors increasing the value of estates subject to Rhode Island’s estate tax to \$850,000, a number that would be adjusted in accordance with the consumer price index each year.

Lawmakers also endorsed something dubbed the “Amazon tax,” which would require residents to pay taxes on some Internet purchases, if the purchaser is referred by a local Web site. Following legal challenges in New York, it’s unclear if the proposal will survive a legal challenge in the U.S. Supreme Court.

Regarding fees, lawmakers rejected a plan to increase fees on the criminal background checks needed for some job applicants, but imposed a \$100 processing charge for criminals seeking to expunge their records, a hike that would generate \$1.2 million in new revenues.

Another change would double the price of recreational vehicle beach permits to \$100 for residents and \$200 for nonresidents, and triple the cost of dock permits for oceanfront property owners to \$1,500.

HUMAN SERVICES:

Lawmakers refused to go along with a number of cuts the governor proposed. They include preserving funding for Rhode Island's Pharmaceutical Assistance to the Elderly program, which currently offers reduced prices for prescriptions drugs to about 18,600 disabled and elderly residents.

It also maintains funding for dental services for 38,000 low-income parents enrolled in the RIte Care program and continues to pay subsidized health insurance for 28 moderate-income pregnant women slated to lose coverage. And an estimated 1,400 families scheduled to be cut from the state's cash assistance program next month will be extended for a year.

LOCAL EDUCATION:

Cities and towns will lose \$55 million in general revenue sharing, a cut that was expected by local leaders, but does little to help municipal leaders balance their budgets.

Rhode Island's school districts, meanwhile, will receive roughly the same amount of state funding through a complicated formula involving heavy reliance on stimulus funds and future pension changes.

The biggest loss for schools is the elimination of \$6.3 million in professional development money — the state's entire contribution for that purpose — used to help teachers and educators improve their skills. The budget also eliminates all new funding to expand charter schools and create the state's first "mayoral academy."

OTHER ITEMS:

- An across-the-board cut among all state departments of \$58 million in unspecified state-only funds.

- A restoration of \$1.5 million for the administration of school breakfast programs across the state.

- Lawmakers rejected the governor's plan to allow the police to pull over motorists exclusively for failing to wear restraints. The proposal would have made Rhode Island eligible for nearly \$4 million in federal money.