

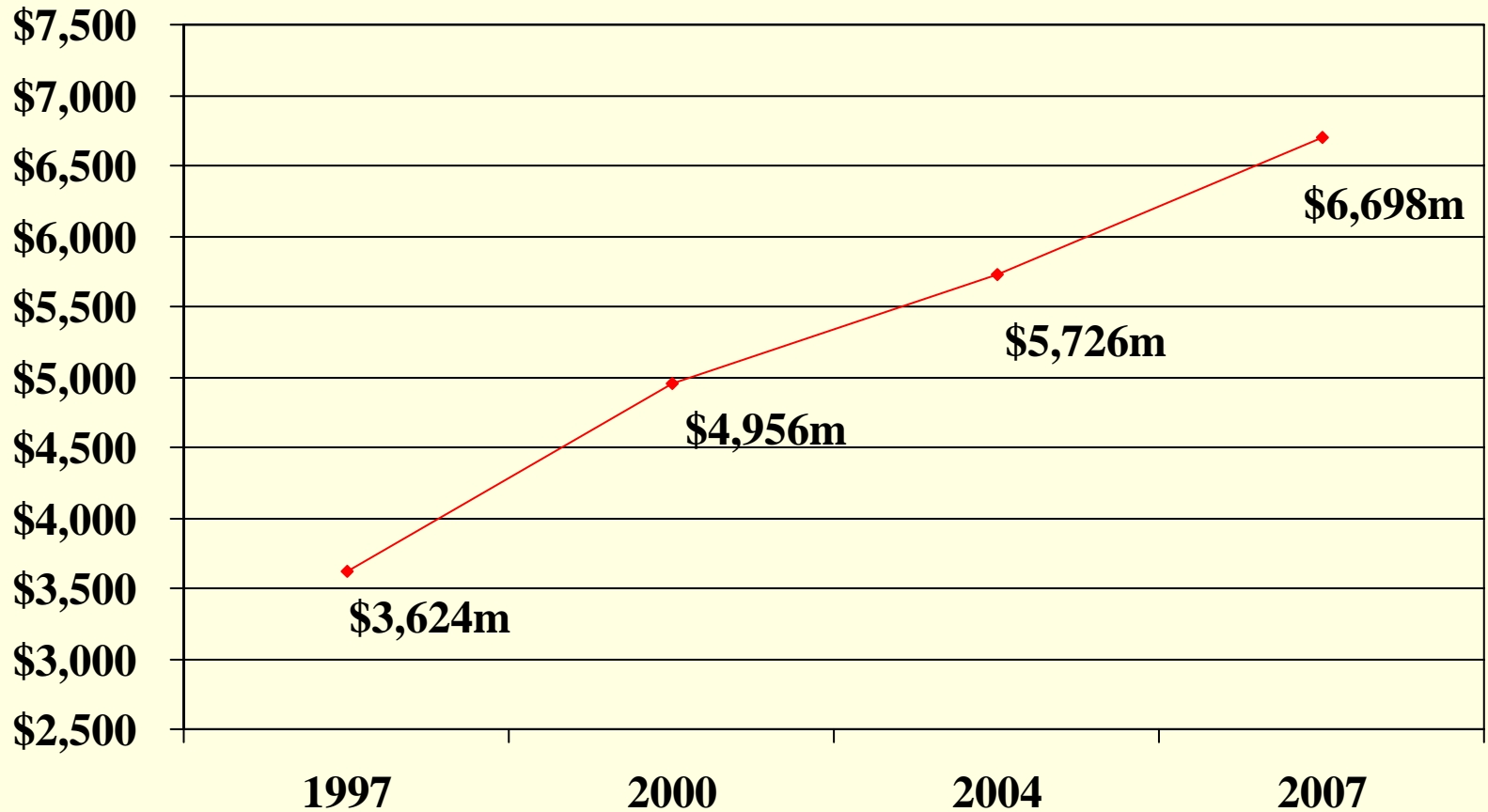
Rhode Island's Budget

Revenues and Spending:
A Historical Perspective

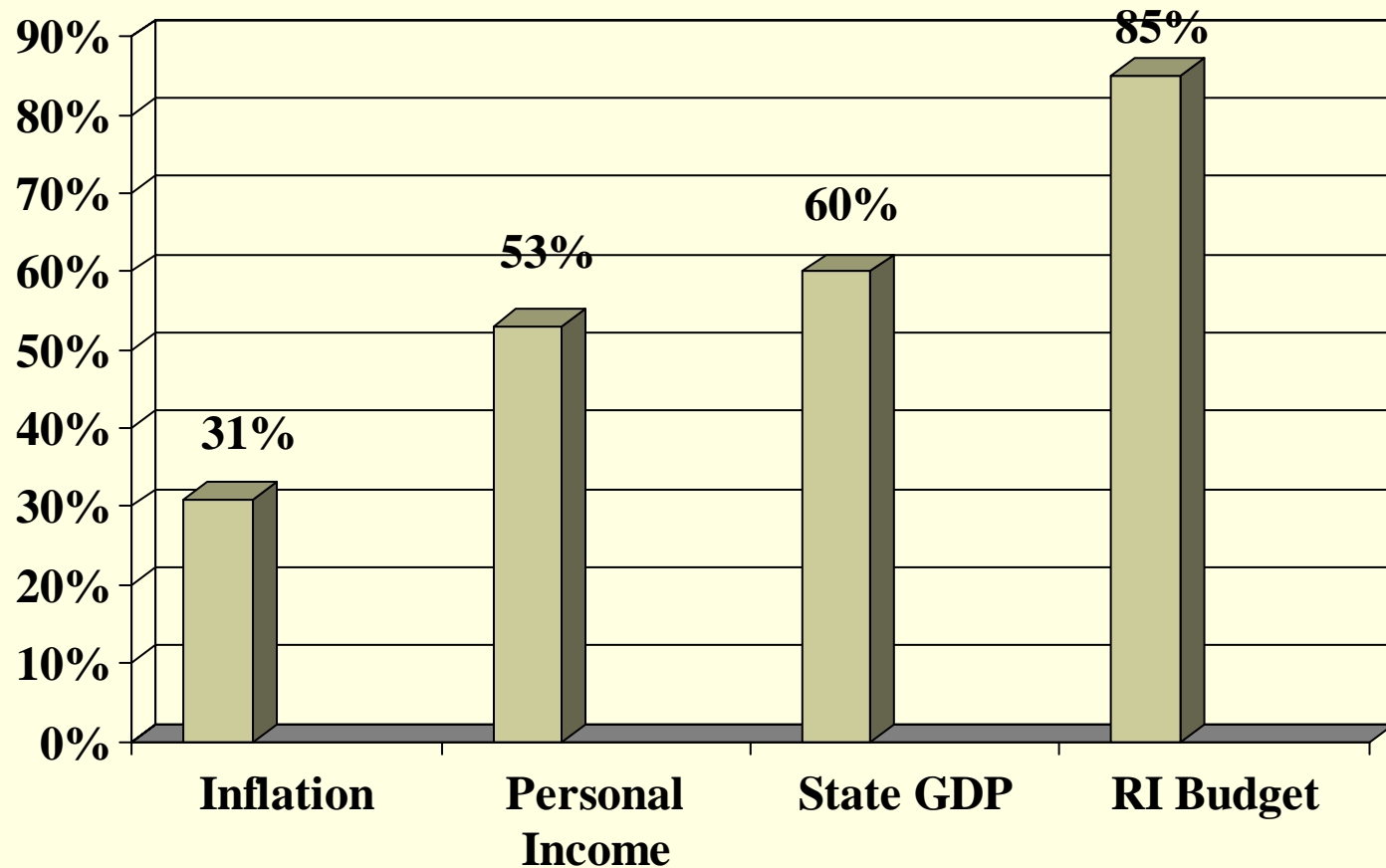
The state budget

- ***Revenues:*** taxes, fees, co-pays and other charges, all other receipts
- ***Expenditures:*** direct spending, funds appropriated by government each year for various programs
- ***Tax Expenditures:*** revenue lost because of tax credits, exemptions and deductions

Total Rhode Island Budget

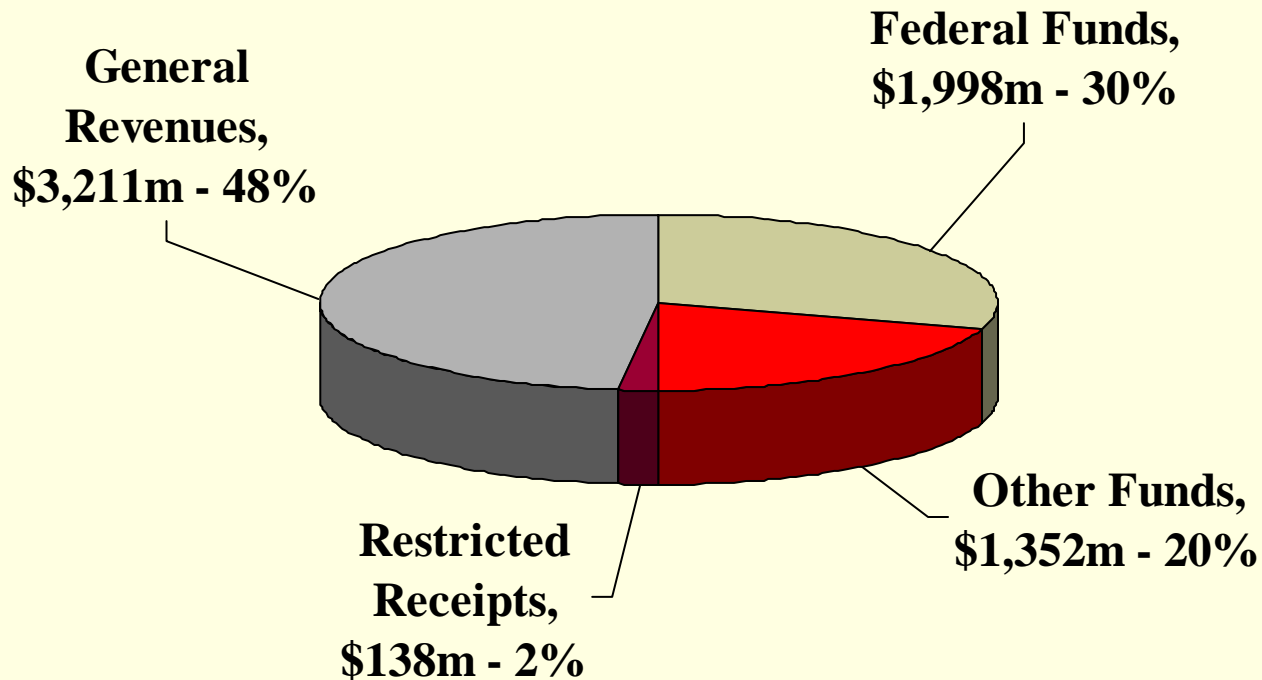


Growth of state budget in context, 1997 – 2007

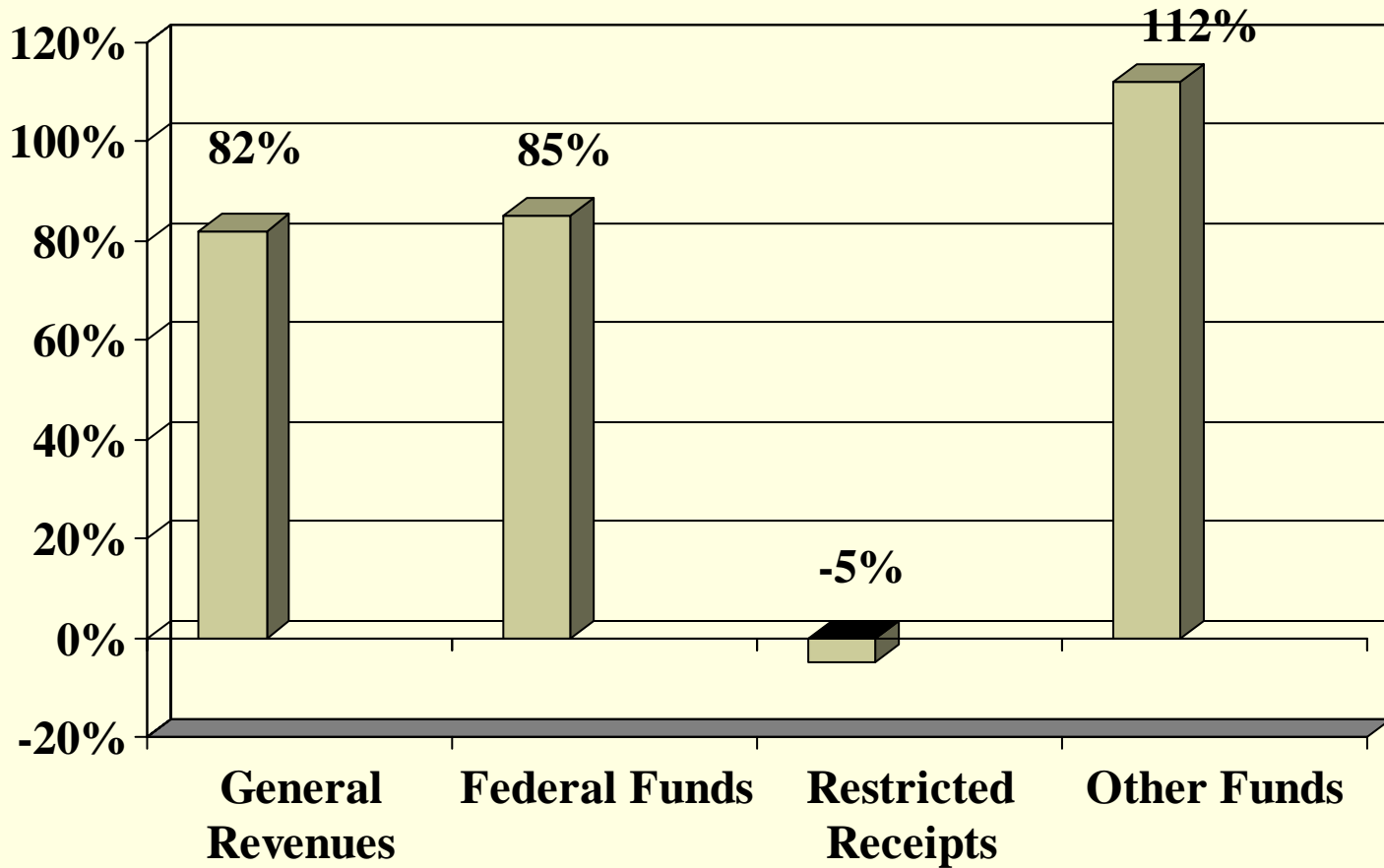


Major sources of funds for RI, FY07

Total \$6,698 million



Growth in revenue sources, FY97 compared to FY07



Federal Funds FY07

\$1,998m (30%)



- Medicaid = 46%
- Cash assistance, child care, foster care, other human services = 21%
- One-quarter (25%) = transportation and education
- Remaining eight percent (8%) = other

Restricted Receipts/Other Funds FY07

\$1,490m (22%)

- Monies that, by statute, can only be spent on certain programs
- Includes public college tuition, unemployment insurance taxes, RIPTA fees, revenue from the gasoline tax

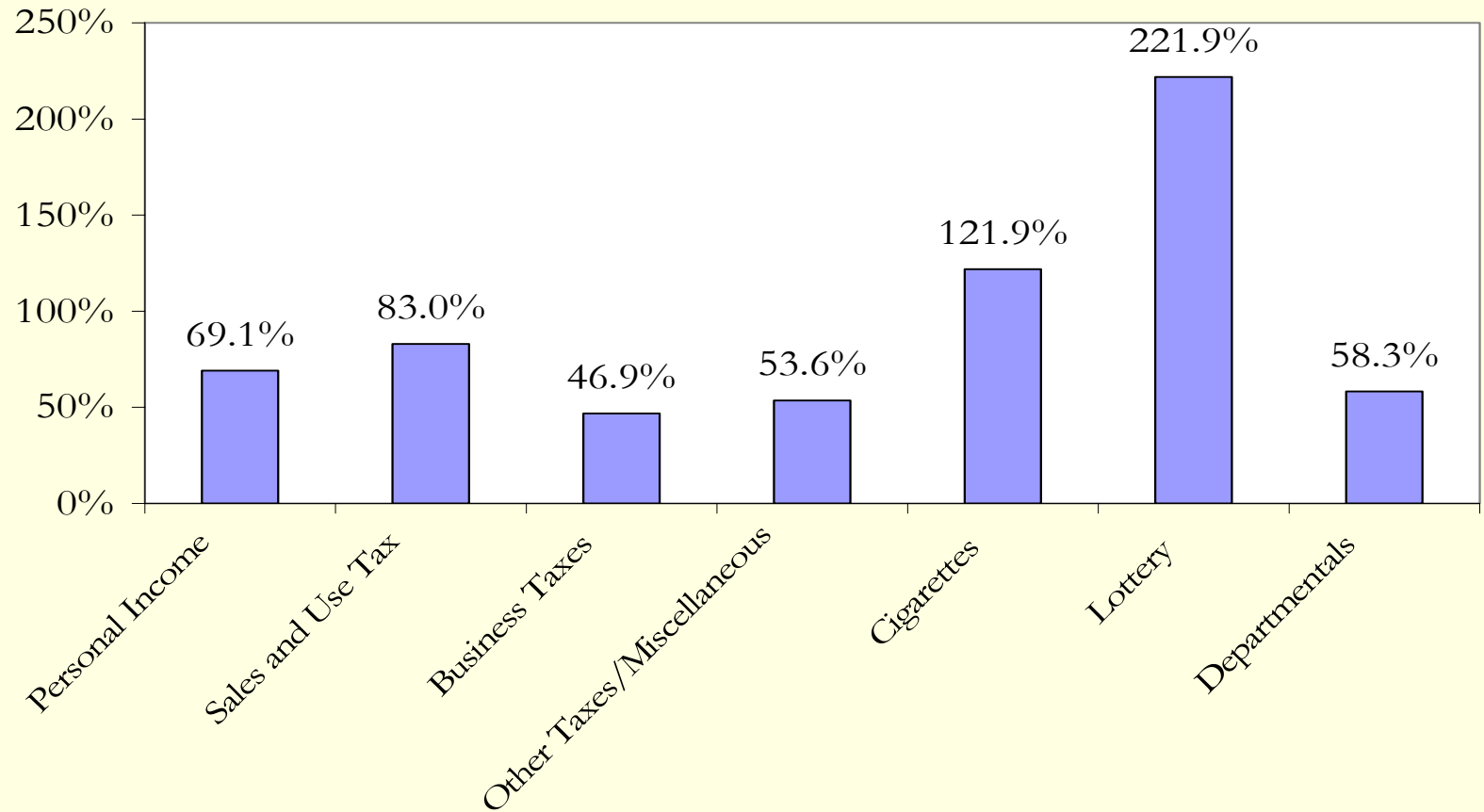


General Revenues (GR) FY07

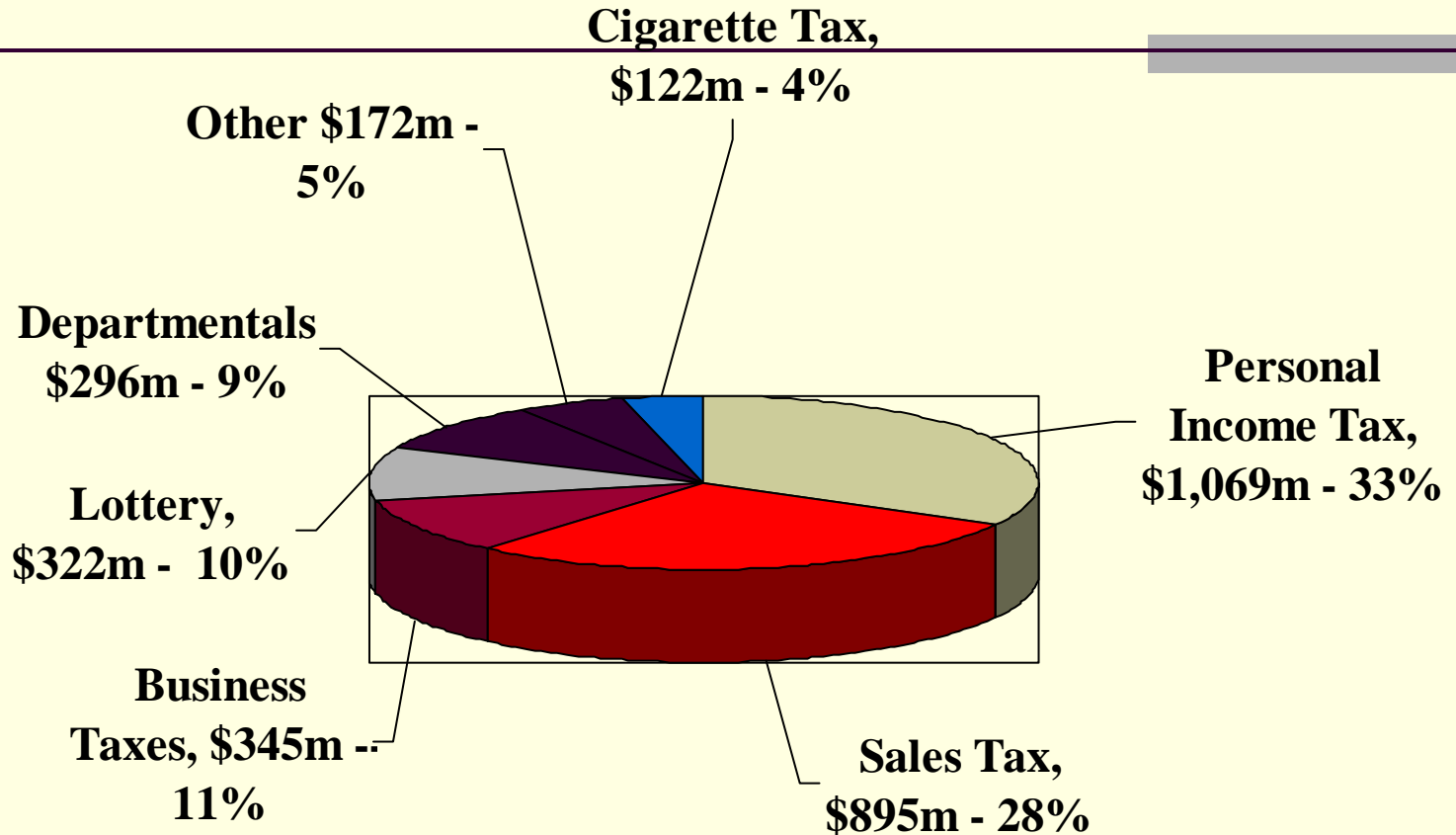
\$3,211m (48%)

- Most significant source of state funding
- Includes most state taxes, fees, co-pays, fines, and revenue from the lottery

Growth in general revenues, 1997-2007



Sources of General Revenues (FY 2007)



GR - Personal Income Tax

\$1,069m (33%)

- Largest source of general revenue (33%)
- Progressive tax with graduated rates
- Credit union crisis (early 1990s) prompted 10% increase in PIT. Increase phased out from 1997-2002. (10% = \$100 million)
- Ranking per capita **16th** (MA 3rd, CT 4th)
- Ranking by personal income **20th** (MA 5th, CT 12th)

Recent Changes to the Personal Income Tax

- *2002: Capital gains tax*

Capital gains tax on long-term assets scheduled to be phased out 2006-2008, frozen at 1.7% in 2007; 83% of capital gains reported by 2.5% of taxpayers

Cost \$39m in FY09

- *2006: “Alternative flat tax”*

Phased in 2006-2012. Nearly all the benefits go to those earning over \$200,000 per year.

Cost \$23.4 m in FY09, \$73 m by FY12

Recent Changes to the Personal Income Tax

- *2003: Refundable earned income tax credit*
Refundable (EITC) enacted with a maximum refund of credit of \$170; benefits 62,000 taxpayers
Cost \$2.2 m in tax year 2005

- *2006: Property tax circuit breaker expansion*
Cap on total funds available was lifted; benefits 51,000 taxpayers with incomes below \$30,000
Cost = \$9 m in FY09

GR- Sales Tax

\$895 million –(28%)

- 7% tax exempts food, clothing, home heating oil and prescription medications
- Collections in FY08 expected to be 5% less than projected last May - explained by slowing economy
- Ranking per capita: **29th** (MA 41st, CT 16th)
- Ranking by personal income: **37th** (MA 44th, CT 38th)

Sales tax

- Eroding revenues as economy shifts from goods to services - RI taxes only one service – cable TV - other states tax an average of 15 services
- In 2006, lawmakers funded a sales tax study to evaluate impact of broadening the tax; not yet completed

GR - Lottery and Cigarette Tax

\$444 million (14% combined)

- From 2001 to 2005, the cigarette tax *rate* was increased by 250%
- At \$2.46 per pack, RI has 2nd highest cigarette tax in the nation
- Cigarette tax revenues fell in FY06 and FY07
- Lottery revenues more than tripled last ten years
- After several years of double-digit growth, lottery revenues fell in FY07 and modest growth projected in FY08 and FY09

GR - Business Taxes

\$345 million (11%)

- In 2003 RI had lowest corporate income tax collections in country; rebounded recently
- 2000 data: Half of Rhode Island's 64 largest for-profit employers paid less income tax than the typical family
- Ranking per capita: 26th (MA 8th, CT 12th)
- Ranking by personal income: 33rd (MA 10th, CT 27th)

Recent changes to business taxes

- In 2007 - closed three corporate loopholes -
Passive investment companies, real estate investment trusts, and “nowhere income”
- Estimated to have cost nearly \$13 million

GR- Departmental and Other Revenue Sources

\$296 million (9%)

- Includes numerous fees, fines and co-payments (e.g., RIte Care, child care)
- Other taxes include realty transfer tax, inheritance tax and alcohol tax.
- Miscellaneous general revenue includes unclaimed property as well as all one-time revenue sources, like the tobacco settlement funds or revenues from the sale of property.
- RI ranks 48th in other taxes and 44th in charges and fees.

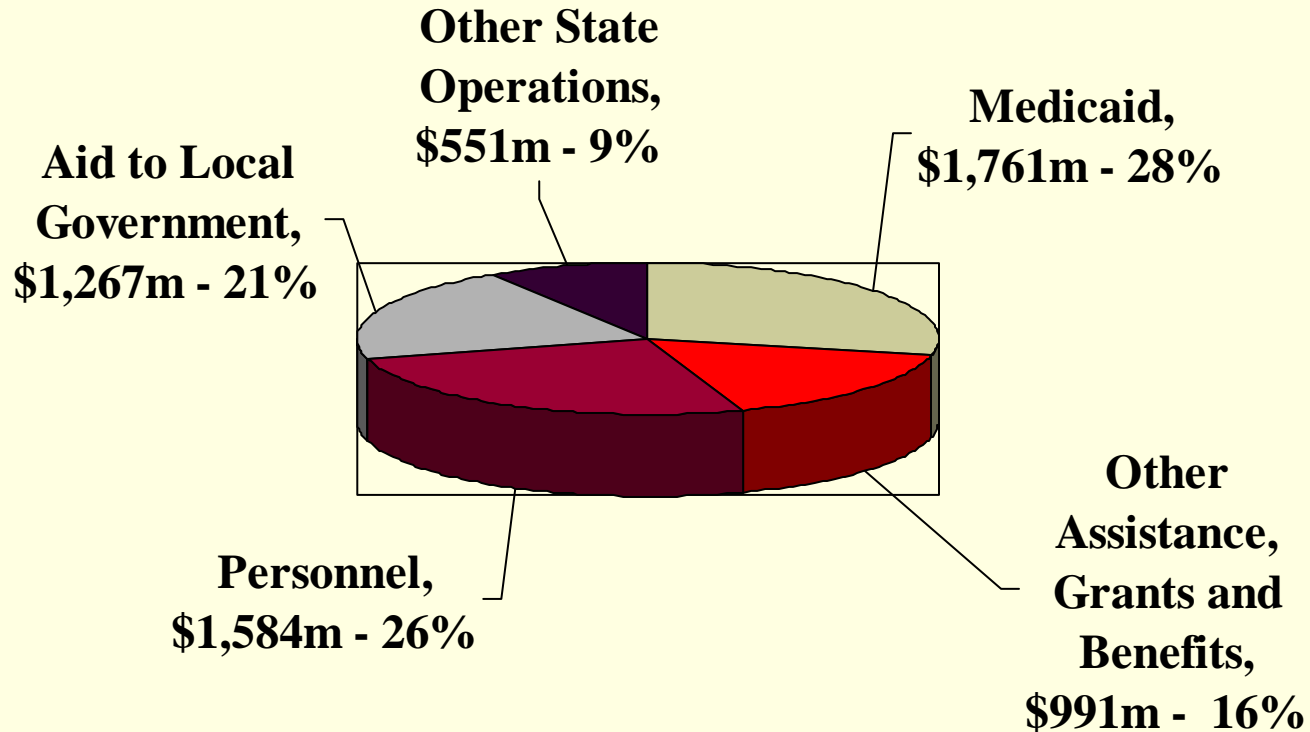


Where the Money Goes



Rhode Island's Spending

Major categories of spending FY07 (All sources of funds)

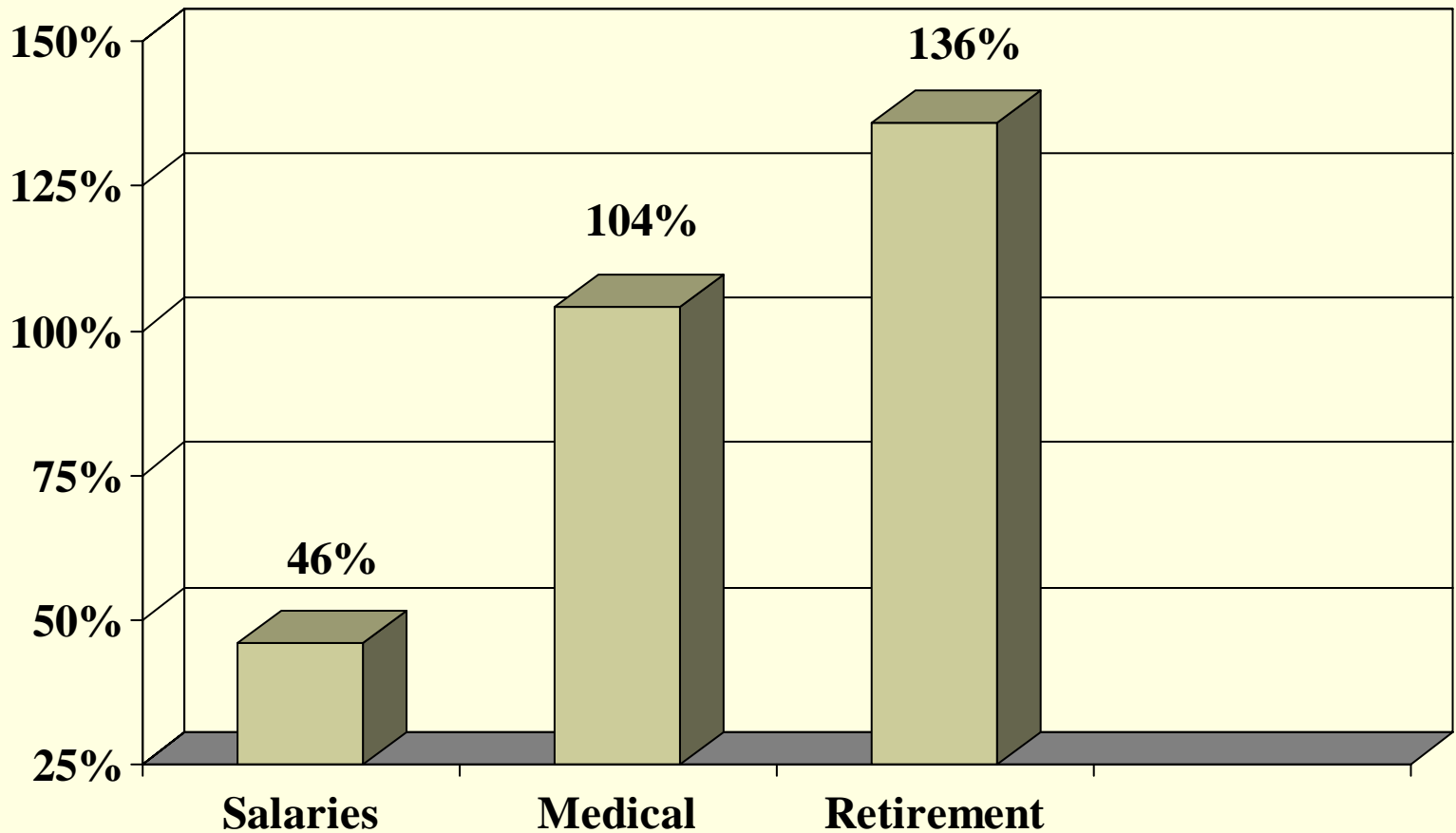


Personnel Costs (all funds)

\$1,584 million (26%)

- State spent \$833 m on personnel in FY07, \$610 m of that from general revenues.
- Since 1997, 25 cents of every new dollar in spending went to personnel costs.
- In 1997, 80% of personnel costs went to salaries and 20% to benefits.
- By 2007, 73% of personnel costs went to salaries and 27% to benefits.

Growth in personnel costs, FY97 – FY07



Aid to Local Governments (all funds)

\$1,267 million (21%)

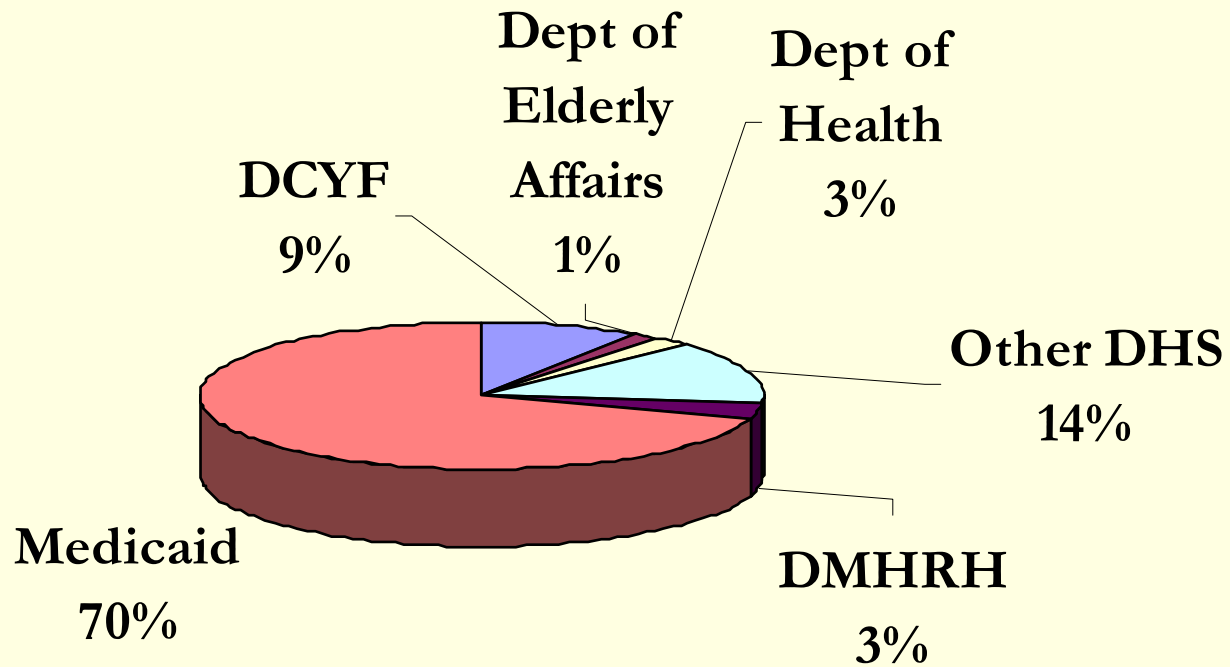
- Total Education aid: \$804m
 - Education aid rose by 73% from FY97 – FY07
 - Local property taxes pay for 60% of school costs in RI, compared to 43% nationally.
- Reimbursement for motor vehicle excise tax: \$136m
- Other local aid and pass-through revenue: \$144m
 - PILOT, meals tax, revenue sharing, etc.

Medicaid Spending (all funds)

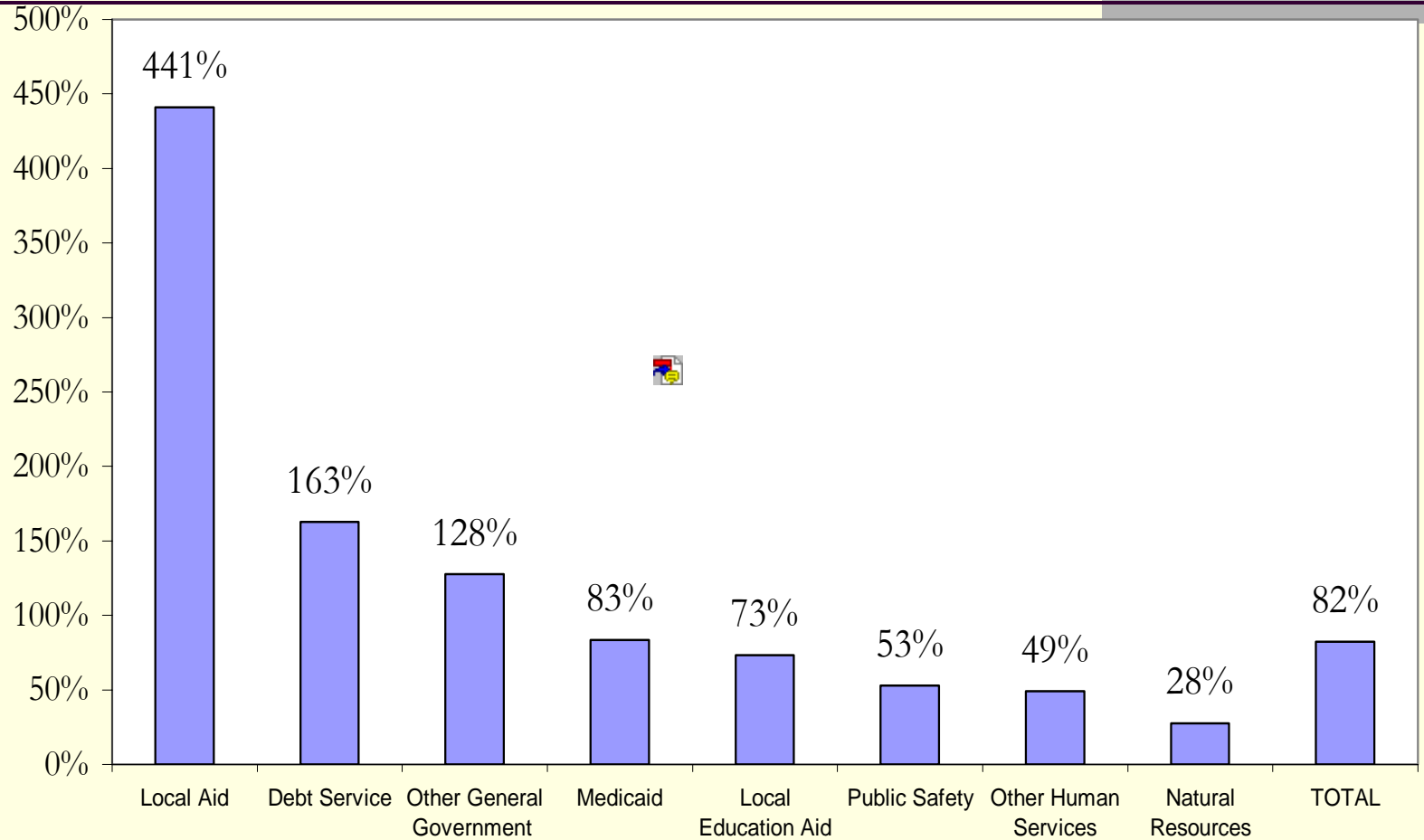
\$1,761 million (28%)

- Total spending was \$1.8 billion FY07, \$833 million in general revenue
- Since 1997, Medicaid spending rose by 80%.
- 26 cents of every new dollar in spending went to Medicaid from FY97 – FY07.
- 80% of Medicaid funds provide services for the elderly, adults and children with disabilities, children in substitute care; 20% funds health care for low-income families and pregnant women.

Medicaid and non-Medicaid spending in EOHHS, FY 2007



Change in General Revenue Spending by Program, FY 1997 - FY 2007



Rhode Island Tax Expenditures

The Hidden Budget

Tax expenditures

- Exemptions and exclusions from a tax or credits against a tax written into tax code
- Result in foregone revenues but aren't subject to any subsequent review or annual appropriation
- Many enacted for economic development purposes but few have any requirements for regular reporting or oversight

Tax Expenditure Report

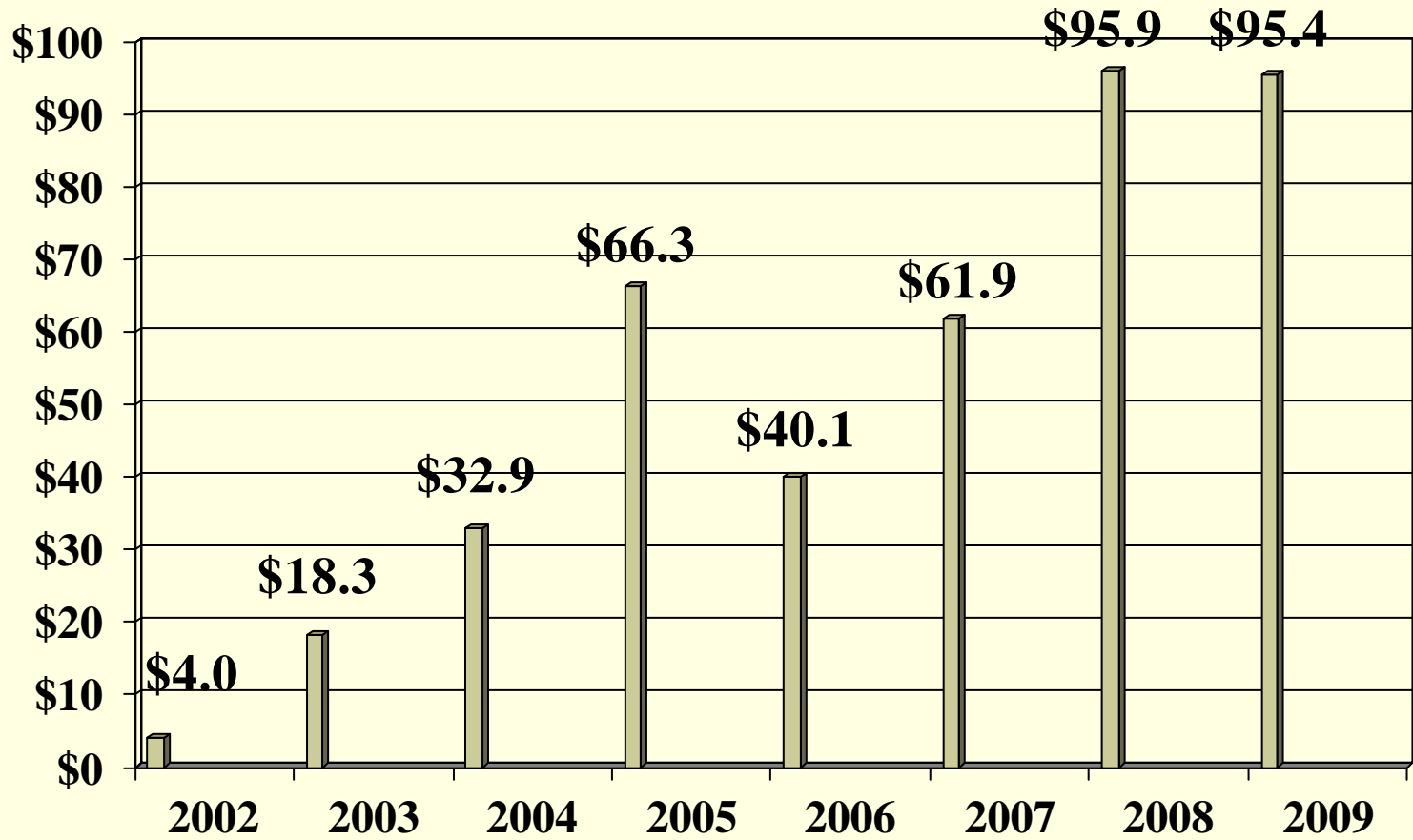
- Division of Taxation required to report on tax expenditures every two years – 2008 just published and available at www.tax.state.ri.us
- 2006 report estimated lost revenue of \$1.4 billion for 2005
- More than half of this due to exemptions from the personal income tax or sales tax
- 60% of tax expenditures were not estimated

Tax expenditures: Historic Tax Credit



- Credit for cost of renovation of historic structures
- Developers sell credits to wealthy taxpayers who pay about 85 cents for a dollar worth of credit; legal, accounting fees also diminish value of credit
- RI's credit among least restrictive in the nation with a high subsidy (30%) and no cap on how many credits developers can apply for (26 other states have similar programs)

Annual costs of historic credit rising rapidly (millions of dollars)



Motion picture tax credit

- Enacted to “jump start” film production industry
- Producers can apply for a credit equal to 25% of production costs
- Studies find costly and ineffective
- Total cost since 2005 = **\$40m**
- Biggest projects:
 - Underdog= \$9.5m
 - Dan in Real Life= \$5.1m
 - Brotherhood Season 1=\$4.8m



Conclusions

- Balancing the budget requires changes on both sides of the ledger – revenues and spending
- Rhode Island has made some significant revenue changes in the past several years
- Rising health care costs and declines in private health insurance present budget challenges for all states
- Need better information and greater scrutiny of tax expenditures

For more information...

www.budget.ri.gov

To access the Governor's Proposed Budgets and Budgets as Enacted

www.rilin.state.ri.us/Genmenu/

To access the House Fiscal Advisory Staff analysis of the Governor's proposed budget and an analysis of the Budget as enacted