



The Poverty Institute

at the Rhode Island College School of Social Work

FY 2008 Budget Wrap-Up

August 7, 2007

The General Assembly enacted \$6,977 million in the FY 2008 budget, an increase of \$312.5 million (or 4.7%) over the previous year's budget. General revenue expenditures totaled \$3,472 million, a 5.7% increase over FY 2007. Other sources of funding are federal grants (2,011 million), restricted receipts (162.6 million) and other funds such as higher education tuitions (1,400 million).

Balancing the state budget proved difficult again this year as lawmakers faced a deficit of \$242.9 million at the beginning of the year. Of particular concern to low and modest-income families were the Governor's proposed cuts to the state child care assistance program (Starting Right) and to services provided to youth ages 18-21 in the care of the Department of Children, Youth and Families.

As the session progressed, the news about the budget gap worsened. At the May Revenue Estimating Conference, it was determined that \$80 million in scheduled reimbursement from the American Insurance Group that the Governor had included in his proposed budget would not materialize in FY 2008. In addition, revenues from the personal income tax and sales tax fell below November estimates. As a result, the deficit facing the General Assembly increased to \$340 million as the final weeks of the session approached.

To close the deficit, the General Assembly made significant cuts to programs that support low and modest-income Rhode Islanders while enacting several tax policy changes that will enhance state revenues. These changes are summarized below. The Assembly also relied heavily on one-time, stop-gap measures including selling the residual portion of the tobacco securitization funds and land sales proposed by the Governor.

REVENUES

The General Assembly enacted several important tax policy changes that will address weaknesses in the state's revenue collections.

Corporate Taxes. The Assembly enacted three important changes to the corporate franchise tax that will prevent multi-state companies from shifting income to states where it isn't taxed and/or from deducting the cost of fees and rent, paid to its own subsidiaries, from the company's income. These measures include legislation to restrict the use of passive investment companies and captive real estate investment trusts, as well as legislation that enacts a "throw back" rule that requires companies based in RI to report as taxable income the state profits that are not taxed in other states. The General Assembly also mandated a study of the impact of combined reporting, which would mandate that corporations combine all their operations into one entity for state tax purposes. This report is due to be completed by the Department of Revenue in January 2009.

Long-Term Capital Gains. Under legislation enacted in 2002, the tax on capital gains of assets held for more than five years was scheduled to fall from 5.0% to 1.67% in 2007, then to zero in 2008, at a loss of \$29.3 million in tax revenue during FY2008. The General Assembly froze the tax rate at

1.67%, saving \$9.8 million in revenue for FY2008. The reduction in the rate to 1.67% will entail losses of as much as \$38 million in FY2009, when it is in effect during an entire fiscal year. Capital gains tax rates impact mostly very high-income Rhode Islanders. In 2005, 2.5% of taxpayers with incomes above \$200,000 received 83.7% of all capital gains reported in the state.

Historic Tax Credit. The Assembly enacted the Governor's proposal to directly buy-back historic tax credits earned by developers in 2007, thereby eliminating transactions costs and profits to private purchasers of the credits. The direct public buy-back program is expected to save \$10 million in FY2008. The cost of Rhode Island's historic tax credit program, one of the most generous in the nation, has escalated so rapidly in recent years that the May Revenue Estimating Conference increased its November 2008 forecast for historic tax credits by \$84 million, bringing the total three-year cost of the historic tax credit to \$477.3 million

Motor Vehicle Excise Tax. The General Assembly maintained the \$6,000 exemption on the value of vehicles from the car tax at a cost of \$135.5 million. Legislation passed last year ties annual increases in the exempted value to increases in video lottery terminal proceeds.

Other Revenues. The General Assembly concurred with the Governor's recommendations for increases in dozens of fees and fines. Many of these increases have a disproportionate impact on lower income residents, such as the increase in the fee charged for obtaining a copy of a birth certificate from \$15 to \$20. This is especially problematic given that Medical Assistance applicants must provide a copy of their original birth certificate to obtain health coverage. A complete listing can be found in the House Fiscal Office's Analysis of the FY2008 Budget as Enacted at <http://www.rilin.state.ri.us/HouseFinance/2008BudgetEnacted.pdf>

EXPENDITURES

Family Independence Program. The Governor proposed a 50% reduction in the maximum amount of child support passed through to parents enrolled in the Family Independence Program, from \$50 to \$25 per month. The General Assembly did not concur with this recommendation and the pass-through maximum will remain at \$50.

Child Care Assistance Program. The Governor had proposed cuts of \$24.9 million to the state's subsidized child care program, representing 57% of state funds allocated to the program. The legislature restored only \$5.1 million of those funds. Cuts to the program include:

- Rolling back eligibility limits from 225% FPL to 180% FPL, eliminating more than 1,600 children from the program
- Increasing co-pays for child care by 1%.
- Restructuring before and after-school rates to providers.
- Reducing the maximum eligibility age from 16 to 13, eliminating 300 youth.
- Delaying a scheduled rate increases for providers that has not been changed in five years.

Department of Children, Youth and Families. The Governor proposed removing youth from DCYF custody at age 18, causing them to lose subsidized housing, education, and case management services, for a savings of \$24.3 million. While the General Assembly concurred with the Governor's proposal to end Family Court jurisdiction at age 18, the Assembly required the Department to maintain services on a voluntary basis for some 800 youth but restored only \$10.5 million in funds, including \$6 million in general revenue to restructure services to be more cost effective.

The Governor proposed that Family Court jurisdiction end at age 17 for delinquent youth and that training school sentences end at age 18, instead of 21. The Assembly concurred with the first recommendation to save an estimated \$3.8 million but extended sentences at the training school to age 19.

The Assembly rejected the Governor's recommendation that investigations of abuse and neglect end at age 16 instead of 18.

Medical Assistance. The Governor proposed pharmacy co-pays of \$1 for generic and \$3 for brand-name drugs for 14,000 elderly and disabled Medicaid recipients who receive SSI, reducing state expenditures by \$750,000. He also estimated that more stringent citizenship and identity verification requirements for medical coverage imposed by the federal government, would remove 5,750 people from Medical Assistance and save \$19.9 million. The General Assembly concurred with both recommendations.

The Governor proposed and the General Assembly enacted a change to the Family Independence Program that eliminates automatic RItE Care eligibility for FIP recipients. The primary impact of this change is that the poorest legal permanent resident children and their parents will be ineligible for RItE Care.

Housing. The Governor included \$5 million for the Neighborhood Opportunities Program in his budget. The Assembly increased this amount to \$7.5 million and released \$12.5 million from the \$50 million bond passed by voters in 2006 to fund construction of affordable housing in Rhode Island.

The Assembly also included \$1.5 million for the Housing Resources Commission for programs addressing homelessness and \$650,000 for the Commission's lead hazard reduction program.

Tax Relief for low-income households. The General Assembly maintained the refundable earned income tax credit at 15%.

The General Assembly increased the maximum refund through the property tax circuit breaker program from \$250 to \$300 a year for seniors, people with disabilities, and low income renters and property owners with income under \$30,000 a year. Future increases are based on video lottery terminal proceeds.

Education. The Governor recommended a 3.0% across-the board increase in general aid to local school districts, an increase over last year of \$19.4 million. The General Assembly rejected this proposal and froze local education aid at FY2007 level.

The Governor recommended a \$1 million increase in general revenue funding for adult basic education in FY2008. The General Assembly reduced this amount by \$900,000. However, the Assembly also directed that \$2 million from the more than \$7 million Job Development Fund be allocated to Adult Education, thus increasing funding by \$2.1 million.

The FY 2008 budget includes \$770.8 million for public higher education. Of that total, \$196.1 million come from general revenues. In-state tuition and fees are increased by 6%. Tuition and fees for out-of-state students will rise by 7.0% - 9%.