



FY 2007 Budget Wrap-Up

I. Governor's Budget

At the beginning of 2006, the state faced a potential deficit of \$222 million for FY07, representing 7.0 percent of the General Fund.

Governor Carcieri submitted a FY07 budget of \$6,580 million. To balance the budget, the Governor proposed numerous cuts to social service programs, lower-than inflation increases in local education aid and reductions in staffing and changes in personnel policies. The Governor vowed not to raise taxes and revenue enhancement proposals were limited to increasing the Hospital Licensing Fee and proposing a tax amnesty for delinquent personal income, corporate income and estate tax payments, estimated to raise \$6.8 million.

| Expenditures by Fund: | Governor's FY07 Budget (\$millions) | Percent Change from FY06 Revised |
|------------------------------|--|---|
| General Revenue | 3,153.9 | 1.0 % |
| Federal Funds | 1,915.8 | (6.5) % |
| Other/Restricted | 1,510.5 | 3.2 % |
| Total Expenditures | 6,580.2 | (0.8) % |

Among the Governor's most significant budgetary proposals affecting low and moderate income Rhode Islanders in FY 2006:

1. Expenditures

| Proposal – Child Care | Change in spending |
|---|---------------------------|
| Increase child care co-pay by an additional 2 percent of income | - \$1.5m |
| Impose asset test for child care eligibility | - \$ 0.9 m |
| Delay child care provider rate increase | -\$ 1.4 m |

| Proposal – Rite Care | Change in spending |
|---|---------------------------|
| Rollback parent eligibility from 185% FPL to 133% FPL | -\$ 9.1m |
| Impose Rite Care premium for families at 133% - 150% FPL | -\$ 0.8m |
| Increase premium for families with income from 150% - 250% FPL | -\$ 0.3 m |
| Eliminate coverage for non-citizen children | -\$ 4.0m |
| Impose resource test for Rite Care eligibility | -\$ 0.8m |
| Rollback transitional medical assistance eligibility from 18 to 12 months | - \$0.2m |
| Require Rite Care applicants to verify residency | -\$ 0.4m |
| Impose prescription drug co-pay for elderly/disabled recipients | -\$ 0.5m |

| Proposal – Family Independence Program | Change in spending |
|---|---------------------------|
| Require employment plan as condition for eligibility | - \$ 1.5m |
| Count benefits from other states toward time limit | - \$ 0.1m |
| Impose full family sanction at 3 months | -\$ 1.5m |
| Reduce FIP benefits by \$25/month after 24 months and continue to decrease benefit by \$80/month at 48 months | -\$ 1.5m |
| Require one adult to work in 2-parent families even when one parent is disabled | -\$ 1.3m |
| Reduce maximum time on FIP from 60 to 30 months beginning July 2007 | 0 |
| Reduce time to access education from 24 to 12 months beginning July 2007 | 0 |

In addition, the Governor proposed cutting \$1.7 million from the DCYF budget by dropping children over 18 from the Independent Living Program and cutting \$5.8 million from day services for people with disabilities.

2. Revenues

Among the revenue proposals in the Governor's budget:

| Proposal | Change in Revenue |
|---|--------------------------|
| Tax amnesty for delinquent personal income, corporate income, sales, gas and estate taxes | +\$11.7m |
| Increase interest rate on overdue taxes to 18 percent | +\$ 5.1m |

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| Establish two-day sales tax “holiday” | -\$ 5.3m |
| Implement Streamlined Sales Tax | +\$ 2.4m |
| Increase exemption for motor vehicle excise tax from \$5000 to \$5500 | -\$ 7.5 m |
| Corporate income tax credit for scholarship contributions to private K-12 schools | -\$1.0 m |

3. Economic Development

As part of his economic development strategy, the Governor proposed \$7.7million from all funds for adult literacy, an increase of \$0.2 million or 2.7 percent increase over FY 2006. He also called for cuts of \$5.5 million in higher education financing and tuition increases of 7.4 percent at URI and 6.2 percent at RIC.

II. Enacted Budget

The May Revenue and Caseload Estimating conferences increased net available revenue estimates for FY06 by \$57 million, allowing the General Assembly more leeway in adopting its own \$6,658 million budget, a 1.2 percent increase over revised FY06 spending. This budget was approved by the House and Senate and signed by the Governor.

| Expenditures by Fund | Enacted FY07 Budget (\$millions) | Percent Change from FY06 |
|---------------------------|----------------------------------|--------------------------|
| General Revenue | 3,217.5.1 | + 2.0% |
| Federal Funds | 1,947.4 | + 1.7% |
| Other/Restricted | 1,493.0 | - 1.2% |
| Total Expenditures | 6,658.2 | + 1.2% |

1. Expenditures

| House Budget – Child Care | Change to Governor |
|---|--------------------|
| Increase child care co-pay by an additional 1 percent of income | + \$0.8m |
| Imposes asset test for child care eligibility | + \$ 0.2 m |
| Accepted delay in child care provider rate increase | -\$ 0 |

| House Budget – Rite Care/Medical Assistance | Change to Governor |
|---|--------------------|
| Rejects rollback parent eligibility to 133% FPL | +\$ 9.1m |
| Rejects premium for families at 133% - 150% FPL | +\$ 0.8m |

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|---|-----------|
| Rejects increases premium from 150% - 250% FPL | +\$ 0.3 m |
| Maintains coverage for current non-citizen children, but closes program to new recipients as of January 1, 2007 | +\$ 3.0m |
| Imposes resource test for Rite Care eligibility | +\$ 0.2m |
| Accepts rollback of transitional medical assistance eligibility from 18 to 12 months | \$ 0 |
| Accepts requirement that Rite Care applicants verify residency | \$ 0 |
| Accepts prescription drug co-pay for elderly/disabled recipients | \$ 0 |
| Add dental services at nursing home | +\$ 0.15m |

| House Budget – Family Independence Program | Change to Governor |
|---|---------------------------|
| Requires employment plan as condition for eligibility | \$ 0 |
| Count benefits from other states toward time limit | \$ 0 |
| Impose full family sanction at 6 months instead of proposed 3 months | \$ 0 |
| Rejects reduction in FIP benefits by \$25/month after 24 months and continue to decrease benefit by \$80/month at 48 months | +\$ 1.5m |
| Accepts requirement that one adult work in 2-parent families even when one parent is disabled | \$ 0 |
| Rejects proposal to reduce maximum time on FIP from 60 to 30 months beginning July 2007 | \$0 |
| Rejects proposal to reduce time to access education from 24 to 12 months beginning July 2007 | \$0 |

The General Assembly authorized a ballot question to borrow \$50 million for affordable housing in addition to \$7.5 million for the Neighborhood Opportunities Program.

In addition, the General Assembly restored \$1.7 million to DCYF budget by rejecting the Governor's call to drop children over 18 from the Independent Living Program.

2. Revenues

| Revenue Item | Change to Governor |
|---|---------------------------|
| Rejected sales tax holiday | +\$ 5.3m |
| Increased motor vehicle excise tax exemption from \$5000 to \$6000. | - \$ 6.9m |
| Passed alternative flat personal income tax of 8% | - \$ 7.2m |
| Increased the refundable portion of the state EITC from 10 to 15 | - \$1.0m |

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|---|-----------|
| percent | |
| Increased property tax circuit breaker from \$250 to \$300 | -\$ 1.2m |
| Accepted tax credit of scholarship contributions to private schools | \$0 |
| Require GA approval of EDC sales tax credit for “project status” | +\$ 1.0 m |

In January 2006, the House leadership introduced the Taxpayer Relief Act. The bill increased the refundable portion of the Earned Income Tax Credit from 10 to 15 percent and increased the property tax circuit breaker from \$250 to \$300. However, the centerpiece of the bill was the creation of an alternative flat personal income tax rate of 8% in 2007, which will decline over six years to 5.5%. This alternative minimum tax will cost the state \$7.2 million in FY 2007 and \$73 million when fully phased in by FY 2012. This alternative tax option will benefit 1,687 taxpayers next year, including 1,171 non-resident taxpayers, who will receive an average tax cut of \$4,267.

The Senate leadership introduced legislation that would reduce the annual limit on increases in local property tax levies from 5.5 percent to 4.0 percent in 2013. It also imposed a 4.0 percent cap on annual increases in state spending. This latter provision was eliminated and the legislation was adopted by both houses as part of the final budget negotiations. The cap on property tax levies can be overridden with a 4/5 vote of the city council and can be exceeded when new development expands the tax base, to fund pensions and debt servicing costs, or when health or energy costs rise by three times the rate allowed under the cap.

III. Assessment

1. Investments in Programs for Low and Moderate Income Rhode Islanders

In January 2006, the One Rhode Island coalition developed a legislative platform of enhancements to programs that help low and moderate income Rhode Islanders, at a cost of \$20 million to the FY07 general fund. In response to the Governor’s budget, One Rhode Island added to its platform a “Do No Harm” agenda, opposing cuts to child care, Rite Care, FIP and other social welfare programs.

The legislature passed several of the One Rhode Island recommendations and rejected or moderated some of the Governor’s proposed cuts.

Housing. The Governor proposed \$7.5m for the Neighborhood Opportunities Program to provide affordable housing. The legislature concurred. In addition, the General Assembly authorized a ballot question to borrow \$50 million for affordable housing and allocated \$300,000 to help people with special needs obtain and maintain housing.

The General Assembly also increased funding for the property tax circuit breaker from \$250 to \$300.

Health Care. The General Assembly rejected the Governor's proposal to cut parents earning over 133 percent FPL from RItE Care and to increase premiums paid by low income families. They also modified the Governor's proposal to deny coverage to immigrant children, opting instead to close the program to new participants at the end of 2006.

Family Independence Program. The legislature agreed to impose full-family sanctions on FIP recipients after 6 months of failure to comply with an employment plan – not 3 months as the Governor requested. The Governor's proposal to require new applicants to sign an employment program as a condition of eligibility was also accepted. Benefits received from other states will now count toward the 60-month limit on FIP. The General Assembly rejected the Governor's proposal to reduce the time limit on FIP from 60 to 30 months as well as his call to reduce FIP benefits by up to \$80/month.

Income Supports. The refundable portion of the state EITC was increased from 10 percent to 15 percent. Legislation to raise Rhode Island's minimum wage from \$6.75 to \$7.10 per hour in 2006 and to 7.40 per hour in 2007 passed early in the session.

Child Care. The enacted budget delays increases in reimbursement rates for providers by six months, imposes an asset test for child care eligibility, and increases co-payments for some participating families.

Adult Education. Adult literacy programs received a small increase in state funding. However, tuitions at state colleges were raised and funding for higher education cut by \$5.5 million. The General Assembly also accepted a proposal that allows FIP recipients to count 10 hours of education and training toward the 30 hour work requirement.

2. Revenues

Several substantial tax-cutting initiatives were put forth in 2006 by the legislature and Governor, including a sales tax holiday, increase in the motor vehicle excise tax exemption, increase in the property-tax circuit breaker and, most controversially, the House leadership's alternative flat tax and the Senate leadership's call for a 4 percent cap on property tax levies. Except for the sales tax holiday, all these initiatives passed.

The Senate Fiscal Advisory Staff estimates that 516 Rhode Island resident taxpayers – less than 0.1 percent of all resident returns -- will benefit from the alternative flat tax. All these taxpayers have incomes above \$250,000. In addition, 1171 non-resident taxpayers, also with incomes above \$250,000, are expected to choose the alternative flat tax in TY 2006. When the flat tax rate of 5.5 percent is fully phased in by 2012, some 10,000 taxpayers will receive an average tax cut of \$7,300.

A bill rescinding the 2002 law to eliminate taxes on capital gains in 2008 was rejected by the House Finance Committee, as was a bill restricting businesses' ability to avoid state taxes through the use of passive investment companies. If enacted, this bill would have raised at least \$8 million and potentially as much as \$50 million annually.

The legislature also passed, and the Governor signed into law, a measure increasing from \$5,000 to \$6,000 the value of vehicles exempt from local excise taxes. This poorly-targeted tax cut will cost the state \$14.4 million annually to provide an annual tax cut ranging from \$10 in Central Falls to \$77 in Providence.