



The Poverty Institute

at the Rhode Island College School of Social Work

Governor Carcieri's FY 2006 Budget: Implications for Low and Moderate Income Rhode Islanders



Amid forecasts that Rhode Island faced a deficit for the fourth year in a row, Governor Carcieri presented a balanced budget for FY 2006 that proposed few overhauls to taxes or state programs. The only major initiative is a plan to save \$44 million by changing pension rules for public employees not yet vested in the system. Instead, the Governor's budget relies on changing rules in human service programs, and cutting or reducing the growth of spending on higher education, local education aid, and public-employee benefits.

Spending

The Governor would increase total general revenue spending from \$2,964 million in FY 2005 to \$3,070 million in FY 2006 - an increase of 3.6 percent. Total state spending, including programs financed by federal funds and restricted receipts would rise by 2.9 percent, from \$6,076 million to \$6,254 million.

Local Aid

The governor plans to increase aid to local governments by only 0.7 percent. Aid to local education authorities would rise by \$12.5 million for local education aid, a 2.4 percent increase over last year. In addition, the Governor has proposed spending an additional \$5.5 million for charter schools and the Metropolitan Career and Technical School.

Rhode Island's state education aid to local governments has failed to keep pace with rising school costs for a number of years, forcing cities and towns to shoulder a rising portion of K-12 education spending out of local property taxes. When local aid is cut or rises at less than the inflation rate, as was the case last year and as the Governor proposes this year, cities and towns must make up the loss by raising property taxes.

Yet property taxes are already relatively high in Rhode Island -- the state ranks 6th nationwide in property taxes as a percentage of personal income - and are especially burdensome for low- and moderate-income taxpayers. The most affluent one percent of Rhode Island households pay two percent of their income in property taxes, on average, while the poorest fifth of Rhode Island households pay an average 4.4 percent of income in property taxes.

The Governor's budget offsets the regressive impact of flat local aid somewhat by targeting education funds to poorer communities. More than half of the proposed increase in local education aid would flow through the Student Equity Fund to the four most distressed urban core municipalities of Central Falls, Pawtucket, Providence and Woonsocket.

Adult Education and Literacy

Education and training for adults is one of the most important economic development investments state governments can undertake. The Governor's budget consolidates responsibility for Adult Basic Education programs in the Department of Education and adds \$2.6 million in general revenue funding. This is the second time during the past three years in which the Governor has proposed making an increased state investment in adult literacy. The Governor added \$1.4 million in general funds for adult literacy in FY 2004. Last year, state funding was cut and funding for adult literacy from all sources fell by \$0.3 million, according to the Adult Literacy Task Force. Though the additional \$2.6 million in general revenues for FY 2006 is welcome, literacy and work readiness programs in Rhode Island remain under-funded compared to the need for services. The state does not maintain waiting lists for adult basic education services but anecdotal evidence indicates that programs turn students away for lack of

resources.

Public Higher Education

Like adult basic education, public higher education improves a state's economic climate and greatly enhances economic opportunities for low and moderate income residents. The Governor proposes tuition hikes of 8.5 percent to 8.9 percent at the state's three public colleges. If enacted, this will be the fourth year in a row in which Rhode Island's public college tuitions outpaced inflation. According to the National Center for Public Policy and Higher Education, tuitions at Rhode Island's public colleges have risen at twice the rate of personal income in the state. In 2003, Rhode Island's community college tuition was the 21st highest of the fifty states; tuition at the state's 4-year colleges was 22nd highest in the nation.

Family Independence Program

The November Caseload Estimating Conference projected a sizable drop for FY 2006 in the number of people eligible for cash assistance through Rhode Island's Family Independence Program (FIP). As a result, total spending on FIP is expected to decline. The Governor's budget proposes two rule changes to the Family Independence Program that he estimates will further reduce expenditures on cash assistance by \$2.1 million. This is the third time in four years that the FIP cash assistance program - which accounts for only 0.4 percent of general revenue expenditure -- has been targeted for spending cuts. The proposed rule changes have significant implications for the well being and safety of the state's poorest children and families, and estimated savings are not likely to be realized.

1. Full family sanction after 12 months. If a parent does not comply with her employment plan, a sanction is immediately imposed and cash assistance is reduced by the parent's portion of the allowance.

When the Family Independence Act was crafted, Rhode Island made it a public policy priority that no child would be worse off after welfare reform. This was a guiding principle in the development of a sanction policy that would not punish children for a parent's non-compliance. However, the FY

05 implementation of a full family sanction drastically changed this policy and all cash assistance to a family is now terminated if a parent is in non compliance for 24 months. The proposed rule change for FY 06 would impose the full family sanction upon 12 months of non compliance.

Since we know very little about the why parents fail to comply with employment plans or how children fare when the family loses its benefit, it is critical that we evaluate the impact of last year's policy change before imposing harsher sanctions. Because of its dramatic impact on children, changing the sanction rules should be a carefully considered public policy decision - not a means of reducing state spending. Further, assuming a savings implies that the full family sanction will not lead parents to comply with their employment plans, but cause their families to be dropped from the cash assistance program altogether. It is poor policy to implement a rule change that specifically seeks to capitalize on the failure of a social service policy to achieve its objective.

2. Delay initial check until employment plan signed. This proposal would require a parent to sign an employment plan before cash assistance payments are initiated. Under the current rules payments to families begin once eligibility has been determined by DHS. From that date, a social worker has 45 days to meet with the parent, conduct an assessment of employability, discuss the parent's options, determine whether the parent is exempt from the work requirement, explain the consequences of exemption and develop an appropriate employment plan.

Accurate assessment is critical to promoting a parent's success through the Family Independence Program. Parents seeking cash assistance often face multiple barriers to employment, including disability or illness, mental health and domestic violence issues and limited educational attainment or job skills. A meaningful employment plan must address these issues to assure a parent's successful transition to work.

Social workers, who have caseloads in excess of 300, can not be expected to facilitate the assessment and planning process more quickly if this proposal is implemented. But applicant parents- who turn to FIP when they are in economic crisis-

will be desperate to sign a plan as quickly as possible to avoid delaying cash assistance to their families. Payments to the family begin once the plan has been signed, so there will be little to no savings as anticipated by the proposal - but we will have jeopardized the integrity of the employment plan process and put parents who are disabled, caring for young children, or victims of domestic violence at risk.

If both these proposed changes to FIP were passed, Rhode Island would spend only \$12.6 million in general revenues on cash assistance in FY 2006, a drop of 18 percent from FY 2005 and of 73 percent since the FIP program was established in 1996. The \$12.6m budgeted for FIP represents only 0.4 percent of the state's general fund expenditures to aid an expected 35,000 of the neediest parents and children in Rhode Island - an average of just \$350 in state funds annually per person.

Child Care

The Governor plans to increase co-payments for families with children in state-subsidized child care, to postpone by six months a scheduled biannual increase in reimbursement rates for child-care providers and to limit eligibility for health insurance for family child care providers. Together these changes would reduce outlays on the subsidized child-care program by \$3.4 million in FY 2006.

Since 1996, state funding for subsidized child-care has risen by some \$66 million. This increase was planned as part of the Family Independence Act, whose intent was to provide high-quality child care to support parents entering the workforce from FIP as well as other low-income working parents. Heightened spending on child care has been almost completely offset by reductions in outlays for direct cash assistance to low income parents. Rhode Island's Starting Right program allows parents to secure and keep jobs, contributing tax dollars to the state's economy. A Bryant College study conservatively estimated that every \$1 invested in child care yields \$1.75 in economic activity in Rhode Island. National studies of public investments in early childhood development find that such spending yields \$8 in reduced outlays and increased tax revenues for every \$1 invested.

Housing

The Governor's budget provides \$5 million in funding (financed through bonds in FY 2006) for the Neighborhood Opportunities Program for the third year in a row and proposes to establish an Office of Housing and Community Development to coordinate state housing programs. The Governor also proposes to increase property tax rebates available to low income seniors by \$4 million. While these measures are important steps toward addressing the state's housing crisis, Rhode Island continues to under-invest in the development of affordable housing. Housing prices in the state have been rising at an annual rate of over 18 percent since 2001 and a record 6000 residents experienced homelessness last year, including 794 families and more than 1500 children.

Rite Care and Medicaid

The Governor's budget expects to realize some \$3 million in savings on Medicaid by using federal programs to claim rebates from pharmaceutical firms and by establishing a preferred drug formulary for Medicaid recipients. The Governor had also proposed to save \$325,000 by requiring co-pays for families with children receiving medical assistance through the Katie Beckett program; this proposal was later rescinded.

Taxes

The Governor's budget expects general revenues to rise by 6.8 percent and puts forth no major revenue initiatives. The budget suggests only \$89 million in revenue enhancements; of this, \$64 million comes from continuing the 3.45 percent Hospital Licensing Fee in FY 2006. The \$25 million balance is achieved through proposals to increase various motor vehicle registration and other fees, step up collection and cost recovery efforts, and require prepayment of cigarette taxes by retailers (a proposal rejected last year by the General Assembly).

Conclusion

The Governor's FY 2006 budget attempts to preserve and enhance funding for important programs that improve opportunities for the majority of state residents. However, the Governor's claim that all Rhode Islanders will "bear the brunt" of necessary cuts is inaccurate. Over the past ten years, state lawmakers enacted a number of tax cuts (on

motor vehicles, business inventories, corporate taxes and personal income taxes) that now cost the state at least \$300 million in foregone revenues each year. These past actions, according to the Institute for Taxation and Economic Policy, "have served to shift a greater share of the tax burden onto low-income taxpayers." After accounting for the federal deductibility of state and local taxes, the richest 1 percent of Rhode Island households in 2002 paid less than half the share of their income in Rhode Island taxes than the state's poorest residents pay - 6 percent versus 13 percent.

In the difficult fiscal environment of the last few years, low-income Rhode Islanders have suffered disproportionately from cuts to K-12 education, increases in public college tuitions, cuts in assistance to low-income families and increases in regressive cigarette and property taxes.

The Governor's FY 2006 budget represents a holding action. It proposes cuts to a number of valuable programs that serve vulnerable populations and fails to adequately fund programs -- like adult literacy and affordable housing -- that clearly call for greater resources. Moreover, many of the savings called for in the Governor's budget may prove illusory, necessitating further cuts over the coming year.

If Rhode Island is to continue provide adequate funding in the future for health care, education and early childhood development programs, it will be necessary to consider new revenue sources and begin a comprehensive assessment of the state's fiscal situation. The Governor's budget fails to address these structural gaps in state finances caused by years of tax cutting and cost increases.

The Poverty Institute works to promote economic security for low- and moderate-income Rhode Islanders and equitable tax and budget policies through policy analysis, education and advocacy.

The Poverty Institute is housed at the Rhode Island College School of Social Work. The Rhode Island College Foundation, a non-profit organization, is the Poverty Institute's fiscal agent. The Poverty Institute is separately funded by grants and private donations.

The Poverty Institute

at the Rhode Island College School of Social Work
Providence, RI 02908

P. 401.456.8512 | F. 401.456.9550

information@povertyinstitute.org

Visit The Poverty Institute's website at

www.povertyinstitute.org for more information about our work.

Staff

Kate Brewster, M.S.W., Director

Linda Katz, Esq., Policy Director

Ellen Frank, Ph.D., Senior Economic Analyst

Jennifer Lang, M.S.W., Policy Associate

Judith Gorman L.C.S.W., L.C.D.S., Web Manager

Lisa Casavechia, Graduate Assistant

Co-founded by Nancy Gewirtz and Linda Katz