

# Financial forecast: Gloomy

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PROVIDENCE — They knew it would be bad, but the state officials gathered in the State House basement yesterday didn't think it would be this bad.

Rhode Island is facing a budget shortfall of at least \$150 million in the current fiscal year. And the deficit for the following year — a number Governor Carcieri has consistently put at \$200 million in recent weeks — is now estimated at between \$400 million and \$450 million, according to projections from House Fiscal Advisor Michael O'Keefe, based on numbers finalized at yesterday's Revenue & Caseload Estimating Conference.

In the minutes immediately after the conference ended yesterday afternoon, the state officials who had spent much of the past week poring through economic data at the sparsely attended annual meeting had no choice but to resort to humor.

"If anybody has any ideas how to resolve this, let me know," the governor's budget officer, Rosemary Booth Gallogly, said with a defeated smile.

Kevin Madigan, of the Senate fiscal office, let out a mock cheer: "It's not \$500 million — yea!"

Despite attempts at humor, the implications of yesterday's conference couldn't be more serious. Carcieri is required by law to use the projections for the 2008-09 budget he will release in January.

Knowing there would a deficit, he had already proposed a sweeping plan he says will save \$100 million by cutting the state's work force by 1,000 jobs. He also plans to save \$50 million by reducing employee benefits and another \$50 million by cutting or consolidating social-services programs.

It is now clear that he will have to do much more to propose a balanced budget, which he must do by law.

"Governor Carcieri has been sounding the alarm about the state's budget situation since before the end of the last legislative session," said the governor's spokesman, Jeff Neal. "Unfortunately, it is now clear that implementing the governor's spending-reduction plan is just the start of what is required to resolve Rhode Island's growing budget crisis. Every

branch, department and office of state government must work together to solve this problem.”

THE DEFICITS are attributed to substantial declines in Rhode Island’s largest revenue streams: income and sales taxes. Both are directly tied to the regional and national economy, which economists testified last week may be headed toward recession based on soaring oil prices, the weak housing market and the subsequent credit crunch.

The heads of the Senate and House fiscal offices are required to meet with the governor’s budget officer in November and May each year to produce revenue estimates used to balance each year’s budget. The week-and-a-half conference features testimony from national economists, state tax officials, and departments that offer tax credits.

“It’s consumer confidence,” Gallogly said when asked about the slumping revenues. With higher energy bills and weak housing prices, Rhode Islanders are less likely to spend money, leading to stagnant sales-tax collections.

The conference staff learned earlier in the week that state sales-tax revenue over the last four months is down about 2.4 percent from the same period last year. Based on those numbers and other indicators, the group reduced projected sales-tax revenues for the current year by \$40 million, from \$908.7 million to \$868 million.

A representative from the state Department of Labor and Training testified last week that job growth has slowed in recent months, especially in the manufacturing sector, which was down 1,800 jobs since January. That doesn’t include 300 layoffs recently announced at Amgen. Jobs in the public sector are down by 400 so far this year, not including any of the 1,016 positions expected to be eliminated by the governor.

The result is less income-tax revenue, leading the group yesterday to lower projections for income-tax revenues for the current year by \$34 million, from \$1.082 billion to \$1.048 billion.

“The national economy is weak. It’s not the state’s fault it’s weak. But it’s become the state’s problem,” said the Poverty Institute’s chief economist, Ellen Frank, one of the few members of the public to attend yesterday’s meeting.

In one bright spot yesterday, the conference decided that lottery revenues would exceed expectations by about \$10 million in the coming year. Modest gains are expected for the following year as well.

Overall, the forecast is so bleak, Frank said, that the state must do more than cut spending.

“Facing these kinds of deficits, we need to look at every possible source of revenue we can,” she said, calling on lawmakers to reconsider tax cuts to high-income Rhode Islanders such as the recently instituted flat tax and the phase-out of the capital-gains tax.

Legislative leaders did not attend yesterday's conference. In a brief interview, House Finance Committee member Thomas Slater, D-Providence, suggested that the General Assembly would examine its revenue structure, specifically business tax credits and the sales tax structure.

The governor cleared the way this week for such an analysis to take place by hiring Gary Sasse, formerly of the Rhode Island Public Expenditure Council, to head the state Department of Revenue.

"I think the office will be called upon to study revenues, and we'll be prepared to do so," Sasse said yesterday, declining to comment on specific plans. "Given the magnitude of the problem, the solution is going to depend on all sides coming together to work for the common good."

But Neal said the governor would not be flexible on any plan to raise taxes.

"Raising taxes on Rhode Island's already overtaxed citizens is not the answer," Neal said. "Instead, we need to decide what amount of state government Rhode Island taxpayers can afford. Implementing an affordable Rhode Island will take leadership and tough, sometimes unpopular decisions. Governor Carcieri looks forward to working with the General Assembly and with other branches of state government to make those difficult choices."

Deficits rising

This year's

As of Thursday

\$0

Yesterday

\$150-175 million

Next year's

As of Thursday

\$211 million

Yesterday

\$400-\$450 million

Source: House Fiscal Advisor Michael O'Keefe

