

## Lawmakers unveil budget

A House panel races through 43 budget articles with little or no debate.

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PROVIDENCE -- The House Finance Committee yesterday approved a 2007-08 spending plan that restores money to many social services, allows some of Governor Carcieri's cuts to remain, and goes even deeper in some places.

Education aid to cities and towns has been frozen at this year's levels, as General Assembly leaders suggested that municipalities ask school teachers and local unions to shoulder a larger burden of the state's financial hardship. The governor's budget plan, released in February, suggested a blanket 3 percent increase.

"This has been a very, very difficult year," Finance Committee Chairman Steven M. Costantino, D-Providence, said at the end of a frantic two-hour meeting in which the panel raced through 43 budget articles with little or no debate. "I don't believe any of us are really one-hundred-percent happy about what we had to do."

The budget closes a looming \$300-million deficit through a combination of spending cuts, tax increases and onetime fixes.

The budget proposal -- which is subject to approval by the full House on Friday -- amends the tax code to close a number of perceived "corporate loopholes" and blocks the phase-out of the capital gains tax, moves that poverty groups had been advocating for years. It would also allow Sunday auto sales from noon to 6 p.m. as of July 1; implement an "SUV tax," requiring higher registration fees for larger vehicles, and require that 17-year-olds be tried as adults for criminal offenses. State officials say the plan would save thousands in prison housing costs.

Altogether, the legislative spending plan would cost state and federal taxpayers \$6.99 billion and amount to a 4.8-percent increase in spending compared to this year. It is \$30 million less than what the governor proposed, with a 5.7-percent increase in state general-revenue spending over this year's budget.

The budget essentially ignores the governor's call a day earlier to lay off 1,000 state employees, freeze union-negotiated pay increases, and privatize every state service possible. The plan also uses \$153 million from the sale of tobacco bonds to balance the budget, a move the governor had criticized the day before as "ill-conceived, short-term thinking at its worst."

"I'm gravely disappointed in the budget being considered by the House Finance Committee. This budget is bad for local schools, bad for taxpayers, bad for business and bad for the future of our children and grandchildren," Carcieri said in a statement.

The budget restores partial funding to services for former foster children and childcare programs, and social service advocates yesterday said it could have been a lot worse.

"We were fearful that we were going to lose everything, and I think we're just really grateful to the leadership that we got what we got and we'll do our best to make it work," said Lisa Guillette, executive director of the Rhode Island Foster Parents Association.

But Gary Sasse, executive director of the business-backed Rhode Island Public Expenditure Council, criticized House leaders for not doing more to address a structural deficit that is projected at \$380 million for fiscal year 2009. Costantino said his proposal brought the hole to about \$320 million.

"The legislature tried to be balanced in spreading the pain," Sasse said. "But at the end of the day, there appears to be little hope that we are doing anything significant to address the fundamental budget problems the state faces."

#### SCHOOL AID:

Cities and towns would receive no more education aid in the fiscal year that begins July 1 than they did this year, according to the budget plan.

"It's strictly a matter of not having the resources," Costantino said.

Tim Duffy, executive director of the Rhode Island Association of School Committees, said the state is neglecting its responsibility to finance education, especially given that the Assembly moved in recent years to cap property-tax increases. "It's going to lead to a lot of litigation," he said.

Finance Committee Deputy Chairman Rep. Paul Crowley, D-Newport, said the municipalities should "finally have some very tough discussions on the issue of compensation and benefits" with local unions.

"We have consistently been top in the country in how much we spend in education," Crowley said. "It is a highly well-financed system. And it's a system that says we need more money every year."

#### TOBACCO:

Lawmakers plan to use \$153 million from the sale of tobacco settlement bonds to balance the budget. The tobacco money is going to close gaps in both this year's and next year's budget. Lawmakers booked \$42 million for "working capital" out of a total \$64 million they are adding to the current year's enacted budget.

In his original budget proposal, the governor outlined a plan to raise \$160 million through the sale of the bonds, but suggested that revenue be used for capital improvements and transportation projects.

The governor's budget office has worked for weeks to determine how much the state could make by selling a portion of future payments from the tobacco master

settlement, a 1998 agreement with tobacco companies in accordance with the landmark settlement that 46 states -- including Rhode Island -- reached with the country's major cigarette manufacturers.

State officials now anticipate being able to raise \$195 million and plan to use the rest to pay for unanticipated capital expenses such as the Dunkin' Donuts Center renovations.

Costantino said he was forced to use the tobacco money after learning that an \$80-million settlement from the insurance giant American International Group was tied up in litigation.

#### CAPITAL GAINS AND CORPORATE TAX CHANGES:

The budget blocks the elimination of the state's capital gains tax by freezing it at its current 1.7 percent rate. It had been scheduled to be phased out completely next year.

The move is expected to generate \$9.8 million.

The budget also plans to save an estimated \$12.6 million by closing a set of so-called "corporate loopholes," including the use of "passive investment companies" and real estate investment trusts.

Ellen Frank, chief economist for the Poverty Institute, celebrated news of the tax changes by hugging a friend during a break in the Finance Committee room yesterday.

"This is a great step forward in making the tax system fairer and more transparent and accountable," she said.

Sasse, of RIPEC, characterized the changes as "tax increases by any definition."

#### SOCIAL SERVICES

A cut to services for former foster children was among the most unpopular proposals this year, prompting several rallies and packed budget hearings. Here, lawmakers met the governor halfway -- literally.

Aiming to help foster children become productive adults, the state had continued to provide them with housing assistance and health insurance after they turned 18, in some cases through age 23 as long as they were enrolled in college and progressing toward a degree. The governor had proposed doing away altogether with services once the youths turned 18.

Lawmakers restored half of the funding for the program -- \$6 million in state money and \$10 million in all -- and did not change the legal language that creates the program. "We've told them that they've got to redesign that program so they can stay within budget," Costantino said.

Lawmakers made no changes to the state's cash-assistance program this year, and the only change to RIte Care -- the state-subsidized health insurance program for the poor -- was to increase documentation standards for eligibility, a change expected to cut 5,750 people out of the program.

But the budget plan would cut about 2,100 children from the rolls of the state-subsidized child-care program by reducing the income-eligibility threshold from 225 percent of the federal poverty level -- \$38,633 for a family of three -- to 180 percent, or \$30,906 for a family of three. The governor had proposed lowering the threshold to 150 percent to remove 3,800 children from the rolls.

The lawmakers' budget would also cut the program so that only children under age 13 are eligible -- the current cutoff is age 16 -- and increase parents' copays by 1 percent.

## CORRECTIONS

The budget includes \$745,000 for Adult Drug Court, and earmarks \$1 million for substance-abuse treatment programs for parolees.

Lawmakers say both initiatives are designed to help reduce the prison population, which reached an all-time high of 3,881 last month. It costs the state more than \$39,000 a year, on average, to incarcerate someone at the state prison. Officials estimate that 70 percent of inmates at the Adult Correctional Institutions have problems with drug or alcohol abuse.

Because of a shortage of available slots in treatment programs, people eligible for parole on condition they enter treatment are spending an average of three to four extra months in prison, according to Rhode Island CARES, an advocacy group for recovering addicts.

Another policy change may actually land more people at the ACI -- specifically, young adults.

Currently, Family Court judges can sentence youths to remain at the Rhode Island Training School through age 21 for any offense committed before age 18. The governor's proposal would have ended the Training School's jurisdiction at age 18; lawmakers would end the school's jurisdiction at age 19. Youths would be tried in adult court for all criminal offenses starting on their 17th birthday.

The annual cost of housing a youth at the Training School is \$98,000.

## PERSONNEL

Lawmakers preserved the personnel savings the governor proposed in January, but they are leaving it up to him to figure out how to do it.

"The numbers are there, and that's up to the governor and labor to resolve that issue," Costantino said.

Carcieri shocked state employees on Thursday by calling for a layoff of 1,000 out of a total 15,000 state employees. George H. Nee, secretary-treasurer of the state AFL-CIO, said he doesn't think the governor can enact layoffs without General Assembly approval.

The response from Carcieri spokesman Jeff Neal: "We don't believe that's the case."

Lawmakers are attempting to put additional controls on the administration's use of Smart Staffing, the private staffing firm that has come under scrutiny. The budget includes a requirement that the administration hold public hearings before hiring through Smart Staffing. Neal called the provision "nothing more than a bone that is being thrown to the leadership of the state employee unions."

Costantino said lawmakers are still hoping the administration and employee unions can work out a deal to avoid privatizing food services and housekeeping at the state hospitals and veterans' home, and negotiations are continuing.

In a preemptive strike, Council 94, American Federation of State, County and Municipal Employees, yesterday began airing a television ad opposing the governor's privatization proposal. The ad features several residents at the affected facilities, including Frank Beazley, a longtime resident of Zambarano Hospital in Burrillville, imploring: "Please, at least have a heart, and leave us alone!"