

Raise revenue to cut R.I. deficit

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STATE REVENUES — taxes, fees and other income — are the collective investments we make to create a quality of life in Rhode Island that we all enjoy and expect. These investments are essential to keeping our shorelines and beaches clean, protecting our communities with police and emergency workers, educating our current and future workforce, and keeping our neighbors from going hungry or homeless.

Recently, state fiscal advisers concluded their semi-annual exercise at estimating state revenues. This process gives lawmakers up-to-date projections on the money coming in and the growth in spending for an array of state services. Results from this year's Revenue Estimating Conference found that the state faces an additional revenue shortfall of \$89.6 million more than the original \$360 million shortfall projected last November. The problem was compounded by the recent announcement that the expected funds from a settlement with AIG insurance — an estimated \$80 million — will not be available for the coming fiscal year.

For years, Rhode Island has struggled with a revenue system that is not adequate to meet the demands of a modern state. It is time to shift focus from cutting services to enhancing Rhode Island's revenue system, so that we have the funds needed to maintain the public structures we all rely upon. We are fast reaching the point where the quality of life we all enjoy here in Rhode Island is at risk. We all suffer from the erosion of essential health care that keeps our families and children healthy, from the loss of access to public higher education as tuition is hiked year after year, and from cuts in programs that protect our most at-risk populations — seniors, abused and neglected children, and people with disabilities.

It is past time to undertake a thorough review of our revenue system. There are smart and equitable actions we can take to create a more adequate and modern revenue system that will keep Rhode Island thriving. There are corporate tax loopholes that can be closed and poorly designed tax breaks that need to be fixed. Right now we give more tax credits to the movie industry than we get back in economic activity and we grant developers unlimited tax breaks for historic preservation. We also have a sales-tax system that was designed for an economy in which consumers primarily purchased goods but does not collect revenues from the services that modern consumers purchase.

With tough fiscal decisions ahead it is also time to rethink choices we have made in the recent past. It is time to reconsider the phase-out of the capital-gains tax, which could cost the state as much as \$52 million in the next fiscal year, mostly to

benefit 2 percent of taxpayers who earn \$200,000 or more. Our neighbor Massachusetts reinstated its capital-gains taxes when it faced budget shortfalls like ours.

Similarly, last year, the General Assembly enacted an alternative flat tax that will cost us \$73 million when it is fully implemented. This change to the tax code will benefit only 1,073 of Rhode Island's most affluent residents, who will receive an average tax cut of \$5,041 next year. We cannot afford this giveaway to a few when Rhode Island's important public services are in danger.

Lawmakers face difficult choices in the weeks ahead. In their hands we have entrusted the stewardship and management of this small state. True leadership demands that they look at all options — both how we raise the funds we need and how those funds are spent — as they seek to close the budget gap. This year policymakers' attention to both sides of the ledger is more essential than ever.

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