

R.I. officials bedeviled by budget details

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PROVIDENCE — Some say a war of the classes has erupted on Smith Hill. Others dismiss the conflict as political rhetoric, evidence of contrasting philosophies.

But the struggle to balance the largest budget deficit in Rhode Island history has pitted the state's top elected official, a retired chief executive officer, against poor single mothers and immigrant children. It has pitted black and Hispanic lawmakers against the leaders of their own party, who defend tax breaks for the wealthy in one breath and refuse to rule out sweeping cuts to social welfare programs in the next.

The State House debate is getting nasty.

And it is likely to get worse this week, when Governor Carcieri announces a 2008-'09 spending plan that will affect thousands of elderly Rhode Islanders, low-income children and their parents, and the network of nonprofit organizations that provide some of their care.

The minority legislative caucus late last week said the governor's plans would send urban minorities into "economic slavery." Rep. Joseph Almeida, a member of the powerful House Finance Committee, said Governor Carcieri is out of touch with the poor communities whose services he seeks to cut.

"It's obvious that he's sitting up somewhere eating his lobster, not knowing that we've still got peanut butter and Fluffernutter we're stuck with," said Almeida, whose district includes the South Side of Providence. "So instead of bad-mouthing the South Side or the poor people, tell him to get in the car and take a ride. Tell him Joe Almeida will come pick him up and show him what the South Side looks like, instead of being so scared to come off the second floor," where his State House office is.

Carcieri takes offense at Almeida's comments, noting that he was born the son of a schoolteacher, and that his wife helped raise three younger sisters after her father died.

"You talk about a hard time, hard life, yeah, I understand. That's what I came from," the governor said Friday. "My family ... they're average people. And respectfully, Joe, you don't help yourself Don't call me names.

"He doesn't know anything about me."

The governor this month released a current-year budget revision that would cut subsidized health care for 7,400 low-income adults and another 2,000 non-citizen children, and eliminate welfare benefits for 3,400 children.

But Carcieri will push for some cuts in the coming months that extend far beyond the streets of South Providence.

He said in last week's State of the State address that Rhode Island is "at a tipping point," teetering on the edge of financial disaster. "This deficit is not just a state government problem, it's a statewide problem," he said.

The governor wants to cut \$12.7 million in the state aid that goes to all cities and towns. He has ordered across-the-board cuts to every state department. And he continues to push for more than 500 state employee layoffs and several unpaid furlough days for those who remain.

There are no easy fixes for the dilemma facing lawmakers this year.

They have discussed selling the Ocean State's bridges, privatizing the state lottery, and expanding gambling at Rhode Island's two slot parlors, but neither the governor nor legislators talk of using "one-time fixes" to fill the operating deficit.

The fiscal mess is beyond any that the state has seen, in terms of dollar amounts.

Elected officials have five months to close a current-year deficit that exceeds \$150 million. And by the end of June they must pass a balanced budget for the next fiscal year that closes a hole estimated at between \$384 million and \$450 million. Legislative fiscal experts, meanwhile, predicted late last week that the deficit might grow if the region's economy deteriorates further.

For perspective, next year's projected deficit totals half the annual payroll for all 15,000 state employees (not including benefits). It is more than eight times the size of the current budget for the Rhode Island State Police. And it is almost twice the size of all nonschool aid promised to local communities this year.

Only during the credit union crisis of the early 1990s did the state see something of this magnitude. A \$450-million deficit amounts to more than 13.2 percent of state spending this year, not including federal dollars. The hole during the crisis of 1991 was around 16 percent.

"All of Rhode Island's virtues, all of its assets, all of Rhode Island's bright promises are overshadowed, in fact threatened, by the budget crisis we face," Carcieri said in last week's speech.

No weapon is used more in the budget battle than the tax breaks of 2006.

Proposed by Governor Carcieri and ultimately passed by the Democrat-dominated General Assembly, the phaseout of the long-term capital gains tax and the phase-in of an alternative flat tax were aimed at stimulating the economy by reducing the tax burden on high earners.

A measure to push the capital gains rate from 1.67 percent to 5 percent failed on the last day of the previous legislative session. Similar proposals have already surfaced this year.

Sen. Harold Metts, D-Providence, will submit legislation to reverse the flat tax, while Rep. Charlene Lima, D-Cranston, has drafted a bill to push the capital gains tax up to 5 percent, which she notes is below the Massachusetts rate.

The state will forgo an estimated \$23.4 million next year as a result of the flat tax, according to an analysis of the Poverty Institute at Rhode Island College. The average tax cut will be \$5,337. And the beneficiaries are overwhelmingly in higher-income brackets: 98 percent of the savings will go to taxpayers earning \$200,000 or more; almost two-thirds will go to those making more than \$1 million, according to the Poverty Institute.

Meanwhile, the reduction of the capital gains tax to 1.67 percent will cost Rhode Island \$39 million in lost revenue from 4,384 taxpayers. The average savings for those taxpayers is estimated at \$4,300, according to the Poverty Institute analysis. And 84 percent of the taxpayer savings will go to 7,500 people earning more than \$200,000.

Carcieri says he's asked his newly hired director of revenue, Gary Sasse, to study whether the tax breaks are indeed stimulating the economy. The governor cites anecdotal evidence that high-income earners are leaving the state because of Rhode Island's high tax burden, which is seventh-highest in the nation, according to an analysis of state and local tax collections for fiscal year 2005 by the Rhode Island Public Expenditure Council, formerly headed by Sasse.

Republican lawmakers say Rhode Island desperately needs to lower its taxes to attract employers.

"Philosophically, the best social program in the world is a good job and good economic opportunity," Rep. John Loughlin, R-Tiverton, said last week, repeating a mantra of former President Ronald Reagan.

House Finance Committee chairman Steven M. Costantino, arguably the most influential Democratic leader in the budget debate, largely agreed with the Republican perspective: "My concern is that we're not growing jobs. I've never felt that the way to grow jobs in the state is to increase taxes," Costantino said. "I don't see personally how reversing our policy on those issues will stimulate the economy."

The reluctance of leading Democrats to reverse the tax breaks prompted Metts to say he was "ashamed to be a Democrat." "That's why I pray for them every night."

But Costantino's attitude is music to the ears of local business leaders.

"Our ability to attract business to Rhode Island is directly correlated to the decision-makers' perception of the state," said John Warren, chief executive officer of the Washington Trust Company. "We have barely begun to move in a direction that encourages those decisions. It is critical that we do not alter our positive tax course now."

BankRI president Merrill Sherman agrees: "I know it is difficult to hold the line on taxes when we have pressing social needs. But if we don't, given the mobility of businesses and their owners, and the jobs they create, we run the risk of being truly impoverished within the next five years."

Rhode Island's budget problems pale in comparison to some larger states.

California's deficit is estimated at \$14 billion, twice the size of Rhode Island's total current budget. New York faces a \$4-billion hole. And Arizona's projected budget gap totals \$1.5 billion.

Governors in those states, however, are seeking to expand some programs even while balancing their budget.

California Gov. Arnold Schwarzenegger, for example, wants to expand health care coverage for 3 million residents. New York Gov. Eliot Spitzer also wants to expand health care for 400,000 children, cut property taxes and create a \$1-billion fund to create jobs. And Arizona Gov. Janet Napolitano wants to give free college tuition to every Arizona child who graduates from high school with a B average or better.

There will be no such proposals in Governor Caricieri's 2008-'09 spending plan.

He will suggest dramatic changes to welfare programs and Medicaid spending, but his office refused last week to release any details.

Caricieri will target expensive long-term care for the elderly, according to his State of the State speech, in addition to cutting eligibility to the Family Independence Program, commonly known as welfare.

"Welfare is the most commonly used weapon in class warfare. People don't understand the facts, such as that we spend less than one half of 1 percent of state funds on cash assistance and that those families who remain on the program have significant barriers to employment, including disabilities and very limited skills," said Kate Brewster, executive director of the Poverty Institute. "Therefore, it is an easy target for politicians who want to scapegoat the poor for our state's budget problems rather than asking tough questions like — can we afford to continue certain tax breaks or tax credit programs that are costing our state tens of millions of dollars?"

The current-year budget revision Carcieri released this month seeks to eliminate cash assistance for all families exceeding the state's 60-month time limit. An estimated 3,400 children would lose benefits, according to the governor's budget office.

The proposal would change the law allowing children to receive cash benefits indefinitely even if their parents' time runs out. Last year there were 4,232 "child only cases" (out of a total of 10,755), according to the Department of Human Services.

The governor hasn't been shy about criticizing the welfare system and its primary recipient: single mothers. He said on talk radio in November that welfare is "enabling" unmarried women to "have children they can't support."

Data collected by the DHS shows that 93 percent of families that received cash assistance in Rhode Island last year were led by a parent who is single, separated, widowed or divorced; 92 percent of the families are headed by women. And 77 percent of all families in the program had one or two children.

Carcieri will cut welfare much deeper in his 2008-'09 budget, reducing eligibility from 60 months to 24 months. The governor's office would not say how many people would be affected. But the cut would put Rhode Island in the minority of states.

Thirty-seven states have a 60-month limit and five states and the District of Columbia have no limit, according to an analysis provided by the Poverty Institute.

Meanwhile, Metts, a Baptist deacon, appealed to the public and other legislators to shift their priorities.

"Our mission is clear," he said. "Psalm 82:3,4 says to 'Defend the poor and fatherless; do justice to the afflicted and the needy. Deliver the poor and 'needy; rid them out of the hand of the wicked.'

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