



# The Poverty Institute

at Rhode Island College School of Social Work

## A Reality Check on Budget Rhetoric

In a recent *Providence Journal* article on the state budget, the Governor's spokesman Jeff Neal told reporters that, "state government has been spending beyond its means for a number of years. In many areas, the rate of increase in spending is ultimately unsustainable." This alarmist perspective on the state's finances contributes to a crisis mentality that threatens to overshadow responsible discussions of state policy.

The Poverty Institute would like to inject a note of reason and perspective into a budget debate that is becoming increasingly alarmist.

### (1) State spending is not out of control.

There are many ways to gauge state spending over time. The *Journal* compared Rhode Island's total budget to personal income in the state. But nearly one-third of state expenditures are paid by the federal government and personal income is only one source of tax revenue - businesses earn income as well. The Poverty Institute compared spending from the state's general revenues against growth in the state's economy. From FY93 to FY03, Rhode Island's economy grew by 74%. Spending from the general fund, in contrast, grew by 67%.

It is also helpful to contrast Rhode Island's spending to that of other states. The Center for Budget and Policy Priorities undertook such a comparison for 1990 to 2000 and found that Rhode Island's spending, when properly adjusted for increases in prices and population, grew at the sixth lowest rate in the nation.

### (2) State spending increases resulted from deliberate policy decisions.

**Health Care.** Like many states, Rhode Island made deliberate policy commitments to provide medical benefits for eld-

ers, the disabled, low-income children and their parents. The federal government covers over half of these costs.

State expenditures for medical care also rose. Yet despite double-digit medical inflation, Rhode Island's spending did not grow as fast as the state's economy or as fast as medical costs in neighboring states. This is thanks to the highly cost-effective RIte Care program, which provides managed care to low-income children and parents. RIte Care participants comprise 69% of the Medical Assistance caseload, but account for only 21% of program expenditures. Because of RIte Care, Rhode Island has the lowest percentage of uninsured children in the nation - an accomplishment of which Rhode Islanders should be proud.

**Education.** Education spending grew by 66% from FY93 to FY03 and local aid for education grew 92%. These increases were also a predictable consequence of state and federal legislation mandating improved school performance, including Rhode Island's passage in 1997 of Article 31, requiring significant improvements in student achievement.

**Child Care.** Much has been written about the growth in spending on subsidized child-care. In FY96, DHS spent \$15.9m on child-care. In FY04, it will spend \$82.4m. But enhanced funding for child-care and early childhood education were the expected and desired outcome of the Starting RIte program, enacted in 1998. State investments in child-care have made high-quality care affordable to low income families, allowing more parents to work. Because more parents are working, increases in state allocations for child-care were almost completely offset by decreases in state allocations for cash assistance. In FY04, the state's combined contribution for cash assistance and child-care was \$73.6m. In FY96, before welfare reform, it was approximately \$64m - an

increase in total state spending of less than \$10m over 8 years.

### **(3) Our means declined sharply, making it hard to live within them.**

It is difficult to live within one's means when one's means suffer frequent and severe cuts. Having made policy commitments to strengthen schools, health care and supports for working parents, state officials during the last decade then cut the tax base needed to support these policies. In the boom of the late 1990s, these cuts looked affordable, but today Rhode Island is feeling the impact of ill-advised revenue cuts. Over the past year, the Poverty Institute published two studies documenting drops in annual state revenue of nearly \$300 million. Phasing out the motor vehicle excise tax cost the state \$100m last year. Reductions in personal income tax rates cost another \$90m. The phase-out of the business inventory tax cost \$35m. Cuts in business taxes reduced revenues by anywhere from \$25m - \$85m (we don't know exactly how much, because the state doesn't keep close track).

### **(4) Rhode Island is not an island.**

The United States is in the midst of a fiscal crisis that has afflicted virtually every state government in the nation. Thirty states have thus far identified budget shortfalls for FY2005 totaling \$40 billion - representing on average 8% of state general fund expenditures. In a recent report, the National Association of State Budget Officers warned that instability in state revenues caused by a weak economy "can look like bad management" causing shortfalls to be corrected in a "crisis atmosphere." Recognizing that their fiscal positions are the product of national economic trends, many states have sought to protect valued programs from cuts by raising revenues. Neighboring states responded to budget deficits by closing corporate tax loopholes (NY, MA), raising personal income taxes (MA, CT, NY), increasing corporate tax rates (NJ, CT), and taxing sales of some services (CT). To ensure that the budget not be balanced at the expense of low and moderate income households, Rhode Island must not rule out similar actions.

### **(5) State fiscal decisions should be based upon sound policy, not alarmist rhetoric.**

The question of whether to raise revenues or cut programs should be aired in the public arena and debated based on the

policy consequences of program cuts. Do we want to support working parents, protect the health of our elders and children, improve the quality of our schools? If so, we must ensure we have the means to do these things.

**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.

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