

RHODE ISLAND AT A CROSSROADS

This year's budget could signal a major shift in the state's underlying principles

By **BRIAN C. JONES**

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Among the hundred young people at a recent State House rally was a 17-year-old high school student, who could find himself in one of two places — either in college or homeless — a year from now.

The young man, a senior at Providence's Central High School and a resident of a group home in the city, was part of an well-organized demonstration imploring the General Assembly to continue supporting children in state care after they turn 18.

Currently the age cutoff is 21. However, Governor Donald L. Carcieri has proposed dropping the limit to 18, which means that, starting this summer, 330 or more young adults could lose health-care, education, and housing subsidies.

For the aforementioned teenager, whose name isn't used here because of his age, the proposed changes mean his hopes of going to the University of Rhode Island are now uncertain.

More important, he told me, he has no idea where he'll be living as of November 23 — his next birthday. He has no family to go to; the Department of Children, Youth and Families removed him from his father's household several years ago when a school counselor learned he was being beaten, and the boy had bruises to prove it.

The Carcieri administration doesn't dispute that the current program is helping young adults. But cutting the cord early, along with some other DCYF changes, means saving \$17 million, which will help reduce a grave state deficit of about \$250 million. As the administration put it in explaining a range of social service cuts in the governor's 2008 budget, which takes effect in July, "It is clear that the state cannot sustain these programs as currently delivered."

On the surface, this is springtime as usual at the State House.

Almost every year, Rhode Island governors propose changes in programs, and those affected turn out in droves to fight the cuts, thereby lifting the veil on just how vital state services are to flesh-and-blood human beings.

This year, though, the dynamics seem different.

There's a better than even chance that the Democratic-controlled legislature will not reverse at least some of the Republican governor's budget cuts, as they have in previous years.

To some observers, this means more than a re-jiggering of programs. What's really at stake, they say, is Rhode Island's historic approach to solving wrenching social problems, especially those involving children.

"This may be the year in which we see real erosion of the liberal-progressive model that always has been a hallmark of Rhode Island," says Maureen F. Moakley, chairwoman of the political science department at the University of Rhode Island. (In *Rhode Island Politics and Government* [University of Nebraska Press, 2001], a definitive book on state government, Moakley quotes a former legislative leader as pledging not to take money away from poor children.)

"If these cuts go through, Rhode Island will be a less progressive state than in the past," agrees Darrell M. West, a Brown University political scientist who closely watches state politics and oversees a Rhode Island opinion poll. "Rhode Island has been a leader in protecting children, and these changes will make it more difficult for Rhode Island to be in that position."

As in the past, there's a muscular and political savvy coalition of progressive groups fighting many of the proposed cuts.

Robert A. Walsh Jr., executive director for the National Education Association- Rhode Island, a teachers' union, who also serves as spokesman for the labor confederation Working Rhode Island, says it's still too early to tell how the legislature will respond. "I can't imagine these programs aren't coming back," Walsh said of the DCYF programs. "I just can't conceive of the General Assembly allowing them to be destroyed."

But what Moakley, West, and others say is that many cuts may indeed take place with the forthcoming budget. So in addition to impacting thousands of lives, this could be the year that signals a major shift in state politics and in the underlying principles that shape them.

The hidden bite of tax cuts

Past budget battles have had a storybook quality to them. They begin when a Mean Governor threatens programs for the Littlest State's children. The kids and their friends go to the Marble Palace to plead for help from kindly but overwhelmed senators and representatives. Just when things look hopeless, the Good Budget Fairy flies in. With the wave of her felt-tipped pen, she corrects overly pessimistic revenue forecasts; drops bouquets of federal grants; or, with a puff of smoke, produces millions of unexpected tobacco dollars.

But this year, according to economists, government analysts, and other State House watchers, there's a new character — the Monster Structural Deficit.

In this new version, Rhode Island is faced with not one, but a continuing series of annual shortfalls, producing automatic deficits that get bigger every year.

Even before Carcieri administration budget-writers began drafting the new spending plan, it was \$243 million in the hole. A year ahead, the forecasted deficit jumps to almost \$380, sprinting to \$450 million in the year 2012.

One way to gauge the magnitude of these projected deficits is to compare them to state revenues. The 2008 structural deficit is equivalent to seven percent of state revenues; the one in five years is 12 percent.

One reason, obviously, is that the cost of government is going up. In many cases, it's rising faster than growth in the Rhode Island economy can put more money into the state hopper.

But the other reason — and this gets far less attention — is that a series of tax cuts, going back 10 or more years, mean that the state treasury has been collecting less money than would have been the case had the tax cuts not been enacted.

By some estimates, the total of these tax cuts is larger than the deficits. The liberal Poverty Institute at Rhode Island College's School of Social Work outlines the cumulative impact this way:

\$110 million will be "lost" this year from a series of state income tax cuts made during former Governor Lincoln Almond's administration in the late 1990s. • \$139 million from reducing taxes on cars.

- \$14.5 million from last year's rollback of income taxes to very wealthy Rhode Islanders.
- \$100 million for tax credits to spur historic building restoration and motion picture production.
- \$25 million for a phase-out of long-term capital gains taxes on investments such as stocks.
- \$38 million from elimination of a business inventory tax.

The total is more than \$426 million — about twice this year's structural deficit. The current budget crisis, in other words, has been created not just by rising costs, but also by implementing tax changes.

Carcieri — and the General Assembly, which initiated a lot of the tax cuts — didn't lower taxes just because people don't like them. There has been a growing conviction that high taxes drive people away from Rhode Island and deplete the lifeblood of the private economy. Whether the world really works that way is debatable. What is not in dispute is that many economists and policymakers believe it to be the case, including Republican Carcieri, and legislative Democrats.

And it's the legislature's outlook on tax-cutting that is a key factor in this year's budget discussion. Theoretically, Democrats, with overwhelming numbers in the General Assembly, write any spending-and-tax program they choose, and override any potential Carcieri veto.

Brown University's Darrell West says it's not out of the norm for a Republican such as Carcieri, a charismatic and accomplished communicator, to champion tax cuts. What's different now is how many Democrats, who in the past might have been associated with social programs, also worry about taxes. "What's really surprising over the last 10 years is that it's the Democratic legislature that has cut taxes," says West.

The support services for young people in state care are hardly the only cutbacks being contemplated by the state. The proposed list is long and complicated, and it includes eliminating child-care subsidies to 2400 working families; replacing some food service and janitorial employees with contract workers; cutting into already small child support payments that the state shares with welfare mothers; cutting pay for state workers; and reducing the population of the Adult Correctional Institutions.

Moakley, the URI political scientist, says one of the forces at work may be a change in the outlook of mainstream Rhode Islanders as the state economy has changed, with fewer voters identifying with the down-and-out.

"Up until the 1980s, we were in the bottom of per-capita income," Moakley says. "We really were a poor state, and that kind of body politic was very sympathetic with the social-welfare programs, because, 'we need them.' We now are a very prosperous state. We have more people doing better and [being] less concerned; there's less of a critical mass that demands social services."

The cost of cuts over time

It would be overstating the case to say that Democrats have lost interest in social issues, or that the progressive movement is without resources.

Even though it often portrays itself as an underdog, the movement is diverse and robust. And in recent years, it has approached State House lobbying with the same savvy it applies to solving intractable social problems.

The staff of the Poverty Institute, for example, includes economist Ellen Frank, who helps the Institute argue the facts and figures of government on a par with the long-respected and business-backed Rhode Island Public Expenditure Council.

Ocean State Action, a coalition of labor and community groups, works on a broad range of issues and is an organizer this year of a coalition called the Campaign for Rhode Island's Priorities; the George Wiley Center, led by ex-priest Henry Shelton, has spawned a host of activist organizations; Rhode Island Kids Count is a well-connected source of statistics and advocacy for children's issues. In recent years, these and many other groups have presented a unified agenda at State House as the One Rhode Island Coalition, just as sometimes head-butting labor unions cooperated under Working Rhode Island.

Still, the governor's budget-writing powers give him an automatic head start. When he proposes cutbacks, the legislature not only has to overwrite them, but find ways to make up for the savings that the governor uses to balance the budget.

Two of Carcieri's proposals demonstrate the difficulties involved.

One cutback would reduce subsidies to an estimated 2400 families for day-care.

Carcieri would limit eligibility to families earning less than \$25,800, instead of an upper limit of \$38,600. The Poverty Institute estimates it costs a family \$15,000 to send a toddler and a school-aged child to day-care, but a family earning \$31,000 now pays just \$2200.

In addition, the administration would put off a scheduled pay increase for day-care providers, and adjust provider rates, for an entire savings in daycare of about \$25 million.

Kate Brewster, the Poverty Institute's executive director, and others have argued that day-care

support has been a critical component of welfare reform dating back to the late 1990s. If parents were required to work and leave welfare, they say, the subsidies would enable safe and educationally progressive care.

There have been changes. Welfare enrollment has plummeted to an estimated 29,000 people, down from nearly 52,000 people. But with more parents in the workforce, the number of children in day-care has risen, from 6600 to 12,100.

Similarly, spending for cash payments to welfare families has fallen to \$60 million, from \$117 million in 1997; subsidies for child-care have jumped, from nearly \$19 million to \$74 million. The combined costs, \$134 million, are now slightly less than 10 years ago. Supporters of the higher limits say subsidies help keep parents in the workforce, or help them avoid substandard day-care arrangements that endanger their children and deprive them of the educational head starts they get now.

Meanwhile, the governor proposes to end many services to young adults who've been in the care of the state Department of Children, Youth and Families, when they reach age 18, for an estimated \$17 million savings.

Karen Malcolm, executive director of Ocean State Action, says the young people affected by the proposed cuts already have suffered the trauma of losing their own families. "Really, this is re-abandoning youth a second time," says Malcolm.

Lisa Guillette, executive director of the Rhode Island Foster Parents Association, says that in many cases, the children in question have no adults in their lives, other than those at DCYF and the organizations with which the agency contracts to provide services. "We are talking about a group of kids who don't have one constant adult role model in their lives" outside the state system, Guillette says. Further, it was the state itself that, for good reason, removed the children from their homes, she notes.

There are human and financial costs if the age limit is lowered, say those trying to avert the change. There is a chance that affected young adults won't have a place to live; won't continue in college or job training; will face increased risk of ending up in the criminal justice or mental health system; and may have children too soon and end up in the welfare system.

The 17-year-old I interviewed at the State House rally says his current plan after graduating from Central High School is to go to URI, and then to specialize in computer hardware.

If the state's cuts go forward, his backup plan is to cut costs by attending the Community College of Rhode Island for two years, switching to URI for the final two years. But the big stumbling block is not knowing where he might live. The youth has no family to turn to, and, at 17, no ready answer when asked where he'll end up if he has to leave the group home in Providence, which he describes as "almost like a family."

"It's a tough time for average kids," says Dr. Elizabeth E. Wheeler, director of child and adolescent programs at the Emma Pendleton Bradley Hospital in East Providence, the psychiatric hospital for children. "Lots of kids get in trouble, even high-achieving kids in college," Wheeler says, noting that children in the state's care are especially vulnerable and that some are not ready to "be shoved out of the nest."

"It's going to be a challenge," DCYF Director Patricia Martinez says in an interview with the Phoenix. "That's why, if it were not for the fiscal crisis, we wouldn't be doing this."

Where push comes to shove

The seriousness of the cuts — and that the administration argues not that the programs don't work, only that they cost too much — puts the other cause of the deficit, the tax cuts, into play.

The Campaign for Rhode Island Priorities has proposed some tax changes, including a partial restoration of the capital gains cut, closing corporate "loopholes," broadening the sales tax, and freezing the income tax changes for wealthy taxpayers.

Democrats, accused nationally and locally of being the "tax-and-spend" party, are said to be

considering many options, but so far they haven't appeared to adopt the Priorities campaign's agenda.

"I don't sense any great appeal being made to the Democratic leadership for tax increases," says state Democratic Party chairman Bill Lynch. "People don't want to cut back on their commitment to close out the motor vehicle tax that hurts people across the board. There are a lot of tax issues to be addressed to try to help people. But that, correspondingly, provides less money for other areas. It's going to be a very difficult budget process."

At the same time, Lynch says the stories told to the House Finance Committee, and to reporters, by young adults in DCYF care are "compelling."

"Clearly, there are some proposed cuts resulting from the governor's budget that are just not acceptable, even in a bad budget year," Lynch says. He says that legislators may be looking at changes not yet raised by the governor.

Senator M. Teresa Paiva Weed, the Democratic Senate majority leader from Newport, has been a strong proponent of child-care subsidies. "It would be devastating to working families if we broke the promise" to provide daycare, Paiva Weed says. Overall, she estimated that a disproportionate 59 percent of the administration's cuts are aimed at human services.

"I think we need to look at all of state government. But once again, it shouldn't favor human services or business," Paiva Weed says. "It needs to be a balanced approach."

Whatever the resolution of this year's struggle over the budget, it doesn't appear that the underlying structural deficits will be reordered — something that would take a major overhaul of state government, as well as the tax structure.

So next year, in other words, may be worse.

By Brian Jones