

State spending \$2.5 billion more now than a decade ago

01:00 AM EDT on Saturday, May 19, 2007

By Steve Peoples

Journal State House Bureau

PROVIDENCE — Frank Beazley is not unique this legislative session.

The handicapped resident of the state-run Zambarano Hospital is among a horde of social service advocates to make the pilgrimage to Smith Hill in recent months looking for money.

They have chanted for expanded health coverage for poor children and better services for the homeless. And they have waved signs blasting cuts to state-subsidized childcare coverage and the elimination of health-care benefits for former foster children.

But like many advocates, Beazley is painfully aware of the budget hole that will make it difficult, if not impossible, for Governor Carcieri or lawmakers to accommodate their requests this year.

State officials had predicted a \$360-million budget deficit for 2007 and 2008.

They have worked to narrow this year's gap, but were shocked last week when revenue estimators projected a deficit exceeding \$300 million for Fiscal Year 2008, which begins in less than two months. It was \$90 million worse than expected.

In a State House rally against hospital privatization earlier in the week, Beazley sat in his wheelchair among the marble columns pondering the crisis. He didn't understand how it could have happened.

"We have to find out just where all this money is going," he wondered aloud.

An analysis of state spending suggests there is an answer to Beazley's question.

"The bottom line is the growth in state spending has been exceeding the growth in the state's economy," said Gary Sasse, who leads the Rhode Island Public Expenditure Council, a business-backed economic-policy organization. "That's the answer."

And the state for too long has used one-time revenue fixes such as the tobacco settlement and asset sales to mask the problem, Sasse said. When one of those "one timers" failed to come through this year (a \$100-million insurance settlement from American International Group), the structural deficit was finally exposed.

While he acknowledges his explanation may be oversimplified, an analysis of state spending over the last 10 years shows that spending increases have outpaced inflation (29.5 percent) and personal income growth (59.6 percent).

Overall, the State of Rhode Island spent \$4.53 billion in 1998, a figure that includes federal money and is adjusted for inflation. The governor has outlined a conservative spending plan for 2008 that will cost taxpayers \$7.02 billion — an increase of 54.8 percent over the last decade.

The governor's office largely blames the General Assembly for the current fiscal crisis.

“Year after year, the governor has proposed reforms designed to bring state spending into line with underlying revenues. Year after year, defenders of the status quo hold rally after rally at the State House to condemn the governor's budget plans. Year after year, the General Assembly acquiesces to the demands of the unions and the advocates. And year after year, because we haven't made the tough decisions, the budget deficit grows bigger and bigger,” Carcieri spokesman Jeff Neal said.

Senate Majority Leader M. Teresa Paiva Weed, D-Newport, dismissed the criticism.

“That's a simplistic approach,” she said. “No comment.”

State spending is broken down by three primary categories, according to RIPEC's analysis. The largest percentage (40.7 percent) in Carcieri's 2008 spending plan includes entitlement programs such as cash assistance, RIte Care, childcare subsidies, and medical spending for the elderly and disabled.

That is followed by personnel costs, which consume 32.3 percent of the proposed 2008 budget.

Personnel cost increases over the last decade have been driven largely by retirement costs and medical benefits. The governor's budget office is projecting fewer employees on the state payroll in 2008 than in 1998 (not including the use of independent staffing firms). But retirement costs will have ballooned from \$64.6 million to \$166.1 million. Similarly, medical coverage will rise from \$75.3 million to a projected \$186.4 million.

The last budget category consists of state aid to cities and towns, which takes up 18.7 percent of the proposed 2008 budget.

The category is the only one of the three to consume a larger percentage of state spending in 2008 than in 1998, according to RIPEC. The increase is largely driven by a \$288.8-million boost in local education aid aimed at shifting the tax burden away from municipalities, according to Senate fiscal adviser Russell C. Dannecker.

And while each of the categories have seen multimillion-dollar increases over the last decade ranging from 43 to 54 percent, entitlement programs are routinely targeted for cuts because they make up the largest share of state spending. This year is no exception.

“The problem the governor has and the problem the legislature has is that you can't ignore 40 percent of the budget,” Sasse said.

Ellen Frank, chief economist for Rhode Island College's Poverty Institute, sees the motivation to cut entitlements a different way. "The weakest players tend to be targeted in bad budget years," she said.

The governor has proposed cutting state benefits to 18- to 21-year-old foster children. More than 900 youth would lose subsidized housing and health-care benefits. Further, the governor has proposed tightening eligibility for state-subsidized childcare from 225 percent to 150 percent of the federal poverty line. The change would eliminate childcare coverage for any family of three making more than \$25,755.

The majority of entitlement costs, however, are not driven by such programs, Frank said. "The biggest chunk is elders and people with chronic health care."

The governor's budget office projects costs for elderly and disabled assistance at \$815.7 million next year. Spending for managed-care programs such as RIte care, the health insurance program for poor children and their families, will cost \$555.7 million.

Some entitlement programs have seen spending declines in recent years. The Federal Independence Program, commonly referred to as welfare, is down more than \$100 million over the last 10 years.

Sluggish state revenues haven't helped the situation.

Projections for 2008 revenues from sales tax, income tax and lottery receipts will exceed 2007 totals, but just barely.

Paiva Weed acknowledged that recent moves to institute the alternative flat tax for the wealthy and phase out the capital gains tax and motor vehicle tax have been a factor.

"I believe that it's a difficult economy, and we have in a difficult economy been doing our best to meet our commitments to provide property tax relief and income tax relief," she said. "To meet those commitments will require us to examine spending as well."

She said she's backing off a plan she introduced this session to expand RIte Care eligibility to cover more uninsured children.

"I mean, \$90 million!" she exclaimed, referring to the revelation of the latest budget hole. "We need \$90 million."

"The bottom line is the growth in state spending has been exceeding the growth in the state's economy." Gary Sasse, Rhode Island Public Expenditure Council.