

## 10 Things Rhode Islander's Need to Know About the Ocean State's Fiscal Crisis

### 1. Rhode Island is not alone in facing a budget deficit.

As of February 2008, 21 other states have reported projected deficits in 2009 and another 7 states expect a shortfall in 2010, according to the Center on Budget and Policy Priorities. Analysts expect more states to experience fiscal pressures as the national economy slows. In New England, Maine, New Hampshire, Vermont and Massachusetts are projecting budget gaps in 2009 and Connecticut is expecting a budget gap in 2010.

### 2. Rhode Island's problems are due in great part to the slowing national economy.

Tax collections were coming in well below projections in FY2008, due to a slowing national economy, caused by problems in the housing market and rising oil prices. In its testimony to the November Revenue Estimating Committee, Moody's deemed a national recession very probable based on information that has since grown worse.

### 3. Overall, Rhode Island is not a high tax state. The state ranks 17<sup>th</sup> in total state and local revenues collected.

Data from the US Census and the Bureau of Economic Analysis show that while Rhode Island ranks 7<sup>th</sup> in overall taxes, the property tax is what drives our ranking up. Rhode Island ranks 5<sup>th</sup> in property tax collections as a percentage of state personal income. However, most of Rhode Island's other taxes are in line with or below other states. Here is how Rhode Island ranks nationally in terms of revenues as a percent of personal income.

All own-source revenue	17
All taxes	7
Personal income taxes	20
Corporate income taxes	33
Sales taxes	37
Property taxes	5
All other taxes	48
Fees and charges	44

### 4. Recent tax cuts have exacerbated the state's fiscal difficulties.

Recent cuts to the capital gains tax rate and the income tax rate for high-income taxpayers will cost the state \$62 million in forgone revenue this coming fiscal year. This represents sixteen percent (16%) of the \$384 million shortfall projected in Fiscal Year 2009.

### 5. Rhode Island loses hundreds of millions of dollars in revenue each year through "tax expenditures".

In 2007, Rhode Island "spent" at least \$1.3 billion in forgone revenue through tax breaks, incentives, preferential treatment, and deductions. Many of these expenditures receive wide support, like mortgage interest and property tax deductions, and sales tax exemptions for food and clothing. However, there are many other expenditures that were enacted in the name of economic development about which the state knows neither the cost nor whether the expenditure has produced intended outcomes. In fact, the cost of 55% of all listed tax expenditures are unknown.

Of those costs that are known, examples of tax expenditures that have been particularly costly include:

Historic preservation tax credit = \$440 million since 2002

Motion picture tax credit = \$40 million since 2005

Investment tax credit and other economic development incentives where costs – but not benefits - are known = \$25 million in 2006.

**6. Revenues from the sales tax, the state's second largest source of revenue, are eroding as consumers buy services rather than goods.**

Over the past decades, the percentage of consumer dollars used to buy services rather than goods has increased substantially. According to the Center on Budget and Policy Priorities, in 2002, almost 60% of consumer spending purchased services, compared to only 44% in 1969. As the service sector becomes more important in consumer budgets, sales taxes, such as Rhode Island's that apply mostly to goods, are in danger of being seriously eroded.

The Center on Budget and Policy Priorities estimates that RI taxes only one "readily taxable" household service – cable TV – compared to an average of 15 services in other states. Rhode Island could raise millions in revenue by expanding its sales tax to include services.

**7. "Welfare" is not the cause of the state's budget problems.**

State spending on cash assistance and child care will total \$26m this year – a 49% decline from 2007 and only 0.7% of the state's general fund spending. Spending on cash assistance alone has declined by 77% since 1997; today the state spends only \$16 million on cash assistance, and caseloads have declined by fifty percent.

**8. RI is not a welfare magnet and does not offer generous welfare benefits.**

A comparison of the income eligibility criteria for the major work support programs across the New England states shows that Rhode Island is in line with its counterparts, not more generous. Rhode Island's cash assistance benefits and eligibility for children's health insurance are both second lowest in New England. In addition, Rhode Island now has the lowest eligibility limit for child care assistance as a result of the roll-back of eligibility enacted in the FY 2008 budget. When it comes to eligibility for health insurance coverage for parents and supplemental cash assistance benefits for very poor working families, Rhode Island does have higher limits than most other states, but it is clearly not an outlier.

**9. Rising health care costs are a major strain on state budgets across the country.**

Health care spending on state employees, the elderly, people with disabilities and low-income working families accounts for nearly one-third of Rhode Island's general fund spending. The National Governor's Association has cited health spending as a major challenge for state budgets. Until there is a national solution to the health care crisis, states will continue to struggle to meet the rising cost of providing health care to their employees and poorest residents.

**10. There is no evidence the wealthy are fleeing the state and taking tax revenue with them.**

The number of Rhode Islanders reporting incomes of \$200,000 and more nearly doubled from 1997-2004. Massachusetts actually saw a decline in affluent households and Connecticut experienced gains of only 5%. In addition the average income of the top 1% rose faster in Rhode Island than in Massachusetts and Connecticut.