



## FY 2006 Budget Wrap-Up

### I. Governor's Budget

At the beginning of 2005, the state faced a potential deficit of \$164 million for FY06, representing 6.0 percent of the General Fund.

Governor Carcieri submitted a FY06 budget of \$6.255 billion. To balance the budget, the Governor recommended \$89 million in revenue enhancements, numerous cuts to social service programs, lower-than inflation increases in local education aid and a change in pension rules for state employees not yet vested in the system which would save \$44 million.

<b>Expenditures by Fund:</b>	<b>Governor's FY06 Budget (\$millions)</b>	<b>Percent Change from FY05 Revised</b>
General Revenue	3,069.5	3.6 %
Federal Funds	1,966.5	1.7 %
Other/Restricted	1,208.9	3.2 %
<b>Total Expenditures</b>	<b>6,254.9</b>	<b>2.9 %</b>

Among the Governor's most significant budgetary proposals affecting low and moderate income Rhode Islanders in FY 2006:

#### 1. Expenditures

<b>Proposal</b>	<b>Increase in spending</b>
Increase aid to local education authorities by 2.4 percent	+\$12.5 m
Increase property tax rebates for low-income seniors	+ \$ 4.0 m
Increase general revenue funding for Adult Basic Education	+\$ 2.6 m
Increase funding for local aid by only 0.7 percent	+\$ 1.5 m

<b>Proposal</b>	<b>Decrease in spending</b>
Establish pharmaceutical formulary for Medicaid recipients and claim rebates from drug manufacturers	-\$ 2.9 m
Increase co-pays for families using state-subsidized child-care	-\$ 1.4 m
Restructure Rite Care coverage for child-care providers	-\$ 1.2 m

Impose full family sanction for FIP recipients after 12 months	-\$ 1.1 m
Delay initial FIP check to new applicants until employment plan is signed	-\$ 1.0 m
Transition children from Rite Care to non-custodial parent's health care plan	- \$ 0.8 m
Postpone by six months a scheduled rate increase for child-care providers	-\$ 0.7 m
Establish co-pays for Katie Beckett families in Medicaid program	-\$ 0.3 m

In addition, the Governor proposed to issue \$5 million in bonds in FY 2006 for the Neighborhood Opportunities Program.

## 2. Revenues

The Governor's budget proposed \$89.3 million in revenue enhancements, of which \$64 million would result from continuing the Hospital Licensing Fee at 3.45 percent in FY06. Among the revenue changes proposed:

<b>Proposal</b>	<b>Increase in Revenue</b>
Continue the 3.45 percent Hospital Licensing fee in FY2006	\$64.0 m
Step up collection efforts for court fees and fines	\$ 7.7 m
Remove insurance premium tax exemption for Beacon Mutual	\$ 3.0 m
Require merchants to pay cigarettes taxes up front	\$ 1.9 m
Increase various Department of Motor Vehicle license and registration fees	\$ 1.5 m
Repeal ISO certification tax credit	\$ 0.5 m

## 3. Economic Development

As part of his economic development strategy, the Governor proposed \$54 million in new bond financing for the Economic Development Corporation, most of it to for Quonset/Davisville. Governor Carcieri also called for substantial increases in tuition at the state's public colleges – 8.5 percent at Rhode Island College, 8.9 percent at the University of Rhode Island and 8.8 percent at the Community College of Rhode Island.

The Governor also recommended allocating \$100,000 for the EDC to hire a consultant to research state tax policy.

## II. Enacted House Budget

The May Revenue Estimating conference increased net available revenue estimates for FY06 by \$44.9m, allowing the General Assembly more leeway in adopting its own \$6.35 billion budget, a 4.5 percent increase over revised FY05 spending. This budget was approved by the House and Senate and signed by the Governor.

<b>Expenditures by Fund</b>	<b>Enacted FY06 Budget (\$millions)</b>	<b>Increase (+)/Decrease from Governor (\$millions)</b>
General Revenue	3,142.1	+ 72.5
Federal Funds	1,979.5	+ 13.0
Other/Restricted	1,228.3	+ 9.5
<b>Total Expenditures</b>	<b>6,349.9</b>	<b>+ 95.0</b>

### 1. Expenditures

<b>Budget Item</b>	<b>Change to Governor's Budget (\$millions)</b>
Added aid to local school operations.	+ 62.0
Increased general revenue sharing to local communities	+ 11.9
Increased exemption from Motor Vehicle Excise tax from \$4500 to \$5000	+ 7.2
Increased aid to distressed communities	+ 1.4
Rejected increase in co-pays for families with children in state-subsidized child care.	+ 1.4
Added local aid in lieu of tax exempt property.	+ 1.0
Rejected proposal to require new FIP applicants to sign work plan before receiving benefits.	+ 1.0
Rejected full family sanction for FIP families at 12 months, but enacted full family sanction at 18 months.	+ 0.5
Rejected Medicaid co-pays for Katie Beckett families	+ 0.3
Allocated funds for a legislative study of education foundation spending.	+ 0.15
Provided general funds for food stamp outreach.	+ 0.1
Eliminated monthly Rite Care premiums for pregnant women and babies.	+ 0.02
Accepted proposal to delay increase in child-care provider reimbursement rates by six months.	-
Accepted proposal to restructure Rite Care for child-care providers.	-
Accepted Governor's proposed changes to the state pension program.	-

Accepted Governor's proposal to restructure and increase state funding for adult literacy programs.	-
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The General Assembly also authorized an additional \$2.5 million in borrowing for the Neighborhood Opportunities Program over the Governor's recommended \$5 million, for a total allocation of \$7.5 million in FY06.

## 2. Revenues

Revenue Item	Change to Governor's Budget (\$millions)
Increased hospital licensing fee to 3.56 percent	+ 6.8
Increased fees for the Historic Preservation Tax credit from a sliding scale of \$500 - \$2000 to 2.25 percent of project costs.	+ 3.6
Increased tax on smokeless tobacco products from 30 percent to 40 percent.	+ 0.7
Accepted proposed repeal of the ISO certification tax credit	-
Accepted proposed pre-payment of the cigarette tax by sellers	-
Accepted proposed increases in DMV fees	-
Accepted proposed enhancement of collection efforts of court fees and fines	-
Amended the distribution of the gasoline tax to reduce the share going to the general fund by 1.0 cent. This money would instead go to RIPTA.	- 4.8
Rejected proposal to eliminate tax exemption for Beacon Mutual Insurance	- 3.0
Increased the refundable portion of the state EITC from 5 to 10 percent	- 1.2

## 3. Economic Development

The General Assembly adopted the Governor's capital spending recommendations for the Economic Development Corporation. In addition, they approved \$90.5 million in bonds to purchase and the Dunkin Donuts Convention Center from the City of Providence and do renovations. Also approved were the Governor's proposed tuition hikes at state colleges.

The General Assembly allocated \$100,000 to assess the cost and technology needs of a state tax policy office.

In May 2005, the House and Senate leadership introduced the Jobs Growth Act, which would exempt 50 percent of performance-related pay such as bonuses and stock options from the personal income tax and require the eligible employee's employer to reimburse

the state for lost revenues by paying additional corporate income tax. To be eligible for this very generous tax break, employees' companies must add 100 new jobs in Rhode Island or \$10 million in new payroll, paying on average 125 percent of the state's average salary of \$46,101. The final legislation, which was enacted and signed by the Governor, was amended to require that qualifying companies must add 100 new jobs *and* \$10 million in payroll and that the jobs must pay a *minimum* 125 percent of the state's average wage.

### **III. Assessment**

#### **1. Investments in Programs for Low and Moderate Income Rhode Islanders**

In January 2005, One Rhode Island developed a platform of enhancements to programs that help low and moderate income Rhode Islanders meet basic needs, at a cost of \$12.3 million to the FY06 general fund. In response to the Governor's budget, One Rhode Island added to its platform a "Do No Harm" agenda, opposing further cuts to child care, Rite Care and the Family Independence Program.

The legislature passed several of the One Rhode Island recommendations and rejected or moderated some of the Governor's proposed cuts.

***Housing.*** The Governor proposed \$5m for the Neighborhood Opportunities Program to provide affordable housing. The legislature added a further \$2.5 million, for a total of \$7.5 million in borrowing during FY06.

The Governor recommended a \$4 million increase in funding for property tax relief from \$6 million to \$10 million, but proposed restricting eligibility to low-income seniors and disabled taxpayers. The General Assembly concurred, but retained eligibility for all low-income taxpayers. The General Assembly also included in the budget \$300,000 for the Supportive Services Program.

***Health Care.*** The General Assembly eliminated premiums for pregnant women and infants under age one, as advocated by One Rhode Island and rejected the Governor's proposed co-pays for Katie Beckett families.

***Family Independence Program.*** The legislature agreed to impose full-family sanctions on FIP recipients after 18 months of failure to comply with an employment plan – not 12 months as the Governor requested. The Governor's proposal to require new applicants to sign an employment program was rejected.

***Income Supports.*** As advocated by One Rhode Island, the refundable portion of the state EITC was doubled from 5 to 10 percent (equivalent 3.0 percent of the federal EITC).

***Food Security.*** The legislature also responded to the One Rhode Island request for funding for food stamp outreach, allocating \$100,000.

***Child Care.*** The enacted budget delays increases in reimbursement rates for providers by six months and restructures Rite Care fees for providers -- increasing the threshold for Rite Care eligibility, imposing an income cap and requiring co-payments. The General Assembly rejected the Governor's recommended increase in co-payments for participating families, but failed to enact the One Rhode Island proposal to increase the income eligibility limit for the program.

***Adult Education.*** Both the Governor and legislature concurred in restructuring and increasing state funding for adult literacy programs. However, tuitions at state colleges were increased substantially. The General Assembly also rejected One Rhode Island's request that FIP recipients after the 24<sup>th</sup> month be allowed to count 10 hours of education and training toward the 30 hour work requirement.

## **2. Revenues**

While no substantial tax initiatives were put forth in 2005, fees for the General Assembly enacted a number of licensing and fee increases that will disproportionately impact low income residents, including an increase in fees for first-time drivers, an increase in the fee for transferring out-of-state licenses and increases in the cost of duplicate licenses and registrations.

The General Assembly enacted and the Governor signed the Jobs Growth Act. While the final legislation set higher job quality standards than the initial bill, the legislation establishes a worrisome precedent of substantially reducing personal income taxes for highly-compensated executives as an economic development strategy.

The General Assembly also allocated funds for the creation of a tax policy function in state government, without specifying how this function would be carried out or how the initial funds would be spent. In September, the Governor announced his intention to use the funding to create an Office of Tax Research and Analysis in the Department of Administration. While this office might become a useful source of data and analysis, its lack of independence bears continued monitoring.

A bill restricting businesses' ability to avoid state taxes through the use of passive investment companies did not come before the General Assembly for a vote. If enacted, this bill would have raised approximately \$8 million.

The legislature also passed, and the Governor signed into law, a measure increasing from \$4500 to \$5000 the value of vehicles exempt from local excise taxes. This poorly-targeted tax cut will cost the state \$7.2 million annually to provide an annual tax cut ranging from \$5 in Central Falls to \$38 in Providence.