

From the Providence Journal

Deficit to require 'dramatic' actions

01:00 AM EST on Tuesday, November 11, 2008

By STEVE PEOPLES

Journal State House Bureau

PROVIDENCE — State leaders learned yesterday that Rhode Island is facing a gaping budget hole of \$372 million for the current year, its largest mid-year deficit in nearly 20 years.

The bleak news probably sets the stage for rounds of painful budget cuts likely to affect everyone who pays property taxes, enjoys state beaches, depends on subsidized health insurance or works for the state. Adding to the dismal financial forecast, the House fiscal office also projected a deficit of “about \$450 million” for the budget year that begins next July, although that figure may change substantially in the coming days.

Immediately after budget officials finalized the numbers, Governor Carcieri issued an ominous warning. “We expected revenues to be down due to the current economic climate, but we did not anticipate the shortfall would be this great,” he said in a statement. “The gravity of the situation is going to require more dramatic steps.”

Just five months ago, state leaders adopted policies that slashed the size of the state’s work force, cut thousands of people from health insurance programs for the poor and scooped millions of dollars from state aid to cities and towns.

That, apparently, was just the beginning.

Carcieri said new “areas of focus” would include “a reduction to local aid, state pensions, review of all state contracts and assets, program reductions and a revision of revenue policies.”

The governor’s office would not be more specific. Carcieri plans to meet with legislative leaders next week to address the situation.

“It’s very grim,” said Steven Costantino, chairman of the House Finance Committee and architect of the budget cuts that helped close last year’s massive budget shortfall. “The enormity of this problem is going to take tremendous cooperation. It’s going to take a lot of work from this moment on.”

Several state leaders suggested yesterday that Rhode Island’s part-time legislature may have to return before its scheduled January start date.

“The state is spending \$1 million more than it takes in each day,” said General Treasurer Frank T. Caprio. “We don’t have the luxury of waiting until tomorrow; the work must start now with a special session.”

The leaders of the House and Senate — many of whom hadn’t been briefed on the severity of the state’s financial situation last night — would not immediately commit to a special legislative session. But interest groups reacted swiftly.

“There are several communities right now that are teetering on the edge,” said Dan Beardsley, head of the Rhode Island League of Cities and Towns. “Local aid didn’t create the state’s budget problem. Overspending and generous tax cuts did.”

A frustrated Beardsley said more cuts may force cash-strapped municipalities to embrace a proposal to consolidate all state school districts.

“There’s more and more sentiment on behalf of cities and towns for the state to take over public education,” he said. “Let them create one district, five districts, whatever they want to do.”

The head of the Rhode Island Public Expenditure Council, John Simmons, encouraged lawmakers to avoid tax increases. He suggested the state examine “non-tax solutions” such as raising fees on things like car registrations, state beach passes and fishing licenses.

Yesterday’s news did not come as a complete surprise.

The Ocean State was the first to enter economic recession last year, and economists predicted last week that its struggles would not end soon. Rhode Island had the highest unemployment rate in the nation last month.

The state’s largest revenue sources — income, sales and business taxes — are dependent on the health of the economy.

“I’m not sure this is structural,” Costantino said of the deficits. “It’s the economy.”

Indeed, Rhode Island’s top four revenue sources will fail to meet expectations set last May, according to projections finalized at yesterday’s Revenue Estimating Conference by the governor’s budget officer and the heads of the legislative fiscal offices.

Personal income tax collections are expected to fall \$113 million, or nearly 6 percent from the previous year; business corporation tax revenues will decline \$53 million, or 29 percent; sales tax collections will dip by \$32 million, or 1 percent; and the state lottery revenues will fall \$16 million, or 1.5 percent.

All told, revenues are down \$233.6 million from what was anticipated in the state budget. But the size of this year’s hole is significantly larger, according to the governor’s budget office, which acknowledged other factors.

Specifically, health insurance programs for the poor, elderly and disabled will cost \$36 million more than expected; the state will have to return \$37.4 million borrowed from the rainy day fund to make up the unexpected fiscal 2008 shortfall; and taxpayers will contribute \$10 million to the Station nightclub fire settlement fund.

The governor’s office also noted “\$18.7 million for changes in federal reimbursements” to the Department of Children, Youth and Families and “\$37 million in other projected spending,” but could not immediately offer specifics.

Carcieri suggested that dramatic changes are needed.

“For too long, the state has promised more to its residents than the revenue system can provide. These structural deficiencies are only exacerbated by economic downturns, placing the state in its current position,” he said. “We simply cannot afford to wait to address our economic situation. Now is the time for everyone to work together, and may require the General Assembly to take immediate action.”