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Details of new state budget seep out

01:00 AM EDT on Wednesday, June 17, 2009

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From left, state representatives Rene Menard, Gordon Fox, Steven Costantino and Helio Melo meet in the House lounge at the State House on Tuesday.

PROVIDENCE — The [General Assembly](#) on Wednesday is expected to unveil a state budget that hikes Rhode Island's gasoline tax, tightens pension rules for state workers and teachers and eliminates certain tax breaks for high earners.

But the legislature's spending plan for the coming year — still under negotiation as of late Tuesday night — may also restore looming budget cuts aimed at poor seniors on prescription drugs, pregnant women on subsidized health care and thousands of low-income parents on taxpayer-funded dental coverage.

Lawmakers briefed on preliminary budget decisions Tuesday disclosed pieces of the Assembly's likely answer to state government's largest budget deficit in decades. Elected officials are faced with closing a hole estimated at \$590 million, or roughly 19 percent of state spending, for the fiscal year that begins in two weeks.

"Obviously, everything is still fluid," said Senate Finance Committee Chairman Daniel DaPonte. But "the gas tax has to be part of the equation."

Indeed, the Assembly's plan — scheduled for release Wednesday afternoon by the House Finance Committee following weeks of negotiations — will likely include a modest gas-tax increase, according to several legislators.

"They put two cents on gasoline for RIPTA," Providence Rep. Thomas C. Slater reported.

Fellow Finance Committee member John Savage, R-East Providence, also said he was told the gas tax will go up “a few cents.”

“The gas increase is only coming about because we are trying to help [the Rhode Island Public Transit Authority]; it will be an increase designated to alleviate their budgetary problems,” Savage said.

A similar proposal was shot down earlier in the year following a barrage of criticism from local convenience store owners and Smith Hill’s tiny Republican minority.

But the tax changes expected Wednesday afternoon extend beyond gasoline.

Lawmakers are expected to eliminate Rhode Island’s preferential treatment of capital gains, according to another Finance Committee member, Elizabeth M. Dennigan, D-East Providence, referring to the break for taxpayers who profit from the sale of stocks, bonds and other such investments.

The plan, Dennigan said, would tax capital gains as ordinary income. The move could generate \$49 million each year by capturing lost tax revenue, according to a study released earlier in the year by the Institute on Taxation and Economic Policy.

While there has been intense lobbying to cut another tax break for high earners, Rhode Island’s flat tax alternative, lawmakers have no plans to do so, according to Dennigan.

The Assembly has debated whether to do away with the flat tax altogether or to freeze the current rate at 7 percent, proposals that would generate tax revenue of \$34.7 million or \$12.2 million for the coming year, according to analyses by the governor’s budget office.

Neither proposal was included in yesterday’s briefing to committee members, Dennigan said, adding that pressure from the Assembly’s rank-and-file could force leadership to amend the current plans.

[Governor Carcieri](#) has consistently warned Democratic legislators against rolling back the tax breaks enacted in recent years. And despite massive budget deficits, he pushed for new tax cuts.

The Assembly appears to have ignored those arguments, according to fellow Finance Committee member Laurence W. Ehrhardt, R-North Kingstown; the state budget excludes the governor’s proposal to eliminate Rhode Island’s corporate income tax or raise the value of estates subject to Rhode Island’s estate tax.

“I’m not hearing any encouraging news on that,” Ehrhardt said. “That’s the big disappointment.”

But Ehrhardt said that things could have been worse. The capital gains change, he said, “may be a lesser of several evils.”

Meanwhile, Senate leaders have sketched the likely shape of a pension-cutting package aimed at shaving anywhere from \$45 million to \$60 million off the taxpayers’ share of the annual cost for the retirement benefits given state employees and public school teachers.

All but the newest state workers can retire and start collecting a pension at any age now after 28 years of work, and get guaranteed 3-percent compounded annual increases, according to information released in a briefing for labor leaders late last week.

As of Friday, Sen. Frank Ciccone, who doubles as a field agent for the Rhode Island Laborers District Council, said the plan was “still fluid,” but included a new minimum retirement age of 62 for all but the longest-serving state workers. For them, the minimum age would vary depending on how close they were to qualifying for retirement.

In the future, cost-of-living increases for retirees would be tied to the consumer price index, with 3 percent the cap, not the guarantee.

Ciccone said even among the labor leaders, “everyone understands there has to be some reform.”

While there will be losers in the Assembly's budget plans, there will also be winners.

"Overall, we'll see that many of the programs the governor cut have been restored," Dennigan said, specifically citing the state's prescription drug program for the elderly known as RIPAE, funding for nursing homes, money for the developmentally disabled, dental coverage for low-income adults and children's breakfast programs.

Further, Slater noted that plans cut 7,800 people — including 5,000 children — from the state's welfare rolls in two weeks have been delayed, although he couldn't say for how long.

And cities and towns, which depend on the state for more than \$1 billion each year, may not lose as much state funding as they feared.

Several Finance Committee members said they expect to cut \$55 million in general revenue sharing, as the governor had proposed, but no more.

"That's a relief," said Dan Beardsley, executive director of the Rhode Island League of Cities and Towns. "That's not unexpected. It's the unexpected that causes havoc."

House Finance Committee Chairman Steven M. Costantino declined to confirm any details when asked, noting that negotiations were ongoing.

The Finance Committee is scheduled to meet Wednesday at 1 p.m. in State House room 35.

Once voted out of the Finance Committee, House rules require a seven-day waiting period before the full House is allowed to vote on the plan. The Senate, with no such rules, could vote on the plan the following day.

With reports from Katherine Gregg

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