Providence Journal

Opinion/Flum: How to cover Rhode Island's revenue shortfall

By Rachel Flum

Posted Sep 8, 2020 at 4:39 PM

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The COVID-19 pandemic has created an economic crisis across the nation. Here in the Ocean State, we face an estimated revenue shortfall of at least $617.7 million for the fiscal year ending in 2021.

We hear that cutting spending will be necessary to put our economy back on track. This is a bad idea for at least two reasons: First, cuts will disproportionately harm Black and Latinx communities, which have been hit hardest by both the public health and financial crises of COVID-19. Second, evidence from the Great Recession a decade ago shows that where states made severe cuts, the economy slowed and emergence from recession took longer.

It is possible to find hundreds of millions of dollars without slashing services and pushing more people into unemployment. Here are a few ways to do it.

A modest increase on the marginal income tax rate for the top 1% of taxpayers would raise significant revenue. Legislation introduced by Sen. William J. Conley Jr. and Rep. Karen Alzate would raise an estimated $128.2 million by increasing the top marginal personal income tax rate from 5.99% to 8.99% on taxable income above $475,000. This would impact 5,000 taxpayers. These residents currently pay 7.9% of income in total taxes (sales, property, income), compared to middle-income Rhode Islanders who pay 9.5%, and the lowest 20%, who pay 12.1%. Moreover, these Rhode Islanders have benefited disproportionately from lower federal tax rates on capital gains income, as well as two decades of federal and state tax breaks.

In FY2020, the General Assembly withdrew $120 million from the Budget Reserve and Cash Stabilization Account, also known as the rainy day fund. Current law requires the Assembly to pay this same amount into the Rhode Island Capital Plan fund during FY2021. A decade ago, the Assembly delayed repayment by a year. It ought to do so again this year, keeping the $120 million in the budget.

Another means of preserving revenue is to freeze the car tax phaseout. For FY2020, the reimbursement from the state to local governments surpassed $80 million. The cost will pass

$100 million in FY2021 and be nearly a quarter-billion dollars annually once the phaseout is complete.

There is also federal assistance that the state will capture, even without additional federal funding. The federal COVID-19 emergency declaration has been extended into October, giving states an increased FMAP (Federal Medical Assistance Percentage) rate for federal matching Medicaid dollars through the end of 2020. Rhode Island gets an estimated $83.2 million for the first half of FY2021 and will continue to get the increase for another quarter if the emergency declaration continues a single day into 2021.

Additionally, Rhode Island received $1.25 billion in aid through the CARES Act for state expenditures on COVID-related needs in public health, public safety and education. These expenditures have continued into FY2021 and enough funds remain from the aid to cover at least the same amount of spending as was utilized in FY2020.

Another way to raise revenues is to consider borrowing. Today's low rates provide the opportunity to invest wisely in people, jobs and retraining, and education to keep the local economy moving. The additional bonding proposed by the governor for housing and other public infrastructure is the right way to go.

Some additional borrowing options include designating special entities to borrow for specific purposes; selling bonds to the new Municipal Liquidity Facility created by the Federal Reserve Bank to assist municipalities and states; selling bonds secured by future expected revenue (as is sometimes done, for example, with bridge and highway tolls); and issuing "Human Capital Bonds" as investments in education and other areas.

Austerity measures will exacerbate racial and economic inequality at a time when our state expresses commitment to just the opposite, and has pledged to address the impacts of historic racism. Cutting in the short term, instead of raising revenue to keep residents and the economy safe, will also have a long-lasting impact on recovery.