R.I. will feel the impact of federal budget cuts
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With a special congressional committee assigned to outline significant reductions in federal spending in the coming months, local leaders say looming budget cuts could have serious consequences for the state's still recovering economy, despite assessments this week from national experts that the pain may be less than initially feared.

States face reductions in everything from defense spending that drives some local economies, to the education funds that support public schools and the housing money that supports low-income families. Local leaders say such cuts could come just as states face a worsening financial climate. "It's a great concern," Governor Chafee said Thursday. 'We're just getting a grip on the dip in the stock market, which is really just happening in the last few days. It's been a seesaw."

Richard Godfrey, executive director of Rhode Island Housing, says his agency is watching to see what becomes of the state's more than $225 million in federal support for local housing programs. One key area that the new joint U.S. House and Senate Deficit Reduction Committee may look to cut is in programs for the development of new housing for the low income, elderly and disabled, he said. 'We've been coping with a lot of things right now," Godfrey said. "At a time when our resources are drying up, we are trying to come up with ways to provide even greater amounts of assistance."

State Department of Labor and Training Director Charles J. Fogarty, meanwhile, says he is not optimistic that the new joint committee or Congress will address the pending expiration of federal funds for unemployment that had been included in President Obama's economic-stimulus plan. The loss of that funding at the end of the year will be felt across the entire state, as nearly 1,400 unemployed Rhode Islanders will have less money to spend on food, housing, clothing, car payments and the other necessities, he said. "When you look at the financial impact, we are talking about a significant amount out of the Rhode Island economy, which impacts a lot of small business and may even impact a business's ability to bring on new staff," Fogarty said. "So it's not just the individual in question. Our whole state is impacted by this."

In the week since Congress reached an agreement allowing the country to raise its debt limit, states have wondered what the deal would mean to their budgets and local economies. The deal calls for more than $2 trillion in cuts over the next decade that will
be developed largely by the deficit reduction committee, which is expected to produce a proposal before Thanksgiving.

Michael Bird, of the National Conference of State Legislatures, this week told Stateline, a news outlet of the Pew Center on the States, that the deal essentially calls for at least another year of level, or nearly level, federal funding to states. But if the congressional deficit committee fails to approve a plan, some $1.2 trillion in budget cuts would be automatically imposed. In that case, about one quarter of the money the federal government sends to states would be subject to potential cuts, according to Stateline.

That includes discretionary federal funds for education, housing, and more. Large pots of state aid for Medicaid, welfare, food stamps, health coverage for children and some transportation funds would be largely exempt. Rhode Island received roughly $4.5 billion from the federal government in fiscal year 2009, according to U.S. Rep. James Langevin's office. Residents received these funds directly through Social Security payments and coverage for hospital and doctors visits. The funds also helped support some of the state's core industries, such as defense, which employed 16,000 people and had an annual economic impact of $1.75 billion, according to 2008 estimates.

A large chunk of federal government spending $2.6 billion in the current fiscal year comes via state government. That money pays for all or part of the salaries of about 2,800 state employees, according to the Chafee administration. It also funds education, public safety, transportation and human-services programs, both at the state and local levels.

Langevin and the other members of the state's congressional delegation hope the 12-member deficit reduction committee does not cut federal spending at the expense of long-term investments, such as transportation and alternative-energy technology. His message to the committee: "Don't cut for the sake of cutting. Be smart about where you are cutting. Make sure we're investing in the future. In education. In transportation. In alternative energy. Those areas that show the potential for job growth."

Chafee, an independent, says he supports the approach recommended last November by President Obama's deficit reduction commission. That bipartisan commission developed, but did not formally adopt recommendations calling for changes to a number of tax deductions, as well as cuts to discretionary spending, the elimination of congressional earmarks and an increase in the retirement age for Social Security. "President Clinton proved during the nineties that addressing deficits needs to come through a balance of cuts and revenue [increases]," Chafee said Thursday. "If you do that, good things will happen with the economy. That's what I learned in the early nineties."

Local experts say state and municipal leaders should begin planning for lean times, even if officials say the potential cuts would not be fully felt until the state budget year that starts July 1, 2013.
The probable cuts coupled with the weakening stock market and the first-ever downgrade of the federal government's credit rating could lead to slower economic growth for Rhode Island, which, in turn, could lead to reduced tax revenues for the state and municipalities, according to Gary Sasse, who served as director of administration for former Gov. Donald L. Carcieri and now heads Bryant University's Institute for Public Leadership. "While we should hope for the best, the state political leadership should articulate a contingency plan to effectively deal with the bad news that has come out of Washington," he said.

John Simmons, executive director of the Rhode Island Public Expenditure Council, agreed, adding that Rhode Island must also deal with a fourth factor: the federal bankruptcy filing of Central Falls. Now that one local community has sought bankruptcy protection, he said, others might follow suit, leading to a further erosion of the state's fiscal outlook.

While in some states governors are already instructing their department and agency directors to start planning for federal spending cuts, that does not yet appear to be the case in Rhode Island, according to House Finance Committee Chairman Helio Melo, D-East Providence. Melo said Wednesday that General Assembly staffers are monitoring monthly revenue reports from the administration to see how recent economic trends are affecting state revenue projections.

Any potential erosion in state revenue in the current fiscal year would have to be addressed in a supplemental budget repair plan, he said; federal aid cuts would only add to a projected $58.9 million deficit in the 2013 state fiscal year. "Obviously any cuts that come down, we'll have to deal with," Melo said. 'We can only just hope that the economy will stabilize. We just don't know what the future holds."