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**RIPEC**

## FY 2006 State Budget – Part II May 2005 Revenue Estimating Conference

*This report is Part II of RIPEC's analysis of the FY 2006 State Budget. It presents an overview of the changes the May 2005 Consensus Revenue Estimating Conference (REC) has made to the State's projected revenues for FY 2005 and FY 2006. The report includes a discussion on changes the Caseload Estimating Conference made to Medicaid expenditures and to the State's projected caseloads for certain social service programs.*

Based on the May 2005 Revenue and Caseload Estimating Conference (REC), the State has approximately \$106.0 million in additional resources available for expenditure in fiscal years 2005 and 2006. Table 1 outlines the various components of the forecast and their relative impact in fiscal years 2005 and 2006.

The REC convenes at least twice each year, typically within the first ten days of May and November. It is composed of the Budget Officer, the Senate Fiscal Advisor and the House Fiscal Advisor.

### I. Economic Forecast

The economic forecast developed this May reflected a perspective that the Rhode Island economy is performing relatively well. According to Economy.com's testimony, overall investment is growing and job creation remains positive.

The REC developed a forecast for non-farm employment where it is projected to peak in FY 2006 at 1.5 percent and then expected to taper off to less than 1.0 percent by FY 2008.

Personal Income growth in Rhode Island is projected to decline from 5.1 percent in FY 2005 to 4.7 percent in FY 2006, and is forecast to fall to approximately 4.2 percent through the remainder of the decade.

Unemployment rates peaked at 5.4 percent in FY 2004 and have since fallen to 4.8 percent in FY 2005 and are projected to fall and remain at approximately 4.4 percent through the balance of the decade.

**Table 1**  
**Changes to Revenue Estimates**  
**for FY 2005 and FY 2006**  
(Millions)

FY 2005 Revenue Change	\$55.8
FY 2006 Revenue Change	44.2
Budget Stabilization Impact	(2.0)
<i>Net Revenue Impact:</i>	<i>\$98.0</i>
Medicaid Expenditure Change	1.6
Projected Caseload Impact	6.4
<i>Net Expenditure Impact</i>	<i>\$8.0</i>
<b>Net Available:</b>	<b>\$106.0</b>

Source: RIPEC projection based on May REC Data

**Table 2**  
**Change in the Rhode Island Consensus Economic Forecast**

Economic Indicator	FY 2005		FY 2006		FY 2007		FY 2008	
	Nov-04	May-05	Nov-04	May-05	Nov-04	May-05	Nov-04	May-05
Employment	1.5%	1.1%	1.5%	1.5%	1.2%	1.2%	0.9%	0.8%
Unemployment Rate	5.3%	4.8%	5.1%	4.4%	5.0%	4.4%	5.0%	4.4%
Personal Income	4.3%	5.1%	4.1%	4.7%	4.1%	4.5%	4.2%	4.2%
CPI	2.3%	2.7%	1.8%	2.5%	1.9%	2.3%	2.0%	2.4%

Source: November 2004 and May 2005 Consensus Economic Forecast

The Consumer Price Index (CPI), a common measure of inflation, is projected to be 2.7 percent in FY 2005. The forecast shows the CPI declining and remaining below 2.5 percent throughout the decade.

## II. Revenues

The May 2005 Revenue Estimating Conference increased net revenue projections for FY 2005 by \$55.8 million and increased FY 2006 projections by \$44.2 million to a total of \$100.0 million in additional revenues projected over the two-year period. This is mainly attributable to projected growth in personal income tax revenues of \$66.1 million over the two years.

Revenues from general business taxes are estimated to be \$68.69 million higher over the two years than previously forecast. The State's General sales and use tax revenues are projected to experience a net decline of \$33.1 million over the two-year period.

### FY 2005 Revenues

The May Revenue Estimating Conference increased total general revenues by \$55.8 million to \$3,033.2 million, when compared to the previous estimates of November of last year. Major changes are attributable to the following revenue sources:

- \$30.7 million increase in personal income tax revenues;
- \$38.2 million increase in general business tax revenues;
- \$14.9 million net decline in sales and use tax revenues;
- \$3.5 million increase in other taxes and fees;
- \$2.7 million decrease in departmental revenues; and
- \$1.0 million net increase in other sources, including a reduction in the lottery revenue projection of 8.0 million.

### FY 2006 Revenues

The May Revenue Estimating Conference increased total general revenues by \$44.2 million to \$3,077.4 million, when compared to the estimates from the November 2004 Conference.

**Table 3**  
**Impact of May 2005 Revenue Estimating Conference**  
(Millions)

General Revenue	FY 2004	FY 2005			Change	FY 2006		Change
	Unaudited	Enacted	Nov	May		Nov	May	
Personal Income	\$890.9	\$926.3	\$949.9	\$980.6	\$30.7	\$999.2	\$1,034.6	\$35.4
General Business	246.2	260.6	263.0	301.2	38.2	272.0	302.4	30.4
General Sales Tax	823.1	858.6	864.0	849.1	(14.9)	904.2	886.0	(18.2)
Other Sales and Use Taxes	176.0	202.5	197.1	195.2	(1.9)	187.1	185.7	(1.4)
Other Taxes	41.8	40.6	45.0	50.4	5.4	46.1	50.6	4.5
<i>Subtotal - Taxes</i>	<i>\$2,178.0</i>	<i>\$2,288.6</i>	<i>\$2,319.0</i>	<i>\$2,376.5</i>	<i>\$57.5</i>	<i>\$2,408.6</i>	<i>\$2,459.3</i>	<i>\$50.7</i>
Departmentals	\$291.0	\$303.5	\$297.0	\$294.3	(\$2.7)	\$238.0	\$234.9	(\$3.1)
Lottery	281.1	322.4	318.0	310.0	(8.0)	356.7	350.5	(6.2)
Other sources	45.1	39.9	43.4	52.4	9.0	29.9	32.7	2.8
<i>Subtotal - Other Sources</i>	<i>\$617.2</i>	<i>\$665.8</i>	<i>\$658.4</i>	<i>\$656.7</i>	<i>(\$1.7)</i>	<i>\$624.6</i>	<i>\$618.1</i>	<i>(\$6.5)</i>
<b>Total General Revenues</b>	<b>\$2,795.2</b>	<b>\$2,954.4</b>	<b>\$2,977.4</b>	<b>\$3,033.2</b>	<b>\$55.8</b>	<b>\$3,033.2</b>	<b>\$3,077.4</b>	<b>\$44.2</b>

Source: RIPEC calculations based on 2005 May Revenue Estimating Conference

Major changes are attributable to the following revenue sources:

- \$35.4 million increase in personal income tax revenues;
- \$30.4 million net increase in general business taxes;
- \$18.2 million net decline in sales and use taxes;
- \$3.1 million net increase in other taxes and fees;
- \$3.1 million decrease in departmental revenues; and
- \$3.4 million net decline in other sources, of which \$6.2 million would be due to lower than originally projected lottery proceeds.

The REC forecasts revenues based on current law. The projections do not include revenues anticipated through the extension of the hospital licensing fee, which expires each year. The Governor has recommended extending the licensing fee in FY 2006 at 3.45 percent of net patient service revenues. This is projected to generate \$64.4 million in gross revenues to the State, where nearly

95.0 percent (\$60.6 million) would be generated from community hospitals and the balance from the Eleanor Slater Hospital. Therefore, the FY 2006 revenue projection would total \$3,141.8 million if these revenues were included in the forecast.

In addition, the State's Budget Stabilization Fund requires a contribution of \$2.0 million from the projected increase in State revenues, further reducing the additional revenues available to \$48.2 million.

### III. Caseloads

The Caseload Estimating Conference adopts caseloads for the Family Independence Program (FIP/TANF), Child Care slots, Supplemental Security Income (SSI) program, and the General Public Assistance Program (GPA).

Changes in the projected caseloads for these programs directly impact the cost of providing the services. In the May 2005 Caseload Estimating Conference,

**Table 4**  
**May 2005 Caseload Estimating Conference - Change in Caseloads**

Caseloads	2005			2006			2005-06
	Nov-04	May-05	Change	Nov-04	May-05	Change	Change
TANF/FIP	37,700	36,875	(825)	34,850	34,040	(810)	(2,835)
Child Care	13,415	13,080	(335)	13,350	12,804	(546)	(276)
SSI	30,390	30,330	(60)	31,000	31,060	60	730
GPA	406	362	(44)	415	360	(55)	(2)

Source: RIPEC Calculations based on May 2005 Caseload Estimating Conference Data

the caseloads for each of the programs were adjusted down when compared to the November 2004 REC, resulting in a reduction in the State's budget requirements for these programs totaling \$8.4 million, of which \$6.4 million would be in general revenue savings over the two year period. Of the general revenue savings, the State would save approximately \$2.3 million in FY 2005 and \$4.1 million in FY 2006. One should note that these estimates do not include any initiatives proposed by the Governor in the FY 2006 Budget Request.

As a result of welfare reform and an improving economy, the caseload for the Family Independence Program is expected to decline from 51,487 in FY 2000 to 34,040 persons in FY 2006, a decline of 17,447. FIP is Rhode Island's welfare reform program and provides cash assistance, as well as education, training and employment services to low income working parents and those preparing for work.

The May Caseload Estimating Conference decreased its estimated FIP caseload by 825 persons in FY 2005, and decreased its estimate by 810 in FY 2006 when compared to the November 2004 estimates.

Increasing child care slots was essential to welfare reform and growth in the program results from more FIP and low-income families becoming eligible for the program due to employment opportunities. Child care slots increased from 10,553 slots in FY 2000 to an estimated 12,804 in FY 2006, an increase of 2,251 slots or 21.3 percent.

However, it should be noted that the May Caseload Estimating Conference revised its projected child care figures, reducing the FY 2005 caseload estimate from 13,415 (November estimate) to 13,080, resulting in a net decline of 335 child care slots. Similarly, the FY 2006 projected child care slots were revised down from 13,350 to 12,804, a decline of 546 child care slots.

Rhode Island's Supplemental Security Income (SSI) program provides monthly cash benefits to the elderly and disabled. The SSI caseload is expected to increase from 27,162 persons in FY 2000 to 31,060 persons in FY 2006, a 14.4 percent increase.

The May Conference revised down these figures for FY 2005 and shifted 60 caseloads to the FY 2006 forecast.

## IV. Medical Assistance

The Caseload Estimating Conference estimates Medicaid expenditures within the Department of Human Services. Medicaid is a Federal and state matching entitlement program administered by the states and provides health care coverage to low-income adults and children. It is the chief source of funding for long-term care for individuals with limited economic means, health care services for low-income adults with disabilities, health care coverage for low-income families and their children and pregnant women and infants.

Medical assistance expenditures are projected to increase by 8.2 percent in FY 2005 and by 9.2 percent in FY 2006 (includes projected uncompensated care payments not included in the FY 2006 forecast – see discussion below).

In terms of revisions to estimates developed in November 2004, over the two year period, obligations are projected to be \$2.8 million less. The State's general revenues required to meet this need would decline by \$1.6

million compared to November's estimate. One should note that these estimates do not include any initiatives proposed by the Governor in the FY 2006 Budget Request.

The Caseload Estimating Conference revised the FY 2005 Medicaid expenditure plan to \$1,216.1 million – a \$2.1 million decrease from the consensus figure in November 2004 (\$1,218.2 million). Of the \$1,216.1 million in Medicaid spending, approximately \$542.8 million would come from general revenues.

FY 2006 Medicaid expenditures were also projected to be slightly lower than originally forecast in November. The May Caseload Estimating Conference decreased its overall projection by \$0.7 million – to a total expenditure of \$1,239.7 million. This level of expenditure would represent a \$23.6 million increase (2.0 percent) over the FY 2005 adopted expenditures.

Of the \$1,239.7 million in projected DHS Medicaid expenditures in FY 2006, approximately \$563.2 million would come from general revenues.

**Table 5**  
**May 2005 Caseload Estimating Conference - Change in Medical Assistance\***

Medical Assistance Expenditures*	2004 Actual	FY 2005			FY 2006**			2005 - 06 Change
		Adopted Nov-04	Adopted May-05	Net Change	Adopted Nov-04	Adopted May-05	Net Change	
Hospitals	\$232.0	\$241.7	\$239.4	(\$2.3)	\$160.4	\$154.6	(\$5.8)	(\$84.8)
Nursing Care	292.0	299.4	296.2	(3.2)	308.5	302.5	(6.0)	6.3
Managed Care	328.5	389.5	386.2	(3.3)	445.0	447.4	2.4	61.2
Other	238.2	252.6	261.0	8.4	288.0	298.5	10.5	37.5
Special Education	33.1	35.0	33.3	(1.7)	38.5	36.7	(1.8)	3.4
<b>Total</b>	<b>\$1,123.8</b>	<b>\$1,218.2</b>	<b>\$1,216.1</b>	<b>(\$2.1)</b>	<b>\$1,240.4</b>	<b>\$1,239.7</b>	<b>(\$0.7)</b>	<b>\$23.6</b>
<i>General Revenue</i>	<i>\$468.1</i>	<i>\$542.7</i>	<i>\$542.8</i>	<i>\$0.1</i>	<i>\$564.9</i>	<i>\$563.2</i>	<i>(\$1.7)</i>	<i>\$20.4</i>

\*The Caseload Estimating Conference estimates Medicaid expenditures within the Dept. of Human Services.

\*\*FY 2006 expenditures do not include uncompensated care payments which is projected to be \$87.9 million, of which \$40.0 million would be from general revenues.

Source: RIPEC Calculations based on May 2005 Caseload Estimating Conference Data

However, one should note that FY 2006 estimates do not include uncompensated care payments to hospitals. The uncompensated care distributions for community hospitals are adopted in statute through FY 2005, thereby understating FY 2006 Medicaid expenditures. This understates the estimates by approximately \$87.9 million, of which \$40.0 million would be general revenues. If the uncompensated care payments were included, total FY 2006 spending would be \$1,327.6 million – representing a \$111.5 million increase in expenditures (9.2 percent) over the FY 2005 adopted expenditure estimates.