



RIPEC

Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

FY 2005 State Budget – Part III May 2004 Revenue Estimating Conference

This report is Part III of RIPEC’s analysis of the FY 2005 State Budget. It presents an overview of the changes the May 2004 Consensus Revenue Estimating Conference (REC) has made to the State’s projected revenues for FY 2004 and FY 2005. 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 2004 Revenue and Caseload Estimating Conference (REC), the State has approximately \$42.5 million in net resources available for expenditure in fiscal years 2004 and 2005. Table 1 outlines the various components of the forecast and their relative impact on available funds for the State in fiscal years 2004 and 2005.

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 and that it is on the path to recovery. According to Economy.com’s testimony, overall job creation remains positive and the State’s employment growth continues to outperform the national experience overall.

FY 2004 Revenue Change	\$54.6
FY 2005 Revenue Change	25.0
Included From Governor Budget	(26.5)
Adjustment to Governor Forecast	(3.0)
Budget Stabilization Impact	(1.9)
<i>Net Revenue Impact:</i>	<i>\$48.2</i>
Medicaid Expenditure Change	(21.6)
Projected Caseload Impact	2.9
Savings Included From Governor Budget	13.0
<i>Net Expenditure Impact</i>	<i>(\$5.7)</i>
Net Available:	\$42.5

Source: RIPEC projection based on May REC Data

During the period between the first quarter of 2003 and 2004, approximately 6,400 net jobs were added in Rhode Island, driven by growth in construction, business services and the leisure and tourism sectors. Manufacturing continued to lose jobs, declining by nearly 1,500 during this period. Testimony flagged the potential impact on the job market as it relates to the financial services sector.

May 27, 2004

Table 2
Change in the Rhode Island Consensus Economic Forecast

Economic Indicator	FY 2004		FY 2005		FY 2006		FY 2007	
	Nov-03	May-04	Nov-03	May-04	Nov-03	May-04	Nov-03	May-04
Employment	0.8%	1.2%	1.3%	1.6%	1.4%	1.6%	1.2%	1.2%
Unemployment Rate	5.2%	5.3%	5.0%	5.3%	4.8%	5.1%	4.7%	5.0%
Personal Income	3.3%	4.0%	3.9%	3.9%	3.9%	4.2%	4.4%	4.4%
CPI	1.3%	2.1%	1.5%	1.6%	1.8%	1.6%	2.2%	2.0%

Source: May 2004 Consensus Economic Forecast

For the third quarter of 2003, personal income increased by 3.9 percent in Rhode Island as compared to 3.6 percent nationally. The housing market also continues to play a critical role in the State's economic activity. The average price of a single family home in Rhode Island increased by 16.4 percent in the fourth quarter of 2003, while the national average was 7.8 percent during the same period.

Given the testimony presented to the Revenue Estimating Conference, the members agreed to make adjustments in the November forecast to reflect better than anticipated economic performance in the State.

For example, the May 2004 REC improved its projections for employment in both FY 2004 and FY 2005. The REC revised its projected employment growth from 0.8 percent to 1.2 percent in FY 2004. The revised forecast for employment growth expects steady growth of 1.6 percent in FY 2005 and FY 2006. The REC out-year forecast would result in the State topping 500,000 jobs by FY 2006.

Personal Income growth in Rhode Island is projected to decline from 6.1 percent in FY 2001 to 4.0 percent in FY 2004 and essentially remain steady at

approximately 4.0 percent through FY 2006. It should be noted however, the consensus forecast for FY 2004 increased expected growth in personal income from 3.3 percent to 4.0 percent based on more favorable economic indicators presented by the economic firms.

Unemployment rates were projected to remain above 5.0 through FY 2008. The REC did project a slightly higher unemployment rate when compared to the November estimate. In fiscal years 2004 and 2005, the projected unemployment rate is 5.3 percent.

The Consumer Price Index (CPI), a common measure of inflation, is projected to be 2.1 percent in FY 2004. The consensus forecast increased this from 1.3 percent projected in November 2003. The forecast shows the CPI declining and remaining at 1.6 percent through FY 2006 before returning to above 2.0 percent in FY 2007.

II. Revenues

The May 2004 Revenue Estimating Conference increased net revenue projections for FY 2004 by \$54.6 million and increased FY 2005 projections by \$25.0 million to a total of \$79.6 million in additional revenues

projected over the two-year period. Approximately \$53.6 million (67.3 percent) of the \$79.6 million net increase over the two-year period was related to net changes in tax revenue estimates. This is mainly attributable to projected growth in personal income tax revenues of \$50.8 million over the two years.

Revenues from the Business Corporation Tax are estimated to be \$23.5 million higher over the two years than previously forecast. The May estimate for Financial Institutions tax shifted an expected refund of over \$10.0 million from FY 2004 to FY 2005. The May REC also took into account the potential impact of the State's historic tax credit.

Sales and use tax revenues are projected to experience a net decline of \$5.8 million over the two-year period. General sales tax revenues are projected to collect an additional \$12.2 million over this period of time compared to the November estimate. The REC increased the projected growth rate of the general sales tax from 4.9 percent used in November to 5.7 percent.

However, the growth in the general sales tax is offset primarily due to a reduced forecast in cigarette tax collections. There is a projected decline in cigarette tax collections of \$12.1 million over the two year period, in part due to larger than expected declines in purchases due to price increases.

FY 2004 Revenues

The May Revenue Estimating Conference increased total general revenues by \$54.6 million to \$2,839.5 million, when compared to the previous estimates of November of last year. Major changes are attributable to the following revenue sources:

- \$30.1 million increase in personal income tax revenues;
- \$19.2 million increase in general business tax revenues;
- \$1.4 million net decline in sales and use tax revenues;
- \$2.5 million decline in other taxes and fees;
- \$6.9 million increase in departmental revenues; and
- \$2.3 million increase in other sources, including projected lottery revenues.

Table 3
Impact of May 2004 Revenue Estimating Conference
(Millions)

General Revenue	FY 2003	FY 2004			Change	FY 2005		Change
	Unaudited	Enacted	Nov	May		Nov	May	
Personal Income	\$813.3	\$853.3	\$854.9	\$885.0	\$30.1	\$893.1	\$913.8	\$20.7
General Business	229.9	237.3	226.3	245.5	19.2	255.8	251.3	(4.4)
General Sales Tax	777.9	812.2	816.0	821.8	5.8	850.0	856.4	6.4
Other Sales and Use Taxes	152.5	178.3	181.3	174.1	(7.2)	178.1	167.3	(10.8)
Other Taxes	39.1	44.6	44.2	41.7	(2.5)	44.2	40.6	(3.6)
<i>Subtotal - Taxes</i>	<i>\$2,012.7</i>	<i>\$2,125.8</i>	<i>\$2,122.7</i>	<i>\$2,168.1</i>	<i>\$45.3</i>	<i>\$2,221.2</i>	<i>\$2,229.4</i>	<i>\$8.2</i>
Departmentals	\$283.4	\$287.0	\$287.0	\$293.9	\$6.9	\$227.8	\$240.7	\$12.9
Lottery	236.6	301.8	283.1	283.9	0.8	315.0	318.0	3.0
Other sources	218.0	90.8	92.1	93.7	1.5	25.4	26.2	0.8
<i>Subtotal - Other Sources</i>	<i>\$738.0</i>	<i>\$679.6</i>	<i>\$662.2</i>	<i>\$671.5</i>	<i>\$9.2</i>	<i>\$568.2</i>	<i>\$584.9</i>	<i>\$16.7</i>
Total General Revenues	\$2,750.7	\$2,805.4	\$2,785.0	\$2,839.5	\$54.6	\$2,789.4	\$2,814.3	\$25.0

Source: RIPEC calculations based on 2004 May Revenue Estimating Conference

FY 2005 Revenues

The May Revenue Estimating Conference increased total general revenues by \$25.0 million, or 0.9 percent to \$2,814.3 million, when compared to the estimates from the November 2003 Conference.

Major changes are attributable to the following revenue sources:

- \$20.7 million increase in personal income tax revenues;
- \$4.5 million net decline in general business taxes;
- \$4.4 million net decline in sales and use taxes;
- \$3.6 million decline in other taxes and fees;
- \$12.9 million in additional departmental revenues; and
- \$3.8 million in additional sources, of which \$3.0 million would be from additional lottery proceeds.

The REC forecasts revenues based on current law. The estimates do not include the Governor’s proposals to adjust the distribution of video-lottery terminal revenues and to increase the cigarette tax. The projections also do not include revenues anticipated through the extension of the hospital licensing fee.

However, the projections do include a number of revenue items contained in the Governor’s FY 2004 revised budget and FY 2005 proposed budget. Because these revenue items do not require legislative changes, they were included in the revenue estimate. These items total approximately \$26.5 million over the two fiscal years, of which \$11.2 million was in FY 2004 and \$15.3 million would be in FY 2005.

Departmental Revenue	FY 2004	FY 2005
Licenses and Fees - Various	\$0.0	\$0.8
Enhanced Uncompensated Care - Slater Hospital	10.0	10.6
DEM Sale of Surplus Land (Promet Property)	0.0	1.0
Increased RIPAE Rebates (Pharmaceutical Assistance)	0.7	1.2
Child Support Enforcement parent Distribution	0.4	1.7
Total Projected Impact	\$11.2	\$15.3
<i>Adjustment to Projected Collections</i>	<i>(\$0.2)</i>	<i>\$3.2</i>
Net Impact of Governor's Revenue Items	\$11.0	\$18.5

Source: RIPEC calculations based on 2004 REC final Report

It should be noted that the majority of this additional revenue is attributable to enhanced uncompensated care payments for the Eleanor Slater Hospital operated by the Department of Mental Health and Retardation.

Therefore, of the \$79.6 million in additional gross revenues for FY 2004 and FY 2005 estimated in May, \$26.5 million were from proposals already included in the Governor’s budget requests. This would essentially reduce the amount of additional revenues available to \$53.1 million.

It was also determined that there would be some slippage in the Governor’s estimates of these revenues. The net impact of this anticipated change in the Governor’s forecast for these revenues is projected at \$3.0 million less than anticipated over the two year period. This would further reduce the anticipated net revenues over the two fiscal years to \$50.1 million.

In addition, the State’s Budget Stabilization Fund requires a contribution of \$1.9 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 2004 Caseload Estimating Conference, the caseloads for each of the programs were adjusted down, resulting in a reduction in the State's budget requirements for these programs totaling \$4.4 million, of which \$2.9 million would be in general revenue savings over the two year period. Of the general revenue savings, the State would save approximately \$1.2 million in FY 2004 and \$1.7 million in FY 2005.

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 38,600 persons in FY 2005, a decline of 12,887. 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 increased its estimated FIP caseload by 100 persons in FY 2004, and decreased its estimate by the same amount in FY 2005.

Increasing child care opportunities was a key component of 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 14,050 in FY 2005, an increase of 3,497 slots or 33.1 percent.

However, it should be noted that the May Caseload Estimating Conference revised its projected child care figures, reducing the FY 2004 caseload estimate from 13,815 (November estimate) to 13,600, resulting in a net decline of 215 child care slots. Similarly, the FY 2005 projected child care slots were revised down from 14,215 to 14,050, a decline of 165 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 30,170 persons in FY 2005, an 11.1 percent increase.

Table 5
May 2004 Caseload Estimating Conference

Caseloads			FY 2004			FY 2005		
	2002	2003	Nov-03	May-04	Change	Nov-03	May-04	Change
TANF/FIP	45,180	42,364	40,350	40,450	100	38,700	38,600	(100)
Child Care	12,107	13,057	13,815	13,600	(215)	14,215	14,050	(165)
SSI	28,916	29,008	29,705	29,644	(61)	30,350	30,170	(180)
GPA	400	468	460	434	(26)	460	435	(25)

Source: RIPEC Calculations based on November 2003 and May 2004 Caseload Estimating Conference Data

The May Conference revised down these figures for FY 2004 and FY 2005 as well, reducing FY 2004 caseloads by 61 and FY 2005 caseloads by 180 persons.

IV. Medicaid Expenditures

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.

Over the two year period, total Medicaid obligations are projected to increase by \$41.4 million, of which \$21.6 million would come from general revenues.

The Caseload Estimating Conference revised the FY 2004 Medicaid expenditure plan to \$1,103.6 million – an \$11.1 million increase over the consensus figure from November 2003 (\$1,092.5 million). Of the \$1,103.6 million in Medicaid spending, approximately \$462.4 million would come from general revenues. Therefore, of the \$11.1 million increase in projected Medicaid expenditures, \$6.0 million would be required from general revenues.

The additional expenditures are projected to increase due to higher than anticipated pharmacy costs, a delay in transitioning special needs children from fee-for-service to Managed Care, and the availability of additional funds for disproportionate share payments to the Eleanor Slater Hospital.

FY 2005 Medicaid expenditures were also projected higher than originally forecast in November. The May Caseload Estimating Conference increased projected FY 2005 Medicaid

Table 6
May 2004 Caseload Estimating Conference - Medicaid Expenditures*

Medicaid Expenditures*	2003 Actual	FY 2004			FY 2005**		
		Adopted Nov-03	Adopted May-04	Net Change	Adopted Nov-03	Adopted May-04	Net Change
Hospitals	\$200.6	\$218.0	\$228.7	\$10.7	\$144.0	\$153.7	\$9.7
Nursing Care	255.1	290.0	287.0	(3.0)	307.0	306.0	(1.0)
Managed Care	257.3	323.1	321.9	(1.2)	363.0	383.2	20.2
Other	183.4	221.9	239.0	17.1	240.0	250.4	10.4
Special Education	31.3	39.5	27.0	(12.5)	44.0	35.0	(9.0)
Total	\$927.7	\$1,092.5	\$1,103.6	\$11.1	\$1,098.0	\$1,128.3	\$30.3
<i>General Revenue</i>	489.8	\$456.4	\$462.4	\$6.0	\$487.9	\$503.5	\$15.6

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

**FY 2005 expenditures do not include uncompensated care (\$83.4 million, including \$37.2 million in general revenues).

Source: RIPEC Calculations based on November 2003 and May 2004 Caseload Estimating Conference Data

spending from \$1,098.0 million to \$1,128.3 million – a \$30.3 million increase over the November projection. Of the \$1,128.3 million in projected Medicaid expenditures, approximately \$503.5 million would come from general revenues. Overall the increase in the estimate will require an additional \$30.3 million in funding, of which \$15.6 million would be derived from general revenues.

However, one should note that FY 2005 estimates do not include uncompensated care payments to hospitals. The uncompensated care distributions for community hospitals are adopted in statute through FY 2004, thereby understating FY 2005 Medicaid expenditures. This understates the estimates by \$83.4 million, including approximately \$37.2 million in general revenues

Impact of Caseloads and Medicaid

The net impact for additional Medicaid expenditures in fiscal years 2004 and 2005 is approximately \$21.6 million in additional general revenue expenditures. As noted earlier, the May CEC anticipates a net savings of \$2.9 million in general revenue expenditures due to revised caseloads for cash assistance programs. Therefore, there is a net general revenue expenditure increase of \$18.7 million.

However, the CEC also agreed to include a number of caseload and Medicaid-related expenditure proposals included in the Governor's FY 2004 and FY 2005 budget requests that do not require legislative changes to implement. These items have a net positive impact on the projected expenditures to the State of \$13.0 million in general revenue savings over the two fiscal year period. Therefore, the changes in caseload and Medicaid related expenditures would translate into a net overall impact of \$5.7 million in additional spending over the two fiscal years.