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RIPEC

May 2008 Revenue Estimating Conference Impact on the FY 2008 and 2009 State Budgets

This report provides a mid-year update on projected economic indicators and State revenues based on the May 2008 Revenue Estimating Conference. The report also 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.

The May 2008 Revenue Estimating Conference (REC) estimates the revenues for FY 2008 at \$3,436.1 million. This is an increase of \$76.4 million when compared to estimates from November. Since the REC met after the FY 2008 Supplemental Budget was passed, they included revenues as passed in the supplemental budget. Notable revenue enhancements to the November estimates include an additional \$34.6 million through transferring funds from the Rhode Island Housing Mortgage Finance Corporation, Resource Recovery, the Refunding Bond Authority, and Correctional Industries; and \$14.7 million through advancing Slater Hospital Uncompensated Care.

For FY 2009 the REC estimates revenues in the amount of \$3,215.3 million. FY 2009 estimates are \$132.2 million less when compared to the Governor's proposed revenues of \$3,347.5 million for FY 2009; however, it should be noted that the REC did not include revenues achieved through reinstating the hospital licensing fee in the amount of \$78.0 million or other revenue enhancements contained in the Governor's FY 2009 submission.

At the time the Governor proposed his FY 2009 budget, the shortfall was projected to be approximately \$385.0 million. The proposed budget closes this gap through a combination of revenue enhancements and expenditure reductions. Revenue enhancements include reinstating the Hospital Licensing Fee and increasing the rate of assessment (\$110.7 million), and transferring \$4.0 million from the Resource Recovery Corporation. Proposed expenditure reductions include: capping FTEs at 14,796.6; decreasing parental eligibility for RIte Care (\$12.8 million); creating the Ocean State Medicaid Waiver Initiative (projected savings of \$67.7 million); and level-funding municipal aid at reduced FY 2008 Revised levels. Based on REC estimates, if the General Assembly were to accept the Governor's revenue enhancements and expenditure reductions based on his proposed FY 2009 budget, they would have to enhance revenues by approximately \$20 million, reduce expenditures by the same amount, or a combination of both, to balance the FY 2009 budget. One should note that this shortfall does not include any potential additional revenues from the proposed 24-hour gambling, debt service due to the restructuring of the Historic Structures Tax Credit or other changes that have been submitted by the Governor since his original submission.

I. Economic Forecast

The economic forecast revised growth projections down from the November estimates for both the remainder of FY 2008 and FY 2009. The long-term economic outlook projects a continued slowdown in growth at both the national and State level, driven by declining employment figures, high oil prices and the real estate market decline; the economy is expected to begin to recover at the end of 2009.

Table 1 shows the changes in the economic forecasts between the November 2007 and May 2008 Revenue Estimating Conferences. The May REC projected declining employment for all FY 2008 and FY 2009, a decrease of 1.8 percentage points compared to the November forecasts. Similarly, the unemployment rate is expected to be higher than previously estimated for all years, reaching 6.0 percent in FY 2009 and FY 2010.

Both personal income and wage and salary growth estimates were lower than the November 2007 forecast. Personal income growth is expected to reach a low of 2.7 percent in FY 2009 before climbing to 3.8 percent in FY 2010. Similarly, wage and salary income is expected to drop to 1.9 percent in FY 2009 before rebounding to 3.4 percent in FY 2010.

The US Consumer Price Index (CPI), a common measure of inflation, is projected to grow from 2.6 percent in FY 2007 to an estimated 2.5 percent in FY 2009 before dropping back to 1.8 percent in FY 2010.

Economic Indicator	FY 2007	FY 2008		FY 2009		FY 2010	
	May-08	Nov-07	May-08	Nov-07	May-08	Nov-07	May-08
Employment	0.6%	1.0%	-0.8%	1.0%	-0.8%	1.1%	0.5%
Unemployment Rate	5.0%	4.9%	5.5%	5.0%	6.0%	5.0%	6.0%
Personal Income	4.9%	4.9%	3.5%	4.3%	2.7%	4.5%	3.8%
Wages and Salaries Income	5.5%	4.5%	2.0%	3.7%	1.9%	4.0%	3.4%
CPI	2.6%	2.4%	3.1%	1.9%	2.5%	2.0%	1.8%

Source: November 2007 and May 2008 Consensus Economic Forecast

II. Revenues

The May 2008 Revenue Estimating Conference adopted revenues of \$3,436.1 million for FY 2008 and \$3,215.3 million for FY 2009. Sales tax collections continue to decline, while revenue enhancements, changes to the Historic Structures Tax Credit, and higher-than-expected lottery collections have helped bolster revenues in both years.

2008 Revenues

The May Revenue Estimating Conference increased total general revenues 2.3 percent to \$3,436.1 million, when compared to the November estimates. This amount is 1.1 percent lower than the revenues included in the enacted budget.

As seen in Table 2, major changes to the November estimates include:

- \$21.0 million increase in personal income tax revenues primarily as the result of changes to the Historic Structures Tax Credit;
- \$34.1 million increase in departmental revenues, including revenues from advancing Slater Hospital Uncompensated Care (\$14.7 million);
- \$15.9 million decrease in business taxes;
- \$11.6 million decrease in general sales tax revenues; and
- \$35.1 million increase in revenues in the “Other Miscellaneous” category, which reflects a number of transfers from various agencies included in the recently passed FY 2008 supplemental budget.

Revenue	FY 2008				FY 2009		
	Enacted	Nov-07 REC*	May-08 REC*	May-Nov Change	Nov-07 REC*	FY 2009 Gov Proposed	May-08 REC*
Taxes							
Personal Income	\$1,082.9	\$1,048.1	\$1,069.1	\$21.0	\$1,082.1	\$1,100.3	\$1,120.6
General Business							
Business Corporation	\$167.2	\$158.0	\$156.5	(\$1.5)	\$160.0	\$160.3	\$160.0
Public Utilities Gross Earnings	109.4	104.0	97.3	(6.7)	104.0	104.0	96.1
Insurance Companies	68.8	71.6	63.5	(8.1)	73.0	75.1	67.0
Health Care Provider Tax	48.9	52.3	50.9	(1.4)	53.5	53.2	50.6
All Other Business Taxes	3.6	1.1	2.9	1.8	(17.3)	2.1	2.8
Subtotal	<i>\$397.9</i>	<i>\$387.0</i>	<i>\$371.1</i>	<i>(\$15.9)</i>	<i>\$373.2</i>	<i>\$394.7</i>	<i>\$376.5</i>
Sales and Use Taxes							
General Sales and Use	\$908.7	\$865.0	\$853.4	(\$11.6)	\$888.4	\$888.4	\$862.8
Motor Vehicle	50.2	44.5	45.2	0.7	46.4	46.3	45.8
Gasoline	1.1	1.2	1.3	0.1	1.2	1.2	1.2
Cigarettes	112.5	119.1	118.1	(1.0)	117.3	117.3	114.5
Alcohol	11.1	11.0	10.9	(0.1)	11.0	11.0	11.1
Controlled Substances	-	-	-	-	-	-	-
Subtotal	<i>\$1,083.7</i>	<i>\$1,040.8</i>	<i>\$1,028.9</i>	<i>(\$11.9)</i>	<i>\$1,064.3</i>	<i>\$1,064.2</i>	<i>\$1,035.4</i>
Other Taxes	\$46.5	\$44.3	\$51.7	\$7.4	\$44.4	\$44.4	\$51.5
Total Taxes	\$2,610.9	\$2,520.2	\$2,520.8	\$0.6	\$2,564.0	\$2,603.6	\$2,584.0
Departmental Revenue**	362.9	323.4	357.5	34.1	240.0	349.3	241.1
Total Taxes & Departmentals	\$2,973.8	\$2,843.6	\$2,878.3	\$34.7	\$2,804.0	\$2,952.9	\$2,825.1
Other Sources							
Gas Tax Transfers	\$4.7	\$4.7	\$4.5	(\$0.2)	\$4.7	\$4.7	\$4.6
Other Miscellaneous***	140.3	145.9	181.0	35.1	11.3	16.6	10.8
Lottery	339.7	349.5	356.8	7.3	363.9	363.9	365.6
Unclaimed Property	14.6	16.0	15.5	(0.5)	9.4	9.4	9.2
Subtotal	<i>\$499.3</i>	<i>\$516.1</i>	<i>\$557.8</i>	<i>\$41.7</i>	<i>\$389.3</i>	<i>\$394.6</i>	<i>\$390.2</i>
Total General Revenues	\$3,473.0	\$3,359.7	\$3,436.1	\$76.4	\$3,193.3	\$3,347.5	\$3,215.3

* REC = Revenue Estimating Conference

** FY 2009 estimated Departmental Revenue does not include the Hospital Licensing Fee of approximately \$78 million, which must be reauthorized every year, nor does it include the proposed additional \$32.7 million from increasing the hospital license fee assessment.

*** FY 2008 includes \$124.0 million from the securitization of tobacco funds; May 2008 estimates include an additional \$34.6 million in transfers from State departments.

Source: FY 2008 Budget, November 2007 and May 2008 Revenue Estimating Conference

FY 2009 Revenues

Revenues for FY 2009 are projected to be \$3,215.3 million. Compared to the Governor's proposed budget, the May estimates for FY 2009 revenues are \$132.2 million (3.9 percent) lower. However, it should be noted that the REC did not include revenues achieved through reinstating the hospital licensing fee in the amount of \$78.0 million. If these amounts were factored into the estimated REC revenues, the adjusted revenues would amount to \$3,293.3 million or \$54.2 million less than the Governor's proposed revenues in his FY 2009 budget.

Personal income tax, sales and use tax, and general business tax revenues are expected to increase over FY 2008 revised estimates; however, sales and use tax and general business taxes are estimated to be lower than the Governor's proposed FY 2009 budget.

Highlights of projected FY 2009 revenues, compared to FY 2008 estimates, include:

- \$51.5 million increase in personal income tax revenues, due, in part, to changes made to the Historic Structures Tax Credit;
- \$116.4 million decrease in departmental receipts, due to the fact that the REC does not include the hospital licensing fee of approximately \$78 million; and
- \$167.5 million decrease in "other source revenues." The majority of the difference is due to the tobacco securitization revenues from FY 2008, which are not available in FY 2009; however it should be noted that this amount also includes approximately \$35 million in transfers from various departments which are likewise not available in FY 2009.

Considerations and Limitations

There are a number of considerations that should be taken into account when comparing estimated revenues. For example, as noted above, the estimates by the REC are based on current law and thus do not include items such as the hospital licensing fee, which must be reauthorized every year. Estimators also do not include revenues that cannot be projected at the time of the conference, such as the anticipated increase in lottery revenues due to the recently-enacted 24-hour gaming law. At the same time, revenue projections for FY 2008 include additional estimated revenue resulting from recently enacted legislation. These changes include increased income tax revenue due to changes to the Historic Structures Tax Credit and increased miscellaneous revenue from departmental transfers.

III. Caseloads

The Caseload Estimating Conference adopts caseloads for the Family Independence Program (FIP/TANF), Child Care slots, Supplemental Security Income (SSI) program, and General Public Assistance (GPA). For FY 2009, caseloads continue to decline for both FIP and childcare, as well as SSI.

Total costs for these cash assistance programs are estimated to be \$143.6 million in FY 2008 (\$59.0 million in general revenues) and are \$1.1 million higher than November estimates. Projected total FY 2009 cash assistance expenditures of \$135.2 million (\$53.4 million in general revenues) are \$8.5 million lower than FY 2008 adopted estimates (\$5.7 million less in general revenue).

The CEC estimates for FY 2009 are approximately \$4 million higher than the Governor's proposed FY 2009 budget (total and within general revenues). The difference is due, in part, to

proposed statutory changes in the Governor's budget that are not included in the CEC estimates, such as eliminating the provider rate increase for child care providers, and reducing the State's SSI supplement by the equivalent of the Federal cost-of-living adjustment scheduled for January 1, 2009.

Expenditures	FY 2008			FY 2009			FY 2008
	Adopted Nov-07	Adopted May-08	Net Change	Adopted Nov-07	Adopted May-08	Net Change	-2009 Change
TANF/FIP							
General Revenues	\$16.3	\$17.7	\$1.4	\$12.5	\$11.2	(\$1.3)	-36.9%
Total	53.6	55.7	2.1	49.8	48.5	(1.3)	-13.0%
Child Care							
General Revenues	10.4	10.4	0.0	14.9	10.5	(4.4)	0.6%
Total	57.7	57.0	(0.7)	55.7	55.0	(0.7)	-3.5%
SSI							
General Revenues	27.6	28.0	0.4	28.6	28.6	(0.0)	1.9%
Total	27.6	28.0	0.4	28.6	28.6	(0.0)	1.9%
GPA							
General Revenues	3.0	2.9	(0.1)	3.1	3.1	0.0	8.3%
Total	3.0	2.9	(0.1)	3.1	3.1	0.0	8.3%
Total	\$141.9	\$143.6	\$1.7	\$137.1	\$135.2	(\$1.9)	-5.9%
<i>General Revenue</i>	<i>\$57.3</i>	<i>\$59.0</i>	<i>\$1.7</i>	<i>\$59.0</i>	<i>\$53.4</i>	<i>(\$5.7)</i>	<i>-9.6%</i>

Source: RIPEC Calculations based on November 2007 and May 2008 Caseload Estimating Conference Data

FIP, Rhode Island's welfare reform program, provides cash assistance, education, training, and employment services to low income working parents and those preparing for work. The FIP caseload for FY 2008 is projected to be higher than adopted estimates by 1,257 cases. DHS estimates the increase in caseloads is due to the economic slowdown; case openings have increased while the number of cases closed due to employment has decreased. The FY 2009 estimates were lowered by 200 cases compared to November estimates due to an addition of 3,600 cases as a result of economic forces and a reduction of 3,800 cases as a result of passage of Article 9 in the FY 2008 Supplemental budget, which terminates cash assistance payments to children whose parents have reached their 60 month cash assistance benefit limit as of August 1, 2008. The annual cost per person was revised down from \$2,118 to \$2,099 per year in FY 2008 and from a November estimate of \$2,148 to \$2,112 in FY 2009.

The revised caseload for childcare of 8,185 slots in FY 2008 is projected to be 215 slots lower than previously estimated slots of 8,400. FY 2008 annual cost per child care subsidy is estimated to be \$6,965.

FY 2009 estimates were revised down by 565 cases compared to the November estimates. The FY 2009 annual subsidy cost estimate of \$7,500 is \$535 (7.7 percent) higher than FY 2008 adopted estimates.

Table 4
May 2008 Caseload Estimating Conference - Change in Caseloads

Caseloads	2007	FY 2008			FY 2009		
	Actual	Adopted Nov-07	Adopted May-08	Net Change	Adopted Nov-07	Adopted May-08	Net Change
TANF/FIP	29,003	25,100	26,357	1,257	23,000	22,800	(200)
Child Care	12,704	8,400	8,185	(215)	7,900	7,335	(565)
SSI	30,788	31,725	31,622	(103)	32,200	31,974	(226)
GPA	395	415	409	(6)	420	420	0

Source: RIPEC Calculations based on November 2007 and May 2008 Caseload Estimating Conference Data

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 that 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.

Based on the CEC, FY 2008 Medicaid expenditures, administered by the Department of Human Services, are estimated at \$1,384.4 million. In FY 2009, Medicaid expenditures are projected to increase \$75.6 million (5.5 percent) over FY 2008 adopted estimates to \$1,460.0 million. General revenue expenditures are projected to increase from \$678.3 million in FY 2008 to \$711.5 million (increase of 4.9 percent) in FY 2009.

This growth in Medicaid expenditures can be attributed largely to inflation. In addition, some of the general revenue expenditure increase is due to a decrease in federal funds of approximately \$6.0 million relating to the RIte Care RIPTA contract. A third factor is the uncertainty surrounding the status of the State Children's Health Insurance Plan (SCHIP) and the potential increase or decrease in federal monies to the State. Any decrease in federal funding would increase the pool of states projected to have SCHIP shortfalls in both years, and would increase the general revenue burden accordingly.

FY 2009 adopted general revenue expenditures of \$711.5 million are about \$61.5 million higher than what the Governor proposed in his FY 2009 budget. This is mainly due to the fact that about \$13.0 million in general revenue expenditures are not recognized from the Governor's plan to reduce RIte Care eligibility for low-income parents from 185 percent of the Federal Poverty Limit (FPL) to 133 percent FPL. In addition, the REC did not include savings from the Governor's Medicaid reform plan, such as savings of approximately \$21.0 million from the proposal to divert people from nursing homes to community and home based care settings.

Table 5
May 2008 Caseload Estimating Conference
Change in Medicaid Expenditures (\$ millions)

Medicaid Expenditures	FY 2008			FY 2009			FY 2008 -2009 Change
	Adopted Nov-07	Adopted May-08	Net Change	Adopted Nov-07	Adopted May-08	Net Change	
Hospitals	\$252.0	\$265.1	\$13.1	\$273.5	\$273.5	\$0.0	3.2%
Nursing and Hospice Care	325.6	324.8	(0.8)	335.5	333.3	(2.2)	2.6%
Home & Community Based Services	37.7	36.6	(1.1)	50.8	50.8	0.0	38.8%
Managed Care	560.7	551.2	(9.5)	597.7	590.5	(7.2)	7.1%
Pharmacy	46.4	44.7	(1.7)	49.1	47.2	(1.9)	5.6%
Pharmacy Clawback	40.4	40.2	(0.2)	40.9	41.7	0.8	3.7%
Other	124.3	121.8	(2.5)	136.4	123.0	(13.4)	1.0%
Total	\$1,387.1	\$1,384.4	(\$2.7)	\$1,483.9	\$1,460.0	(\$23.9)	5.5%
<i>General Revenue</i>	<i>\$686.4</i>	<i>\$678.3</i>	<i>(\$8.1)</i>	<i>\$733.0</i>	<i>\$711.5</i>	<i>(\$21.5)</i>	4.9%

Source: RIPEC Calculations based on November 2007 and May 2008 Caseload Estimating Conference Data