



**RIPEC**

# **Comments on Your Government**

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## **Federal Taxes and Spending in the Ocean State Is Rhode Island Getting A Good Deal from Uncle Sam?**

Federal taxes and spending benefits some states and leaves taxpayers in other states paying the bill. For decades Rhode Island was a beneficiary State in that its citizens received more than a dollar in Federal outlays for every dollar Ocean State taxpayers sent to Washington. While this is still the case, the trend points in the direction that Federal tax payments are unlikely to equal Federal spending in the Ocean State in the near future.

This RIPEC Comments analyzes the taxes Ocean State residents send to Washington and the amount of Federal dollars the State receives.

Federal tax and spending policies have a significant impact on the fiscal health of Rhode Island's State and municipal governments. Federal aid and grants are the largest single source of State government revenue. The recommended FY 2007 State Budget includes \$1.9 billion of Federal aid and grants. This represents over 29.0 percent of the State's total revenue, with Medicaid-supported expenditures representing nearly half of all Federal fund expenditures.

Since 1994, the amount of money the Federal government spent in Rhode Island for every \$1.00 Rhode Islanders pay in Federal taxes has been declining at a significant rate. According to the Tax Foundation, in FY 1994, the Federal government spent \$1.11 in Rhode Island for every \$1.00 Rhode Islanders sent to Washington. In FY 2004 (latest national data available), this had dropped to \$1.02. In FY 1994, Rhode Island ranked 21<sup>st</sup> in Federal spending per dollar of Federal taxes paid by its citizens, in FY 2004 the Ocean State's position dropped ten places to rank 31<sup>st</sup> in the Nation

In the coming years, the structure of intergovernmental finance could be the subject of significant debate as the Congress deals with such topics as entitlement reform, homeland security and infrastructure funding. Given huge Federal budget deficits and population shifts to the south and west, elected officials from Rhode Island must continue to focus on the impact changes in Federal programs can have on the fiscal health of the Ocean State. Emerging trends in Federal fiscal policy should be of concern to all Rhode Island taxpayers and elected officials.

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March 27, 2006

## Federal Tax Burdens in Rhode Island

In FY 2004 (the latest available national data), Rhode Islanders had the 15<sup>th</sup> highest per capita Federal tax burden among the 50 states, with each Rhode Islander paying an average of \$6,557 to the Federal government. This was \$188 per resident (3.0 percent) above the national average of \$6,369. Table 1 displays per capita Federal taxes for the New England and Mid-Atlantic states. Federal

taxes include individual and corporate income, social insurance, excise, estate and gift and customs taxes.

Since FY 2003 Rhode Island has experienced the second fastest growth in per capita Federal taxes in the northeast region, only behind New York.

Generally, New England and Mid-Atlantic states had higher per capita Federal tax burdens than did

states in other regions. As shown on Table 1, the Tax Foundation estimates that six of the 11 New England and Mid-Atlantic states rank in the top ten nationally in terms of per capita Federal tax burdens in FY 2004. The fact that northeastern states rank among those with the highest per capita Federal tax burden is in part a reflection of the higher average income of residents in this region of the country.

## Federal Spending in Rhode Island

Most tax dollars sent to Washington are returned to the states in the form of defense and other Federal procurements, Social Security, Medicare and Medicaid payments, transportation aid, grants to states and local governments, Federal payrolls and other components of Federal spending.

Patterns of Federal spending in each state reflect the age of the population, income distribution, the portion of each state's economic base that is defense related and geography.

	2000	2003	2004	2004 US Rank
U.S.	\$7,044	\$6,282	\$6,369	
<b>Rhode Island</b>	<b>6,908</b>	<b>6,293</b>	<b>6,557</b>	<b>15</b>
Connecticut	11,636	10,401	10,570	1
Delaware	7,501	6,642	6,862	13
Maine	5,688	5,221	5,419	32
Maryland	7,983	7,195	7,404	6
Massachusetts	10,103	9,318	8,916	3
New Hampshire	8,601	7,746	7,521	5
New Jersey	9,815	8,795	8,999	2
New York	8,438	7,524	7,940	4
Pennsylvania	6,825	6,209	6,339	18
Vermont	6,296	5,752	5,971	22

Source: Tax Foundation, *Special Report* No. 139, March 2006, No. 132, December 2004, and No. 124, July 2003.

**Table 2**  
Per Capita Federal Spending in Rhode Island and the United States  
Fiscal Year 2004

Category of Federal Spending	Rhode Island		United States		RI as % of US
	Amount	% of Total	Amount	% of Total	
Direct Payments	\$4,217	54.9%	\$3,886	53.0%	108.5%
Grants	2,168	28.2	1,564	21.3	138.6
Procurement	520	6.8	1,102	15.0	47.2
Salaries & Wages	772	10.1	778	10.6	99.2
<b>Total</b>	<b>\$7,675</b>	<b>100%</b>	<b>\$7,311</b>	<b>100%</b>	<b>105.0%</b>

Source: Tax Foundation, *Special Report No. 139*, March 2006. As reported by the Tax Foundation, figures may not add due to rounding.

Federal expenditures include four categories. These are (1) direct payments that go from the Federal treasury to an individual such as social security and Medicare payments; (2) grants to state and local governments for activities such as education, Medicaid, human services and transportation; (3) the Federal government’s purchase of goods and services; and (4) salaries and wages paid to Federal employees in each state.

In FY 2004, Federal per capita expenditures in Rhode Island of \$7,675 ranked 20<sup>th</sup> highest among the 50 states – 5.0% above the national average of \$7,311. As shown on Table 2, Rhode Island’s per capita share of direct payments exceeded the national average by over 8.5%. Per capita grants to state and local governments, which includes Medicaid and transportation, were 38.6% above the average for all 50 states. However, Federal procurement per capita in the Ocean State was nearly 53% below the national average.

Table 3 shows per capita Federal expenditures for the New England and Mid-Atlantic states. In FY 2004, per capita Federal expenditures in Rhode Island were the 6<sup>th</sup> highest among the 11 states that make up these regions. When compared to the other New England states, Connecticut, Maine and Massachusetts received more Federal dollars, as measured on a per capita basis than did Rhode Island.

**Table 3**  
Per Capita Federal Expenditures – FY 2004  
In the New England & Mid-Atlantic States

U.S.	\$7,311
<b>Rhode Island</b>	<b>7,675</b>
Connecticut	8,715
Delaware	6,449
Maine	8,338
Maryland	11,781
Massachusetts	8,261
New Hampshire	6,197
New Jersey	6,409
New York	7,504
Pennsylvania	7,680
Vermont	7,492

Source: Tax Foundation, *Special Report No. 139*, March 2006.

## Relationship of Federal Taxes Paid to Federal Spending

The relationship between the amount of tax dollars a state sends to Washington and the amount of Federal spending in a state is influenced by a number of factors including a state's demographic and physical characteristics, the relative wealth of its citizens and its geography. For example, a state with a relatively wealthy population may send a larger per capita amount of tax revenue to the Federal government given the progressive nature of the national income tax structure. Conversely, states with low personal incomes may receive more Federal dollars than their residents send to Washington because programs such as Medicaid provide for higher Federal matching rates to poorer states.

	Expenditures per Dollar of Taxes			Ranking		
	<u>1994</u>	<u>2000</u>	<u>2004</u>	<u>1994</u>	<u>2000</u>	<u>2004</u>
<b>Rhode Island</b>	<b>\$1.11</b>	<b>\$1.15</b>	<b>\$1.02</b>	<b>21</b>	<b>22</b>	<b>31</b>
Connecticut	0.67	0.66	0.66	50	50	49
Delaware	0.79	0.88	0.79	43	39	40
Maine	1.35	1.27	1.40	7	17	16
Maryland	1.27	1.27	1.44	15	16	15
Massachusetts	0.97	0.80	0.77	33	46	44
New Hampshire	0.73	0.72	0.67	47	48	48
New Jersey	0.69	0.70	0.55	49	49	50
New York	0.85	0.87	0.79	40	40	42
Pennsylvania	1.01	1.08	1.06	29	26	29
Vermont	.95	1.09	1.12	34	25	24

Source: Tax Foundation, *Special Report*, No. 139, March 2006.

Table 4 relates per capita Federal tax collections to Federal expenditures for the New England and Mid-Atlantic states. In FY 2004, Rhode Island received \$1.02 in Federal spending for every \$1.00 its residents sent to the Federal government.

Since FY 1994, Federal expenditures per dollar of Federal taxes paid have been declining in the Ocean State. For example, in FY 2000, Federal expenditures per dollar of Federal income in Rhode Island totaled \$1.15 compared to \$1.02 in FY 2004.

## Federal Aid and the State Budget

Another way to evaluate and analyze the impact of Federal fiscal policy on Rhode Island is to consider the State Budget. Federal Aid represents the single largest source of State revenue.

As shown on Table 5, the recommended FY 2007 Budget's Federal fund expenditures total approximately \$1,916.0 million or 29.1% of all funds. However, estimated Federal funds for FY 2007 represent a decrease of over \$133 million, or 6.5%, the revised FY 2006 total of \$2.049 billion.

The Governor's proposed FY 2007 State Budget includes a \$92.7 million decrease in Federal revenues for the Department of Human Services. The most significant reduction is in the Medicaid benefit program, which includes a one-time elimination of the Federal share of uncompensated care paid to hospitals and changes in the Federal match rate for Medicaid.

Function	Total Budget	Percent of Total	Federal Aid	Percent of Total	Federal \$ as Percent of Total Budget
General Government	\$1,345.4	20.4%	\$63.2	3.3%	4.7%
Human Services	2,568.1	39.0	1,328.3	69.3	51.7
Education	1,813.2	27.6	200.5	10.4	11.1
Public Safety	413.2	6.3	51.1	2.7	12.4
Natural Resources	97.9	1.5	33.8	1.8	34.5
Transportation	342.4	5.2	239.1	12.5	69.8
<b>Total</b>	<b>\$6,580.3</b>	<b>100.0%</b>	<b>\$1,915.8*</b>	<b>100.0%</b>	<b>29.1%</b>

\*Does not add due to rounding.