



# Comments on Your Government

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## RIPEC

### May 2007 Revenue Estimating Conference Impact on the FY 2008 State Budget

*This report is a follow-up of RIPEC's analysis of the Governor's FY 2008 State Budget. It presents an overview of the changes the May 2007 Consensus Revenue Estimating Conference (REC) has made to the State's projected revenues for FY 2007 and FY 2008. 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. One should note that the report is based on preliminary data that was obtained from the REC. It is expected that the REC will finalize the data later on this week.*

The May 2007 Revenue Estimating Conference projects a slight increase in revenues of \$2.4 million in FY 2007 and a \$102.5 million decline in FY 2008 when compared to previous Conference estimates upon which the Governor's FY 2008 budget request was based. Combined with less expenditures in cash assistance and Medical Assistance programs, the May 2007 Revenue Estimating Conference projects a general revenue shortfall of approximately \$92.0 million over both fiscal years.

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

Overall, there were no major changes in the economic forecast when comparing estimates from the November 2006 economic forecast to the recently developed estimates by the REC.

The conference only lowered the projections for personal income growth in Rhode Island in FY 2007 from the 5.3 percent projected in November to 4.7 percent. There was no projected change for FY 2008.

Employment growth is projected to increase from 0.6 percent in FY 2007 to 0.9 percent in FY 2009. The unemployment rate is projected to be 5.3 percent in FY 2007 and 5.4 percent in FY 2008 and FY 2009.

The Consumer Price Index (CPI) for the United States, a common measure of inflation, is projected to decline from 2.8 percent in FY 2007 to 2.2 percent in FY 2008 and an estimated 2.0 percent in FY 2009.

**Table 1**  
**Change in the Rhode Island Consensus Economic Forecast**

Economic Indicator	FY 2006	FY 2007		FY 2008		FY 2009	
	May-07	Nov-06	May-07	Nov-06	May-07	Nov-06	May-07
Employment	0.6%	0.5%	0.6%	0.8%	0.8%	1.1%	0.9%
Unemployment Rate	5.2%	5.5%	5.3%	5.6%	5.4%	5.6%	5.4%
Personal Income	4.4%	5.3%	4.7%	4.5%	4.5%	4.6%	4.9%
CPI	3.3%	2.9%	2.8%	2.2%	2.2%	2.0%	2.0%

Source: November 2006 and 2007 Consensus Economic Forecast

## II. Revenues

The May 2007 Revenue Estimating Conference increased revenue projections for FY 2007 by \$2.4 million and lowered FY 2008 projections by \$102.5 million. The large projected decline in revenues in FY 2008 is primarily due to the inclusion of \$80.0 million in anticipated proceeds from the AIG settlement that is projected not to be forthcoming in FY 2008.

### FY 2007 Revenues

The May Revenue Estimating Conference increased total general revenues by \$2.4 million, or 0.1 percent to \$3,192.0 million, when compared to the previous estimates from November.

Major changes in estimates are attributable to the following revenue sources:

- \$12.4 million decrease in personal income tax revenues;

- \$29.5 million increase in business corporation tax revenues;
- \$10.0 million decrease in general sales tax revenues;
- \$5.0 million net decrease in other sales and use taxes; and
- \$7.3 million decrease in departmental revenues.

### FY 2008 Revenues

The May Revenue Estimating Conference decreased total general revenues by \$102.5 million, or 3.2 percent to \$3,153.3 million, when compared to the estimates from the November 2006 Conference.

Major changes in estimates are attributable to the following revenue sources:

- \$23.1 million decrease in personal income tax revenues;
- \$25.3 million in additional revenues from the business tax;

**Table 2**  
**May 2007 Revenue Estimating Conference - Change in General Revenues (in \$ million)**

Revenue	FY 2006	FY 2007			FY 2008			FY 2007-	
	Unaudited	Enacted	Nov-06 REC*	Mav-07 REC*	Mav-Nov Change	Nov-06 REC*	Mav-07 REC*	Mav-Nov Change	FY 2008 Mav-07
<b>Taxes</b>									
<b>Personal Income</b>	\$996.8	\$1,051.8	\$1,068.8	\$1,056.4	(\$12.4)	\$1,087.6	\$1,064.5	(\$23.1)	\$8.1
<b>General Business</b>									
Business Corporation	\$166.2	\$122.3	\$137.5	\$167.0	\$29.5	\$129.0	\$154.3	\$25.3	(\$12.7)
Public Utilities Gross Earnings	96.0	99.3	96.7	104.0	7.3	95.9	95.5	(0.4)	(8.5)
Insurance Companies	52.9	52.7	52.7	52.4	(0.3)	51.7	52.6	0.9	0.2
All Other Business Taxes	52.5	45.3	51.1	53.0	(2.6)	52.2	52.5	(2.8)	(0.5)
Subtotal	\$367.6	\$319.6	\$338.0	\$376.4	\$33.9	\$328.8	\$354.9	\$26.1	(\$21.5)
<b>Sales and Use Taxes</b>									
General Sales and Use	\$870.1	\$920.8	\$895.0	\$885.0	(\$10.0)	\$929.5	\$907.0	(\$22.5)	\$22.0
Motor Vehicle	52.6	50.0	48.0	45.3	(2.7)	49.0	46.0	(3.0)	0.7
Gasoline	0.1	1.1	1.0	1.1	0.1	1.1	1.1	-	-
Cigarettes	126.5	123.8	121.7	119.4	(2.3)	117.5	112.5	(5.0)	(6.9)
Alcohol	10.9	11.0	11.0	10.9	(0.1)	11.3	11.1	(0.2)	0.2
Controlled Substances	-	-	-	-	-	-	-	-	-
Subtotal	\$1,060.2	\$1,106.7	\$1,076.7	\$1,061.7	(\$15.0)	\$1,108.4	\$1,077.7	(\$30.7)	\$16.0
<b>Other Taxes</b>	\$57.5	\$50.4	\$49.4	\$46.3	(\$3.1)	\$49.4	\$46.5	(\$2.9)	\$0.2
<b>Total Taxes</b>	<b>\$2,482.0</b>	<b>\$2,528.4</b>	<b>\$2,532.9</b>	<b>\$2,540.8</b>	<b>\$7.9</b>	<b>\$2,574.2</b>	<b>\$2,543.6</b>	<b>(\$30.6)</b>	<b>\$2.8</b>
<b>Departmental Revenue</b>	287.4	296.4	295.2	287.9	(7.3)	236.3	238.2	1.9	(49.7)
<b>Total Taxes &amp; Departmentals</b>	<b>\$2,769.5</b>	<b>\$2,824.8</b>	<b>\$2,828.1</b>	<b>\$2,828.7</b>	<b>\$0.6</b>	<b>\$2,810.5</b>	<b>\$2,781.8</b>	<b>(\$28.7)</b>	<b>(\$46.9)</b>
<b>Other Sources</b>									
Gas Tax Transfers	\$4.3	\$4.9	\$4.7	\$4.7	(\$0.0)	\$4.7	\$4.7	\$0.0	\$0.0
Other Miscellaneous	31.2	60.8	25.5	25.3	(0.2)	90.5	12.5	(78.0)	(12.8)
Lottery	323.9	362.5	321.0	322.3	1.3	337.7	339.7	2.0	17.4
Unclaimed Property	14.2	10.8	10.3	11.0	0.7	12.4	14.6	2.2	3.6
Subtotal	\$373.6	\$439.0	\$361.5	\$363.3	\$1.8	\$445.3	\$371.5	(\$73.8)	\$8.2
<b>Total General Revenues</b>	<b>\$3,143.1</b>	<b>\$3,263.8</b>	<b>\$3,189.6</b>	<b>\$3,192.0</b>	<b>\$2.4</b>	<b>\$3,255.8</b>	<b>\$3,153.3</b>	<b>(\$102.5)</b>	<b>(\$38.7)</b>

\* REC = Revenue Estimating Conference

Source: FY 2008 Budget, November 2006 and May 2007 Revenue Estimating Conference

- \$30.7 million net less revenues from sales and use taxes; and
- \$78.0 million decline in miscellaneous revenues, mainly due to anticipated proceeds from the AIG settlement that will not materialize.

It should be noted that the REC’s projections are based on current law and do not include a number of proposals by the Governor to increase revenues. For example, the estimates do not include the various revenue enhancements proposed by the Governor such as the removal of the health insurer gross premium tax exemption or proposed land sales, nor do they include the historic structures tax credit buyback plan.

Combined with changes the REC made to other revenue sources, FY 2008 general revenues are estimated to be 8.7 percent, or \$274.2 million lower than the Governor’s recommendation of \$3,427.5 million (for additional information on the Governor’s revenue proposals see RIPEC’s report: *Summary of the Governor’s FY 2008 Budget Request*).

### 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).

Total costs for these cash assistance programs are estimated to be \$162.3 million in FY 2007 (\$75.7 million in general revenues) and \$160.3 million in FY 2008 (\$75.8 million general revenues). This equates to a total of \$8.4 million in general revenue savings (\$7.7 million in all funds) over the two-year period when compared to estimated expenditures from the November 2006 caseload conference.

FIP, Rhode Island’s welfare reform program, provides cash assistance, as well as education, training and employment services to low income working parents and those preparing for work. The caseload for the Family Independence Program is expected to decline from 33,304 in FY 2006 to 25,050 persons in FY 2008, a decline of 8,254 persons or 24.8 percent during that time period. This decline is based on the transition of FIP clients into employment, as well as case closure and the effect of the Federal Deficit Reduction Act. The annual cost per person is estimated to be \$2,058.0 in FY 2007 and \$2,140.8 in FY 2008.

Similarly, the anticipated caseload for child care decreased from 12,704 slots in FY 2006 to an estimated 9,850 in FY 2008, a decrease of 2,854 slots (29.0 percent).

The annual cost per child care subsidy is anticipated to increase from \$6,425 in FY 2007 to \$7,650 in FY 2008. Notably, the May per case cost estimate is 5.7 percent higher for FY 2007 and 16.6 percent higher for FY 2008, than the November estimate.

**Table 3**  
**May 2007 Caseload Estimating Conference - Change in Caseloads**

Caseloads	2006	FY 2007			FY 2008			FY 2007
	Actual	Adopted Nov-06	Adopted Mav-07	Net Change	Adopted Nov-06	Adopted Mav-07	Net Change	-2008 Change
TANF/FIP	33,304	29,445	28,950	(495)	26,500	25,050	(1,450)	-13.5%
Child Care	12,704	12,100	11,140	(960)	11,950	9,850	(2,100)	-11.6%
SSI	30,788	31,250	31,300	50	31,750	31,760	10	1.5%
GPA	350	410	400	(10)	440	415	(25)	3.8%

Source: RIPEC Calculations based on November 2006 and May 2007 Caseload Estimating Conference Data

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 30,788 persons in FY 2006 to 31,760 persons in FY 2008, a 3.16 percent increase. The annual cost per person is estimated to be \$770 in FY 2007 and \$778 in FY 2008.

#### 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.

Medicaid expenditures, administered by the Department of Human Services, are projected to increase from \$1,132.3 million in FY 2007 to an estimated \$1,310.2 million in FY 2008, a 15.7 percent increase. However, one should note that in FY 2007 uncompensated care payments of approximately \$110.0 million were deferred to FY 2008 and not included in the total expenditures. Adjusting for this, Medicaid expenditures would increase by 5.5 percent during this time period.

For FY 2007, Medicaid expenditures are estimated to decrease by \$26.0 million, of which \$10.1 million are from general revenues, when compared to the estimates from November 2006.

FY 2008 Medicaid expenditures are projected to be \$1,310.2 million, \$46.2 million lower than anticipated last November. General revenue expenditures are estimated to be \$19.4 million lower than previously expected. The lower-than-projected expenditures are mainly due to a decline in hospital expenditures and managed care.

**Table 4**  
**May 2007 Caseload Estimating Conference**  
**Change in Medicaid Expenditures (\$ millions)**

Medicaid Expenditures	FY 2007*			FY 2008			FY 2007 -2008 Change
	Adopted Nov-06	Adopted May-07	Net Change	Adopted Nov-06	Adopted May-07	Net Change	
Hospitals	\$156.0	\$139.7	(\$16.3)	\$274.7	\$252.7	(\$22.0)	80.9%
Nursing and Hospice Care	322.8	316.7	(6.1)	335.7	332.0	(3.7)	4.8%
Home & Community Based Services	34.2	33.5	(0.7)	35.3	37.0	1.7	10.4%
Managed Care	455.4	445.0	(10.4)	500.9	478.0	(22.9)	7.4%
Pharmacy	46.0	46.0	0.0	48.0	47.0	(1.0)	2.2%
Pharmacy Clawback	39.4	39.4	0.0	43.0	41.5	(1.5)	5.3%
Other	104.5	112.0	7.5	118.8	122.0	3.2	8.9%
<b>Total</b>	<b>\$1,158.3</b>	<b>\$1,132.3</b>	<b>(\$26.0)</b>	<b>\$1,356.4</b>	<b>\$1,310.2</b>	<b>(\$46.2)</b>	15.7%
<i>General Revenue</i>	<i>\$562.5</i>	<i>\$552.4</i>	<i>(\$10.1)</i>	<i>\$662.6</i>	<i>\$643.2</i>	<i>(\$19.4)</i>	16.4%

\*FY 2007 expenditures do not include uncompensated care payments of approximately \$110.0 million.

Source: RIPEC Calculations based on November 2006 and May 2007 Caseload Estimating Conference Data