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RIPEC

November 2007 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 November 2007 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 November 2007 Revenue Estimating Conference projects a current-year revenue shortfall of \$113.4 million when compared to the enacted budget and a \$166.4 million lower revenues in FY 2009 when compared to FY 2008 November estimates. Coupled with increased State costs for cash and Medical Assistance programs, out-year budget deficits are projected to be greater than previous estimates. Current year deficits are projected to be approximately \$150 to \$175 million. For FY 2009 the deficit is projected to be between \$380 million and \$450 million.

I. Economic Forecast

Although the economic forecast estimated slightly higher growth for FY 2008 than May estimates, the long-term economic outlook projects a slowdown in growth at both the national and State level, driven by steady but slow job growth, high oil prices and the real estate market decline.

Table 1 shows the changes in the economic forecast between then May 2007 and November 2007 Revenue Estimating Conferences. The November REC forecast slightly larger growth in employment for all years than the May forecast, with a projection of 1.1 percent growth in FY 2010. The unemployment rate was similarly

projected to be lower than May estimates, from 4.8 percent in FY 2007 to 5.0 percent in FY 2010.

Personal income growth is expected to be higher than May expectations for FY 2008, but is anticipated to be lower than May estimates for FY 2009 and FY 2010 by 0.6 and 0.4 percent respectively.

The US Consumer Price Index (CPI), a common measure of inflation, is projected to decline from 2.6 percent in FY 2007 to an estimated 2.0 percent in FY 2010, and is projected to be lower than previous estimates in all years except 2010.

Table 1
Change in the Rhode Island Consensus Economic Forecast

Economic Indicator	FY 2007		FY 2008		FY 2009		FY 2010	
	May-07	Nov-07	May-07	Nov-07	May-07	Nov-07	May-07	Nov-07
Employment	0.6%	0.9%	0.8%	1.0%	0.9%	1.0%	1.0%	1.1%
Unemployment Rate	5.3%	4.8%	5.4%	4.9%	5.4%	5.0%	5.4%	5.0%
Personal Income	4.7%	5.1%	4.5%	4.9%	4.9%	4.3%	4.9%	4.5%
Consumer Price Index US	2.8%	2.6%	2.2%	2.4%	2.0%	1.9%	2.0%	2.0%

Source: May 2007 and November 2007 Economic Forecast

II. Revenues

The November 2007 Revenue Estimating Conference decreased revenue for FY 2008 by \$113.4 million when compared to FY 2008 enacted revenues of \$3,473.0 million. Projected FY 2009 general revenues are \$3,193.3 million, which is \$166.4 million lower than FY 2008 revised estimates. The largest component of the current year budget shortfall is declines in both personal income tax, and sales and use tax revenues.

FY 2008 Revenues

The November Revenue Estimating Conference decreased total general revenues 3.3 percent to \$3,359.7 million, when compared to the FY 2008 enacted budget.

As seen in Table 2, major changes in estimates are attributable to the following:

- \$34.8 million decrease in personal income tax revenues;
- \$10.9 million decrease in business tax revenues;

- \$43.7 million decrease in general sales tax revenues;

Although the majority of revenue streams for the State are estimated to decline, revenues from the lottery, and from the cigarette, insurance company, and health care provider taxes, are projected to increase.

FY 2009 Revenues

Revenues for FY 2009 are projected to be \$3,193.3 million. This represents a decrease of \$166.4 million, or 5.0 percent, from FY 2008 revised numbers. Personal income tax and sales and use tax revenues are expected to increase over FY 2008 revised numbers; however, neither number is estimated to increase over FY 2008 enacted levels. In addition, the estimators project that the slight increase in business corporation and insurance company tax receipts will be offset by negative financial institution tax receipts.

Another significant factor contributing to the lower revenue projections for FY 2009 is that

Table 2
November 2007 Revenue Estimating Conference - General Revenues (\$ million)

Revenues	May-07	FY 2008 Enacted	Nov-07	Enacted-Nov Change	FY 2009 Nov-07	FY 08-09 Change
Taxes						
Personal Income	\$1,064.5	\$1,082.9	\$1,048.1	(\$34.8)	\$1,082.1	\$34.0
General Business						
Business Corporation	\$154.3	\$167.2	\$158.0	(\$9.2)	\$160.0	\$2.0
Public Utilities Gross Earnings	95.5	109.4	104.0	(5.4)	104.0	0.0
Insurance Companies	52.6	68.8	71.6	2.8	73.0	1.4
All Other Business Taxes	52.5	52.5	53.4	0.9	36.2	(17.2)
Subtotal	\$354.9	\$397.9	\$387.0	(\$10.9)	\$373.2	(\$13.8)
Sales and Use Taxes						
General Sales and Use	\$907.0	\$908.7	\$865.0	(\$43.7)	\$888.4	\$23.4
Motor Vehicle	46.0	50.2	44.5	(5.7)	46.4	1.9
Gasoline	1.1	1.1	1.2	0.1	1.2	0.0
Cigarettes	112.5	112.5	119.1	6.6	117.3	(1.8)
Alcohol	11.1	11.1	11.0	(0.1)	11.0	0.0
Controlled Substances	-	-	-	0.0	0.0	0.0
Subtotal	\$1,077.7	\$1,083.7	\$1,040.8	(\$42.9)	\$1,064.3	\$23.5
Other Taxes	\$46.5	\$46.5	\$44.3	(\$2.2)	\$44.4	\$0.1
Total Taxes	\$2,543.6	\$2,610.9	\$2,520.2	(\$90.7)	\$2,564.0	\$43.8
Departmental Revenue	238.2	362.9	323.4	(39.5)	240.0	(\$83.4)
Total Taxes & Departmentals	\$2,781.8	\$2,973.8	\$2,843.6	(\$130.2)	\$2,804.0	(\$39.6)
Other Sources						
Gas Tax Transfers	\$4.7	\$4.7	\$4.7	\$0.0	\$4.7	\$0.0
Other Miscellaneous	12.5	140.3	145.9	5.6	11.3	(134.6)
Lottery	339.7	339.7	349.5	9.8	363.9	14.4
Unclaimed Property	14.6	14.6	16.0	1.4	9.4	(6.6)
Subtotal	\$371.5	\$499.3	\$516.1	\$16.8	\$389.3	(\$126.8)
Total General Revenues	\$3,153.3	\$3,473.0	\$3,359.7	(\$113.4)	\$3,193.3	(\$166.4)

Source: FY 2008 Budget as Enacted, May 2007 and Nov 2007 Revenue Estimating Conference

there will not be revenues from the tobacco securitization, a difference of \$124.0 million.

It should be noted that REC projections are based on current law and do not include potential or proposed changes to revenues. For example, the hospital licensing fee (approximately \$78 million), which must be reauthorized every year, is not included.

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

- \$34.0 million increase in personal income tax revenues;
- \$13.8 million decrease in general business tax revenues;
- \$23.5 million net increase in revenues from sales and use taxes;
- \$83.4 million decrease in departmental receipts, due to the fact that the REC does not include the hospital licensing fee of approximately \$78 million; and
- \$126.8 million decrease in other revenues; the majority of the difference is due to the tobacco securitization revenues from FY 2008, which are not available in FY 2009.

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). Caseloads continue to decline for both FIP and childcare, but are slightly up for SSI and GPA.

Total costs for these cash assistance programs are estimated to be \$142.6 million in FY 2008 (\$57.9 million in general revenues) and \$140.3 million in FY 2009 (\$55.9 million in general revenues). November FY 2008 estimates are \$3.0 million higher than enacted, \$2.9 million of which is general revenue. Projected total FY 2009 cash assistance expenditures are \$2.2 million lower than FY 2008 revised estimates. This equates to lower general revenue expenditures of \$2.1 million

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 slightly higher than enacted estimates. The annual cost per person was revised upward from \$2,105 to \$2,118 per year in FY 2008.

The revised caseload for childcare is projected to be higher than FY 2008 enacted levels by 472 slots, due principally to the late implementation of changes to eligibility rules for the program. For example, although eligibility threshold was reduced from 225 percent of poverty to 180 percent, this change was not implemented until September 1, instead of the assumed start date of July 1. The FY 2008 annual cost per child care subsidy is estimated to be \$6,870. The FY 2009 per case cost estimate of \$7,400 is 7.7 percent higher than FY 2008.

**Table 3
November 2007 Caseload Estimating Conference
Change in Caseloads**

Caseloads	FY 2007	Enacted	FY 2008	Change	FY 2009	2008-09	
	Actual		Nov-07		Nov-07	Amount	Percent
TANF/FIP	29,003	25,050	25,100	50	23,000	(2,100)	-8.4%
Child Care	11,181	7,928	8,400	472	7,900	(500)	-6.0%
SSI	31,285	31,760	31,725	(35)	32,200	475	1.5%
GPA	395	415	415	0	420	5	1.2%

Source: RIPEC Calculations based on May 2007 and November 2007 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.

FY 2008 Medicaid expenditures, administered by the Department of Human Services, are projected to increase \$20.5 million over enacted to \$1,387.3 million, a 1.5 percent increase. In FY 2009, Medicaid expenditures are projected to increase \$96.6 million (6.9

percent) to \$1,483.9 million. General revenue expenditures in FY 2008 are projected to increase from \$667.4 million in the enacted budget to \$686.4 million (2.9 percent), and to \$733.0 million (6.8 percent) in FY 2009.

One part of the increase in general revenue expenditures in both years is due to delayed or unachieved implementation of enacted cost-saving measures. For example, anticipated savings from restructuring the rates emergency room visits not realized. Another 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. This estimate assumes a continuing resolution at the Federal level which would increase the pool of states projected to have SCHIP shortfalls in both years, and increases the general revenue burden accordingly.

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

Medicaid Expenditures	FY 2007	FY 2008			FY 2009	FY 08-09
	Unaudited	Enacted	Nov-07	Change	Nov-07	Change
Hospitals*	\$134.9	\$243.6	\$252.2	\$8.6	\$273.5	\$21.3
Nursing and Hospice Care	314.2	324.8	325.6	0.8	335.5	9.9
Home & Community Based Services**	34.2	37.0	37.7	0.7	50.8	13.1
Managed Care	443.3	552.7	560.7	8.0	597.7	37.0
Pharmacy	44.1	45.7	46.4	0.7	49.1	2.7
Pharmacy Clawback	38.9	41.5	40.4	(1.1)	40.9	0.5
Other	110.2	121.5	124.3	2.8	136.4	12.1
Total	\$1,119.8	\$1,366.8	\$1,387.3	\$20.5	\$1,483.9	\$96.6
<i>General Revenue</i>	<i>\$550.7</i>	<i>\$667.4</i>	<i>\$686.4</i>	<i>\$19.0</i>	<i>\$733.0</i>	<i>\$46.6</i>

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

** FY 2009 total includes \$9.3 million in additional payments from Sullivan-Perry legislation

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