How Rhode Island Compares

National and State Fiscal and Economic Trends

October, 2008

RIPEC

I. Introduction

Recently, Congress has reacted to the financial turmoil and put a bailout package together with the intention to stabilize the economy. This national situation has also put a strain on the fiscal condition of the states. As the National Association of State Budget Officers (NASBO) points out, fiscal year 2008 marked a turning point for state finances with a significant increase in states seeing fiscal difficulties. They go on to state that this is in stark contrast to the preceding several years. Furthermore, NASBO writes that, as the economy has weakened, so has the state revenue and spending picture. The declines in the housing sector and a weakening manufacturing sector have combined to cause significant declines in revenue for a number of states.

This report provides an overview of the current fiscal situation of the states, and compares Rhode Island to the other states. It also provides an overview of some economic indicators, including unemployment, personal income, energy and housing. To put the data in a historic context, the Appendix includes data on various revenue and expenditure categories, based on the United States Census Bureau, Government Finance, FY 2006 and FY 1996 data. These data are shown on both a "Per Capita" and "Per $1,000 of Personal Income" basis. The information compares Rhode Island's revenues and expenditures to its two neighbor states, Connecticut and Massachusetts and the national average. In addition, Delaware and Maryland are included as their geographic size and population density make them ideal comparison states.

For this report, RIPEC relied on a number of data sources including the "Fiscal Survey of States", compiled in the spring of 2008 by the National Association of State Budget Officers; the Bureau of Economic Analysis; the Bureau of Labor Statistics; the Energy Information Association; the Federal Reserve Bank of Boston; the National Association of Realtors; the Rockefeller Institute; the Kaiser Commission on Medicaid and the Uninsured; HousingWorks Rhode Island; and the Center on Budget and Policy Priorities. Additional data comes from the United States Department of Commerce's Bureau of the Census website. Per capita calculations were completed by RIPEC using Census Bureau population figures and per $1,000 of personal income calculations by using the U.S. Dept. of Commerce's Bureau of Economic Analysis income data as of March, 2008.

In addition to this introduction, this report is divided into three parts:
- *II. Executive Summary and RIPEC Comments* – provides RIPEC's perspective on the current fiscal challenges facing the State;
- *III. State and National Comparison* – discusses the national and State fiscal outlook using the "Fiscal Survey of the States" and a number of economic indicators such as: unemployment, personal income, energy costs, housing market information and lending rate data; and
- *IV. Appendix* – includes the RIPEC analysis of FY 2006 revenues and expenditures.

The report will also be available online at: www.ripec.org

II. Executive Summary and RIPEC Comments

Recently, Congress has reacted to the financial turmoil and put a bailout package together with the intention to stabilize the economy. This national situation also put a strain on the fiscal condition of the states. As the National Association of State Budget Officers (NASBO) points out in their fiscal survey of states, fiscal year 2008 marked a turning point for state finances with a significant increase in states seeing fiscal difficulties. They go on to state that this is in stark contrast to the preceding several years. Furthermore, NASBO writes that, as the economy has weakened, so has the state revenue and spending picture. The declines in the housing sector and a weakening manufacturing sector have combined to cause significant declines in revenue for a number of states.

Data from the Center on Budget and Policy Priorities (CBPP) indicate that 29 states faced total budget shortfalls of at least $48 billion based on a survey of states in January of 2008. These budget gaps as a percent of the fiscal year 2009 general fund ranged from a low of 1.8 percent in Mississippi to a high of 22.0 percent in California. Rhode Island's gap of 13.1 percent ranked the State in the top five of the 29 states that reported a budget gap.

Since the publication of the NASBO and CBPP reports, the fiscal condition across the country has worsened, due to the prolonged slump in the housing market, sustained high energy and oil costs, the recent collapse of a number of financial institutions, and the severe tightening of the credit market. As CBPP recently reported, new shortfalls have opened up in the budgets of at least 15 states with initial estimates of these mid-year gaps totaling $5.9 billion. This new round of shortfalls is in addition to the budget gaps of $48 billion that had to be closed in 29 states in their FY 2009 budgets, adopted a few months ago.

CBPP has also released a report that identified additional issues of concern facing states regarding short-term borrowing. Two states, California and Massachusetts, have sought federal assistance to meet their short-term cash needs. Rhode Island recently utilized funds from its Temporary Disability Insurance Fund for cash flow purposes. With the current credit limitations municipal and state governments, including Rhode Island, may be strained to meet its short-term cash needs. Rhode Island is planning to go to the short-term market some time in December.

Because economic conditions remain unsettled, it is highly likely that these mid-year budget gaps will grow. As the Rockefeller Institute notes in their State Revenue Report, released October 2008: "State tax revenues were superficially strong in this year's second quarter, but trouble is brewing. Some states have already made midyear budget cuts, and more widespread cuts are virtually certain as revenues deteriorate further."

In its report, the Rockefeller Institute points out that the collapse of the financial services sector and the decline in the stock market mean that "at least three bad things will happen to state finances." First, the collapse of the financial services industry means that states that rely especially heavily on this industry will be hit extremely hard, both through the taxes they levy on the financial services sector and through the spillover effects on other parts of their economies. Second, the decline in the stock market and in other financial markets means that investment income of taxpayers is likely to fall significantly. Third, the loss of so much asset value and a decline in confidence will lead to much greater slowing of the economy.

What makes matters worse is that expenditure pressures continue as demand for increased funding of programs such as Medicaid persist and states deal with looming long-term issues such as funding pensions, demographic shifts, and maintenance and repair of infrastructure. For example, in an analysis by the Kaiser Commission on Medicaid and the Uninsured, a 1.0 percent increase in unemployment translates to an increase of one million in Medicaid and SCHIP enrollment, an increase of $3.4 billion in combined state and federal Medicaid spending, and an increase of 1.1 million in the uninsured population because many people who lose employer-sponsored coverage do not qualify for Medicaid.

Rhode Island is a state that is particularly hard-hit. The housing crisis and the rate of foreclosures had a negative impact on Rhode Island's economy. For example, the median sales price for a single-family home declined from a high of $282,900 in 2005 to $250,000 in the second quarter of 2008. As HousingWorks Rhode Island points out in its 2008 Fact Book, Rhode Islanders' use of sub-prime mortgages caused the state to have the highest number of foreclosures in New England. Sub-prime adjustable loans account for a fraction of the mortgages in Rhode Island – only 7.2 percent – but their prevalence here is over 30 percent higher than in Connecticut (5.8 percent) and Massachusetts (5.4 percent). In Rhode Island, 55 percent of foreclosures involve these types of loans.

In addition, the unemployment rate in Rhode Island of 8.5 percent in August of 2008 is the second highest in the country. Only Michigan has a higher unemployment rate. The high unemployment rate will place additional burden on the State's unemployment fund, as well as potentially increased spending for Medicaid. This, in turn, can worsen the State's already difficult fiscal situation.

Another concern could be the contribution of the finance and insurance industries to Rhode Island's gross domestic product. As the Rockefeller Institute points out Rhode Island's share of gross domestic product in the finance and insurance industry in 2007 was 12.1 percent, compared to 8.1 percent for the United States. This puts the Ocean State 6th highest in 2007, only behind Delaware, South Dakota, New York, Connecticut, and North Carolina.

Based on an analysis of the House Fiscal Staff on the FY 2009 first quarter revenue collections, revenue collections are $33.1 million below House Fiscal Staff estimates for that period. Coupled with the preliminary $33.7 million closing deficit for FY 2008 and an estimated $10.0 million settlement payment for the Station nightclub settlement, the State already faces an estimated $76.8 million current-year shortfall. There is also the potential for unachieved savings in the FY 2009 budget relating to personnel and Medicaid reform.

There have been recent calls to hold hearings on the FY 2008 deficit. When the hearings are held they should be used to determine the sources of the deficit, but more importantly to determine what it means for the future, as well as to address the following questions:

- What options does the State have to balance FY 2008 and what is the impact of these options on the State's overall fiscal situation?
- What implications does the FY 2008 shortfall have on the FY 2009 budget and out-years?
- What safeguards are needed to avoid an overspending in the future?
- Are the State's internal accounting procedures appropriate?

In addition, it is necessary for the State to reassess its fiscal situation after the November Estimating Conference has met to incorporate the updated revenue picture. These numbers will determine what adjustments are needed for the current FY 2009 budget. These results will also be the base for the next fiscal year 2010 that begins in July of 2009.

At that time, the State should also address if ongoing resources are adequate to support current operations. If needed, the Governor should submit a supplemental budget in early January 2009. The General Assembly should act upon the supplemental budget as soon as possible in order to have sufficient time to implement any additional fiscal control measures. Furthermore, fiscal discipline must be heightened during the intervening time period to ensure the proposed savings in FY 2009 are realized or alternative plans need to be implemented to meet the proposed savings and avoid additional shortfalls in future years.

Furthermore, as the next FY 2010 budget is considered, RIPEC recommends that the following questions be considered:

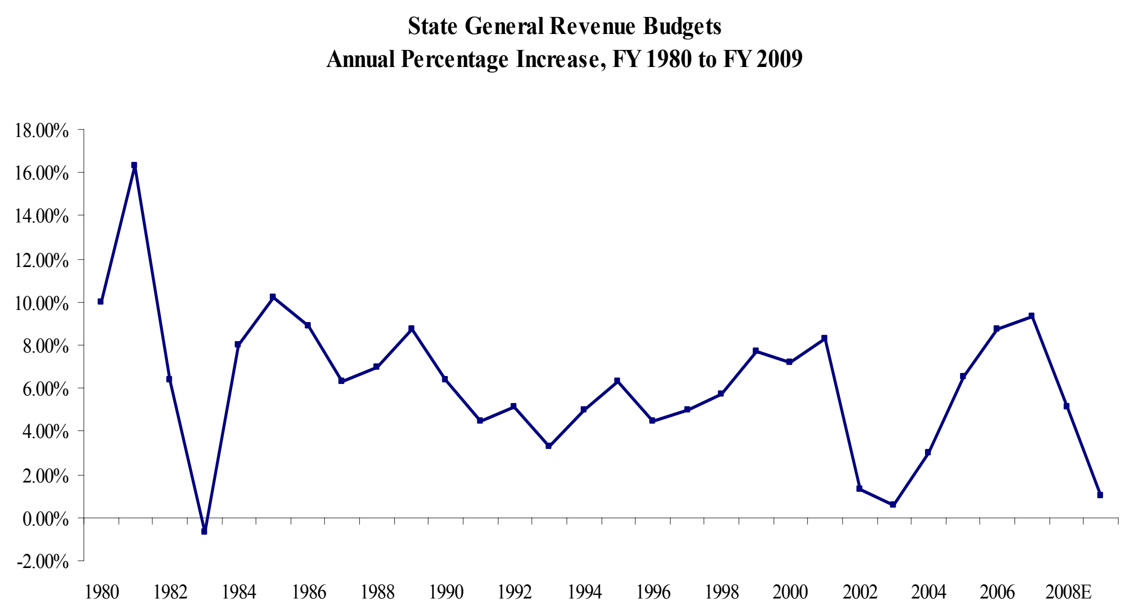
- What are the State's policy goals and what are the procedures to ensure they are met?
- Has the State assessed and ranked critical functions and developed cost reductions based on this prioritization?
- Are the use of broad across-the-board-cuts effective and do they support the State's policy goals?
- Are the State's ongoing resources adequate to support current operations?
- Are current obligations appropriately funded?
- Are expenditure priorities responsive to the need of citizens?
- Should the State consider alternative revenue sources, such as charges and fees?
- Does the State have a personnel system in place that addresses the State's needs in the future?
- Is the current municipal aid program effective in promoting fairness, accountability and equity?

Rhode Island continues to face difficult policy choices. Economic data show that the State currently is in a recession. As a result, declining tax revenues and increasing public need will continue to put pressure on State and local finances. The path the State takes to address these issues is of critical importance in order to establish the basic functions of State and local government in a realistic and affordable manner.

III. State and National Comparison

United States Overview

Economic conditions have had a significant impact on budgets across the country. According to "The Fiscal Survey of the States, June 2008", published by the National Association of State Budget Officers (NASBO) and the National Governors Association (NGA), 13 states reduced their FY 2008 budgets. Eighteen states recommended general revenue expenditures below the prior year for FY 2009. Nationally, general revenue budgets increased by 1.0 percent over FY 2008 estimates, the third lowest percentage increase since FY 1980 and approximately one-sixth of the historic average. On an adjusted basis, FY 2009 budgets nationwide decreased by 2.4 percent.



SOURCE: "The Fiscal Survey of the States, June, 2008" NASBO, NGA; NOTE: FY 2009 represents proposed budgets

The NASBO report also notes that revenue began weakening for many states in FY 2008; 20 states saw revenue collections below expectations in contrast to FY 2007 where only eight states reported lower-than-expected revenue collections. A number of revenue enhancements were proposed across the country, ranging from tax increases to increased enforcement activity. Overall, FY 2009 proposed net national tax and fee increases equaled $726 million. Additional proposed revenue enhancements totaled $3.4 billion.

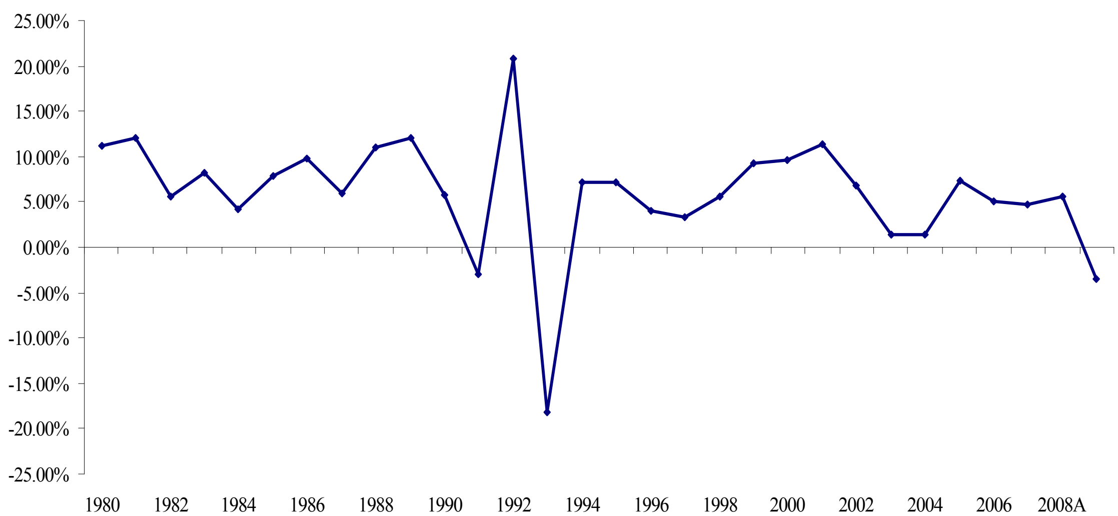
Nationally, FY 2009 proposed year-end balances remain higher than historical averages, but have declined since reaching a historic high in FY 2006 of 11.5 percent of expenditures. The average proposed FY 2009 budget balance was projected to equal 7.5 percent of expenditures. However, a number of states have started to draw down their rainy day funds in order to address budget deficits due to revenue shortfalls, and, as the report notes, declining balances over the past few years indicate the trend will continue as revenues become tighter.

Since the publication of the NASBO report, the fiscal condition across the country has worsened, due to the prolonged slump in the housing market, sustained high energy and oil costs, and the recent collapse of a number of financial institutions. The Center on Budget and Policy Priorities estimates that 15 states plus the District of Columbia have FY 2009 budget gaps. A number of states, including Massachusetts, are considering additional cuts while others have moved funds from reserve accounts in order to respond to lowered revenue collections and increased social services need.

Rhode Island Overview

Since FY 1980, general revenue expenditures in Rhode Island have increased at an average annual rate of 5.6 percent (3.7 percent adjusted). Fiscal year 2009 general revenue expenditures as enacted represented a 3.9 percent decrease from FY 2008 revised expenditures. However, FY 2008 expenditures were $27.0 million higher than appropriated (not including $1.7 million in reappropriations) based on the preliminary audit. The overspending was primarily due to not implementing the proposed furlough days and by not achieving budgeted savings from the 2.7 percent cut for non-payroll expenditures.

Rhode Island General Revenue Budget
Annual Percentage Increase, FY 1980 to FY 2009



SOURCE: State Budget Documents, RIPEC calculations; NOTE: FY 2008 represents preliminary audit, FY 2009 represents enacted

Tax collections in Rhode Island, particularly sales tax and business corporations tax collections, are showing signs of weakening. The preliminary FY 2008 audit noted that sales tax revenues were $8.0 million lower than projected and collections from the business corporations tax were $5.1 million lower. These decreases were partially offset by higher-than-expected returns from the personal income tax and insurance company taxes. Revenues from all sources, including taxes, fees and departmental receipts were $8.2 million lower than expected in FY 2008.

The House Fiscal Advisory Staff reports that first quarter FY 2009 revenue collections were $33.1 million below their estimates for the period. This represents a 4.4 percent falloff from House Fiscal Staff anticipated, year to date, collections. Tax revenues account for $24.4 million of this amount. Income tax represents the largest component of the lower tax revenues, with collections falling $16.6 million, or 6.3 percent, below expectations. Business corporations taxes were $5.0 million, or 23.9 percent, below the House Fiscal Staff estimates for the first quarter. Lower-than-expected sales and use taxes are the third largest single component of the $33.1 million, with total collections falling short by $4.4 million, or 1.9 percent.

FY 2009 First Quarter General Revenues
($ million)

General Revenues	FY 2009 Est.	FY 2009 Q1 Est.	FY 2009 YTD	Q1 Est - Q1 YTD Change	%
Taxes					
Personal Income Tax	$1,124.2	$261.9	$245.3	($16.6)	-6.3%
General Business Taxes					
Business Corporations	161.0	20.9	15.9	($5.0)	-23.7%
Public Utilities Gross Earnings	100.0	1.5	5.0	3.5	233.3%
Financial Institutions	1.1	-3.0	0.0	3.0	-100.0%
Insurance Companies	77.8	0.1	-1.6	(1.7)	-1700.0%
Bank Deposits	1.7	0.0	0.0	0.0	0.0%
Health Care Provider Assessment	47.4	11.6	12.0	0.4	3.4%
Subtotal General Business Taxes	*$389.0*	*$31.1*	*$31.3*	*$0.2*	*0.8%*
Sales & Use Tax					
Sales and Use	863.1	234.0	229.6	($4.4)	-1.9%
Motor Vehicle	45.7	7.0	6.7	(0.3)	-4.6%
Motor Fuel	1.2	0.2	0.2	0.0	0.0%
Cigarette Tax	114.5	30.7	31.7	1.0	3.3%
Alcohol	11.1	2.8	2.9	0.1	3.6%
Subtotal Sales & Use Tax	*$1,035.6*	*$274.7*	*$271.1*	($3.6)	-1.3%
Other Taxes	51.5	14.6	10.2	($4.4)	-30.1%
Subtotal - Taxes	*$2,600.3*	*$582.2*	*$557.9*	*($24.4)*	*-4.2%*
Department Receipts	$347.6	$115.8	$109.2	($6.6)	-5.7%
Other Sources*	398.8	63.0	60.8	(2.2)	-3.5%
Total Revenues	**$3,346.7**	**$761.0**	**$727.9**	**($33.1)**	**-4.4%**

Source: House Fiscal Advisory Staff "First Quarter Collections" memo, RIPEC calculations

FY 2009 Est. represents Fy 2009 estimates from the FY 2009 Enacted estimate; Q1 Est. and Year-to-Date (YTD) columns are based on quarterly spreads calculated by the House Fiscal Advisory Staff and are not part of the official revenue estimate. The YTD column shows the cumulative general revenue collections from the beginning of the fiscal year.

As noted above, the FY 2008 preliminary audit found expenditures were $27.0 million higher than enacted and revenues were $8.2 million lower than anticipated. Including the $1.7 million in reappropriations and applying the previously projected surplus, FY 2008 will close with a deficit of $33.6 million. This represents the first time that Rhode Island has ended a fiscal year with a negative balance.

National and Rhode Island Economic Outlook

1. Unemployment:

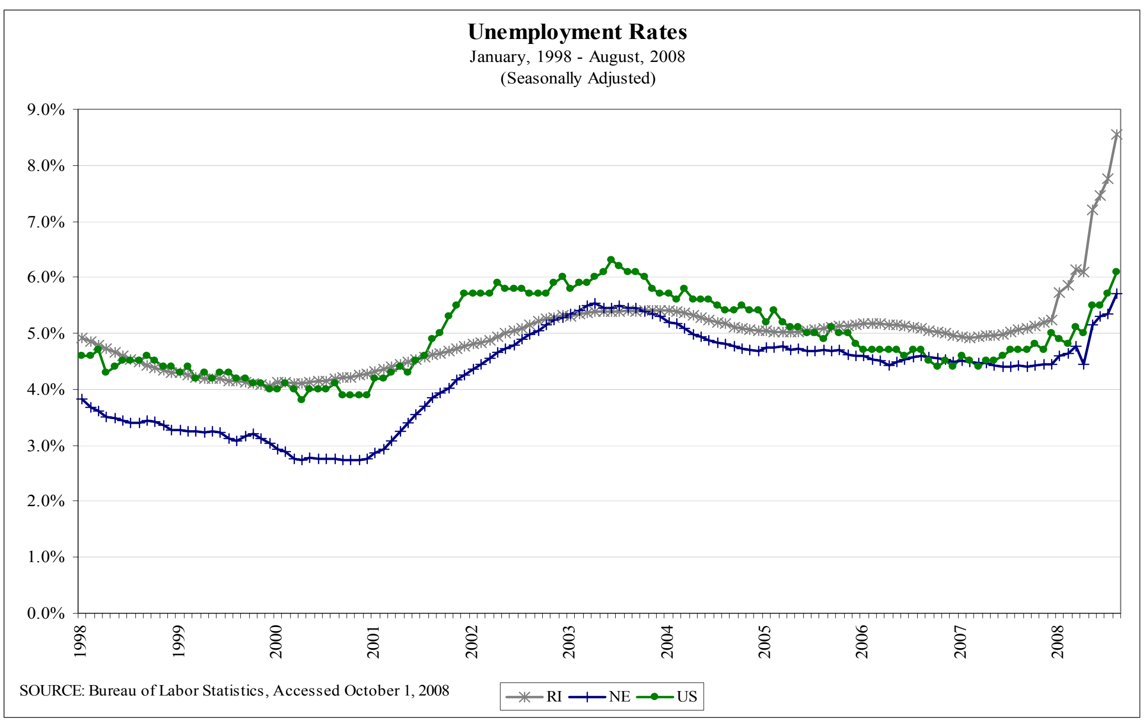
Rhode Island's seasonally adjusted unemployment rate in August, 2008 was 8.5 percent, which was higher than both the United States and New England rates and was the second highest in the country behind Michigan. This represents the highest rate of unemployment in Rhode Island since December, 1992. Nationally, the unemployment rate of 6.1 percent in August was the highest since September, 2003. The New England region saw the highest unemployment rate in more than a decade. Since August, 2007, the unemployment rate in Rhode Island has grown by 3.5 percent, more than double the national average and regional increase and more than three times the increase in Massachusetts.

Unemployment Rate
August 2007 - August 2008

State	2008	2007	Change
United States	6.1%	4.7%	1.4%
New England	5.7%	4.4%	1.3%
Connecticut	6.5%	4.6%	1.8%
Maine	5.5%	4.8%	0.7%
Massachusetts	5.3%	4.4%	0.9%
New Hampshire	4.2%	3.4%	0.7%
Rhode Island	8.5%	5.1%	3.5%
Vermont	4.9%	3.8%	1.1%

SOURCE: US Bureau of Labor Statistics; RIPEC Calculations
In August, 2008 Michigan had an unemployment rate of 8.9%

For the majority of the past ten years Rhode Island has had higher unemployment than the region as a whole. Further, since October, 2005, Rhode Island's unemployment rate has remained higher than the national average. The State's current unemployment rate is higher than peak unemployment during this same time period for all New England states and the national average.



2. Personal Income:

In CY 2007, Rhode Island's personal income per capita of $39,463 was 2.3 percent higher than the national average of $38,611 and 19.3 percent lower than the New England average of $49,085. This level of personal income ranked the State 17th highest in the country, up from 19th highest in CY 1997. In all years Connecticut ranked first and Massachusetts was the 3rd highest across the country.

Over the past ten years, per capita personal income in Rhode Island has grown by 55.7 percent, compared to the national average of 52.4 percent. The New England states saw per capita personal income grow 58.1 percent during this time period. Nationally, Wyoming saw the greatest increase in per capita personal income growth, increasing by 84.6 percent over CY 1997 per capita personal income while Michigan experienced the growth of just 38.3 percent ranking the State 50th in the country.

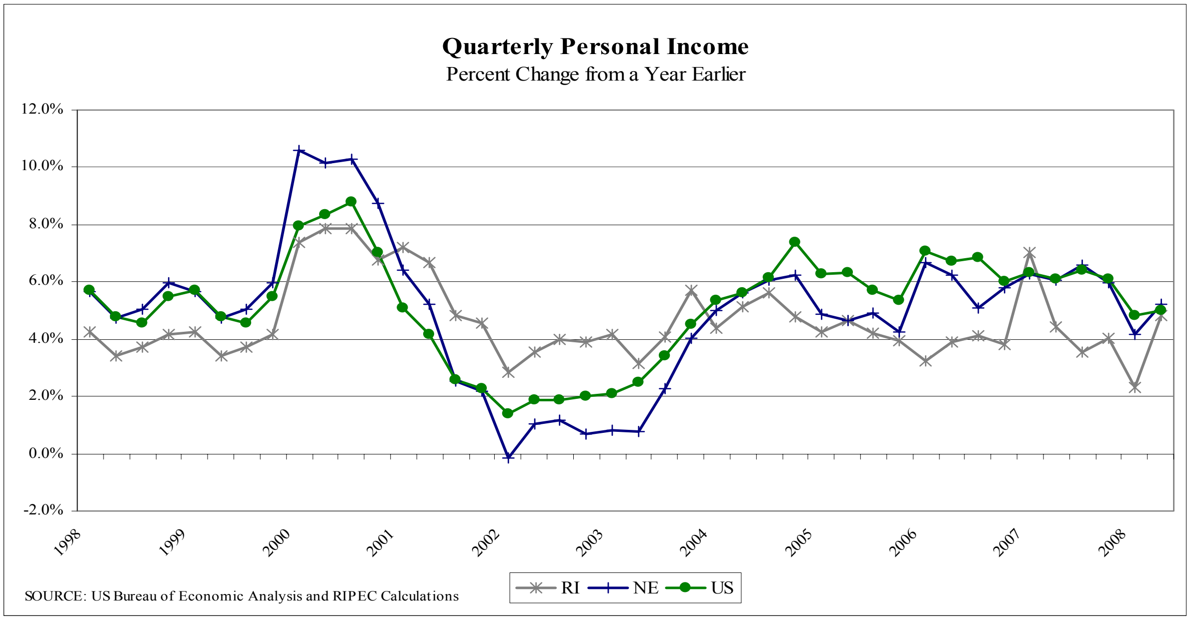
Personal Income per Capita
1997-2007

							1997-2007		
State	**2007**	**R**	**2002**	**R**	**1997**	**R**	**Amount**	**Change**	**Rank**
US Ave.	$38,611	-	$30,821	-	$25,334	-	$13,277	52.4%	-
New England Ave.	$49,085	-	$39,064	-	$31,046	-	$18,040	58.1%	-
Connecticut	$54,117	1	$42,585	1	$34,375	1	$19,742	57.4%	9
Massachusetts	49,082	3	38,862	3	30,498	3	18,584	60.9%	5
Rhode Island	39,463	17	31,527	15	25,341	19	14,122	55.7%	12

SOURCE: Bureau of Economic Analysis; US Bureau of the Census; RIPEC Calculations

Recent data from the Bureau of Economic Analysis (BEA) had shown personal income growth slowing in Rhode Island, the New England region and across the country. The Ocean State's personal income growth in the first quarter of 2008, when compared to one year prior, was 2.3 percent which was the slowest in the country. Nationally, the first quarter year-over-year increase in personal income was 4.8 percent, and growth in the New England region was 4.2 percent.

As was the case across most of the country, personal income in Rhode Island increased in the second quarter of 2008, primarily due to the effects of the Economic Stimulus Act of 2008. Based on the most recent information from the BEA, personal income in the second quarter of 2008, when compared to a year earlier, was 5.0 percent higher nationally, 5.2 percent higher in New England, and 4.8 percent higher in Rhode Island. Rhode Island's year-over-year quarterly growth ranked the State 27th highest in the country for the second quarter of 2008, a significant improvement from the first quarter of the year when the State ranked 50th highest in the country.

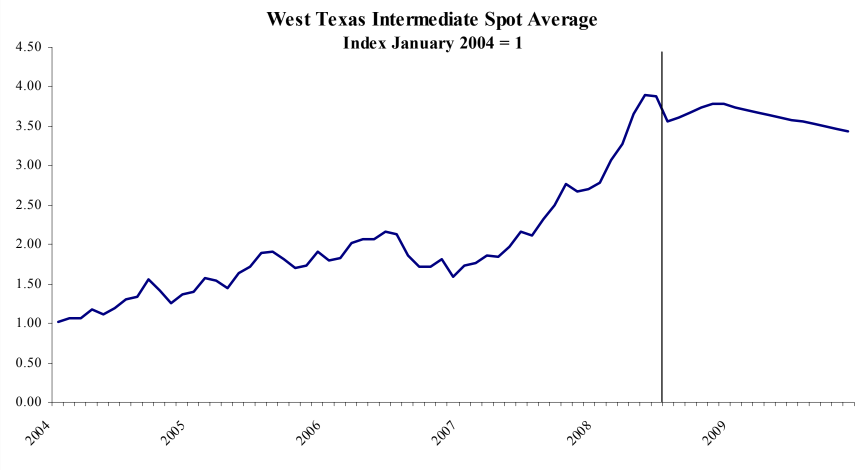


3. Energy Prices:

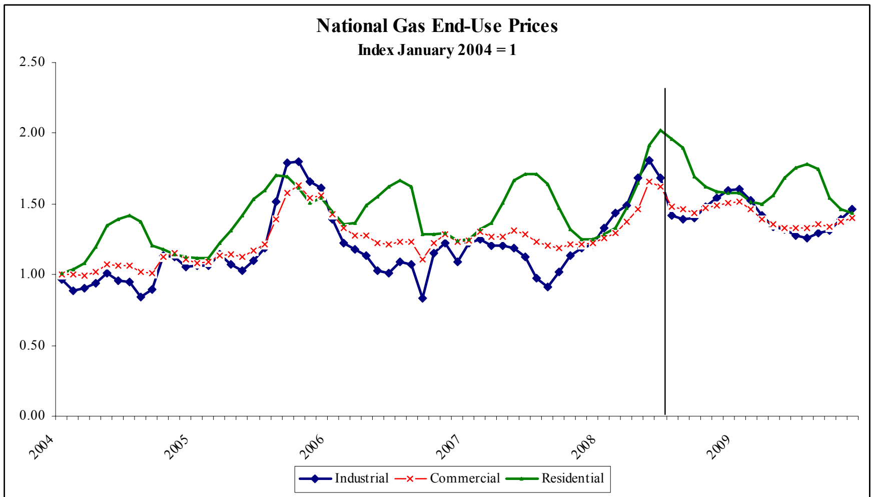
The high cost of energy has a significant impact on economies due to its impact on production, transportation and heating/cooling. As a result, increases in energy costs have ripple effects throughout an economy. The following uses data from the Energy Information Association (EIA), which is the statistical arm of the United States Department of Energy.

Data from the EIA show the increase in cost for light sweet crude. The data indicate that the cost of oil reached its apex in June, 2008. The EIA projects that oil prices will continue to fall though 2009 but that oil will remain above $110 ppb. At the November, 2007 Economic Consensus Conference (ECC), economists from Global Insight noted risks to the national and State economy if oil were to remain at $95 ppb. In the intervening months, the price of oil continued to rise and in the May, 2008 ECC, Global Insight said it appeared that both Rhode Island and the country were in a recessionary period in part due to economic pressures resulting from high oil costs. Oil prices reached a record high of $147 ppb in July. Prices have since receded, but remain in the $90 range. Also in July, home heating oil prices reached a record high, with an average price per gallon of $4.749. The spot price of heating oil has since dropped to approximately $2.95 per gallon; however, this price remains above historic averages.

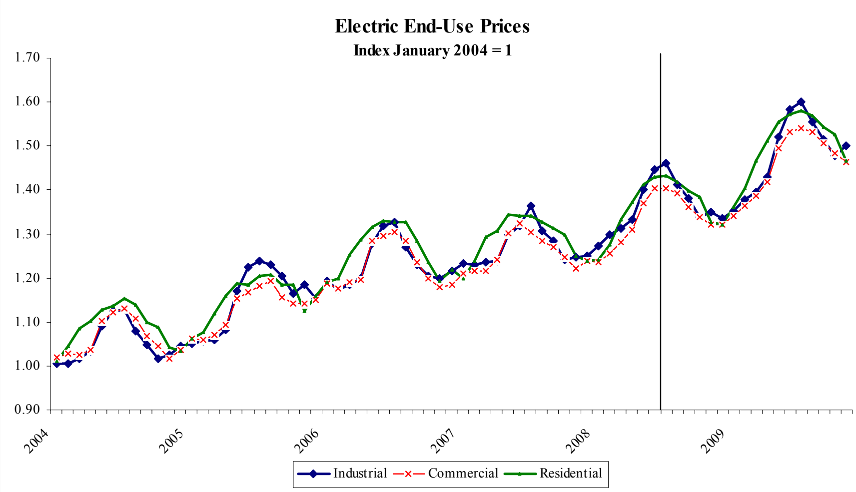
Natural gas prices have not increased as fast as oil and are more cyclic in nature. End-use prices for commercial and industrial customers reached a high in June, 2008 while residential customers saw prices peak in July, 2008. The EIA projects that natural gas prices will begin to fall through the rest of 2008 and will rise again in the summer of 2009. Similarly, electric end-use prices are cyclic in nature but have been trending upward since January, 2004. In contrast to natural gas end-use prices, however, the EIA projects electricity prices will continue their upward trend throughout 2009. In July, the Public Utilities Commission (PUC) approved National Grid's request for a 21.7 percent increase in electric prices and an 8.0 percent increase in natural gas charges. At the beginning of September, the company returned to the PUC, seeking to lower Rhode Island customer rates by 4.6 percent, which would be partially offset by a 5.0 percent increase in natural gas distribution rates.



SOURCE: Energy Information Administration "Short Term Energy Outlook, August, 2008"; RIPEC calculations



SOURCE: Energy Information Administration "Short Term Energy Outlook, August, 2008"; RIPEC calculations



SOURCE: Energy Information Administration "Short Term Energy Outlook, August, 2008"; RIPEC calculations

4. Housing Markets:

The decline in the housing market has had an impact on the economy as well. Individuals and sectors of the economy directly associated with housing markets, such as construction and decorating trades, have seen sales drop and unemployment rise. There is also a broader impact on financial markets, including the recent bank failures and the tightening of credit. Finally, borrowers with adjustable rate mortgages continue to see increases in monthly payments as the market becomes more volatile.

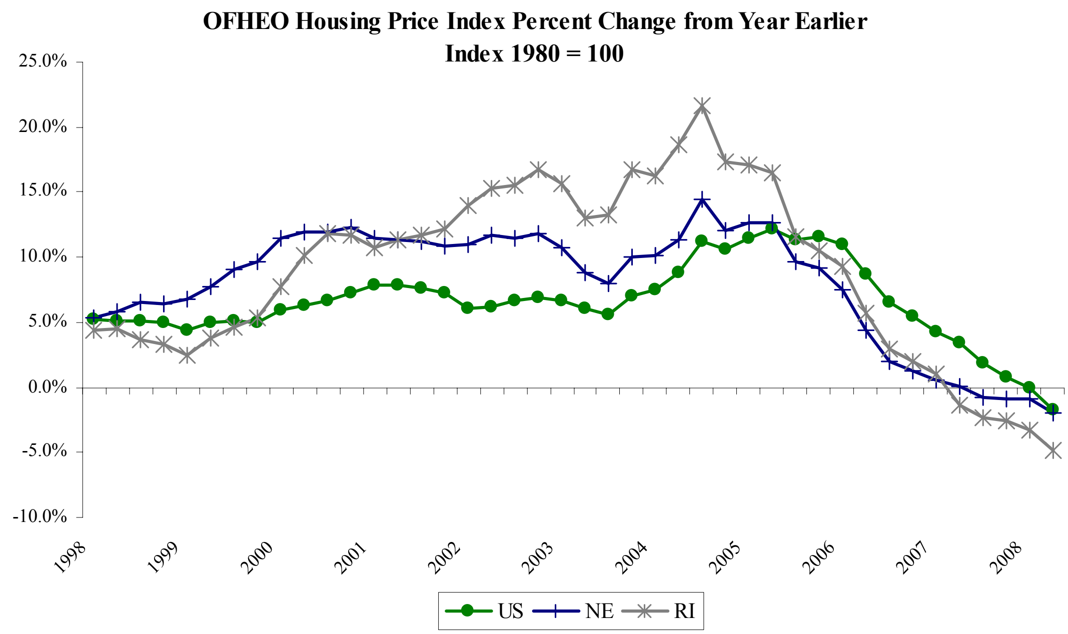
Total Existing Home Sales (Single Family, Condos, and Coops)
($ thousands, seasonally adjusted at annual rates)

Qtr.	US	CT	MA	RI
2005 Q1	6,940	84.6	148.4	19.6
2005 Q2	7,193	79.7	144.4	19.6
2005 Q3	7,180	82.5	152.4	20.4
2005 Q4	6,943	77.2	146.4	19.6
2005 Annual Average	*7,064*	*81.0*	*147.9*	*19.8*
2006 Q1	6,863	74.8	140.8	20.0
2006 Q2	6,627	75.6	134.8	18.0
2006 Q3	6,287	69.2	121.2	19.8
2006 Q4	6,263	66.0	120.8	16.0
2006 Annual Average	*6,510*	*71.4*	*129.4*	*18.5*
2007 Q1	6,363	69.6	140.0	18.8
2007 Q2	5,870	67.2	129.6	17.2
2007 Q3	5,457	62.0	120.8	16.8
2007 Q4	4,997	54.4	110.8	13.6
2007 Annual Average	*5,672*	*63.3*	*125.3*	*16.6*
2008 Q1	4,950	52.8	99.2	13.2
2008 Q2	4,913	49.6	106.4	13.6

Source: National Association of Realtors; Federal Reserve Bank of Boston

Data from the National Association of Realtors show total existing home sales across the country declined 19.7 percent between 2005 and 2007, and the first two quarters of 2008 predict a continued drop. Of the three southern New England states, Connecticut has seen the largest decrease in existing home sales volume, falling 21.9 percent over the three-year time period. Sales in Rhode Island dropped 16.2 percent and sales in Massachusetts dropped 15.3 percent. The first two quarters of 2008 indicate a continued decline in existing home sales, with national and Rhode Island sales volumes falling approximately 30 percent below 2005 annual average rates.

Another indicator of the housing market is the Home Price Index (HPI) from the Office of Federal Housing Enterprise Oversight (OFHEO). This indicator is a broad measure of single-family house prices, represented by a weighted, repeat-sales index. That is, data is collected by reviewing repeat mortgage transactions on single-family purchases whose mortgages are held by Fannie May or Freddie Mac.



SOURCE: Federal Reserve Bank of Boston, Indicators Interactive; RIPEC calculations

The chart above shows the one-year percent change in the index over the past ten years. Nationwide, the OFHEO HPI showed year-over-year declines for the first two quarters of 2008, falling 1.7 percent between Q2 in 2007 and Q2 in 2008. The New England region has experienced a decline in the index, relative to the year prior, for the past four quarters, and a year-to-year decline of 2.0 percent in the second quarter. While Rhode Island has only had one more quarter of negative growth in the index, the one-year declines have been larger, reaching a 4.8 percent one-year drop in the second quarter of this year. At the same time, the Ocean State also saw much larger gains in the index since the beginning of the decade.

Median Home Price -- Single Family
2005 - 2008Q2

	US	RI
2005 Annual Average	217,475	282,900
2006 Annual Average	221,875	282,500
2007 Annual Average	215,525	275,000
2008 Q1	196,300	245,000
2008 Q2	206,500	250,000

Source: National Association of Realtors and Federal Reserve Bank of Boston for national data; RILiving.com for RI data

While median housing prices in Rhode Island remain higher than national prices, housing prices have fallen faster in the Ocean State than across the country. Between 2005 and 2007, the statewide median sales price fell $7,900, or 2.8 percent in Rhode Island. Nationally, the median price fell $1,950, or 0.9 percent. Home prices continued their decline in the first quarter of 2008, but gained a little in the second quarter of the year. However, median home prices in the first two quarters of 2008 remain significantly lower than the three preceding years for both the nation and the State.

IV. Appendix

The current financial crisis has undoubtedly had an effect on state and local budgets throughout the country. Falling property values due to the wave of foreclosures will impact municipalities that principally rely on property taxes for revenues, while rising unemployment lowers state income tax receipts. Budgets are further strained by increasing social need during economic downturns. The ability of states and municipalities to recover from the current situation will depend, in part, on the structure of their revenue and expenditure systems, as well as their willingness to reform those systems in order to efficiently and effectively meet the needs of their residents.

This appendix is intended to complement the preceding report by providing a historical perspective of Rhode Island's revenue and expenditure trends between FY 1996 and FY 2006. In addition to giving an overview of Rhode Island's revenues and expenditures, this section highlights some issues for further examination as the State works to address budgetary challenges that have resulted from a long-standing structural deficit and a weakening economy.

Included in this appendix is an analysis of personal income per capita and of a number of revenue and expenditure categories. This overview compares Rhode Island to its two neighbor states, Connecticut and Massachusetts, as well as Delaware, Maryland, and the national average. Delaware and Maryland are included as their geographic size and population density make them ideal comparison states. Revenue, expenditure and population data are from the United States Bureau of the Census and personal income data are from the Bureau of Economic Analysis. The 50-state revenue and expenditure tables have been published previously and are available on-line at: www.ripec.org

Both revenues and expenditure are compared on a per capita and a per $1,000 of personal income basis. Per capita refers to the amount of state and local expenditures/revenues divided by the number of residents in the state. Measuring on a per capita basis shows the level of government spending for a particular service for each resident in a state and the share of the tax burden per resident. However, this measure does not reflect the ability to pay for or the demographic characteristics of a state. Per $1,000 of personal income refers to the amount of state and local expenditures/revenues expended or collected per every $1,000 of personal income generated by the state's residents, which provides some measure of a state's residents' ability to pay.

While personal income in Rhode Island was slightly higher than the national average, ranking 17th highest in the country, in FY 2006, State and local tax revenue and expenditures per capita experienced faster growth than personal income over the past ten years. As shown on the following Tables, between FY 1996 and FY 2006, per capita personal income in the Ocean State grew by 50.6 percent, while tax collections increased by 60.1 percent and expenditures increased by 60.0 percent. By contrast, per capita personal income in Connecticut grew at a faster pace than either tax revenues or expenditures. Personal income in Massachusetts increased 6.7 percent faster than per capita tax collections and 3.2 percent less than direct general expenditures.

Table 1
Personal Income Per Capita
Fiscal Years 1996 and 2006

State	FY 2006	R	FY 1996	R	Change Amount	Change	Rank
U.S.	$35,585	-	$23,794	-	$11,791	49.6%	-
Connecticut	$49,331	1	$32,217	1	17,114	53.1%	12
Delaware	38,102	11	25,259	11	12,843	50.8%	19
Maryland	42,554	5	26,901	5	15,652	58.2%	6
Massachusetts	45,030	2	28,451	3	16,579	58.3%	5
Rhode Island	**36,593**	**17**	**24,298**	**16**	**12,295**	**50.6%**	**21**

Source: Bureau of Economic Analysis State Personal Income; US Census Bureau Population Estimates; RIPEC Calculations

In this regard, Rhode Island looks more similar to both Delaware and Maryland than to its neighboring states. While growth in per capita tax revenues in Delaware was similar to per capita personal income growth over the ten-year period, per capita direct general expenditures grew 16.6 percent faster than personal income during this time. Per capita personal income in Maryland was the 5th highest in both surveyed years, and grew at the 6th fastest rate in the country; however, growth in tax revenue collections outpaced personal income growth by 6.6 percent and expenditures grew 5.5 percent faster.

Table 2
Total State and Local Tax Collections
Per Capita
Fiscal Years 1996 and 2006

	2006		1996		Change 1996-06		
	Amount	Rank	Amout	Rank	Amount	Change	Rank
U.S.	$4,000	-	$2,597	-	$1,403	54.0%	-
Connecticut	5,670	3	3,831	2	1,839	48.0%	36
Delaware	4,240	14	2,822	9	1,417	50.2%	30
Maryland	4,592	8	2,786	11	1,806	64.8%	8
Massachusetts	4,759	7	3,139	6	1,620	51.6%	25
Rhode Island	**4,384**	**12**	**2,738**	**13**	**1,646**	**60.1%**	**13**

Source: U.S. Census Bureau, State and Local Finances 1996, 2006, and RIPEC calculations.

Per capita measures provide only a partial picture of the cost of government. Another way to look at revenues and expenditures is on a per $1,000 of personal income basis. This measure provides perspective on the affordability of government for residents as the statistic can be considered as a percent of personal income. It should be noted that this measure is relative to personal income and states with high personal income, and fast growth, such as Connecticut, will rank lower than they would under other measures, and will often show revenue collections or expenditures decreasing over time. Similarly, states with lower personal income will show a relatively larger increase in revenue collections and expenditures.

Table 3
Direct General Expenditures*
Per Capita
Fiscal Years 1996 and 2006

	2006		1996		Change 1996-06		
	Amount	Rank	Amout	Rank	Amount	Change	Rank
U.S.	$7,101	-	$4,483	-	$2,618	58.4%	-
Connecticut	7,842	9	5,338	5	2,504	46.9%	43
Delaware	8,740	4	5,218	8	3,522	67.5%	13
Maryland	7,013	21	4,284	22	2,729	63.7%	19
Massachusetts	8,143	6	5,044	9	3,099	61.4%	20
Rhode Island	**7,725**	**10**	**4,828**	**11**	**2,897**	**60.0%**	**23**

* Direct General Expenditures include all expenditures except expenditures for utilities, liquor store, insurance trust, and intergovernmental expenditures.

Source: U.S. Census Bureau, State and Local Finances 1996, 2006, and RIPEC calculations.

Table 4 shows that Rhode Island's State and local tax collections in FY 2006 amounted to $119.79 per $1,000 of personal income. This amount of taxes paid to support government ranked Rhode Island 10th highest among the 50 states. This means the State's effective tax collections accounted for 12.0 percent of personal income, which was higher than the national average and all four states included in this summary.

Table 4
Total State and Local Tax Collections
Per $1,000 of Personal Income
Fiscal Years 1996 and 2006

	2006		1996		Change 1996-06		
	Amount	Rank	Amout	Rank	Amount	Change	Rank
U.S.	$112.41	-	$109.16	-	$3.25	3.0%	-
Connecticut	114.94	19	118.91	9	-3.97	-3.3%	42
Delaware	111.27	24	111.74	14	-0.47	-0.4%	35
Maryland	107.92	28	103.57	33	4.35	4.2%	22
Massachusetts	105.69	36	110.33	23	-4.64	-4.2%	45
Rhode Island	**119.79**	**10**	**112.69**	**12**	**7.10**	**6.3%**	**12**

Source: U.S. Census Bureau, State and Local Finances 1996, 2006, and RIPEC calculations.

Between FY 1996 and FY 2006, total State and local tax collections in Rhode Island increased by 6.3 percent on a per $1,000 of personal income basis, which was more than twice as fast as the increase of the national average. During this time period, total collections in Connecticut, Delaware and Massachusetts decreased. While total tax collections in Maryland increased by 4.2 percent during this time period, this rate of increase was notably slower than in Rhode Island.

As in past years, Rhode Island's over-reliance on the property tax remains the primary driver behind the State's high tax ranking. Property tax collections account for 40.3 percent of all state and local revenue tax collections compared to the national average of 30.4 percent. When measured on a per capita basis, property tax collections in Rhode Island were 47.1 percent higher than the national average. On a per $1,000 of personal income basis, property tax collections were 43.1 percent higher than the United States average.

Property tax collections per $1,000 of personal income in the Ocean State were the highest of the five states in this analysis: Connecticut ranked 8th highest, Delaware ranked 48th highest, Maryland ranked 40th highest and Massachusetts ranked 17th highest for property tax collections. It should be noted that the impact of recent actions to control the rate of growth in the property tax, such as the passage of the Property Tax Relief Act of 2006 (S 3050), will not be evident in this analysis due to the time frame considered here. The Act limited the rate of growth in the property tax levy to 5.5 percent in FY 2007, and lowers the maximum levy growth by 0.25 percent each succeeding year to a maximum rate of growth of 4.0 percent in FY 2013.

In both FY 1996 and FY 2006, expenditures in the Ocean State, outlined on Table 3, were higher than the national average and all comparison States with the exception of Delaware. For the ten-year period between FY 1996 and FY 2006, expenditures in Rhode Island increased by 6.2 percent, which was the 23rd highest rate of growth in the country and the second fastest rate of growth among the comparison states. As with per capita expenditures, Delaware had the highest expenditures of all five states in both years and saw the greatest increase in direct general expenditures, increasing by 11.0 percent over the ten-year period. In FY 2006 Delaware and Rhode Island were the only two surveyed states that were not in the bottom ten for expenditures per $1,000 of personal income.

Table 5
Direct General Expenditures*
Per $1,000 of Personal Income
Fiscal Years 1996 and 2006

	2006		1996		Change 1996-06		
	Amount	Rank	Amout	Rank	Amount	Change	Rank
U.S.	$199.56	-	$188.42	-	$11.14	5.9%	-
Connecticut	158.96	50	165.70	45	-6.74	-4.1%	47
Delaware	229.38	11	206.59	14	22.79	11.0%	13
Maryland	164.80	48	159.24	48	5.56	3.5%	33
Massachusetts	180.83	41	177.30	37	3.53	2.0%	37
Rhode Island	**211.11**	**21**	**198.70**	**20**	**12.41**	**6.2%**	**23**

* Direct General Expenditures include all expenditures except expenditures for utilities, liquor store, insurance trust, and intergovernmental expenditures.

Source: U.S. Census Bureau, State and Local Finances 1996, 2006, and RIPEC calculations.

As is the case throughout the country, the two largest expenditure categories for State and local governments were Medicaid/vendor payments and Elementary/Secondary Education. In FY 2006 these two expenditures accounted for 36.5 percent of all direct general expenditures nationally. At the same time, however, Rhode Island's combined expenditures for these two categories outpaced the national average, accounting for 44.7 percent of direct general expenditures.

Expenditures for Medicaid/vendor payments remain the primary driver of expenditure growth in Rhode Island. These expenditures accounted for just 11.2 percent of the State's budget in FY 1996, but comprised 21.0 percent of all direct general expenditures in FY 2006. Expenditures in this category increased in relative terms as well; Rhode Island ranked 16th highest per $1,000 of personal income in FY 1996, whereas the State ranked 2nd highest in FY 2006 (only Maine had higher Medicaid/vendor payment expenditures).

FY 2006 Revenues and Expenditures per Capita

The following summarizes per capita State and local revenues and expenditures for selected categories. Analysis of the data, presented in Table 6, show:

- The State's property tax collections of $1,768 per capita were 47.1 percent higher than the national average. They were higher than property tax collections in Delaware, Maryland and Massachusetts, but lower than collections in Connecticut;

- While Rhode Island's individual income tax collections of $955 per capita were 6.2 percent above the national average, they were significantly lower than the other four surveyed States;

- FY 2006 per capita corporate income tax collections in Rhode Island were $159. This was 10.2 percent lower than the national average of $177 per capita, ranking the State 18th highest in the country. Both Delaware and Massachusetts ranked in the top ten States;

- The Ocean State ranked 30th for FY 2006 per capita sales tax collections of $800, which was 15.3 percent below the national average; however, out of the States included in this analysis, only Connecticut had higher per capita sales tax collections in FY 2006;

- Rhode Island's FY 2006 collections of charges and miscellaneous general revenue were $1,573, or 12.7 percent lower than the national average of $1,802. The State ranked 39th highest in the country;

- The State ranked in the top 10 states in five categories: elementary and secondary education (8th), Medicaid/vendor payments (2nd), cash assistance payments (7th), fire (1st), and housing and community development (5th) and in the bottom 10 states in three areas: for higher education (40th); highways (44th); and parks and recreation (50th);

- Expenditures for Medicaid/vendor payments in the Ocean State totaled $1,622 per capita and were significantly higher than the other States in this analysis, with the exception of Massachusetts;

- In FY 2006, Rhode Island's expenditure on elementary and secondary education of $1,833 was lower than both Connecticut and Delaware, but were higher than the national average, Maryland and Massachusetts;

- Expenditures on cash assistance payments in Rhode Island were significantly higher than all of the States in this analysis, and were over 4.5 times greater than expenditures in Delaware;

Table 6
State and Local Revenues and Expenditures Per Capita
How Rhode Island Compares to the United States Average
Fiscal Year 2006

	U.S.	Rhode Island			Connecticut			Delaware			Maryland			Massachusetts		
State and Local Revenues	**Amount**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**
Tax Revenues																
Property	$1,202	$1,768	7	**147.1%**	$2,159	2	179.6%	$622	43	51.7%	$1,062	26	88.3%	$1,682	8	139.9%
Individual Income	899	955	17	**106.2%**	1,648	3	183.3%	1,261	8	140.3%	1,754	2	195.1%	1,629	4	181.2%
Corporate Income	177	159	18	**89.8%**	181	14	102.3%	346	3	195.5%	151	20	85.2%	289	5	163.3%
General Sales	944	800	30	**84.7%**	868	23	91.9%	-	46	0.0%	602	43	63.8%	623	41	66.0%
Total State and Local Taxes	$4,000	$4,384	12	**109.6%**	$5,670	3	141.8%	$4,240	14	106.0%	$4,592	8	114.8%	$4,759	7	119.0%
Charges and Misc. Revenues	$1,802	$1,573	39	**87.3%**	$1,277	49	70.9%	$2,762	3	153.3%	$1,453	45	80.6%	$1,844	19	102.3%
Total Revenues*	$9,169	$9,622	10	**104.9%**	$9,574	12	104.4%	$9,920	6	108.2%	$8,613	25	93.9%	$10,347	5	112.8%

	U.S.	Rhode Island			Connecticut			Delaware			Maryland			Massachusetts		
State and Local Expenditures	**Amount**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**
El. & Sec. Education	$1,675	**$1,833**	**8**	**109.4%**	$2,085	5	124.5%	$1,894	7	113.1%	$1,731	14	103.3%	$1,803	9	107.6%
Higher Education	642	**559**	**40**	**87.1%**	606	34	94.4%	1,011	3	157.4%	721	20	112.4%	551	42	85.8%
Medicaid/Vendor Paym.**	920	**1,622**	**2**	**176.3%**	956	19	103.9%	1,059	15	115.1%	867	24	94.2%	1,572	3	170.9%
Cash Assistance	73	**117**	**7**	**160.3%**	80	15	109.6%	25	38	34.2%	60	20	82.2%	77	16	105.5%
Highways	453	**370**	**44**	**81.7%**	364	45	80.4%	726	6	160.3%	433	30	95.6%	350	48	77.3%
Police	265	**268**	**13**	**101.1%**	258	16	97.4%	335	5	126.4%	286	10	107.8%	260	15	98.1%
Fire	114	**228**	**1**	**200.0%**	130	11	114.0%	35	50	30.4%	127	12	111.1%	152	5	133.3%
Parks & Recreation	202	**97**	**50**	**48.0%**	101	49	50.0%	219	23	108.4%	278	12	137.6%	102	48	50.5%
Housing & Comm. Dev.	140	**198**	**5**	**141.4%**	186	6	132.9%	141	15	100.7%	172	8	122.9%	234	3	167.1%
Governm. Administration	373	**472**	**7**	**126.5%**	431	14	115.5%	714	2	191.4%	402	18	107.8%	360	26	96.5%
Total Expenditures***	$7,101	**$7,725**	**10**	**108.8%**	$7,842	9	110.4%	$8,740	4	123.1%	$7,013	21	98.8%	$8,143	6	114.7%

*Revenues include: intergovernmental revenues; all tax revenues; charges and misc. general revenues; utility, liquor store, and insurance trust revenues.

** Includes Medicaid and other public welfare vendor payments.

*** Direct General Expenditures include all expenditures except expenditures for utilities, liquor store, insurance trust, and intergovernmental expenditures.

Source: U.S. Census Bureau, State and Local Finances, 1996 and 2006; RIPEC calculations

FY 2006 Revenues and Expenditures per $1,000 of Personal Income

Table 7 provides an analysis of Rhode Island's FY 2006 revenue collections and expenditures per $1,000 of personal income. The data show:

- Rhode Island's FY 2006 property tax collections of $48.32 per $1,000 of personal income ranked the State in the top ten in the country and the highest of all surveyed states;

- FY 2006 property tax collections per $1,000 of personal income in the State were 43.1 percent higher than the national average and were higher than and four other states included in this analysis;

- Individual income tax collections in the Ocean State of $26.10 per $1,000 of personal income were 3.3 percent higher than the national average of $25.26 but were the lowest among Connecticut, Delaware, Maryland and Massachusetts;

- FY 2006 corporate income tax collections in Rhode Island of $4.35 per $1,000 of personal income were slightly lower than the United States average of $4.98 and were significantly lower than collections in Massachusetts and Delaware, but higher than corporate tax collections in Connecticut and Maryland;

- Sales tax collections in all of the surveyed States were lower than the national average of $26.54 per $1,000 of personal income; however Rhode Island's sales tax collections of $21.87 per $1,000 of personal income were significantly higher than any of the States;

- All three southern New England States and Maryland ranked in the bottom ten for collections of charges and other miscellaneous general revenue, while Delaware ranked 6th highest;

- Rhode Island ranked in the top 10 states for per $1,000 of personal income expenditures for cash assistance payments (9th), Medicaid/vendor payments (2nd), fire protection (1st), and housing and community development (4th); and in the bottom 10 states for per $1,000 of personal income expenditures for higher education (41st); highways (44th); and parks and recreation (48th);

- Expenditures in Rhode Island were higher than Connecticut and Massachusetts in all categories of expenditures;

- Delaware and Maryland had higher expenditures on higher education, highways, and parks and recreation while Rhode Island, Connecticut, and Massachusetts had low spending in these categories. This reflects, in part, New England's geography and tradition of private colleges; and

- Rhode Island spent significantly more per $1,000 of personal income than the four other States on Medicaid/vendor payments, cash assistance programs, elementary and secondary education, and fire protection.

Table 7
State and Local Revenues and Expenditures Per $1,000 of Personal Income
How Rhode Island Compares to the United States Average
Fiscal Year 2006

	U.S.	Rhode Island			Connecticut			Delaware			Maryland			Massachusetts		
State and Local Revenues	**Amount**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**
Tax Revenues																
Property	$33.77	**$48.32**	**6**	**143.1%**	$43.76	8	129.6%	$16.32	48	48.3%	$24.95	40	73.9%	$37.36	17	110.6%
Individual Income	25.26	**26.10**	**23**	**103.3%**	33.42	10	132.3%	33.11	11	131.1%	41.21	3	163.1%	36.17	6	143.2%
Corporate Income	4.98	**4.35**	**26**	**87.3%**	3.67	34	73.7%	9.09	5	182.5%	3.54	35	71.1%	6.41	8	128.7%
General Sales	26.54	**21.87**	**37**	**82.4%**	17.59	40	66.3%	0.00	46	0.0%	14.15	44	53.3%	13.83	45	52.1%
Total State and Local Taxes	$112.41	**$119.79**	**10**	**106.6%**	$114.94	19	102.3%	$111.27	24	99.0%	$107.92	28	96.0%	$105.69	36	94.0%
Charges and Misc. Revenues	$50.65	**$42.98**	**43**	**84.9%**	$25.89	50	51.1%	$72.49	6	143.1%	$34.15	49	67.4%	$40.96	44	80.9%
Total Revenues*	$257.67	**$262.94**	**20**	**102.0%**	$194.07	49	75.3%	$260.36	24	101.0%	$202.40	48	78.5%	$229.77	40	89.2%

	U.S.	Rhode Island			Connecticut			Delaware			Maryland			Massachusetts		
State and Local Expenditures	**Amount**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**	**Amount**	**Rank**	**% of U.S.**
El. & Sec. Education	$47.07	**$50.09**	**16**	**106.4%**	$42.27	40	89.8%	49.70	18	105.6%	40.69	45	86.4%	$40.05	49	85.1%
Higher Education	18.03	**15.27**	**41**	**84.7%**	12.28	47	68.1%	26.52	9	147.1%	16.95	37	94.0%	12.23	48	67.8%
Medicaid/Vendor Paym.**	22.85	**44.31**	**2**	**193.9%**	19.38	45	84.8%	27.81	21	121.7%	20.38	43	89.2%	34.91	11	152.8%
Cash Assistance	2.06	**3.21**	**9**	**155.8%**	1.62	24	78.6%	0.66	42	32.0%	1.40	27	68.0%	1.70	20	82.5%
Highways	12.73	**10.12**	**44**	**79.5%**	7.38	50	58.0%	19.06	12	149.7%	10.17	43	79.9%	7.77	49	61.0%
Police	7.44	**7.33**	**17**	**98.5%**	5.23	47	70.3%	8.79	8	118.1%	6.71	25	90.2%	5.77	39	77.6%
Fire	3.21	**6.24**	**1**	**194.4%**	2.63	33	81.9%	0.91	50	28.4%	2.98	23	92.8%	3.38	13	105.3%
Parks & Recreation	5.67	**2.66**	**48**	**46.9%**	2.05	50	36.2%	5.75	28	101.5%	6.52	22	115.0%	2.26	49	39.9%
Housing & Comm. Dev.	3.95	**5.42**	**4**	**137.2%**	3.77	18	95.4%	3.69	21	93.4%	4.03	15	102.0%	5.21	7	131.9%
Governm. Administration	10.47	**12.89**	**15**	**123.1%**	8.74	39	83.5%	18.74	2	179.0%	9.44	34	90.2%	7.99	47	76.3%
Total Expenditures***	$199.56	**$211.11**	**21**	**105.8%**	$158.96	50	79.7%	$229.38	11	114.9%	$164.80	48	82.6%	$180.83	41	90.6%

*Revenues include: intergovernmental revenues; all tax revenues; charges and misc. general revenues; utility, liquor store, and insurance trust revenues.

** Includes Medicaid and other public welfare vendor payments.

*** Direct General Expenditures include all expenditures except expenditures for utilities, liquor store, insurance trust, and intergovernmental expenditures.

Source: U.S. Census Bureau, State and Local Finances, 1996 and 2006; RIPEC calculations

Tables 8 and 9 set forth a third way to examine revenues and expenditures: state and local government tax collections/spending as a percent of total taxes or direct general expenditures for selected categories in FY 1996 and FY 2006. Even among states that have similar levels of revenue collections or expenditures, the particular mix often varies from state to state and reflects the particular policy choices made by State and local governments. For example, although Rhode Island and Delaware collect a similar amount in total taxes per capita, Rhode Island relies more on the property tax than does Delaware. At the same time, a greater proportion of State and local taxes are supported by individual and corporate income taxes in Delaware.

Revenue Trends FY 1996-FY 2006

Table 8 highlights selected tax revenues as a percentage of total tax collections for both FY 1996 and FY 2006. The data show that:

Table 8
Selected Tax Collections as a Percent of Total Taxes
Fiscal Years 1996 and 2006
(In Percent)

	FY 1996						**FY 2006**					
	US	**RI**	**CT**	**DE**	**MD**	**MA**	**US**	**RI**	**CT**	**DE**	**MD**	**MA**
Property	30.4%	**42.4%**	37.1%	14.6%	26.9%	33.9%	30.0%	**40.3%**	38.1%	14.7%	23.1%	35.3%
Sales	24.5	**17.2**	19.5	0.0	14.2	13.6	23.6	**18.3**	15.3	0.0	13.1	13.1
Individual Income	21.3	**21.4**	20.8	32.5	37.4	35.1	22.5	**21.8**	29.1	29.8	38.2	34.2
Corporate Income	4.6	**3.2**	5.1	8.1	2.3	6.4	4.4	**3.6**	3.2	8.2	3.3	6.1
Other*	19.1	**15.8**	17.4	44.8	19.2	11.0	19.4	**16.0**	14.4	47.4	22.3	11.3

* Includes selective sales and some gross receipts taxes (i.e. public utilities taxes), license taxes, estate and gift taxes, severance taxes, documentary and stock transfer taxes, and other taxes not specifically included in the categories above but which are levied by some State and local entities.

Source: U.S. Census, Government Finances 1996 and 2006, and RIPEC calculations.

- As a percent of total tax collections, the property tax in Rhode Island declined from 42.4 percent in FY 1996 to 40.3 percent in FY 2006; however, this figure continues to be higher in Rhode Island than the national average and all States included in this summary;

- All five States rely less on the sales tax to support government spending than the United States average. Rhode Island's sales tax collections are the highest of the four states in this analysis;

- Among the surveyed States, Rhode Island was the only state to increase reliance on the sales tax over the ten-year period, from 17.2 percent of total tax collections in FY 1996 to 18.3 percent in FY 2006;

- The percent of total taxes that came from individual income tax collections in Rhode Island in FY 2006 (21.8 percent) is similar to the United States average of 22.5 percent, but was substantially lower than the four other States;

- Rhode Island's reliance on the corporate income tax as a percent of total tax revenues in FY 1996 was lower than the national average, and was the second lowest of all the States included in this analysis. In FY 2006 the Ocean State ranked in the middle of the five States due primarily to Connecticut reducing their reliance on this revenue source; and

- The Ocean State's reliance on other sources of tax revenue, e.g. license taxes, was the second lowest of the five States in FY 1996 and was 3.3 percent less than the national average; however, due to lower collections in Connecticut over the decade, Rhode Island ranked in the middle of the five States in FY 2006.

Expenditure Trends FY 1996-FY 2006

Selected expenditure categories are included in Table 9, which indicates:

Table 9
Selected Expenditures as Percent of Direct General Expenditures
Fiscal Years 1996 and 2006
(In Percent)

	FY 1996						FY 2006					
	US	RI	CT	DE	MD	MA	US	RI	CT	DE	MD	MA
El. & Sec. Education	23.5%	**22.4%**	24.1%	21.2%	24.6%	19.7%	23.6%	**23.7%**	26.6%	21.7%	24.7%	22.1%
Higher Education	8.5	**6.8**	5.1	12.0	9.5	4.9	9.0	**7.2**	7.7	11.6	10.3	6.8
Medicaid/Vendor Pymts.*	10.5	**11.2**	11.1	7.2	9.5	12.7	13.0	**21.0**	12.2	12.1	12.4	19.3
Cash Assistance	2.3	**2.8**	2.6	1.0	1.8	2.3	1.0	**1.5**	1.0	0.3	0.8	0.9
Highways	6.7	**5.6**	5.8	9.0	6.0	7.4	6.4	**4.8**	4.6	8.3	6.2	4.3
Police	3.8	**3.4**	3.2	3.4	4.1	3.6	3.7	**3.5**	3.3	3.8	4.1	3.2
Fire	1.5	**2.6**	2.2	0.4	1.8	2.1	1.6	**3.0**	1.7	0.4	1.8	1.9
Parks & Recreation	2.9	**1.8**	1.5	3.1	3.6	1.3	2.8	**1.3**	1.3	2.5	4.0	1.3
Housing & Comm. Dev.	1.9	**2.6**	2.4	2.0	2.9	3.5	2.0	**2.6**	2.4	1.6	2.4	2.9

* Includes Medicaid and other public welfare vendor payments.

Source: U.S. Census, Government Finances 1996 and 2006, and RIPEC calculations.

- The largest portion of direct general expenditures in Rhode Island went toward elementary and secondary education, accounting for 23.7 percent of the total. This amount was approximately the same as the national average.

- Two expenditure categories, elementary and secondary education and Medicaid/vendor payments, accounted for 44.7 percent of direct general expenditures in Rhode Island in FY 2006. Nationally, the figure was 36.6 percent. The difference is due almost entirely to spending on Medicaid/vendor payments;

- Higher education expenditures as a percentage of direct general expenditures increased in Rhode Island at a rate similar to the national average but slower in either Massachusetts or Connecticut;

- Rhode Island, Connecticut and Massachusetts continue to allocate less of their budgets to higher education than the national average, Delaware or Maryland;

- Between FY 1996 and FY 2006, there were significant increases in direct general expenditures for Medicaid/vendor payments in both Rhode Island and Massachusetts. These two States substantially outpaced the national average and the other three States in this analysis; and

- Cash assistance payments as a percentage of direct general expenditures declined for the United States as a whole as well as Rhode Island, Massachusetts and Connecticut. This reflects changes in welfare laws over the decade.