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May 2012 Revenue Estimating Conference Impact on the FY 2012 and 2013 State Budgets

This report provides a mid-year update on projected economic indicators and state revenues based on the May 2012 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.

May 2012 Revenue and Caseload Impact on FY 2012 and FY 2013 Budgets

Representatives from the Rhode Island State Budget Office, Senate Fiscal Staff and House Fiscal Staff meet twice yearly at a publicly-held Revenue Estimating Conference (REC) and Caseload Estimating Conference (CEC) in November and May. The Governor's budget submission is based on revenue and caseload estimates from the November Revenue Estimating Conference (REC). The May 2012 REC/CEC, held the first week in May as per state law, both significantly increased revenues and decreased projected medical assistance expenditures. Combined with a larger-than-expected FY 2011 closing and changes in agency expenditures, the changes from the May REC/CEC result in a projected surplus of approximately \$100 million for the current fiscal year. This section provides an overview of the results of the May REC and CEC.

Economic Outlook

The revised economic data was mixed compared to November estimates. Although the state's economy appears to be recovering, the recovery is uneven and there remain a

number of potential risks to the state including, but not limited to, sustained weakness in the housing market and exposure to federal investment. Revised employment data was revised slightly downward for most years through FY 2014 and, similarly, the unemployment rate was revised up. It should be noted, however, that the state's Department of Labor and Training (DLT) indicated that it believes the Bureau of Labor Statistics (BLS) will lower their unemployment estimates in their next revision.

Although the state's employment outlook weakened, personal income projections remained relatively strong. May estimates for personal income growth were higher for FY 2012 and FY 2014 when compared to November estimates, but the May projection for FY 2013 was lower than November. Testimony indicated that this may be the result of out-of-state employment.

Table 1
Change in the Rhode Island Consensus Economic Forecast

Economic Indicator	FY 2011	FY 2012		FY 2013		FY 2014	
	May-12	Nov-11	May-12	Nov-11	May-12	Nov-11	May-12
Employment	0.5%	0.8%	-0.1%	0.8%	0.9%	2.3%	1.8%
Unemployment Rate	11.4%	10.5%	11.1%	10.3%	10.3%	9.2%	9.4%
Personal Income	4.7%	2.8%	4.0%	4.1%	3.9%	4.1%	4.9%
CPI	2.0%	2.8%	3.0%	2.0%	1.8%	2.7%	2.3%

Source: November 2011 and May 2012 Consensus Economic Forecast

Table 2
May 2012 Revenue Estimating Conference - Change in General Revenues (in \$ million)

Revenue	Enacted	FY 2012			FY 2013		
		Nov-11 REC	May-12 REC	Nov-May Change	Nov-11 REC	May-12 REC	Nov-May Change
Taxes							
Personal Income	\$ 1,010.0	\$ 1,033.6	\$ 1,046.2	\$ 12.6	\$ 1,081.7	\$ 1,076.5	\$ (5.2)
General Business							
Business Corporation	\$ 121.2	\$ 112.6	\$ 131.6	\$ 19.0	\$ 116.8	\$ 132.9	\$ 16.1
Public Utilities Gross Earnings	99.4	99.4	98.3	(1.1)	101.0	100.1	(0.9)
Insurance Companies	102.6	99.5	89.0	(10.5)	101.4	89.8	(11.6)
All Other Business Taxes*	43.8	44.8	46.2	1.4	45.6	46.0	0.4
<i>Subtotal</i>	\$ 367.1	\$ 356.3	\$ 365.1	\$ 8.8	\$ 364.8	\$ 368.8	\$ 4.0
Sales and Use Taxes							
General Sales and Use	\$ 846.5	\$ 845.1	\$ 846.0	\$ 0.9	\$ 868.0	\$ 873.4	\$ 5.4
Motor Vehicle	51.6	48.2	47.7	(0.5)	48.2	47.7	(0.5)
Gasoline	1.1	1.1	1.0	(0.1)	1.1	1.1	-
Cigarettes	133.5	131.5	133.6	2.1	128.8	131.1	2.3
Alcohol	12.1	11.8	12.0	0.2	11.9	12.2	0.3
<i>Subtotal</i>	\$ 1,044.8	\$ 1,037.7	\$ 1,040.3	\$ 2.6	\$ 1,058.0	\$ 1,065.5	\$ 7.5
Other Taxes	\$ 37.0	\$ 41.3	\$ 52.0	\$ 10.7	\$ 38.1	\$ 42.0	\$ 3.9
Total Taxes	\$ 2,458.9	\$ 2,468.9	\$ 2,503.6	\$ 34.7	\$ 2,542.6	\$ 2,552.8	\$ 10.2
Departmental Revenue**	\$ 343.5	\$ 340.5	\$ 344.5	\$ 4.0	\$ 197.0	\$ 195.0	\$ (2.0)
Total Taxes & Departmentals	\$ 2,802.4	\$ 2,809.4	\$ 2,848.1	\$ 38.7	\$ 2,739.6	\$ 2,747.8	\$ 8.2
Other Sources							
Other Miscellaneous	\$ 6.3	\$ 17.0	\$ 16.8	\$ (0.2)	\$ 2.7	\$ 2.6	\$ (0.1)
Lottery	361.0	367.2	378.5	11.3	376.8	388.5	11.7
Unclaimed Property	6.2	7.8	14.0	6.2	9.9	7.9	(2.0)
<i>Subtotal</i>	\$ 373.6	\$ 392.0	\$ 409.3	\$ 17.3	\$ 389.43	\$ 399.0	\$ 9.6
Total General Revenues	\$ 3,176.0	\$ 3,201.4	\$ 3,257.4	\$ 56.0	\$ 3,129.0	\$ 3,146.8	\$ 17.8

* Financial Institutions, Bank Deposits and Health Care Provider taxes

** FY 2012 estimated Departmental Revenue does not include the Hospital Licensing Fee which must be reauthorized every year. The Governor budgeted an amount of \$143.8 million.

Source: November 2011 and May 2012 Revenue Estimating Conference; State Budget documents; RIPEC calculations

Revenues

The May 2012 REC projected total FY 2012 revised revenues of \$3,257.4 million, \$62.0 million higher than November estimates and \$81.4 million higher than in the enacted budget. Adopted revenues for FY 2013 of \$3,146.8 million are \$17.8 million higher than November estimates (NOTE, this figure does not include reauthorization of the Hospital Licensing Fee of \$143.8 million). In FY 2012, increased tax revenue accounts for roughly 70 percent of the total increase in revenues, while projected increases in tax revenue account for approximately 45 percent of the total increase in FY 2013.

FY 2012

Major changes in estimates between the May and November conferences are attributable to the following revenue sources:

- Personal income taxes are projected to increase by \$12.6 million, attributed to higher withholding payments, the majority of which is because of two lottery winners. It should be noted that the estimators personal income projections would have been lower than November estimates without the increased withholding from the lottery winners.
- Business corporation tax collections increased by \$19.0 million compared to November, largely due to a number of one-time payments.
- Other taxes (inheritance and gift, racing and athletics, and the realty transfer) were \$10.7 million higher than November estimates, the majority of which is related to projected growth in inheritance and gift tax collections.
- Lottery receipts are projected to be \$11.3 million higher when compared to November, related to historic jackpots in Mega Millions.

FY 2013

Changes to FY 2013 revenue estimates from November to May include:

- A projected decline in personal income tax collections of \$5.2 million;
- Net increases in general business taxes and sales taxes of \$4.0 million and \$7.5 million, respectively;
- Slight growth in “other taxes” of \$3.9 million, primarily relating to projected higher collections in the inheritance and gift tax; and
- An \$11.7 million increase in lottery revenues.

As the REC’s projections are based on current law they do not include a number of proposals by the Governor that would affect revenues. For example, the estimates do not include the proposed changes to the state’s sales tax. Also, FY 2013 estimates do not include the reauthorization of the hospital licensing fee, estimated in the Governor’s budget at \$143.8 million.

Caseloads

The May 2012 Caseload Estimating Conference (CEC) projected that net cash expenditures (Rhode Island Works, Child Care, Social Security and General Public Assistance) in FY 2012 are expected to slightly decrease compared to November estimates, but are \$2.5 million higher than the enacted budget. Cash assistance caseloads for FY 2013 are expected to decline by \$1.3 million compared to November estimates. In addition to cash assistance programs, the CEC estimates Medicaid expenditures within the Department of Human Services. Total medical assistance expenditures for both FY 2012 and FY 2013 are lower than November estimates, by \$62.5 million and \$67.7 million, respectively. Net adopted caseload expenditures are \$62.5 million (\$27.9 million in general revenue expenditures) lower than November estimates for FY 2012. Total adopted caseload expenditure estimates for FY 2013 are \$69.0 million (\$31.6 million in general revenue expenditures) lower than November estimates.

Cash Assistance Highlights

- Rhode Island Works (RIWP), 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 program is entirely funded through the federal Temporary Aid to Needy Families (TANF) block grant.
- The adopted FY 2012 caseload of 15,950 persons is lower than November estimates of 16,160, but higher than the enacted caseload of 15,000. Compared to the enacted budget, adopted expenditures increase by \$3.0 million to \$40.2 million.
- In FY 2013, the RIWP caseload of 16,100 is slightly higher than the FY 2012 estimate; however, May caseloads are lower than November projections of 16,650 persons. May expenditure estimates are \$1.7 million lower than November estimates of \$42.5 million.
- May caseload estimates for child care assistance increased compared to November estimates for both FY 2012 and FY 2013, resulting in a slight increase in projected expenditures. Revised estimates for FY 2012, however, are lower than the FY 2012 enacted budget.
- For both FY 2012 and 2013, the May estimate for the average cost per child care subsidy is projected to be lower than the November estimate.
- The revised estimates for the FY 2012 Supplemental Security Income (SSI) caseload of 33,510 persons, 290 less compared to November estimates, but slightly higher than enacted. As the adopted monthly cost per person is the same as the November estimate, the lower caseload results in an decrease of \$0.2 million to \$18.6 million.
- In FY 2013, estimated SSI program costs are projected to decrease compared to FY 2012 estimates, decreasing total program

costs to \$18.2 million, despite a projected increase in caseloads to 33,800 persons.

- General Public Assistance (GPA) caseloads are projected to be 640 persons in FY 2012 and 650 persons in FY 2013. Monthly program costs are projected to be lower in FY 2012, resulting in a decrease in projected expenditures relative to the FY 2012 enacted budget, despite an increase in the caseload.

Medical Assistance Highlights

- Total Medicaid expenditures, administered by the Department of Human Services, are projected to increase from \$1,560.3 million in FY 2012 to an estimated \$1,625.4 million in FY 2013, a 4.2 percent increase.
- May FY 2012 Medicaid expenditures are \$62.5 million lower than November estimates and \$81.1 million lower than enacted. General revenue expenditure estimates are \$28.1 million lower than November estimates and \$30.0 million lower than enacted. Compared to November estimates, the May estimates for FY 2013 expenditures are \$67.7 million lower for all funds and \$31.3 million lower for general revenue expenditures.
- Hospital payments in FY 2012 and FY 2013 are lower than November estimates, by \$17.7 million and \$21.6 million, respectively. This is attributed to lower utilization rates for hospital inpatient days.
- Long-term care expenditures were the only broad category of Medicaid-related spending to see an increase compared to either enacted or November estimates. In FY 2012, the adopted total long-term care costs increased to \$417.1 million, \$1.8 million higher than enacted, but lower than November estimates. Projected long-term care expenditures for FY 2013 of \$431.2 million are \$1.7 million higher than November estimates.

Table 3
May 2012 Caseload Estimating Conference
Change in Cash Assistance and Medical Assistance Expenditures (\$ millions)

	FY 2012				FY 2013			FY 2012
	Enacted	Adopted Nov-11	Adopted May-12	Change Enact.-May	Adopted Nov-11	Adopted May-12	Change REC	-2013 Change
Cash Assistance								
TANF/RIWP Total	\$37.2	\$40.8	\$40.2	\$3.0	\$42.5	\$40.8	(\$1.7)	1.4%
Child Care Total	48.9	47.1	47.9	(1.0)	48.3	49.0	0.8	2.4%
SSI Total	18.0	18.8	18.6	0.6	18.6	18.2	(0.4)	-1.9%
GPA Total	3.2	3.2	3.1	(0.1)	3.2	3.2	(0.0)	2.0%
Total: Cash Assistance	\$107.3	\$109.9	\$109.8	\$2.5	\$112.6	\$111.3	(\$1.3)	1.3%
<i>Cash Assistance Gen Rev</i>	<i>\$30.0</i>	<i>\$30.8</i>	<i>\$31.0</i>	<i>\$1.0</i>	<i>\$30.6</i>	<i>\$30.3</i>	<i>(\$0.4)</i>	<i>-2.2%</i>
Medical Assistance								
Hospitals								
Hospitals	\$113.5	\$112.2	\$94.5	(\$19.0)	\$105.0	\$83.4	(\$21.6)	-11.7%
DSH	126.9	126.9	126.9	0.0	127.7	127.7	0.0	0.6%
<i>Subtotal Hospitals</i>	<i>\$240.4</i>	<i>\$239.1</i>	<i>\$221.4</i>	<i>(\$19.0)</i>	<i>\$232.7</i>	<i>\$211.1</i>	<i>(\$21.6)</i>	<i>-4.7%</i>
Long-term Care								
Nursing and Hospice Care	\$341.2	\$342.5	\$344.4	\$3.2	\$345.5	\$357.1	\$11.6	3.7%
Home/Community Services	74.1	76.4	72.7	(1.4)	84.0	74.1	(9.9)	1.9%
<i>Subtotal Long-term Care</i>	<i>\$415.3</i>	<i>\$418.9</i>	<i>\$417.1</i>	<i>\$1.8</i>	<i>\$429.5</i>	<i>\$431.2</i>	<i>\$1.7</i>	<i>3.4%</i>
Managed Care	\$620.3	\$602.0	\$576.0	(\$44.3)	\$638.0	\$598.8	(\$39.2)	4.0%
Pharmacy	9.7	5.6	0.1	(9.6)	5.8	3.9	(1.9)	3800.0%
Pharmacy Clawback	46.4	47.7	47.3	0.9	51.0	49.7	(1.3)	5.1%
Other	118.0	116.5	116.0	(2.0)	121.0	119.9	(1.1)	3.4%
Rhody Health	191.2	193.0	182.4	(8.8)	215.0	210.7	(4.3)	15.5%
Total: Medical Assistance	\$1,641.3	\$1,622.8	\$1,560.3	(\$81.1)	\$1,693.0	\$1,625.4	(\$67.7)	4.2%
<i>Medical Assistance Gen Rev</i>	<i>\$786.0</i>	<i>\$784.1</i>	<i>\$756.0</i>	<i>(\$30.0)</i>	<i>\$827.5</i>	<i>\$796.2</i>	<i>(\$31.3)</i>	<i>5.3%</i>
<i>Total Federal Funds</i>	<i>\$921.6</i>	<i>\$906.7</i>	<i>\$872.0</i>	<i>(\$49.6)</i>	<i>\$936.3</i>	<i>\$898.7</i>	<i>(\$37.8)</i>	<i>3.1%</i>
<i>Total General Revenue</i>	<i>\$816.0</i>	<i>\$814.8</i>	<i>\$787.0</i>	<i>(\$29.0)</i>	<i>\$858.1</i>	<i>\$826.5</i>	<i>(\$31.6)</i>	<i>5.0%</i>
<i>Total Restricted Receipts</i>	<i>\$11.1</i>	<i>\$11.1</i>	<i>\$11.1</i>	<i>\$0.0</i>	<i>\$11.1</i>	<i>\$11.5</i>	<i>\$0.4</i>	<i>3.4%</i>
TOTAL EXPENDITURES	\$1,748.6	\$1,732.7	\$1,670.1	(\$78.6)	\$1,805.6	\$1,736.7	(\$69.0)	\$0.1

* The Conference is now required to show Rhody Health as a separate line item, caution should be exercised when comparing to prior years
Source: RIPEC calculations based on November 2011 and May 2012 Caseload Estimating Conference Data

- Reductions in projected expenditures for managed care account for the majority of the change between the November 2011 and May 2012 Conferences. The adopted estimates are based on Department testimony that indicated lower-than-anticipated enrollment and RIte Share costs, as well as savings related to pre/neonatal care.
- Revised FY 2012 managed care expenditures of \$576.0 million are \$26.0 million lower than November estimates and \$44.3 million lower than in the FY 2012 enacted budget. Projected managed care expenditures of \$598.8 million in FY 2013 are \$39.2 million lower than adopted November estimates.
- The May Pharmacy expenditure estimate for FY 2012 of \$0.1 million is \$5.5 million lower than the November estimate and \$9.6 million lower than enacted. Based on the Conference report, the reduction is the result of larger-than-anticipated pharmaceutical rebate collections. Similarly, May estimates for FY 2013 are \$1.9 million lower than November estimates based on an anticipation of higher rebates.
- Other medical assistance expenditures are slightly lower compared to November estimates for both FY 2012 and FY 2013. Included in both estimates are enhanced federal funds for the “Health Homes” initiative, reducing the state’s general revenue obligation.
- Adopted estimates for Rhody Health of \$182.4 million for FY 2012 are \$8.8 million lower than in the enacted budget and \$10.6 million lower than the November estimates. Projected FY 2013 expenditures of \$210.7 million are \$4.3 million lower compared to November. Although these expenditures are projected to decrease relative to November estimates, they are the fastest-growing category of expenditure between FY 2012

and FY 2013, increasing by an estimated 15.5 percent.

As noted above, CEC estimates are based on current law and do not include any of the Governor’s budget initiatives that require legislative change. Based on the “Report on the May 2012 Conference”, net expenditure reductions of \$41.0 million (all sources) are included the FY 2013 budget as proposed that require a change to current law. The above does not include savings through these proposals.

RIPEC Comments

By most accounts, Rhode Island was one of the first states to enter the “Great Recession”, and one of the last states to see a recovery. Moreover, the state’s tepid economic growth has led some observers to predict a potential “double-dip” recession for the state. The [Rhode Island Current Economic Indicator](#), a joint publication between Bryant University and RIPEC, shows the economy expanding at just 0.8 percent in the second quarter of 2012. Moreover, the state’s economy continues to grow at a significantly slower rate than New England and the U.S. as a whole, which has been a persistent trend over much of the past decade. Unless this trend is reversed, expenditure growth will continue to outpace growth in revenues, perpetuating the state’s cycle of out-year deficits. Further, this trend will be exacerbated by the advent of casino gaming in Massachusetts, which is expected to significantly reduce gaming revenues – the third-largest source of revenue for the state.

At the same time, there are signs that the economy is recovering as evidenced by the May REC/CEC. Although the state started with a projected FY 2013 deficit of \$214.8 million, changes to this estimate, including the November REC/CEC and the pension overhaul resulted in a starting deficit of \$117.4 million. The increased revenue and decreased caseload

expenditures, results in an estimated revised FY 2013 deficit of \$68.0 million, excluding any changes proposed in the Governor's budget. However, this figure does not include any additional revenues from the FY 2012 closing. Currently, there is an estimated FY 2012 surplus of \$102.7 million, which is \$102.5 million higher than in the enacted budget. If the Assembly does not elect to use these funds in FY 2012, the FY 2013 budget would open with a net positive of roughly \$35 million. It should be noted, however, that the carryover of the FY 2012 surplus for use in FY 2013 should also be considered a one-time resource.

As Rhode Island's financial condition continues to improve, the state must consider the effect economic choices it makes today will have on its ability to weather an economic downturn in the future. It is often the case that when government experiences fiscal good times, state and local officials over-commit revenues in the form of increased spending or tax cuts. Unfortunately, when the economy cools, governments must then reverse these initiatives. When evaluating the FY 2013 budget, consideration should be given to which policies

effectively position the state to become more competitive. The state is now positioned to pursue an investment-based strategy designed to bolster the state's infrastructure, encourage job creation, and support investments in the state's workforce. Moreover, these investments should be coupled with an aggressive agenda to streamline government and make it more effective and efficient.

Additionally, it appears that a significant portion of the projected surplus is related to one-time revenue sources, specifically, increased withholding from the state's two lottery winners, one-time business corporation payments, and unprecedented lottery ticket sales due to a record Mega Millions jackpot. While these one-time revenues will provide a much-needed bridge for the state as it regains its fiscal footing, one-time revenues should be used to fund one-time expenditures and should not be used to restore cuts to programs that will require on-going funding. Reinstating these programs, without ensuring adequate revenues will adversely impact the state, and could limit the options available to policymakers if revenues do not grow at their current pace or decline again.