



Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

May 2013 Revenue Estimating Conference Impact on the FY 2013 and 2014 State Budgets

This report provides a mid-year update on projected economic indicators and state revenues based on the May 2013 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 2013 Revenue and Caseload Impact on FY 2013 and FY 2014 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 2013 REC, held in the first ten days of May, as per state law, decreased revenues. At the same time, projected medical assistance expenditures from general revenues also decreased. Taken together, the estimates from the May REC/CEC result in a change in the projected surplus by roughly \$40 million for the current fiscal year. However, FY 2014 revenues are projected to be \$51.2 million less than estimated at the November REC, with a decrease in medical assistance expenditures from general revenues of \$8.9 million. This section provides an overview of the results of the May REC and CEC.

Economic Outlook

Compared to the November estimates, the state's revised economic forecast is mixed.

Overall, Rhode Island's recovery remains uneven and less robust than the New England and national average. Employment gains in the service industry scarcely offset losses in construction, manufacturing, and government. Department of Labor and Training data indicates that most recent job growth occurred in lower wage sectors. As a result, gains in personal income may not keep pace with the state's payroll gains. Furthermore, Rhode Island's declining population may be evidence of a weak economic climate, especially compared to neighboring states, as recent graduates and high-earners may seek employment elsewhere.

The state's uneven recovery is reflected in the mixed economic indicators for FY 2014. Testimony from Moody's suggests that faster than expected growth in the last quarter of 2012 may account for the lower May projections in employment and personal income growth for

Table 1
Change in the Rhode Island Consensus Economic Forecast

Economic Indicator	FY 2011	FY 2012		FY 2013		FY 2014	
	Nov-12	Nov-12	May-13	Nov-12	May-13	Nov-12	May-13
Employment	0.5%	-0.3%	0.7%	-0.4%	0.6%	1.2%	1.0%
Unemployment Rate	11.4%	11.1%	10.9%	10.4%	9.8%	9.7%	8.8%
Personal Income	4.9%	3.2%	2.9%	2.6%	2.1%	5.1%	4.1%
CPI	2.0%	2.9%	2.9%	1.9%	1.8%	2.5%	1.9%

Source: November 2012 and May 2013 Consensus Economic Forecast

FY 2014 as compared to November. Conversely, FY 2014 unemployment is projected to decrease faster, and inflation is

expected to be lower, than estimated in November.

Table 2
May 2013 Revenue Estimating Conference - Change in General Revenues (\$ million)

Revenue	FY 2013 Enacted	FY 2013			FY 2014		
		Nov-12 REC	May-13 REC	Nov-May Change	Nov-12 REC	May-13 REC	Nov-May Change
Taxes							
Personal Income	\$1,080.9	\$1,078.6	\$1,075.3	(\$3.3)	\$1,129.0	\$1,107.8	(\$21.2)
General Business							
Business Corporation	\$133.3	\$135.9	\$137.0	\$1.1	\$140.4	\$141.3	\$0.9
Public Utilities Gross Earnings	100.1	104.0	98.3	(5.7)	102.4	94.9	(7.5)
Insurance Companies	89.8	91.9	93.6	1.7	97.0	98.0	1.0
All Other Business Taxes*	46.0	52.6	56.7	4.1	48.8	49.8	1.0
<i>Subtotal</i>	\$369.2	\$384.4	\$385.6	\$1.2	\$388.6	\$384.0	(\$4.6)
Sales and Use Taxes							
General Sales and Use	\$886.7	\$879.4	\$872.5	(\$6.9)	\$904.1	\$895.0	(\$9.1)
Motor Vehicle	47.8	48.7	51.1	2.4	48.7	51.8	3.1
Gasoline	1.1	1.0	0.8	(0.2)	1.0	1.0	0.0
Cigarettes	138.1	137.7	131.8	(5.9)	137.4	130.7	(6.7)
Alcohol	12.2	12.0	12.0	0.0	12.2	12.2	0.0
<i>Subtotal</i>	\$1,085.8	\$1,078.8	\$1,068.2	(\$10.6)	\$1,103.4	\$1,090.7	(\$12.7)
Other Taxes	\$42.2	\$41.5	\$38.5	(\$3.0)	\$43.2	\$40.5	(\$2.7)
Total Taxes	\$2,578.1	\$2,583.3	\$2,567.6	(\$15.7)	\$2,664.2	\$2,623.0	(\$41.2)
Departmental Revenue**	\$342.9	\$347.5	\$363.1	\$15.6	\$206.8	\$206.6	(\$0.2)
Total Taxes & Departmentals	\$2,921.0	\$2,930.8	\$2,930.7	(\$0.1)	\$2,871.0	\$2,829.6	(\$41.4)
Other Sources							
Other Miscellaneous	\$4.4	\$4.6	\$5.7	\$1.1	\$2.4	\$2.5	\$0.1
Lottery	387.6	386.7	380.2	(6.5)	405.1	395.1	(10.0)
Unclaimed Property	7.9	6.3	7.0	0.7	9.6	9.7	0.1
<i>Subtotal</i>	\$399.9	\$397.6	\$392.8	(\$4.8)	\$417.1	\$407.3	(\$9.8)
Total General Revenues	\$3,320.9	\$3,328.4	\$3,323.5	(\$4.9)	\$3,288.1	\$3,236.9	(\$51.2)

* Financial Institutions, Bank Deposits and Health Care Provider taxes

** FY 2014 estimated Departmental Revenue does not include the Hospital Licensing Fee which must be reauthorized every year.

Source: November 2012 and May 2013 Revenue Estimating Conference; State Budget documents; RIPEC calculations

Revenues

The May 2013 REC projected total FY 2013 revised revenues of \$3,323.5 million. Although revenues are estimated to be \$4.9 million lower than November estimates, total revenues are projected to be \$2.6 million higher than in the FY 2013 enacted budget. Estimated revenues for FY 2014 of \$3,236.9 million are \$51.2 million lower than November estimates (NOTE, this figure does not include reauthorization of the Hospital Licensing Fee of \$141.3 million in May or November). In FY 2013, decreased estimated overall tax collections were partially offset by significant one-time business tax revenues from the tax amnesty program, and higher collections from motor vehicle taxes. In FY 2014, lower projections for personal income tax collections accounted for 41.4 percent of the decline in revenue estimates.

FY 2013

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

- Personal income taxes decreased by \$3.3 million, or 0.3 percent compared to November estimates. The decrease in collections reflects the downward adjustment in the personal income growth rate for FY 2013.
- Business corporation tax collections increased by \$1.1 million compared to November, largely due to a number of one-time payments.
- Sales and use tax collections decreased by \$6.9 million compared to November estimates, partly attributable to changes in consumer prices and the sales tax base expansion.
- Other taxes (inheritance and gift, racing and athletics, and the realty transfer) were \$3.0 million lower than November estimates.
- Lottery receipts were \$6.5 million lower when compared to November, partly related to costs incurred by the Division of

Lottery in preparation for table game operations at Twin River.

FY 2014

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

- A projected decline in personal income tax collections of \$21.2 million;
- Net decreases in general business taxes and sales taxes of \$4.6 million and \$12.7 million, respectively;
- A decline in “other taxes” of \$2.7 million; and
- A \$10.0 million decrease 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 business corporation tax. Also, FY 2014 estimates do not include the reauthorization of the hospital licensing fee, estimated in the Governor’s budget at \$141.3 million.

Caseloads and Expenditures

The May 2013 CEC projected that net cash expenditures (Rhode Island Works, Child Care, Supplemental Security Income and General Public Assistance) in FY 2013 are expected to decrease by \$0.6 million compared to both the November estimates and the enacted budget. In addition to cash assistance programs, the CEC estimates Medicaid expenditures within the Office of Health and Human Services (OHHS). Medical assistance expenditures from general revenue for both FY 2013 and FY 2014 are lower than November estimates, by \$19.6 million and \$8.1 million, respectively. Adopted caseload expenditures are \$35.1 million (\$20.2 million in general revenue expenditures) lower than November estimates for FY 2013. Total adopted caseload expenditure estimates for FY 2014 are \$0.1 million higher than November estimates, but \$8.9 million lower than

previously estimated, in general revenue expenditures.

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 RIWP FY 2013 caseload of 15,775 persons is lower than November estimates of 16,195, and lower than the enacted caseload of 16,100. Compared to the enacted budget, adopted expenditures decreased by \$1.4 million to \$39.4 million.
- In FY 2014, the RIWP caseload of 15,500 is lower than November projections of 16,300 persons. May expenditure estimates are \$2.4 million lower than November estimates of \$41.3 million.
- May caseload estimates for child care assistance decreased compared to November estimates for FY 2013, but increased slightly over the FY 2013 enacted budget. Total child care expenditures decreased by \$0.5 million compared to the enacted budget. May estimates for FY 2014 are lower than the November projection, resulting in total expenditures \$0.3 million lower than projected in November.
- For both FY 2013 and 2014, the lower May estimate for child care is reflective of lower levels of employment. Anticipated gains in employment that did not materialize would have required greater subsidized child care services.
- The revised estimates for the FY 2013 Supplemental Security Income (SSI) caseload of 33,510 is 110 persons lower than November estimates, and 650 below the enacted budget. The adopted monthly cost per person was also revised downward by \$0.75. As a result, the \$18.2 million

estimate for FY 2013 expenditures is \$0.4 million lower than November, but the same level as enacted.

- In FY 2014, estimated SSI program costs are projected to stay level at \$18.2 million, despite a projected increase in caseloads to 33,515 persons. The FY 2014 expenditures represent a \$0.6 million decrease compared to November estimates.
- General Public Assistance (GPA) caseloads are projected to be 525 persons in FY 2013 and 550 persons in FY 2014. The \$0.8 million decrease in projected expenditures for FY 2013 relative to the enacted budget reflects a decrease in the caseload of 125 persons. Similarly, general revenue expenditures for FY 2014 are projected to be \$0.3 million lower than estimated in November.

Medical Assistance Highlights

- Total Medicaid expenditures, administered by OHHS, are projected to increase from \$1,556.0 million in FY 2013 to an estimated \$1,668.8 million in FY 2014, a 7.2 percent increase.
- May FY 2013 Medicaid expenditures from all funds are \$32.1 million lower than November estimates and \$57.8 million lower than enacted. General revenue expenditure estimates are \$19.6 million lower than November estimates and \$43.9 million lower than enacted. Compared to November estimates, the May estimates for FY 2014 expenditures are \$3.7 million higher for all funds, but \$8.1 million lower for general revenue expenditures.
- Hospital payments in FY 2013 and FY 2014 are lower than November estimates, by \$6.7 million and \$3.4 million, respectively.
- Due to a downward trend in nursing home days, FY 2013 long-term care expenditures of \$431.3 million are \$8.8 million less than estimated in November, and \$1.3 million less than enacted. Projected long-term care expenditures for

FY 2014 of \$455.5 million are \$6.9 million lower than November estimates. A \$14.5 million reduction in nursing and

hospice care offset the \$7.6 million increase in home/community services between November and May for FY 2014.

Table 3
May 2013 Caseload Estimating Conference
Change in Cash Assistance and Medical Assistance Expenditures (\$ millions)

	FY 2013				FY 2014			FY 2013
	Enacted	Adopted Nov-12	Adopted May-13	Change Enact.-May	Adopted Nov-12	Adopted May-13	Change REC	-2014 Change
Cash Assistance								
TANF/RIWP Total	\$40.8	\$40.8	\$39.4	(\$1.4)	\$41.3	\$38.9	(\$2.4)	-1.3%
Child Care Total	49.0	49.4	\$48.5	(0.5)	49.9	49.6	(0.3)	2.3%
SSI Total	18.2	18.6	\$18.2	(0.0)	18.8	18.2	(0.6)	0.2%
GPA Total	3.2	2.7	\$2.4	(0.8)	2.8	2.5	(0.3)	6.1%
Total: Cash Assistance	\$111.3	\$111.5	\$108.4	(\$2.8)	\$112.8	\$109.2	(\$3.6)	0.7%
<i>Cash Assistance Gen Rev</i>	<i>\$30.3</i>	<i>\$30.3</i>	<i>\$29.7</i>	<i>(\$0.6)</i>	<i>\$30.6</i>	<i>\$29.8</i>	<i>(\$0.8)</i>	<i>0.5%</i>
Medical Assistance								
Hospitals								
Hospitals	\$95.2	\$92.6	\$88.5	(\$6.7)	\$94.2	\$90.8	(\$3.4)	2.6%
DSH	127.7	127.7	127.7	0.0	129.8	129.8	0.0	1.6%
<i>Subtotal Hospitals</i>	<i>\$222.9</i>	<i>\$220.3</i>	<i>\$216.2</i>	<i>(\$6.7)</i>	<i>\$224.0</i>	<i>\$220.6</i>	<i>(\$3.4)</i>	<i>2.0%</i>
Long-term Care								
Nursing and Hospice Care	\$358.5	\$364.0	\$350.5	(\$8.0)	\$383.0	\$368.5	(\$14.5)	5.1%
Home/Community Services	74.1	76.1	80.8	6.7	79.4	87.0	7.6	7.7%
<i>Subtotal Long-term Care</i>	<i>\$432.6</i>	<i>\$440.1</i>	<i>\$431.3</i>	<i>(\$1.3)</i>	<i>\$462.4</i>	<i>\$455.5</i>	<i>(\$6.9)</i>	<i>5.6%</i>
Managed Care	\$595.7	\$570.0	\$556.2	(\$39.5)	\$601.8	\$610.5	\$8.7	9.8%
Pharmacy	3.9	2.8	0.1	(3.8)	3.0	1.9	(1.1)	1800.0%
Pharmacy Clawback	49.7	50.2	49.8	0.1	53.2	50.1	(3.1)	0.6%
Other	117.8	114.5	117.0	(0.8)	119.0	122.5	3.5	4.7%
Rhody Health	191.2	190.2	185.4	(5.8)	201.7	207.7	6.0	12.0%
Total: Medical Assistance	\$1,613.8	\$1,588.1	\$1,556.0	(\$57.8)	\$1,665.1	\$1,668.8	\$3.7	7.2%
<i>Medical Assistance Gen Rev</i>	<i>\$799.6</i>	<i>\$775.3</i>	<i>\$755.7</i>	<i>(\$43.9)</i>	<i>\$834.9</i>	<i>\$826.8</i>	<i>(\$8.1)</i>	<i>9.4%</i>
<i>Total Federal Funds</i>	<i>\$884.1</i>	<i>\$882.0</i>	<i>\$867.1</i>	<i>(\$17.0)</i>	<i>\$903.3</i>	<i>\$912.3</i>	<i>\$9.0</i>	<i>5.2%</i>
<i>Total General Revenue</i>	<i>\$829.9</i>	<i>\$805.6</i>	<i>\$785.4</i>	<i>(\$44.4)</i>	<i>\$865.6</i>	<i>\$856.7</i>	<i>(\$8.9)</i>	<i>9.1%</i>
<i>Total Restricted Receipts</i>	<i>\$11.1</i>	<i>\$11.9</i>	<i>\$11.9</i>	<i>\$0.8</i>	<i>\$9.0</i>	<i>\$9.0</i>	<i>\$0.0</i>	<i>-24.3%</i>
TOTAL EXPENDITURES	\$1,725.1	\$1,699.6	\$1,664.4	(\$60.6)	\$1,777.9	\$1,778.0	\$0.1	6.8%

Source: RIPEC calculations based on November 2012 and May 2013 Caseload Estimating Conference Data

- Revised FY 2013 managed care expenditures of \$556.2 million are \$3.8 million lower than November estimates and \$39.5 million lower than in the FY 2013 enacted budget. Projected managed care expenditures of \$610.5 million in FY 2014 are \$8.7 million higher than adopted November estimates.
- Much of the FY 2014 increase in managed care expenditures between the November and May Conferences is related to the Affordable Care Act (ACA) mandated primary care physician rate increase, as well as an increase in the anticipated average capitation rate from \$230 per member per month to \$250 per member per month.
- The May pharmacy expenditure estimate for FY 2013 of \$0.1 million is \$2.7 million lower than the November estimate and \$3.8 million lower than enacted. Based on the Conference report, the reduction is a result of the changes in the preferred drug list, increased availability of generic drugs, and lower drug use. Similarly, May estimates for FY 2014 are \$1.1 million lower than November estimates.
- Other medical assistance expenditures are slightly higher compared to November estimates for both FY 2013 and FY 2014. According to the Executive Office of Health and Human Services, expected savings associated with increased estate recoveries and insurance intercepts included in the November adopted FY 2013 estimate will not be realized. Increases in projected expenditures for FY 2014 are partly attributable to the ACA primary care physician reimbursement rate and an increase in projected Medicare premiums. Additionally, the enhanced FMAP for the CEDARR Health Home initiative expires after the first quarter of FY 2014.
- Adopted estimates for Rhody Health of \$185.4 million for FY 2013 are \$5.8

million lower than in the enacted budget and \$4.8 million lower than the November estimates. Projected FY 2014 expenditures of \$207.7 million are \$6.0 million higher compared to November. Increased reimbursement rates for primary care physicians and updated risk share/gain share payments are responsible for much of the increase for FY 2014 Rhody Health expenditures.

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. Specifically, some changes associated with implementation of the ACA, like Medicaid expansion, are not accounted for in the estimates for FY 2014.

RIPEC Comments

The May REC’s projections, which lower revenue projections by \$51.2 million compared to November estimates, illustrate an anemic economic recovery. While some economic indicators (such as the unemployment rate) continue to improve, the rate of growth for employment and personal income were revised downward, reflecting continued lackluster economic performance. The lagging recovery can also be seen in Rhode Island’s residual unemployment, underemployment, and shrinking population. Employment has not yet rebounded to the pre-Great Recession peak in Rhode Island, whereas Massachusetts has regained all of the jobs lost, and continues to add to its number of employed residents.

Table 4
Average Annual Projected Growth Rates, 2012 - 2017

Indicator	Rhode Island	New England	United States
Gross State Product (GSP)	2.2%	3.2%	3.3%
Employment	1.1%	1.4%	1.9%

SOURCE: New England Economic Partnership, May 2013

Similarly, table 4 shows Rhode Island's projected economic performance trails New England and the national average in growth in gross state product (GSP) and employment through 2017. If this trend continues, the ability of Rhode Island to grow and maintain a vibrant economy becomes less possible, and represents a challenge. The state's inability to generate its own economic momentum requires a fundamental shift in approach and action, including internal restructuring at a foundational level. If Rhode Island does not take the initiative to improve the fundamentals of its economy, the state will continue to be dependent on the growth of the region, and the nation as a whole.

The state is in a position to take action to encourage systemic change in its approach to economic development. To this end, the Senate and the House have introduced a variety of bills advancing an economic agenda to improve Rhode Island's competitiveness and the business climate. Combined, both packages, and other pending legislation, would systematically change the way in which business is done and government responds to commerce in Rhode Island. Both emphasize the importance of a statewide economic development plan, promote the use of data-driven economic development policy, and rebrand and reorganize the Rhode Island Economic Development Corporation. The House proposal takes an additional systemic step by including a responsibility for commerce in state government. This crucial piece of legislation is central to ensuring that changes made will have a presence in government to coordinate, manage, and oversee the many other proposed changes.

In addition to the economic development and business climate issues, the state must consider the current budget and out-year variables. To this end, a balanced budget with special attention to controlling out-year deficits is

imperative. Emphasis on fiscal discipline in the context of an investment-based approach to budgeting is crucial to sustaining the state's ability to support essential services in the future. At the same time, the General Assembly should work to ensure that budgetary initiatives do not conflict with the state's intent to improve the business climate rankings. The state is not in a position to make promises today that it may not be able to sustain in the future. Investment in programs supporting core government functions, such as education and infrastructure, may also help accelerate Rhode Island's recovery. Balancing these investments, while minimizing out-year risks, will put the state on surer footing.

Beyond the state's current economic conditions, there are several variables that will undoubtedly exert pressure on the out-year budgets. First, full ACA implementation, including Medicaid expansion, will be initiated in FY 2014. The outcome of the state's pension reform litigation may also be realized. In the near-term, the location of Massachusetts's table gaming could reduce lottery revenues further. Lastly, federal spending reductions may have an impact on Rhode Island's federally funded programs, and businesses dependent on government contracts.

Taken together, it is clear that Rhode Island can ill afford to rely on the rising tide of national economic recovery to generate economic activity. Legislative action to enact the bills prioritizing the restructuring of Rhode Island's economic development efforts complement a balanced and disciplined budget, among the many steps the state must take to become more competitive. A comprehensive set of actions is necessary if the state does not act on these changes, the economic results of the past years will repeat in the future.