State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 305, STATE HOUSE, PROVIDENCE, RI 02903

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November 2016 Conference Chair

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MEMORANDUM

To: The Honorable Nicholas A. Mattiello, Speaker of the House
The Honorable Gina M. Raimondo, Governor
The Honorable M. Teresa Paiva Weed, President of the Senate

From: Sharon Reynolds Ferland, House Fiscal Advisor
Thomas A. Mullaney, State Budget Officer
Stephen H. Whitney, Senate Fiscal Advisor

Date: November 18, 2016

Subject: **November 2016 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on November 4th, 7th, and 10th, 2016, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2017 to 2022, and issued a revised estimate for FY 2017 and a first estimate of FY 2018 revenues. Based on collection trends, preliminary closing results, and the revised economic forecast, the Conference increased the FY 2017 estimates by $44.8 million from the enacted FY 2017 budget to a total of $3,719.6 million.

The Conference estimated FY 2018 revenues at $3,611.6 million. That is $107.9 million less than the revised Conference estimates for FY 2017 but does not include the hospital license fee. The hospital license fee accounts for $169.0 million in FY 2017 that cannot be included in FY 2018 because it is enacted annually, and revenue estimates may only be based upon current law.

Tables showing the estimates and the changes by revenue component are included at the end of this report.

Economic Forecast

On November 4, the Conference heard forecasts for the national and Rhode Island economies from Mr. Patrick Newport, Director and Michael Lynch, Principal Economist with IHS Economics, and received testimony from Ms. Donna Murray, Assistant Director Labor Market Information, of the Department of Labor and Training. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the following table.

November 2016 Consensus Economic Forecast

Annual Growth	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Nonfarm Employment (000's)	478.8	484.9	489.8	493.4	495.1	496.8	498.6	499.8	502.1
Nonfarm Employment Growth	1.5	1.3	1.0	0.7	0.4	0.3	0.4	0.2	0.5
Personal Income (mil.)	$50,660.3	$52,833.5	$54,182.7	$ 56,223.0	$58,606.6	$61,120.1	$ 63,705.6	$66,264.9	$ 69,025.8
Personal Income Growth	3.9	4.3	2.6	3.8	4.2	4.3	4.2	4.0	4.2
Wage and Salaries Income	4.7	4.1	2.3	4.0	4.3	4.2	4.2	4.3	4.5
Dividends, Interest and Rent	4.0	2.9	2.2	2.7	4.5	5.4	5.2	3.8	3.6
Rates									
Unemployment Rate	7.7	5.9	5.5	5.5	5.4	5.3	5.4	5.5	5.5
Consumer Price Index (US)	1.6	0.1	1.3	2.5	2.4	2.6	2.5	2.4	2.4
Ten Year Treasuries	2.5	2.1	1.7	2.1	2.7	3.4	3.6	3.6	3.6
Three Month Treasuries	0.0	0.1	0.3	0.7	1.4	2.2	2.6	2.6	2.6
Annual Growth	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Nonfarm Employment	475.0	482.2	487.4	491.9	494.3	496.0	497.8	499.0	500.9
Nonfarm Employment Growth	1.5	1.5	1.1	0.9	0.5	0.3	0.4	0.2	0.4
Personal Income (mil.)	$49,579.0	$51,780.9	$53,536.4	$ 55,167.6	$57,389.9	$59,859.2	$ 62,416.7	$64,965.9	$ 67,634.2
Personal Income Growth	1.8	4.4	3.4	3.0	4.0	4.3	4.3	4.1	4.1
Wage and Salaries Income	4.1	4.4	3.4	3.0	4.3	4.2	4.2	4.2	4.4
Dividends, Interest and Rent	0.2	4.2	2.3	2.6	3.2	5.2	5.5	4.4	3.6
Rates									
Unemployment Rate	8.7	6.6	5.5	5.6	5.4	5.3	5.3	5.5	5.5
Consumer Price Index (US)	1.6	0.7	0.7	1.9	2.5	2.5	2.6	2.4	2.4
Ten Year Treasuries	2.7	2.2	2.0	1.8	2.4	3.0	3.6	3.6	3.6
Three Month Treasuries	0.0	0.0	0.2	0.5	1.0	1.8	2.5	2.6	2.6

Testimony from Mr. Newport focused on the United States economy. He predicted that real GDP growth will increase to 2.2 percent in both 2017 and 2018 after slowing from 2.6 percent in 2015 to 1.4 percent in 2016. Expansion is in its seventh year with personal consumption, fixed investment and government spending all rising in late 2016 with consumer spending leading the expansion. Consumer spending, which makes up two-thirds of the economy, has been relatively stable and people are not in as much debt today as they were before the recession. His testimony identified areas that affect consumer spending with positive forces being employment growth, mild inflation, rising disposable income, rising asset values and low interest rates. Areas that have a negative impact on consumer spending are sluggish wage gains, high student debt burdens and precautionary saving.

Mr. Newport predicted that net exports will be a drag on economic growth as a strong US dollar impairs competitiveness and that the Federal Reserve will raise interest rates as the labor markets tighten and core inflation approaches 2.0 percent.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He noted a modest growth trajectory for Rhode Island as payrolls expanded by 5,300 jobs year over year for September 2016. Administrative support and accommodations/food service jobs contributed the largest gains at 1,400 and 2,900, respectively. It should be noted that these types of jobs tend to have lower wages.

Positions with higher than average wages in the finance and professional, scientific and technical sectors experienced weak growth as did manufacturing jobs. Healthcare payrolls were down year over year, with reports of hospital layoffs, lower revenues and lower reimbursement rates.

Mr. Lynch also spoke about the housing market. The weak recovery in housing starts in contributing to upward pressure on home prices. While homes sales will level off through 2021, home prices are predicted to continue to rise. The share of loans entering foreclosure appear to be close to the 2006 levels while the share of loans in foreclosure have come down from a peak in 2011 to 2008 levels.

Rhode Island continues to have very slow population growth with the state's birthrate lower than the national average and this is playing an increasing role in labor force growth estimates. While there has been steady growth in the under 35 and over 55 populations, there has been continued declines in the middle-aged cohorts: ages 35 to 54. The 2015 experience continued the trend from 2012 of the outflows of Rhode Island residents mostly canceling out the influx from abroad. Mr. Lynch testified that over the next eight quarters, from the third quarter of 2016 to the third quarter of 2018, Rhode Island will experience employment growth deceleration as labor markets tighten and population growth remains slow.

Mr. Newport indicated that the economic forecast did not contemplate the outcome of the November presidential election and that the forecast will not be updated until Congress begins passing laws under the new administration.

Rhode Island wage and salary growth for fiscal year 2017 has been decreased from May 2016's forecast of 3.6 percent to 3.0 percent and fiscal year 2018 growth has been increased from 4.1 percent to 4.3 percent. Employment growth has been reduced from 1.3 percent to 0.9 percent for FY 2017 and from 1.2 percent to 0.5 percent for FY 2017. Similarly, personal income growth has been reduced from 3.7 percent to 3.0 percent for FY 2017 and from 4.4 percent to 4.0 percent for FY 2018.

The next table shows the difference from the May forecast.

Nov 2016 Consensus Economic Forecast Change to May 2016

Annual Growth	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Nonfarm Employment (000's)	0.0	0.0	0.0	-0.9	-3.5	-7.5	-9.8	-9.3	-9.5
Nonfarm Employment Growth	0.0	0.0	0.0	-0.2	-0.5	-0.8	-0.5	0.1	0.0
Personal Income (mil.)	164.5	-366.6	-72.0	-657.6	-966.0	-1015.7	-593.6	236.2	829.6
Personal Income Growth	0.1	-1.1	0.6	-1.1	-0.5	0.0	0.8	1.4	0.9
Wage and Salaries Income	0.2	0.0	0.5	-1.8	0.2	-0.3	-0.1	1.3	1.6
Dividends, Interest and Rent	2.7	0.0	-0.8	-2.3	-6.6	-1.6	3.5	3.6	1.6
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.0	0.0	0.0	0.2	0.6	0.5	0.4	0.3	0.4
Consumer Price Index (US)	0.0	0.0	0.0	-0.2	-0.3	-0.5	-0.1	0.1	0.2
Ten Year Treasuries	0.0	0.0	0.0	-0.7	-1.5	-1.3	-0.6	-0.4	-0.4
Three Month Treasuries	0.0	0.0	0.0	-0.1	-0.7	-1.5	-0.9	-0.7	-0.8

Annual Growth	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Nonfarm Employment	0.0	0.0	0.0	-0.2	-2.0	-5.5	-9.0	-9.6	-9.4
Nonfarm Employment Growth	0.0	0.0	0.0	0.0	-0.4	-0.7	-0.7	-0.1	0.1
Personal Income (mil.)	104.9	-104.4	-225.1	-532.9	-926.8	-1174.8	-1015.0	-309.1	400.4
Personal Income Growth	0.1	-0.4	-0.2	-0.6	-0.7	-0.4	0.4	1.2	1.2
Wage and Salaries Income	0.1	0.1	0.1	-1.2	-0.6	0.1	-0.5	0.7	1.6
Dividends, Interest and Rent	1.6	1.0	0.3	-1.6	-4.6	-5.3	1.6	4.2	2.4
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.0	0.0	0.0	0.0	0.4	0.5	0.4	0.3	0.3
Consumer Price Index (US)	0.0	0.0	0.0	-0.1	-0.2	-0.4	-0.4	0.0	0.1
Ten Year Treasuries	0.0	0.0	0.0	-0.1	-1.3	-1.5	-1.0	-0.4	-0.4
Three Month Treasuries	0.0	0.0	0.0	0.0	-0.2	-1.3	-1.3	-0.7	-0.7

Testimony from both IHS Economics and the Department of Labor and Training mentioned the increase in the unemployment rate from the January level of 5.4 percent to the September rate of 5.6 percent; however, it is unchanged from a year ago. The increase in the rate is partially attributed to discouraged workers returning to the workforce. As of September 2016, Rhode Island has the fifteenth highest rate in the nation.

IHS testimony predicted that the unemployment rate will gradually fall back down to 5.3 percent in 2019 and that quarterly private sector employment growth will average 0.6 percent, annualized, through the third quarter of 2018 resulting in a net gain of 4,800 jobs with 3,600 of those coming from administrative support positions. After falling in 2016, healthcare jobs will recover but manufacturing job losses will resume. The testimony also suggested that government payrolls will be a negative force on growth as will retail jobs which have seen increased efficiencies.

Rhode Island began losing jobs in February 2007, predating national losses by 10 months. The unemployment rate reached its peak in January 2009, at a rate of 11.9 percent. Recovery since has been steady but restrained. As of September data, the Department of Labor and Training reports that the state has recouped 86.2 percent of the jobs lost during the recession. Although the U.S. has recouped 100 percent of all jobs lost during the recession, the recession was much steeper in Rhode Island than in other parts of the country and was felt more deeply than in any other New England state, save Maine.

The Department of Labor and Training reported that the September 2016 labor force of 557,400 is 17,300 less than the peak of 574,700 in December 2006. Labor force participation rates for those ages 25 to 54 were 82.9 percent for 2015 which is lower than the 84.6 percent for 2006 or the 85.5 percent for 2009.

The Department of Labor and Training reported that there has been 35,100 net new jobs created between August 2009 and September 2016. Of those, 13,200 or 38 percent were in positions paying less than $29,999 a year, 14,600 or 42 percent were in jobs paying between $30,000 and $59,000 and 7,300 or 21 percent were in jobs paying $60,000 or more.

Revenues

Taxes. Revenues from taxes are estimated to increase 1.5 percent in FY 2017 from preliminary FY 2016 collections and increase by 1.9 percent in FY 2018 over the revised FY 2017 estimate. Total estimated taxes for FY 2017 of $2,973.1 million are $41.4 million above the enacted estimate for total taxes. FY 2018 total estimated taxes are $3,029.5 million, $55.3 million above the revised FY 2017 estimate.

Personal Income Tax. The estimates of $1,267.6 million for FY 2017 and $1,316.2 million for FY 2018 represent unadjusted year over year growth rates of 4.1 percent and 3.8 percent, respectively. The FY 2017 estimate is $18.4 million more than enacted, reflecting an upward revision to withholding receipts offset by a net decrease in other components. The FY 2018 estimate is $48.6 million more than the FY 2017 revised estimate and captures the full year impact of recent changes to the earned income tax credit and new retirement income exemption.

Business Taxes. The Conference estimates total business taxes of $477.0 million in FY 2017 and $481.3 million in FY 2018. Year over year growth rates are 9.6 percent and 0.9 percent respectively. The FY 2017 estimate is $17.7 million more than enacted while the FY 2018 estimate is $4.3 million more than the revised estimate.

The business corporations tax is $3.0 million more in FY 2017 than enacted, and $32.6 million above FY 2016 preliminary collections which included unusual refund activity associated with the implementation of new technology systems in the Division of Taxation. The FY 2018 estimate for business corporations tax is $4.8 million above the revised FY 2017 estimate.

Revenues from insurance companies are projected at $139.5 million for FY 2017, up $13.4 million from the FY 2017 enacted estimate, due in part to an issue with the timing of a payment. The FY 2018 estimate, is $4.1 million below the revised FY 2017, reflecting base growth offset by the impact of that same one-time issue.

Sales and Use Taxes. The Conferees estimate sales and use tax revenues of $1,014.2 million in FY 2017 and $1,038.1 million in FY 2018. The FY 2017 revenues are $2.8 million below the enacted estimate and represent growth of 4.6 percent from preliminary FY 2016 receipts. The FY 2018 estimate is $23.9 million, or 2.4 percent, above the revised FY 2017 estimate.

Excise Taxes Other Than Sales and Use Taxes. The Conferees estimated $170.0 million for FY 2017 and $154.7 million for FY 2018 from excise taxes other than sales and use taxes. These taxes include motor vehicle license and registration fees (in FY 2017 only), cigarettes taxes, and alcohol taxes. The FY 2017 estimate is $1.9 million less than enacted all related to tobacco taxes. The FY 2018 estimate is $15.9 million less than the revised estimate for FY 2017 reflecting the final shift of motor vehicle receipts from general revenues to the transportation fund and the annual decline in cigarette tax receipts.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce $43.7 million in FY 2017 and $39.2 million in FY 2018. The FY 2017 estimate is $10.1 million more than enacted from an upward revision to inheritance taxes, related to the allocation of an unexpectedly large payment in FY 2016. The FY 2018 estimate for total other taxes is $4.5 million less than the revised FY 2017 estimate, largely reflecting the normalizing of inheritance tax receipts.

Departmental Receipts. The estimators adopted estimates of $364.8 million for FY 2017 and $206.7 million for FY 2018 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts that are deposited as general revenues. The FY 2017 estimate is $3.3 million more than enacted.

The FY 2018 estimate is $158.1 million less than the revised FY 2017 estimate. FY 2018 drops off mainly due to the end of the hospital license fee, which produces $169.0 million in FY 2017. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is enacted for FY 2018.

Lottery Transfer. Lottery revenues are estimated to produce $363.5 million in FY 2017 with $288.9 million from video lottery terminals installed at Twin River and Newport Grand, $18.0 million from Twin River's table games, and $56.6 million from traditional games, which includes PowerBall, Mega Million, scratch tickets, and Keno. The estimated transfer is $365.0 million in FY 2018, with $290.8 million from video lottery terminals, $18.3 million from table games and $55.9 million from traditional lottery games. Year over year growth is -1.7 percent for FY 2017 and 0.4 percent for FY 2018.

The estimators determine the state share of video lottery net terminal income at both Twin River and Newport Grand. For FY 2017, the conferees project a state share of $262.0 million based on total net terminal income of $437.1 million at Twin River. At Newport Grand, the state expects to receive $26.9 million from the generation of $45.4 million in net terminal income.

For FY 2018, Twin River is projected to provide the state with $263.0 million from the $438.6 million of net terminal income generated while Newport Grand is expected to transfer $27.8 million from the $45.4 million of net terminal income it generates. The FY 2018 estimate assumes a hotel will be open at Twin River in March of 2018, something expected to reverse an otherwise projected decline in revenue. There are no other assumptions of impacts from other new casinos opening in Massachusetts, as those have planned openings outside the forecast window covered by this conference.

The state share of revenues from table games reflect estimates that total revenues will be $143.0 million and $146.5 million in FY 2017 and FY 2018, respectively. The state's direct regulatory expenses are deducted from its 16 percent share of the total, and the balance is transferred to general revenues.

Other Sources. Other source revenue consists of transfers to the General Revenue fund from, unclaimed property, and other miscellaneous sources. These are estimated to produce $18.2 million in FY 2017 and $10.4 million in FY 2018. The FY 2018 decline is primarily due to a decrease in other miscellaneous revenue sources for non-recurring revenue.

The tables that follow show the results by revenue along with information on FY 2016 and comparison to the FY 2017 enacted budget.

Nov 2016 CRE	FY 2016	FY 2017 Estimate		FY 2018 Estimate	
Personal Income Tax	$ 1,217,429,575	$ 1,267,600,000	4.1%	$ 1,316,200,000	3.8%
General Business Taxes					
Business Corporations	134,908,997	167,500,000	24.2%	172,300,000	2.9%
Public Utilities Gross	103,062,420	104,100,000	1.0%	105,500,000	1.3%
Financial Institutions	21,095,888	21,000,000	-0.5%	22,100,000	5.2%
Insurance Companies	130,344,054	139,500,000	7.0%	135,400,000	-2.9%
Bank Deposits	2,555,974	2,500,000	-2.2%	2,500,000	0.0%
Health Care Provider	43,236,332	42,400,000	-1.9%	43,500,000	2.6%
Sales and Use Taxes					
Sales and Use	971,872,924	1,014,200,000	4.4%	1,038,100,000	2.4%
Motor Vehicle	39,691,836	13,100,000	-67.0%	-	-100.0%
Motor Fuel	(208,068)	-		-	
Cigarettes	142,782,086	137,700,000	-3.6%	133,900,000	-2.8%
Alcohol	19,630,268	19,800,000	0.9%	20,800,000	5.1%
Other Taxes					
Inheritance and Gift	70,028,952	31,000,000	-55.7%	25,600,000	-17.4%
Racing and Athletics	1,059,487	1,100,000	3.8%	1,100,000	0.0%
Realty Transfer	10,430,664	11,600,000	11.2%	12,500,000	7.8%
Total Taxes	*$ 2,907,921,389*	*$ 2,973,100,000*	*2.2%*	*$ 3,029,500,000*	*1.9%*
Departmental Receipts	367,641,395	364,800,000	-0.8%	206,700,000	-43.3%
Other Miscellaneous	4,102,234	7,189,000	75.2%	847,000	-88.2%
Lottery	369,760,879	363,500,000	-1.7%	365,000,000	0.4%
Unclaimed Property	14,166,740	11,000,000	-22.4%	9,600,000	-12.7%
Total General Revenues	**$ 3,663,592,637**	**$ 3,719,589,000**	**1.5%**	**$ 3,611,647,000**	**-2.9%**

Nov 2016 CRE	FY 2017 Enacted	FY 2017 Revised Estimate	Change to Enacted	FY 2018 Estimate	Change to FY 2017 Rev. Est.
Personal Income Tax	$ 1,249,175,346	$ 1,267,600,000	$ 18,424,654	$ 1,316,200,000	$ 48,600,000
General Business Taxes					
Business Corporations	164,471,657	167,500,000	3,028,343	172,300,000	4,800,000
Public Utilities Gross	101,000,000	104,100,000	3,100,000	105,500,000	1,400,000
Financial Institutions	20,300,000	21,000,000	700,000	22,100,000	1,100,000
Insurance Companies	126,064,809	139,500,000	13,435,191	135,400,000	(4,100,000)
Bank Deposits	2,400,000	2,500,000	100,000	2,500,000	-
Health Care Provider	45,100,000	42,400,000	(2,700,000)	43,500,000	1,100,000
Sales and Use Taxes					
Sales and Use	1,017,043,806	1,014,200,000	(2,843,806)	1,038,100,000	23,900,000
Motor Vehicle	13,100,000	13,100,000	-	-	(13,100,000)
Motor Fuel	-	-	-	-	-
Cigarettes	139,600,000	137,700,000	(1,900,000)	133,900,000	(3,800,000)
Alcohol	19,800,000	19,800,000	-	20,800,000	1,000,000
Other Taxes					
Inheritance and Gift	21,400,000	31,000,000	9,600,000	25,600,000	(5,400,000)
Racing and Athletics	1,100,000	1,100,000	-	1,100,000	-
Realty Transfer	11,100,000	11,600,000	500,000	12,500,000	900,000
Total Taxes	*$ 2,931,655,618*	*$ 2,973,100,000*	*$ 41,444,382*	*$ 3,029,500,000*	*$ 56,400,000*
Departmental Receipts	361,522,050	364,800,000	3,277,950	206,700,000	(158,100,000)
Other Miscellaneous	7,065,000	7,189,000	124,000	847,000	(6,342,000)
Lottery	365,300,000	363,500,000	(1,800,000)	365,000,000	1,500,000
Unclaimed Property	9,200,000	11,000,000	1,800,000	9,600,000	(1,400,000)
Total General Revenues	**$ 3,674,742,668**	**$ 3,719,589,000**	**$ 44,846,332**	**$ 3,611,647,000**	**$ (107,942,000)**

Next Meeting

The next required meeting of the conference is May 2017.