



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

ROOM 117, STATE HOUSE, PROVIDENCE, RI 02903

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May 2013 Conference Chair

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MEMORANDUM

To: The Honorable M. Teresa Paiva Weed, President of the Senate
The Honorable Gordon D. Fox, Speaker of the House
The Honorable Lincoln D. Chafee, Governor

From: Eugene Gessow, Senate Fiscal Advisor
Sharon Reynolds Ferland, House Fiscal Advisor
Thomas A. Mullaney, State Budget Officer

Date: May 21, 2013

Subject: **May 2013 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference (REC) met on May 2, 3, and 10, 2013, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2013 to 2018, and reviewed and revised estimates for FY 2013 and FY 2014 revenues. Based on collection trends through April and the revised economic forecast, the Conference revised the FY 2013 estimates to \$3,323.5 million. The estimate is \$4.9 million less than the revenues estimated in November.

The Conference estimated FY 2014 revenues at \$3,236.9 million, which is \$51.2 million less than estimated in November 2012. The FY 2014 estimate is based on current law and excludes the hospital licensing fee, which is renewed annually. The Governor's budget assumes imposing a fee for FY 2014 equal to the FY 2013 enacted level of \$141.3 million. Tables showing the estimates and the changes by revenue component are included at the end of this report.

ECONOMIC FORECAST

The Consensus Economic Forecast was adopted at the May 3rd meeting. The principals heard testimony from their economic consultant from Moody’s Economy.com. He presented Conferees with updated economic forecasts for the United States and Rhode Island. Testimony covered current economic performance, the outlook for the next several years, and how the outlook has changed since the November 2012 Revenue Estimating Conference. The Assistant Director of the Labor Market Information Unit, Rhode Island Department of Labor and Training, presented the latest labor market data for Rhode Island.

After questioning the presenters, the Conferees adopted an updated consensus economic forecast for Rhode Island.

Consensus Economic Forecast

The Conferees adopted a consensus economic forecast based on the testimony of Moody’s Economy.com. The forecast projects an employment increase of 2,690 jobs from FY 2012 to FY 2013, and an additional 4,610 jobs in FY 2014. Employment growth is expected to average 1.8 percent in the FY 2015 – FY 2018 forecast period. Personal income growth is projected to increase in FY 2013 and FY 2014 by 2.1 percent and 4.1 percent, respectively. Personal income growth averages 5.9 percent in the FY 2015 – FY 2018 forecast period. Wage and salary growth is expected to trend upward, peaking at 7.4 percent in FY 2016. The State’s unemployment rate is projected to remain at 9.8 percent through FY 2013 and fall to 8.8 percent in FY 2014. Rhode Island’s unemployment rate is not expected to fall below 7.0 percent until FY 2016.

The consensus economic forecast through 2018 on both a calendar and fiscal year basis is shown in the following tables.

May 2013 Consensus Economic Forecast						
Forecast Metric	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Non-Farm Employment (Thousands)	468.5	474.9	486.7	498.0	504.2	506.0
<u>Growth Rates</u>						
Non-Farm Employment	0.7	1.4	2.5	2.3	1.3	0.4
Personal Income	2.2	5.7	6.9	6.5	5.1	4.0
Wages and Salaries	3.4	5.7	7.2	7.2	5.9	4.2
Dividends, Interest, and Rent	1.3	7.4	11.6	9.8	5.4	3.5
<u>Percentage Rates</u>						
Unemployment	9.2	8.2	6.9	6.0	5.4	5.3
Consumer Price Index (U.S.)	2.0	2.1	2.4	2.5	2.4	2.4
Ten Year U.S. Treasury Notes	2.2	3.2	4.3	5.0	4.7	4.6
Three Month U.S. Treasury Bills	0.2	0.3	1.4	3.3	3.8	3.6

May 2013 Consensus Economic Forecast						
Forecast Metric	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Non-Farm Employment (Thousands)	466.4	471.0	480.4	492.8	501.8	505.3
<u>Growth Rates</u>						
Non-Farm Employment	0.6	1.0	2.0	2.6	1.8	0.7
Personal Income	2.1	4.1	6.5	6.8	5.9	4.3
Wages and Salaries	1.8	4.9	6.5	7.4	6.7	4.8
Dividends, Interest, and Rent	4.3	2.7	10.8	11.0	7.8	3.9
<u>Percentage Rates</u>						
Unemployment	9.8	8.8	7.5	6.4	5.5	5.3
Consumer Price Index (U.S.)	1.8	1.9	2.3	2.4	2.5	2.4
Ten Year U.S. Treasury Notes	1.8	2.6	3.6	4.7	4.8	4.6
Three Month U.S. Treasury Bills	0.1	0.2	0.5	2.3	3.7	3.7

The U.S. Economy

Testimony from Economy.com indicated that the U.S. economy continues to recover, but at a slow pace. The U.S. job market has been extremely volatile, producing on average about 175,000 jobs a month. Economy.com also testified that businesses have never been as profitable as they are now, but are not likely to start spending until they are confident that growth can be sustained. The housing market is beginning to show signs of revival as housing is now fairly valued and demand is growing. Nationally, the auto industry is booming and has been a key player in economic growth. Economic growth continues to be slow as consumers are using disposable income to pay off debt as opposed to buying goods and services. Consumer confidence still remains relatively low.

The Rhode Island Economy

With respect to the Rhode Island economy, Economy.com noted that the State's current economy, though growing, is recovering "unevenly" at a moderate pace and lagging behind other New England states and the nation. Rhode Island is the only State in the nation where population has consistently declined since 2010. Many college graduates leave the State as opposed to staying or returning back to Rhode Island when searching for employment. According to written testimony, the Philadelphia Federal Reserve Bank's coincident index, a measurement of economic activity, Rhode Island's economy bottomed out in 2009 at a level of 140.9. In April 2013, the index rose to 150.9, a gain of 7.0 percent, providing evidence that Rhode Island's economy is not shrinking, though still not at the levels of healthy growth.

Rhode Island's growth potential continues to be stunted by low payroll employment and high unemployment. Though the State's unemployment rate has fallen from 10.0 percent in November to 9.1 percent in March, Rhode Island still maintains one of the highest unemployment rates in the nation. Rhode Island's unemployment rate is expected to remain at 8.2 percent in CY 2014 and not fall below 6.0 percent until CY 2017. According to written testimony provided by Economy.com, service industries have accounted for all of the growth over the past year, but they have barely offset losses in construction, manufacturing and government.

Department of Labor and Training

The Rhode Island Department of Labor and Training reported that the State's unemployment rate has declined to 9.1 percent, after peaking at 11.9 percent in early 2010. The March 2013 unemployment rate ranks sixth highest nationally, and still higher than the national 7.6 percent rate. Massachusetts and Connecticut have unemployment rates of 6.4 percent and 8.0 percent, respectively. The March 2013 unemployment level of 51,100 is at the lowest level since October 2008.

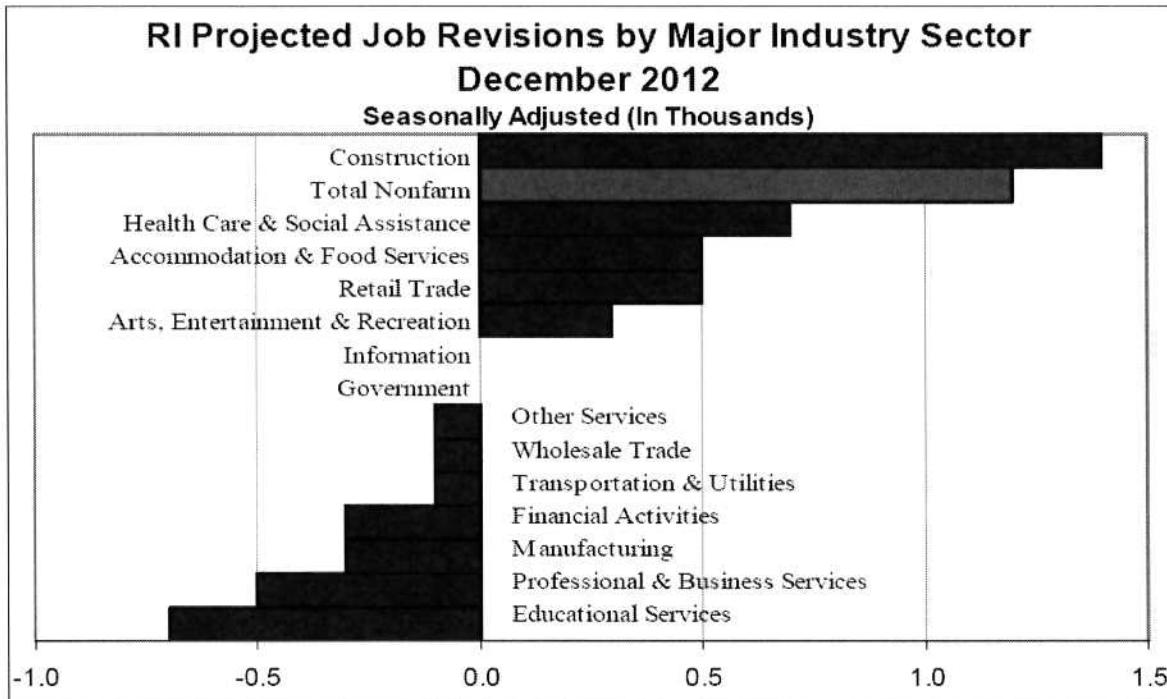
Use of Rhode Island's WorkShare program fell significantly in 2012 and 2013. The WorkShare program allows employers to reduce the hours of a large number of workers in lieu of a layoff of a smaller group of employees. The employees recapture a portion of the lost earnings through regular unemployment compensation. The Department reported the number of initial claims filed under the program fell by 33.0 percent over the same period last year. Initial claims activity in the WorkShare program registered the lowest during the first quarter of 2013 since the program began.

As a result of federal legislative changes, the Federal Extended Unemployment Compensation program (EUC) has been extended through the end of calendar year 2013. However, the Federal and State Extended Benefit (EB) program ended on July 7, 2012. Since the program's inception in 2008, a total of 166,121 EUC initial claims were filed with \$1,078.9 million paid in benefits. From July 2008 through July 2012, a total of 38,007 EB initial claims were filed with \$179.0 million in benefits paid.

The December 2012 Rhode Island projected job revisions by major industry sector reflect significant upward revisions in construction (+1,400), health care and social assistance (+700), retail trade (+500), and accommodation and food services (+500). The sectors with significant downward revisions include

administrative and waste services (-900) and educational services (-700). It was noted significant job growth is predominantly occurring in lower wage sectors.

Changes by employment sector break down as follows, with data seasonally adjusted:



**DLT projections based on UI Tax data through 12/12.*

REVENUES

Taxes

Revenues from taxes are estimated to increase by 2.0 percent in FY 2013 from FY 2012 collections, and increase by 2.2 percent in FY 2014 over the revised FY 2013 estimate. Total estimated taxes for FY 2013 of \$2,567.6 million decrease by \$15.7 million, or 0.6 percent below the November 2012 REC estimate of \$583.3 million in FY 2013 total taxes. FY 2014 total estimated taxes are \$2,623.0 million, \$41.2 million below the November 2012 REC estimate of \$2,664.2 million in FY 2014 total taxes.

Personal Income Tax

The personal income tax estimates of \$1.075 billion for FY 2013 and \$1.108 billion for FY 2014 represent year-over-year growth rates of 1.4 percent and 3.0 percent, respectively. The FY 2013 estimate decreases by \$3.3 million, or 0.3 percent less than the November 2012 REC estimate, reflecting year-to-date collection trends. The FY 2014 estimate is \$21.2 million less than the November 2012 REC consensus estimate for FY 2014.

Business Taxes

The Conferees estimate total business taxes of \$385.6 million in FY 2013 and \$384.0 million in FY 2014 for all business taxes. Year-over-year growth rates are 6.9 percent and -0.4 percent respectively. The FY 2013 estimate is \$1.2 million, a 0.3 percent decrease from the FY 2013 November REC estimate while the FY 2014 estimate is \$1.6 million less than the revised FY 2013 estimate. Part of the FY 2014

decrease in expected business tax revenue is attributable to significant one time collections in FY 2013 from the tax amnesty program.

Sales and Use Taxes

The Conferees estimate Sales and Use Tax revenues of \$872.5 million in FY 2013 and \$895.0 million in FY 2014. The FY 2013 revenues decrease by \$6.9 million, or 0.8 percent below the November 2012 REC estimate for FY 2013, and represent an increase of 2.5 percent from FY 2012 audited receipts. The FY 2014 estimate is \$9.1 million less than the November 2012 REC estimate for FY 2014, a decrease of 1.0 percent. The FY 2013 and FY 2014 estimates incorporate changes to consumer prices in the consensus economic forecast and the sales tax base expansion.

Excise Taxes Other Than Sales and Use Taxes

The Conferees estimated \$195.7 million in Excise Taxes Other Than Sales and Use Taxes for both FY 2013 and FY 2014. These taxes include Motor Vehicle License and Registration Fees, Rental Vehicle Surcharges, Cigarette and Other Tobacco Product Taxes, Motor Fuel Taxes, and Alcohol Taxes. The FY 2013 estimate is \$3.7 million less than the November REC estimate, a 1.9 percent decrease. Motor Fuel and Cigarette Tax estimates were revised downward for the current fiscal year. The total FY 2014 estimate does not change from the revised estimate for FY 2013; however, FY 2014 estimates reflect a \$1.1 million decline in the Cigarette Tax estimate partially offset by modest projected gains in all other excise tax collections.

Other Taxes

The Inheritance, Racing and Athletics, and Realty Transfer taxes are estimated to produce \$38.5 million in FY 2013 and \$40.5 million in FY 2014. The FY 2013 estimate is \$3.0 million or 7.2 percent less than the November 2012 REC estimate for FY 2013. The FY 2014 estimate for total other taxes is \$2.7 million less than the November 2012 REC estimate for FY 2014, due primarily to a \$3.0 million reduction in expected Inheritance Tax collections.

Departmental Receipts

The Conferees adopted estimates of \$363.1 million for FY 2013 and \$206.6 million for FY 2014 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 2013 estimate increased by \$15.6 million, or 4.5 percent from the November 2012 REC estimate.

The FY 2014 estimate is \$156.5 million less than the revised FY 2013 estimate. The FY 2014 decline is primarily due to the end of the hospital license fee, which is estimated to produce \$141.3 million in FY 2013. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The Conferees, however, must estimate revenues consistent with current law, under which no fee is yet enacted for FY 2014.

Lottery Transfer

The Lottery Transfer is estimated to produce \$380.2 million in FY 2013, with \$319.1 million from Video Lottery Terminals (VLTs) installed at Twin River and Newport Grand, \$62.0 million from Games, including PowerBall, Mega Millions, scratch tickets, and Keno and \$(940,000) from the operation of table games at Twin River. This negative value reflects the costs incurred by the Division of Lottery as it ramps up staffing prior to the opening of table game operations at Twin River. According to State law, the Lottery's expenses for operating table games are removed from gross table game revenues prior to the transfer of money to the State. The FY 2013 lottery transfer estimate was revised downward by \$6.5 million, or -1.7 percent from the November 2012 REC estimate for FY 2013. The estimated lottery transfer in FY 2014 is \$395.1 million, with \$325.6 million from VLTs, \$63.0 million from traditional games, and \$6.5 million in net revenues from the operation of table games at Twin River. The FY 2014 net revenues figure for table games includes an estimated \$4.3 million in expenses to be incurred by the

Division of Lottery for the operation of table games. The lottery transfer estimate grows by 3.9 percent from the May 2013 adopted FY 2013 estimate, resulting in an additional \$14.9 million to the State in FY 2014.

The estimators are required to determine the State share of video lottery net terminal income (NTI) at both Twin River and Newport Grand. For FY 2013, the Conferees project a State share of \$319.1 million based on total NTI of \$477.0 million at Twin River and \$48.0 million at Newport Grand. For FY 2014, that State share estimate of \$325.6 million is calculated from an estimated NTI of \$491.0 million at Twin River and \$44.4 million at Newport Grand. NTI is projected to grow by 2.9 percent at Twin River, and decline by 7.5 percent at Newport Grand in FY 2014. Impacts from proposed Massachusetts gaming facilities are not incorporated into the estimates as the facilities are projected to begin operations in FY 2015.

Other Sources

Other sources of revenue consist of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$12.7 million in FY 2013 and \$12.2 million in FY 2014. The \$1.75 million increase in the FY 2013 amount is due to a \$415,000 increase in settlements to the Department of Human Services, and \$700,000 of International Registration Program (IRP) receipts that were not claimed last year by the Division of Motor Vehicles (DMV). The FY 2014 declines are primarily attributable to the exclusion of a one-time, \$1.8 million Neighborhood Health Plan Adult Dental Care Grant.

Revenue Comparisons – FY 2013

FY2013	November 2012 FY2012 Audited	REC	Change from FY12 Aud.	FY 2013 May REC	Change from Nov. REC	
Personal Income Tax	\$1,060,481,684	\$1,078,600,000	1.7%	\$1,075,300,000	(\$3,300,000)	-0.3%
General Business Taxes						
Business Corporations	123,054,377	135,900,000	10.4%	137,000,000	1,100,000	0.8%
Public Utilities Gross	100,631,477	104,000,000	3.3%	98,300,000	(5,700,000)	-5.5%
Financial Institutions	3,557,938	8,200,000	130.5%	12,800,000	4,600,000	56.1%
Insurance Companies	89,487,511	91,900,000	2.7%	93,600,000	1,700,000	1.8%
Bank Deposits	2,000,645	2,100,000	5.0%	2,500,000	400,000	19.0%
Health Care Provider	41,922,464	42,300,000	0.9%	41,400,000	(900,000)	-2.1%
Sales and Use Taxes						
Sales and Use	851,055,730	879,400,000	3.3%	872,500,000	(6,900,000)	-0.8%
Motor Vehicle	48,391,564	48,700,000	0.6%	51,100,000	2,400,000	4.9%
Motor Fuel	732,672	1,000,000	36.5%	800,000	(200,000)	-20.0%
Cigarettes	131,085,912	137,700,000	5.0%	131,800,000	(5,900,000)	-4.3%
Alcohol	11,873,646	12,000,000	1.1%	12,000,000	-	0.0%
Other Taxes						
Inheritance and Gift	46,411,738	33,800,000	-27.2%	30,200,000	(3,600,000)	-10.7%
Racing and Athletics	1,327,003	1,200,000	-9.6%	1,200,000	-	0.0%
Realty Transfer	6,434,665	6,500,000	1.0%	7,100,000	600,000	9.2%
Total Taxes	2,518,449,027	2,583,300,000	2.6%	2,567,600,000	(15,700,000)	-0.6%
Departmental Receipts	339,895,284	347,500,000	2.2%	363,100,000	15,600,000	4.5%
Other Miscellaneous	20,110,213	4,615,000	-77.1%	5,665,000	1,050,000	22.8%
Lottery	377,706,394	386,700,000	2.4%	380,160,000	(6,540,000)	-1.7%
Unclaimed Property	14,555,573	6,300,000	-56.7%	7,000,000	700,000	11.1%
Total General Revenues	\$3,270,716,491	\$3,328,415,000	1.8%	\$3,323,525,000	(\$4,890,000)	-0.1%
Lottery						
All Games	57,018,159	58,400,000	2.4%	62,000,000	3,600,000	6.2%
VLT	320,688,235	328,300,000	2.4%	319,100,000	(9,200,000)	-2.8%
Table Games	-	-		(940,000)		
Total	377,706,394	386,700,000	2.4%	380,160,000	(6,540,000)	-1.7%
Lincoln NTI	475,950,952	489,700,000	2.9%	477,000,000	(12,700,000.0)	-2.6%
Newport NTI	51,372,171	50,000,000	-2.7%	48,000,000	(2,000,000.0)	-4.0%
Combined NTI	527,323,123	539,700,000	2.3%	525,000,000	(14,700,000)	-2.7%

*Totals may vary due to rounding.

Revenue Comparisons – FY 2014

FY2014	November 2012 REC	May 2013 REC	Change from November 2012 REC	
Personal Income Tax	\$1,129,000,000	\$1,107,800,000	(\$21,200,000)	-1.9%
General Business Taxes				
Business Corporations	140,400,000	141,300,000	900,000	0.6%
Public Utilities Gross	102,400,000	94,900,000	(7,500,000)	-7.3%
Financial Institutions	3,100,000	4,300,000	1,200,000	38.7%
Insurance Companies	97,000,000	98,000,000	1,000,000	1.0%
Bank Deposits	2,200,000	2,500,000	300,000	13.6%
Health Care Provider	43,500,000	43,000,000	(500,000)	-1.1%
Sales and Use Taxes				
Sales and Use	904,100,000	895,000,000	(9,100,000)	-1.0%
Motor Vehicle	48,700,000	51,800,000	3,100,000	6.4%
Motor Fuel	1,000,000	1,000,000	-	0.0%
Cigarettes	137,400,000	130,700,000	(6,700,000)	-4.9%
Alcohol	12,200,000	12,200,000	-	0.0%
Other Taxes				
Inheritance and Gift	35,400,000	31,800,000	(3,600,000)	-10.2%
Racing and Athletics	1,100,000	1,200,000	100,000	9.1%
Realty Transfer	6,700,000	7,500,000	800,000	11.9%
Total Taxes	2,664,200,000	2,623,000,000	(41,200,000)	-1.5%
Departmental Receipts	206,800,000	206,600,000	(200,000)	-0.1%
Other Miscellaneous	2,430,000	2,545,000	115,000	4.7%
Lottery	405,100,000	395,100,000	(10,000,000)	-2.5%
Unclaimed Property	9,600,000	9,700,000	100,000	1.0%
Total General Revenues	\$3,288,130,000	\$3,236,945,000	(\$51,185,000)	-1.6%

**FY2014 Other Revenues do not include the \$141.3 million Hospital License Fee, which is enacted annually.*

NEXT MEETING

The next required meeting of the conference is scheduled for November 2013.