



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 305, STATE HOUSE, PROVIDENCE, RI 02903

SHARON REYNOLDS FERLAND
House Fiscal Advisor
November 2019 Conference Chair

THOMAS A. MULLANEY
State Budget Officer

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Senate Fiscal Advisor

MEMORANDUM

To: The Honorable Nicholas A. Mattiello, Speaker of the House
The Honorable Gina M. Raimondo, Governor
The Honorable Dominick J. Ruggerio, 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 14, 2019

Subject: **November 2019 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on October 30, November 1st, 4th and 8th 2019, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2020 to 2026 and issued revised estimates for FY 2020 and first estimates for FY 2021 revenues. Based on collection trends through October, preliminary FY 2019 closing results, and the revised economic forecast, the Conference increased the FY 2020 estimates by \$0.1 million from the FY 2020 enacted estimate of \$4,178.7 million to \$4,178.8 million.

The Conference estimated FY 2021 revenues at \$4,241.6 million, which is \$62.8 million more than the FY 2020 revised estimate and includes the hospital licensing fee. The hospital licensing fee has typically been excluded from the future year estimates because it has been enacted annually, and revenue estimates may only be based upon current law. However, the FY 2020 enacted budget established the fee for a two-year period thus allowing for its inclusion in the FY 2021 estimate.

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

ECONOMIC FORECAST

On October 30, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit. They were represented by James Bohnaker, Associate Director – US Macro & Consumer Economics, and Michael Lynch, US Regional Economics. The conferees also received testimony from 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 2019 Consensus Economic Forecast									
Annual Growth	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026
Nonfarm Employment (000's)	496.2	501.2	507.2	509.0	510.1	509.3	508.2	507.9	508.3
Nonfarm Employment Growth	0.6	1.0	1.2	0.3	0.2	-0.1	-0.2	-0.1	0.1
Personal Income (mil.)	\$57,993.8	\$60,477.2	\$62,747.6	\$65,181.7	\$67,685.6	\$70,298.0	\$73,109.0	\$ 76,108.8	\$ 79,212.9
Personal Income Growth	4.8	4.3	3.8	3.9	3.8	3.9	4.0	4.1	4.1
Wage and Salaries Income	2.7	4.9	4.3	4.1	4.1	3.9	3.9	4.1	4.2
Dividends, Interest and Rent	8.3	2.5	2.7	3.9	4.1	4.1	4.4	4.5	4.1
Rates									
Unemployment Rate	4.1	3.8	4.0	4.2	4.4	4.7	4.9	5.0	5.0
Consumer Price Index (US)	2.4	1.9	2.1	1.8	2.5	2.5	2.3	2.2	2.2
Personal Consumption Growth	4.4	3.9	4.5	4.1	4.1	4.1	4.1	3.9	3.9
Housing Starts	1.3	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Annual Growth	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment	495.0	497.4	505.7	508.0	509.7	509.9	508.7	507.9	508.0
Nonfarm Employment Growth	0.7	0.5	1.7	0.5	0.3	0.0	-0.2	-0.2	0.0
Personal Income (mil.)	\$56,879.5	\$59,129.5	\$61,590.4	\$63,959.2	\$66,424.3	\$68,973.5	\$71,677.1	\$ 74,583.7	\$ 77,662.1
Personal Income Growth	5.0	4.0	4.2	3.8	3.9	3.8	3.9	4.1	4.1
Wage and Salaries Income	4.0	2.8	5.1	4.2	4.1	4.0	3.9	4.0	4.2
Dividends, Interest and Rent	5.8	6.2	1.7	3.5	4.0	4.1	4.2	4.5	4.3
Rates									
Unemployment Rate	4.3	3.9	3.6	3.6	3.9	4.2	4.7	4.8	4.8
Consumer Price Index (US)	2.2	2.1	2.2	1.8	2.2	2.6	2.4	2.3	2.2
Personal Consumption Growth	3.8	4.2	4.3	4.2	4.1	4.1	4.1	4.0	3.9
Housing Starts	1.3	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2

Testimony from Mr. Bohnaker focused on the United States economy. He discussed how U.S. economic growth will settle near two percent over the next couple of years. Real gross domestic product slowed between the first and second quarters leading to a downgrade in the growth rates from the testimony in May. In addition, spending increases (Bipartisan Budget Act of 2019) have helped to boost growth in the near term offset by additional tariffs on US-China trade flows that will contribute to a slowdown in the next couple of years. Capital spending is decelerating in response to a gradual slowdown in output growth and uncertainty about trade policy but consumer spending, the strongest sector of the economy currently, is supported by gains in employment, real wages, and household wealth. Mr. Bohnaker testified that consumer spending growth will slow over the next few years but it will still outpace gross domestic product growth.

Mr. Bohnaker testified that the forecast assumes that there are no new U.S. tariffs beyond those already implemented or scheduled to take effect, that the Federal Reserve Bank will cut rates by another 25 basis points by December which will help the stock market and homebuilding sector, and that Boeing is cleared to resume deliveries of its 737 MAX in early 2020. Additionally downside risks abroad are avoided, “no-deal” Brexit is avoided, Saudi oil production is restored, and other global “hot spots remain on simmer”.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He noted that overall, the labor market is in a better position than it was in May and the private sector payrolls added 5,800 positions year to date through September 2019, with gains concentrated in healthcare services, wholesale trade and financial activities. He noted that manufacturing was among the weaker performers, shedding 800 jobs

during the same period. Mr. Lynch indicated that employment will get a temporary bump beginning in the first quarter of FY 2020 associated with temporary workers hired for the 2020 Census.

Housing starts and home sales are forecasted to dip in the near term as prices rise with high land costs, labor shortages and rising materials and construction costs. Mr. Lynch noted that demand has been outstripping supply since 2013 meaning that with high demand and low inventories, prices have risen. He noted that while the price run-up may be easing a bit, the prospect of further deceleration in price growth is unlikely. Mr. Lynch testified that one of the main obstacles to Rhode Island's ability to sustain building activity growth is the state's demographics. Lower levels of household formation and stagnant population growth will hinder the state's ability to sustain high volumes of homebuilding over the medium to long term.

This year's estimates are impacted by data revisions from the federal Bureau of Economic Analysis, which revised prior income and consumption data for Rhode Island. Personal income growth was revised downward for each year from 2012 through 2017. Personal income growth for 2018 was revised upward from 3.3 percent to 4.5 percent. Consumption growth for 2015 was slightly revised upward from 3.5 percent to 3.6 percent; 2016 was revised downward, from 2.7 percent to 2.5 percent and from 4.8 percent to 4.4 percent for 2018.

The Department of Labor and Training reported that as of September 2019, 3.6 percent of Rhode Island residents are unemployed, down 0.3 year over year. The unemployment rate for those ages 25 to 54 was 3.2 percent as of September 2019, which is lower than the 3.4 percent for September 2018. This is lower than the pre-recession low of 4.3 percent rate in 2006. As of September 2019, there are 20,000 unemployed Rhode Islanders, down 1,900 from September 2018.

Rhode Island's unemployment rate was one-tenth of a percentage point above the national rate of 3.5 percent in September 2019. Currently Connecticut and Rhode Island at 3.6 percent have the highest unemployment rates in New England followed by Massachusetts (2.9%), Maine (2.9%), New Hampshire (2.5%) and Vermont (2.2%).

The Department testified that a September 2019 labor force of 555,300 is 19,400 less than the peak of 574,700 in December 2006. Approximately 535,300 Rhode Island residents are currently working, up 1,200 from a year ago. The labor force showed year over year growth from August 2017 through January 2019, before beginning to show monthly declines beginning in February. The labor force has increased by 3,100 since July, but it is still below last year.

The Department of Labor and Training reported that there have been 48,100 net new jobs created between August 2009 and September 2019. Of those, 10,500 or 21.8 percent of the jobs added during that time have been in higher wage industries, those with average wages above \$65,000, 34.1 percent or 16,400 of the jobs added are in mid-wage industries those with annual wages between \$40,000 and \$65,000, and 21,200 or 44.1 percent of the jobs added have been in lower wage industries those with average wages below \$40,000.

REVENUES

Taxes. Revenues from taxes in FY 2020 are estimated to increase 3.9 percent from preliminary FY 2019 collections and increase 1.5 percent in FY 2021 over the revised FY 2020 estimate. Total estimated tax revenues for FY 2020 of \$3,317.3 million are \$38.4 million above the enacted estimate. FY 2021 total estimated taxes are \$3,413.0 million, \$95.7 million above the revised FY 2020 estimate.

Personal Income Tax. The personal income tax estimates of \$1,441.8 million for FY 2020 and \$1,495.7 million for FY 2021 represent annual growth rates of 3.4 percent and 3.7 percent, respectively. The FY 2020 revised estimate is \$15.0 million more than enacted, primarily from an anticipated increase in

estimated payments. The FY 2021 estimate is \$53.9 million more than the FY 2020 revised estimate, primarily in projected withholding revenues, the largest component of this tax.

Business Taxes. The conferees estimate total business taxes of \$445.3 million in FY 2020 and \$456.2 million in FY 2021. Year over year growth rates are 0.9 percent and 2.4 percent, respectively. The FY 2020 estimate is \$14.4 million less than enacted, while the FY 2021 estimate is \$10.9 million more than the revised estimate. The FY 2020 estimate for the business corporation tax includes the final year of the short term boost to collections from the federal Tax Cut and Jobs Act provision relating to the one-time repatriation of foreign profits. Positive structural impacts from these tax changes are reflected in the estimates for both years.

Sales and Use Taxes. Sales tax, the bulk of the consumption taxes, is estimated at \$1,192.1 million for FY 2020 and \$1,239.8 million for FY 2021. The FY 2020 revenues are \$11.7 million above the enacted estimate, which represents growth of 5.9 percent from the preliminary FY 2019 receipts. The FY 2021 estimate is \$47.7 million, or 4.0 percent, above the revised FY 2020 estimate.

Excise Taxes Other Than Sales and Use Taxes. The conferees estimate \$159.3 million for revised FY 2020 and \$157.2 million for FY 2021 from excise taxes other than sales and use taxes. These taxes include certain motor vehicle license fees associated with the implementation of REAL ID, tobacco taxes, and alcohol taxes. The FY 2020 revised estimate is \$1.0 million, or 0.6 percent, below the prior year. The total FY 2021 estimate decreases by \$2.1 million, or 1.3 percent, from the revised estimate for FY 2020, primarily from the ongoing decline in cigarette sales.

Other Taxes. The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$78.8 million in FY 2020 and \$64.1 million in FY 2021. The FY 2020 revised estimate is \$26.2 million more than enacted primarily reflecting a single large inheritance tax payment received in October. The FY 2021 estimate for total other taxes is \$14.7 million less than the FY 2020 revised estimate.

Departmental Receipts. The conferees adopted estimates of \$443.5 million for FY 2020 and \$410.0 million for FY 2021 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 2020 revised estimate is \$5.0 million less than enacted reflecting adjustments based on FY 2019 performance.

The FY 2021 estimate is \$33.5 million less than the revised FY 2020 estimate, of which \$32.3 million is from a lower rate for the hospital licensing fee applicable to FY 2021. This fee had been set and renewed on a year-to-year basis since its inception and because of that could not be included in future year revenue estimates which are limited to current law. However the FY 2020 budget included rates for both FY 2020 and FY 2021.

Lottery Transfer. The lottery transfer is estimated to produce general revenue of \$377.1 million in FY 2020, with \$295.6 million generated from the video lottery terminals installed at Twin River – Lincoln and Tiverton; \$57.0 million derived from combined games, which include PowerBall, Mega Millions, scratch tickets, and Keno; \$15.1 million in net revenues received from the table games at both the Twin River Lincoln and Tiverton locations; and, \$9.4 million from sports betting at both casino locations and via the mobile application. The FY 2020 revised estimate is \$35.7 million below the FY 2020 enacted estimate transfer reflecting a more significant impact from the opening of a resort casino in the Boston area and a significant reduction to the sports betting estimate. The revised estimate is \$20.2 million below the FY 2019 transfer.

The estimated transfer is \$395.5 million for FY 2021, with \$305.2 million derived from video lottery terminals, \$58.6 million from combined games, \$15.7 million from the table games, and \$16.0 million from sports betting. The FY 2021 lottery transfer is projected to increase by \$18.4 million from the FY 2020

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revised estimated, reflecting a stabilization of losses related to competition in Massachusetts and expected growth in sports betting, primarily through an increase in use of the mobile application.

Other Sources. Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$40.9 million in FY 2020 and \$23.1 million in FY 2021. FY 2020 includes one-time transfers authorized in the enacted budget that are not scheduled to repeat in FY 2021.

The tables that follow show the results by revenue category, along with information on the FY 2019 preliminary closing and comparison to the FY 2020 enacted budget.

November 2019 CRE	FY 2019	FY 2020 Estimate		FY 2021 Estimate	
Personal Income Tax	\$ 1,393,763,280	\$ 1,441,800,000	3.4%	\$ 1,495,700,000	3.7%
General Business Taxes					
Business Corporations	154,688,085	143,700,000	-7.1%	153,100,000	6.5%
Public Utilities Gross	101,612,604	104,000,000	2.3%	105,000,000	1.0%
Financial Institutions	21,145,195	24,400,000	15.4%	21,100,000	-13.5%
Insurance Companies	116,968,195	126,500,000	8.1%	129,500,000	2.4%
Bank Deposits	2,899,581	3,000,000	3.5%	3,000,000	0.0%
Health Care Provider	43,945,864	43,700,000	-0.6%	44,500,000	1.8%
Sales and Use Taxes					
Sales and Use	1,125,674,844	1,192,100,000	5.9%	1,239,800,000	4.0%
Motor Vehicle	1,034,994	1,800,000	73.9%	3,000,000	66.7%
Cigarettes	138,854,020	137,300,000	-1.1%	133,600,000	-2.7%
Alcohol	20,436,502	20,200,000	-1.2%	20,600,000	2.0%
Other Taxes					
Inheritance and Gift	48,019,188	63,400,000	32.0%	48,200,000	-24.0%
Racing and Athletics	1,151,342	1,200,000	4.2%	1,200,000	0.0%
Realty Transfer	12,748,199	14,200,000	11.4%	14,700,000	3.5%
Total Taxes	\$ 3,182,941,893	\$ 3,317,300,000	4.2%	\$ 3,413,000,000	2.9%
Departmental Receipts	416,720,537	443,500,000	6.4%	410,000,000	-7.6%
Other Miscellaneous	12,367,080	31,000,000	150.7%	14,700,000	-52.6%
Lottery	397,321,087	377,100,000	-5.1%	395,500,000	4.9%
Unclaimed Property	11,578,604	9,900,000	-14.5%	8,400,000	-15.2%
Total General Revenues	\$ 4,020,929,201	\$ 4,178,800,000	3.9%	\$ 4,241,600,000	1.5%

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November 2019 CRE	FY 2020 Enacted	FY 2020 Revised Estimate	Change to Enacted	FY 2021 Estimate	Change to FY 2020 Rev. Est.
Personal Income Tax	\$ 1,426,800,000	\$ 1,441,800,000	\$ 15,000,000	\$ 1,495,700,000	\$ 53,900,000
General Business Taxes					
Business Corporations	164,000,000	143,700,000	(20,300,000)	153,100,000	9,400,000
Public Utilities Gross	103,200,000	104,000,000	800,000	105,000,000	1,000,000
Financial Institutions	24,400,000	24,400,000	-	21,100,000	(3,300,000)
Insurance Companies	119,675,238	126,500,000	6,824,762	129,500,000	3,000,000
Bank Deposits	3,000,000	3,000,000	-	3,000,000	-
Health Care Provider	45,418,233	43,700,000	(1,718,233)	44,500,000	800,000
Sales and Use Taxes					
Sales and Use	1,180,433,547	1,192,100,000	11,666,453	1,239,800,000	47,700,000
Motor Vehicle	3,000,000	1,800,000	(1,200,000)	3,000,000	1,200,000
Cigarettes	135,000,000	137,300,000	2,300,000	133,600,000	(3,700,000)
Alcohol	21,400,000	20,200,000	(1,200,000)	20,600,000	400,000
Other Taxes					
Inheritance and Gift	38,000,000	63,400,000	25,400,000	48,200,000	(15,200,000)
Racing and Athletics	1,100,000	1,200,000	100,000	1,200,000	-
Realty Transfer	13,500,000	14,200,000	700,000	14,700,000	500,000
Total Taxes	\$ 3,278,927,018	\$ 3,317,300,000	\$ 38,372,982	\$ 3,413,000,000	\$ 95,700,000
Departmental Receipts	448,451,653	443,500,000	(4,951,653)	410,000,000	(33,500,000)
Other Miscellaneous	28,650,000	31,000,000	2,350,000	14,700,000	(16,300,000)
Lottery	412,800,000	377,100,000	(35,700,000)	395,500,000	18,400,000
Unclaimed Property	9,900,000	9,900,000	-	8,400,000	(1,500,000)
Total General Revenues	\$ 4,178,728,671	\$ 4,178,800,000	\$ 71,329	\$ 4,241,600,000	\$ 62,800,000

NEXT MEETING

The next required meeting of the conference is May 2020.

cc: The Honorable Marvin L. Abney, Chairman
House Finance Committee

The Honorable William J. Conley, Jr., Chairman
Senate Finance Committee