



State of Rhode Island
Revenue Estimating Conference

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May 2021 Conference Chair

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MEMORANDUM

To: The Honorable K. Joseph Shekarchi, Speaker of the House
The Honorable Daniel McKee, Governor
The Honorable Dominick J. Ruggiero, President of the Senate

From: Sharon Reynolds Ferland, House Fiscal Advisor
Jonathan Womer, State Budget Officer
Stephen H. Whitney, Senate Fiscal Advisor

Date: May 17, 2021

Subject: **May 2021 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on April 30th, May 3rd and May 10th, 2021 in open public meetings. These public meetings were televised and live streamed through Capitol TV due to the limitations of the pandemic. The Conference adopted the economic forecast for both calendar and fiscal years 2021 to 2026 and issued revised estimates for FY 2021 and FY 2022 revenues. Based on collection trends through April and the revised economic forecast, the Conference increased the FY 2021 estimates by \$177.1 million from the FY 2021 enacted budget of \$4,038.4 million to \$4,215.5 million.

The Conference estimated FY 2022 revenues at \$4,191.7 million, which is \$146.8 million more than the November estimate and \$23.8 million less than the FY 2021 revised estimate. This FY 2022 estimate does not include the hospital license fee, which is enacted annually, as revenue estimates may only be based on current law.

The table below displays the newly adopted revenue estimates for FY 2021 and FY 2022 by component, along with audited revenue data for last fiscal year. A table showing these estimates and the changes by revenue component from the November revenue estimating conference is included at the end of this report.

May 2021 CRE	FY 2020	FY 2021 Estimate		FY 2022 Estimate	
Personal Income Tax	\$ 1,405,508,489	\$ 1,540,000,000	9.6%	\$ 1,535,000,000	-0.3%
General Business Taxes					
Business Corporations	148,605,498	114,500,000	-23.0%	147,200,000	28.6%
Public Utilities Gross	108,634,550	99,200,000	-8.7%	101,000,000	1.8%
Financial Institutions	44,612,484	33,800,000	-24.2%	26,900,000	-20.4%
Insurance Companies	130,470,984	135,100,000	3.5%	137,900,000	2.1%
Bank Deposits	3,325,216	3,700,000	11.3%	3,500,000	-5.4%
Health Care Provider	42,600,286	36,600,000	-14.1%	38,900,000	6.3%
Sales and Use Taxes					
Sales and Use	1,167,423,462	1,292,300,000	10.7%	1,305,200,000	1.0%
Motor Vehicle	937,239	800,000	-14.6%	1,000,000	25.0%
Cigarettes	137,604,201	160,000,000	16.3%	156,000,000	-2.5%
Alcohol	20,235,117	22,000,000	8.7%	22,400,000	1.8%
Other Taxes					
Inheritance and Gift	55,290,559	42,900,000	-22.4%	45,000,000	4.9%
Racing and Athletics	820,669	400,000	-51.3%	1,000,000	150.0%
Realty Transfer	13,925,095	17,900,000	28.5%	18,800,000	5.0%
Total Taxes	\$ 3,279,993,849	\$ 3,499,200,000	6.7%	\$ 3,539,800,000	1.2%
Departmental Receipts	434,973,609	398,000,000	-8.5%	251,000,000	-36.9%
Other Miscellaneous	52,794,681	13,800,000	-73.9%	11,000,000	-20.3%
Lottery	283,870,548	288,900,000	1.8%	375,700,000	30.0%
Unclaimed Property	12,080,719	15,600,000	29.1%	14,200,000	-9.0%
Total General Revenues	\$ 4,063,713,406	\$ 4,215,500,000	3.7%	\$ 4,191,700,000	-0.6%

ECONOMIC FORECAST

On April 30, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit. They were represented by James Bohnaker, Director, US Macro & Consumer Economics, and Michael Lynch, Associate Director, US Regional Economics. The conferees also received written 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 table on the following page.

Testimony from Mr. Bohnaker focused on the United States economy. He indicated that the outlook has improved over the past few months mostly related to the COVID-19 vaccine rollout, declines in COVID-19 cases and deaths, and significant federal fiscal stimulus. He presented data showing that as of April 15, 38.1 percent of the United States population has been at least partially vaccinated. If that trend continues, the country would be 90 percent vaccinated by July, six months earlier than assumed in the fall.

Mr. Bohnaker also testified that while many sectors of the economy are still struggling, there has been rapid improvement since the depths of the pandemic-induced recession. Consumer spending is on track to exceed pre-COVID levels in the next quarter, much faster than previously expected, partially because of federal stimulus checks issued in March. The forecast assumes 15 to 20 percent of the individual stimulus funds are spent over the next five to six months leading to an overall increase in consumer spending in the forecast, with the remaining stimulus funding saved or used to pay down debt. The forecast also assumes that enhanced unemployment benefits translate directly to spending, given that these benefits are replacing lost earnings. The housing market was also noted as experiencing record-breaking prices.

May 2021 Consensus Economic Forecast								
Annual Growth	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026
Nonfarm Employment (000's)	504.1	459.5	476.6	494.1	502.3	506.7	508.8	509.6
Nonfarm Employment Growth	0.7	-8.8	3.7	3.7	1.7	0.9	0.4	0.1
Personal Income (mil.)	\$59,707.2	\$64,312.7	\$67,054.6	\$66,612.1	\$69,027.2	\$72,040.7	\$ 75,245.2	\$ 78,588.3
Personal Income Growth	3.7	7.7	4.3	-0.7	3.6	4.4	4.4	4.4
Wage and Salaries Income	3.0	-0.4	6.1	5.0	4.6	4.6	4.5	4.5
Dividends, Interest and Rent	0.0	-0.8	2.0	4.8	3.2	3.0	3.1	3.5
Rates								
Unemployment Rate	3.6	9.5	6.0	4.2	3.8	3.7	3.7	3.9
Consumer Price Index (US)	1.8	1.2	2.4	1.5	1.8	2.1	2.3	2.5
Personal Consumption Growth	3.2	-3.7	8.3	6.5	4.6	4.5	4.5	4.6
Housing Starts	1.2	1.2	1.4	1.3	1.2	1.2	1.2	1.2
Annual Growth	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment	502.6	482.8	463.9	487.4	498.9	504.8	508.0	509.4
Nonfarm Employment Growth	0.7	-3.9	-3.9	5.1	2.4	1.2	0.6	0.3
Personal Income (mil.)	\$58,776.8	\$62,211.2	\$66,621.2	\$65,434.3	\$67,812.4	\$70,506.2	\$ 73,609.2	\$ 76,919.7
Personal Income Growth	3.4	5.8	7.1	-1.8	3.6	4.0	4.4	4.5
Wage and Salaries Income	2.9	-0.2	3.7	5.8	4.5	4.7	4.6	4.5
Dividends, Interest and Rent	1.6	-0.4	-0.8	4.7	3.9	3.0	3.0	3.3
Rates								
Unemployment Rate	3.8	6.2	8.4	4.8	3.9	3.7	3.7	3.8
Consumer Price Index (US)	2.1	1.6	1.8	1.9	1.6	2.0	2.3	2.4
Personal Consumption Growth	3.6	-0.8	2.6	7.9	5.1	4.5	4.4	4.6
Housing Starts	1.2	1.2	1.3	1.3	1.3	1.2	1.2	1.2

The forecast assumes that COVID-related restrictions will continue to ease over the spring and summer. It also reflects the impact of all of the 2020 federal pandemic relief measures as well as the American Rescue Plan Act signed into law on March 11, 2021. Other forecast assumptions are that schools reopen in the fall and the Federal Reserve Bank maintains interest rates near zero percent until mid-2024. These measures are expected to limit the usual cyclical state and local fiscal contractions. The forecast does not include any impact from President Biden's proposed American Jobs Plan.

One of the downside pressures to economic growth is the labor market; permanent job losses remain elevated and Mr. Bohnaker testified it will take several years to get back to full employment. He also stressed that despite an upgraded near-term outlook, the pandemic will have lasting effects on economy.

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Mr. Bohnaker concluded his testimony with an assessment of the potential impacts of the American Jobs Plan. He indicated that the proposal has upside risk in the medium term with \$2.1 trillion in possible spending. Another upside risk is if more Americans spend rather than save the stimulus funds than currently projected. Downside risks to the forecast include inflation, vaccine hesitancy and the potential for more contagious virus mutations.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He testified that Rhode Island employment growth began rebounding in May 2020; however, the pace of growth weakened as the year went on and further waned during the fourth quarter because of the infection surge. He noted that between April 2020 and March 2021, Rhode Island nonfarm payrolls increased by 67,700 jobs, which accounts for almost 63 percent of the total jobs lost between February and April (a loss of 108,000 jobs).

While Rhode Island has recouped two-thirds of the jobs lost, Mr. Lynch indicated that recouping the last third of the lost jobs will take much longer. The sectors that experienced the biggest losses during the pandemic were among the sectors with the largest gains. For example, accommodations and food services lost 32,600 jobs between February and April 2020 and gained 21,300 of those jobs back between April 2020 and March 2021. During those same time periods, retail trades gained 9,700 jobs against a decline of 11,200 jobs. The unemployment rate fell to 7.1 percent in March 2021 from a high of 17.4 percent in April 2020, though it is still above the pre-recession level of 4.0 percent in February 2020.

Mr. Lynch briefly discussed the population data from the 2020 census, which revised the state's population upward by 40,000 or 3.8 percent compared to estimates released in July. The Rhode Island population grew 4.3 percent between 2010 and 2020. While that is below the national growth average of 7.4 percent, Rhode Island's growth only trailed Massachusetts and New Hampshire among the New England states. The revised population figures are not explicitly included in the forecast yet, pending release of further details on the demographics of that growth.

Similar to the national experience, the Rhode Island residential real estate market ended 2020 strong with demand surging and house prices increasing. Mr. Lynch also mentioned that personal income increased in the second quarter of 2020 mostly in the category of transfer payments, which includes unemployment benefits and the stimulus payments. These payments boost the personal income growth rate in FY 2021, and the lack of further payments explains the negative growth rate in FY 2022.

In terms of the Rhode Island labor market, Mr. Lynch indicated that the forecast assumes the unemployment rate falls from 7.2 percent in the third quarter of 2021, to 3.8 percent by the fourth quarter of FY 2023. Overall there is a net gain of about 37,000 jobs by the fourth quarter of FY 2023 with the largest growth occurring in the professional, scientific, and technical services sectors (a sector not that hard hit in pandemic), as well as those sectors that lost the most jobs during the pandemic such as accommodations, food services, and healthcare. The forecast assumes that Rhode Island's unemployment rate remains above 5 percent until mid-FY 2022 and nonfarm employment surpasses the pre-COVID peak in FY 2024. He mentioned that a return to peak employment in Rhode Island will take longer than the nation on average.

Mr. Lynch then discussed some of the revisions to the November 2020 forecast. For example, the November forecast assumed nonfarm employment growth of negative 1.9 percent for FY 2021; that has been revised downward to negative 3.9 percent. This is because of revisions made to FY 2020 data plus the resurgence of COVID-19 infections in the fall and winter of 2020.

In terms of risk to the Rhode Island forecast, Mr. Lynch mentioned that a downside risk is another wave of COVID-19 infections with a more contagious strain and resulting containment measures. An upside risk would be fewer cases and an accelerated vaccination timeline that leads to a quicker easing of restrictions.

The Department of Labor and Training provided written testimony that reported that Rhode Island had 507,200 jobs as of February 2020, the highest job count on record. During the state shut down in March and April of 2020, the state lost 108,000 jobs, or 21.3 percent of its total employment. While all sectors reported job losses during the shutdown, the largest losses were reported in accommodations and food services (32,600 jobs), health care and social assistance (17,400 jobs) and retail trade (11,200 jobs). These three sectors accounted for 57 percent of the total jobs lost.

The Department's testimony indicated that industries with wages below \$40,000 (low-wage) accounted for 58 percent of the jobs lost during the shutdown, those with wages between \$40,000 and \$65,000 (mid-wage) accounted for 34 percent of the jobs lost and those with jobs above \$65,000 (high-wage) accounted for 9 percent of the jobs lost. As of March 2021, Rhode Island has regained 62.7 percent or 67,000 of the jobs lost. Nearly 60 percent of the jobs recovered are in low-wage industries. As of March 2021, the total job count is 40,300 or 7.9 percent below the February 2020 level.

Rhode Island's unemployment rate was 7.1 percent in March 2021, 110 basis points above the national average of 6.0 percent. The testimony indicated that Rhode Island, along with Illinois, had the tenth highest unemployment rate nationally, and the second highest in New England.

REVENUES

Taxes

Revenues from taxes in FY 2021 are estimated to increase 6.7 percent over the prior year. Total estimated tax revenues for FY 2021 of \$3,499.2 million are \$125.9 million, or 3.7 percent, more than the FY 2021 enacted budget of \$3,373.3 million. FY 2022 total estimated taxes are \$3,539.8 million, \$123.6 million, or 3.6 percent, more than the November estimate for FY 2022 and 1.2 percent above the revised FY 2021 estimate.

Personal Income Tax

The personal income tax estimates of \$1,540.0 million for FY 2021 and \$1,535.0 million for FY 2022 represent annual growth rates of 9.6 percent and -0.3 percent, respectively. The FY 2021 revised estimate is \$89.6 million more than enacted. The FY 2022 estimate is \$95.9 million more than the November estimate and \$5.0 million below the revised FY 2021 estimate. The high volume of unemployment benefits in FY 2021 is expected to increase revenue for that fiscal year.

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Business Taxes

The conferees estimate total business taxes of \$422.9 million in FY 2021 and \$455.4 million in FY 2022. The adopted FY 2021 estimate represents a decrease to FY 2020 audited collections of 11.6 percent and \$35.3 million less than enacted for FY 2021. FY 2022 is 7.7 percent above the FY 2021 revised estimate. Estimates for both years include significant projected impacts of Rhode Island's conformity to the December 2020 law change allowing the deductibility of expenses paid from forgiven Paycheck Protection Loans.

Sales and Use Taxes

Sales tax, the bulk of the consumption taxes, is estimated at \$1,292.3 million for FY 2021 and \$1,305.2 million for FY 2022. The FY 2021 estimate is \$79.5 million more than enacted, while the FY 2022 estimate is \$41.7 million more than estimated in November and represents 1.0 percent growth compared the FY 2021. Increased personal income from federal stimulus measures is expected to drive consumption that boosts revenue in FY 2021; some of that consumption is not expected to repeat in FY 2022 even as overall consumer spends remains strong.

Excise Taxes Other Than Sales and Use Taxes

The conferees estimate \$182.8 million for FY 2021 and \$179.4 million for FY 2022 from excise taxes other than sales and use taxes. These taxes include a limited number of motor vehicle license fees, cigarettes taxes, and alcohol taxes. The FY 2021 revised estimate is \$24.0 million, or 15.1 percent, more than the prior year, and \$4.8 million more than enacted. The FY 2022 estimate is \$3.4 million, or 1.9 percent, more than the revised estimate for FY 2021 and \$3.3 million less than estimated in November.

Other Taxes

The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$61.2 million in FY 2021 and \$64.8 million in FY 2022. The FY 2021 revised estimate is \$8.8 million less than FY 2020 receipts and \$12.7 million less than enacted. The FY 2022 estimate is \$3.6 million more than the FY 2021 revised estimate but \$2.4 million less than estimated in November.

Other Sources

Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$29.4 million in FY 2021 and \$25.2 million in FY 2022. The FY 2021 amount is \$35.5 million below FY 2020 which included a number of non-recurring transfers. Other sources also include departmental receipts and lottery revenues, described further below.

Departmental Receipts

The conferees adopted estimates of \$398.0 million for FY 2021 and \$251.0 million for FY 2022 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 2021 revised estimate is \$37.0 million less than FY 2020 collections.

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The FY 2022 estimate is \$147.0 million less than the revised FY 2021 estimate, primarily from the exclusion of the hospital license fee. This generates \$161.5 million in FY 2021 but there is no current law provision for FY 2022. This has typically been renewed annually.

Lottery Transfer

The lottery transfer is estimated to produce general revenue of \$288.9 million in FY 2021, with \$200.8 million generated from the video lottery terminals installed at Twin River and Tiverton, \$65.0 million derived from combined games (which includes PowerBall, Mega Millions, scratch tickets and Keno), \$5.9 million in net revenues received from the table games and \$17.2 million from sports betting.

The FY 2021 revised estimate is \$5.0 million above the FY 2020 transfer. The two casinos were closed in mid-March under the Governor's Executive Order and reopened with limitations at the beginning June. A subsequent Executive Order closed them again at the end of November until December 21. The negative revenue impact of these closures was less than had been assumed in FY 2021 enacted budget.

The estimated transfer is \$375.7 million for FY 2022, with \$285.7 million derived from video lottery terminals, \$63.8 million from combined games, and \$11.4 million from the table games and \$14.8 million from sports betting. The total is \$19.4 million above the November estimate. The improving pandemic outlook is expected to lead to a rebound in gaming revenue.

May 2021 CRE	FY 2021 Enacted	FY 2021 May	Change	FY 2022 Nov	FY 2022 May	Change
Personal Income Tax	\$ 1,450,400,000	\$ 1,540,000,000	\$ 89,600,000	\$ 1,439,100,000	\$ 1,535,000,000	\$ 95,900,000
General Business Taxes						
Business Corporations	151,300,000	114,500,000	(36,800,000)	154,100,000	147,200,000	(6,900,000)
Public Utilities Gross	109,600,000	99,200,000	(10,400,000)	111,000,000	101,000,000	(10,000,000)
Financial Institutions	18,500,000	33,800,000	15,300,000	22,200,000	26,900,000	4,700,000
Insurance Companies	133,700,000	135,100,000	1,400,000	136,900,000	137,900,000	1,000,000
Bank Deposits	3,100,000	3,700,000	600,000	3,100,000	3,500,000	400,000
Health Care Provider	42,000,000	36,600,000	(5,400,000)	43,000,000	38,900,000	(4,100,000)
Sales and Use Taxes						
Sales and Use	1,212,800,000	1,292,300,000	79,500,000	1,263,500,000	1,305,200,000	41,700,000
Motor Vehicle	1,000,000	800,000	(200,000)	2,500,000	1,000,000	(1,500,000)
Cigarettes	155,000,000	160,000,000	5,000,000	151,200,000	156,000,000	4,800,000
Alcohol	22,000,000	22,000,000	-	22,400,000	22,400,000	-
Other Taxes						
Inheritance and Gift	58,100,000	42,900,000	(15,200,000)	50,300,000	45,000,000	(5,300,000)
Racing and Athletics	400,000	400,000	-	1,000,000	1,000,000	-
Realty Transfer	15,400,000	17,900,000	2,500,000	15,900,000	18,800,000	2,900,000
Total Taxes	\$ 3,373,300,000	\$ 3,499,200,000	\$ 125,900,000	\$ 3,416,200,000	\$ 3,539,800,000	\$ 123,600,000
Departmental Receipts	390,000,000	398,000,000	8,000,000	249,000,000	251,000,000	2,000,000
Other Miscellaneous	10,325,000	13,800,000	3,475,000	12,150,000	11,000,000	(1,150,000)
Lottery	254,500,000	288,900,000	34,400,000	356,300,000	375,700,000	19,400,000
Unclaimed Property	10,300,000	15,600,000	5,300,000	11,300,000	14,200,000	2,900,000
Total General Revenues	\$ 4,038,425,000	\$ 4,215,500,000	\$ 177,075,000	\$ 4,044,950,000	\$ 4,191,700,000	\$ 146,750,000

NEXT MEETING

The next required meeting of the conference is November 2021.

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

The Honorable Ryan W. Pearson., Chairman
Senate Finance Committee