



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

One Capitol Hill, Providence, RI 02908

THOMAS A. MULLANEY
State Budget Officer
November 2018 Conference Chair

STEPHEN H. WHITNEY
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MEMORANDUM

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

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

Date: November 21, 2018

Subject: **November 2018 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on November 2nd, 5th, 7th and 9th 2018, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2019 to 2026 and issued revised estimates for FY 2019 and first estimates for FY 2020 revenues. Based on collection trends through October, preliminary FY 2018 closing results, and the revised economic forecast, the Conference decreased the FY 2019 estimates by \$5.4 million from the FY 2019 enacted estimate of \$3,998.5 million to \$3,993.1 million.

The Conference estimated FY 2020 revenues at \$3,950.3 million, which is \$42.9 million less than the FY 2019 revised estimate but does not include the hospital licensing fee. The hospital licensing fee accounts for \$180.8 million in FY 2019 that cannot be included in the FY 2020 estimates because it is enacted annually, and revenue estimates may only be based upon current law. This fee is renewed on a year-to-year basis and has been extended each year since its inception.

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

ECONOMIC FORECAST

On November 2, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit. They were represented by Karl Kuykendall, Principal Economist, and Chris Varvares, Vice President and Co-head US 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 2018 Consensus Economic Forecast										
Annual Growth	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026
Nonfarm Employment (000s)	494.4	501.4	506.7	510.2	510.7	510.8	510.3	510.2	510.7	511.2
Nonfarm Employment Growth	1.0	1.4	1.1	0.7	0.1	0.0	(0.1)	(0.0)	0.1	0.1
Personal Income (mil.)	\$ 54,574.63	\$ 56,956.48	\$ 59,615.64	\$ 62,296.66	\$ 64,953.66	\$ 67,591.09	\$ 70,305.66	\$ 72,997.75	\$ 75,705.79	\$ 78,535.14
Personal Income Growth	4.1	4.0	4.3	4.3	3.9	3.8	3.7	3.8	3.8	3.8
Wage and Salaries Income	3.5	3.3	4.4	4.4	4.1	4.1	3.9	4.0	4.1	4.0
Dividends, Interest and Rent	4.6	4.2	5.0	5.5	4.3	4.0	3.7	3.3	3.0	2.9
Rates										
Unemployment Rate	4.5	4.2	3.9	4.0	4.2	4.6	4.9	5.0	5.0	5.0
Consumer Price Index (US)	2.1	2.6	2.4	2.5	2.3	2.3	2.2	2.1	2.0	2.0
Personal Consumption Growth	3.2	4.5	4.5	4.2	3.9	3.7	3.5	3.5	3.3	3.3
Housing Starts	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Annual Growth	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment (000s)	491.4	497.8	504.6	508.9	510.5	510.9	510.6	510.1	510.4	511.0
Nonfarm Employment Growth	0.6	1.3	1.4	0.9	0.3	0.1	(0.1)	(0.1)	0.1	0.1
Personal Income (mil.)	\$ 54,684.43	\$ 57,124.52	\$ 59,371.55	\$ 61,991.34	\$ 64,458.94	\$ 66,937.29	\$ 69,436.83	\$ 72,051.98	\$ 74,789.70	\$ 77,646.14
Personal Income Growth	2.5	4.5	3.9	4.4	4.0	3.8	3.7	3.8	3.8	3.8
Wage and Salaries Income	2.8	3.5	4.0	4.4	4.2	4.1	4.0	3.9	4.1	4.1
Dividends, Interest and Rent	3.1	4.6	4.0	5.9	4.7	4.1	3.9	3.4	3.2	2.9
Rates										
Unemployment Rate	4.7	4.5	3.9	3.9	4.1	4.4	4.8	5.0	5.0	5.0
Consumer Price Index (US)	1.9	2.2	2.6	2.4	2.4	2.4	2.2	2.1	2.0	2.0
Personal Consumption Growth	3.0	3.7	4.8	4.2	4.0	3.8	3.6	3.5	3.3	3.3
Housing Starts	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4

Testimony from Mr. Varvares focused on the United States economy. He discussed how the U.S. economy is growing above trend, meaning that actual gross domestic product is beginning to exceed IHS's measure of "potential" gross domestic product. In addition, the national labor market is at or possibly beyond full employment. The recent federal tax cuts (Tax Cuts and Jobs Act of 2017) and spending increases (Bipartisan Budget Act of 2018) have helped to boost growth in the near term. Strong income gains have helped to drive growth in personal consumption expenditures, which has increased inflation to at or above the Federal Reserve's two percent target.

Mr. Varvares testified that recession risks are "contained," but a recession is "likely" within the next five years. He mentioned both domestic policy uncertainty (such as a possible trade war) and international instability (Brexit, Euro splintering, and a slowdown in China) as economic headwinds. Other domestic conditions that might slow growth include rising real rates, an upturn in energy prices, and tight mortgage lending standards. After 2020, the federal fiscal stimulus will wane, and the Federal Reserve is expected to increase interest rates, contributing to a greater risk of recession.

Mr. Karl Kuykendall gave the testimony on the Rhode Island economy. He noted that private sector payrolls added 4,200 positions year to date through September 2018, with gains concentrated in business services, leisure/hospitality, and construction. He noted that government, finance, and information struggled with sizeable losses on the year. The Rhode Island unemployment rate fell considerably, from 4.5 percent in December 2017 to 3.9 percent in September 2018.

Mr. Kuykendall presented data showing that nationally, immigration had risen between 2016 and 2017. This was driven by increased immigration from Asia, offset but a sharp decrease in immigration from Mexico. He discussed how international migration is critical for Rhode Island's population growth, because

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domestic migration has mostly been a drag on the state's population. The share of Rhode Island's population that is foreign born has increased from 12.8 percent in 2010 and 13.9 percent in 2017. He noted that educational attainment by foreign-born residents has increased between 2010 (20.2 percent with a bachelor's or higher) and 2017 (24.4 percent).

Housing starts and home sales are forecasted to dip in the near term. Home prices are expected to continue strong growth, which will eventually drive some growth in housing starts.

Rhode Island wage and salary growth for fiscal year 2019 has been decreased from May 2018's forecast of 4.3 percent to 4.0 percent, and fiscal year 2020 growth was decreased from 4.6 percent to 4.4 percent. Employment growth has been increased from 1.3 percent to 1.4 percent for FY 2019 and increased from 0.8 percent to 0.9 percent for FY 2020. Personal income growth has been decreased from 4.4 percent to 3.9 percent for FY 2019 and from 4.6 percent to 4.4 percent for FY 2020.

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. Consumption growth for 2016 was slightly revised downward, from 3.3 percent to 2.7 percent. More significantly, personal income growth was revised upward in 2017 from 2.1 percent to 4.1 percent. These upward revisions to historical data mean that forecasted income growth over the next few years is now expected to be lower.

November 2018 Consensus Economic Forecast Change to May 2018										
Annual Growth	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026
Nonfarm Employment (000s)	0.0	0.5	0.3	0.7	0.8	0.8	0.3	0.8	2.2	3.4
Nonfarm Employment Growth	0.0	0.1	0.0	0.1	0.0	0.0	-0.1	0.1	0.3	0.2
Personal Income (mil.)	\$ 1,359.34	\$ 1,217.58	\$ 1,048.52	\$ 956.96	\$ 737.64	\$ 593.90	\$ 418.76	\$ 409.08	\$ 501.08	\$ 555.47
Personal Income Growth	1.7	-0.4	-0.4	-0.2	-0.4	-0.3	-0.3	0.0	0.1	0.0
Wage and Salaries Income	0.8	-1.5	-0.1	-0.1	-0.3	-0.3	-0.4	-0.1	0.1	0.1
Dividends, Interest and Rent	2.2	0.6	0.0	0.4	-0.6	-0.6	-0.5	-0.2	-0.2	-0.5
Rates										
Unemployment Rate	0.0	-0.2	-0.3	-0.2	0.0	0.1	0.1	0.0	-0.2	-0.3
Consumer Price Index (US)	0.0	0.2	0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3
Personal Consumption Growth	-1.1	0.3	0.3	-0.3	-0.2	-0.2	-0.3	-0.3	-0.5	-0.4
Housing Starts	0.1	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Annual Growth	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment (000s)	0.0	0.1	0.5	0.5	0.8	0.9	0.5	0.3	1.4	3.0
Nonfarm Employment Growth	0.0	0.0	0.1	0.0	0.0	0.0	-0.1	0.0	0.2	0.3
Personal Income (mil.)	\$ 979.55	\$ 1,328.93	\$ 1,111.19	\$ 1,023.08	\$ 836.92	\$ 670.63	\$ 497.67	\$ 394.63	\$ 449.48	\$ 533.49
Personal Income Growth	1.1	0.6	-0.5	-0.2	-0.4	-0.3	-0.3	-0.2	0.1	0.1
Wage and Salaries Income	1.0	-1.2	-0.3	-0.2	-0.3	-0.2	-0.4	-0.3	0.0	0.1
Dividends, Interest and Rent	1.5	2.0	-0.5	0.8	-0.3	-0.7	-0.6	-0.4	-0.1	-0.4
Rates										
Unemployment Rate	0.0	0.0	-0.3	-0.3	-0.1	0.0	0.1	0.1	-0.1	-0.3
Consumer Price Index (US)	0.0	0.0	0.8	0.0	-0.4	0.0	-0.1	-0.2	-0.3	-0.3
Personal Consumption Growth	-1.0	-0.5	0.7	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.5
Housing Starts	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0

The Department of Labor and Training reported that as of September 2018, 3.9 percent of Rhode Island residents are unemployed, down 0.6 year over year. The unemployment rate for those ages 25 to 54 was 3.4 percent as of September 2018, which is lower than the 9.9 percent rate for 2009 and the 4.3 percent rate for 2006. As of September 2018, there are 22,100 unemployed Rhode Islanders, down 2,800 from September 2017 and down 42,000 from the recession high of 64,100 in June and July of 2010.

Testimony also included indications that the September 2018 labor force of 561,900 is 12,800 less than the peak of 574,700 in December 2006. The Department reported that the number of unemployed residents is at its lowest level in eighteen years. The Department gave several reasons why the labor force is well below pre-recession levels including that the working age population has grown very little since 2006; the overall population has gotten older, with those 55 and older representing 43.2 percent of the workforce; and that labor force participation among younger workers is declining.

The Department of Labor and Training reported that there have been 50,100 net new jobs created between July 2009 and September 2018. Of those, 14,200 or 28.3 percent were in positions paying less than \$35,000 a year, 23,400 or 46.7 percent were in jobs paying between \$35,000 and \$59,999 and 12,500 or 25.0 percent were in jobs paying \$60,000 or more.

REVENUES

Taxes. Revenues from taxes in FY 2019 are estimated to increase 2.2 percent from preliminary FY 2018 collections and increase 3.6 percent in FY 2020 over the revised FY 2019 estimate. Total estimated tax revenues for FY 2019 of \$3,166.7 million are \$16.9 million below the enacted estimate for total taxes. FY 2020 total estimated taxes are \$3,279.7 million, \$113.0 million above the revised FY 2019 estimate.

Personal Income Tax. The personal income tax estimates of \$1,380.7 million for FY 2019 and \$1,428.3 million for FY 2020 represent annual growth rates of 2.6 percent and 3.4 percent, respectively. The FY 2019 revised estimate is \$4.9 million less than enacted, primarily from anticipated increased refunds. The FY 2020 estimate is \$47.6 million more than the FY 2019 revised estimate, primarily in projected withholding revenues.

Business Taxes. The conferees estimate total business taxes of \$459.9 million in FY 2019 and \$482.9 million in FY 2020. Year over year growth rates are 3.9 percent and 5.0 percent, respectively. The FY 2019 estimate is \$25.9 million less than enacted, while the FY 2020 estimate is \$23.0 million more than the revised estimate. The FY 2019 estimate includes \$19.3 million from the expected impact of the federal Tax Cut and Jobs Act, of which \$17.4 million is from one-time repatriation of foreign profits. The FY 2020 estimate includes \$22.4 million from TCJA impacts, of which \$15.0 million is from repatriation. The estimates of the impact of repatriation have been adjusted since the May 2018 conference due to testimony indicating that \$10.5 million of repatriation revenue was realized in FY 2018.

Sales and Use Taxes. Sales tax, the bulk of the consumption taxes, is estimated at \$1,111.0 million for FY 2019 and \$1,157.0 million for FY 2020. The FY 2019 revenues are \$9.9 million above the enacted estimate, which represents growth of 5.1 percent from the preliminary FY 2018 receipts. The FY 2020 estimate is \$46.0 million, or 4.1 percent, above the revised FY 2019 estimate.

Excise Taxes Other Than Sales and Use Taxes. The conferees estimate \$162.8 million for revised FY 2019 and \$161.0 million for FY 2020 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 2019 revised estimate is \$24.8 million, or 13.2 percent, below the prior year. This decline is primarily from previous changes in law that require the transfer of the remaining 20.0 percent of motor vehicle license and registration fees (exclusive of those related to REAL ID) from the general fund to the Rhode Island Highway Maintenance Account in FY 2019. The total FY 2020 estimate decreases by \$1.8 million, or 1.1 percent, from the revised estimate for FY 2019.

Other Taxes. The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$52.3 million in FY 2019 and \$50.5 million in FY 2020. The FY 2019 revised estimate is \$13.0 million less than the previous year, primarily due to two large inheritance tax payments in FY 2018. The FY 2020 estimate for total other taxes is \$1.8 million less than the FY 2019 revised estimate.

Departmental Receipts. The conferees adopted estimates of \$405.0 million for FY 2019 and \$227.0 million for FY 2020 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 2019 revised estimate is \$7.4 million greater than the previous year.

The FY 2020 estimate is \$178.0 million less than the revised FY 2019 estimate, primarily due to the end of the hospital licensing fee, which is estimated to produce \$180.8 million in FY 2019. 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 yet authorized for FY 2020. Excluding the hospital licensing fee, FY 2020 departmental revenues are projected to be \$2.8 million above the revised FY 2019 estimate.

Lottery Transfer. The lottery transfer is estimated to produce general revenue of \$399.4 million in FY 2019, with \$307.2 million generated from the video lottery terminals installed at Twin River – Lincoln, Newport Grand and the new Twin River - Tiverton, \$62.3 million derived from combined games, which includes PowerBall, Mega Millions, scratch tickets, and Keno and \$18.6 million in net revenues received from the table games at both the Twin River Lincoln and Tiverton locations. An estimate of \$11.5 million for the implementation of sports betting at both casino locations is also included, based on an expected start date around December 1, 2018. The FY 2019 revised estimate is \$34.6 million above the FY 2018 transfer.

The estimated transfer is \$426.0 million for FY 2020, with \$320.0 million derived from video lottery terminals, \$60.0 million from combined games, \$19.8 million from the table games at both Lincoln and the new Tiverton facility, and \$27.3 million from sports betting. The FY 2020 lottery transfer is projected to increase by \$26.6 million from the FY 2019 revised estimated, primarily due to the annualization of revenue from the new Tiverton Casino and sports betting.

Other Sources. Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$21.8 million in FY 2019 and \$16.5 million in FY 2020. The FY 2019 amount is \$26.2 million below the previous year due to one-time transfers in FY 2018 not repeated in FY 2019. FY 2019 also includes two one-time transfers that are not expected to repeat in FY 2020.

The tables that follow show the results by revenue category, along with information on FY 2018 preliminary closing and comparison to the FY 2019 enacted budget.

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November 2018 CRE	FY 2018 Preliminary	FY 2019 Estimate		FY 2020 Estimate	
Personal Income Tax	\$ 1,345,272,113	\$ 1,380,700,000	2.6%	\$ 1,428,300,000	3.4%
General Business Taxes					
Business Corporations	127,674,418	154,700,000	21.2%	163,500,000	5.7%
Public Utilities Gross	109,594,153	100,800,000	-8.0%	103,200,000	2.4%
Financial Institutions	29,176,929	23,300,000	-20.1%	24,400,000	4.7%
Insurance Companies	130,261,721	126,100,000	-3.2%	132,100,000	4.8%
Bank Deposits	1,638,592	3,000,000	83.1%	3,000,000	0.0%
Health Care Provider	44,099,790	52,000,000	17.9%	56,700,000	9.0%
Sales and Use Taxes					
Sales and Use	1,057,205,387	1,111,000,000	5.1%	1,157,000,000	4.1%
Motor Vehicle	20,821,761	3,100,000	-85.1%	5,300,000	71.0%
Cigarettes	146,877,686	139,000,000	-5.4%	134,300,000	-3.4%
Alcohol	19,928,711	20,700,000	3.9%	21,400,000	3.4%
Controlled Substances					
Other Taxes					
Inheritance and Gift	51,401,550	34,500,000	-32.9%	33,900,000	-1.7%
Racing and Athletics	1,081,031	1,100,000	1.8%	1,100,000	0.0%
Realty Transfer	12,841,566	16,700,000	30.0%	15,500,000	-7.2%
Total Taxes	\$ 3,097,875,408	\$ 3,166,700,000	2.2%	\$ 3,279,700,000	3.6%
Departmental Receipts	397,579,143	405,000,000	1.9%	227,000,000	-44.0%
Other Miscellaneous	37,054,016	11,700,000	-68.4%	6,950,000	-40.6%
Lottery	364,974,286	399,600,000	9.5%	427,100,000	6.9%
Unclaimed Property	10,901,582	10,100,000	-7.4%	9,500,000	-5.9%
Total General Revenues	\$ 3,908,384,435	\$ 3,993,100,000	2.2%	\$ 3,950,250,000	-1.1%

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November 2018 CRE	FY 2019 Enacted	FY 2019 Estimate	Change to Enacted	FY 2020 Estimate	Change to FY 2019 Rev. Est.
Personal Income Tax	\$ 1,385,592,630	\$ 1,380,700,000	\$ (4,892,630)	\$ 1,428,300,000	\$ 47,600,000
General Business Taxes					
Business Corporations	177,592,100	154,700,000	(22,892,100)	163,500,000	8,800,000
Public Utilities Gross	101,800,000	100,800,000	(1,000,000)	103,200,000	2,400,000
Financial Institutions	21,800,000	23,300,000	1,500,000	24,400,000	1,100,000
Insurance Companies	130,507,236	126,100,000	(4,407,236)	132,100,000	6,000,000
Bank Deposits	2,700,000	3,000,000	300,000	3,000,000	-
Health Care Provider	51,422,610	52,000,000	577,390	56,700,000	4,700,000
Sales and Use Taxes					
Sales and Use	1,101,139,430	1,111,000,000	9,860,570	1,157,000,000	46,000,000
Motor Vehicle	3,133,600	3,100,000	(33,600)	5,300,000	2,200,000
Motor Fuel	-	-	-	-	-
Cigarettes	139,500,000	139,000,000	(500,000)	134,300,000	(4,700,000)
Alcohol	20,700,000	20,700,000	-	21,400,000	700,000
Controlled Substances					
Other Taxes					
Inheritance and Gift	32,100,000	34,500,000	2,400,000	33,900,000	(600,000)
Racing and Athletics	1,100,000	1,100,000	-	1,100,000	-
Realty Transfer	14,500,000	16,700,000	2,200,000	15,500,000	(1,200,000)
Total Taxes	\$ 3,183,587,606	\$ 3,166,700,000	\$ (16,887,606)	\$ 3,279,700,000	\$ 113,000,000
Departmental Receipts	404,148,229	405,000,000	851,771	227,000,000	(178,000,000)
Other Miscellaneous	9,349,463	11,700,000	2,350,537	6,950,000	(4,750,000)
Lottery	391,700,000	399,600,000	7,900,000	427,100,000	27,500,000
Unclaimed Property	9,700,000	10,100,000	400,000	9,500,000	(600,000)
Total General Revenues	\$ 3,998,485,298	\$ 3,993,100,000	\$ (5,385,298)	\$ 3,950,250,000	\$ (42,850,000)

NEXT MEETING

The next required meeting of the conference is May 2019.

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

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