The Economy

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. Total non-farm employment is expected to dip by 2.8 percent from 488,300 in FY 2008 to 474,000 in FY 2009. The principals anticipate further decline of 4,500 jobs in FY 2010 before non-farm employment recovers in FY 2011. Non-farm employment growth rates, however, are expected to increase at a decreasing rate beginning in FY 2013. Increases in total non-farm employment generally indicate that businesses are hiring as a result of expansion or that more people are employed. It should be noted that while adopted growth rates suggest a positive trend from FY 2011 through FY 2013, the adopted number of total non-farm employment during these years are significantly lower than those of May 2008 Conference Estimates.

The unemployment rate for FY 2010 is estimated to increase by 0.5 percent from 8.8 percent in FY 2009 to 9.3 percent in FY 2010. As recovery takes hold, Rhode Island's unemployment rate is expected to steadily decline from 8.5 percent in FY 2011 to 6.4 percent in FY 2014. Even at this lower rate, Rhode Island's unemployment rate will be significantly higher than the rates achieved in the early 2000s.

Personal income is expected to hit bottom at a 1.3 percent rate of growth in FY 2009 from 3.2 percent growth in FY 2008 before reaching a plateau in FY 2011. The November 2008 Conference estimates for personal income growth suggest a downward revision in FY 2009 through FY 2010. The adopted personal income growth rate is estimated to reverse in FY 2011 through 2013, averaging 4.6 percent growth from FY 2011 through FY 2013 up from an average of 4.4 percent growth. Likewise, estimates of dividend, interest and rental income are expected to decrease considerably in FY 2009 before bouncing back in FY 2010 through FY 2013. In terms of wage and salary income growth, it is estimated to slightly decline from FY 2009 through FY 2010 at 0.8 and 0.7 percent growth, respectively. Wage and salary income growth is expected to improve beginning in FY 2010 through FY 2012 before slightly decelerating at FY 2013, then sharply declining to 2.8 percent in FY 2014.

The CPI-U decreased to 2.5 percent in FY 2009 from 3.7 percent in FY 2008. Contributing to the estimated decrease was mainly due to declines in fuel oil and natural gas prices. The CPI-U is forecasted to decrease further in FY 2010 to a 1.0 percent inflation rate before rising to 2.5 percent in FY 2011. In FY 2012 through FY 2014, inflation is expected to be around 2.0 percent annually.

From FY 2009 through FY 2010, the interest rate on three month Treasury bills is expected to remain below 2.0 percent before rising to 3.3 percent in FY 2011 and approximately 4.5 percent in FY 2012 through FY 2014. The interest rate on ten year Treasury notes is expected to rise within a much narrower band than three month Treasury bills. Thus, for FY 2009 the interest rate on ten year Treasury notes are expected to be 3.9 percent rising to 5.2 percent in FY 2012 through FY 2014.

Consistent with the perspective discussed here in, the consensus economic forecast reflects the immediate adverse impacts of the nation's economic crisis in employment, income, and other coincidental economic indicators in the next six years. In particular, employment growth is expected to be negative in FY 2009 and FY 2010 before slowly rebounding in FY 2010. More rigorous employment growth is not expected to be attained until FY 2012 at the earliest. Personal income growth is expected to follow a similar pattern over this same period.

The Consensus economic forecast for the fiscal years 2009 through 2014 agreed upon by the conferees at the November 2008 Revenue Estimating Conference is shown in the following table.

The Economy

The November 2008 Consensus Economic Forecast						
Rates of Growth	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Total Employment	-2.8	-0.9	0.7	1.3	1.5	1.1
Personal Income	1.3	2.6	4.5	4.8	4.6	3.2
Wage and Salary Income	0.8	0.7	2.9	4.2	4.1	2.8
Dividends, Interest and Rent	0.3	4.0	5.8	5.2	6.0	4.2
Nominal Rates						
U.S. CPI-U	2.5	1.0	2.5	2.2	2.0	1.8
Unemployment Rate	8.8	9.3	8.5	7.4	6.8	6.4
Ten Year Treasury Notes	3.9	4.4	5.0	5.2	5.2	5.1
Three Month Treasury Bills	1.0	1.6	3.3	4.5	4.5	4.4

General Revenues

Introduction

The Governor's recommended budget is based on estimated general revenues of $3.141 billion in FY 2009 and $3.146 billion in FY 2010. Annual estimated growth during FY 2009 and FY 2010 is -8.4 percent and 0.2 percent, respectively. Estimated deposits of $69.1 million and $75.7 million will be made to the Budget Reserve and Cash Stabilization Fund during these fiscal years. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.8 percent of estimated revenues in FY 2009 and 97.6 percent of estimated revenues in FY 2010. The revenue estimates contained in the Governor's FY 2009 supplemental and FY 2010 recommended budgets are predicated upon the revenue estimates adopted at the November 2008 Consensus Revenue Estimating Conference (REC) and the Governor's recommended changes to the adopted general revenues.

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

FY 2009 Revised Revenues

The November 2008 REC revised the enacted FY 2009 revenue estimate down by $233.6 million, a decrease of 7.0 percent. As shown in the *General Revenue Changes to Adopted Estimates* table in Appendix A of this document, the Governor's revised FY 2009 budget recommends an increase of $27.9 million in revenues. This $27.9 million in recommended changes to the FY 2009 adopted estimates breaks down as follows:

- $3.7 million resulting from the increase in Health Care Insurers Gross Premiums Rate to 2.0 percent for nonprofit hospital service corporations, nonprofit medical service corporations, nonprofit dental service corporations, and health maintenance organizations;
- $9.0 million resulting from the imposition of Health Care Insurance Gross Premiums Rate of 2.0 percent to previously exempted Managed Care Health plans, as identified in the Title XIX Program;
- $7.2 million from increased cigarette excise tax of $3.46 per pack of twenty cigarettes retaining minimum price mark-ups;
- $777,827 in increased sales taxes resulting from the cigarette tax increase;
- $3.2 million from increased fees associated with the reinstatement of motor vehicle registrations and titles ($50.00 to $250.00), the reinstatement of operator's licenses ($75.00 to $250.00), and any certificate of title transaction ($25.00 to $50.00);
- $78,929 resulting from an increased fee of $20.00 in the entry fee for access to Small and Consumer Claims Mediation Court;
- $134,802 of grants and donations received from the National Council on Aging (NCOA) and the American Cancer Society;
- $6.0 million resulting from the sale of property next to the Garrahy Courthouse for a parking garage to the Rhode Island Housing and Mortgage Finance Corporation
- $883,246 as a result of transfer of Worker's Compensation Escrow Account for companies with defunct operations and of Dual Party Telecommunications Device for the Deaf (TDD) Phone Relay Service Escrow Account;

- $250,000 from transferring the available cash from the JP Morgan Purchase Card rebate incentives; and
- A decrease of $2.3 million from eliminating the Group Home provider tax of 6.0 percent of gross patient revenue, as part of the implementation of the New Global Medicaid Waiver.

FY 2009 Revised Revenues vs. FY 2008 Audited Revenues

Recommended revenues for FY 2009 are based upon a $287.9 million decrease in total general revenues over audited FY 2008, or growth of -8.1 percent. Much of this decrease can be found in Other Miscellaneous Revenues, $(158.1) million; Personal Income Taxes, $(62.6) million; Business Corporate Taxes, $(42.5) million; Sales and Use Taxes, $(12.4) million; Inheritance and Gifts, $(7.3) million; Health Care Provider Assessment, $(6.6) million; Unclaimed Property Taxes, $(6.1) million; and Lottery Receipts, $(5.2) million. These decreases are partially offset by estimated increases in Insurance Companies Gross Premiums Taxes, of $21.8 million; Cigarette taxes of $12.1 million; and Public Utilities Gross Earnings Taxes of $5.1 million.

Personal income tax collection continues to be the single largest source of state general revenues at 32.2 percent for FY 2009 despite anticipated sharp declines. Personal income tax collections are estimated to contract at an annual rate of 5.8 percent, or $(62.6) million for FY 2009. Much of this decline is due to increased income tax refund payments of $51.2 million, followed by a decrease in estimated payments of $41.9 million; and withholding payments of $3.8 million. The overall decline, however, is slightly offset by an estimated increase of $34.2 million in final payments.

General Business Tax collections are projected to drop by $22.1 million or -5.9 percent, due primarily to an estimated decrease in Business Corporations taxes of $42.5 million; and Health Care Provider Assessments of $6.6 million. The estimated foregone collection in Health Care Provider Assessment is due to an estimated savings of $28.6 million resulting from the Department of Human Services' expenditure reduction plan, which includes the use of selective contracting for shared living arrangements and the adoption of an acuity-based rate-setting system for nursing homes thereby reducing the nursing home tax revenues by $1.6 million. On the other hand, these decreases are partially offset by anticipated increases in Insurance Companies Gross Premiums taxes of $21.8 million and Public Utilities gross earnings taxes of $5.1 million. The $21.8 million incremental revenue gain in Insurance Companies taxes is comprised of $3.8 million from raising the current gross premiums tax rate from 1.75 percent to 2.0 percent for non-profit hospital service corporations, non-profit medical service corporations, non-profit dental service corporations, and health maintenance organizations. An additional $9.0 million is expected from imposing the 2.0 percent tax rate on previously exempted Managed Care Health plans such as the RIte Care, Rhody Health, Substitute Care, and Children with Special Health Care Needs (CSHCN). The Financial Institutions tax is expected to yield $2.0 million, an increase of $169,730 over the $1.8 million collected in FY 2008. A $2.3 million decline in Health Care Provider Assessments is expected due to the elimination of the 6.0 percent Group Home provider tax, as applied to gross patient revenues of residential disability providers.

Sales and Use tax collections are projected to drop by $12.4 million or -1.5 percent, over audited FY 2008 collections. Sales and Use taxes represent 26.5 percent of total general revenues in FY 2009. This decline is partially buffered by an estimated increase of $777,827 as a result of raising the current cigarette excise tax by $1.00 per pack of 20 cigarettes while retaining the minimum mark-up provisions. For FY 2009 sales and use tax collections are projected to be $831.8 million.

Excise Taxes other than the sales and use tax are expected to increase by $13.5 million or 7.7 percent in FY 2009 over audited FY 2008 collections due primarily to a projected increase in cigarette tax payments of $12.1 million. The proposed increase in the cigarette tax from $2.46 per pack to $3.46 per pack makes up $7.2 million of this increase. This amount already includes a one-time floor stock tax revenue gain. Motor vehicle receipts are expected to increase by 3.1 percent due in large part to anticipated additional collections of $2.1 million from increasing the reinstatement fees for registrations and titles, from $50.00 to $250.00 and operator's licenses, from $75.00 to $250.00; and all certificate of title transactions, from $25.00 to $50.00.

Other taxes are projected to decrease $10.1 million, or 20.8 percent in FY 2009 relative to audited FY 2008. Of the total decrease in Other Taxes, Racing and Athletics tax collections constitute a $312,860 decrease, the Realty Transfer tax constitutes a $2.4 million decrease, and Inheritance and Gift Taxes are expected to yield $7.3 million less in FY 2009 than in audited FY 2008. This expected decrease in Inheritance and Gift Tax collections is due to the nature of the tax itself, which can be affected markedly by the passing of a single wealthy taxpayer. Racing and Athletic Taxes are expected to continue their downward trend in FY 2009 totaling $2.5 million, a decrease of 11.1 percent from FY 2008 levels. Realty Transfer Taxes are expected to total $7.8 million in FY 2009, a decrease of 23.7 percent from audited FY 2008 collections.

In the Governor's FY 2009 supplemental budget, Departmental Receipts are projected at $331.7 million, a decrease of $24.8 million from audited FY 2008 collections, or 7.0 percent. Departmental revenue enhancements include $124,802 from a grant provided by the National Council on Aging, $78,729 as a result of increasing the Small and Consumer Claims Mediation Entry Fee to $50.00 from $30.00, and $10,000 from a one-time donation made by the American Cancer Society.

In addition to the above general revenue components, sharp declines are expected in FY 2009 for Other Miscellaneous general revenue category of $(158.1) million; the Unclaimed Property Transfer to the general fund of $(6.1) million; and the Lottery transfer to the general fund of $(5.2) million. The Gas Tax Transfer to the general fund is forecasted to slightly decrease by $38,745 in FY 2009.

For FY 2009, Other Miscellaneous general revenues are projected to decline by $158.1 million. This decrease is due in large part to the inclusion of tobacco securitization proceeds worth $124.0 million in FY 2008 that does not repeat in FY 2009. Nonetheless, this decrease is slightly mitigated by an anticipated increase of $7.1 million due primarily to the selling of the property next to the Garrahy Courthouse for a parking garage to the Rhode Island Housing Mortgage and Finance Corporation.

FY 2010 Proposed Revenues

The Governor's recommended FY 2010 budget estimates general revenues of $3.146 billion, an increase of 0.2 percent from the revised FY 2009 level. The Governor's recommendation is comprised of $3.009 billion of revenue estimated at the November 2008 Revenue Estimating Conference and $137.6 million of changes to the adopted estimates. These changes are shown in the schedule *General Revenue Changes to Adopted Estimates* located in Appendix A of this document.

The largest source of FY 2010 general revenues is the Personal Income Tax, with estimated receipts of $1.013 billion, $1.7 million more than the November 2008 REC estimate for FY 2010. This small increase is due primarily to the anticipated negative consequences of the American Recovery and Reinvestment Act of 2009 (ARRA) with respect to Personal Income Taxes. Of particular note, a total revenue reduction of $5.1 million is estimated as a result of the following provisions contained in the ARRA: an increase of 5 percent in the earned income tax credit for filers with 3 or more children for tax years 2009 and 2010, an increase of $25.00 in weekly unemployment compensation and the deduction of the first $2,400 of unemployment compensation from adjusted gross income for tax year 2009, and the deduction of the sales tax paid on purchases of new passenger automobiles and light-duty trucks between February 17, 2009 and December 31, 2009 from adjusted gross income. Each of these provisions effectively lowers taxable income. Personal Income Taxes are expected to comprise 32.2 percent of total general revenues in FY 2010.

Sales and Use Tax collections are expected to yield $838.7 million in FY 2010, or $2.7 million more than the level adopted at the November 2008 Revenue Estimating Conference for FY 2010. The $2.7 million increase is expected to come from the increase in the price of cigarettes resulting from the cigarette tax increase from $2.46 per pack to $3.46 per pack. The Governor's FY 2010 recommended estimate signifies growth of 0.8 percent over the FY 2009 revised estimate. Sales and Use Taxes are anticipated to contribute 26.7 percent to total general revenues in FY 2010.

Motor Vehicle operator license and vehicle registration fees are forecasted to equal $55.8 million in FY 2010, an increase of $8.4 million over the November 2008 REC estimate. This increase is the result of the Governor's proposal regarding the increase in reinstatement fees for registrations and licenses and certificate of title fee increases. Motor Carrier Fuel Use Taxes are estimated to reach $850,000 in FY 2010, the same as the November 2008 REC estimate. Cigarette tax revenues are expected to total $144.2 million, or an increase of $27.5 million, over the November 2008 REC estimate. This increase is the result of the Governor's proposal to increase cigarette excise tax by $1.00. Alcohol Tax revenues are projected to increase by $200,000 or 1.8 percent in FY 2010 from the revised FY 2009 estimate.

General Business taxes represent 10.7 percent of total general revenue collections in the FY 2010 budget year. Business Corporation Tax revenues are expected to yield $96.3 million, a decrease of 14.5 million from the FY 2010 estimate agreed to at the November 2008 REC. This decrease is the result of the Governor's proposal to begin to phase out the Business Corporation tax over a five year period beginning on January 1, 2010. For FY 2010, the proposed tax rate decrease is to 7.5 percent, which is 1.5 percentage-points lower than the current business corporation tax.

Insurance Companies Gross Premiums taxes are projected to reach $92.1 million in FY 2010. This amount includes $78.5 million from the November 2008 Revenue Estimating Conference and $13.6 million of additional revenues. The latter is expected to come from the Governor's proposal to impose the current gross premiums tax rate of 2.0 percent on non-profit hospital service corporations, non-profit medical service corporations, non-profit dental service corporations, and health maintenance organizations, and Title XIX Managed Care Health plans. Health Care Provider Assessments taxes are estimated to decrease by 19.9 percent, or $9.3 million, over revised estimate for FY 2009. This reduction is due to the repeal of the group home provider tax and the rebasing of the nursing home provider tax as a result of the implementation of the Global Medicaid Waiver. Health Care Provider Assessments will comprise 1.2 percent of total general revenues in FY 2010.

All the other components of general business taxes excluding Business Corporations, Insurance Companies Gross Premiums, and Health Care Provider Assessments taxes are estimated at the levels adopted at the November 2008 Revenue Estimating Conference. Public Utilities Gross Earnings Taxes are estimated to increase by 2.2 percent or $2.3 million and comprise 3.5 percent of general revenues. Financial Institution taxes are estimated to decline by $1.0 million in FY 2010 over revised estimate for FY 2009. In FY 2010, Bank Deposit taxes are estimated to increase by 2.4 percent, or $40,000, from the revised FY 2009 estimate.

General Revenues

Inheritance and Gift Taxes are projected to decline by $1.5 million over the $28.5 million adopted at the November 2008 Revenue Estimating Conference. The source of this decrease is mainly due to the Governor's proposal to increase estate tax exemption amount to $1.0 million from its current level of $675,000. Realty Transfer Taxes are estimated at the same level adopted at the November 2008 Revenue Estimating Conference and the revised estimate for FY 2009, with anticipated collections of $7.8 million. Racing and Athletics Taxes are also estimated at the level adopted at the November 2008 REC. This estimate represents a decline of $200,000, or -8.0 percent, from the revised FY 2009 estimate. Total Racing and Athletics Taxes projected in FY 2009 is $2.3 million. Other taxes will comprise 1.2 percent of total general revenues in FY 2010.

FY 2010 departmental receipts are expected to generate $3.4 million more than the revised FY 2009 budget. Inclusive of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $335.1 million in FY 2010, or 10.7 percent of total general revenues. In the licenses and fees category, $112.5 million is expected due primarily to the Governor's proposal to reinstate the Hospital Licensing fee for one year using the current rate of assessment of 4.78 percent and the current base of FY 2007 net patient revenues. The FY 2010 recommended departmental revenues figure includes the following proposals:

- $111.4 million from reinstituting the Hospital Licensing Fee;
- $198,901 resulting from increasing the small and consumer claims mediation court entry fee by $20.00;
- $894,100 resulting from the increased fee of $20.00 for Bureau of Criminal Identification background checks;
- $25,000 from imposing a penalty for Late Renewal of Office of Food Protection Licenses;
- $50,000 from the transfer of Purchase Card rebate incentives;
- $124,802 of funding received from the National Council on Aging (NCOA);

The other sources component total of $375.9 million in FY 2010 represents a decrease of $10.7 million, or 2.8 percent, compared to the revised revenue estimate for FY 2009. The change in other sources of revenue affects only the Other Miscellaneous Revenues.

The Governor's recommended FY 2010 budget for Other Miscellaneous Revenues is $2.9 million lower than the revised FY 2009 level, a decrease of 12.1 percent. Other Miscellaneous Revenues are anticipated to generate $20.9 million in FY 2010 an increase of $11.1 million from the level adopted at the November 2008 Revenue Estimating Conference. The source of this increase primarily comes from the sales of two state-owned properties, the Aime Forand Building and Pastore Parcel.

Within the Gas Tax Transfer component, the Governor's FY 2010 budget shows a hundred percent change from the revised FY 2009 level. The Governor proposes the transfer of the $0.01 of the Gas Tax allocation from the General Fund to the Department of Transportation, which totals $4.5 million.

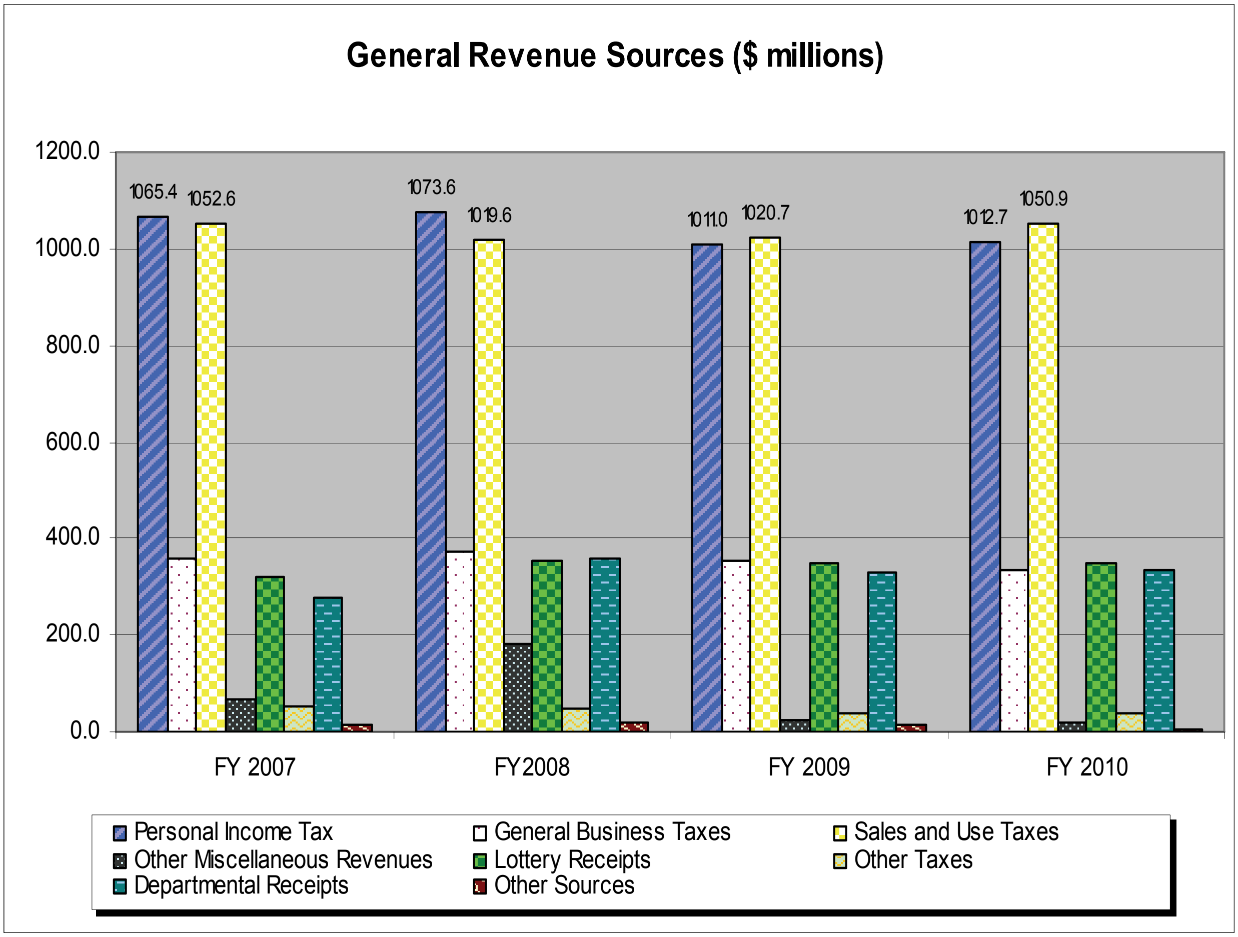
Within the Lottery category, the recommended FY 2010 budget is $300,000 greater than the revised FY 2009 budget, an increase of 0.1 percent. The Governor recommends no changes from the November 2008 REC estimate for Lottery. In FY 2010, the Lottery Transfer is expected to be $349.4 million and comprise 11.1 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. In FY 2010, this transfer is expected to decrease by $3.7 million, or 39.8 percent, from the revised FY 2009 estimate. The

General Revenues

Unclaimed Property transfer is projected to be $5.6 million in FY 2010, and comprises 0.2 percent of all general revenues.

The chart below shows the sources of general revenues for the period FY 2007 – FY 2010. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.



All Sources

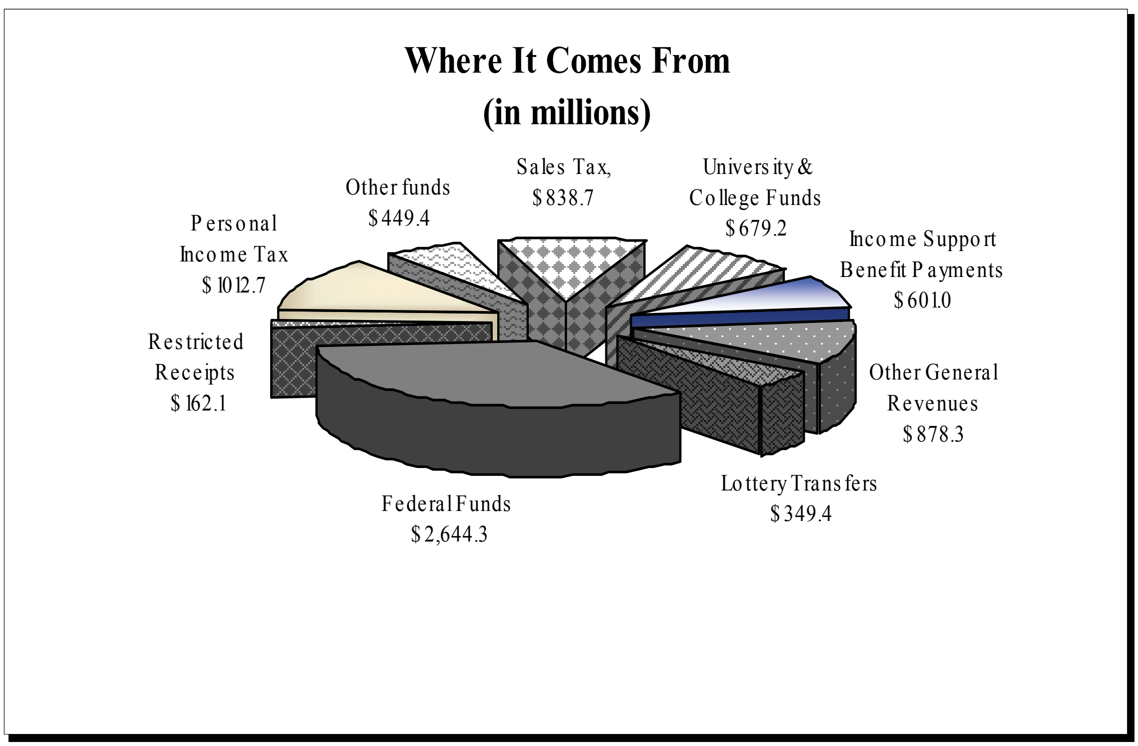
The total budget of $7,615.1 million includes all sources of funds from which state agencies make expenditures.

Federal funds represent 34.7 percent of all funds. Over 64.1 percent of federal funds are expended for human services, primarily for Medicaid.

Income and Sales Taxes combined represent 24.3 percent of all revenue sources.

University and College Funds, and Income Support Benefit payments represent 8.9 percent, and 7.9 percent of the total, respectively.

Remaining services include: Other General Revenues (11.5 %); Lottery transfers (4.6 %); Restricted receipts (2.1 %); and Other funds (5.9 %).



All Expenditures

Approximately sixty-four percent of all expenditures are for human services and education programs. The budgets for the human service agencies total $2.773 billion, or approximately thirty-six percent of all expenditures. These programs constitute the state's safety net.

Education expenditures comprise approximately twenty-seven percent of total expenditures, or $2.071 billion. Of this total, $1.017 billion represents funding for aid to local units of government. This is approximately forty-nine percent of all education expenditures, including higher education.

Approximately forty-three percent of the $1.774 billion expended for general government is for grants and benefits to individuals. Most of these expenditures are for employment and training services or programs, including unemployment compensation.

Transportation expenditures comprise approximately six percent of the total budget and include funds for public transportation, as well as highway, road and bridge expenditures.

In total, expenditures from all funds are recommended to increase by 4.8 percent from the revised FY 2009 budget.