



*State of Rhode Island and Providence Plantations*

*Revenue Estimating Conference*

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

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**MEMORANDUM**

To: The Honorable Donald L. Carcieri, Governor  
The Honorable William J. Murphy, Speaker of the House  
The Honorable Joseph A. Montalbano, President of the Senate

From: Kevin M. Madigan, Deputy Senate Fiscal Advisor  
Michael F. O'Keefe, House Fiscal Advisor  
Rosemary Booth Gallogly, State Budget Officer

Date: December 19, 2005

Subject: November 2005 Revenue Estimating Conference

**SUMMARY**

The Revenue Estimating Conference met on October 28 and 31, and November 2, 9, and 10 2005 in open public meetings. The Conference adopted the economic forecast for 2005 to 2014, reviewed and revised enacted FY2006 revenue estimates and prepared the first estimates for FY2007. The Conference revised the FY2006 enacted estimates downward by \$86.7 million based on FY2005 actual revenues, collections through October, and the revised economic forecast. A significant portion (\$25.1 million) of the estimated decrease is due to an accounting change in the way the local match for Medicaid reimbursed Early Periodic Screening and Diagnostic Treatment special education expenditures are dealt with. These funds and corresponding expenditures now appear as restricted receipts. The net effect to the State is an estimated revenue reduction of \$61.6 million from the FY2006 enacted revenue estimates.

The Conference estimated FY2007 revenues at \$3,148.6 million, which are \$69.7 million more than the revised FY2006 estimates. The estimates are based on current laws, which exclude the hospital licensing fee, which is worth an estimated \$70.8 million in FY2006. Tables showing the estimates and the changes are included at the end of this report.

## ECONOMIC FORECAST

The Consensus Economic Forecast was adopted at the October 28th meeting. The principals heard testimony from their economic consultants David Iaia, Senior Principal, US Regional Service, Global Insight and Steven Cochrane, Director of Regional Services, Economy.com. The consultants presented Conferees with updated economic forecasts for the United States and Rhode Island. Their testimony covered current economic performance and the outlook over the next several years and how the outlook changed since the May 2005 estimates. Robert J. Langlais, Assistant Director, Labor Market Information, Rhode Island Department of Labor and Training reviewed and analyzed the latest labor market data for the State.

After questioning the presenters and deliberating their forecasts, Conferees adopted an updated consensus forecast for Rhode Island. The updated forecast made modest changes to the consensus outlook adopted at the May Conference.

### *The U. S. Economy*

Economic consultants testified that the national economy is performing fairly well and the job market, with the exception of areas of Gulf States affected by the hurricanes, has been relatively sturdy. Businesses have posted near record profit margins that have spurred investment and expansion, which should provide longer-term growth and stability. The threat of inflation is rising, however the Federal Reserve continues to respond by raising interest rates to slow this acceleration. Energy prices are a strain on both businesses and households, and lower income households are most affected by the rapid price increases. Users of natural gas face the most risk of prolonged price increases due to the lack of supply and import capacity in the United States. Northeastern and Midwestern States face the greatest risk as these areas use the most natural gas as a proportion of total energy expenditures.

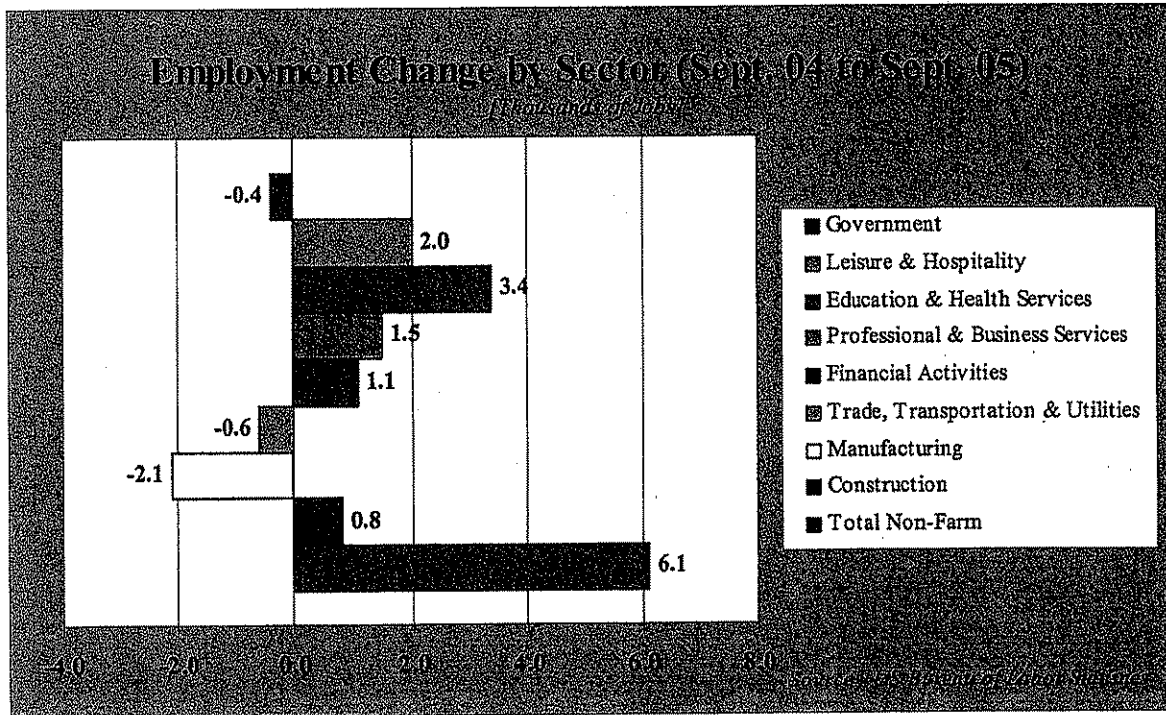
### *The Rhode Island Economy*

Forecasters project steady employment and income growth between CY2005 and CY2014. Non-agricultural employment in Rhode Island is projected to increase from 494,200 jobs in 2005 to 535,200 in 2014. Personal income statewide is expected to increase between 4.4% and 5.5% annually, with calendar years 2005 and 2006 projected to exhibit the most growth, at 5.5% each year. Soaring energy prices are, and will continue to be, a strain on both businesses and households in the short term. The New England region is particularly susceptible to fluctuations in energy prices due to a lack of fuel import and storage capacity in the region. Users of natural gas are projected to be most affected by the shortages. Both economic consultants projected a slowdown in housing price appreciation; however neither went so far as to suggest housing prices would actually decrease. Instead, slower price growth was projected.

### *Department of Labor and Training*

The Rhode Island Department of Labor and Training reports that the unemployment rate continues to creep upwards. It posits that this is largely due to an expansion of the labor force. The September unemployment rate of 5.6% is the State's highest rate since January 1996 and it marks the third straight month that the State's rate has exceeded the national rate. The

Department noted that while the number of unemployed residents is at an all-time high, so too is the number of employed residents. Between September 2004 and September 2005, employment gains were made overall (+6,100); and in the following sectors: Educational & Health Services (+3,400); Leisure & Hospitality (+2,000); Professional and Business Services (+1,500); Financial Activities (+1,100); and Construction (+800). Employment sectors experiencing losses over the last 12 months included Manufacturing (-2,100); Trade, Transportation & Utilities (-600); and Government (-400).



**Consensus Forecast**

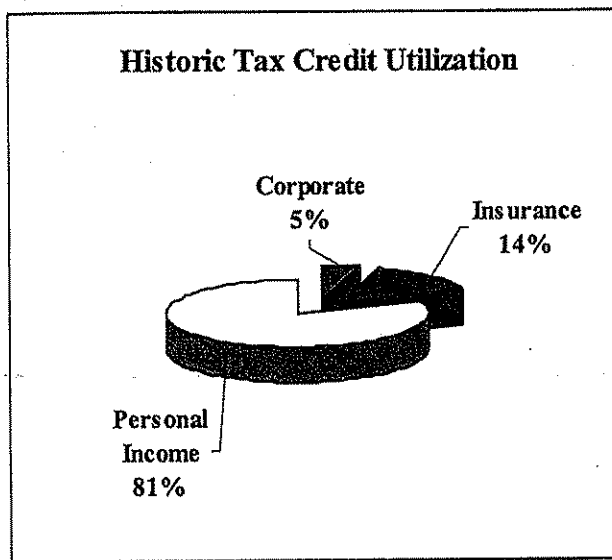
The Revenue Estimating Conference adopted an economic forecast that is based on a period of gradually increasing employment and income growth through FY2014, as well as moderate growth in consumer prices. The consensus forecast through 2008 is shown on the following table.

<b>November 2005 Consensus Economic Forecast</b>					
	<b>CY 2004</b>	<b>CY 2005</b>	<b>CY 2006</b>	<b>CY 2007</b>	<b>CY 2008</b>
<b>Nonfarm Employment</b>	488.4	494.2	501.1	506.6	511.7
<b>Annual Growth</b>					
Nonfarm Employment	0.9	1.2	1.4	1.1	1.0
Personal Income	5.8	5.5	5.5	4.6	4.6
Wage and Salaries Income	4.1	4.5	5.4	5.0	4.8
Farm Income	0.0	0.0	0.0	0.0	0.0
Nonfarm Business Income	9.4	8.0	6.6	4.7	5.2
Dividends, Interest and Rent	4.9	4.0	6.0	5.1	5.2
Total Transfer Payments	7.9	6.8	6.0	4.4	4.5
<b>Rates</b>					
Unemployment Rate	5.2	4.9	5.0	5.0	4.9
Consumer Price Index (US)	2.7	3.4	2.9	2.1	2.1
Ten Year Treasuries	4.3	4.2	5.2	5.3	5.5
Three Month Treasuries	1.4	3.1	4.5	4.5	4.5
<b>Fiscal Year Conversion</b>					
	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Nonfarm Employment</b>	486.5	491.2	497.7	503.9	509.2
<b>Annual Growth</b>					
Nonfarm Employment	1.1	1.0	1.3	1.2	1.1
Personal Income	4.8	6.0	5.5	5.1	4.6
Wage and Salaries Income	5.0	4.5	5.0	5.2	4.9
Farm Income	0.0	0.0	0.0	0.0	0.0
Nonfarm Business Income	7.3	8.4	7.3	5.7	5.0
Dividends, Interest and Rent	1.0	6.4	5.0	5.6	5.2
Total Transfer Payments	5.7	7.1	6.4	5.2	4.5
<b>Rates</b>					
Unemployment Rate	5.4	4.8	5.0	5.0	5.0
Consumer Price Index (US)	2.5	3.0	3.2	2.5	2.1
Ten Year Treasuries	4.3	4.2	4.7	5.3	5.4
Three Month Treasuries	1.0	2.2	3.8	4.5	4.5

## REVENUES

**Taxes.** Revenues from taxes are estimated to increase 2.6% in FY2006 from FY2005 and grow 4.4% in FY2007 over the revised FY2006 estimate. Total estimated taxes for FY2006 of \$2,439.7 million are \$28.9 million below the enacted estimates. FY2007 total estimated taxes are \$2,547.0 million, \$107.3 million above the revised FY2006 estimate.

**Historic Preservation Tax Credit.** Tax revenues also include adjustments for the historic preservation tax credit. Impacts from this credit were first realized in FY2004 revenue receipts, and these impacts have grown substantially from the initial year. The RI Historical Preservation and Heritage Commission reports that as of October 20, 2005, 88 projects utilizing the historic tax credit have been completed, with a total credit value of \$58.6 million. Additionally, another 105 projects are planned or currently underway, worth an estimated tax credit value of \$201.8 million. The total estimated tax credit value of all projects is \$260.4 million, an increase of \$111.6 million from the November 2004 Revenue Estimating Conference report.



*The Division of Taxation tracks and reports to which taxes the historic credits are applied. To date, the credits have been applied against the Personal Income, Business Corporations and Insurance taxes. The chart at left illustrates the distribution of redeemed tax credits to date.*

**Personal Income Tax.** The estimates of \$1,015.9 million for FY2006 and \$1,066.9 million for FY2007 represent unadjusted growth rates of 3.8% and 5.0% respectively. The FY2006 estimate is \$17.6 million less than enacted, primarily due to lower than expected withholding payments. The FY2007 estimate is \$51.0 million more than the revised estimate.

**All Business Taxes.** The Conference estimates \$303.2 million in FY2006 and \$315.7 million in FY2007. Growth rates are 0.2% and 4.1%, respectively. The FY2006 estimate is \$5.4 million less than enacted; the FY2007 estimate is \$12.5 million more than the revised estimate. The downward revision for FY2006 is primarily due to a \$12.0 million refund that the Division of Taxation reported has been filed for by a financial institution. The FY2006 estimate for this tax was reduced by \$8.5 million from the enacted estimate.

**Sales Tax.** The Conference estimates sales tax revenues of \$881.5 million in FY2006 and \$925.8 million in FY2007. The FY2006 revenues are \$6.4 million below the enacted estimate, and

represent growth of 4.0% over actual FY2005 receipts. Slower than anticipated year-to-date collections was one reason estimators made this reduction. The FY2007 estimate is \$44.3 million or 5.0% more than the revised estimate.

**Other Sales and Use Taxes.** The Conferees estimated \$190.5 million for FY2006 and \$189.2 million for FY2007 from the other sales and use taxes, which include motor vehicle fees, cigarettes, and alcohol taxes. The FY2006 estimate is \$2.6 million more than enacted. The FY2007 estimate is \$1.3 million less than the revised estimate.

**Other Taxes.** The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$50.6 million in FY2006 and \$49.4 million in FY2007. The FY2006 estimate is \$2.0 million less than enacted. The decrease is caused by a revision, based on year-to-date collections, of the Inheritance and Gift Tax estimate by \$3.7 million less than enacted. The FY2007 estimate for total other taxes is \$0.8 million more than the revised estimate.

**Departmental Receipts.** The estimators adopted estimates of \$275.1 million in FY2006 and \$207.5 million in FY2007 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as General Revenues. The FY2006 estimate is \$37.5 million less than enacted. The FY2007 estimate is \$67.6 million less than the revised estimate.

The estimate for FY2006 includes a downward adjustment of \$25.1 million to reflect the shift of the local Medicaid match for the Early Periodic Screening and Diagnostic Treatment special education funding from General Revenues to a restricted receipt account. The shift reflects an accounting change resulting from an audit of the LEA program. Both revenues and expenditures associated with the program shift to restricted receipt funding, so the move is revenue neutral to the State.

FY2007 drops off mainly due to the end of the hospital license fee in FY2006, which produces \$70.8 million. That fee has been on a year-to-year basis, and has been extended each year since its inception. However, the estimators must estimate within current law, under which there would be no fee in FY2007.

**Other Sources.** Other source revenue consists of transfers to the General Revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources. These are estimated to produce \$364.1 million in FY2006 and \$394.1 million in FY2007. The FY2006 estimate is \$20.3 million less than enacted. The FY2007 estimate is \$30.0 million more than the revised estimate.

The Lottery is estimated to transfer \$325.1 million in FY2006 and \$364.2 million in FY2007. The FY2006 estimate is a downward revision of \$25.4 million to the enacted estimate, but represents 5.5% growth over actual FY2005 collections. Testimony by the Lottery Commission indicated that this was the first time the State experienced less than double-digit growth in a year-over-year comparison. The FY2007 estimate is an upward revision of \$39.1 million over the revised FY2006 estimate, and represents 12.0% growth over FY2006.

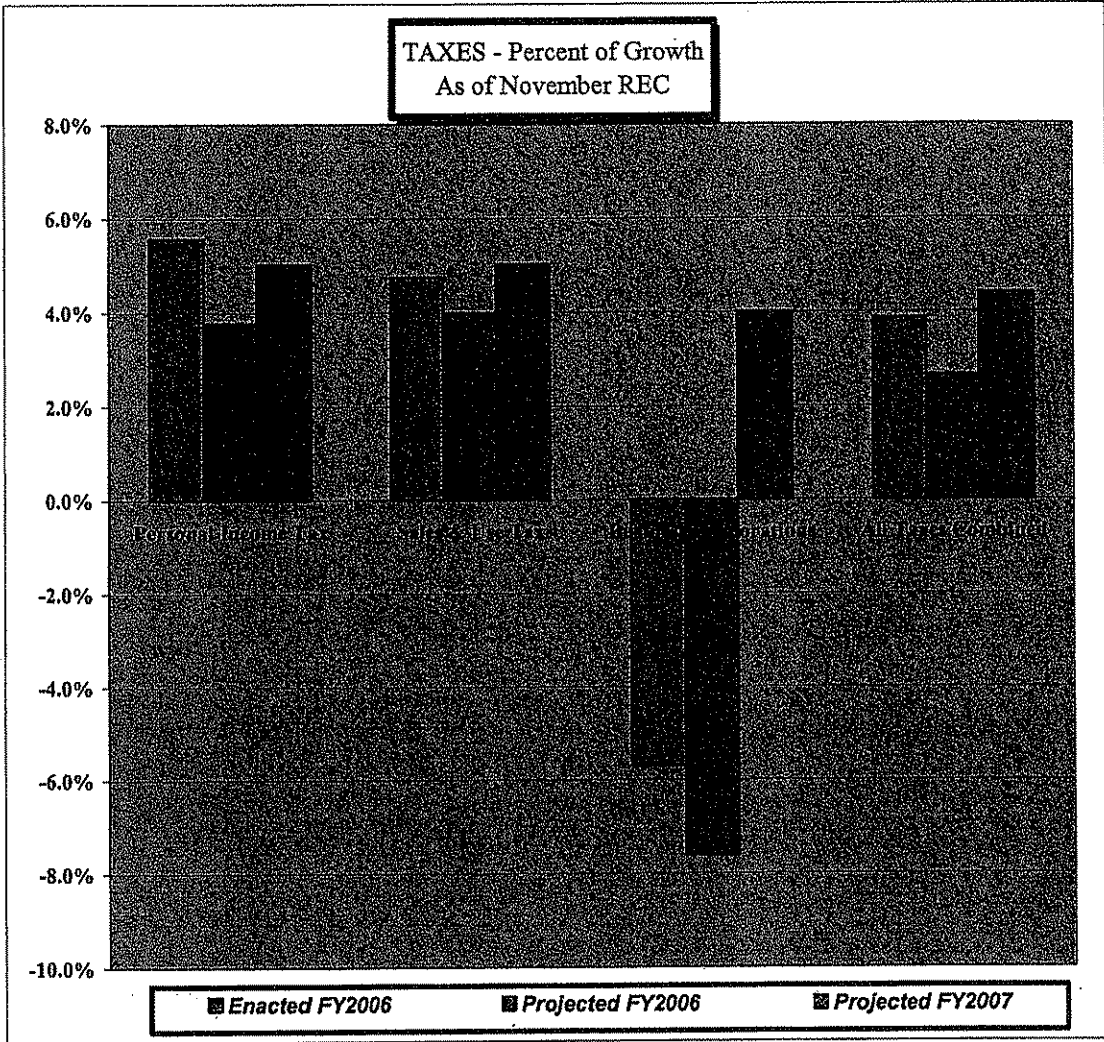
Estimators for the first time were required to reach consensus on new net terminal income and the State's share of new net terminal income that is solely attributable to the introduction of

machines at Lincoln Park and Newport Grand newly authorized in 2005-H 6285 Substitute A as amended and the companion Senate bill 2005-S 0970 Substitute B as amended. The estimators included only new machines at Lincoln Park; Newport has 231 currently authorized machines to install before it begins adding the 800 newly authorized machines. The estimators assumed addition of 600 newly authorized machines at Lincoln Park in FY2006 and an additional 1,150 in mid FY2007.

The Conference estimated the transfers to General Revenues based on the new machines to be \$4.4 million in FY2006 and \$7.8 million in FY2007. Of these additional General Revenues, 78.125% is allocated for the elimination of the motor vehicle excise tax, 12.5% is distributed amongst distressed communities, 6.25% goes toward General Revenue sharing for non-distressed communities, and 3.125% is used for the property tax circuit breaker. The distributions are subject to caps in the law.

#### **NEXT MEETING**

The next required meeting of the conference is currently scheduled for May 2006.





REVENUE COMPARISONS- FY2006

REVENUE COMPARISONS - FY2006 TABLE REC #2 REC Report 14-Nov-05 GENERAL REVENUES	Unaudited FY2005	Enacted June Estimate FY2006	Conference November Estimate FY2006	Conference November Vs Enacted FY2006	Growth Rate FY2005 to Enacted FY2006	Growth Rate FY2005 to Con. Nov. FY2006
TAXES						
Personal Income Tax	\$978,922,876	\$1,033,494,978	\$1,015,900,000	(\$17,594,978)	5.6%	3.8%
GENERAL BUSINESS TAXES:						
Business Corporations	\$116,143,553	\$109,524,714	\$107,300,000	(\$2,224,714)	-5.7%	-7.6%
Public Utilities Gross Earnings	\$86,357,788	\$90,000,000	\$97,300,000	\$7,300,000	4.2%	12.7%
Financial Institutions	(\$1,480,365)	\$100,000	(\$8,400,000)	(\$8,500,000)	-106.8%	467.4%
Insurance Companies	\$53,333,487	\$58,078,018	\$57,000,000	(\$1,078,018)	8.9%	6.9%
Bank Deposits	\$1,524,111	\$1,640,000	\$1,600,000	(\$40,000)	7.6%	5.0%
Health Care Provider Assessments	\$46,827,408	\$49,300,000	\$48,400,000	(\$900,000)	5.3%	3.4%
SALES AND USE TAXES:						
Sales and Use	\$847,726,627	\$887,888,065	\$881,500,000	(\$6,388,065)	4.7%	4.0%
Motor Vehicle	\$47,137,097	\$49,210,699	\$48,900,000	(\$310,699)	4.4%	3.7%
Motor Fuel	\$1,978,991	\$1,000,000	\$900,000	(\$100,000)	-49.5%	-54.5%
Cigarettes	\$136,342,162	\$126,300,000	\$129,700,000	\$3,400,000	-7.4%	-4.9%
Alcohol	\$10,536,807	\$11,400,000	\$11,000,000	(\$400,000)	8.2%	4.4%
Marijuana Controlled Substances	\$0	\$0	\$0	\$0	#DIV/0!	#DIV/0!
OTHER TAXES:						
Inheritance and Gift	\$32,980,957	\$31,700,000	\$28,000,000	(\$3,700,000)	-3.9%	-15.1%
Racing & Athletics Tax	\$3,990,803	\$4,020,000	\$3,600,000	(\$420,000)	0.7%	-9.8%
Realty Transfer	\$14,423,038	\$14,900,000	\$17,000,000	\$2,100,000	3.3%	17.9%
TO TAL - Taxes	\$2,376,745,340	\$2,468,556,474	\$2,439,700,000	(\$28,856,474)	3.9%	2.6%
DEPARTMENTAL REVENUE						
TO TAL - Departmental Revenues	\$267,079,816	\$312,586,831	\$275,100,000	(\$37,486,831)	17.0%	3.0%
TO TAL - Taxes & Departmentals	\$2,643,825,156	\$2,781,143,305	\$2,714,800,000	(\$66,343,305)	5.2%	2.7%
OTHER SOURCES						
Gas Tax Transfers	\$9,022,662	\$4,760,000	\$4,760,000	\$0	-47.2%	-47.2%
Other Miscellaneous	\$28,197,313	\$18,950,000	\$18,019,300	(\$930,700)	-32.8%	-36.1%
Lottery	\$308,061,495	\$350,500,000	\$325,100,000	(\$25,400,000)	13.8%	5.5%
Unclaimed Property	\$15,617,732	\$10,199,000	\$16,200,000	\$6,001,000	-34.7%	3.7%
TO TAL- Other Sources	\$360,899,202	\$384,409,000	\$364,079,300	(\$20,329,700)	6.5%	0.9%
TO TAL- GENERAL REVENUE	\$3,004,724,358	\$3,165,552,305	\$3,078,879,300	(\$86,673,005)	5.4%	2.5%

REVENUE COMPARISONS- FY2007

REVENUE COMPARISONS - FY2007	Conference	Conference	Cont. Nov.	Growth	Growth Rate
TABLE REC #3	November	November	FY2006	Rate	Cont. Nov.
REC Report	Estimate	Estimate	Vs	FY2005	FY2006
14-Nov-05	FY2006	FY2007	Cont. Nov.	to Con. Nov.	to Con. Nov.
GENERAL REVENUES			FY2007	FY2006	FY2007
TAXES					
Personal Income Tax	\$1,015,900,000	\$1,066,900,000	\$51,000,000	3.8%	5.0%
GENERAL BUSINESS TAXES:					
Business Corporations	\$107,300,000	\$111,600,000	\$4,300,000	-7.6%	4.0%
Public Utilities Gross Earnings	\$97,300,000	\$95,200,000	(\$2,100,000)	12.7%	-2.2%
Financial Institutions	(\$8,400,000)	\$3,600,000	\$12,000,000	467.4%	-142.9%
Insurance Companies	\$57,000,000	\$54,100,000	(\$2,900,000)	6.9%	-5.1%
Bank Deposits	\$1,600,000	\$1,600,000	\$0	5.0%	0.0%
Health Care Provider Assessments	\$48,400,000	\$49,600,000	\$1,200,000	3.4%	2.5%
SALES AND USE TAXES:					
Sales and Use	\$881,500,000	\$925,800,000	\$44,300,000	4.0%	5.0%
Motor Vehicle	\$48,900,000	\$50,000,000	\$1,100,000	3.7%	2.2%
Gasoline	\$900,000	\$1,100,000	\$200,000	-54.5%	22.2%
Cigarettes	\$129,700,000	\$126,700,000	(\$3,000,000)	-4.9%	-2.3%
Alcohol	\$11,000,000	\$11,400,000	\$400,000	4.4%	3.6%
Marijuana Controlled Substances	\$0	\$0	\$0	#DIV/0!	#DIV/0!
OTHER TAXES:					
Inheritance and Gift	\$28,000,000	\$28,700,000	\$700,000	-15.1%	2.5%
Racing & Athletics Tax	\$3,600,000	\$3,400,000	(\$200,000)	-9.8%	-5.6%
Realty Transfer	\$17,000,000	\$17,300,000	\$300,000	17.9%	1.8%
TOTAL - Taxes	\$2,439,700,000	\$2,547,000,000	\$107,300,000	2.6%	4.4%
DEPARTMENTAL REVENUE					
TOTAL - Departmental Revenue	\$275,100,000	\$207,500,000	(\$67,600,000)	3.0%	-24.6%
TOTAL - Taxes & Departmental	\$2,714,800,000	\$2,754,500,000	\$39,700,000	2.7%	1.5%
OTHER SOURCES					
Gas Tax Transfers	\$4,760,000	\$4,810,000	\$50,000	-47.2%	1.1%
Other Miscellaneous	\$18,019,300	\$14,249,500	(\$3,769,800)	-36.1%	-20.9%
Lottery	\$325,100,000	\$364,200,000	\$39,100,000	5.5%	12.0%
Unclaimed Property	\$16,200,000	\$10,800,000	(\$5,400,000)	3.7%	-33.3%
TOTAL- Other Sources	\$364,079,300	\$394,059,500	\$29,980,200	0.9%	8.2%
TOTAL- GENERAL REVENUE	\$3,078,879,300	\$3,148,559,500	\$69,680,200	2.5%	2.3%