



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

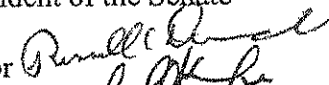

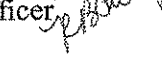
RUSSELL C. DANNECKER
Senate Fiscal Advisor
May 2007 Conference Chair

MICHAEL O'KEEFE
House Fiscal Advisor

ROSEMARY BOOTH GALLOGLY
State Budget Officer

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: Russell C. Dannecker, Senate Fiscal Advisor 
Michael F. O'Keefe, House Fiscal Advisor 
Rosemary Booth Gallogly, State Budget Officer 

Date: May 29, 2007

Subject: May 2007 Revenue Estimating Conference

SUMMARY

The Revenue Estimating Conference (REC) met on April 27 and May 2, 3, and 10, 2007, in open public meetings. The Conference adopted the economic forecast for 2007 to 2012, and issued revised estimates for FY2007 and FY2008 revenues. The Conference revised the FY2007 enacted estimates upward by \$2.4 million from the November 2006 REC, to a total of \$3,192.0 million for FY2007.

The Conference estimated FY2008 revenues at \$3,153.3 million, which are \$102.5 million less than the November 2006 REC estimates for FY2008. FY2008 revenues are \$38.7 million less than the revised figures for FY2007. The estimates are based on current laws, which exclude the hospital licensing fee, which is worth an estimated \$71.6 million in FY2007. Tables showing the estimates and the changes are included at the end of this report.

The Governor's FY2007 Supplemental and FY2008 Budgets were based on November 2006 REC estimates, plus additional revenue changes as proposed in his budget documents. When compared to the Governor's revenue estimates, the May REC estimates amount to reductions of \$6.3 million in FY2007 and \$114.8 million in FY2008. These estimated shortfalls do not take into account any projected offsetting expenditure reductions due to human service caseload decreases.

ECONOMIC FORECAST

The Consensus Economic Forecast was adopted at the April 27th meeting. The principals heard testimony from their economic consultants Larissa Duzhansky, Economist, Global Insight and Steven Cochrane, Senior Managing Director, Moody's 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 November 2006 estimates. Robert J. Langlais, Assistant Director, Labor Market Information Unit, 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 November 2006 Conference.

The U. S. Economy

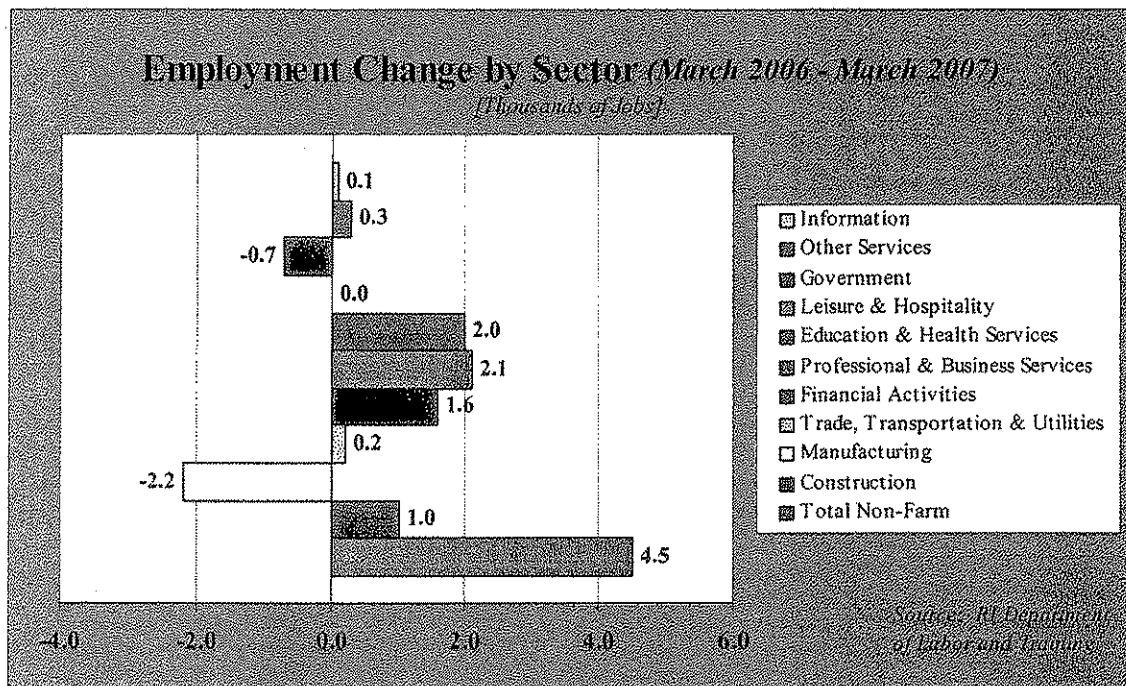
Economic consultants testified that the national economy is performing fairly well and the job market, buoyed by strong corporate profits, is expected to remain strong in the coming year. Businesses have posted near record profit margins that have spurred investment and expansion, which should provide longer-term growth and stability. Energy prices continue to place a strain on both businesses and households, and lower income households are most affected by the rapid price increases. Economists testified that the strongest downward pressure on the U.S Economy currently is coming from the housing sector, where sales prices are exhibiting year-over-year declines and sales volumes are down. Some areas of the country are faring better than others, however much of New England is experiencing a "price correction." Rising interest rates are leading to increases in the number of mortgage delinquencies and foreclosures, further eroding consumer credit quality.

The Rhode Island Economy

Forecasters project relatively steady employment and income growth in the coming two years for Rhode Island. Income growth is projected at 4.7% in FY2007 and drops to 4.5% in FY2008. Non-agricultural employment is expected to grow by 0.6% in FY2007 and 0.8% in FY2008. High 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. Both economic consultants highlighted the downturn in the housing market as placing a particular strain on Rhode Island. Just as Rhode Island reaped benefits on rapidly increasing home prices earlier this decade, the State is realizing a market correction stronger than many areas of the country. Economists projected a return to positive year-over-year sales price and volume growth in the Rhode Island housing market between late CY2007 and early CY2008.

Department of Labor and Training

The Rhode Island Department of Labor and Training reports that the unemployment rate has decreased through the first three months of CY2007. The decline is attributable to both an increase in the number of jobs, as well as a declining labor force. The March 2007 unemployment rate of 4.2% is the State's lowest rate since October 2000 and it marks the second straight month that the State's rate has been below the national average. Between March 2006 and March 2007, employment gains were made overall (+4,500); and in the following sectors: Professional and Business Services (+2,100); Educational & Health Services (+2,000); Financial Activities (+1,600); Construction (+1,000); Other Services (+300); Trade, Transportation & Utilities (+200); Information (+100). The Leisure and Hospitality sector showed no change year over year. The only sectors experiencing year-over-year losses were Manufacturing (-2,200); and Government (-700).



Consensus Forecast

The Revenue Estimating Conference adopted an economic forecast that is based on a period of gradually increasing employment and income growth through FY2012, as well as moderate growth in consumer prices. The consensus forecast through 2012 is shown on the following table.

May 2007 Consensus Economic Forecast						
	CY2007	CY2008	CY2009	CY2010	CY2011	CY2012
Nonfarm Employment	497.0	501.0	505.5	510.6	515.7	520.8
Annual Growth						
Nonfarm Employment	0.7	0.8	0.9	1.0	1.0	1.0
Personal Income	4.1	4.9	4.9	4.9	4.5	4.5
Wage and Salaries Income	3.3	4.1	4.1	4.1	3.8	3.8
Dividends, Interest and Rent	6.5	7.5	6.3	5.9	6.0	5.4
Rates						
Unemployment Rate	5.3	5.4	5.4	5.4	5.4	5.4
Consumer Price Index (US)	2.3	2.0	2.0	2.0	2.0	2.2
Ten Year Treasuries	4.8	5.1	5.4	5.5	5.4	5.5
Three Month Treasuries	4.8	4.9	4.9	4.9	4.9	4.5
Fiscal Year Conversion						
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Nonfarm Employment	495.2	499.0	503.3	508.1	513.2	518.3
Annual Growth						
Nonfarm Employment	0.6	0.8	0.9	1.0	1.0	1.0
Personal Income	4.7	4.5	4.9	4.9	4.7	4.5
Wage and Salaries Income	4.0	3.7	4.1	4.1	4.0	3.8
Dividends, Interest and Rent	7.2	7.0	6.9	6.1	6.0	5.7
Rates						
Unemployment Rate	5.2	5.4	5.4	5.4	5.4	5.4
Consumer Price Index (US)	2.8	2.2	2.0	2.0	2.0	2.1
Ten Year Treasuries	4.8	5.0	5.3	5.5	5.5	5.5
Three Month Treasuries	4.8	4.9	4.9	4.9	4.9	4.7

REVENUES

Taxes. Revenues from taxes are estimated to increase 2.5% in FY2007 from FY2006 and grow 0.1% in FY2008 over the revised FY2007 estimate. Total estimated taxes for FY2007 of \$2,540.8 million are \$12.4 million above the enacted estimates. FY2008 total estimated taxes are \$2,543.6 million, \$2.8 million above the revised FY2007 estimate.

Personal Income Tax. The estimates of \$1,056.4 million for FY2007 and \$1,064.5 million for FY2008 represent unadjusted year over year growth rates of 6.0% and 0.8% respectively. The FY2007 estimate is \$4.6 million more than enacted. The FY2008 estimate is \$8.1 million more than the FY2007 revised estimate, and \$23.1 million less than was projected during the November Revenue Conference.

All Business Taxes. The Conference estimates \$376.4 million in FY2007 and \$354.9 million in FY2008 for all business taxes. Year over year growth rates are 2.7% and -5.7%, respectively. The FY2007 estimate is \$56.8 million more than enacted; the FY2008 estimate is \$21.5 million less than the revised estimate. The Business Corporations tax was the largest driver of growth in the current year, realizing a \$29.5 million increase from November estimates. For FY2008 the Business Corporations tax is projected to increase by \$25.3 million from November estimates, but shows a decline of \$12.7 million from revised FY2007 estimates. This year over year decrease is primarily attributable to \$18.5 million in collections in FY2007 that the Division of

Taxation reports as a one-time event. After adjusting for the one-time collections, FY2008 yields a growth rate of 3.9% over FY2007 revised figures.

Sales Tax. The Conferees estimate sales tax revenues of \$885.0 million in FY2007 and \$907.0 million in FY2008. The FY2007 revenues are \$35.8 million below the enacted estimate, and represent growth of 1.8% over actual FY2006 receipts. Slower than anticipated year-to-date collections was one reason Estimators made this reduction. The FY2008 estimate is \$22.0 million or 2.5% more than the revised estimate.

Other Sales and Use Taxes. The Conferees estimated \$176.7 million for FY2007 and \$170.7 million for FY2008 from the other sales and use taxes, which include motor vehicle fees, cigarettes, and alcohol taxes. The FY2007 estimate is \$9.2 million less than enacted. The FY2008 estimate is \$6.0 million less than the revised estimate for FY2007. The drop in the current fiscal year is attributable to decreases in motor vehicle and cigarette tax collections. In FY2008, cigarette taxes account for the reduction from the November estimate, based largely on the base change from FY2007.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$46.3 million in FY2007 and \$46.5 million in FY2008. The FY2007 estimate is \$4.1 million less than enacted, resulting from expected declines in collections for all three of the tax categories. The FY2008 estimate for total other taxes is \$0.2 million more than the revised estimate.

Departmental Receipts. The Estimators adopted estimates of \$287.9 million in FY2007 and \$238.2 million in FY2008 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as General Revenues. The FY2007 estimate is \$8.5 million less than enacted. The FY2008 estimate is \$49.7 million less than the revised estimate.

FY2008 drops off mainly due to the end of the hospital license fee in FY2007, which produces \$71.6 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 FY2008.

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 \$363.3 million in FY2007 and \$371.5 million in FY2008. The FY2007 estimate is \$75.7 million less than enacted. The FY2008 estimate is \$8.2 million more than the revised estimate. Of note, the FY2007 Budget as Enacted included \$40.0 million in expected funding from a settlement with AIG, however in November revenue Estimators moved all expected settlement funding to FY2008, totaling \$80.0 million. At the May 2007 REC, the estimated AIG settlement funds were removed from the current revenue estimating horizon (*see AIG Settlement under "Additional Information" for further detail*).

The Lottery is estimated to transfer \$322.3 million in FY2007 and \$339.7 million in FY2008. The FY2007 estimate is a downward revision of \$40.2 million to the enacted estimate, and represents -0.5% growth over actual FY2006 collections. The FY2008 estimate is an upward

revision of \$17.4 million over the revised FY2007 estimate, and represents 5.4% growth over FY2007.

Estimators are required to determine the State share of net terminal income (NTI) at both Twin River (formerly Lincoln Park) and Newport Grand. For FY2007, Estimators project a State share of \$207.6 million based on total NTI of \$339.2 million at Twin River. At Newport Grand, the State expects to collect \$48.8 million on \$76.0 million NTI.

For FY2008, Twin River is projected to reap the State \$222.2 million on \$360.6 NTI, while Newport is estimated to transfer \$48.9 million on \$76.2 million NTI. Year over year transfer increases are projected at \$14.6 million at Twin River and \$100,000 for Newport, resulting in 7.0% and 0.2% growth, respectively.

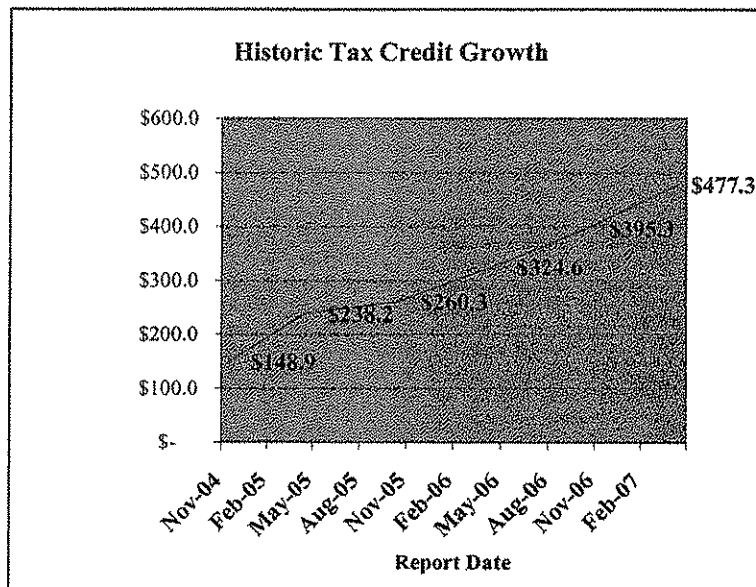
ADDITIONAL INFORMATION

AIG Settlement. The State of Rhode Island is slated to receive approximately \$100.0 million from American International Group, Inc. (AIG) as penalty for deceptive trade practices by the company. Revenue Estimators in May 2006 included \$40.0 million of the funding in the FY2007 Budget as enacted. In November, the RI Department of Business Regulation (DBR) testified that the State would likely not realize any funding in FY2007 from the settlement. Estimators, in an effort to be conservative, then included \$80.0 million of the expected \$100.0 million amount in the November 2006 REC estimate for FY2008. This \$80.0 million was included in the revenue estimates used to develop the Governor's FY2008 Budget proposal.

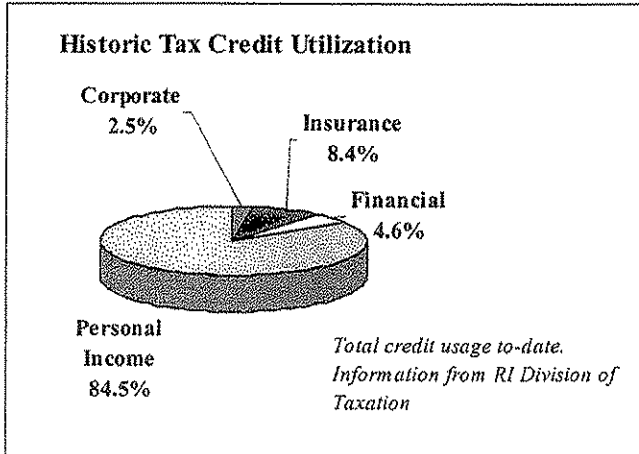
In the May 2007 REC, DBR provided an update on the settlement. The settlement requires that a national Workers' Compensation pool sign off on the agreement for payment to be made to the states named in the settlement. To date, the pool has not agreed to the settlement, and a September 1, 2007 deadline looms for the pool to sign off. If the pool does not agree by the deadline, Rhode Island potentially could lose its share of the settlement funding.

Based on the updated testimony, Estimators removed \$80.0 million in expected settlement funding from the FY2008 estimate. As of the May 2007 Revenue Estimating Conference, the AIG Settlement funds do not appear in either FY2007 or FY2008 estimates.

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



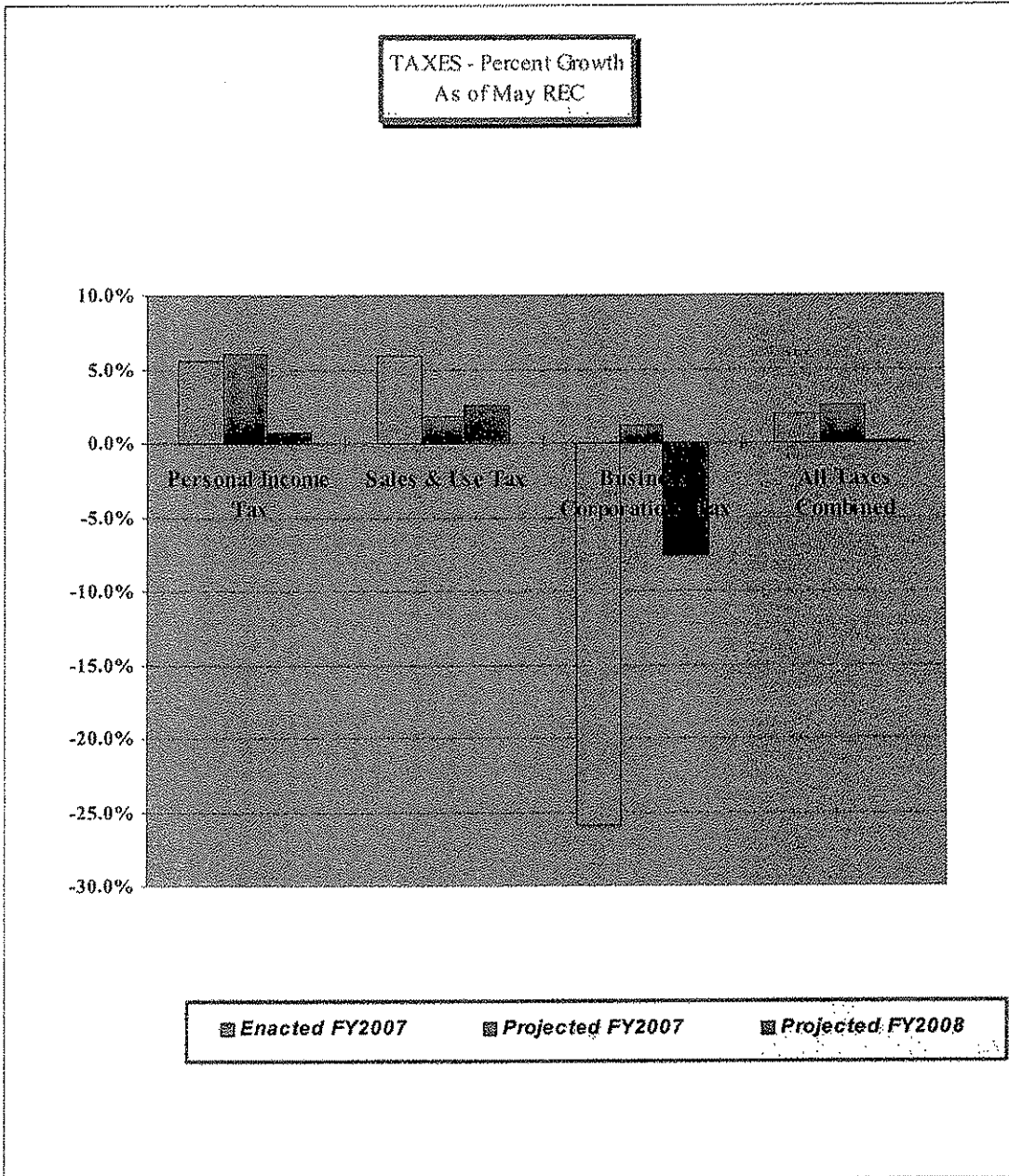
initial year. The RI Historical Preservation and Heritage Commission reports that as of April 26, 2007, 149 projects utilizing the historic tax credit have been completed (*including the Masonic Temple*), with a total credit value of \$159.6 million (*plus \$22.8 million in credits not used for*



Masonic Temple under an alternative EDC arrangement). Additionally, another 125 projects are planned or currently underway, worth an estimated tax credit value of \$294.9 million. The total estimated tax credit value of all projects is \$477.3 million (*including Masonic Temple amount*), an increase of \$84.0 million from the November 2006 Revenue Estimating Conference report.

NEXT MEETING

The next required meeting of the conference is currently scheduled for November 2007.



REVENUE COMPARISONS- FY2007

REVENUE COMPARISONS - FY2007		Conference	Conference	Conference	Growth	Growth
TABLE REC #2		November	May	May	Rate	Rate
RBC Report		Estimate	Estimate	vs	FY2006	FY2006
14-May-07	Audited			Conference	to Con. Nov.	to Con. May
GENERAL REVENUES	FY2006	FY2007	FY2007	November	FY2007	FY2007
TAXES						
Personal Income Tax	\$996,792,298	\$1,068,800,000	\$1,056,400,000	(\$12,400,000)	7.2%	6.0%
GENERAL BUSINESS TAXES						
Business Corporations	\$165,054,033	\$137,500,000	\$167,000,000	\$29,500,000	-16.7%	1.2%
Public Utilities Gross Earnings	\$96,027,349	\$96,700,000	\$104,000,000	\$7,300,000	0.7%	8.3%
Financial Institutions	\$3,988,509	\$1,000,000	\$3,600,000	\$2,600,000	-74.9%	-9.7%
Insurance Companies	\$52,877,704	\$52,700,000	\$52,400,000	(\$300,000)	-0.3%	-0.9%
Bank Deposits	\$1,494,366	\$1,600,000	\$1,600,000	\$0	7.1%	7.1%
Health Care Provider Assessments	\$47,002,360	\$48,500,000	\$47,800,000	(\$700,000)	3.2%	1.7%
SALES AND USE TAXES						
Sales and Use	\$869,162,931	\$895,000,000	\$885,000,000	(\$10,000,000)	3.0%	1.8%
Motor Vehicle	\$52,625,943	\$48,000,000	\$45,300,000	(\$2,700,000)	-8.8%	-13.9%
Motor Fuel	\$31,099	\$1,000,000	\$1,100,000	\$100,000	3115.5%	3437.0%
Cigarettes	\$126,340,938	\$121,700,000	\$119,400,000	(\$2,300,000)	-3.7%	-5.5%
Alcohol	\$10,870,193	\$11,000,000	\$10,900,000	(\$100,000)	1.2%	0.3%
Marijuana Controlled Substances	\$0	\$0	\$0	\$0	#DIV/0!	#DIV/0!
OTHER TAXES						
Inheritance and Gift	\$39,204,438	\$32,500,000	\$29,600,000	(\$2,900,000)	-17.1%	-24.5%
Racing & Athletics Tax	\$3,489,811	\$3,100,000	\$2,900,000	(\$200,000)	-11.2%	-16.9%
Realty Transfer	\$14,591,822	\$13,800,000	\$13,800,000	\$0	-5.4%	-5.4%
TOTAL - Taxes	\$2,479,553,795	\$2,532,900,000	\$2,540,800,000	\$7,900,000	2.2%	2.5%
DEPARTMENTAL REVENUE						
TOTAL - Departmental Revenues	\$287,314,593	\$295,200,000	\$287,900,000	(\$7,300,000)	2.7%	0.2%
TOTAL - Taxes & Departmentals	\$2,766,868,388	\$2,828,100,000	\$2,828,700,000	\$600,000	2.2%	2.2%
OTHER SOURCES						
Gas Tax Transfers	\$4,322,195	\$4,685,000	\$4,676,000	(\$9,000)	8.4%	8.2%
Other Miscellaneous	\$31,163,069	\$25,536,000	\$25,320,955	(\$215,045)	-18.1%	-18.7%
Lottery	\$323,899,490	\$321,000,000	\$322,300,000	\$1,300,000	-0.9%	-0.5%
Unclaimed Property	\$14,243,183	\$10,300,000	\$11,000,000	\$700,000	-27.7%	-22.8%
TOTAL - Other Sources	\$373,627,937	\$361,521,000	\$363,296,955	\$1,775,955	-3.2%	-2.8%
TOTAL - GENERAL REVENUE	\$3,140,496,325	\$3,189,621,000	\$3,191,996,955	\$2,375,955	1.6%	1.6%

REVENUE COMPARISONS- FY2008

REVENUE COMPARISONS - FY2008 TABLE REC #3 REC Report 24-May-07 GENERAL REVENUES	Conference November Estimate FY2008	Conference May Estimate FY2008	Conf. Nov. FY2008 Vs Conf. May FY2008	Growth Rate Conf. Nov. FY2008 to Conf. May FY2008	Growth Rate Conf. May FY2007 to Conf. May FY2008
TAXES					
Personal Income Tax	\$1,087,600,000	\$1,064,500,000	(\$23,100,000)	-2.1%	0.8%
GENERAL BUSINESS TAXES:					
Business Corporations	\$129,000,000	\$154,300,000	\$25,300,000	19.6%	-7.6%
Public Utilities Gross Earnings	\$95,900,000	\$95,500,000	(\$400,000)	-0.4%	-8.2%
Financial Institutions	\$1,000,000	\$2,000,000	\$1,000,000	100.0%	-44.4%
Insurance Companies	\$51,700,000	\$52,600,000	\$900,000	1.7%	0.4%
Bank Deposits	\$1,600,000	\$1,600,000	\$0	0.0%	0.0%
Health Care Provider Assessments	\$49,600,000	\$48,900,000	(\$700,000)	-1.4%	2.3%
SALES AND USE TAXES:					
Sales and Use	\$929,500,000	\$907,000,000	(\$22,500,000)	-2.4%	2.5%
Motor Vehicle	\$49,000,000	\$46,000,000	(\$3,000,000)	-6.1%	1.5%
Gasoline	\$1,100,000	\$1,100,000	\$0	0.0%	0.0%
Cigarettes	\$117,500,000	\$112,500,000	(\$5,000,000)	-4.3%	-5.8%
Alcohol	\$11,300,000	\$11,100,000	(\$200,000)	-1.8%	1.8%
Marijuana Controlled Substances	\$0	\$0	\$0	#DIV/0!	#DIV/0!
OTHER TAXES:					
Inheritance and Gift	\$32,500,000	\$30,100,000	(\$2,400,000)	-7.4%	1.7%
Racing & Athletics Tax	\$2,800,000	\$2,600,000	(\$200,000)	-7.1%	-10.3%
Realty Transfer	\$14,100,000	\$13,800,000	(\$300,000)	-2.1%	0.0%
TOTAL - Taxes	\$2,574,200,000	\$2,543,600,000	(\$30,600,000)	-1.2%	0.1%
DEPARTMENTAL REVENUE					
TOTAL - Departmental Revenues	\$236,300,000	\$238,200,000	\$1,900,000	0.8%	-17.3%
TOTAL - Taxes & Departmentals	\$2,810,500,000	\$2,781,800,000	(\$28,700,000)	-1.0%	-1.7%
OTHER SOURCES					
Gas Tax Transfers	\$4,685,000	\$4,685,000	\$0	0.0%	0.2%
Other Miscellaneous	\$90,505,000	\$12,513,284	(\$77,991,716)	-86.2%	-50.6%
Lottery	\$337,700,000	\$339,700,000	\$2,000,000	0.6%	5.4%
Unclaimed Property	\$12,400,000	\$14,600,000	\$2,200,000	17.7%	32.7%
TOTAL- Other Sources	\$445,290,000	\$371,498,284	(\$73,791,716)	-16.6%	2.3%
TOTAL- GENERAL REVENUE	\$3,255,790,000	\$3,153,298,284	(\$102,491,716)	-3.1%	-1.2%