



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 306, STATE HOUSE, PROVIDENCE, RI 0290

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MEMORANDUM

To: The Honorable Donald L. Carcieri, Governor
The Honorable William J. Murphy, Speaker of the House
The Honorable M. Teresa Paiva Weed, President of the Senate

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

Date: May 19, 2009

Subject: May 2009 Revenue Estimating Conference

Summary

The Revenue Estimating Conference concluded its deliberations May 11 in open public meetings to adopt the economic forecast and review and revise the estimated revenues for FY 2009 and FY 2010. The Conference revised the FY 2009 estimate to \$3,072.3 million based on collections trends through April, the revised economic forecast, and legislative changes made in the revised FY 2009 budget as enacted in 2009-H 5019, Substitute A, as amended. The estimate is \$70.0 million less than the revenues included in 2009-H 5019, Substitute A, as amended. The total change to FY 2009 revenues as enacted by the 2008 Assembly, when adjusted for the revenues included in 2009-H 5019, Substitute A, as amended is \$303.6 million.

The Conference lowered the FY 2010 forecast to \$2,915.0 million based on its FY 2009 revisions, the new economic forecast, and legislative changes made in the revised FY 2009 budget as enacted in 2009-H 5019, Substitute A, as amended. The estimate is \$130.2 million less than the Governor's budget revised for his recommended changes that were enacted or

could be included in the estimate because they did not change current law. Tables showing the estimates and the changes are included at the end of this report.

Economic Forecast

On May 7, the Conferees heard forecasts for the national and Rhode Island economies from Andres Carbacho-Burgos of Moody's Economy.com and received testimony from Robert J. Langlais, Assistant Director, Labor Market Information, Department of Labor and Training. The Conferees adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown on the following table.

May 2009 Consensus Economic Forecast									
Annual Growth	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014
Nonfarm Employment (000's)	493.3	492.7	481.8	460.2	456.8	466.3	481.9	496.0	502.4
Nonfarm Employment Growth	0.5	-0.1	-2.2	-4.5	-0.7	2.1	3.4	2.9	1.3
Personal Income (Bil. \$\$\$)	39,897.0	41,947.5	43,091.0	43,050.2	44,075.7	45,461.4	47,305.9	49,663.4	51,818.8
Personal Income Growth	5.3	5.1	2.7	-0.1	2.4	3.1	4.1	5.0	4.3
Wage and Salaries Income	4.9	2.8	0.9	-2.6	-1.1	1.7	4.3	5.3	4.1
Dividends, Interest and Rent	12.2	8.3	2.0	-3.3	6.4	3.7	3.5	6.0	5.5
Rates									
Unemployment Rate	5.0	5.2	7.8	11.3	12.1	10.4	7.8	6.4	6.2
Consumer Price Index (US)	3.2	2.9	3.8	-1.1	1.7	2.0	2.0	2.0	2.1
Ten Year Treasuries	4.8	4.6	3.7	2.9	4.4	5.2	4.9	4.8	4.8
Three Month Treasuries	4.7	4.3	1.4	0.3	0.4	1.8	3.1	3.5	3.5
Annual Growth	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Nonfarm Employment	491.7	494.7	488.3	470.7	455.6	459.3	473.6	489.8	499.8
Nonfarm Employment Growth	0.3	0.6	-1.3	-3.6	-3.2	0.8	3.4	3.3	2.1
Personal Income (Bil. \$\$\$)	38,816.0	41,113.1	42,618.1	42,988.3	43,511.3	44,699.4	46,300.4	48,491.8	50,758.5
Personal Income Growth	3.8	5.9	3.7	0.9	1.2	2.7	3.6	4.7	4.7
Wage and Salaries Income	3.7	5.4	0.9	-0.9	-2.2	0.2	3.2	5.1	4.7
Dividends, Interest and Rent	4.1	10.5	6.0	-2.6	2.6	5.1	2.9	5.1	5.8
Rates									
Unemployment Rate	5.1	4.9	6.3	9.7	12.0	11.5	9.0	6.9	6.2
Consumer Price Index (US)	3.8	2.6	3.7	1.3	0.0	2.1	2.0	2.0	2.0
Ten Year Treasuries	4.6	4.8	4.1	3.2	3.5	4.9	5.1	4.8	4.8
Three Month Treasuries	4.1	4.9	2.8	0.6	0.2	1.0	2.5	3.4	3.5

Economy.com states that the national economic downturn is severe, the worst since the 1930's. It predicts that the downturn will end in the last quarter of 2009, following the stock market bottoming out by the second quarter and housing starts in the third quarter. Job losses will continue into 2010. Self sustaining economic expansion would begin in the last half of 2010.

Rhode Island is currently not as badly off as in 1992, but the situation continues to deteriorate. Unemployment rates are predicted to reach 12.3 percent in the first half of 2010. Job growth and personal income growth will lag the U.S.

Nonfarm employment will bottom out in 2010, with 36,100 peak to trough job losses. Those jobs will not be regained until 2013, a seven year peak to peak cycle. The Department of Labor and Training reported there were 10,600 fewer Rhode Island jobs this March than last March, and 25,400 fewer Rhode Island residents working this March than last March.

Fiscal year wage and salary income growth for FY 2009 and FY 2010 is negative, with -0.9 percent for FY 2009 and -2.2 percent for FY 2010. FY 2011 growth is only predicted to be 0.2 percent. By contrast, it was 5.4 percent in FY 2007.

The May forecast revisions to the November economic forecast are largely negative, reflecting a somewhat more pessimistic outlook in spite of a larger federal stimulus. This will negatively impact current revenue estimates through FY 2012. The table below shows the difference from the November forecast.

May 2009 Consensus Economic Forecast Compared to November 2008 Forecast									
Annual Growth	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014
Nonfarm Employment (000's)	0.0	-0.3	0.6	-10.4	-14.3	-9.5	-1.0	6.8	8.3
Nonfarm Employment Growth	0.0	0.0	0.2	-2.3	-0.8	1.1	1.9	1.6	0.3
Personal Income Growth	-0.1	-0.2	0.0	-1.2	-1.5	-1.6	-0.7	0.6	0.2
Wage and Salaries Income	0.0	-0.1	-0.7	-2.5	-3.0	-1.9	0.0	1.4	0.6
Dividends, Interest and Rent	0.0	0.0	0.0	-5.0	1.0	-1.8	-2.2	0.2	0.0
Rates									
Unemployment Rate	-0.1	0.2	0.3	2.1	3.1	2.5	0.8	-0.1	-0.1
Consumer Price Index (US)	0.0	0.0	-0.3	-1.6	-0.5	-0.4	-0.1	0.0	0.0
Ten Year Treasuries	0.0	0.0	-0.1	-1.1	-0.4	0.0	-0.3	-0.4	-0.3
Three Month Treasuries	0.0	-0.1	-0.2	-0.8	-2.0	-2.4	-1.4	-0.9	-0.9
Annual Growth	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Nonfarm Employment (000s)	-0.1	0.0	0.0	-4.1	-14.7	-14.2	-6.0	3.2	7.6
Nonfarm Employment Growth	-0.1	0.0	0.0	-0.8	-2.3	0.1	2.1	1.8	1.0
Personal Income Growth	-0.1	-0.1	0.0	-0.5	-1.4	-1.7	-1.2	0.1	1.5
Wage and Salaries Income	0.0	0.0	-0.1	-1.8	-2.9	-2.6	-1.0	1.0	1.9
Dividends, Interest and Rent	0.1	0.0	0.1	-2.9	-1.5	-0.6	-2.3	-0.9	1.6
Rates									
Unemployment Rate	0.0	-0.1	0.5	0.9	2.7	3.0	1.6	0.1	-0.2
Consumer Price Index (US)	0.0	0.0	0.0	-1.2	-1.0	-0.4	-0.2	0.0	0.2
Ten Year Treasuries	0.0	0.0	0.0	-0.7	-0.9	-0.1	-0.1	-0.4	-0.4
Three Month Treasuries	0.0	0.0	0.0	-0.4	-1.4	-2.3	-2.0	-1.1	-0.9

Revenues

Taxes. Revenues from taxes are estimated to decrease 5.1 percent over the prior year in FY 2009. Total estimated taxes for FY 2009 of \$2,389.2 million are \$38.6 million less than the estimates for the enacted supplemental budget contained in 2009-H 5019 Substitute A as amended. FY 2010 total estimated taxes are \$2,357.4 million, \$31.8 million or 1.3 percent less than the revised FY 2009 estimate. Both the FY 2009 and FY 2010 estimates include changes to tax laws adopted by the 2009 Assembly as part of the supplemental budget, including insurance and tobacco tax changes.

Personal Income Tax. The estimates of \$970.6 million for FY 2009 and \$939.6 million for FY 2010 represent negative growth rates of -9.6 percent and -3.2 percent respectively. The FY 2009 estimate is \$40.4 million below the previous estimate; the FY 2010 estimate is 78.2 million below the November estimate. It is \$31.0 million less than the revised FY 2009

estimate partially due to changes in the flat tax option rate. The FY 2010 estimate is less than FY 2005 income tax revenues.

The reductions are mainly due to lower estimated filings and withholding payments in both years. For FY 2009, estimated filings are \$20.1 million less and withholding payments are \$11.6 million less. For FY 2010, the reductions are \$34.5 million and \$36.7 million, respectively. Refunds and final payments are less than previously estimated. The net change is \$8.7 million and \$7.0 million less in FY 2009 and FY 2010, respectively.

May 2009 CRE	FY 2008	FY 2009 Estimate		FY 2010 Estimate	
Personal Income Tax	\$ 1,073,616,875	\$ 970,600,000	-9.6%	\$ 939,600,000	-3.2%
General Business Taxes					
Business Corporations	150,468,827	112,000,000	-25.6%	113,000,000	0.9%
Public Utilities Gross	99,436,915	115,000,000	15.7%	115,000,000	0.0%
Financial Institutions	1,830,270	4,130,000	125.6%	3,750,000	-9.2%
Insurance Companies	67,997,274	80,400,000	18.2%	81,900,000	1.9%
Bank Deposits	1,710,050	1,700,000	-0.6%	1,730,000	1.8%
Health Care Provider	53,356,431	48,400,000	-9.3%	37,700,000	-22.1%
Sales and Use Taxes					
Sales and Use	844,197,089	823,200,000	-2.5%	815,000,000	-1.0%
Motor Vehicle	48,610,020	50,800,000	4.5%	50,400,000	-0.8%
Motor Fuel	991,473	1,000,000	0.9%	920,000	-8.0%
Cigarettes	114,674,498	131,000,000	14.2%	148,000,000	13.0%
Alcohol	11,140,941	10,800,000	-3.1%	10,900,000	0.9%
Other Taxes					
Inheritance and Gift	35,333,925	30,200,000	-14.5%	30,200,000	0.0%
Racing and Athletics	2,812,860	2,500,000	-11.1%	2,100,000	-16.0%
Realty Transfer	10,223,094	7,500,000	-26.6%	7,200,000	-4.0%
Total Taxes	2,516,400,542	2,389,230,000	-5.1%	2,357,400,000	-1.3%
Departmental Receipts	356,546,075	314,000,000	-11.9%	203,700,000	-35.1%
Gas Tax Transfer	4,513,745	4,400,000	-2.5%	4,400,000	0.0%
Other Miscellaneous	181,810,134	18,400,000	-89.9%	6,500,000	-64.7%
Lottery	354,321,087	338,100,000	-4.6%	338,000,000	0.0%
Unclaimed Property	15,387,030	8,200,000	-46.7%	5,000,000	-39.0%
Total General Revenues	\$ 3,428,978,613	3,072,330,000	-10.4%	2,915,000,000	-5.1%

Sales taxes, the bulk of the consumption taxes, are estimated at \$823.2 million for FY 2009 and \$815.0 million for FY 2010. These are at FY 2004 levels and reflect three consecutive years of decline. The declines are 3.3 percent for FY 2008, 2.5 percent for FY 2009 and 1.0 percent for FY 2010. The FY 2009 estimate is a downward revision of \$8.9 million from the while the FY 2010 estimate is a \$21.0 million downward revision. The FY 2010 estimate is \$8.2 million less than the FY 2009 revised estimate.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$40.2 million in FY 2009 and \$39.5 million in FY 2010. These are declines of 16.9

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$40.2 million in FY 2009 and \$39.5 million in FY 2010. These are declines of 16.9 percent and 1.7 percent over prior years, largely due to the depressed value of real estate, fewer sales, and lower estate values.

Other Sources. Other source revenue consists of departmental revenues, transfers to the general revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources, including tobacco settlement funds. These are estimated to produce \$683.1 million in FY 2009 and \$557.6 million in FY 2010. The FY 2009 estimate is \$31.3 million less than previously estimated for 2009-H 5019 Substitute A as enacted. The FY 2010 estimate is \$34.2 million less than estimated in November. The FY 2010 estimate does not include the hospital license fee, which has been enacted on a year-to-year basis, and has been extended each year since its inception. The estimators must estimate within current law, under which there would not be a fee in FY 2010. The FY 2009 revised estimate includes \$111.4 million.

Departmental Receipts. The estimators adopted estimates of \$314.0 million in FY 2009 and \$203.7 million in FY 2010 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues. As noted above, FY 2010 drops off mainly due to the end of the hospital license fee in FY 2009, which produces \$111.4 million in FY 2009.

Gas Tax Transfer. The estimators lowered the yield per penny of gas tax from \$4.750 million to \$4.400 million.

Miscellaneous Other Revenues. The Conference adopted \$18.4 million in FY 2009, \$163.4 million less than the prior year and \$0.7 million below the level estimated in for FY 2009 in 2009-H 5019 as enacted. The largest item in the estimate is \$7.5 million transfer from the Rhode Island Resource Recovery. The FY 2010 estimate of \$6.5 million is \$11.9 million less than the revised FY 2009 estimate.

Lottery is estimated to transfer \$338.1 million in FY 2009 and \$338.0 million in FY 2010 to general revenues. The FY 2009 estimate is a downward revision of \$11.0 million to the November estimate while the FY 2010 estimate is a downward revision of \$11.4 million. FY 2008 revenues were \$354.3 million.

- **Games.** The Conference lowered the FY 2009 estimate by \$0.4 million to \$59.3 million and the FY 2010 estimate by \$0.1 million to \$58.9 million. FY 2008 was \$59.4 million.
- **Video Lottery Terminals.** The Conference adopted \$278.8 million for FY 2009, which is a downward revision of \$10.6 million from the November Conference. This includes \$237.5 million from Twin River net of \$7.2 million transferred to the Permanent School Fund from 24-3 operations, based upon \$398.1 million net terminal income including \$12.2 million from

24-3 operations, and \$41.3 million from Newport Grand based on \$64.6 million net terminal income.

The Conference adopted \$279.1 million for FY 2010, an \$11.3 million downward revision from the November estimate. It includes \$238.8 million from Twin River based upon \$387.3 million net terminal income and \$40.3 million from Newport Grand based on \$63.1 million. The Twin River estimate does not include 24-3 operations which were authorized by the 2008 Assembly through June 30, 2009. Adjusted net terminal income growth rates are -4.7 percent for Twin River for FY 2009 and 0.4 percent for FY 2010, and -9.2 percent and -2.3 percent for Newport Grand.

Unclaimed Property. The Conference adopted \$8.2 million for FY 2009 and \$5.0 million for FY 2010 based upon testimony from the General Treasurer's Office

May 2009 CRE	FY 2009 09-H 5019	FY 2009 May	Change	FY 2010 Nov	FY 2010 May	Change
Personal Income Tax	\$ 1,011,000,000	\$ 970,600,000	\$ (40,400,000)	\$ 1,017,800,000	\$ 939,600,000	\$ (78,200,000)
General Business Taxes						
Business Corporations	108,000,000	112,000,000	4,000,000	110,800,000	113,000,000	2,200,000
Public Utilities Gross	104,500,000	115,000,000	10,500,000	106,800,000	115,000,000	8,200,000
Financial Institutions	2,000,000	4,130,000	2,130,000	1,000,000	3,750,000	2,750,000
Insurance Companies	89,771,882	80,400,000	(9,371,882)	78,500,000	81,900,000	3,400,000
Bank Deposits	1,700,000	1,700,000	-	1,740,000	1,730,000	(10,000)
Health Care Provider	48,532,710	48,400,000	(132,710)	50,100,000	37,700,000	(12,400,000)
Sales and Use Taxes						
Sales and Use	832,100,000	823,200,000	(8,900,000)	836,000,000	815,000,000	(21,000,000)
Motor Vehicle	48,000,000	50,800,000	2,800,000	47,400,000	50,400,000	3,000,000
Motor Fuel	930,000	1,000,000	70,000	850,000	920,000	70,000
Cigarettes	131,933,333	131,000,000	(933,333)	116,700,000	148,000,000	31,300,000
Alcohol	11,100,000	10,800,000	(300,000)	11,300,000	10,900,000	(400,000)
Other Taxes						
Inheritance and Gift	28,000,000	30,200,000	2,200,000	28,000,000	30,200,000	2,200,000
Racing and Athletics	2,500,000	2,500,000	-	2,300,000	2,100,000	(200,000)
Realty Transfer	7,800,000	7,500,000	(300,000)	7,800,000	7,200,000	(600,000)
Total Taxes	2,427,867,925	2,389,230,000	(38,637,925)	2,417,090,000	2,357,400,000	(59,690,000)
Departmental Receipts	333,821,644	314,000,000	(19,821,644)	222,500,000	203,700,000	(18,800,000)
Gas Tax Transfer	4,475,000	4,400,000	(75,000)	4,475,000	4,400,000	(75,000)
Other Miscellaneous	17,730,286	18,400,000	669,714	9,819,836	6,500,000	(3,319,836)
Lottery	349,100,000	338,100,000	(11,000,000)	349,400,000	338,000,000	(11,400,000)
Unclaimed Property	9,300,000	8,200,000	(1,100,000)	5,600,000	5,000,000	(600,000)
Total General Revenues	\$ 3,142,294,855	\$ 3,072,330,000	\$ (69,964,855)	\$ 3,008,884,836	\$ 2,915,000,000	\$ (93,884,836)

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