



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

One Capitol Hill, 4th Floor, PROVIDENCE, RI 02903

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MEMORANDUM

To: The Honorable Lincoln D. Chafee, Governor
The Honorable M. Teresa Paiva Weed, President of the Senate
The Honorable Gordon D. Fox, Speaker of the House

From: Thomas A. Mullaney, State Budget Officer
Peter M. Marino, Senate Fiscal Advisor
Sharon Reynolds Ferland, House Fiscal Advisor

Date: May 19, 2011

Subject: **May 2011 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference (REC) met on May 5, 6, and 9, 2011, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2011 to 2016, and issued revised estimates for both FY 2011 and FY 2012 revenues. Based on collection trends, FY 2010 closing results, and the revised economic forecast, the Conference revised the FY 2011 estimates upward by \$53.8 million from the November 2010 REC estimate, to a total of \$3.091 billion.

The Conference estimated FY 2012 revenues at \$3.004 billion, which is \$87.2 million less than the May 2011 REC estimates for FY 2011. The FY 2012 estimate is based on current laws and excludes the hospital licensing fee. In FY 2011, the hospital licensing fee is estimated at \$141.8 million. Tables showing the estimates and the changes by revenue component are included at the end of this report.

ECONOMIC FORECAST

The Consensus Economic Forecast was adopted at the May 6 meeting. The principals heard testimony from their economic consultants, Andres Carbacho-Burgos and Zachary Sears of Moody's Economy.com. The consultants presented Conferees with updated economic forecasts for the United States and Rhode Island. Carbacho-Burgos and Sears' testimony covered current economic performance, the outlook over the next several years and the changed outlook since the November 2010 REC. 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, the Conferees adopted an updated consensus economic forecast for Rhode Island.

The U.S. Economy

Mr. Carbacho-Burgos and Mr. Sears testified that the improvement in the U.S. labor market has begun to accelerate. Job gains are averaging 200,000 per month across both industries and regions while state and local governments are cutting jobs. The only industry lagging in the recovery is the construction sector. Private sector job gains and public sector cuts suggest that the economy has moved away from an economy dependent upon the American Recovery and Reinvestment Act (ARRA) stimulus funds to a stronger private sector.

Additionally, household debt outstanding has declined by \$1.0 trillion since its peak two and half years ago and as a result household access to credit has begun to loosen. Banks will continue to provide access to credit as long as they see a continual decline in delinquency rates. Currently delinquency rates are rapidly decreasing for all types of household liabilities. Most notable is that the number of household loans 30 to 90 days delinquent have decreased by 7.5 million since the summer of 2008.

These improvements are offset by the uncertainty over commodity prices, more specifically the price of West Texas Intermediate crude oil. If oil prices exceed a \$100 a barrel, U.S. consumers will spend nearly \$100 billion more to fill their gas tanks, essentially removing this money from the economy.

The Rhode Island Economy

With respect to the Rhode Island economy, Mr. Carbacho-Burgos and Mr. Sears noted that the state's economic recovery will lag that of the United States. According to testimony, household-based employment has seen gains pushing the unemployment rate down from its peak in January, indicating that the Rhode Island labor market has pivoted from the cyclical bottom into recovery. Overall job losses ended in 2010 but there are yet to be any significant gains. Of note, the March 2010 flood cost the state slightly over 3,000 jobs within the retail and leisure/hospitality employment sector. By the end of CY 2011 retail employment is forecasted to grow by 3.8 percent while leisure/hospitality employment is expected to show net gains of more than 4,000 jobs through CY 2014. Overall, job growth in Rhode Island is expected to lag both that of the New England region, and the U.S. as a whole in CY 2011. It would then mirror the U.S as a whole and outpace the rest of the New England region from CY 2012 through CY 2016. The state is projected to return to peak employment levels in late 2014, more than one year after the nation and region.

There are signs of stabilization within the housing sector. Slow but steady increases in residential permits in the second half of 2010 coupled with decreases in foreclosure inventory foreshadows a housing price recovery. Additionally, commercial space vacancy rates appear to have peaked. Construction will regain momentum once the excess supply is removed from the residential and commercial sector. Total residential permits are expected to reach its pre-recession peak by CY 2013.

Mr. Carbacho-Burgos and Mr. Sears also testified that the biotechnology industry may come under competition from New Haven Connecticut as it tries to attract new biotech firms through Yale University. If businesses see Connecticut as a more attractive business climate Rhode Island could lose a prime industry ready for expansion. Finally, they addressed the issue of full scale casinos opening in Massachusetts or an expansion in Connecticut would have serious negative impact on the Rhode Island economy.

Department of Labor and Training

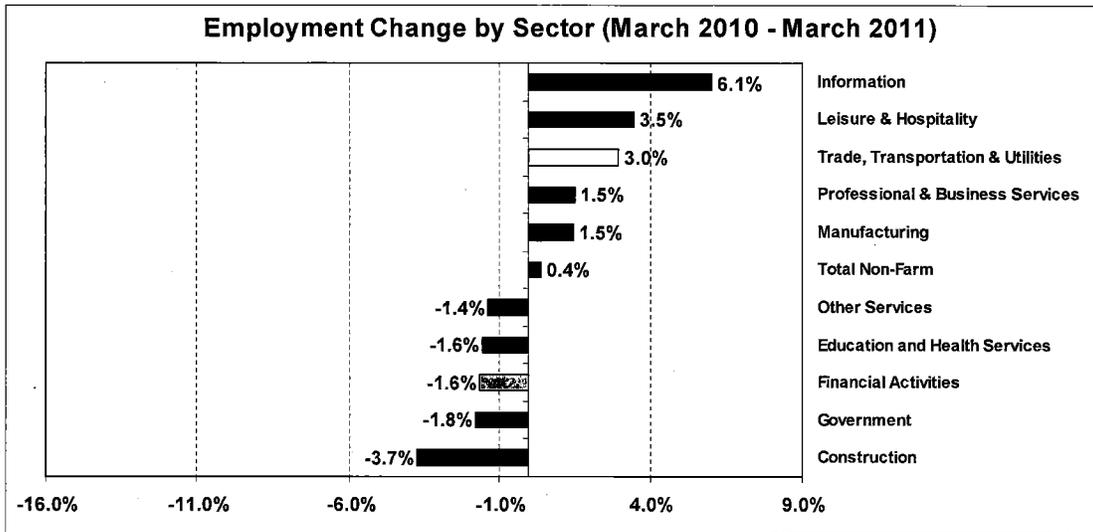
The Rhode Island Department of Labor and Training reported that the Rhode Island unemployment rate peaked at 11.8 percent in December 2009 and never broke 12.0 percent. The March 2011 unemployment rate of 11.0 percent was the fourth highest in the nation, behind Nevada, California and Florida, and is markedly higher than the U.S. rate of 8.8 percent. Massachusetts and Connecticut had unemployment rates of 8.0 percent and 9.1 percent, respectively.

Initial unemployment claims for the first 17 weeks of the year are 27.4 percent below 2009 levels. Continuing unemployment claims are in decline, mirroring the U.S., in large part due to benefits exhaustion.

Use of Rhode Island’s WorkShare program has fallen from the historically high levels reached in 2009. The WorkShare program allows employers to reduce the hours of a larger number of workers in lieu of a layoff of a smaller group of employees. The workers recapture a portion of lost earnings due to the reduction in hours through regular unemployment benefits. The Department reported initial claims of 1,447 for the first quarter of 2011, versus 4,075 for the same period in 2010, a 42.4 percent decline. While initial claims have subsided, the number of WorkShare payments has dropped by 39.6 percent. This compares to a modest decrease of 3.7 percent from the first quarter of 2010 to 2009.

Between March 2010 and March 2011, gains in Rhode Island establishment employment were realized overall. The changes break down as follows (all employment data is seasonally adjusted):

Sector	Jobs Change	Sector	Jobs Change
Trade, Transportation & Utilities	2,200	Other Services	(300)
Leisure & Hospitality	1,700	Financial Activities	(500)
Professional & Business Services	800	Construction	(600)
Manufacturing	600	Government	(1,100)
Information	600	Education and Health Services	(1,600)
Natural Resource & Mining	100	Total Non-Farm	1,900



Consensus Forecast

The Conferees adopted a consensus economic forecast based on the testimony of Mr. Carbacho-Burgos and Mr. Sears. The forecast projects an increase in employment of 1,800 jobs in FY 2011 and 5,800 jobs in FY 2012. Employment growth is expected to average 2.2 percent in the FY 2013 – FY 2016 forecast period. Personal income growth is forecasted to increase in FY 2011 and FY 2012, at 3.9 percent and 3.7 percent respectively, before rising again in FY 2013 to 5.8 percent. Personal income growth is forecasted to average 4.3 percent in the FY 2014 – FY 2016 period, an increase of 30 basis points from the November 2010 forecast. Wage and salary growth is expected to turn positive in FY 2011, and remain trending upward through FY 2013. Wage and salary growth is projected to average 5.2 percent annually from FY 2013 through FY 2016 an increase of 60 basis points from the November 2010 forecast. The state’s unemployment rate is projected to fall in FY 2011 and FY 2012 to 11.3 percent and 11.0 percent respectively. Rhode Island’s unemployment rate is not expected to fall below 7.0 percent until FY 2015.

The consensus economic forecast through 2016 on both a calendar and fiscal year basis is shown in the following tables.

Forecast Metric	May 2011 Consensus Economic Forecast						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Non-Farm Employment (Thousands)	458.8	461.4	469.7	480.5	494.0	504.3	509.7
Growth Rates							
Non-Farm Employment	-0.4	0.6	1.8	2.3	2.8	2.1	1.1
Personal Income	2.8	4.2	4.3	6.1	4.1	3.9	4.3
Wages and Salaries	2.6	3.2	5.5	6.3	5.2	4.4	4.0
Dividends, Interest, and Rent	-0.4	3.8	4.8	7.4	6.8	5.8	5.4
Percentage Rates							
Unemployment	11.6	11.2	10.5	9.0	7.2	6.2	5.8
Consumer Price Index (U.S.)	1.7	2.6	2.0	2.9	2.6	2.3	2.4
Ten Year U.S. Treasury Notes	3.2	3.8	5.3	5.8	5.1	4.9	5.0
Three Month U.S. Treasury Bills	0.1	0.3	1.2	2.9	3.7	3.6	3.5

Forecast Metric	May 2011 Consensus Economic Forecast						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Non-Farm Employment (Thousands)	457.7	459.5	465.3	474.7	486.9	500.0	507.5
Growth Rates							
Non-Farm Employment	-2.8	0.4	1.3	2.0	2.6	2.7	1.5
Personal Income	0.8	3.9	3.7	5.8	5.1	3.7	4.2
Wages and Salaries	-0.2	3.6	3.7	6.3	5.7	4.8	4.1
Dividends, Interest, and Rent	-4.9	1.8	4.3	6.5	7.2	6.3	5.7
Percentage Rates							
Unemployment	11.6	11.3	11.0	9.8	8.1	6.5	6.0
Consumer Price Index (U.S.)	1.0	1.9	2.3	2.5	2.9	2.4	2.3
Ten Year U.S. Treasury Notes	3.5	3.2	4.5	5.8	5.4	5.0	4.9
Three Month U.S. Treasury Bills	0.1	0.2	0.6	2.0	3.5	3.7	3.5

REVENUES

Taxes. Revenues from taxes are estimated to increase by 2.7 percent in FY 2011 from FY 2010 collections, and increase by 2.3 percent in FY 2012 over the revised FY 2011 estimate. Total estimated taxes for FY 2011 of \$2.384 billion are \$44.6 million, or 1.9 percent above the November 2010 REC estimates for total taxes. FY 2012 total estimated taxes are \$2.437 billion, \$53.7 million above the revised FY 2011 estimate.

Personal Income Tax. The estimates of \$1.004 billion for FY 2011 and \$1.007 billion for FY 2012 represent unadjusted year-over-year growth rates of 11.7 percent and 0.3 percent, respectively. The FY 2011 estimate is \$67.1 million, or 7.2 percent greater than the estimate adopted at the November 2010 REC, reflecting year-to-date collection trends. The FY 2012 estimate is \$3.5 million more than the FY 2011 revised estimate.

Business Taxes. The Conferees estimate total business taxes of \$310.8 million in FY 2011 and \$366.2 million in FY 2012 for all business taxes. Year over year growth rates are -18.8 percent and +17.8 percent respectively. The FY 2011 estimate is \$50.4 million, or a -13.9 percent decrease from the November 2010 REC estimate while the FY 2012 estimate is \$55.4 million more than the revised FY 2011 estimate. For both FY 2011 and FY 2012 the principals took into consideration the accrual change that is to be implemented by the Auditor General and State Controller for FY 2011 business corporation, insurance and public utilities taxes. The most significant impact of the accrual change is in FY 2011.

Sales and Use Taxes. The Conferees estimate Sales and Use Tax revenues of \$810.4 million in FY 2011 and \$828.7 million in FY 2012. The FY 2011 revenues are \$4.9 million, or 0.6 percent above the November 2010 REC estimate and represent a change of 0.9 percent from FY 2010 receipts. Year-to-date collections and increasing personal income contributed to the upward revision by the Conferees. The FY 2012 estimate is \$18.3 million more than the revised FY 2011 estimate, an increase of 2.3 percent. The FY 2012 estimate incorporates an increase in consumer prices reported by the economic consultants.

Excise Taxes Other Than Sales and Use Taxes. The Conferees estimated \$201.4 million for FY 2011 and \$198.3 million for FY 2012 from Excise Taxes Other Than Sales and Use Taxes. These taxes include Motor Vehicle License and Registration Fees, Cigarettes Taxes, Motor Fuel Taxes, and Alcohol Taxes. The FY 2011 estimate is \$1.5 million, or a 0.8 percent increase from the November 2010 REC estimate. Increases in cigarette taxes are partially offset by reductions to motor vehicle and alcohol tax estimates. The FY 2012 estimate is \$3.1 million less than the revised estimate for FY 2011, largely reflective of a \$3.4 million decline in the cigarette tax estimate.

Other Taxes. The Inheritance, Racing and Athletics, and Realty Transfer Tax are estimated to produce \$57.4 million in FY 2011 and \$37.0 million in FY 2012. The FY 2011 estimate is \$21.5 million or 59.7 percent more than the November 2010 REC estimate. The upward revision results from a \$21.4 million increase in the estimate for Inheritance Taxes due to accrual changes to be made by the Auditor General and State Controller in FY 2011. The FY 2012 estimate for total other taxes is \$20.4 million less than the revised FY 2011 estimate, due to a \$20.4 million decline in anticipated Inheritance Tax collections reflecting the one time change to the accrual methodology for FY 2011.

Departmental Receipts. The Conferees adopted estimates of \$334.1 million for FY 2011 and \$195.4 million for FY 2012 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 2011 estimate decreased by \$600,000, or -0.2 percent from the November 2010 REC estimate.

The FY 2012 estimate is \$138.7 million less than the revised FY 2011 estimate. FY 2012's decline is due to the end of the hospital license fee, which produced \$141.8 million in FY 2011. 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 enacted for FY 2012.

Lottery Transfer. The Lottery Transfer is estimated to produce \$353.2 million in FY 2011 with \$299.2 million from Video Lottery Terminals (VLTs) installed at Twin River and Newport Grand and \$54.0 million from Games, which includes PowerBall, Mega Millions, scratch tickets, and Keno. The estimated transfer is \$361.2 million in FY 2012, with \$307.2 million from VLTs and \$54.0 million from Games. The Games estimates for both FY 2011 and FY 2012 include the addition of the Mega Millions bi-weekly drawing to the slate of available games in Rhode Island. The Division of Lottery began selling Mega Millions tickets in February 2010. The FY 2011 lottery transfer estimate was revised upward by \$5.7 million, or 1.6 percent from the November 2010 REC estimate. The FY 2012 lottery transfer estimate grows by 2.3 percent resulting in an additional \$8.0 million to the State.

The estimators are required to determine the State share of video lottery net terminal income (NTI) at both Twin River and Newport Grand. For FY 2011, the Conferees project a State share of \$299.2 million based on total NTI of \$440.0 million at Twin River and \$50.4 million at Newport Grand. For FY 2012, that State share estimate of \$307.2 million is calculated from an estimated NTI of \$457.1 million at Twin River and \$47.0 million at Newport Grand. NTI is projected to grow by 3.9 percent at Twin River, and decline by 6.7 percent at Newport Grand in FY 2012.

Other Sources. Other source revenue consists of transfers to the general fund from unclaimed property, and other miscellaneous sources. These are estimated to produce \$20.2 million in FY 2011 and \$10.0 million in FY 2012. The FY 2012 declines are primarily attributable to the \$9.3 million decrease in other miscellaneous revenue sources. Major one-time items included in the FY 2011 estimate, but not in FY 2012 are: judicial Child Support Enforcement recoveries of \$5.5 million; Department of Human Service settlements of \$1.5 million; and a fund transfer from the Rhode Island Health and Educational Building Corporation of \$1.0 million. Additionally, there will be a decrease in general obligation bond closeouts and interest of \$2.2 million.

NEXT MEETING

The next required meeting of the conference is scheduled for November 2011.

Revenue Comparisons – FY 2011

FY 2010 Audited	FY 2011 November 2010 REC	Growth From FY 2010	FY 2011 May 2011 Consensus	Growth From FY 2010	FY 2011 Consensus vs. FY 2011 November REC	Growth From FY 2011 May REC vs. FY 2011 November REC
\$ 898,113,113	\$ 936,500,000	4.3%	\$ 1,003,600,000	11.7%	\$ 67,100,000	7.2%
146,834,598	123,300,000	-16.0%	95,100,000	-35.2%	(28,200,000)	-22.9%
95,792,717	97,000,000	1.3%	104,200,000	8.8%	7,200,000	7.4%
2,319,242	250,000	-89.2%	1,000,000	-56.9%	750,000	300.0%
95,921,454	98,200,000	2.4%	68,000,000	-29.1%	(30,200,000)	-30.8%
1,860,271	1,900,000	2.1%	2,000,000	7.5%	100,000	5.3%
40,254,281	40,500,000	0.6%	40,500,000	0.6%	-	0.0%
803,394,856	805,500,000	0.3%	810,400,000	0.9%	4,900,000	0.6%
48,285,182	51,800,000	7.3%	51,500,000	6.7%	(300,000)	-0.6%
968,870	1,100,000	13.5%	1,100,000	13.5%	-	0.0%
138,315,461	135,000,000	-2.4%	136,900,000	-1.0%	1,900,000	1.4%
11,269,477	12,000,000	6.5%	11,900,000	5.6%	(100,000)	-0.8%
29,056,952	28,300,000	-2.6%	49,700,000	71.0%	21,400,000	75.6%
1,492,221	1,250,000	-16.2%	1,300,000	-12.9%	50,000	4.0%
6,993,915	6,400,000	-8.5%	6,400,000	-8.5%	-	0.0%
2,320,872,610	2,339,000,000	0.8%	2,383,600,000	2.7%	44,600,000	1.9%
333,128,045	334,700,000	0.5%	334,100,000	0.3%	(600,000)	-0.2%
24,134	-	n/a	-	n/a	-	n/a
12,466,517	10,855,000	-12.9%	13,130,000	5.3%	2,275,000	21.0%
344,672,747	347,500,000	0.8%	353,200,000	2.5%	5,700,000	1.6%
5,867,150	5,300,000	-9.7%	7,100,000	21.0%	1,800,000	34.0%
3,017,031,203	3,037,355,001	0.7%	3,091,130,000	2.5%	53,775,000	1.8%
55,558,166	54,000,000	-2.8%	54,000,000	-2.8%	-	0.0%
289,114,581	293,500,000	1.5%	299,200,000	3.5%	5,700,000	1.9%
344,672,747	347,500,000	0.8%	353,200,000	2.5%	5,700,000	1.6%
410,465,420	429,800,000	4.7%	440,000,000.0	7.2%	10,200,000	2.4%
57,306,664	51,300,000	-10.5%	50,400,000.0	-12.1%	(900,000)	-1.8%
467,772,084	481,100,000	2.8%	490,400,000	4.8%	9,300,000	1.9%

Revenue Comparisons – FY2012

FY 2012	FY 2011 May 2011 Consensus	Growth From FY 2010	FY 2012 May 2011 Consensus	Growth From FY 2011	FY 2012 May Consensus vs. FY 2011 May Consensus
Personal Income Tax	\$ 1,003,600,000	11.7%	\$ 1,007,100,000	0.3%	\$ 3,500,000
General Business Taxes					
Business Corporations	95,100,000	-35.2%	120,300,000	26.5%	25,200,000
Public Utilities Gross	104,200,000	8.8%	99,400,000	-4.6%	(4,800,000)
Financial Institutions	1,000,000	-56.9%	500,000	-50.0%	(500,000)
Insurance Companies	68,000,000	-29.1%	102,600,000	50.9%	34,600,000
Bank Deposits	2,000,000	7.5%	2,000,000	0.0%	-
Health Care Provider	40,500,000	0.6%	41,400,000	2.2%	900,000
Sales and Use Taxes					
Sales and Use	810,400,000	0.9%	828,700,000	2.3%	18,300,000
Motor Vehicle	51,500,000	6.7%	51,600,000	0.2%	100,000
Motor Fuel	1,100,000	13.5%	1,100,000	0.0%	-
Cigarettes	136,900,000	-1.0%	133,500,000	-2.5%	(3,400,000)
Alcohol	11,900,000	5.6%	12,100,000	1.7%	200,000
Other Taxes					
Inheritance and Gift	49,700,000	71.0%	29,300,000	-41.0%	(20,400,000)
Racing and Athletics	1,300,000	-12.9%	1,200,000	-7.7%	(100,000)
Realty Transfer	6,400,000	-8.5%	6,500,000	1.6%	100,000
Total Taxes	2,383,600,000	2.7%	2,437,300,000	2.3%	53,700,000
Departmental Receipts	334,100,000	0.3%	195,400,000	-41.5%	(138,700,000)
Gas Tax Transfer	-	n/a	-	n/a	-
Other Miscellaneous	13,130,000	4.8%	3,825,000	-70.9%	(9,305,000)
Lottery	353,200,000	2.5%	361,200,000	2.3%	8,000,000
Unclaimed Property	7,100,000	21.0%	6,200,000	-12.7%	(900,000)
Total General Revenues	3,091,130,000	2.5%	3,003,925,000	-2.8%	(87,205,000)
Lottery					
All Games	54,000,000	-2.9%	54,000,000	0.0%	-
VLT	299,200,000	3.5%	307,200,000	2.7%	8,000,000
Total	353,200,000	2.5%	361,200,000	2.3%	8,000,000
Lincoln NTI	440,000,000	7.2%	457,100,000.0	3.9%	17,100,000
Newport NTI	50,400,000	-12.1%	47,000,000.0	-6.7%	(3,400,000)
Total NTI	490,400,000	4.8%	504,100,000	2.8%	13,700,000