



State of Rhode Island and Providence Plantations

*Revenue Estimating Conference*

ROOM 117, STATE HOUSE, PROVIDENCE, RI 02903

PETER M. MARINO  
*Senate Fiscal Advisor*  
*November 2011 Conference Chair*

SHARON REYNOLDS FERLAND  
*House Fiscal Advisor*

THOMAS A. MULLANEY  
*State Budget Officer*

**MEMORANDUM**

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

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

Date: November 21, 2011

Subject: **November 2011 Revenue Estimating Conference**

**SUMMARY**

The Revenue Estimating Conference (REC) met on November 3, 4, and 10, 2011, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2011 to 2017, and issued revised estimates for FY 2012 and initial estimates for FY 2013 revenues. Based on collection trends, FY 2011 preliminary closing results, and the revised economic forecast, the Conference revised the FY 2012 estimates upward by \$19.4 million from the FY2012 Budget as Enacted estimate, to a total of \$3.195 billion.

The Conference estimated FY 2013 revenues at \$3.129 billion, which is \$66.4 million less than the November 2011 REC estimates for FY 2012. The FY 2013 estimate is based on current laws and excludes the hospital licensing fee. In FY 2012, the hospital licensing fee is estimated at \$143.8 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 November 4 meeting. The principals heard testimony from their economic consultant, Mr. Zachary Sears of Moody's Economy.com. Mr. Sears presented Conferees with updated economic forecasts for the United States and Rhode Island. Mr. Sears' testimony covered current economic performance, the outlook over the next several years and the changed outlook since the May 2011 REC. Mr. Robert J. Langlais, Assistant Director of the Labor Market Information Unit at the 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 United States Economy***

Mr. Sears testified that the outlook for national economic recovery has dampened since the May 2011 REC. Elevated energy prices, impacts of the Japanese natural disasters, and worsening consumer confidence all point to a prolonged recovery period than was previously forecasted. Moody's places the risk of a double-dip recession within the next year at one-in-three; unchanged from the May outlook.

The baseline forecast assumes that the federal government will take steps to reduce the "fiscal drag" caused by the end of the American Recovery and Reinvestment Act funding, likely in some form of a "jobs bill" in the near term. Mr. Sears reported that the forecast assumes passage of a longer-term debt ceiling bill that would yield substantial savings: greater than \$400.0 billion over a ten-year period.

Forecasted improvement in the U.S. labor market has been pushed out by approximately two years. Businesses generally have significant reserves, but until consumer confidence strengthens and increases demand for goods, businesses remain cautious about hiring. Continued use of temporary workers in lieu of new hires is expected in the near-term.

### ***The Rhode Island Economy***

With respect to the Rhode Island economy, Mr. Sears noted that the state's economic recovery continues to lag that of the United States, though the gap has narrowed in CY 2011. According to testimony, public sector employment has been the primary drag in 2011, while retail, leisure and hospitality employment has been the largest source of job growth in the state. Manufacturing hourly earnings and weekly hours continue to trend upward, while Rhode Island's lack of exports will continue to limit growth. Job growth exceeding 2.0 percent is delayed in the forecast from 2013 to 2014, and hiring that does occur is expected to be largely limited to the service sectors. Construction and government employment are forecast to remain negative through 2013.

Housing prices are at approximately 75.0 percent of their 2006 peak and continue to decline. Single-family permits remain at roughly one-third of their peak levels. Mr. Sears cited estimates of between 4,000 and 6,000 "shadow units" of foreclosed property that banks are holding but not actively marketing. Until the glut of available housing is absorbed by the market, construction and associated job growth is anticipated to remain stagnant in Rhode Island.

### ***Department of Labor and Training***

The Rhode Island Department of Labor and Training reported that the state's unemployment rate has declined to 10.5 percent, after peaking at 11.8 percent in early 2010. The September 2011 unemployment rate ranks as seventh highest nationally, an improvement from fourth highest in March 2011, but still markedly higher than the national 9.1 percent rate. Massachusetts and Connecticut had unemployment rates of 7.3 percent and 8.9 percent, respectively. Improvement in the unemployment rate is largely

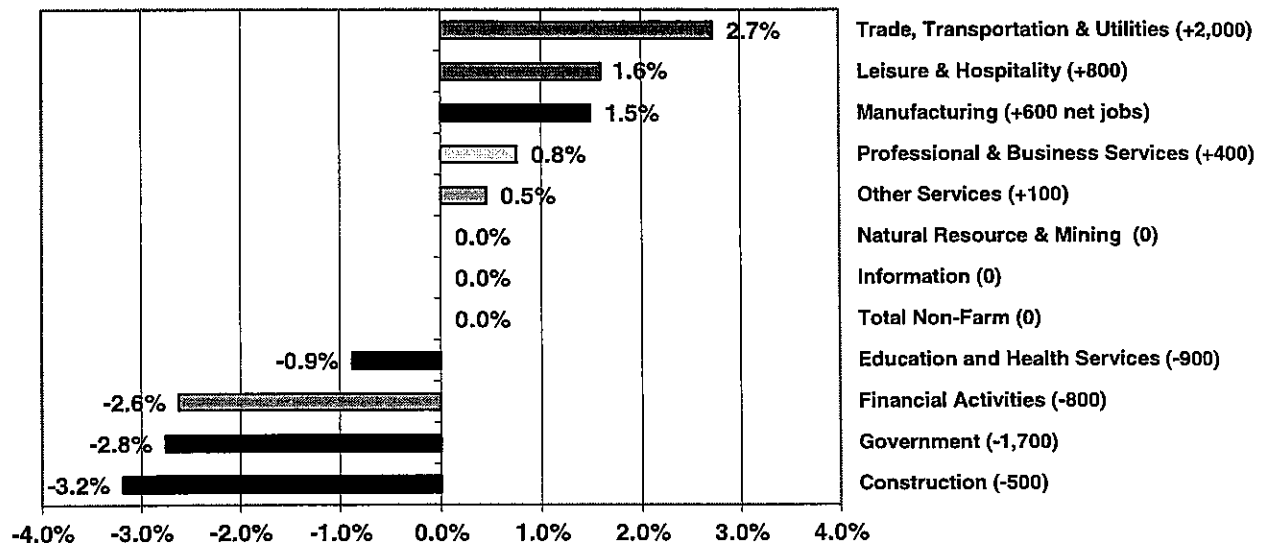
attributed to a shrinking labor force rather than an increase in the number of people working. Initial unemployment claims continue to decline and are approaching 2008 levels.

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 2,678 for the first three quarters of 2011, versus 9,905 for the same period in 2010, a 73.0 percent decline. Participation has declined by 87.7 percent from 2009 peak levels. The number of WorkShare payments has dropped by 43.4 percent from 2010, and by 66.3 percent from the 2009 peak.

The Department reported that more than 14,000 people continue to receive federal Extended Unemployment Compensation or state/federal Extended Benefits. Both programs are slated to phase-out or stop completely as of December 31, 2011. Legislation has been introduced in Congress to extend both programs, however passage is uncertain.

Between September 2010 and September 2011, no net gains in Rhode Island establishment employment were realized. Changes by employment sector break down as follows, with data seasonally adjusted:

**Employment Change by Sector (Sept. 2010 - Sept. 2011)**



***Consensus Economic Forecast***

The Conferees adopted a consensus economic forecast based on the testimony of Mr. Sears. The forecast projects an employment increase of 5,800 jobs from FY2011 to FY 2012, and an additional 9,400 jobs in FY 2013. Employment growth is expected to average 2.3 percent in the FY 2013 – FY 2017 forecast period. Personal income growth is projected to increase in FY 2012 and FY 2013 by 2.8 percent and 4.1 percent, respectively. Personal income growth averages 4.4 percent in the FY 2014 – FY 2017 forecast period. Wage and salary growth is expected to trend upward, peaking at 5.3 percent in FY 2016. The state's unemployment rate is projected to fall in FY 2012 and FY 2013 to 10.5 percent and 10.3 percent respectively. Rhode Island's unemployment rate is not expected to fall below 7.0 percent until FY 2016.

The consensus economic forecast through 2017 on both a calendar and fiscal year basis is shown in the following tables.

November 2011 Consensus Economic Forecast							
Forecast Metric	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017
Non-Farm Employment (Thousands)	462.4	465.7	472.1	487.5	504.3	516.0	520.9
<b>Growth Rates</b>							
Non-Farm Employment	0.8	0.7	1.4	3.3	3.4	2.3	0.9
Personal Income	3.6	3.6	3.8	4.8	4.7	4.5	3.7
Wages and Salaries	1.3	3.0	4.2	4.9	5.2	5.1	3.6
Dividends, Interest, and Rent	6.5	4.8	7.0	6.7	6.0	5.5	4.4
<b>Percentage Rates</b>							
Unemployment	10.8	10.4	9.9	8.2	6.6	5.5	5.0
Consumer Price Index (U.S.)	3.1	2.0	2.4	2.9	2.4	2.0	2.2
Ten Year U.S. Treasury Notes	3.0	4.0	5.0	4.6	4.7	5.0	5.0
Three Month U.S. Treasury Bills	0.1	0.0	0.4	1.5	2.9	3.4	3.4

November 2011 Consensus Economic Forecast							
Forecast Metric	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Non-Farm Employment (Thousands)	460.4	464.2	467.9	478.8	496.4	511.1	519.1
<b>Growth Rates</b>							
Non-Farm Employment	0.6	0.8	0.8	2.3	3.7	3.0	1.6
Personal Income	4.4	2.8	4.1	4.1	4.9	4.6	4.2
Wages and Salaries	2.8	1.5	3.7	4.5	5.1	5.3	4.4
Dividends, Interest, and Rent	6.9	5.0	6.4	7.0	6.3	5.8	4.9
<b>Percentage Rates</b>							
Unemployment	11.3	10.5	10.3	9.2	7.2	6.0	5.1
Consumer Price Index (U.S.)	2.0	2.8	2.0	2.7	2.8	2.1	2.1
Ten Year U.S. Treasury Notes	3.1	3.2	4.8	4.8	4.5	4.8	5.0
Three Month U.S. Treasury Bills	0.1	0.0	0.1	0.9	2.3	3.3	3.4

## REVENUES

### *Taxes*

Revenues from taxes are estimated to increase by 3.9 percent in FY 2012 from FY 2011 collections, and increase by 3.0 percent in FY 2013 over the revised FY 2012 estimate. Total estimated taxes for FY 2012 of \$2.469 billion are \$10.0 million, or 0.4 percent above the FY2012 Budget as Enacted estimates for total taxes. FY 2013 total estimated taxes are \$2.543 billion, \$73.7 million above the revised FY 2012 estimate.

### *Personal Income Tax*

The estimates of \$1.034 billion for FY 2012 and \$1.082 billion for FY 2013 represent year-over-year growth rates of 1.2 percent and 4.7 percent, respectively. The FY 2012 estimate is \$23.6 million, or 2.3 percent greater than the FY 2012 Budget as Enacted estimate, reflecting year-to-date collection trends. The FY 2013 estimate is \$48.1 million more than the FY 2012 revised estimate.

### *Business Taxes*

The Conferees estimate total business taxes of \$356.3 million in FY 2012 and \$364.8 million in FY 2013 for all business taxes. Year over year growth rates are 21.5 percent and 2.4 percent respectively. The FY 2012 estimate is \$10.8 million, or a 2.9 percent decrease from the FY 2012 Budget as Enacted estimate while the FY 2013 estimate is \$8.5 million more than the revised FY 2012 estimate. The FY 2012 growth over the previous year is largely attributable to one-time accrual adjustments recommended by the State Controller that occurred in FY 2011.

***Sales and Use Taxes***

The Conferees estimate Sales and Use Tax revenues of \$845.1 million in FY 2012 and \$868.0 million in FY 2013. The FY 2012 revenues are \$1.4 million, or 0.2 percent below the FY 2012 Budget as Enacted estimate, and represent a change of 3.9 percent from FY 2011 receipts. The FY 2013 estimate is \$22.9 million more than the revised FY 2012 estimate, an increase of 2.7 percent. The FY 2013 estimate incorporates changes to consumer prices reported by the economic consultants.

***Excise Taxes Other Than Sales and Use Taxes***

The Conferees estimated \$192.6 million for FY 2012 and \$190.0 million for FY 2013 from Excise Taxes Other Than Sales and Use Taxes. These taxes include Motor Vehicle License and Registration Fees, Rental Vehicle Surcharges, Cigarette and Other Tobacco Product Taxes, Motor Fuel Taxes, and Alcohol Taxes. The FY 2012 estimate is \$5.7 million, or a 2.9 percent decrease from the FY 2012 Budget as Enacted estimate. Motor Vehicle and Cigarette Tax estimates were revised downward for the current fiscal year. The FY 2013 estimate is \$2.6 million less than the revised estimate for FY 2012, reflecting a \$2.7 million decline in the Cigarette Tax estimate partially offset by a modest projected gain in Alcohol Tax collections.

***Other Taxes***

The Inheritance, Racing and Athletics, and Realty Transfer taxes are estimated to produce \$41.3 million in FY 2012 and \$38.1 million in FY 2013. The FY 2012 estimate is \$4.3 million or 11.6 percent more than the FY 2012 Budget as Enacted estimate. The FY 2013 estimate for total other taxes is \$3.2 million less than the revised FY 2012 estimate, due primarily to a \$3.0 million reduction in expected Inheritance Tax collections, as FY 2012 reflects a large estate settlement that is not expected to reoccur in FY 2013.

***Departmental Receipts***

The Conferees adopted estimates of \$340.5 million for FY 2012 and \$197.0 million for FY 2013 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 2012 estimate decreased by \$3.0 million, or 0.9 percent from the FY 2012 Budget as Enacted estimate.

The FY 2013 estimate is \$143.5 million less than the revised FY 2012 estimate. The FY 2013 decline is due to the end of the hospital license fee, which is estimated to produce \$143.8 million in FY 2012. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The Conferees, however, must estimate revenues consistent with current law, under which no fee is enacted for FY 2013.

***Lottery Transfer***

The Lottery Transfer is estimated to produce \$367.2 million in FY 2012 with \$314.7 million from Video Lottery Terminals (VLTs) installed at Twin River and Newport Grand and \$52.5 million from Games, including PowerBall, Mega Millions, scratch tickets, and Keno. The FY 2012 lottery transfer estimate was revised upward by \$6.2 million, or 1.7 percent from the FY 2012 Budget as Enacted estimate. The estimated transfer is \$376.8 million in FY 2013, with \$325.2 million from VLTs and \$51.6 million from Games. The FY 2013 lottery transfer estimate grows by 2.6 percent resulting in an additional \$9.6 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 2012, the Conferees project a State share of \$314.7 million based on total NTI of \$470.0 million at Twin River and \$47.5 million at Newport Grand. For FY 2013, that State share estimate of \$325.2 million is calculated from an estimated NTI of \$487.9 million at Twin River and \$44.9 million at Newport Grand. NTI is projected to grow by 3.8 percent at Twin River, and decline by 5.5 percent at Newport Grand in FY 2013.

**Other Sources**

Other source revenue consists of transfers to the general fund from unclaimed property, and other miscellaneous sources. These are estimated to produce \$18.8 million in FY 2012 and \$12.6 million in FY 2013. The FY 2013 declines are primarily attributable to the \$8.3 million decrease in other miscellaneous revenue sources, including a reduction of \$4.8 million for general obligation bond closeouts and interest, and a \$3.5 million reduction of Rhode Island Resource Recovery Corporation transfers.

**Revenue Comparisons – FY 2012**

FY2012	FY2011 Preliminary	FY2012 Enacted	Change from FY 2011	FY 2012 Consensus	Change from FY 2011	Change from Enacted	Change from Enacted
<b>Personal Income Tax</b>	\$1,021,338,868	\$1,010,021,422	-1.1%	\$1,033,600,000	1.2%	\$ 23,578,578	2.3%
<b>General Business Taxes</b>							
Business Corporations	84,510,308	121,224,665	43.4%	112,600,000	33.2%	(8,624,665)	-7.1%
Public Utilities Gross	103,743,912	99,400,000	-4.2%	99,400,000	-4.2%	-	0.0%
Financial Institutions	1,652,158	500,000	-69.7%	1,000,000	-39.5%	500,000	100.0%
Insurance Companies	60,590,000	102,600,000	69.3%	99,500,000	64.2%	(3,100,000)	-3.0%
Bank Deposits	1,967,288	2,000,000	1.7%	2,000,000	1.7%	-	0.0%
Health Care Provider	40,760,872	41,327,129	1.4%	41,800,000	2.5%	472,871	1.1%
<b>Sales and Use Taxes</b>							
Sales and Use	813,007,301	846,512,902	4.1%	845,100,000	3.9%	(1,412,902)	-0.2%
Motor Vehicle	47,654,534	51,600,000	8.3%	48,200,000	1.1%	(3,400,000)	-6.6%
Motor Fuel	1,054,939	1,100,000	4.3%	1,100,000	4.3%	-	0.0%
Cigarettes	134,060,439	133,500,000	-0.4%	131,500,000	-1.9%	(2,000,000)	-1.5%
Alcohol	11,683,059	12,100,000	3.6%	11,800,000	1.0%	(300,000)	-2.5%
<b>Other Taxes</b>							
Inheritance and Gift	46,855,153	29,300,000	-37.5%	34,000,000	-27.4%	4,700,000	16.0%
Racing and Athletics	1,325,193	1,200,000	-9.4%	1,200,000	-9.4%	-	0.0%
Realty Transfer	6,370,632	6,500,000	2.0%	6,100,000	-4.2%	(400,000)	-6.2%
<b>Total Taxes</b>	<b>2,376,574,656</b>	<b>2,458,886,118</b>	<b>3.5%</b>	<b>2,468,900,000</b>	<b>3.9%</b>	<b>10,013,882</b>	<b>0.4%</b>
<b>Departmental Receipts</b>							
Departmental Receipts	334,665,834	343,543,141	2.7%	340,500,000	1.7%	(3,043,141)	-0.9%
Gas Tax Transfer	(29,415)	-	-100.0%	-	-100.0%	-	-
Other Miscellaneous	9,194,296	6,325,000	-31.2%	11,015,000	19.8%	4,690,000	74.2%
Lottery	354,860,987	361,042,103	1.7%	367,200,000	3.5%	6,157,897	1.7%
Unclaimed Property	7,640,462	6,200,000	-18.9%	7,800,000	2.1%	1,600,000	25.8%
<b>Total General Revenues</b>	<b>3,082,906,820</b>	<b>3,175,996,362</b>	<b>3.0%</b>	<b>3,195,415,000</b>	<b>3.6%</b>	<b>19,418,638</b>	<b>0.6%</b>
<b>Lottery</b>							
All Games	53,821,560	54,982,593	2.2%	52,500,000	-2.5%	(2,482,593)	-4.5%
VLT	301,039,427	306,059,510	1.7%	314,700,000	4.5%	8,640,490	2.8%
<b>Total</b>	<b>354,860,987</b>	<b>361,042,103</b>	<b>1.7%</b>	<b>367,200,000</b>	<b>3.5%</b>	<b>6,157,897</b>	<b>1.7%</b>
<b>NTI</b>							
Lincoln NTI	442,373,975	457,100,000	3.3%	470,000,000	6.2%	12,900,000	2.8%
Newport NTI	50,220,215	47,000,000	-6.4%	47,500,000	-5.4%	500,000	1.1%
<b>Combined NTI</b>	<b>492,594,190</b>	<b>504,100,000</b>	<b>2.3%</b>	<b>517,500,000</b>	<b>5.1%</b>	<b>13,400,000</b>	<b>2.7%</b>
<i>* Totals may vary due to rounding</i>							

## Revenue Comparisons – FY 2013

FY2013	FY 2012 Consensus	FY 2013 Consensus	Change from FY 2012 Consensus	Change from FY 2012 Consensus
<b>Personal Income Tax</b>	\$ 1,033,600,000	\$ 1,081,700,000	\$ 48,100,000	4.7%
<b>General Business Taxes</b>				
Business Corporations	112,600,000	116,800,000	4,200,000	3.7%
Public Utilities Gross	99,400,000	101,000,000	1,600,000	1.6%
Financial Institutions	1,000,000	1,000,000	-	0.0%
Insurance Companies	99,500,000	101,400,000	1,900,000	1.9%
Bank Deposits	2,000,000	2,000,000	-	0.0%
Health Care Provider	41,800,000	42,600,000	800,000	1.9%
<b>Sales and Use Taxes</b>				
Sales and Use	845,100,000	868,000,000	22,900,000	2.7%
Motor Vehicle	48,200,000	48,200,000	-	0.0%
Motor Fuel	1,100,000	1,100,000	-	0.0%
Cigarettes	131,500,000	128,800,000	(2,700,000)	-2.1%
Alcohol	11,800,000	11,900,000	100,000	0.8%
<b>Other Taxes</b>				
Inheritance and Gift	34,000,000	31,000,000	(3,000,000)	-8.8%
Racing and Athletics	1,200,000	1,100,000	(100,000)	-8.3%
Realty Transfer	6,100,000	6,000,000	(100,000)	-1.6%
<b>Total Taxes</b>	<b>2,468,900,000</b>	<b>2,542,600,000</b>	<b>73,700,000</b>	<b>3.0%</b>
<b>Departmental Receipts</b>	<b>340,500,000</b>	<b>197,000,000</b>	<b>(143,500,000)</b>	<b>-42.1%</b>
Gas Tax Transfer	-	-	-	
Other Miscellaneous	11,015,000	2,725,000	(8,290,000)	-75.3%
Lottery	367,200,000	376,800,000	9,600,000	2.6%
Unclaimed Property	7,800,000	9,900,000	2,100,000	26.9%
<b>Total General Revenues</b>	<b>3,195,415,000</b>	<b>3,129,025,000</b>	<b>(66,390,000)</b>	<b>-2.1%</b>
<b>Lottery</b>				
All Games	52,500,000	51,600,000	(900,000)	-1.7%
VLT	314,700,000	325,200,000	10,500,000	3.3%
Total	367,200,000	376,800,000	9,600,000	2.6%
Lincoln NTI	470,000,000	487,900,000	17,900,000	3.8%
Newport NTI	47,500,000	44,900,000	(2,600,000)	-5.5%
Combined NTI	517,500,000	532,800,000	15,300,000	3.0%

### NEXT MEETING

The next required meeting of the conference is scheduled for May 2012.