



State of Rhode Island and Providence Plantations

Revenue & Caseload Estimating Conference

Room 305, STATE HOUSE, PROVIDENCE, RI 02903

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

From: Sharon Reynolds Ferland, House Fiscal Advisor
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Date: May 17, 2012

Subject: May 2012 Revenue Estimating Conference

Summary

The Revenue Estimating Conference concluded its deliberations May 10 in open public meetings to adopt the economic forecast and review and revise the estimated revenues for FY 2012 and FY 2013. The Conference revised the FY 2012 estimate to \$3,257.4 million based on collections trends through April, and the revised economic forecast. The estimate is \$62.0 million more than the revenues estimated in November.

The Conference increased the FY 2013 forecast to \$3,146.8 million based on its FY 2012 revisions and the new economic forecast. The estimate is \$17.8 million more than the November estimate and \$237.3 million less than the Governor's proposed budget which includes changes could not be included in the estimate because they changed current law, of which \$143.8 million is the hospital license fee which is renewed annually. Tables showing the estimates and the changes are included at the end of this report.

Economic Forecast

On May 4, the Conferees heard forecasts for the national and Rhode Island economies from Steven Cochrane of Moody's Economy.com and received testimony from Robert J. Langlais, Assistant Director, Labor Market Information, Department of Labor and Training on the overall picture of Rhode Island's current employment position. The Conferees adopted a

revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the following table.

May 2012 Consensus Economic Forecast									
Annual Growth	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017
Nonfarm Employment (000's)	460.4	459.1	460.2	460.8	467.0	478.4	493.3	504.7	508.5
Nonfarm Employment Growth	-4.5	-0.3	0.2	0.1	1.4	2.4	3.1	2.3	0.7
Personal Income (bil.)	\$42,773.0	\$44,200.5	\$46,248.5	\$48,013.1	\$49,948.2	\$52,857.3	\$55,942.2	\$58,855.8	\$61,187.8
Personal Income Growth	-3.1	3.3	4.6	3.8	4.0	5.8	5.8	5.2	4.0
Wage and Salaries Income	-3.4	2.7	3.4	4.9	5.2	5.8	5.9	5.8	4.0
Dividends, Interest and Rent	-15.2	3.8	6.3	2.6	6.2	8.9	9.3	6.5	4.3
Rates									
Unemployment Rate	10.9	11.7	11.3	10.7	9.9	8.4	6.8	5.7	5.4
Consumer Price Index (US)	-0.3	1.6	3.1	2.1	1.9	2.7	2.8	2.4	2.3
Ten Year Treasuries	3.3	3.2	2.8	2.4	3.7	4.6	4.6	4.9	4.9
Three Month Treasuries	0.2	0.1	0.1	0.1	0.2	1.1	2.5	3.4	3.4
Annual Growth	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Nonfarm Employment	470.7	457.8	460.1	459.5	463.7	471.9	485.7	500.0	507.4
Nonfarm Employment Growth	-3.6	-2.7	0.5	-0.1	0.9	1.8	2.9	2.9	1.5
Personal Income (bil.)	\$43,346.0	\$43,259.8	\$45,281.0	\$47,079.2	\$48,916.3	\$51,316.2	\$54,425.1	\$57,452.1	\$60,069.9
Personal Income Growth	-0.5	-0.2	4.7	4.0	3.9	4.9	6.1	5.6	4.6
Wage and Salaries Income	-1.9	-0.2	3.2	4.7	4.7	5.5	5.9	6.1	5.0
Dividends, Interest and Rent	-4.4	-9.0	7.3	3.8	4.2	7.5	9.9	7.9	5.1
Rates									
Unemployment Rate	9.5	11.6	11.4	11.1	10.3	9.4	7.5	6.2	5.4
Consumer Price Index (US)	1.4	1.0	2.0	3.0	1.8	2.3	2.9	2.6	2.3
Ten Year Treasuries	3.3	3.6	3.1	2.2	3.0	4.2	4.7	4.7	4.9
Three Month Treasuries	0.5	0.1	0.1	0.0	0.1	0.5	1.8	3.1	3.5

Economy.com states that the national economy is experiencing “sturdy growth” and the expansion is resulting in enough new jobs to offset losses and consequently a lower unemployment rate. The economic data will soften a bit with the effects of higher gasoline prices, but the fundamentals are becoming more stable.

The Rhode Island economy has bottomed, and the state remains in a restrained recovery. Employment recovery has been uneven with large gains and losses in multiple sectors, but jobs data are likely to be revised upward. The unemployment rate, nearly the highest in the nation, is decreasing, but will not drop back to prerecession levels until 2015.

Nonfarm employment reached its low point in 2010, with 34,100 job losses from peak to trough. The current forecast is that those jobs will not be regained until 2015, an eight year peak to peak cycle. The Department of Labor and Training reported there were 2,200 fewer Rhode Island jobs this March than last March, and 5,200 fewer Rhode Island residents working this March than last March.

Fiscal year wage and salary income growth for FY 2012 and FY 2013 is projected to be 4.7 percent in both years. This is 1.9 percent and 1.0 percent higher than the forecasts adopted in November. By contrast, wage and salary growth was negative in both FY 2009 and FY 2010. The May forecast revisions to the November economic forecast are mixed, reflecting a somewhat more optimistic outlook on income growth, but fewer jobs. Steven Cochrane’s

testimony suggested that Rhode Islanders were commuting to employment opportunities nearby, but outside the state, partially explaining why income would be growing while employment figures were decreasing. The table below shows the difference from the November forecast.

May 2012 Consensus Economic Forecast Compared to November 2011									
Annual Growth	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017
Nonfarm Employment (000's)	0.0	0.3	-2.2	-4.9	-5.1	-9.1	-11.0	-11.3	-12.4
Nonfarm Employment Growth	0.0	0.1	-0.6	-0.6	0.0	-0.9	-0.3	0.0	-0.2
Personal Income (bil.)	-116.5	-120.8	329.5	463.9	608.6	1157.0	1812.5	2263.6	2494.5
Personal Income Growth	-0.3	0.0	1.0	0.2	0.2	1.0	1.1	0.7	0.3
Wage and Salaries Income	-0.1	0.0	2.1	1.9	1.0	0.9	0.7	0.7	0.4
Dividends, Interest and Rent	-1.3	0.0	-0.2	-2.2	-0.8	2.2	3.3	1.0	-0.1
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.1	0.1	0.5	0.3	0.0	0.2	0.2	0.2	0.4
Consumer Price Index (US)	0.0	0.0	0.0	0.1	-0.5	-0.2	0.4	0.4	0.1
Ten Year Treasuries	0.0	0.0	-0.2	-1.6	-1.3	0.0	-0.1	-0.1	-0.1
Three Month Treasuries	0.1	0.0	0.0	0.1	-0.2	-0.4	-0.4	0.0	0.0
Annual Growth	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Nonfarm Employment	0.0	0.2	-0.3	-4.7	-4.2	-6.9	-10.6	-11.1	-11.7
Nonfarm Employment Growth	0.0	0.0	-0.1	-1.0	0.1	-0.6	-0.7	0.0	-0.1
Personal Income (bil.)	\$ (41.5)	\$(137.3)	\$ (10.8)	\$ 539.2	\$ 449.2	\$ 856.2	\$ 1,501.9	\$ 2,075.0	\$ 2,392.5
Personal Income Growth	-0.1	-0.2	0.3	1.2	-0.2	0.8	1.2	0.9	0.4
Wage and Salaries Income	0.0	0.0	0.4	3.2	1.0	1.0	0.7	0.8	0.5
Dividends, Interest and Rent	-0.5	-1.2	0.5	-1.2	-2.2	0.5	3.6	2.1	0.2
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.1	0.0	0.2	0.6	0.0	0.1	0.3	0.2	0.3
Consumer Price Index (US)	0.0	0.0	0.0	0.1	-0.1	-0.5	0.0	0.5	0.2
Ten Year Treasuries	0.0	0.0	0.0	-1.0	-1.7	-0.6	0.1	-0.1	0.0
Three Month Treasuries	0.0	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.2	0.1

Revenues

Taxes. Revenues from taxes in FY 2012 are estimated to increase 5.3 percent over the prior year. Total estimated taxes for FY 2012 of \$2,503.6 million are \$34.7 million more than the previous November estimate. FY 2013 total estimated taxes are \$2,552.8 million, \$49.2 million or 2.0 percent more than the revised FY 2012 estimate and are \$10.2 million more than the previous November estimate.

Personal Income Tax. The estimates of \$1,046.2 million for FY 2012 and \$1,076.5 million for FY 2013 represent growth rates of 2.4 percent and 2.9 percent, respectively. The FY 2012 estimate is \$12.6 million above the previous estimate; the FY 2013 estimate is \$5.2 million below the November estimate. It is \$30.3 million more than the revised FY 2012 estimate.

The increases are mainly due to higher withholding payments in both years. For FY 2012, estimated filings are \$5.0 million more and withholding payments are \$22.1 million more, which includes \$14.8 million in withholding on two major lottery winners. For FY 2013, the increases are \$1.5 million and \$15.4 million, respectively. Refunds and final payments are

less than previously estimated with the net change for those components \$12.8 million and \$18.1 million less in FY 2012 and FY 2013, respectively.

May 2012 CRE	FY 2011	FY 2012 Estimate		FY 2013 Estimate	
Personal Income Tax	\$ 1,021,338,869	\$ 1,046,200,000	2.4%	\$ 1,076,500,000	2.9%
General Business Taxes					
Business Corporations	84,510,308	131,600,000	55.7%	132,900,000	1.0%
Public Utilities Gross	103,743,912	98,300,000	-5.2%	100,100,000	1.8%
Financial Institutions	2,459,474	2,500,000	1.6%	1,700,000	-32.0%
Insurance Companies	60,590,000	89,000,000	46.9%	89,800,000	0.9%
Bank Deposits	1,967,288	2,100,000	6.7%	2,100,000	0.0%
Health Care Provider	40,760,872	41,600,000	2.1%	42,200,000	1.4%
Sales and Use Taxes					
Sales and Use	813,007,301	846,000,000	4.1%	873,400,000	3.2%
Motor Vehicle	47,654,534	47,700,000	0.1%	47,700,000	0.0%
Motor Fuel	1,054,939	1,000,000	-5.2%	1,100,000	10.0%
Cigarettes	134,060,439	133,600,000	-0.3%	131,100,000	-1.9%
Alcohol	11,683,059	12,000,000	2.7%	12,200,000	1.7%
Other Taxes					
Inheritance and Gift	46,855,153	44,800,000	-4.4%	34,900,000	-22.1%
Racing and Athletics	1,325,193	1,300,000	-1.9%	1,200,000	-7.7%
Realty Transfer	6,370,632	5,900,000	-7.4%	5,900,000	0.0%
<i>Total Taxes</i>	\$ 2,377,381,973	\$ 2,503,600,000	5.3%	\$ 2,552,800,000	2.0%
Departmental Receipts					
Departmental Receipts	332,714,668	344,500,000	3.5%	195,000,000	-43.4%
Other Miscellaneous	11,116,047	16,800,000	51.1%	2,640,000	-84.3%
Lottery	354,860,987	378,500,000	6.7%	388,500,000	2.6%
Unclaimed Property	7,640,462	14,000,000	83.2%	7,900,000	-43.6%
Total General Revenues	\$ 3,083,714,137	\$ 3,257,400,000	5.6%	\$ 3,146,840,000	-3.4%

Sales Taxes. Sales taxes, the bulk of the consumption taxes, are estimated at \$846.0 million for FY 2012 and \$873.4 million for FY 2013. The FY 2012 estimate is an upward revision of \$0.9 million from the previous November estimate, while the FY 2013 estimate is a \$5.4 million upward revision. The FY 2013 estimate is \$27.4 million more than the FY 2012 revised estimate. The FY 2013 sales tax revenue is estimated to return to the prior peak reached in FY 2007, after five years of collections below that level. Tobacco taxes, the second largest of the consumption taxes, are up \$2.1 million and \$2.3 million from previous estimates for FY 2012 and FY 2013 respectively.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$52.0 million in FY 2012 and \$42.0 million in FY 2013. These are declines of 4.7 percent and 19.2 percent from prior years, largely due to fluctuations in the estate tax from both a change in accounting and collections.

Other Sources. Other source revenue consists of departmental revenues, transfers to the general revenue fund, the lottery, unclaimed property, and other miscellaneous sources,

including tobacco settlement funds. These are estimated to produce \$753.8 million in FY 2012 and \$594.0 million in FY 2013. The FY 2012 estimate is \$27.3 million more than previously estimated in November. The FY 2013 estimate is \$7.6 million more than estimated in November. The FY 2013 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 2013. The FY 2012 revised estimate includes \$143.8 million.

Departmental Receipts. The Conference adopted estimates of \$344.5 million in FY 2012 and \$195.0 million in FY 2013 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 2013 drops off mainly due to the end of the hospital license fee in FY 2012, which produces \$143.8 million in FY 2012.

Miscellaneous Other Revenues. The Conference adopted estimates for other miscellaneous revenues totaling \$16.8 million in FY 2012. This is \$5.7 million more than the prior year and \$5.8 million more than previously estimated in November. The largest items in the FY 2012 estimate are a \$3.5 million transfer from the Rhode Island Resource Recovery Corporation and \$3.3 million in tobacco settlement funds. The FY 2013 estimate of \$2.6 million is \$14.2 million less than the revised FY 2012 estimate.

Lottery. The Lottery is estimated to transfer \$378.5 million in FY 2012 and \$388.5 million in FY 2013 to general revenues. The FY 2012 estimate is an upward revision of \$11.3 million to the November estimate while the FY 2013 estimate is an upward revision of \$11.7 million. FY 2011 revenues were \$354.9 million.

- Games. The Conference increased the FY 2012 estimate by \$4.1 million to \$56.6 million, with growth largely driven by extraordinary sales from the March Mega Millions record jackpot, and adjusted the FY 2013 estimate by \$1.4 million to \$53.0 million. FY 2011 revenues from this source were \$53.8 million.
- Video Lottery Terminals. The Conference adopted \$321.9 million from the state's share of video lottery terminals revenues for FY 2012, which is an upward revision of \$7.2 million from the November Conference. This includes \$290.2 million from Twin River based upon \$478.0 million net terminal income and \$31.7 million from Newport Grand based on \$51.0 million net terminal income.

The Conference adopted \$335.5 million for FY 2013, a \$10.3 million upward revision from the November estimate. It includes \$303.8 million from Twin River based upon \$498.2 million net terminal income and \$31.7 million from Newport Grand based on \$51.0 million.

Net terminal income growth rates are 8.1 percent for Twin River for FY 2012 and 4.2 percent for FY 2013; for Newport Grand FY 2012 grows 1.6 percent, but the estimate is for no growth in FY 2013.

Unclaimed Property. The Conference adopted \$14.0 million for FY 2012 and \$7.9 million for FY 2013 based upon testimony from the General Treasurer's Office. FY 2012 contains significant resources from activity that is not expected to recur in FY 2013.

May 2012 CRE	FY 2012 Nov	FY 2012 May	Change	FY 2013 Nov	FY 2013 May	Change
Personal Income Tax	\$ 1,033,600,000	\$ 1,046,200,000	\$ 12,600,000	\$ 1,081,700,000	\$ 1,076,500,000	\$ (5,200,000)
General Business Taxes						
Business Corporations	112,600,000	131,600,000	19,000,000	116,800,000	132,900,000	16,100,000
Public Utilities Gross	99,400,000	98,300,000	(1,100,000)	101,000,000	100,100,000	(900,000)
Financial Institutions	1,000,000	2,500,000	1,500,000	1,000,000	1,700,000	700,000
Insurance Companies	99,500,000	89,000,000	(10,500,000)	101,400,000	89,800,000	(11,600,000)
Bank Deposits	2,000,000	2,100,000	100,000	2,000,000	2,100,000	100,000
Health Care Provider	41,800,000	41,600,000	(200,000)	42,600,000	42,200,000	(400,000)
Sales and Use Taxes						
Sales and Use	845,100,000	846,000,000	900,000	868,000,000	873,400,000	5,400,000
Motor Vehicle	48,200,000	47,700,000	(500,000)	48,200,000	47,700,000	(500,000)
Motor Fuel	1,100,000	1,000,000	(100,000)	1,100,000	1,100,000	-
Cigarettes	131,500,000	133,600,000	2,100,000	128,800,000	131,100,000	2,300,000
Alcohol	11,800,000	12,000,000	200,000	11,900,000	12,200,000	300,000
Other Taxes						
Inheritance and Gift	34,000,000	44,800,000	10,800,000	31,000,000	34,900,000	3,900,000
Racing and Athletics	1,200,000	1,300,000	100,000	1,100,000	1,200,000	100,000
Realty Transfer	6,100,000	5,900,000	(200,000)	6,000,000	5,900,000	(100,000)
<i>Total Taxes</i>	<i>\$ 2,468,900,000</i>	<i>\$ 2,503,600,000</i>	<i>\$ 34,700,000</i>	<i>\$ 2,542,600,000</i>	<i>\$ 2,552,800,000</i>	<i>\$ 10,200,000</i>
Departmental Receipts	340,500,000	344,500,000	4,000,000	197,000,000	195,000,000	(2,000,000)
Other Miscellaneous	11,015,000	16,800,000	5,785,000	2,725,000	2,640,000	(85,000)
Lottery	367,200,000	378,500,000	11,300,000	376,800,000	388,500,000	11,700,000
Unclaimed Property	7,800,000	14,000,000	6,200,000	9,900,000	7,900,000	(2,000,000)
Total General Revenues	\$ 3,195,415,000	\$ 3,257,400,000	\$ 61,985,000	\$ 3,129,025,000	\$ 3,146,840,000	\$ 17,815,000

Next Meeting

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