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To: The Honorable Donald L. Carcieri, 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 *Sharon Reynolds Ferland*
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Date: November 19, 2010

Subject: **November 2010 Revenue Estimating Conference**

Summary

The Revenue Estimating Conference met on November 4th, 5th, and 10th, 2010, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2010 to 2016, and issued a revised estimate for FY 2011 and a first estimate of FY 2012 revenues. Based on collection trends, preliminary closing results, and the revised economic forecast, the Conference increased the FY 2011 estimates by $16.7 million from the FY 2011 Budget as Enacted amount, to a total of $3,037.4 million.

The Conference estimated FY 2012 revenues at $2,938.0 million. That is $99.3 million less than the revised Conference estimates for FY 2011 but does not include the hospital license fee. That is $141.8 million in FY 2011 that cannot be included in FY 2012 because it is enacted annually, and revenue estimates may only be based upon current law.

Tables showing the estimates and the changes by revenue component are included at the end of this report.

Economic Forecast

On November 5, 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.

November 2010 Consensus Economic Forecast

Annual Growth	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016
Nonfarm Employment (000's)	482.0	459.0	451.8	456.7	467.7	483.7	498.1	508.4	515.1
Nonfarm Employment Growth (%)	-2.2	-4.8	-1.6	1.1	2.4	3.4	3.0	2.1	1.3
Personal Income (bil.)	$43,971.3	$43,522.5	$44,246.8	$45,352.9	$47,260.3	$49,604.2	$51,655.0	$53,529.3	$55,624.9
Personal Income Growth (%)	3.0	-1.0	1.7	2.5	4.2	5.0	4.1	3.6	3.9
Wage and Salaries Income (%)	1.2	-3.4	0.5	2.2	3.9	5.8	4.8	3.6	3.6
Dividends, Interest and Rent	4.6	-6.4	-0.6	1.1	5.1	7.5	6.8	5.8	5.2
Rates									
Unemployment Rate (%)	7.7	11.2	12.1	11.8	10.2	8.2	6.8	6.1	5.6
Consumer Price Index (US)	3.8	-0.3	1.6	1.5	2.5	2.9	2.5	2.2	2.2
Ten Year Treasuries (%)	3.7	3.3	3.2	3.5	5.0	5.1	4.6	4.5	4.5
Three Month Treasuries (%)	1.4	0.2	0.2	0.4	1.5	3.2	3.9	3.7	3.7
Annual Growth	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Nonfarm Employment (000's)	488.3	470.6	453.2	453.6	461.0	475.7	491.3	503.8	512.2
Nonfarm Employment Growth (%)	-1.3	-3.6	-3.7	0.1	1.7	3.2	3.3	2.5	1.7
Personal Income (bil.)	$43,455.0	$43,635.3	$43,854.8	$44,735.5	$46,187.6	$48,488.4	$50,637.7	$52,597.4	$54,546.9
Personal Income Growth (%)	3.7	0.4	0.5	2.0	3.2	5.0	4.4	3.9	3.7
Wage and Salaries Income (%)	1.1	-1.9	-0.9	1.6	2.4	5.4	5.3	4.2	3.4
Dividends, Interest and Rent	8.3	-1.1	-4.9	0.1	3.2	6.8	7.2	6.3	5.5
Rates									
Unemployment Rate (%)	6.2	9.4	12.3	11.8	11.3	9.2	7.4	6.4	5.9
Consumer Price Index (US)	3.7	1.4	1.0	1.2	2.0	2.8	2.7	2.3	2.2
Ten Year Treasuries (%)	4.1	3.3	3.5	2.9	4.4	5.2	4.8	4.5	4.5
Three Month Treasuries (%)	2.8	0.5	0.1	0.3	0.7	2.4	3.8	3.9	3.7

Moody's Economy.com states that while the Great Recession has ended, the United States is in the midst of a fragile recovery such that there is a one in three chance for a double-dip recession. This is a more pessimistic forecast than provided in May of this year. Monthly job growth has been well below levels needed to stabilize the unemployment rate and full recovery of the labor market is not expected before the end of 2013.

Rhode Island began losing jobs in February 2007, predating national losses by 10 months, and is now just starting its recovery. Job growth and personal income growth continue to lag the U.S. Nonfarm employment bottomed out in 2010, with 47,900 peak to trough job losses. Those jobs will not be regained until 2014, an eight year peak to peak cycle and a year behind the nation. The Department of Labor and Training reported that after peaking at 12.7 percent in December 2009 through February 2010, the state's unemployment rate has declined to 11.5 percent in September.

The November revisions to the May consensus forecast are mixed. In the near term, income growth is higher, but employment is lower. Inflation is lower than expected and the testimony highlighted the growing risk of deflation. The table that follows shows the difference from the May forecast.

November 2010 Consensus Economic Forecast Compared to May 2010 Forecast								
Annual Growth	**CY 2008**	**CY 2009**	**CY 2010**	**CY 2011**	**CY 2012**	**CY 2013**	**CY 2014**	**CY 2015**
Nonfarm Employment (000's)	0.0	0.0	-0.5	-2.5	-5.5	-4.4	1.2	5.8
Nonfarm Employment Growth (%)	0.0	0.0	-0.1	-0.4	-0.6	0.2	1.2	0.9
Personal Income (bil.)	$ 502.6	$ 337.2	$ 560.5	$ 523.6	$ 513.0	$ 461.3	$ 396.5	$ 314.4
Personal Income Growth (%)	0.4	-0.3	0.5	-0.1	-0.1	-0.1	-0.2	-0.2
Wage and Salaries Income (%)	0.0	0.3	0.7	0.4	-0.3	0.8	0.6	0.0
Dividends, Interest and Rent	2.5	-3.8	-1.3	-0.5	-0.1	-1.3	-0.8	0.1
Rates								
Unemployment Rate (%)	0.0	0.0	-0.9	-0.2	0.8	0.3	-0.2	-0.2
Consumer Price Index (US)	0.0	0.0	-0.2	-0.5	-0.3	0.5	0.4	0.1
Ten Year Treasuries (%)	0.0	0.0	-0.7	-1.4	-0.6	0.2	0.0	-0.1
Three Month Treasuries (%)	0.0	0.0	0.0	-1.1	-2.0	-0.6	0.2	0.1
Annual Growth	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Nonfarm Employment (000's)	0.0	0.0	-0.2	-0.9	-4.7	-5.4	-1.8	3.7
Nonfarm Employment Growth (%)	0.0	0.0	0.0	-0.1	-0.8	-0.1	0.8	1.1
Personal Income (bil.)	$ 503.3	$ 328.8	$ 392.6	$ 641.0	$ 467.6	$ 530.6	$ 400.4	$ 370.2
Personal Income Growth (%)	0.0	-0.4	0.1	0.5	-0.5	0.1	-0.4	-0.1
Wage and Salaries Income (%)	0.3	-0.9	1.2	1.1	-0.7	0.5	0.6	0.4
Dividends, Interest and Rent	3.9	-0.4	-3.0	-1.2	0.5	0.5	-0.4	-0.1
Rates								
Unemployment Rate (%)	0.0	0.0	-0.3	-1.0	0.6	0.7	0.0	-0.3
Consumer Price Index (US)	0.0	0.0	-0.1	-0.3	-0.6	0.2	0.4	0.2
Ten Year Treasuries (%)	0.0	0.0	-0.1	-1.4	-1.1	0.0	0.1	-0.1
Three Month Treasuries (%)	0.0	0.0	0.0	-0.3	-1.9	-1.4	0.0	0.2

Revenues

Taxes. Revenues from taxes are estimated to increase 0.8 percent in FY 2011 from preliminary FY 2010 collections and increase by 1.8 percent in FY 2012 over the revised FY 2011 estimate. Total estimated taxes for FY 2011 of $2,339.0 million are $21.9 million above the enacted estimate for total taxes. FY 2012 total estimated taxes are $2,380.3 million, $41.3 million above the revised FY 2011 estimate.

Personal Income Tax. The estimates of $936.5 million for FY 2011 and $947.8 million for FY 2012 represent unadjusted year over year growth rates of 4.3 percent and 1.2 percent, respectively. The FY 2011 estimate is $1.4 million less than enacted, reflecting continued strengthening of withholding receipts offset by net downward revisions to other components. The FY 2012 estimate is $11.3 million more than the FY 2011 revised estimate.

Business Taxes. The Conference estimates total business taxes of $361.2 million in FY 2011 and $375.0 million in FY 2012. Year over year growth rates are -5.3 percent and 3.8 percent respectively. The FY 2011 estimate is $0.1 million less than enacted while the FY 2012 estimate is $13.8 million more than the revised estimate. The business corporations tax was the largest driver of negative growth in FY 2011, realizing a $20.3 million decrease, or -14.2 percent, from FY 2010 preliminary collections, mainly due to a large one-time payment reflected in those collections. The revised FY 2011 estimate for business corporations tax is

$4.3 million above the enacted estimate and is expected to grow by $7.7 million in FY 2012, reflecting a 6.2 percent growth rate.

Sales and Use Taxes. The Conferees estimate sales and use tax revenues of $805.5 million in FY 2011 and $824.0 million in FY 2012. The FY 2011 revenues are $18.5 million above the enacted estimate and represent growth of $2.1 million or 0.3 percent from preliminary actual FY 2010 receipts. After a period of steep decline, these receipts appear to have stabilized and show positive growth. The FY 2012 estimate is $18.5 million, or 2.3 percent, above the revised FY 2011 estimate.

Excise Taxes Other Than Sales and Use Taxes. The Conferees estimated $199.9 million for FY 2011 and $197.0 million for FY 2012 from excise taxes other than sales and use taxes. These taxes include motor vehicle license and registration fees, cigarettes taxes, and alcohol taxes. The FY 2011 estimate is $4.7 million more than enacted and $1.1 million more than FY 2010 preliminary receipts. The increase reflects the projection of $1.0 million more in cigarette tax receipts and another $3.3 million more in motor vehicle fees. The FY 2012 estimate is $2.9 million less than the revised estimate for FY 2011, largely reflecting annual declines in cigarettes tax receipts.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce $36.0 million in FY 2011 and $36.5 million in FY 2012. The FY 2011 estimate is $0.2 million less than enacted, resulting from and expected increase in inheritance tax collections offsetting declines for the other two tax categories. It should be noted the state's weakened housing market has also contributed to the downward revision in realty transfer taxes, which are expected to be $0.5 million less than enacted and $0.6 million or 8.5 percent lower than FY 2010 collections. The FY 2012 estimate for total other taxes is $0.6 million more than the revised FY 2011 estimate.

Departmental Receipts. The estimators adopted estimates of $334.7 million for FY 2011 and $197.3 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 is $1.6 million more than FY 2010 preliminary collections.

The FY 2012 estimate is $137.4 million less than the revised FY 2011 estimate. FY 2012 drops off mainly due to the end of the hospital license fee, which produces $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. Lottery revenues are estimated to produce $347.5 million in FY 2011 with $293.5 million from video lottery terminals installed at Twin River and Newport Grand and $54.0 million from games, which includes PowerBall, Mega Million, scratch tickets, and Keno. The estimated transfer is $351.5 million in FY 2012, with of $297.5 million from video lottery terminals and $54.0 million from games. Year over year growth is -2.8 percent for FY 2011 and no growth is expected for FY 2012.

The estimators are required to determine the state share of video lottery net terminal income at both Twin River and Newport Grand. For FY 2011, the conferees project a state share of $261.4 million based on total net terminal income of $429.8 million at Twin River. At Newport Grand, the state expects to receive $32.1 million from the generation of $51.3 million in net terminal income. For FY 2012, Twin River is projected to provide the state with $267.3 million from the $440.1 million of net terminal income generated while Newport Grand is expected to transfer $30.2 million from the $48.3 million of net terminal income it generates. Year over year transfers are projected to be $5.9 million higher at Twin River and $1.9 million lower at Newport Grand.

The estimates reflect legislation adopted by the 2010 Assembly and signed into law by the Governor and include adjusting Newport Grand's share of net terminal income from 26 percent to 27.8 percent to be consistent with Twin River. Another new provision, requiring the state to contribute to a limited share of marketing expenses at Twin River assuming revenues are maintained, is reflected as a reduction to the total state transfer consistent with the enacted budget. Those impacts are $2.5 million for eight months of FY 2011 and $3.7 million for FY 2012. The legislation includes is similar marketing expense sharing language for Newport Grand, however, the Division of Lottery testified that it does not expect cost sharing at Newport Grand to occur in the timeframe covered by the estimates. Thus, the estimator forecast no marketing cost share impact for Newport Grand.

Also, other legislation provided for a one-year extension of the increased share of Twin River's net terminal income for the Town of Lincoln, Twin River's host municipality. The legislation extended the additional 19 basis points (100 basis points equal 1.0 percentage point) of Twin River's total net terminal income, for a total of 1.45 percent, for FY 2011. The enacted revenue estimate did not reflect this adjustment. For FY 2012, Lincoln's share reverts to 1.26 percent and only a statutory change would maintain the FY 2011 level of 1.45 percent. Thus the FY 2012 estimate does not include this enhanced distribution for the Town of Lincoln thereby increasing the state's share of income generated at Twin River.

Other Sources. Other source revenue consists of transfers to the General Revenue fund from, unclaimed property, and other miscellaneous sources. These are estimated to produce $16.2 million in FY 2011 and $9.0 million in FY 2012. The FY 2012 decline is primarily due to a decrease in other miscellaneous revenue sources for which the FY 2011 estimate includes $5.5 million of non-recurring revenue delayed from FY 2010.

Next Meeting

The next required meeting of the conference is May 2011.

Revenue Comparisons - FY 2011

FY 2011	FY 2010	Enacted	Consensus	Difference from Enacted	
Personal Income Tax	$ 898,113,113	$ 937,900,000	$ 936,500,000	4.3%	$ (1,400,000)
General Business Taxes					
Business Corporations	143,646,515	119,000,000	123,300,000	-14.2%	4,300,000
Public Utilities Gross	95,792,717	98,000,000	97,000,000	1.3%	(1,000,000)
Financial Institutions	4,058,897	1,000,000	250,000	-93.8%	(750,000)
Insurance Companies	95,921,454	101,250,000	98,200,000	2.4%	(3,050,000)
Bank Deposits	1,860,271	2,200,000	1,900,000	2.1%	(300,000)
Health Care Provider	40,254,281	39,800,000	40,500,000	0.6%	700,000
Sales and Use Taxes					
Sales and Use	803,394,856	787,000,000	805,500,000	0.3%	18,500,000
Motor Vehicle	48,285,182	48,500,000	51,800,000	7.3%	3,300,000
Motor Fuel	968,870	1,000,000	1,100,000	13.5%	100,000
Cigarettes	138,315,461	134,000,000	135,000,000	-2.4%	1,000,000
Alcohol	11,269,477	11,700,000	12,000,000	6.5%	300,000
Other Taxes					
Inheritance and Gift	29,056,952	27,600,000	28,300,000	-2.6%	700,000
Racing and Athletics	1,492,221	1,300,000	1,250,000	-16.2%	(50,000)
Realty Transfer	6,993,915	6,900,000	6,400,000	-8.5%	(500,000)
Total Taxes	*$ 2,319,424,182*	*$ 2,317,150,000*	*$ 2,339,000,000*	*0.8%*	*$ 21,850,000*
Departmental Receipts	333,128,045	345,226,745	334,700,000	0.5%	(10,526,745)
Gas Tax Transfer	24,134	-	-	-100.0%	-
Other Miscellaneous	12,528,073	5,331,000	10,855,000	-13.4%	5,524,000
Lottery	344,672,747	346,938,800	347,500,000	0.8%	561,200
Unclaimed Property	5,867,150	6,000,000	5,300,000	-9.7%	(700,000)
Total General Revenues	**$ 3,015,644,331**	**$ 3,020,646,545**	**$ 3,037,355,000**	**0.7%**	**$ 16,708,455**

Revenue Comparisons - FY 2012

FY 2012	FY 2011 November	Difference from FY 2010 Preliminary		Consensus	Difference from FY 2011 Consensus	
Personal Income Tax	$ 936,500,000	4.3%	$ 38,386,887	$ 947,800,000	1.2%	$ 11,300,000
General Business Taxes						
Business Corporations	123,300,000	-14.2%	(20,346,515)	131,000,000	6.2%	7,700,000
Public Utilities Gross	97,000,000	1.3%	1,207,283	99,000,000	2.1%	2,000,000
Financial Institutions	250,000	-93.8%	(3,808,897)	500,000	100.0%	250,000
Insurance Companies	98,200,000	2.4%	2,278,546	100,700,000	2.5%	2,500,000
Bank Deposits	1,900,000	2.1%	39,729	1,950,000	2.6%	50,000
Health Care Provider	40,500,000	0.6%	245,719	41,800,000	3.2%	1,300,000
Sales and Use Taxes			-			
Sales and Use	805,500,000	0.3%	2,105,144	824,000,000	2.3%	18,500,000
Motor Vehicle	51,800,000	7.3%	3,514,818	51,900,000	0.2%	100,000
Motor Fuel	1,100,000	13.5%	131,130	1,100,000	0.0%	-
Cigarettes	135,000,000	-2.4%	(3,315,461)	131,800,000	-2.4%	(3,200,000)
Alcohol	12,000,000	6.5%	730,523	12,200,000	1.7%	200,000
Other Taxes			-			
Inheritance and Gift	28,300,000	-2.6%	(756,952)	28,900,000	2.1%	600,000
Racing and Athletics	1,250,000	-16.2%	(242,221)	1,100,000	-12.0%	(150,000)
Realty Transfer	6,400,000	-8.5%	(593,915)	6,500,000	1.6%	100,000
Total Taxes	*$ 2,339,000,000*	*0.8%*	*$ 19,575,818*	*$ 2,380,250,000*	*1.8%*	*$ 41,250,000*
Departmental Receipts	334,700,000	0.5%	1,571,955	197,300,000	-41.1%	(137,400,000)
Gas Tax Transfer	-	-100.0%	(24,134)			-
Other Miscellaneous	10,855,000	-13.4%	(1,673,073)	3,790,000	-65.1%	(7,065,000)
Lottery	347,500,000	0.8%	2,827,253	351,500,000	1.2%	4,000,000
Unclaimed Property	5,300,000	-9.7%	(567,150)	5,200,000	-1.9%	(100,000)
Total General Revenues	**$ 3,037,355,000**	**0.7%**	**$ 21,710,669**	**$ 2,938,040,000**	**-3.3%**	**$ (99,315,000)**