



State of Rhode Island and Providence Plantations

*Revenue Estimating Conference*

ROOM 117, STATE HOUSE, PROVIDENCE, RI 02903

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**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: Eugene Gessow, Senate Fiscal Advisor  
Sharon Reynolds Ferland, House Fiscal Advisor  
Thomas A. Mullaney, State Budget Officer

Date: May 21, 2013

Subject: **May 2013 Revenue Estimating Conference**

**SUMMARY**

The Revenue Estimating Conference (REC) met on May 2, 3, and 10, 2013, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2013 to 2018, and reviewed and revised estimates for FY 2013 and FY 2014 revenues. Based on collection trends through April and the revised economic forecast, the Conference revised the FY 2013 estimates to \$3,323.5 million. The estimate is \$4.9 million less than the revenues estimated in November.

The Conference estimated FY 2014 revenues at \$3,236.9 million, which is \$51.2 million less than estimated in November 2012. The FY 2014 estimate is based on current law and excludes the hospital licensing fee, which is renewed annually. The Governor's budget assumes imposing a fee for FY 2014 equal to the FY 2013 enacted level of \$141.3 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 3<sup>rd</sup> meeting. The principals heard testimony from their economic consultant from Moody's Economy.com. He presented Conferees with updated economic forecasts for the United States and Rhode Island. Testimony covered current economic performance, the outlook for the next several years, and how the outlook has changed since the November 2012 Revenue Estimating Conference. The Assistant Director of the Labor Market Information Unit, Rhode Island Department of Labor and Training, presented the latest labor market data for Rhode Island.

After questioning the presenters, the Conferees adopted an updated consensus economic forecast for Rhode Island.

### *Consensus Economic Forecast*

The Conferees adopted a consensus economic forecast based on the testimony of Moody's Economy.com. The forecast projects an employment increase of 2,690 jobs from FY 2012 to FY 2013, and an additional 4,610 jobs in FY 2014. Employment growth is expected to average 1.8 percent in the FY 2015 – FY 2018 forecast period. Personal income growth is projected to increase in FY 2013 and FY 2014 by 2.1 percent and 4.1 percent, respectively. Personal income growth averages 5.9 percent in the FY 2015 – FY 2018 forecast period. Wage and salary growth is expected to trend upward, peaking at 7.4 percent in FY 2016. The State's unemployment rate is projected to remain at 9.8 percent through FY 2013 and fall to 8.8 percent in FY 2014. Rhode Island's unemployment rate is not expected to fall below 7.0 percent until FY 2016.

The consensus economic forecast through 2018 on both a calendar and fiscal year basis is shown in the following tables.

| May 2013 Consensus Economic Forecast |         |         |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
| Forecast Metric                      | CY 2013 | CY 2014 | CY 2015 | CY 2016 | CY 2017 | CY 2018 |
| Non-Farm Employment (Thousands)      | 468.5   | 474.9   | 486.7   | 498.0   | 504.2   | 506.0   |
| <b>Growth Rates</b>                  |         |         |         |         |         |         |
| Non-Farm Employment                  | 0.7     | 1.4     | 2.5     | 2.3     | 1.3     | 0.4     |
| Personal Income                      | 2.2     | 5.7     | 6.9     | 6.5     | 5.1     | 4.0     |
| Wages and Salaries                   | 3.4     | 5.7     | 7.2     | 7.2     | 5.9     | 4.2     |
| Dividends, Interest, and Rent        | 1.3     | 7.4     | 11.6    | 9.8     | 5.4     | 3.5     |
| <b>Percentage Rates</b>              |         |         |         |         |         |         |
| Unemployment                         | 9.2     | 8.2     | 6.9     | 6.0     | 5.4     | 5.3     |
| Consumer Price Index (U.S.)          | 2.0     | 2.1     | 2.4     | 2.5     | 2.4     | 2.4     |
| Ten Year U.S. Treasury Notes         | 2.2     | 3.2     | 4.3     | 5.0     | 4.7     | 4.6     |
| Three Month U.S. Treasury Bills      | 0.2     | 0.3     | 1.4     | 3.3     | 3.8     | 3.6     |

| May 2013 Consensus Economic Forecast |         |         |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
| Forecast Metric                      | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
| Non-Farm Employment (Thousands)      | 466.4   | 471.0   | 480.4   | 492.8   | 501.8   | 505.3   |
| <b>Growth Rates</b>                  |         |         |         |         |         |         |
| Non-Farm Employment                  | 0.6     | 1.0     | 2.0     | 2.6     | 1.8     | 0.7     |
| Personal Income                      | 2.1     | 4.1     | 6.5     | 6.8     | 5.9     | 4.3     |
| Wages and Salaries                   | 1.8     | 4.9     | 6.5     | 7.4     | 6.7     | 4.8     |
| Dividends, Interest, and Rent        | 4.3     | 2.7     | 10.8    | 11.0    | 7.8     | 3.9     |
| <b>Percentage Rates</b>              |         |         |         |         |         |         |
| Unemployment                         | 9.8     | 8.8     | 7.5     | 6.4     | 5.5     | 5.3     |
| Consumer Price Index (U.S.)          | 1.8     | 1.9     | 2.3     | 2.4     | 2.5     | 2.4     |
| Ten Year U.S. Treasury Notes         | 1.8     | 2.6     | 3.6     | 4.7     | 4.8     | 4.6     |
| Three Month U.S. Treasury Bills      | 0.1     | 0.2     | 0.5     | 2.3     | 3.7     | 3.7     |

### ***The U.S. Economy***

Testimony from Economy.com indicated that the U.S. economy continues to recover, but at a slow pace. The U.S. job market has been extremely volatile, producing on average about 175,000 jobs a month. Economy.com also testified that businesses have never been as profitable as they are now, but are not likely to start spending until they are confident that growth can be sustained. The housing market is beginning to show signs of revival as housing is now fairly valued and demand is growing. Nationally, the auto industry is booming and has been a key player in economic growth. Economic growth continues to be slow as consumers are using disposable income to pay off debt as opposed to buying goods and services. Consumer confidence still remains relatively low.

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

With respect to the Rhode Island economy, Economy.com noted that the State's current economy, though growing, is recovering "unevenly" at a moderate pace and lagging behind other New England states and the nation. Rhode Island is the only State in the nation where population has consistently declined since 2010. Many college graduates leave the State as opposed to staying or returning back to Rhode Island when searching for employment. According to written testimony, the Philadelphia Federal Reserve Bank's coincident index, a measurement of economic activity, Rhode Island's economy bottomed out in 2009 at a level of 140.9. In April 2013, the index rose to 150.9, a gain of 7.0 percent, providing evidence that Rhode Island's economy is not shrinking, though still not at the levels of healthy growth.

Rhode Island's growth potential continues to be stunted by low payroll employment and high unemployment. Though the State's unemployment rate has fallen from 10.0 percent in November to 9.1 percent in March, Rhode Island still maintains one of the highest unemployment rates in the nation. Rhode Island's unemployment rate is expected to remain at 8.2 percent in CY 2014 and not fall below 6.0 percent until CY 2017. According to written testimony provided by Economy.com, service industries have accounted for all of the growth over the past year, but they have barely offset losses in construction, manufacturing and government.

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

The Rhode Island Department of Labor and Training reported that the State's unemployment rate has declined to 9.1 percent, after peaking at 11.9 percent in early 2010. The March 2013 unemployment rate ranks sixth highest nationally, and still higher than the national 7.6 percent rate. Massachusetts and Connecticut have unemployment rates of 6.4 percent and 8.0 percent, respectively. The March 2013 unemployment level of 51,100 is at the lowest level since October 2008.

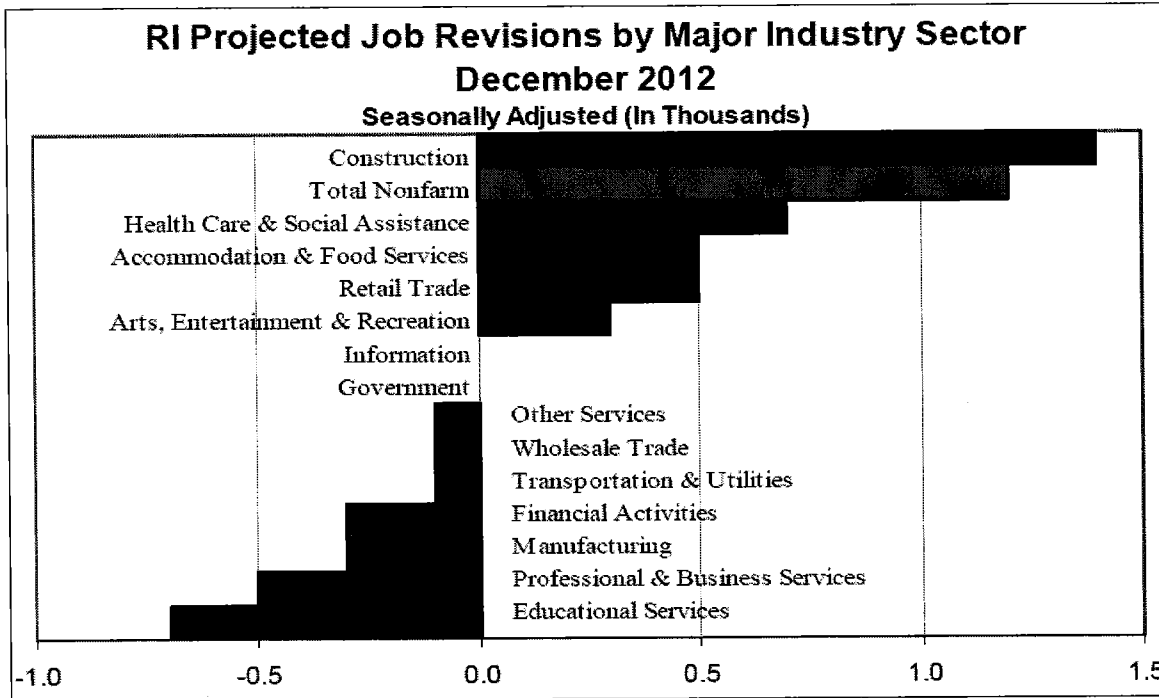
Use of Rhode Island's WorkShare program fell significantly in 2012 and 2013. The WorkShare program allows employers to reduce the hours of a large number of workers in lieu of a layoff of a smaller group of employees. The employees recapture a portion of the lost earnings through regular unemployment compensation. The Department reported the number of initial claims filed under the program fell by 33.0 percent over the same period last year. Initial claims activity in the WorkShare program registered the lowest during the first quarter of 2013 since the program began.

As a result of federal legislative changes, the Federal Extended Unemployment Compensation program (EUC) has been extended through the end of calendar year 2013. However, the Federal and State Extended Benefit (EB) program ended on July 7, 2012. Since the program's inception in 2008, a total of 166,121 EUC initial claims were filed with \$1,078.9 million paid in benefits. From July 2008 through July 2012, a total of 38,007 EB initial claims were filed with \$179.0 million in benefits paid.

The December 2012 Rhode Island projected job revisions by major industry sector reflect significant upward revisions in construction (+1,400), health care and social assistance (+700), retail trade (+500), and accommodation and food services (+500). The sectors with significant downward revisions include

administrative and waste services (-900) and educational services (-700). It was noted significant job growth is predominantly occurring in lower wage sectors.

Changes by employment sector break down as follows, with data seasonally adjusted:



*\*DLT projections based on UI Tax data through 12/12.*

## REVENUES

### *Taxes*

Revenues from taxes are estimated to increase by 2.0 percent in FY 2013 from FY 2012 collections, and increase by 2.2 percent in FY 2014 over the revised FY 2013 estimate. Total estimated taxes for FY 2013 of \$2,567.6 million decrease by \$15.7 million, or 0.6 percent below the November 2012 REC estimate of \$583.3 million in FY 2013 total taxes. FY 2014 total estimated taxes are \$2,623.0 million, \$41.2 million below the November 2012 REC estimate of \$2,664.2 million in FY 2014 total taxes.

### *Personal Income Tax*

The personal income tax estimates of \$1.075 billion for FY 2013 and \$1.108 billion for FY 2014 represent year-over-year growth rates of 1.4 percent and 3.0 percent, respectively. The FY 2013 estimate decreases by \$3.3 million, or 0.3 percent less than the November 2012 REC estimate, reflecting year-to-date collection trends. The FY 2014 estimate is \$21.2 million less than the November 2012 REC consensus estimate for FY 2014.

### *Business Taxes*

The Conferees estimate total business taxes of \$385.6 million in FY 2013 and \$384.0 million in FY 2014 for all business taxes. Year-over-year growth rates are 6.9 percent and -0.4 percent respectively. The FY 2013 estimate is \$1.2 million, a 0.3 percent decrease from the FY 2013 November REC estimate while the FY 2014 estimate is \$1.6 million less than the revised FY 2013 estimate. Part of the FY 2014

decrease in expected business tax revenue is attributable to significant one time collections in FY 2013 from the tax amnesty program.

***Sales and Use Taxes***

The Conferees estimate Sales and Use Tax revenues of \$872.5 million in FY 2013 and \$895.0 million in FY 2014. The FY 2013 revenues decrease by \$6.9 million, or 0.8 percent below the November 2012 REC estimate for FY 2013, and represent an increase of 2.5 percent from FY 2012 audited receipts. The FY 2014 estimate is \$9.1 million less than the November 2012 REC estimate for FY 2014, a decrease of 1.0 percent. The FY 2013 and FY 2014 estimates incorporate changes to consumer prices in the consensus economic forecast and the sales tax base expansion.

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

The Conferees estimated \$195.7 million in Excise Taxes Other Than Sales and Use Taxes for both FY 2013 and FY 2014. 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 2013 estimate is \$3.7 million less than the November REC estimate, a 1.9 percent decrease. Motor Fuel and Cigarette Tax estimates were revised downward for the current fiscal year. The total FY 2014 estimate does not change from the revised estimate for FY 2013; however, FY 2014 estimates reflect a \$1.1 million decline in the Cigarette Tax estimate partially offset by modest projected gains in all other excise tax collections.

***Other Taxes***

The Inheritance, Racing and Athletics, and Realty Transfer taxes are estimated to produce \$38.5 million in FY 2013 and \$40.5 million in FY 2014. The FY 2013 estimate is \$3.0 million or 7.2 percent less than the November 2012 REC estimate for FY 2013. The FY 2014 estimate for total other taxes is \$2.7 million less than the November 2012 REC estimate for FY 2014, due primarily to a \$3.0 million reduction in expected Inheritance Tax collections.

***Departmental Receipts***

The Conferees adopted estimates of \$363.1 million for FY 2013 and \$206.6 million for FY 2014 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 2013 estimate increased by \$15.6 million, or 4.5 percent from the November 2012 REC estimate.

The FY 2014 estimate is \$156.5 million less than the revised FY 2013 estimate. The FY 2014 decline is primarily due to the end of the hospital license fee, which is estimated to produce \$141.3 million in FY 2013. 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 yet enacted for FY 2014.

***Lottery Transfer***

The Lottery Transfer is estimated to produce \$380.2 million in FY 2013, with \$319.1 million from Video Lottery Terminals (VLTs) installed at Twin River and Newport Grand, \$62.0 million from Games, including PowerBall, Mega Millions, scratch tickets, and Keno and \$(940,000) from the operation of table games at Twin River. This negative value reflects the costs incurred by the Division of Lottery as it ramps up staffing prior to the opening of table game operations at Twin River. According to State law, the Lottery's expenses for operating table games are removed from gross table game revenues prior to the transfer of money to the State. The FY 2013 lottery transfer estimate was revised downward by \$6.5 million, or -1.7 percent from the November 2012 REC estimate for FY 2013. The estimated lottery transfer in FY 2014 is \$395.1 million, with \$325.6 million from VLTs, \$63.0 million from traditional games, and \$6.5 million in net revenues from the operation of table games at Twin River. The FY 2014 net revenues figure for table games includes an estimated \$4.3 million in expenses to be incurred by the

Division of Lottery for the operation of table games. The lottery transfer estimate grows by 3.9 percent from the May 2013 adopted FY 2013 estimate, resulting in an additional \$14.9 million to the State in FY 2014.

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 2013, the Conferees project a State share of \$319.1 million based on total NTI of \$477.0 million at Twin River and \$48.0 million at Newport Grand. For FY 2014, that State share estimate of \$325.6 million is calculated from an estimated NTI of \$491.0 million at Twin River and \$44.4 million at Newport Grand. NTI is projected to grow by 2.9 percent at Twin River, and decline by 7.5 percent at Newport Grand in FY 2014. Impacts from proposed Massachusetts gaming facilities are not incorporated into the estimates as the facilities are projected to begin operations in FY 2015.

***Other Sources***

Other sources of revenue consist of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$12.7 million in FY 2013 and \$12.2 million in FY 2014. The \$1.75 million increase in the FY 2013 amount is due to a \$415,000 increase in settlements to the Department of Human Services, and \$700,000 of International Registration Program (IRP) receipts that were not claimed last year by the Division of Motor Vehicles (DMV). The FY 2014 declines are primarily attributable to the exclusion of a one-time, \$1.8 million Neighborhood Health Plan Adult Dental Care Grant.

## Revenue Comparisons – FY 2013

| FY2013                        | November 2012          |                        | Change from<br>FY12 Aud. | FY 2013 May            |                            |
|-------------------------------|------------------------|------------------------|--------------------------|------------------------|----------------------------|
|                               | FY2012 Audited         | REC                    |                          | REC                    | Change from Nov. REC       |
| <b>Personal Income Tax</b>    | \$1,060,481,684        | \$1,078,600,000        | 1.7%                     | \$1,075,300,000        | (\$3,300,000) -0.3%        |
| <b>General Business Taxes</b> |                        |                        |                          |                        |                            |
| Business Corporations         | 123,054,377            | 135,900,000            | 10.4%                    | 137,000,000            | 1,100,000 0.8%             |
| Public Utilities Gross        | 100,631,477            | 104,000,000            | 3.3%                     | 98,300,000             | (5,700,000) -5.5%          |
| Financial Institutions        | 3,557,938              | 8,200,000              | 130.5%                   | 12,800,000             | 4,600,000 56.1%            |
| Insurance Companies           | 89,487,511             | 91,900,000             | 2.7%                     | 93,600,000             | 1,700,000 1.8%             |
| Bank Deposits                 | 2,000,645              | 2,100,000              | 5.0%                     | 2,500,000              | 400,000 19.0%              |
| Health Care Provider          | 41,922,464             | 42,300,000             | 0.9%                     | 41,400,000             | (900,000) -2.1%            |
| <b>Sales and Use Taxes</b>    |                        |                        |                          |                        |                            |
| Sales and Use                 | 851,055,730            | 879,400,000            | 3.3%                     | 872,500,000            | (6,900,000) -0.8%          |
| Motor Vehicle                 | 48,391,564             | 48,700,000             | 0.6%                     | 51,100,000             | 2,400,000 4.9%             |
| Motor Fuel                    | 732,672                | 1,000,000              | 36.5%                    | 800,000                | (200,000) -20.0%           |
| Cigarettes                    | 131,085,912            | 137,700,000            | 5.0%                     | 131,800,000            | (5,900,000) -4.3%          |
| Alcohol                       | 11,873,646             | 12,000,000             | 1.1%                     | 12,000,000             | - 0.0%                     |
| <b>Other Taxes</b>            |                        |                        |                          |                        |                            |
| Inheritance and Gift          | 46,411,738             | 33,800,000             | -27.2%                   | 30,200,000             | (3,600,000) -10.7%         |
| Racing and Athletics          | 1,327,003              | 1,200,000              | -9.6%                    | 1,200,000              | - 0.0%                     |
| Realty Transfer               | 6,434,665              | 6,500,000              | 1.0%                     | 7,100,000              | 600,000 9.2%               |
| <b>Total Taxes</b>            | <b>2,518,449,027</b>   | <b>2,583,300,000</b>   | <b>2.6%</b>              | <b>2,567,600,000</b>   | <b>(15,700,000) -0.6%</b>  |
| Departmental Receipts         | 339,895,284            | 347,500,000            | 2.2%                     | 363,100,000            | 15,600,000 4.5%            |
| Other Miscellaneous           | 20,110,213             | 4,615,000              | -77.1%                   | 5,665,000              | 1,050,000 22.8%            |
| Lottery                       | 377,706,394            | 386,700,000            | 2.4%                     | 380,160,000            | (6,540,000) -1.7%          |
| Unclaimed Property            | 14,555,573             | 6,300,000              | -56.7%                   | 7,000,000              | 700,000 11.1%              |
| <b>Total General Revenues</b> | <b>\$3,270,716,491</b> | <b>\$3,328,415,000</b> | <b>1.8%</b>              | <b>\$3,323,525,000</b> | <b>(\$4,890,000) -0.1%</b> |
| <b>Lottery</b>                |                        |                        |                          |                        |                            |
| All Games                     | 57,018,159             | 58,400,000             | 2.4%                     | 62,000,000             | 3,600,000 6.2%             |
| VLT                           | 320,688,235            | 328,300,000            | 2.4%                     | 319,100,000            | (9,200,000) -2.8%          |
| Table Games                   | -                      | -                      |                          | (940,000)              |                            |
| Total                         | 377,706,394            | 386,700,000            | 2.4%                     | 380,160,000            | (6,540,000) -1.7%          |
| Lincoln NTI                   | 475,950,952            | 489,700,000            | 2.9%                     | 477,000,000            | (12,700,000.0) -2.6%       |
| Newport NTI                   | 51,372,171             | 50,000,000             | -2.7%                    | 48,000,000             | (2,000,000.0) -4.0%        |
| Combined NTI                  | 527,323,123            | 539,700,000            | 2.3%                     | 525,000,000            | (14,700,000) -2.7%         |

\*Totals may vary due to rounding.

### Revenue Comparisons – FY 2014

| FY2014                        | November 2012<br>REC   | May 2013<br>REC        | Change from<br>November 2012 REC |              |
|-------------------------------|------------------------|------------------------|----------------------------------|--------------|
| <b>Personal Income Tax</b>    | \$1,129,000,000        | \$1,107,800,000        | (\$21,200,000)                   | -1.9%        |
| <b>General Business Taxes</b> |                        |                        |                                  |              |
| Business Corporations         | 140,400,000            | 141,300,000            | 900,000                          | 0.6%         |
| Public Utilities Gross        | 102,400,000            | 94,900,000             | (7,500,000)                      | -7.3%        |
| Financial Institutions        | 3,100,000              | 4,300,000              | 1,200,000                        | 38.7%        |
| Insurance Companies           | 97,000,000             | 98,000,000             | 1,000,000                        | 1.0%         |
| Bank Deposits                 | 2,200,000              | 2,500,000              | 300,000                          | 13.6%        |
| Health Care Provider          | 43,500,000             | 43,000,000             | (500,000)                        | -1.1%        |
| <b>Sales and Use Taxes</b>    |                        |                        |                                  |              |
| Sales and Use                 | 904,100,000            | 895,000,000            | (9,100,000)                      | -1.0%        |
| Motor Vehicle                 | 48,700,000             | 51,800,000             | 3,100,000                        | 6.4%         |
| Motor Fuel                    | 1,000,000              | 1,000,000              | -                                | 0.0%         |
| Cigarettes                    | 137,400,000            | 130,700,000            | (6,700,000)                      | -4.9%        |
| Alcohol                       | 12,200,000             | 12,200,000             | -                                | 0.0%         |
| <b>Other Taxes</b>            |                        |                        |                                  |              |
| Inheritance and Gift          | 35,400,000             | 31,800,000             | (3,600,000)                      | -10.2%       |
| Racing and Athletics          | 1,100,000              | 1,200,000              | 100,000                          | 9.1%         |
| Realty Transfer               | 6,700,000              | 7,500,000              | 800,000                          | 11.9%        |
| <b>Total Taxes</b>            | <b>2,664,200,000</b>   | <b>2,623,000,000</b>   | <b>(41,200,000)</b>              | <b>-1.5%</b> |
| Departmental Receipts         | 206,800,000            | 206,600,000            | (200,000)                        | -0.1%        |
| Other Miscellaneous           | 2,430,000              | 2,545,000              | 115,000                          | 4.7%         |
| Lottery                       | 405,100,000            | 395,100,000            | (10,000,000)                     | -2.5%        |
| Unclaimed Property            | 9,600,000              | 9,700,000              | 100,000                          | 1.0%         |
| <b>Total General Revenues</b> | <b>\$3,288,130,000</b> | <b>\$3,236,945,000</b> | <b>(\$51,185,000)</b>            | <b>-1.6%</b> |

*\*FY2014 Other Revenues do not include the \$141.3 million Hospital License Fee, which is enacted annually.*

### NEXT MEETING

The next required meeting of the conference is scheduled for November 2013.