



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 305, STATE HOUSE, PROVIDENCE, RI 02903

SHARON REYNOLDS FERLAND

House Fiscal Advisor

May 2018 Conference Chair

THOMAS A. MULLANEY

State Budget Officer

STEPHEN H. WHITNEY

Senate Fiscal Advisor

MEMORANDUM

To: The Honorable Nicholas A. Mattiello, Speaker of the House
The Honorable Gina M. Raimondo, Governor
The Honorable Dominick J. Ruggerio, President of the Senate

From: Sharon Reynolds Ferland, House Fiscal Advisor
Thomas A. Mullaney, State Budget Officer
Stephen H. Whitney, Senate Fiscal Advisor

Date: May 18, 2018

Subject: **May 2018 Revenue Estimating Conference**

Summary

The Revenue Estimating Conference met on April 30 and May 4, 8 and 10, 2018, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2018 to 2026, and issued revised revenue estimates for FY 2018 and FY 2019. Based on collection trends through April and the revised economic forecast, the Conference increased the FY 2018 estimates by \$75.5 million from the November estimate of \$3,824.4 million to \$3,899.9 million.

The Conference estimated FY 2019 revenues at \$3,741.0 million, which is \$59.4 million more than the November estimate and \$158.9 million less than the FY 2018 revised. However, the FY 2019 estimate excludes the \$182.0 million hospital licensing fee, which cannot be included because it is enacted annually, and revenue estimates may only be based upon current law. This fee is renewed on a year-to-year basis and has been extended each year since its inception.

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

May 2018 CRE	FY 2017	FY 2018 Estimate		FY 2019 Estimate	
Personal Income Tax	\$ 1,243,807,056	\$ 1,357,200,000	9.1%	\$ 1,381,200,000	1.8%
General Business Taxes					
Business Corporations	119,289,609	139,500,000	16.9%	176,000,000	26.2%
Public Utilities Gross	90,404,661	100,000,000	10.6%	101,800,000	1.8%
Financial Institutions	22,188,601	21,700,000	-2.2%	21,800,000	0.5%
Insurance Companies	121,094,221	132,000,000	9.0%	134,800,000	2.1%
Bank Deposits	2,971,562	2,700,000	-9.1%	2,700,000	0.0%
Health Care Provider	43,485,799	44,400,000	2.1%	45,200,000	1.8%
Sales and Use Taxes					
Sales and Use	998,196,567	1,051,500,000	5.3%	1,082,000,000	2.9%
Motor Vehicle	26,023,771	10,400,000	-60.0%	-	-100.0%
Motor Fuel	101,153	-	-100.0%	-	
Cigarettes	140,263,281	143,100,000	2.0%	139,500,000	-2.5%
Alcohol	19,740,536	20,300,000	2.8%	20,700,000	2.0%
Other Taxes					
Inheritance and Gift	85,428,550	52,200,000	-38.9%	32,100,000	-38.5%
Racing and Athletics	1,163,304	1,100,000	-5.4%	1,100,000	0.0%
Realty Transfer	12,589,268	13,500,000	7.2%	14,500,000	7.4%
Total Taxes	\$ 2,926,747,939	\$ 3,089,600,000	5.6%	\$ 3,153,400,000	2.1%
Departmental Receipts	370,065,817	396,500,000	7.1%	210,500,000	-46.9%
Other Miscellaneous	12,122,198	38,850,000	220.5%	3,250,000	-91.6%
Lottery	362,696,628	364,000,000	0.4%	364,100,000	0.0%
Unclaimed Property	12,725,037	10,900,000	-14.3%	9,700,000	-11.0%
Total General Revenues	\$ 3,684,357,619	\$ 3,899,850,000	5.8%	\$ 3,740,950,000	-4.1%

Economic Forecast

On April 30, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit which recently merged with Macroeconomic Advisers. They were represented by Michael Lynch, Principal Economist, and Chris Varvares, Vice President and co-head US Economies. The conferees also received testimony from Lisa Dutilly, Chief of Research and Analysis, of the Department of Labor and Training who provided current labor market data for Rhode Island. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the table on the following page.

Testimony from Mr. Varvares focused on the United States economy. He predicted gross domestic product growth of 2.8 percent for 2018 and 2.7 percent for 2019, supported by low real interest rates as well as a “fiscal boost” from the federal Tax Cuts and Jobs Act and the recent federal budget bill. He testified that U.S. equities have been boosted by higher nominal growth, regulatory reforms, tax cuts and declining risk premiums while being restrained by rising rates and uncertain policy, especially around tariffs. Additionally, Mr. Varvares spoke about additional boosts to the economy including higher consumer confidence and increases in personal consumption, household formations, and business fixed investments, specifically oil and mining related structures.

May 2018 Consensus Economic Forecast										
Annual Growth	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026
Nonfarm Employment (000's)	494.4	500.9	506.4	509.5	510.0	510.0	510.0	509.4	508.6	507.8
Nonfarm Employment Growth	1.0	1.3	1.1	0.6	0.1	0.0	0.0	-0.1	-0.2	-0.2
Personal Income (mil.)	\$ 54,574.6	\$ 56,956.5	\$ 59,615.6	\$ 62,296.7	\$ 64,953.7	\$ 67,591.1	\$ 70,305.7	\$ 72,997.8	\$ 75,705.8	\$ 78,535.1
Personal Income Growth	2.4	4.4	4.7	4.5	4.3	4.1	4.0	3.8	3.7	3.7
Wage and Salaries Income	2.8	4.8	4.5	4.6	4.4	4.3	4.4	4.2	4.0	3.9
Dividends, Interest and Rent	2.4	3.6	4.9	5.1	4.9	4.6	4.1	3.5	3.2	3.4
Rates										
Unemployment Rate	4.5	4.4	4.1	4.2	4.3	4.5	4.8	5.0	5.2	5.2
Consumer Price Index (US)	2.1	2.3	1.7	2.9	2.5	2.3	2.4	2.3	2.3	2.3
Personal Consumption Growth	4.3	4.2	4.2	4.5	4.1	3.9	3.8	3.8	3.8	3.8
Housing Starts	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Annual Growth	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment	491.4	497.7	504.1	508.3	509.7	510.0	510.1	509.7	509.0	508.1
Nonfarm Employment Growth	0.6	1.3	1.3	0.8	0.3	0.1	0.0	-0.1	-0.1	-0.2
Personal Income (mil.)	\$ 53,704.9	\$ 55,795.6	\$ 58,260.4	\$ 60,968.3	\$ 63,622.0	\$ 66,266.7	\$ 68,939.2	\$ 71,657.3	\$ 74,340.2	\$ 77,112.6
Personal Income Growth	1.3	3.9	4.4	4.6	4.4	4.2	4.0	3.9	3.7	3.7
Wage and Salaries Income	1.9	4.6	4.3	4.6	4.5	4.3	4.4	4.3	4.1	4.0
Dividends, Interest and Rent	1.6	2.6	4.5	5.1	5.0	4.8	4.4	3.8	3.3	3.3
Rates										
Unemployment Rate	4.7	4.5	4.2	4.2	4.2	4.4	4.6	4.9	5.1	5.2
Consumer Price Index (US)	1.9	2.2	1.8	2.3	2.8	2.3	2.4	2.3	2.3	2.3
Personal Consumption Growth	4.0	4.2	4.1	4.4	4.3	4.0	3.8	3.8	3.8	3.8
Housing Starts	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4

He predicted some tightening of labor markets with a “contained recession risk”, noting that a recession is likely within the next five years. Other risks to growth were identified such as rising real rates, an upturn in energy prices, a still tight mortgage lending environment, as well as global growth uncertainty. Brexit, Euro splintering and geopolitical issues with North Korea, Iran, Syria and Ukraine were specifically noted.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He noted that private sector employment growth has been modest for the first quarter of 2018 at 0.5 percent average monthly growth through March, or a gain of 500 net jobs. Gains in the wholesale trade and professional/business services were partially offset by losses in the healthcare and financial activities sectors. Mr. Lynch’s testimony indicated that the pace of employment growth will accelerate in the second quarter of 2018.

Mr. Lynch also spoke about the state’s housing market. Property values are on the rise partially explained by the limited inventory of homes for sale. However, the overall trend for home construction in Rhode Island is lackluster and housing starts in the first quarter of 2018 were down 12 percent from the previous year. Despite this, home construction activity is expected to increase through the end of 2021, although the trend is for higher-end housing because of high construction and materials costs.

IHS Markit’s forecasts predict private-sector payroll growth will reach 1.5 percent between the first quarter of 2018 and the first quarter of 2019, partially fueled by the boost to national economic growth resulting from passage of the federal Tax Cuts and Jobs Act and the recent federal budget bill. The forecasts also predict that the unemployment rate will continue to fall to 4.1 percent by the first quarter of 2019, while resident employment and the state labor force are projected to grow.

Over the next five years, Rhode Island payrolls are projected to grow 0.6 percent per year, with most of the growth being in professional and business services sectors. However, most of these positions will fall in the lower-skilled, lower-wage variety. Healthcare will be the second key source of new jobs. The retail trade sector is projected to decline 0.7 percent per year through

2022 and represents the weakest point of the labor market as consumer spending continues to shift from brick and mortar stores to online commerce.

Mr. Lynch noted that low birth rates and flows of out-migrations are a weakness for Rhode Island. In 2017, population growth was 0.2 percent or 2,100 individuals. There have been four consecutive years of positive net migration because international migration has been able to overcome domestic out-migration. The natural population has also increased slightly since 2015, though birth rates are still falling.

Rhode Island wage and salary growth has been increased from the November forecast of 3.0 percent to 4.6 percent for fiscal year 2018 and from 4.2 percent to 4.3 percent for fiscal year 2019. Employment growth has been increased from 1.2 percent to 1.3 percent for FY 2018 and from 0.5 percent to 1.3 percent for FY 2019. Personal income growth has been increased from 2.8 percent to 3.9 percent for FY 2018 and from 4.0 percent to 4.4 percent for FY 2019.

This year's estimates advanced much of the long-term growth into earlier forecast years. This is a departure from revisions presented in recent prior conferences when predicted growth rates were reduced and appeared instead in later forecast years. The following table shows the difference in the Consensus Economic Forecast from the forecast adopted in November.

May 2018 Consensus Economic Forecast Change to Nov 2017												
Annual Growth	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Nonfarm Employment (000's)	0.1	0.1	-0.4	-2.1	0.7	4.1	5.1	4.5	3.1	2.0	0.9	-0.2
Nonfarm Employment Growth	0.0	0.0	-0.1	-0.3	0.6	0.7	0.2	-0.1	-0.3	-0.2	-0.2	-0.2
Personal Income (mil.)	-208.9	0.0	0.0	216.3	675.7	967.2	1042.4	1134.7	1198.0	1433.3	1570.0	1677.9
Personal Income Growth	-0.4	0.0	0.0	0.4	0.8	0.5	0.1	0.1	0.0	0.3	0.1	0.1
Wage and Salaries Income	0.0	0.0	0.0	0.7	0.8	0.2	0.3	0.1	0.0	0.1	0.1	0.0
Dividends, Interest and Rent	-1.6	0.0	0.0	-0.2	0.5	-0.5	-0.8	0.4	1.2	1.5	0.8	0.5
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.0	0.0	-0.1	0.2	0.1	-0.4	-0.6	-0.6	-0.4	-0.1	0.1	0.1
Consumer Price Index (US)	0.0	0.0	0.0	0.0	0.6	-0.5	0.2	0.1	-0.1	-0.1	-0.3	-0.2
Personal Consumption Growth	-0.1	0.0	0.0	0.2	0.6	0.6	0.5	0.1	0.1	0.1	0.1	0.2
Housing Starts	0.0	0.0	0.0	-0.2	-0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Annual Growth	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Nonfarm Employment	0.1	0.1	0.1	-1.7	-1.1	2.7	4.9	4.8	3.8	2.5	1.5	0.3
Nonfarm Employment Growth	0.0	0.0	0.0	-0.4	0.1	0.8	0.4	0.0	-0.2	-0.3	-0.2	-0.2
Personal Income (mil.)	-95.1	0.0	0.0	-46.8	563.3	836.7	1,021.6	1,076.7	1,156.7	1,313.1	1,511.7	1,624.8
Personal Income Growth	-0.2	0.0	0.0	-0.1	1.1	0.4	0.3	0.0	0.1	0.2	0.2	0.1
Wage and Salaries Income	0.0	0.0	0.0	-0.1	1.7	0.1	0.3	0.2	0.1	0.1	0.1	0.1
Dividends, Interest and Rent	-0.8	0.0	0.0	0.0	-0.1	0.4	-1.0	-0.2	0.8	1.5	1.2	0.6
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.0	0.0	0.0	-0.1	0.2	-0.1	-0.3	-0.4	-0.4	-0.2	0.0	0.2
Consumer Price Index (US)	0.0	0.0	0.0	-0.2	0.1	-0.3	-0.4	0.0	-0.4	-0.4	-0.4	-0.4
Personal Consumption Growth	0.0	-2.6	-2.6	-0.8	0.0	-0.4	-0.3	-0.5	-0.9	-1.1	-1.1	-1.2
Housing Starts	0.0	0.1	0.4	-0.7	-0.6	-0.7	-1.2	-1.2	-1.0	-1.1	-1.1	-1.2

The Department of Labor and Training reported that as of March 2018, 4.5 percent of Rhode Island residents are unemployed, down 0.1 percent from the prior year. The unemployment rate for those ages 25 to 54 was 3.8 percent as of March 2018, a considerable decline from the 9.9 percent rate for 2009 and lower than the pre-recession low in 2006 of 4.3 percent. As of March 2018, there are 25,300 unemployed Rhode Islanders, up 800 from March 2017 but down 38,800 from the recession high of 64,100 in June and July of 2010.

Testimony also indicated that the March 2018 labor force of 558,000 is 16,700 less than the peak of 574,700 in December 2006. The Department reported that the employment level is at its highest

since March 2008. The Department gave several reasons why the labor force is well below pre-recession levels including that the working age population has grown very little since 2006; the overall population has gotten older, with those 55 and older representing 38.5 percent of the workforce; and that labor force participation among younger workers is declining.

The Department of Labor and Training reported that there have been 43,200 net new jobs created between July 2009 and March 2018. Of those, 12,700 or 27.7 percent were in positions paying less than \$35,000 a year, 20,400 or 44.6 percent were in jobs paying between \$35,000 and \$59,999 and 12,700 or 27.7 percent were in jobs paying \$60,000 or more.

Revenues

Taxes

Revenues from taxes in FY 2018 are estimated to increase 5.6 percent over the prior year. Total estimated tax revenues for FY 2018 of \$3,089.6 million are \$67.9 million, or 2.2 percent, above the November 2017 estimate of \$3,021.7 million. FY 2019 total estimated taxes are \$3,153.4 million, which is \$49.0 million, or 1.6 percent, above the adopted November 2017 estimate.

Personal Income Tax

The personal income tax estimates of \$1,357.2 million for FY 2018 and \$1,381.2 million for FY 2019 represent annual growth rates of 9.1 percent and 1.8 percent, respectively. The FY 2018 revised estimate is \$57.9 million more than previously estimated. The FY 2019 estimate is \$20.6 million above the November estimate and \$24.0 million above the revised FY 2018 estimate. The FY 2019 estimate includes \$3.3 million from the expected impact of the federal Tax Cut and Jobs Act, of which \$2.9 million is from one-time repatriation of foreign profits.

Business Taxes

The conferees estimated total business taxes of \$440.3 million in FY 2018 and \$482.3 million in FY 2019. The adopted FY 2018 estimate represents an increase to FY 2017 collections of 10.2 percent. The FY 2019 estimate is 9.5 percent over the FY 2018 revised estimate. The estimates for FY 2018 and FY 2019 are \$1.4 million less and \$24.7 million more than assumed in November, respectively. The FY 2019 estimate includes \$24.8 million from the expected impact of the federal Tax Cut and Jobs Act, of which \$21.4 million is from one-time repatriation of foreign profits. This is expected to appear in state revenues over two years with a similar impact in FY 2020.

Sales and Use Taxes

Sales tax, the bulk of the consumption taxes, is estimated at \$1,051.5 million for FY 2018 and \$1,082.0 million for FY 2019. The FY 2018 estimate declined by \$1.5 million from the November consensus, while the FY 2019 estimate is up \$0.9 million. The FY 2019 estimate is \$30.5 million more than the revised FY 2018 consensus estimate, an increase of 2.9 percent.

Excise Taxes Other Than Sales and Use Taxes

The conferees estimate \$173.8 million for revised FY 2018 and \$160.2 million for FY 2019 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 2018 revised estimate is \$12.3 million, or 6.6 percent, below the prior year, and \$0.1 million more than the November estimate. The total FY 2019 estimate decreases by \$13.6 million, or 7.8 percent, from the revised estimate for FY 2018. This decline is primarily from previous changes in law that require the transfer of

the remaining 20.0 percent of motor vehicle license and registration fees from the general fund to the Rhode Island Highway Maintenance Account in FY 2019.

Other Taxes

The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$66.8 million in FY 2018 and \$47.7 million in FY 2019. The FY 2018 revised estimate is \$32.4 million less than the previous year, primarily due to an exceptionally large inheritance tax payment accrued to FY 2017. The FY 2019 estimate for other taxes is \$19.1 million less than the FY 2018 revised estimate, reflecting the exclusion of the unusual activity in inheritance taxes.

Other Sources

Other sources revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$49.8 million in FY 2018 and \$13.0 million in FY 2019. The FY 2018 amount is \$24.9 million above the previous year. This reflects one-time transfers not repeated in FY 2019. Other sources also include departmental receipts and lottery revenues, described further below.

Departmental Receipts

The conferees adopted estimates of \$396.5 million for FY 2018 and \$210.5 million for FY 2019 from licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts that are deposited as general revenues. The FY 2018 revised estimate is \$26.4 million greater than the previous year, partially from the impact of the tax amnesty program.

The FY 2019 estimate is \$186.0 million less than the revised FY 2018 estimate, primarily due to the end of the hospital licensing fee, which is estimated to produce \$182.0 million in FY 2018. 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 yet authorized for FY 2019. FY 2019 departmental revenues are projected to be \$4.0 million below the revised FY 2018 estimate, excluding the hospital licensing fee.

Lottery Transfer

The lottery transfer is estimated to produce general revenues of \$364.0 million in FY 2018, with \$286.9 million generated from the video lottery terminals installed at Twin River and Newport Grand, \$59.0 million derived from combined games, which includes PowerBall, Mega Millions, scratch tickets, and Keno, and \$18.1 million in net revenues received from the table games at Twin River. The FY 2018 revised estimate is \$1.3 million above the FY 2017 transfer.

The estimated transfer is \$364.1 million for FY 2019, with \$290.8 million derived from video lottery terminals, \$59.1 million from combined games, and \$14.2 million from the table games at both Lincoln and the new Tiverton facility, assuming a September 1 start date. The FY 2019 lottery transfer is projected to remain nearly flat from the revised FY 2018 estimate resulting in \$0.1 million more revenues to the state. The estimate reflects the same assumptions used in November for the timing and impact Massachusetts gaming is expected to have on Rhode Island revenues and updates the opening of the new Twin River location in Tiverton from November to September. This is still later than prior estimates of a July opening.

May 2018 CRE	FY 2018 Nov	FY 2018 May	Change	FY 2019 Nov	FY 2019 May	Change
Personal Income Tax	\$ 1,299,300,000	\$ 1,357,200,000	\$ 57,900,000	\$ 1,360,600,000	\$ 1,381,200,000	\$ 20,600,000
General Business Taxes						
Business Corporations	151,200,000	139,500,000	(11,700,000)	160,500,000	176,000,000	15,500,000
Public Utilities Gross	94,500,000	100,000,000	5,500,000	97,000,000	101,800,000	4,800,000
Financial Institutions	21,700,000	21,700,000	-	20,300,000	21,800,000	1,500,000
Insurance Companies	127,000,000	132,000,000	5,000,000	131,600,000	134,800,000	3,200,000
Bank Deposits	2,700,000	2,700,000	-	2,700,000	2,700,000	-
Health Care Provider	44,600,000	44,400,000	(200,000)	45,500,000	45,200,000	(300,000)
Sales and Use Taxes						
Sales and Use	1,053,000,000	1,051,500,000	(1,500,000)	1,081,100,000	1,082,000,000	900,000
Motor Vehicle	10,300,000	10,400,000	100,000	-	-	-
Motor Fuel	-	-	-	-	-	-
Cigarettes	143,100,000	143,100,000	-	139,500,000	139,500,000	-
Alcohol	20,300,000	20,300,000	-	20,700,000	20,700,000	-
Other Taxes						
Inheritance and Gift	39,400,000	52,200,000	12,800,000	29,500,000	32,100,000	2,600,000
Racing and Athletics	1,100,000	1,100,000	-	1,100,000	1,100,000	-
Realty Transfer	13,500,000	13,500,000	-	14,300,000	14,500,000	200,000
Total Taxes	3,021,700,000	3,089,600,000	67,900,000	3,104,400,000	3,153,400,000	49,000,000
Departmental Receipts	387,000,000	396,500,000	9,500,000	203,000,000	210,500,000	7,500,000
Other Miscellaneous	37,900,000	38,850,000	950,000	1,300,000	3,250,000	1,950,000
Lottery	367,200,000	364,000,000	(3,200,000)	363,600,000	364,100,000	500,000
Unclaimed Property	10,600,000	10,900,000	300,000	9,300,000	9,700,000	400,000
Total General Revenues	\$ 3,824,400,000	\$ 3,899,850,000	\$ 75,450,000	\$ 3,681,600,000	\$ 3,740,950,000	\$ 59,350,000

Next Meeting

The next required meeting of the conference is November 2018.

cc: The Honorable Marvin L. Abney, Chairman
 House Finance Committee

The Honorable William J. Conley, Jr., Chairman
 Senate Finance Committee

