



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

STEPHEN H. WHITNEY
Senate Fiscal Advisor
May 2019 Conference Chair

SHARON REYNOLDS FERLAND
House Fiscal Advisor

THOMAS A. MULLANEY
State Budget Officer

MEMORANDUM

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

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

Date: May 16, 2019

Subject: **May 2019 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on May 3, 8, and 10, 2019, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2019 to 2026, and issued revised revenue estimates for FY 2019 and FY 2020. Based on collection trends through April and the revised economic forecast, the Conference increased the FY 2019 estimate by \$24.8 million, from the November estimate of \$3,993.1 million to \$4,017.9 million.

The Conference estimated FY 2020 revenues at \$3,952.5 million, which is \$2.2 million more than the November estimate and \$65.5 million less than the FY 2019 revised estimate. However, the FY 2020 estimate excludes the hospital licensing fee (\$180.8 million in FY2019) which cannot be included because it is enacted annually, and revenue estimates may only be based upon current

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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 2019 CRE	FY 2018	FY 2019 Estimate		FY 2020 Estimate	
Personal Income Tax	\$ 1,345,272,114	\$ 1,384,000,000	2.9%	\$ 1,426,800,000	3.1%
General Business Taxes					
Business Corporations	127,674,418	164,500,000	28.8%	164,000,000	-0.3%
Public Utilities Gross	109,594,153	102,900,000	-6.1%	103,200,000	0.3%
Financial Institutions	29,176,929	23,300,000	-20.1%	24,400,000	4.7%
Insurance Companies	130,261,721	110,800,000	-14.9%	119,500,000	7.9%
Bank Deposits	1,638,592	3,000,000	83.1%	3,000,000	0.0%
Health Care Provider	44,099,790	44,600,000	1.1%	46,100,000	3.4%
Sales and Use Taxes					
Sales and Use	1,057,205,387	1,117,600,000	5.7%	1,172,900,000	4.9%
Motor Vehicle	20,821,761	1,100,000	-94.7%	3,000,000	172.7%
Cigarettes	146,877,686	139,800,000	-4.8%	135,000,000	-3.4%
Alcohol	19,928,711	20,700,000	3.9%	21,400,000	3.4%
Other Taxes					
Inheritance and Gift	51,401,550	48,000,000	-6.6%	38,000,000	-20.8%
Racing and Athletics	1,081,031	1,100,000	1.8%	1,100,000	0.0%
Realty Transfer	12,841,566	14,200,000	10.6%	13,500,000	-4.9%
Total Taxes	\$ 3,097,875,409	\$ 3,175,600,000	2.5%	\$ 3,271,900,000	3.0%
Departmental Receipts	397,579,143	421,000,000	5.9%	251,000,000	-40.4%
Other Miscellaneous	37,054,016	10,010,000	-73.0%	6,850,000	-31.6%
Lottery	364,974,286	400,100,000	9.6%	412,800,000	3.2%
Unclaimed Property	10,901,582	11,200,000	2.7%	9,900,000	-11.6%
Total General Revenues	\$ 3,908,384,436	\$ 4,017,910,000	2.8%	\$ 3,952,450,000	-1.6%

ECONOMIC FORECAST

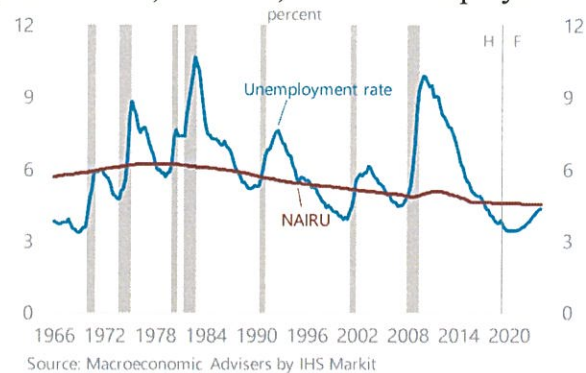
On May 3, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit which recently merged with Macroeconomic Advisers. They were represented by Michael Lynch, Principal Economist, and Chris Varvares, Vice President and Co-head US Economics. The conferees also received testimony from Donna Murray, Assistant Director for Labor Market Information at 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 following table.

May 2019 Consensus Economic Forecast										
Annual Growth	CY 2017	CY 2018	CY 2019	CY 2020	CY2021	CY2022	CY2023	CY2024	CY2025	CY2026
Nonfarm Employment	493.4	496.2	498.4	502.4	503.3	504.2	504.0	503.7	503.6	503.6
Nonfarm Employment Growth	0.7	0.6	0.4	0.8	0.2	0.2	0.0	-0.1	0.0	0.0
Personal Income	\$55,934.0	\$57,648.4	\$59,351.8	\$61,846.5	\$64,336.9	\$66,883.3	\$69,384.9	\$71,998.3	\$74,764.2	\$77,594.1
Personal Income Growth	4.1	3.1	3.0	4.2	4.0	4.0	3.7	3.8	3.8	3.8
Wage and Salaries Income Growth	3.5	1.5	2.4	4.0	3.9	4.1	4.0	4.0	4.0	4.0
Dividends, Interest, and Rent Growth	4.6	4.2	2.0	5.6	5.0	4.3	3.2	3.1	3.3	3.1
Rates										
Unemployment Rate	4.4	4.1	3.8	4.0	4.2	4.4	4.7	4.9	5.0	5.0
Consumer Price Index (US)	2.1	2.4	2.1	2.0	2.3	2.4	2.3	2.4	2.3	2.3
Personal Consumption Expenditures Growth	3.2	4.5	3.9	4.2	4.4	4.2	3.9	3.7	3.4	3.4
Housing Starts	1.2	1.2	1.1	1.2	1.2	1.3	1.3	1.2	1.3	1.2
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	495.0	496.7	501.3	502.7	503.9	504.2	503.8	503.6	503.6
Nonfarm Employment Growth	0.7	0.7	0.3	0.9	0.3	0.2	0.1	-0.1	0.0	0.0
Personal Income	\$54,684.4	\$57,081.6	\$58,254.8	\$60,596.4	\$63,075.6	\$65,622.9	\$68,128.0	\$70,672.8	\$73,367.6	\$76,172.8
Personal Income Growth	2.5	4.4	2.1	4.0	4.1	4.0	3.8	3.7	3.8	3.8
Wage and Salaries Income Growth	2.8	3.4	0.4	4.1	3.9	4.1	4.1	4.0	4.0	4.0
Dividends, Interest, and Rent Growth	3.1	4.5	2.8	3.9	5.3	4.8	3.7	3.0	3.2	3.2
Rates										
Unemployment Rate	4.7	4.3	3.9	3.8	4.1	4.3	4.6	4.8	5.0	5.0
Consumer Price Index (US)	1.9	2.2	2.1	2.3	1.9	2.5	2.3	2.3	2.3	2.3
Personal Consumption Expenditures Growth	3.0	3.7	4.4	4.0	4.3	4.3	4.0	3.8	3.6	3.4
Housing Starts	1.2	1.3	1.1	1.1	1.2	1.3	1.3	1.2	1.3	1.3

\$ in millions

Testimony from Mr. Varvares focused on the United States economy. He estimated gross domestic product would grow 2.3 percent in 2019 while slowing to 2.1 percent in 2020. These rates are primarily supported by strong domestic demand activity with personal consumption expenditure growth in 2020 of 2.9 percent and business fixed investment increasing by 3.6 percent. Varvares testified that the “fiscal boost” from the federal Tax Cuts and Jobs Act and the recent federal budget bill remains but is fading and that the overall GDP growth associated with the tax cuts for 2018 and 2019 was 0.9 percent combined. He testified that U.S. equities remain very strong and are near a cyclical peak. Consumer sentiment also remains high.

Varvares indicated that the GDP growth will continue to drive the labor market trends. Nationally, the unemployment rate will stay below the natural rate of unemployment (4.5 percent), dropping to the 3.5 percent range by mid-2019. The out-year forecast, however, has the unemployment rate increasing to the natural rate, or the non-accelerating inflation rate of unemployment (NAIRU), within five years or less. This is significant because it correlates with economic contraction. Every time this occurred over the last 50 years the country experienced a recession.



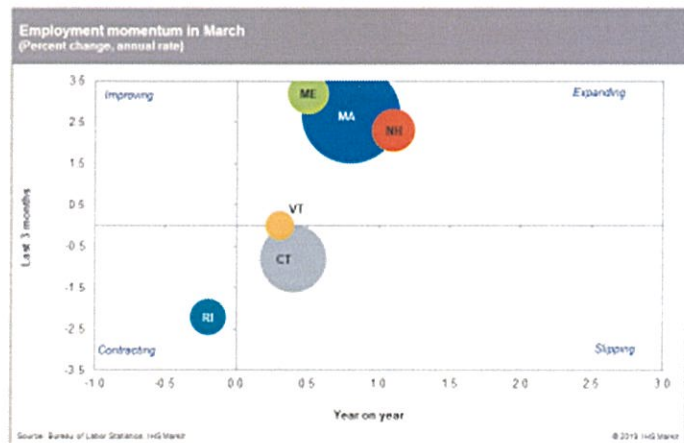
Other identified risks include domestic trade policy uncertainty, an upturn in

energy prices, rising real rates, a tight mortgage lending environment, as well as global growth uncertainty with Brexit, Euro splintering, the slowdown of the Chinese economy, and geopolitical concerns with Iran and North Korea.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He reported that real gross state product is projected to grow an average of 1.5 percent per year between 2018 and 2023. Real personal income growth is projected to grow an average of 1.7 percent per year over the same period.

Lynch explained that private-sector payrolls will grow 0.8 percent from the first quarter of 2019 to the first quarter of 2021, translating to a net gain of approximately 7,300 jobs. Overall, payrolls are projected to expand 0.3 percent per year on average between 2018 and 2023 (ranking 43rd in the U.S.). Professional/business services will represent the most significant growth, with 70.0 percent of the gains. He noted that manufacturing payrolls are forecasted to contract over eight quarters beginning in March 2019, but will be offset by an hourly wage growth of 3.0 percent per quarter. The construction and healthcare sectors were cited as sources of new jobs. Per capita expenditures on healthcare are forecasted to grow by 4.9 percent per year in RI through 2023, which in turn will push employment gains in this sector. According to IHS Markit, construction will be another sector contributing to employment growth. Payrolls in this sector are projected to increase by 2.6 percent per year on average through 2023.

Lynch did note, however, that Rhode Island was the only New England state whose employment momentum was contracting when comparing both year-over-year growth with the employment growth over the last three months. Under the same comparison Maine, Massachusetts, and New Hampshire are all showing signs of expanding employment while Vermont and Connecticut are starting to slip.



Mr. Lynch noted, however, that a significant factor impacting the recent job loss data was a “large and abrupt” decline in one labor market category. In the first three months of 2019 the administrative support/waste management sector lost 3,200 jobs year-to-date. He explained that this sector can be very volatile from quarter to quarter. Nonetheless, Lynch said that after factoring out this category, many sectors across the Rhode Island economy showed little growth or losses, indicating a “sluggish/stagnant growth situation.”

Mr. Lynch also spoke about the state’s housing market. Lynch testified that that housing dropped 9.7 percent in 2019 as compared to the previous year. This weakness in housing supply growth is attributable to shortages in labor and developed lots, along with increased construction costs. Nonetheless, IHS Markit forecasts housing activity to increase over the next several years, with total housing starts projected to reach 1,250-1,300 units annually by 2022 (with the annual rate holding steady beyond that through 2025). According to Lynch, the key obstacle to the State’s ability to sustain growth in building activity is the state’s demographics. Low levels of household formation and population growth significantly depress the forecast for home building.

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Mr. Lynch also reported that according to the U.S. Census Bureau, Rhode Island’s population grew only 0.1 percent from 2017 to 2018 to reach approximately 1.057 million. IHS Markit forecasts an anemic population and labor force growth over the foreseeable future. Both indicators are projected to only grow by 0.1 percent per year on average over the next ten years, rates that place Rhode Island among the lowest in the country. This slow growth will remain a significant drag on the economy.

May 2019 Consensus Economic Forecast Change to November 2018										
Annual Growth	CY 2017	CY 2018	CY 2019	CY 2020	CY2021	CY2022	CY2023	CY2024	CY2025	CY2026
Nonfarm Employment	-1.1	-5.1	-8.3	-7.8	-7.5	-6.7	-6.3	-6.5	-7.2	-7.5
Nonfarm Employment Growth	-0.2	-0.8	-0.6	0.1	0.1	0.2	0.1	0.0	-0.1	-0.1
Personal Income	(\$0.0)	(\$525.7)	(\$1,312.4)	(\$1,407.2)	(\$1,354.4)	(\$1,301.7)	(\$1,339.5)	(\$1,408.6)	(\$1,442.6)	(\$1,496.5)
Personal Income Growth	0.0	-0.9	-1.3	-0.1	0.2	0.2	0.0	0.0	0.0	0.0
Wage and Salaries Income Growth	0.0	-1.8	-2.0	-0.4	-0.2	0.1	0.1	0.0	-0.1	0.0
Dividends, Interest, and Rent Growth	0.0	-1.8	-2.0	-0.4	-0.2	0.1	0.1	0.0	-0.1	0.0
Rates										
Unemployment Rate	0.0	-0.2	0.0	0.0	0.0	-0.2	-0.2	-0.1	0.0	0.0
Consumer Price Index (US)	0.0	-0.1	-0.3	-0.5	0.0	0.1	0.1	0.3	0.3	0.3
Personal Consumption Expenditures Growth	0.0	0.0	-0.6	0.0	0.4	0.5	0.4	0.2	0.2	0.0
Housing Starts	0.0	0.0	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Annual Growth	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment	0.0	-2.9	-7.9	-7.6	-7.8	-7.0	-6.4	-6.3	-6.8	-7.4
Nonfarm Employment Growth	0.0	-0.6	-1.0	0.1	0.0	0.2	0.1	0.0	-0.1	-0.1
Personal Income	\$0.0	(\$42.9)	(\$1,116.8)	(\$1,394.9)	(\$1,383.4)	(\$1,314.4)	(\$1,308.9)	(\$1,379.2)	(\$1,422.1)	(\$1,473.3)
Personal Income Growth	0.0	-0.1	-1.9	-0.4	0.1	0.2	0.1	0.0	0.0	0.0
Wage and Salaries Income Growth	0.0	-0.1	-3.6	-0.3	-0.4	0.0	0.1	0.0	-0.1	-0.1
Dividends, Interest, and Rent Growth	0.0	-0.1	-1.2	-2.0	0.6	0.7	-0.2	-0.4	0.1	0.3
Rates										
Unemployment Rate	0.0	-0.2	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1	0.0
Consumer Price Index (US)	0.0	0.0	-0.5	0.0	-0.5	0.1	0.1	0.2	0.3	0.3
Personal Consumption Expenditures Growth	0.0	0.0	-0.4	-0.2	0.2	0.5	0.5	0.2	0.2	0.1
Housing Starts	0.0	0.0	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

\$ in millions

The Department of Labor and Training reported that as of March 2019, 3.8 percent of Rhode Island residents are unemployed, down 0.4 percent from the previous year. The unemployment rate for those ages 25 to 54 was 3.0 percent as of March 2019, a considerable decline from the 2009 rate of 9.9 percent. As of March 2019, there are 21,200 unemployed Rhode Islanders, down 2,300 from March 2018 but down 42,900 from the recession high of 64,100 in June and July of 2010.

Testimony also indicated that the March 2019 labor force of 554,100 is 20,600 less than the peak of 574,700 in December 2006. The Department reported that the employment level is at its highest since May 1989. The Department explained that the labor force has remained low despite record levels of employment because of the State’s slow growing, aging population. The prime working age population (25-54) has decreased by 50,000 between 2006 and 2018 and the number of younger workers (16-24) is down 12,000 over the same period.

Ms. Murray reported that there were an estimated 494,000 jobs in March 2019, down 1,000 from last year and 2,800 from the State’s new record high of 497,000 set in December of 2018. Of those, 27.8 percent were in positions paying less than \$35,000 a year, 45.0 percent were in jobs paying between \$35,000 and \$59,999 and 27.3 percent were in jobs paying \$60,000 or more.

REVENUES

Taxes

Revenues from taxes in FY 2019 are estimated to increase 2.5 percent over the prior year. Total estimated tax revenues for FY 2019 of \$3,175.6 million increased by \$8.9 million, or 0.3 percent, above the November 2018 estimate of \$3,166.7 million. FY 2020 total estimated taxes are \$3,271.9 million, which is \$7.8 million, or 0.2 percent, below the adopted November 2018 estimate.

Personal Income Tax

The personal income tax estimates of \$1,384.0 million for FY 2019 and \$1,426.8 million for FY 2020 represent annual growth rates of 2.9 percent and 3.1 percent, respectively. The FY 2019 revised estimate is \$3.3 million more than previously estimated. The FY 2020 estimate is \$1.5 million below the November estimate and \$42.8 million above the revised FY 2019 estimate.

Business Taxes

The conferees estimated total business taxes of \$449.1 million in FY 2019 and \$460.2 million in FY 2020. The adopted FY 2019 estimate represents an increase from FY 2018 collections of 1.5 percent. The FY 2020 estimate is 2.5 percent over the FY 2019 revised estimate. The estimates for FY 2019 and FY 2020 are \$10.8 million less and \$22.7 million less than assumed in November, respectively.

Sales and Use Taxes

Sales tax, the bulk of the consumption taxes, is estimated at \$1,117.6 million for FY 2019 and \$1,172.9 million for FY 2020. The FY 2019 estimate increased by \$6.6 million from the November consensus, while the FY 2020 is up \$15.9 million. The FY 2020 estimate is \$55.3 million more than the revised FY 2019 consensus estimate, an increase of 4.9 percent. The FY 2020 estimate includes the impact of legislation signed into law in March 2019 which requires that sales tax be remitted by remote sellers and online marketplaces. This legislation is expected to increase sales tax revenue by \$11.6 million in FY 2020.

Excise Taxes Other Than Sales and Use Taxes

The conferees estimate \$161.6 million for revised FY 2019 and \$159.4 million for FY 2020 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 2019 revised estimate is \$26.0 million, or 13.9 percent, below the prior year, and \$1.2 million less than the November estimate. The prior year decline reflects the final shift of the motor vehicle fees to the transportation fund. The total FY 2020 estimate decreases by \$2.2 million, or 1.4 percent, from the revised estimate for FY 2019.

Other Taxes

The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$63.3 million in FY 2019 and \$52.6 million in FY 2020. The FY 2019 revised estimate is \$2.0 million less than the previous year.

The FY 2020 estimate for total other taxes is \$10.7 million less than the FY 2019 revised estimate, reflecting the exclusion of the unusual activity in inheritance taxes.

Other Revenues

Other sources of revenue include transfers to the general fund from unclaimed property, departmental receipts, lottery, and other miscellaneous sources. These are estimated to produce \$842.3 million in FY 2019 and \$680.6 million in FY 2020. The FY 2019 amount is \$31.8 million above the previous year.

Departmental Receipts

The conferees adopted estimates of \$421.0 million for FY 2019 and \$251.0 million for FY 2020 from licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts that are deposited as general revenues. The FY 2019 revised estimate is \$23.4 million greater than the previous year.

The FY 2020 estimate is \$170.0 million less than the revised FY 2019 estimate, primarily due to the end of the hospital licensing fee, which is estimated to produce \$180.8 million in FY 2019. 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 2020. FY 2020 departmental revenues are projected to be \$10.8 million above the revised FY 2019 estimate, excluding the hospital licensing fee.

Lottery Transfer

The lottery transfer is estimated to produce general revenue of \$400.1 million in FY 2019, with \$317.5 million generated from the video lottery terminals installed at Twin River Lincoln and Tiverton; \$59.8 million derived from combined games, which includes PowerBall, Mega Millions, scratch tickets, and Keno; \$20.6 million in net revenues received from the table games; and, \$2.2 million from sports betting at the State's two casinos. The FY 2019 revised estimate is \$35.1 million above the FY 2018 transfer.

The estimated transfer is \$412.8 million for FY 2020, with \$309.5 million derived from video lottery terminals, \$60.7 million from combined games, \$19.9 million from the table games at in both Lincoln and Tiverton facilities, and \$22.7 million from sports betting. The FY 2020 lottery transfer is projected to be \$12.7 million above the revised FY 2019 estimate.

The sports betting estimate includes mobile sports betting, which is anticipated to start September 15, 2019. The "games" estimate includes \$0.9 million from the Lottery's plans to offer Keno and other traditional lottery products on mobile devices by January 31, 2020.

Other Sources

Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$21.2 million in FY 2019 and \$16.8 million in FY 2020. The FY 2019 amount is \$26.7 million less than the previous year due to one-time transfers in FY 2018. FY 2019 also includes transfers that are not expected to repeat in FY 2020.

May 2019 CRE	FY 2018 Audit	FY 2019 Nov	FY 2019 May	Change	FY 2020 Nov	FY 2020 May	Change
Personal Income Tax	\$ 1,345,272,114	\$ 1,380,700,000	\$ 1,384,000,000	\$ 3,300,000	\$ 1,428,300,000	\$ 1,426,800,000	\$ (1,500,000)
General Business Taxes							
Business Corporations	127,674,418	154,700,000	164,500,000	9,800,000	163,500,000	164,000,000	500,000
Public Utilities Gross	109,594,153	100,800,000	102,900,000	2,100,000	103,200,000	103,200,000	-
Financial Institutions	29,176,929	23,300,000	23,300,000	-	24,400,000	24,400,000	-
Insurance Companies	130,261,721	126,100,000	110,800,000	(15,300,000)	132,100,000	119,500,000	(12,600,000)
Bank Deposits	1,638,592	3,000,000	3,000,000	-	3,000,000	3,000,000	-
Health Care Provider	44,099,790	52,000,000	44,600,000	(7,400,000)	56,700,000	46,100,000	(10,600,000)
Sales and Use Taxes							
Sales and Use	1,057,205,387	1,111,000,000	1,117,600,000	6,600,000	1,157,000,000	1,172,900,000	15,900,000
Motor Vehicle	20,821,761	3,100,000	1,100,000	(2,000,000)	5,300,000	3,000,000	(2,300,000)
Cigarettes	146,877,686	139,000,000	139,800,000	800,000	134,300,000	135,000,000	700,000
Alcohol	19,928,711	20,700,000	20,700,000	-	21,400,000	21,400,000	-
Other Taxes							
Inheritance and Gift	51,401,550	34,500,000	48,000,000	13,500,000	33,900,000	38,000,000	4,100,000
Racing and Athletics	1,081,031	1,100,000	1,100,000	-	1,100,000	1,100,000	-
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Total Taxes	\$ 3,097,875,409	\$ 3,166,700,000	\$ 3,175,600,000	\$ 8,900,000	\$ 3,279,700,000	\$ 3,271,900,000	\$ (7,800,000)
Departmental Receipts	397,579,143	405,000,000	421,000,000	16,000,000	227,000,000	251,000,000	24,000,000
Other Miscellaneous	37,054,016	11,700,000	10,010,000	(1,690,000)	6,950,000	6,850,000	(100,000)
Lottery	364,974,286	399,600,000	400,100,000	500,000	427,100,000	412,800,000	(14,300,000)
Unclaimed Property	10,901,582	10,100,000	11,200,000	1,100,000	9,500,000	9,900,000	400,000
Total General Revenues	\$ 3,908,384,436	\$ 3,993,100,000	\$ 4,017,910,000	\$ 24,810,000	\$ 3,950,250,000	\$ 3,952,450,000	\$ 2,200,000

NEXT MEETING

The next required meeting of the conference is November 2019.

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

The Honorable Marvin L. Abney, Chairman
 House Finance Committee