



State of Rhode Island

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

STEPHEN H. WHITNEY
Senate Fiscal Advisor
November 2020 Conference Chair

SHARON REYNOLDS FERLAND
House Fiscal Advisor

JONATHAN WOMER
Director, Office of Management and Budget; State Budget Officer

MEMORANDUM

To: The Honorable Dominick J. Ruggerio, 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
Jonathan Womer, Director, Office of Management and Budget; State Budget Officer

Date: November 17, 2020

Subject: **November 2020 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference (REC) met on October 23rd, November 2nd, and 6th 2020, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2021 to 2026 and issued revised estimates for FY 2021 and first estimates for FY 2022 revenues. Based on collection trends through October, preliminary FY 2020 closing results, and the revised economic forecast, the Conference increased the FY 2021 estimates by \$330.6 million from the FY 2020 May REC estimate of \$3,725.9 million to \$4,056.4 million.

The Conference estimated FY 2022 revenues at \$4,045.0 million, which is \$11.5 million less than the FY 2021 revised estimate and does not include the hospital licensing fee, which has to be 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 October 23, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit. They were represented by James Bohnaker, Associate Director – US Macro & Consumer Economics, and Michael Lynch, US Regional Economics. The conferees also received written testimony from Donna Murray, Assistant Director, Labor Market Information, of the Rhode Island Department of Labor and Training. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the following table:

November 2020 Consensus Economic Forecast									
Annual Growth	CY 2018	CY 2019	CY 2020	CY2021	CY2022	CY2023	CY2024	CY2025	CY2026
Nonfarm Employment (000's)	500.5	503.7	467.1	485.7	498.4	506.2	511.1	513.5	514.2
Nonfarm Employment Growth	0.7	0.6	-7.3	4.0	2.6	1.6	1.0	0.5	0.1
Personal Income (mil)	\$57,603.7	\$59,707.2	\$65,503.7	\$62,289.3	\$64,681.8	\$67,222.1	\$69,789.1	\$72,677.2	\$75,739.3
Personal Income Growth	3.7	3.7	9.7	-4.9	3.8	3.9	3.8	4.1	4.2
Wage and Salaries Income Growth	2.8	3.0	-1.3	5.4	5.2	4.3	4.3	4.3	4.3
Dividends, Interest, and Rent Growth	2.8	0.0	-0.8	1.4	0.8	2.1	2.5	2.8	2.9
Rates									
Unemployment Rate	4.0	3.6	10.0	7.1	5.4	4.6	4.1	3.8	3.8
Consumer Price Index (US)	2.4	1.8	1.3	2.6	2.3	1.8	1.9	2.2	2.4
Personal Consumption Expenditures Growth	4.2	3.2	-3.4	6.3	4.8	4.0	3.9	4.2	4.5
Housing Starts	1.3	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Annual Growth	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Nonfarm Employment	498.8	502.5	484.8	475.6	492.1	503.1	508.9	512.5	514.0
Nonfarm Employment Growth	0.7	0.7	-3.5	-1.9	3.5	2.2	1.2	0.7	0.3
Personal Income (mil.)	\$56,830.8	\$58,776.8	\$62,384.1	\$63,976.7	\$63,405.8	\$65,952.0	\$68,473.2	\$71,206.5	\$74,187.4
Personal Income Growth	4.6	3.4	6.1	2.6	-0.9	4.0	3.8	4.0	4.2
Wage and Salaries Income Growth	4.1	2.9	-0.3	2.5	5.3	4.9	4.2	4.3	4.3
Dividends, Interest, and Rent Growth	3.9	1.6	-0.5	-0.5	1.5	1.3	2.5	2.6	2.6
Rates									
Unemployment Rate	4.3	3.7	6.6	8.9	6.2	4.9	4.3	3.9	3.8
Consumer Price Index (US)	2.3	2.1	1.4	1.1	2.4	2.9	2.4	2.4	2.3
Personal Consumption Expenditures Growth	4.0	3.6	-0.7	2.2	5.3	4.3	3.8	4.0	4.4
Housing Starts	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

Testimony from Mr. Bohnaker focused on the United States economy. He discussed how after reaching a trough in April 2020, U.S. economic growth rose sharply in May and June, reversing nearly 60.0 percent of the spring decline. However, recovery slowed sharply after that, with 26.0 percent of the decline yet to be reversed by August. Mr. Bohnaker described forecasted economic growth after its initial bounce as fading in the third quarter and then settling into a long slog towards full recovery beyond FY 2021. Expectations of fading growth in real gross domestic product (GDP) is based on several reasons, including an unsustainable surge in purchases of durable goods and an avoidance of in-person service spending related to pandemic safety concerns. The fiscal support to businesses and households from the federal government is expected to dwindle, and lastly, COVID-19 infection rates remain very high and are growing. IHS Markit projects 3.7 percent GDP growth in 2021 and 3.2 percent in 2022. Under this projection, GDP surpasses its pre-pandemic peak in late 2021 and the economy regains full employment in mid-2023.

Mr. Bohnaker testified that the forecast is also based on several important policy assumptions. The federal government is currently funded by a short-term spending bill through mid-December. It is assumed that this will be extended by Congress to prevent a shutdown. Despite chaotic negotiations in Congress regarding another round of federal pandemic relief, the forecast does assume additional federal stimulus, although smaller than previous, to be available in the fourth quarter. This assumption specifically includes the availability of additional unemployment benefits of \$300 per week from October through December and a second round of stimulus checks in the fourth quarter. Should a stimulus package not materialize in the fourth quarter, Bohnaker indicated that GDP would be reduced by 2.0 percent to 3.0 percent for that time period, although a stimulus later in the fiscal year would mean overall fiscal year growth rates would still look similar to what was presented in their base forecast. Lastly, the forecast assumes that the Federal Reserve maintains the federal funds rate near 0.0 percent until late 2026, when the economy is beyond full employment.

Mr. Bohnaker also provided IHS Markit's initial review of a potential President Biden administration on the economy. He noted that on the revenue side Biden's largest proposals include the raising of the corporate tax rate to 28.0 percent and increasing the Social Security earnings cap. On the spending side, education, infrastructure, and research and development represents Biden's largest proposals. Although much depends on negotiations with the next Congress, a Biden administration's policy proposals could have significant effect on the economy, particularly with a front-loaded stimulus.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He began with an overview of the pandemic's impact on the state's labor market. He noted that nonfarm payrolls plummeted by 98,100 between February and April 2020, a 19.3 percent decline in overall payroll. The unemployment rate jumped from 3.4 percent in February to 18.0 percent in April. These dramatic declines represent the 7th largest decline in payrolls and 4th highest April unemployment rate in the country. The sectors most severely impacted are the ones that involve in-person gatherings or close interaction such as Accommodations and Food Services, with a decline of 34.0 percent from February to April, and Healthcare and Social Assistance with a 15.8 percent drop. Other significantly impacted sectors include Retail Trade, Administrative Support Services, and Arts, Entertainment, and Recreation.

Mr. Lynch explained that, as the infection rate eased and the state began its phased reopening plan, employment growth saw a quick bounce in May that accelerated in June. That pace however has slackened considerably with monthly employment gains decelerating month over month through September. Where June saw nearly 23,000 jobs added, September experienced only several thousand. Mr. Lynch noted that Rhode Island has had five consecutive months of job growth since May and has already regained nearly 60.0 percent of its pandemic job loss. However, the remaining 40.0 percent isn't forecasted to be regained until January 2023.

Mr. Lynch provided a comparison of the composition of personal income pre-pandemic and during the pandemic through second quarter of 2020. From 2018 through the first quarter of 2020 the income composition was very consistent with wage and salaries representing the largest portion and transfer payments (such as income support programs) representing the smallest. The second quarter of 2020, however, experienced an 8.0 percent decrease in wage disbursements, quarter over quarter, while transfer payments increased nearly 90.0 percent, resulting in overall personal income in Rhode Island to increase from April through June 2020. The dramatic increase in transfer payments is directly related to the onset of stimulus checks and expanded unemployment insurance from the federal government in response to the pandemic.

According to IHS Markit the Rhode Island labor market will experience decelerating yet continued growth over the next seven quarters. Overall, the quarterly annualized gains will average approximately 4.0 percent, resulting in a net 33,000 jobs by the end of FY 2022. The largest projected gains over this period are forecasted to be in Administrative Support Services at 7,400 jobs; Healthcare and Social Assistance at 5,500; Other Services at 4,000; Accommodations and Food Services at 3,900; and Arts, Entertainment, and Recreation at 1,900 jobs. The unemployment rate is projected to fall from 11.6 percent in the first quarter of FY 2021 down to 5.5 percent by first quarter of FY 2022.

Mr. Lynch also presented projections for other key economic indicators for Rhode Island through FY 2023. Real gross state product is forecasted to only be 0.2 percent for FY 2021, increasing to 2.4 percent in FY 2022, and to 2.7 percent in FY 2023. Total personal income grows 2.6 percent in FY 2021, falls 0.9 percent in FY 2022, and rebounds in FY 2023 to 4.0 percent. Wages and salaries grow in each fiscal year at rates of 2.5, 5.3, and 4.9 percent respectively. Transfer payments grow in FY 2021 by 8.4 percent, however drop dramatically in FY 2022 by 14.5 percent as a result of waning stimulus. Personal consumption growth is sluggish in FY 2021 at 2.2 percent then increases to 5.3 percent in FY 2022. The forecast projects an unemployment rate of 8.8 percent for FY 2021 and 6.2 percent in FY 2022.

The Department of Labor and Training reported that employment in Rhode Island is down 44,400 jobs, or 7.9 percent, since February 2020's all time employment high of 508,400. The September 2020 unemployment rate was 10.5 percent, the fourth highest in the country. Over the period from April to September, the state has regained a total of 57,700 jobs, 58.8 percent of the total jobs lost. Over two-thirds of those job gains occurred in the sectors that were most negatively impacted by the social distancing orders – Accommodations & Food Services (+22,100), Health Care & Social Assistance (+10,600) and Retail Trade (+6,500).

Rhode Island had the highest unemployment rate in New England followed by Massachusetts (9.6 percent), Connecticut (7.8 percent), Maine (6.1 percent), New Hampshire (6.0 percent) and Vermont (4.2 percent). Nationally, the unemployment rate was 7.9 percent in September.

The Department also reported on federal income support initiatives. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided additional unemployment insurance benefits beyond the standard 26-week program. Pandemic Unemployment Assistance (PUA) provides up to 39 weeks of benefits for individuals who are self-employed or ineligible for regular unemployment benefits. To date this program has paid over \$285 million in benefits. The program is scheduled to end in December. It is estimated that this program will pay additional \$90 million by year's end. Pandemic Emergency Unemployment Compensation (PEUC) provides an additional 13 weeks of benefits to individuals who have exhausted their regular unemployment insurance benefits. To date this program has paid over \$62 million in benefits. These benefits are scheduled to end in December. It is estimated that this program will pay additional \$40 million by year's end. The Federal Pandemic Unemployment Compensation (FPUC) which ended in July, provided all individuals collecting benefits an additional \$600 a week in addition to their regular entitlement. This program provided nearly \$1.2 billion in benefits. The \$300 bonus payment enacted in August paid an additional \$172 million in benefits.

REVENUES

Taxes. Revenues from taxes in FY 2021 are estimated to decrease 2.8 percent from preliminary FY 2020 collections and increase 1.3 percent in FY 2022 over the revised FY 2020 estimate. Total estimated tax revenues for FY 2021 of \$3,373.3 million are \$336.7 million above the May 2020 REC estimate. FY 2022 total estimated taxes are \$3,416.2 million, \$42.9 million above the revised FY 2021 estimate.

Personal Income Tax. The personal income tax estimates of \$1,450.4 million for FY 2021 and \$1,439.1 million for FY 2022 represent annual growth rates of 3.2 percent and -0.8 percent, respectively. The FY 2021 revised estimate is \$154.6 million more than the May 2020 REC estimate. The component estimates for personal income tax include \$100.8 million in payments and refunds there were deferred into July 2020 due to a change in due date (from April 15 to July 15). These extra collections are offset by a large, negative net accrual. Better-than-expected job growth, along with income tax on unemployment insurance, lead to an upward revision in withholding revenue in FY 2021. The FY 2022 estimate is \$11.3 million less than the FY 2021 revised estimate, related to a projected drop off in estimated payments.

Business Taxes. The conferees estimate total business taxes of \$458.2 million in FY 2021 and \$470.3 million in FY 2022. Year-over-year growth rates are -4.2 percent and 2.6 percent, respectively. The FY 2021 estimate is \$40.0 million more than the May 2020 REC estimate, while the FY 2022 estimate is \$12.1 million more than the revised estimate. The FY 2021 estimate for the business corporation tax includes the final year of the short-term boost to collections from the federal Tax Cut and Jobs Act (TCJA) provision relating to the one-time repatriation of foreign profits, along with recurring positive impacts from the TCJA

Sales and Use Taxes. Sales tax, the bulk of the consumption taxes, is estimated at \$1,212.8 million for FY 2021 and \$1,263.5 million for FY 2022. The FY 2021 revenues are \$103.7 million above the May 2020

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REC estimate and represents growth of 3.9 percent from preliminary FY 2020 receipts. Strong collections, boosted by a shift to durable goods consumption and online purchasing, led to an upward revision in the sales and use tax estimate for FY 2021. The FY 2022 estimate is \$50.7 million, or 4.2 percent, above the revised FY 2021 estimate.

Excise Taxes Other Than Sales and Use Taxes. The conferees estimate \$178.0 million for revised FY 2021 and \$176.1 million for FY 2022 from excise taxes other than sales and use taxes. These taxes include certain motor vehicle license fees associated with the implementation of REAL ID, tobacco taxes, and alcohol taxes. The FY 2021 revised estimate is \$24.9 million, or 12.1 percent, above the prior year. The total FY 2022 estimate decreases by \$1.9 million, or 1.1 percent, from the revised estimate for FY 2021, primarily from the ongoing decline in cigarette sales.

Other Taxes. The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$73.9 million in FY 2021 and \$67.2 million in FY 2022. The FY 2021 revised estimate is \$13.5 million more than the May 2020 REC estimate. The FY 2022 estimate for other taxes is \$6.7 million less than the FY 2021 revised estimate.

Departmental Receipts. The conferees adopted estimates of \$390.0 million for FY 2021 and \$249.0 million for FY 2022 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 2020 revised estimate is \$13.0 million less than the May 2020 REC estimate reflecting adjustments based on FY 2020 performance and continuing effects the pandemic on activity. The FY 2022 estimate is \$141.0 million less than the revised FY 2021 estimate, primarily from the exclusion of the Hospital License fee. This generates \$161.5 million in FY 2021 but there is no current law provision for FY 2022. This has typically been renewed annually.

Lottery Transfer. The lottery transfer is estimated to produce general revenue of \$272.5 million in FY 2021, with \$194.6 million generated from the video lottery terminals installed at Twin River – Lincoln and Tiverton; \$57.5 million derived from combined games, which include PowerBall, Mega Millions, scratch tickets, and Keno; \$6.0 million in net revenues received from the table games at both the Twin River Lincoln and Tiverton locations; and \$14.4 million from sports betting at both casino locations and via the mobile application. The FY 2021 revised estimate is \$7.3 million above the May 2020 REC estimate, reflecting gains in traditional lottery games and an increase in sports book activity in anticipation of major sporting leagues returning to competition after the pandemic shutdowns.

The estimated transfer to the State is \$356.3 million for FY 2022, with \$271.6 million derived from video lottery terminals, \$58.2 million from combined games, \$10.4 million from the table games, and \$16.1 million from sports betting. The FY 2022 lottery transfer is projected to increase by \$83.8 million from the FY 2021 revised estimated, reflecting a gradual return to normal casino activity in FY 2022 after the pandemic shutdowns.

Other Sources. Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$20.6 million in FY 2021 and \$23.5 million in FY 2022.

The tables that follow show the results by revenue category, along with information on the FY 2020 preliminary closing and comparison to the May 2020 REC.

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November 2020 CRE	FY 2020	FY2021 Estimate		FY2022 Estimate	
Personal Income Tax	\$ 1,405,508,489	\$ 1,450,400,000	3.2%	\$ 1,439,100,000	-0.8%
General Business Taxes					
Business Corporations	148,605,498	151,300,000	1.8%	154,100,000	1.9%
Public Utilities Gross	108,634,550	109,600,000	0.9%	111,000,000	1.3%
Financial Institutions	44,612,484	18,500,000	-58.5%	22,200,000	20.0%
Insurance Companies	130,470,984	133,700,000	2.5%	136,900,000	2.4%
Bank Deposits	3,325,216	3,100,000	-6.8%	3,100,000	0.0%
Health Care Provider	42,600,286	42,000,000	-1.4%	43,000,000	2.4%
Sales and Use Taxes					
Sales and Use	1,167,423,462	1,212,800,000	3.9%	1,263,500,000	4.2%
Motor Vehicle	937,239	1,000,000	6.7%	2,500,000	150.0%
Cigarettes	137,604,201	155,000,000	12.6%	151,200,000	-2.5%
Alcohol	20,235,117	22,000,000	8.7%	22,400,000	1.8%
Other Taxes					
Estate and Transfer	55,290,559	58,100,000	5.1%	50,300,000	-13.4%
Racing and Athletics	820,669	400,000	-51.3%	1,000,000	150.0%
Realty Transfer	13,925,095	15,400,000	10.6%	15,900,000	3.2%
<i>Total Taxes</i>	\$ 3,279,993,849	\$ 3,373,300,000	2.8%	\$ 3,416,200,000	1.3%
Departmental Receipts	435,208,268	390,000,000	-10.4%	249,000,000	-36.2%
Other Miscellaneous	52,794,681	10,325,000	-80.4%	12,150,000	17.7%
Lottery	283,870,548	272,500,000	-4.0%	356,300,000	30.8%
Unclaimed Property	12,080,719	10,300,000	-14.7%	11,300,000	9.7%
Total General Revenues	\$ 4,063,948,065	\$ 4,056,425,000	-0.2%	\$ 4,044,950,000	-0.3%

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November 2020 CRE	2020 May FY2021 Estimate	FY2021 Revised Estimate	Change to May	FY2022 Estimate	Change to FY2021 Revised Estimate
Personal Income Tax	\$ 1,295,800,000	\$ 1,450,400,000	\$ 154,600,000	\$ 1,439,100,000	\$ (11,300,000)
General Business Taxes					
Business Corporations	132,300,000	151,300,000	19,000,000	154,100,000	2,800,000
Public Utilities Gross	98,900,000	109,600,000	10,700,000	111,000,000	1,400,000
Financial Institutions	21,200,000	18,500,000	(2,700,000)	22,200,000	3,700,000
Insurance Companies	120,700,000	133,700,000	13,000,000	136,900,000	3,200,000
Bank Deposits	3,100,000	3,100,000	-	3,100,000	
Health Care Provider	42,000,000	42,000,000	-	43,000,000	1,000,000
Sales and Use Taxes					
Sales and Use	1,109,100,000	1,212,800,000	103,700,000	1,263,500,000	50,700,000
Motor Vehicle	2,000,000	1,000,000	(1,000,000)	2,500,000	1,500,000
Cigarettes	130,600,000	155,000,000	24,400,000	151,200,000	(3,800,000)
Alcohol	20,500,000	22,000,000	1,500,000	22,400,000	400,000
Other Taxes					
Estate and Transfer	44,900,000	58,100,000	13,200,000	50,300,000	(7,800,000)
Racing and Athletics	1,000,000	400,000	(600,000)	1,000,000	600,000
Realty Transfer	14,500,000	15,400,000	900,000	15,900,000	500,000
<i>Total Taxes</i>	<i>\$ 3,036,600,000</i>	<i>\$ 3,373,300,000</i>	<i>\$ 336,700,000</i>	<i>\$ 3,416,200,000</i>	<i>\$ 42,900,000</i>
Departmental Receipts	403,000,000	390,000,000	(13,000,000)	249,000,000	(141,000,000)
Other Miscellaneous	12,050,000	10,325,000	(1,725,000)	12,150,000	1,825,000
Lottery	265,200,000	272,500,000	7,300,000	356,300,000	83,800,000
Unclaimed Property	9,000,000	10,300,000	1,300,000	11,300,000	1,000,000
Total General Revenues	\$ 3,725,850,000	\$ 4,056,425,000	\$ 330,575,000	\$ 4,044,950,000	\$ (11,475,000)

NEXT MEETING

The next required meeting of the conference is May 2021.

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

The Honorable Marvin L. Abney, Chairman
House Finance Committee

