



State of Rhode Island

Revenue Estimating Conference

BUDGET OFFICE, ONE CAPITOL HILL, PROVIDENCE, RI 02908

JOSEPH M. CODEGA JR.
State Budget Officer
November 2021 Conference Chair

SHARON REYNOLDS FERLAND
House Fiscal Advisor

STEPHEN H. WHITNEY
Senate Fiscal Advisor

MEMORANDUM

To: The Honorable Daniel J. McKee, Governor
The Honorable Dominick J. Ruggiero, President of the Senate
The Honorable K. Joseph Shekarchi, Speaker of the House

From: Joseph M. Codega Jr., State Budget Officer
Sharon Reynolds Ferland, House Fiscal Advisor
Stephen H. Whitney, Senate Fiscal Advisor

Date: November 18, 2021

Subject: **November 2021 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on October 29th, November 5th, and November 10th, 2021, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2021 to 2027 and issued revised estimates for FY 2022 and initial estimates for FY 2023 revenues. Based on collection trends through October and the revised economic forecast, the Conference increased the FY 2022 estimates by \$273.6 million from the FY 2022 enacted estimate of \$4,410.7 million to \$4,684.3 million.

The Conference estimated FY 2023 revenues at \$4,583.2 million, which is \$101.1 million less than the FY 2022 revised estimate and does not include the hospital licensing fee (as revenue estimates may only be based on current law and the hospital licensing fee is enacted annually through the budget process). The fee amounts to \$170.2 million in revenue in FY 2022.

The table below displays the newly adopted revenue estimates for FY 2022 and FY 2023 by component and preliminary revenue data for last fiscal year. A table showing these estimates and the changes by revenue component from the FY 2022 enacted is included at the end of this report.

Revenue Estimating Conference

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| November 2021 CRE | FY 2021 Preliminary | FY 2022 Estimate | | FY 2023 Estimate | |
|-------------------------------|----------------------------|-------------------------|-------------|-------------------------|--------------|
| Personal Income Tax | \$ 1,615,512,279 | \$ 1,656,600,000 | 2.5% | \$ 1,704,100,000 | 2.9% |
| General Business Taxes | | | | | |
| Business Corporations | 202,570,678 | 209,900,000 | 3.6% | 203,300,000 | -3.1% |
| Public Utilities Gross | 93,474,936 | 94,300,000 | 0.9% | 94,600,000 | 0.3% |
| Financial Institutions | 34,856,030 | 35,700,000 | 2.4% | 31,100,000 | -12.9% |
| Insurance Companies | 131,446,789 | 137,500,000 | 4.6% | 139,400,000 | 1.4% |
| Bank Deposits | 3,818,574 | 3,800,000 | -0.5% | 3,800,000 | 0.0% |
| Health Care Provider | 35,121,483 | 37,200,000 | 5.9% | 38,300,000 | 3.0% |
| Sales and Use Taxes | | | | | |
| Sales and Use | 1,341,910,598 | 1,432,000,000 | 6.7% | 1,462,000,000 | 2.1% |
| Motor Vehicle | 681,739 | 1,000,000 | 46.7% | 1,000,000 | 0.0% |
| Cigarettes | 159,713,136 | 153,800,000 | -3.7% | 148,500,000 | -3.4% |
| Alcohol | 22,200,641 | 23,200,000 | 4.5% | 23,700,000 | 2.2% |
| Controlled Substances | 5,043 | - | | - | |
| Other Taxes | | | | | |
| Inheritance and Gift | 42,986,729 | 39,800,000 | -7.4% | 45,200,000 | 13.6% |
| Racing and Athletics | 404,040 | 500,000 | 23.8% | 800,000 | 60.0% |
| Realty Transfer | 17,774,576 | 20,500,000 | 15.3% | 21,400,000 | 4.4% |
| Total Taxes | \$ 3,702,477,272 | \$ 3,845,800,000 | 3.9% | \$ 3,917,200,000 | 1.9% |
| Departmental Receipts | 400,225,506 | 419,200,000 | 4.7% | 252,400,000 | -39.8% |
| Other Miscellaneous | 14,246,603 | 11,300,000 | -20.7% | 10,700,000 | -5.3% |
| Lottery | 298,444,895 | 393,300,000 | 31.8% | 391,100,000 | -0.6% |
| Unclaimed Property | 16,269,787 | 14,700,000 | -9.6% | 11,800,000 | -19.7% |
| Total General Revenues | \$ 4,431,664,062 | \$ 4,684,300,000 | 5.7% | \$ 4,583,200,000 | -2.2% |

ECONOMIC FORECAST

On October 29th, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit. They were represented by James Bohnaker, Director, US Macro & Consumer Economics, and Michael Lynch, Associate Director, US Regional Economics. The conferees also received testimony from Donna Murray, Assistant Director, Labor Market Information, 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 2021 Consensus Economic Forecast | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | CY2020 | CY2021 | CY2022 | CY2023 | CY2024 | CY2025 | CY2026 | CY2027 |
| Nominal Level | | | | | | | | |
| Nonfarm Employment (Thous.) | 459.5 | 474.0 | 494.2 | 504.9 | 509.7 | 511.7 | 512.8 | 513.6 |
| Personal Income (Millions \$) | 64,300 | 66,595 | 67,193 | 70,527 | 73,992 | 77,567 | 81,241 | 84,984 |
| Housing Starts (Thous.) | 1.2 | 1.3 | 1.4 | 1.3 | 1.4 | 1.4 | 1.4 | 1.3 |
| Annual Growth Rates | | | | | | | | |
| Nonfarm Employment Growth | -8.8 | 3.1 | 4.3 | 2.2 | 0.9 | 0.4 | 0.2 | 0.2 |
| Personal Income Growth | 7.3 | 3.6 | 0.9 | 5.0 | 4.9 | 4.8 | 4.7 | 4.6 |
| Wage and Salaries Income Growth | 0.5 | 5.4 | 8.3 | 5.7 | 4.9 | 4.6 | 4.4 | 4.4 |
| Dividends, Interest and Rent Growth | -0.7 | 0.5 | 3.1 | 4.3 | 4.6 | 4.9 | 5.3 | 5.3 |
| Personal Consumption Expenditures Growth | -3.8 | 10.1 | 6.8 | 4.2 | 4.6 | 4.8 | 5.0 | 5.0 |
| Consumer Price Index (US) | 1.2 | 4.3 | 3.0 | 2.1 | 2.1 | 2.3 | 2.3 | 2.4 |
| Rates | | | | | | | | |
| Unemployment Rate (RI) | 9.5 | 6.0 | 4.4 | 3.8 | 3.7 | 3.9 | 4.0 | 4.1 |
| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| Nominal Level | | | | | | | | |
| Nonfarm Employment (Thous.) | 482.8 | 462.8 | 485.3 | 500.9 | 507.6 | 511.0 | 512.3 | 513.2 |
| Personal Income (Millions \$) | 62,447 | 65,914 | 65,837 | 68,926 | 72,236 | 75,772 | 79,395 | 83,102 |
| Housing Starts (Thous.) | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 |
| Annual Growth Rates | | | | | | | | |
| Nonfarm Employment Growth | -3.9 | -4.1 | 4.9 | 3.2 | 1.3 | 0.7 | 0.3 | 0.2 |
| Personal Income Growth | 6.5 | 5.6 | -0.1 | 4.7 | 4.8 | 4.9 | 4.8 | 4.7 |
| Wage and Salaries Income Growth | 1.5 | 2.7 | 8.1 | 6.6 | 5.2 | 4.7 | 4.5 | 4.4 |
| Dividends, Interest and Rent Growth | 0.7 | -1.2 | 2.3 | 3.8 | 4.5 | 4.7 | 5.1 | 5.3 |
| Personal Consumption Expenditures Growth | -1.0 | 3.1 | 9.3 | 5.0 | 4.3 | 4.8 | 4.9 | 5.0 |
| Consumer Price Index (US) | 1.6 | 2.3 | 4.6 | 2.0 | 2.1 | 2.2 | 2.3 | 2.3 |
| Rates | | | | | | | | |
| Unemployment Rate (RI) | 6.2 | 8.4 | 5.0 | 3.9 | 3.8 | 3.8 | 4.0 | 4.1 |

Testimony from Mr. Bohnaker focused on the United States economy. He began by detailing the federal policy assumptions built into the forecast. Mr. Bohnaker then focused on three main areas of the economy: consumer spending, the labor forecast, and inflation.

The forecast includes current law federal stimulus, most notably the American Rescue Plan Act (ARPA). It also includes the Infrastructure Investment and Jobs Act (IIJA), which had not yet passed Congress when IHS Markit testified but was subsequently approved on November 5th. Direct federal stimulus (mostly in the ARPA legislation) tails off significantly in the fourth quarter of calendar year 2021, and IIJA has a more gradual stimulative effect that begins in CY 2023. IHS Markit also assumes the Federal Reserve begins to raise rates in March 2023 in response to inflation. The forecast does not include any impacts of the federal Build Back Better social spending bill, the future of which is uncertain as of this report.

Mr. Bohnaker discussed several competing trends in consumer spending. Personal income has fallen sharply in recent quarters due to the lack of federal stimulus, although the enhanced Child Tax Credit authorized in the American Rescue Plan Act does factor into personal income for CY 2021. Households are sitting on a tremendous amount of wealth given that much of those stimulus checks were saved. Nationally, household net wealth jumped 24 percent during the pandemic. Consumer borrowing has room to grow given that many people paid off nonrevolving credit (most notably credit card balances). Much of that spending has been channeled into the purchasing of

goods because of the hesitancy of consumers regarding in-person services. The traditional split between goods and services spending is expected to take several years to reassert itself. This consumer spending is set against the backdrop of supply chain constraints which has led companies to drain their inventories.

Mr. Bohnaker went on to discuss the state of the national labor market. Employment is 5 million jobs below the pre-pandemic peak, and much of this is due to a diminished labor force (3 million below the pre-pandemic peak). He noted that the unemployment rate, which was 4.8 percent nationally in September, would be 6.5 percent if the labor force was at pre-pandemic levels. This diminished labor force has many causes: the spike in household wealth has allowed some people to wait for better opportunities, retire early, or convert from a two-earner household to a one-earner household; layoffs and supply chain issues have caused mismatches between job openings and job seekers; and lingering COVID-19 fear makes some people hesitant to return to work.

The final topic covered by Mr. Bohnaker was inflation. He pointed to several notable examples of price increases, such as gasoline, energy, and cars. Price inflation of goods has been driving overall inflation but is expected to slow in CY 2023 as the demand for services begins to drive up prices in that sector. Inflation, which is running around four percent, is forecasted to fall to two percent around the middle of CY 2023.

Mr. Michael Lynch gave the testimony on the Rhode Island economy, focused mainly on the state employment picture. He noted that employment growth picked up in June and surged in July before decelerating to a more modest pace. This corresponds to the end of most state COVID-19 restrictions in May 2021, although the July hiring surge and subsequent slowdown was seen across the nation. Rhode Island has regained around 75 percent of jobs lost during the pandemic, with the largest gains seen in the hardest-hit sectors (accommodation and food services, healthcare, and retail trade). The unemployment rate in September 2021 was 5.2 percent, down from a peak of 17.4 percent in April 2020.

Mr. Lynch pointed out that Rhode Island's jobs deficit (the percent change between February 2020 and September 2021 employment) is 5.3 percent, higher than the 4.0 percent national average. The northeastern states have high jobs deficits compared to the rest of the country. Rhode Island has managed to bounce back from those pandemic losses robustly: average annualized monthly growth of 6.6 percent was the fastest in New England (Massachusetts ranked second at 6.4 percent) and outpaced national growth of 4.8 percent.

The IHS Markit Rhode Island forecast projects that employment growth will proceed at a steady, yet decelerating pace over time as the recovery continues. The forecast assumes the unemployment rate will fall from 5.6 percent in the first quarter of FY 2022 to 3.8 percent by the end of FY 2023. Job gains will again be dominated by industries hard hit by the pandemic. Other sectors that are expected to see gains are administrative support services and professional, scientific, and technical services. Employment is expected to surpass the pre-COVID-19 peak in early FY 2024. Other measures of the economy are expected to bounce back more quickly: real gross state product is forecasted to surpass the pre-COVID-19 peak around the middle of FY 2022.

Mr. Lynch discussed other aspects of the state's economy. Personal income in the state saw large boosts due to federal stimulus in the second quarter of CY 2020 and first quarter of CY 2021, and the negative growth rates in the IHS Markit forecast are due to the end of these transfer payments.

Home price appreciation has been rapidly growing in CY 2021, although new housing starts have lagged but are just starting to tick up. The 2020 Census resulted in 40,000 more residents for Rhode Island than the most recent Census Bureau estimates, and the IHS Markit forecast has incorporated this population data.

Donna Murray, Assistant Director, Labor Market Information Division at the Department of Labor and Training (DLT) discussed the trajectory of the pandemic recession and recovery. She reiterated that Rhode Island has regained 75 percent of the jobs lost during the pandemic, with nearly 57 percent of those job gains occurring in the sectors that were most negatively impacted by the social distancing orders. She noted that low-wage industries were hit especially hard by COVID-19 and accounted for 52 percent of the jobs lost despite only making up 26 percent of total jobs in the state. Low- and mid-wage industries have fared about the same during the recovery, recovering 74.6 and 72.2 percent of jobs lost respectively. High-wage industries have fared better, regaining 82.2 percent of jobs lost.

Ms. Murray compared the Rhode Island unemployment picture with other states. The September unemployment rate of 5.2 percent was nineteenth highest in the nation (tied with Massachusetts). Across the country, unemployment rates ranged from a high of 7.5 percent in California and Nevada to a low of 2.0 percent in Nebraska. Connecticut (6.8 percent) had the highest rate in New England followed by Rhode Island and Massachusetts (both at 5.2 percent), Maine (4.8 percent), and New Hampshire and Vermont (both at 2.9 percent).

Ms. Murray also discussed the state's labor force. The Rhode Island labor force totaled 534,700 in August 2021. This is an increase from the low ebb of the pandemic-era, which occurred in June 2020 with a labor force of 513,000. The month prior to the pandemic (February 2020) the Rhode Island labor force was 562,000, indicating that like the national data presented by IHS Markit the Rhode Island labor force is significantly diminished from its pre-pandemic highs.

Ms. Murray's testimony included a discussion of unemployment insurance benefits. She described the various state and federal unemployment insurance programs that were in place during the pandemic. In total, unemployed Rhode Island workers received over \$3.9 billion in state and federal unemployment insurance benefits, \$2.4 billion in CY 2020 and \$1.5 billion in CY 2021. Surprisingly, despite the high levels of unemployment during the pandemic, total wages paid in Rhode Island increased by 0.8 percent between CY 2019 and CY 2020. Ms. Murray noted that over the first half of CY 2021 total wages had increased by 5.1 percent compared to the prior year.

Ms. Murray's testimony concluded with a preview of the state's annual benchmark revisions to the employment data. This data indicates that current estimates under-stated employment by an average of 7,800 jobs for the first six months of 2021. Based on current data and anticipated benchmark revisions DLT estimates the number of jobs in 2021 will average approximately 482,000. These revisions are not yet captured in the IHS Markit forecast, which estimates CY 2020 employment at 474,000.

REVENUES

Taxes

Revenues from taxes in FY 2022 are estimated to increase 3.9 percent from the prior year. Total estimated tax revenues for FY 2022 of \$3,845.8 million are \$259.8 million, 7.2 percent, more than the FY 2022 enacted estimate of \$3,586.0 million. FY 2023 total estimated taxes are \$3,917.2 million, representing growth of 1.9 percent or \$71.4 million over the revised FY 2022 consensus estimates.

Personal Income Tax

The personal income tax estimates of \$1,656.6 million for FY 2022 and \$1,704.1 million for FY 2023 represent annual growth rates of 2.5 percent and 2.9 percent, respectively. The FY 2022 revised estimate is \$107.2 million more than previously estimated. Employment gains are predicted to boost growth in paycheck withholding, although the reduction in taxable unemployment benefits is expected to temper this growth in FY 2022. The estimates for personal income tax do factor in the state's elective pass-through entity tax, which was enacted in the FY 2020 budget. The estimates assume \$120 million of pass-through entity payments are collected in both FY 2022 and FY 2023. The estimate further assumes that around \$21 million of these payments are duplicative with other personal income tax payments they are intended to replace and will result in a refunds payable, a lower incidence from prior years.

Business Taxes

The conferees estimate total business taxes of \$518.4 million in FY 2022 and \$510.5 million in FY 2023. The adopted FY 2022 estimate represents an increase to FY 2021 preliminary collections of 3.4 percent and is \$31.2 million more than assumed in the enacted FY 2022 budget. FY 2023 is 1.5 percent below the FY 2022 revised estimate, which is partially accounted for by the fact that the enacted budget proposal to tax forgiven Paycheck Protection Program (PPP) loans above \$250,000 is a one-time revenue increase in FY 2022. In addition, the conferees discussed the other impact of the PPP program: the revenue reduction from the ability of taxpayers to deduct expenses paid for using PPP loans. The impact was initially factored into the FY 2021 revenue estimates, but the conferees assumed the impact might be delayed and spread over several future fiscal years.

Sales and Use Taxes

Sales tax, the bulk of the consumption taxes, is estimated at \$1,432.0 million for FY 2022 and \$1,462.0 million for FY 2023. The FY 2022 estimate increased by \$126.8 million from the enacted budget due to strong consumer spending that occurred in FY 2021 and has continued into FY 2022. The FY 2023 consensus estimate represents 2.1 percent growth over the FY 2022 revised estimate. The modest growth rate reflects an expected shift away from taxable goods spending and toward services spending in FY 2023.

Excise Taxes Other Than Sales and Use Taxes

The conferees estimate \$178.0 million for FY 2022 and \$173.2 million for FY 2023 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 2022 revised estimate is \$4.6 million, or 2.5 percent, below the prior year, and \$1.4 million less than the enacted estimate. The negative growth rate in FY 2022 and further negative growth in FY 2023 of 2.7 percent is mostly explained by the long-term decline in cigarette consumption.

Other Taxes

The estate and transfer, racing and athletics, and realty transfer taxes are estimated to produce \$60.8 million in FY 2022 and \$67.4 million in FY 2023. The FY 2022 revised estimate is \$0.4 million less than the previous year, with housing market-fueled growth in realty transfer taxes offsetting lower estate and transfer tax collections. The FY 2023 estimate for total other taxes is \$6.6 million more than the FY 2022 revised estimate.

Departmental Receipts

The conferees adopted estimates of \$419.2 million for FY 2022 and \$252.4 million for FY 2023 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 2023 estimate is \$166.8 million less than the revised FY 2022 estimate, primarily because the hospital licensing fee has not yet been adopted in FY 2023. Excluding the hospital licensing fee, FY 2023 departmental receipts are projected to be \$3.4 million above the revised FY 2022 estimate.

Lottery Transfer

The lottery transfer is estimated to produce general revenue of \$393.3 million in FY 2022, with \$294.1 million generated from the video lottery terminals installed at Lincoln and Tiverton facilities, \$67.2 million derived from combined games, which includes PowerBall, Mega Millions, scratch tickets, and Keno, \$13.0 million in net revenues received from the table games, and \$19.0 million from sports betting. The FY 2022 revised estimate is \$94.9 million above the FY 2021 transfer due to the lifting of most pandemic restrictions at the state's casinos during all of FY 2022. The FY 2022 and FY 2023 estimates include the impact of sports betting in Connecticut, which began in October 2021. According to a study commissioned by the Department of Revenue (DOR), Connecticut sports betting is expected to negatively impact on-site sports betting most acutely, especially in Lincoln.

The estimated transfer is \$391.1 million for FY 2023, with \$290.0 million derived from video lottery terminals, \$68.7 million from combined games, \$13.4 million from the table games and \$19.0 million from sports betting. The consensus estimates utilized growth rates projected in the DOR gaming study.

Other Sources

Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce \$26.0 million in FY 2022 and \$22.5 million in FY 2023.

| November 2021 CRE | FY 2022 Enacted | FY 2022 Nov | Change | FY 2023 Nov | Change to FY 2022 Nov |
|-------------------------------|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| Personal Income Tax | \$ 1,549,365,915 | \$ 1,656,600,000 | \$ 107,234,085 | \$ 1,704,100,000 | \$ 47,500,000 |
| General Business Taxes | | | | | |
| Business Corporations | 179,009,821 | 209,900,000 | 30,890,179 | 203,300,000 | (6,600,000) |
| Public Utilities Gross | 101,000,000 | 94,300,000 | (6,700,000) | 94,600,000 | 300,000 |
| Financial Institutions | 26,900,000 | 35,700,000 | 8,800,000 | 31,100,000 | (4,600,000) |
| Insurance Companies | 138,063,909 | 137,500,000 | (563,909) | 139,400,000 | 1,900,000 |
| Bank Deposits | 3,500,000 | 3,800,000 | 300,000 | 3,800,000 | - |
| Health Care Provider | 38,776,018 | 37,200,000 | (1,576,018) | 38,300,000 | 1,100,000 |
| Sales and Use Taxes | | | | | |
| Sales and Use | 1,305,200,000 | 1,432,000,000 | 126,800,000 | 1,462,000,000 | 30,000,000 |
| Motor Vehicle | 1,000,000 | 1,000,000 | - | 1,000,000 | - |
| Cigarettes | 156,000,000 | 153,800,000 | (2,200,000) | 148,500,000 | (5,300,000) |
| Alcohol | 22,400,000 | 23,200,000 | 800,000 | 23,700,000 | 500,000 |
| Other Taxes | | | | | |
| Inheritance and Gift | 45,000,000 | 39,800,000 | (5,200,000) | 45,200,000 | 5,400,000 |
| Racing and Athletics | 1,000,000 | 500,000 | (500,000) | 800,000 | 300,000 |
| Realty Transfer | 18,769,806 | 20,500,000 | 1,730,194 | 21,400,000 | 900,000 |
| Total Taxes | \$ 3,585,985,469 | \$ 3,845,800,000 | \$ 259,814,531 | \$ 3,917,200,000 | \$ 71,400,000 |
| Departmental Receipts | 422,313,579 | 419,200,000 | (3,113,579) | 252,400,000 | (166,800,000) |
| Other Miscellaneous | 12,377,299 | 11,300,000 | (1,077,299) | 10,700,000 | (600,000) |
| Lottery | 375,860,000 | 393,300,000 | 17,440,000 | 391,100,000 | (2,200,000) |
| Unclaimed Property | 14,200,000 | 14,700,000 | 500,000 | 11,800,000 | (2,900,000) |
| Total General Revenues | \$ 4,410,736,347 | \$ 4,684,300,000 | \$ 273,563,653 | \$ 4,583,200,000 | \$ (101,100,000) |

NEXT MEETING

The next required meeting of the conference is May 2022.

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

The Honorable Ryan W. Pearson, Chairman
 Senate Finance Committee