



State of Rhode Island

Revenue Estimating Conference

Room 305, STATE HOUSE, PROVIDENCE, RI 02903

SHARON REYNOLDS FERLAND
House Fiscal Advisor
November 2022 Conference Chair

JOSEPH M. CODEGA JR.
State Budget Officer

STEPHEN H. WHITNEY
Senate Fiscal Advisor

MEMORANDUM

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

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

Date: November 16, 2022

Subject: **November 2022 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on October 31, November 4 and 10, 2022, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2023 to 2028 and issued revised estimates for FY 2023 and first estimates for FY 2024 revenues. Based on collection trends through October, preliminary FY 2022 closing results, and the revised economic forecast, the Conference increased the FY 2023 estimates by \$358.9 million from the enacted estimate of \$4,901.5 million to \$5,260.4 million.

The Conference estimated FY 2024 revenues at \$5,104.8 million, which is \$155.6 million less than the revised estimate for FY 2023 but does not include the hospital license fee. That fee accounts for \$179.1 million in FY 2023 that cannot be included in FY 2024 because it is 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 31, the Conference heard forecasts for the national and Rhode Island economies from S&P Global Market Intelligence. They were represented by Michael Konidaris, Associate Director – US Economies, Economics and Country Risk, and Karl Kuykendall, Associate Director. The conferees also received testimony from Donna Murray, Assistant Director, Labor Market Information, of the Department of Labor and Training. The Conference adopted a revised economic forecast for Rhode Island based on the information presented.

The forecast and prior year data are shown in the following table.

November 2022 Consensus Economic Forecast								
Annual Growth	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Nonfarm Employment (000's)	479.8	495.7	494.4	493.8	497.5	499.9	501.1	501.1
Nonfarm Employment Growth	4.0	3.3	-0.3	-0.1	0.8	0.5	0.2	0.2
Personal Income (mil.)	\$70,531.5	\$70,949.4	\$73,543.4	\$76,837.0	\$ 80,413.5	\$ 83,961.3	\$87,564.7	\$ 87,564.7
Personal Income Growth	7.3	0.6	3.7	4.5	4.7	4.4	4.3	4.3
Wage and Salaries Income	7.3	7.5	3.6	4.3	5.1	4.7	4.2	4.2
Dividends, Interest and Rent	2.5	4.0	5.7	5.5	3.8	3.5	3.6	3.6
Rates								
Unemployment Rate	5.7	3.2	4.4	5.1	4.8	4.5	4.4	4.4
Consumer Price Index (US)	4.7	8.1	4.2	2.5	2.2	2.2	2.3	2.3
Personal Consumption Growth	12.8	8.2	3.6	3.1	4.0	3.9	3.8	3.8
Housing Starts	1.2	1.1	1.0	1.2	1.3	1.3	1.3	1.3
Annual Growth	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Nonfarm Employment (000's)	468.4	489.0	497.4	492.3	495.9	498.8	500.6	500.6
Nonfarm Employment Growth	-3.0	4.4	1.7	-1.0	0.7	0.6	0.4	0.4
Personal Income (mil.)	\$68,577.3	\$69,894.6	\$72,290.0	\$75,105.1	\$ 78,606.6	\$ 82,209.5	\$85,746.0	\$ 85,746.0
Personal Income Growth	7.9	1.9	3.4	3.9	4.7	4.6	4.3	4.3
Wage and Salaries Income	4.1	8.7	5.3	3.1	5.2	4.9	4.4	4.4
Dividends, Interest and Rent	-0.3	4.1	4.6	6.1	4.4	3.6	3.5	3.5
Rates								
Unemployment Rate	7.4	4.3	3.4	5.1	4.9	4.6	4.4	4.4
Consumer Price Index (US)	2.3	7.2	6.5	2.9	2.4	2.2	2.2	2.2
Personal Consumption Growth	5.6	11.4	5.6	2.8	3.7	4.0	3.8	3.8
Housing Starts	1.3	1.0	1.0	1.1	1.3	1.4	1.3	1.3

Mr. Konidaris' testimony on the United States economy focused on the likelihood of a mild recession beginning in the fourth quarter of 2022 as federal fiscal supports and pent-up demand wane, financial conditions deteriorate, increasing prices erode real income and wealth, and foreign growth sags. At that time, real gross domestic product is expected to decline for three quarters. In 2023, the unemployment rate is projected to rise from the current 3.5 percent to 6.0 percent by the end of 2023 before declining to 4.3 percent by mid-2029. He noted that the forecast anticipates partial reversals of recent increases in energy, food and durable goods prices as supplies increase followed by inflation moderating with the unemployment increase.

Mr. Konidaris explained the additional forecast assumptions including: the transition of the COVID-19 pandemic to an endemic; a gradual waning of the effects on commodities prices from the Russian war in Ukraine; sanctions remain in place and oil prices peak in the second quarter of 2022. The forecast also assumes no further impact from federal fiscal stimulus and that the Federal Reserve continues aggressive rate hikes in the short term reaching as high as 4.75 percent before reversing course by early 2024.

Mr. Karl Kuykendall gave the testimony on the Rhode Island economy which he predicted would enter a recession by the end of the year along with the rest of the country. He also noted that while the local

housing market has been strong, a sharp rise in mortgage rates and deteriorating economic conditions will negatively affect home prices, sales and housing starts over the near-term. Rhode Island's employment recovery has recently slowed and will not be fully recovered from the COVID-19 pandemic when the recession begins. He highlighted the uneven job recovery among sectors whereby construction, manufacturing and professional and business services have added over four thousand jobs combined relative to February 2020, but education and health, Rhode Island's largest sector is still four thousand job short, as is leisure and hospitality. The state's unemployment rate hit a record low of 2.7 percent in July but is trending higher now and the forecast has it reaching 5.1 percent in early 2024. Employment losses are assumed to begin in early 2023.

The Department of Labor and Training reported that the estimated 507,800 Rhode Island based jobs in February 2020 was a record high and included 551,000 employed residents, and 64 percent of the working age population participating in the labor force. During the pandemic the state lost 21.3 percent of its jobs, over 108,000. The Department testified that this was the highest percentage loss in New England and fourth highest nationally. Rhode Island's unemployment rate hit 18.4 percent in April 2020.

By the end of 2020, the state had regained 64,200 jobs, 59.4 percent of the total lost. Employment increased in 2021 at an average monthly gain of 2,000 jobs; it continued to grow in 2022, but slower. The Department reported that through September 2022, Rhode Island has recovered 91.5 percent of the jobs lost during the pandemic, or 98,900 jobs. This recovery rate is the 33rd highest in the nation and fourth highest in New England ahead of Connecticut which has recovered 89.2 percent of lost jobs and Vermont at 79.5 percent. All New England states are still below their February 2020 employment levels; Rhode Island is about 9,200 jobs or 1.8 percent below February 2020.

The Department shared data showing the pandemic's disproportionate impact on lower wage industries, those with average annual wages less than \$50,000. They accounted for 31.7 percent of the total jobs in the state but nearly sixty percent of the jobs lost during the pandemic. High wage industries, average annual wages above \$70,000, accounted for 31.9 percent of total jobs but only 10.2 percent of the jobs lost. The mid-wage industries, between \$50,000 and \$70,000, accounted for one-third of the jobs lost. High and mid-wage industries have both recovered about 96 percent of the 45,400 jobs lost and low-wage industries have recovered about 88 percent of the 62,700 jobs lost.

The Department provided data on jobs lost and recovered by sector echoing the economists' testimony on the disparity of the recovery. The professional and technical services sector and construction sector are exceeding February 2020 levels but employment remains below pre-pandemic levels in ten economic sectors. Employment in four of the five low-wage sectors is significantly below pre-pandemic levels and health care and social assistance is reporting the largest loss since February 2020 down 2,400 jobs.

Based on current data and anticipated benchmark revisions the Department of Labor and Training estimates the number of jobs in 2022 will average approximately 492,000, ending with approximately 505,000 jobs. Additional data provided show that labor force participation, currently 64.8 percent of the working age population has now exceeded pre-pandemic levels.

The following table shows the changes to the May 2022 forecast by metric. Changes to historical information are the result of data revisions that occur regularly.

November 2022 Consensus Economic Forecast Change to May 2022									
Annual Growth	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027
Nonfarm Employment (000's)	0.0	0.0	0.0	0.4	-9.0	-13.0	-10.4	-8.7	-9.3
Nonfarm Employment Growth	0.0	0.0	0.0	0.1	-1.9	-0.8	0.5	0.3	-0.1
Personal Income (mil.)	1,198	1,409	2,667	2,176	726	169	148	175	148
Personal Income Growth	1.9	0.2	1.8	-0.7	-2.2	-0.8	0.0	0.0	0.0
Wage and Salaries Income	0.0	-0.3	-0.7	-1.6	-2.4	-0.4	0.9	0.7	0.0
Dividends, Interest and Rent	7.0	0.9	1.7	0.1	-1.1	-1.2	-1.4	-1.0	-0.8
Rates	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	-0.3	0.8	1.3	0.6	0.2	0.0
Consumer Price Index (US)	0.0	0.0	0.0	1.3	1.7	0.4	0.3	0.5	0.2
Personal Consumption Growth	-0.3	0.6	1.3	0.0	-0.7	-1.1	-0.2	-0.3	-0.7
Housing Starts	0.0	0.0	0.0	-0.1	-0.3	-0.2	-0.1	-0.1	-0.1
Annual Growth	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Nonfarm Employment	0.0	0.0	0.0	0.7	-3.1	-13.0	-11.7	-9.3	-8.8
Nonfarm Employment Growth	0.0	0.0	0.0	0.2	-0.8	-2.0	0.3	0.5	0.1
Personal Income (mil.)	696.7	1,273.8	2,106.4	2,519.0	1,515.9	291.4	119.9	191.1	165.1
Personal Income Growth	1.3	0.9	1.2	0.6	-1.6	-1.8	-0.2	0.1	0.0
Wage and Salaries Income	0.1	-0.1	-0.6	-1.2	-1.7	-2.1	0.7	0.9	0.3
Dividends, Interest and Rent	4.8	4.2	0.9	1.2	-0.6	-1.2	-1.4	-1.1	-0.9
Rates	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	0.0	1.4	1.0	0.4	0.1
Consumer Price Index (US)	0.0	0.0	0.0	0.3	2.1	0.8	0.4	0.3	0.4
Personal Consumption Growth	-0.2	-0.2	1.4	0.7	-0.2	-1.3	-0.5	-0.1	-0.6
Housing Starts	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1

REVENUES

Taxes. Revenues from taxes in FY 2023 are estimated to decrease 0.8 percent from preliminary FY 2022 collections and increase 1.0 percent in FY 2024 over the revised FY 2023 estimate. Total estimated tax revenues for FY 2023 of \$4,326.4 million are \$284.4 million above the enacted estimate. FY 2024 total estimated taxes are \$4,371.1 million, \$44.7 million above the revised FY 2023 estimate.

Personal Income Tax. The personal income tax estimates of \$1,910.3 million for FY 2023 and \$1,979.6 million for FY 2024 represent annual growth rates of -4.4 percent and 3.6 percent, respectively. The FY 2023 revised estimate is \$135.3 million more than enacted primarily from an anticipated increase in final payments. The FY 2024 estimate is \$69.3 million more than the FY 2023 revised estimate, with more than half of the project increase in withholding revenues, the largest component of this tax.

The personal income tax estimates include \$472.4 million across both fiscal years in corporate income taxes transferred to personal income tax via individuals filing as corporate pass-through entities. Rhode Island established this filing mechanism effective 2019 to address the federal cap on state and local tax deductions, and its use has increased annually. The conference principals reached consensus on underlying activity as well as the anticipated rate of refunds on overpayments and potential duplicate payments.

Business Taxes. The conferees estimate total business taxes of \$602.6 million in FY 2023 and \$601.5 million in FY 2024. Year over year growth rates are -2.4 percent and -0.2 percent, respectively as FY 2022 collections were \$617.1 million. The FY 2023 estimate is \$65.4 million more than enacted, while the FY 2024 estimate is \$1.1 million less than the revised estimate.

Sales and Use Taxes. Sales tax, the bulk of the consumption taxes, is estimated at \$1,575.0 million for FY 2023 and \$1,580.0 million for FY 2024. The FY 2023 revenues are \$66.4 million above the enacted estimate, which represents growth of 4.2 percent from the preliminary FY 2022 receipts. The FY 2024 estimate is \$5.0 million, or 0.3 percent, above the revised FY 2023 estimate.

Excise Taxes Other Than Sales and Use Taxes. The conferees estimate \$158.2 million for revised FY 2023 and \$141.5 million for FY 2024 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 2023 revised estimate is \$15.8 million, or 9.1 percent, below the prior year. The total FY 2024 estimate decreases by \$16.7 million, or 10.6 percent, from the revised estimate for FY 2023.

The negative growth rates in FY 2023 and FY 2024 reflect the long-term decline in cigarette consumption, and also factor in some of the impact of a planned change to federal tobacco product standards that would prohibit menthol cigarettes and flavored cigars. In April 2022, the Food and Drug Administration announced the proposed new rule and a public comment schedule to run from May 4 through July 5, 2022; that process has since been extended and the timing of a resolution is unclear. The conferees assumed such a change would not impact sales of tobacco products until FY 2024.

Other Taxes. The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce \$80.3 million in FY 2023 and \$68.5 million in FY 2024. The FY 2023 revised estimate is \$13.4 million more than enacted primarily reflecting a single large inheritance tax payment received in October. The FY 2024 estimate for total other taxes is \$11.8 million less than the FY 2023 revised estimate.

Departmental Receipts. The conferees adopted estimates of \$464.0 million for FY 2023 and \$280.0 million for FY 2024 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 revised estimate is \$30.0 million more than enacted reflecting adjustments based on FY 2022 performance as well as unusually high interest earnings given the combination of strong fund balances and recent rate hikes.

The FY 2024 estimate is \$184.0 million less than the revised FY 2023 estimate, mainly due to the end of the hospital license fee, which produces \$179.1 million in FY 2023. 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 enacted for FY 2024.

Lottery Transfer. The lottery transfer is estimated to produce general revenue of \$418.7 million in FY 2023, with \$309.6 million generated from the video lottery terminals installed at Twin River – Lincoln and Tiverton; \$72.5 million derived from combined games, which include PowerBall, Mega Millions, scratch tickets, and Keno; \$13.6 million in net revenues received from the table games at both the Twin River Lincoln and Tiverton locations; and, \$23.0 million from sports betting at both casino locations and via the mobile application. The FY 2023 revised estimate is \$30.9 million above the FY 2023 enacted estimate transfer, primarily from video lottery activity. The revised estimate is \$30.1 million above the FY 2022 transfer.

The estimated transfer is \$410.7 million for FY 2024, with \$307.4 million derived from video lottery terminals, \$72.0 million from combined games, \$13.7 million from the table games, and \$17.6 million from sports betting. The FY 2024 lottery transfer is projected to decrease by \$8.0 million from the FY 2023 revised estimated, primarily reflecting the approval of sports betting in Massachusetts which is expected to affect all casino based revenues along with sports betting activity. Based on Lottery testimony, Massachusetts sports betting is expected to begin in early 2023.

Other Sources. Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources, often non-recurring. These are estimated to produce \$51.3 million in FY 2023 and \$43.0 million in FY 2024. Both years include a \$13.5 million installment of the \$27.0 million payment from the new long term lottery contract authorized in 2021.

The tables that follow show the results by revenue category, along with information on the FY 2022 preliminary closing and comparison to the FY 2023 enacted budget.

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November 2022 CRE	FY 2022	FY 2023 Estimate		FY 2024 Estimate	
Personal Income Tax	\$ 1,998,500,414	\$ 1,910,300,000	-4.4%	\$ 1,979,600,000	3.6%
General Business Taxes					
Business Corporations	288,450,198	252,000,000	-12.6%	261,300,000	3.7%
Public Utilities Gross	90,447,160	101,000,000	11.7%	95,000,000	-5.9%
Financial Institutions	36,263,375	38,900,000	7.3%	34,500,000	-11.3%
Insurance Companies	159,708,472	166,700,000	4.4%	165,000,000	-1.0%
Bank Deposits	4,208,761	4,500,000	6.9%	4,500,000	0.0%
Health Care Provider	38,043,997	39,500,000	3.8%	41,200,000	4.3%
Sales and Use Taxes					
Sales and Use	1,511,452,749	1,575,000,000	4.2%	1,580,000,000	0.3%
Motor Vehicle	965,283	1,000,000	3.6%	1,000,000	0.0%
Cigarettes	149,745,624	133,900,000	-10.6%	117,200,000	-12.5%
Alcohol	23,323,085	23,300,000	-0.1%	23,300,000	0.0%
Other Taxes					
Inheritance and Gift	39,301,855	58,800,000	49.6%	47,000,000	-20.1%
Racing and Athletics	507,844	500,000	-1.5%	500,000	0.0%
Realty Transfer	22,118,052	21,000,000	-5.1%	21,000,000	0.0%
<i>Total Taxes</i>	\$ 4,363,036,869	\$ 4,326,400,000	-0.8%	\$ 4,371,100,000	1.0%
Departmental Receipts	428,096,658	464,000,000	8.4%	280,000,000	-39.7%
Other Miscellaneous	9,110,984	37,300,000	309.4%	30,400,000	-18.5%
Lottery	388,597,483	418,700,000	7.7%	410,700,000	-1.9%
Unclaimed Property	19,003,313	14,000,000	-26.3%	12,600,000	-10.0%
Total General Revenues	\$ 5,207,845,307	\$ 5,260,400,000	1.0%	\$ 5,104,800,000	-3.0%

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November 2022 CRE	FY 2023 Enacted	FY 2023 Revised Estimate	Change to Enacted	FY 2024 Estimate	Change to FY 2023 Rev. Est.
Personal Income Tax	\$ 1,774,966,218	\$ 1,910,300,000	\$ 135,333,782	\$ 1,979,600,000	\$ 69,300,000
General Business Taxes					
Business Corporations	214,900,000	252,000,000	37,100,000	261,300,000	9,300,000
Public Utilities Gross	90,900,000	101,000,000	10,100,000	95,000,000	(6,000,000)
Financial Institutions	31,100,000	38,900,000	7,800,000	34,500,000	(4,400,000)
Insurance Companies	157,983,465	166,700,000	8,716,535	165,000,000	(1,700,000)
Bank Deposits	4,200,000	4,500,000	300,000	4,500,000	-
Health Care Provider	38,133,314	39,500,000	1,366,686	41,200,000	1,700,000
Sales and Use Taxes					
Sales and Use	1,508,565,666	1,575,000,000	66,434,334	1,580,000,000	5,000,000
Motor Vehicle	1,000,000	1,000,000	-	1,000,000	-
Cigarettes	129,000,000	133,900,000	4,900,000	117,200,000	(16,700,000)
Alcohol	24,400,000	23,300,000	(1,100,000)	23,300,000	-
Other Taxes					
Inheritance and Gift	42,300,000	58,800,000	16,500,000	47,000,000	(11,800,000)
Racing and Athletics	800,000	500,000	(300,000)	500,000	-
Realty Transfer	23,800,000	21,000,000	(2,800,000)	21,000,000	-
<i>Total Taxes</i>	<i>\$ 4,042,048,663</i>	<i>\$ 4,326,400,000</i>	<i>\$ 284,351,337</i>	<i>\$ 4,371,100,000</i>	<i>\$ 44,700,000</i>
Departmental Receipts	434,034,620	464,000,000	29,965,380	280,000,000	(184,000,000)
Other Miscellaneous	24,479,637	37,300,000	12,820,363	30,400,000	(6,900,000)
Lottery	387,788,985	418,700,000	30,911,015	410,700,000	(8,000,000)
Unclaimed Property	13,100,000	14,000,000	900,000	12,600,000	(1,400,000)
Total General Revenues	\$ 4,901,451,905	\$ 5,260,400,000	\$ 358,948,095	\$ 5,104,800,000	\$ (155,600,000)

NEXT MEETING

The next required meeting of the conference is May 2023.

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

The Honorable Ryan W. Pearson., Chairman
Senate Finance Committee

