



State of Rhode Island

Revenue Estimating Conference


JOSEPH M. CODEGA JR.
State Budget Officer
May 2023 Conference Chair

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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: May 17, 2023

Subject: **May 2023 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on May 1, 4, and 10, 2023, 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 FY 2024 revenues. Based on collection trends through April, audited FY 2022 closing results, and the revised economic forecast, the Conference reduced the FY 2023 estimates by \$61.2 million from the November 2022 adopted estimate of \$5,260.4 million to \$5,199.2 million.

The Conference reduced the FY 2024 estimates by \$2.9 million from the November 2022 adopted estimate of \$5,104.8 million to \$5,101.9 million, which is \$97.3 million less than the revised estimate for FY 2023 but does not include the hospital licensing 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 May 1, 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 Economics, and Michael Lynch, Associate Director – US Regional Economics. 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.

May 2023 Consensus Economic Forecast								
	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Nominal Level								
Nonfarm Employment (Thous.)	479.6	496.1	500.9	500.8	501.3	502.7	504.3	505.6
Personal Income (Millions \$)	70,531	71,505	74,772	77,852	81,050	84,507	88,184	91,942
Housing Starts (Thous.)	1.3	1.1	1.2	1.3	1.4	1.4	1.4	1.4
Annual Growth Rates (% Year-over-Year)								
Nonfarm Employment Growth	4.0	3.4	1.0	0.0	0.1	0.3	0.3	0.3
Personal Income Growth	7.3	1.4	4.6	4.1	4.1	4.3	4.4	4.3
Wage and Salaries Income Growth	7.3	9.4	5.7	3.8	3.9	4.2	4.2	4.1
Dividends, Interest and Rent Growth	2.5	4.3	5.5	4.9	4.4	3.9	3.9	3.7
Personal Consumption Expenditures Growth	12.8	8.9	5.5	3.0	3.4	3.8	4.1	4.1
Consumer Price Index(US)	4.7	8.0	4.5	2.7	2.2	2.1	2.3	2.2
Corporate Profits Growth (US)	22.6	6.6	2.8	-0.1	0.8	3.2	3.5	4.1
S&P 500 Index Growth (US)	32.6	-3.9	0.2	2.4	-0.5	2.9	4.3	4.1
Rates (%)								
Unemployment Rate (RI)	5.5	3.2	3.4	4.2	4.5	4.5	4.4	4.3
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Nominal Level								
Nonfarm Employment (Thous.)	468.0	489.5	499.7	500.9	500.9	501.9	503.5	505.0
Personal Income (Millions \$)	68,577	70,069	73,286	76,284	79,423	82,749	86,311	90,071
Housing Starts (Thous.)	1.3	1.0	1.2	1.2	1.3	1.4	1.4	1.4
Annual Growth Rates (% Year-over-Year)								
Nonfarm Employment Growth	-3.0	4.6	2.1	0.2	0.0	0.2	0.3	0.3
Personal Income Growth	7.9	2.2	4.6	4.1	4.1	4.2	4.3	4.4
Wage and Salaries Income Growth	4.1	9.2	7.9	4.1	3.8	4.0	4.2	4.2
Dividends, Interest and Rent Growth	-0.3	4.1	5.0	5.2	4.6	4.1	3.9	3.9
Personal Consumption Expenditures Growth	5.5	11.6	7.3	3.6	3.2	3.6	4.0	4.1
Consumer Price Index(US)	2.3	7.2	6.4	3.5	2.4	2.1	2.2	2.3
Corporate Profits Growth (US)	12.2	13.7	3.8	0.8	0.1	2.2	3.3	3.9
S&P 500 Index Growth (US)	23.9	17.9	-9.6	5.4	0.0	0.7	4.2	4.3
Rates (%)								
Unemployment Rate (RI)	7.5	4.0	3.2	3.8	4.4	4.5	4.4	4.3

Mr. Konidaris' testimony on the U.S. economy focused on the Federal Reserve's continuing efforts to combat stubbornly high inflation and tight labor markets, the modest national fallout from the Silicon Valley Bank event, and the likelihood of the U.S. entering a recession. Though headwinds and risks remain, the forecast has been revised to effectively eliminate the recession that was predicted as of the last revenue conference in November 2022. In November, S&P Global predicted negative real national GDP growth in the second through fourth quarters of FY 2023. The actual data showed positive growth in the second and third quarters. The current economic forecast shows slight negative growth in the fourth quarter of FY 2023

(the current quarter), but S&P described this as a pause in growth rather than as a recession. However, the updated forecast expects inflation to be more persistent than previously forecast, particularly in FY 2024, where U.S. Consumer Price Index growth is revised upward to 3.5 percent from the 2.9 percent forecast in November.

Mr. Konidaris explained the additional risks to the national forecast, including the potential for intensified conflict in Ukraine, failure to reach a resolution to the federal debt ceiling standoff, and a credit pullback triggered by increased Federal Reserve tightening activity.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. Because the outright recession has generally been eliminated from the forecast and inflation will keep prices and wages elevated, in nominal terms the May 2023 consensus economic forecast shows upward revisions to growth. Personal income growth was expected as of November to be 3.4 percent and 3.9 percent in FY 2023 and FY 2024, respectively, but is now pegged at 4.6 percent and 4.1 percent. The November forecast assumed the unemployment rate would be 3.4 percent and 5.1 percent in FY 2023 and FY 2024, with the FY 2024 value indicating the negative employment impacts of a recession. Now, the unemployment rate in those years is expected to be 3.2 percent and 3.8 percent. Overall consumption growth was revised upward in FY 2023 and FY 2024, driven by persistent inflation and continued strength in services spending.

Mr. Lynch testified that as of March 2023 Rhode Island had regained 101,600 of the 108,300 jobs lost in the first months of the pandemic, which represents a recovery of approximately 94 percent. This recovery places Rhode Island fifth among the New England States, above only Vermont, and 42nd nationally. Employment figures in the construction, administrative support, professional/scientific/technical, and manufacturing sectors are now above pre-pandemic levels. While the largest gains have been in the sectors hardest hit by the pandemic, including accommodation and food services, healthcare, and retail trade, these sectors still lag slightly behind their pre-pandemic employment levels. Overall, the forecast predicts the state will return to pre-pandemic peak total employment levels in the third quarter of FY 2028.

Increasing mortgage rates have already impacted Rhode Island's housing market. Housing starts in Rhode Island in FY 2022 only reached 1,030, the lowest reading since FY 2015. Both FY 2023 and FY 2024 are expected to see slight growth in starts, with double-digit growth kicking in during FY 2025. Likewise, the growth in the median home price of existing single-family homes is expected to be negative in both FY 2023 and FY 2024 before growing again starting in FY 2025. Rhode Island initially saw home price growth during the pandemic recovery that was higher than the national average but has seen recent price declines. Mr. Lynch highlighted the lack of affordable housing and outmigration as causes of this price decline.

Mr. Lynch explained that other headwinds for the Rhode Island employment and overall economic picture include population decline. Although the forecast has international immigration trending upward in FY 2023 and FY 2024, it shows overall negative population growth in both years driven by net domestic outmigration. The November forecast had assumed near-term population growth based on growth in actual Census data, which was subsequently revised downward.

Ms. Murray of the Department of Labor and Training shared data showing the lagging pace in the recovery of jobs in low-wage industries (those with average annual wages less than \$50,000). These industries were the hardest hit during the pandemic, accounting for 58.3 percent of pandemic job losses, and have been slowest to return with only 91.4 percent of lost jobs recovered. This compares with 92.2 percent recovery in mid-wage industries with average wages between \$50,000 and \$69,000, and 115.8 percent recovery in high-wage industries with average wages of \$70,000 and higher. Ms. Murray and conferees discussed the impacts of recent remote work trends, as Rhode Island firms allow employees formerly based in the state to work from out-of-state locations. This has the potential to impact state jobs data and personal income tax collections.

The Department also shared data on Rhode Island's labor force participation rate, the percentage of the working age population—defined as those age 16 and older—that is currently either employed or actively seeking employment. The Department testified that in the year prior to the pandemic, the labor force participation rate averaged 64.4 percent. This dropped to 61.0 percent by April 2020. By March 2022 labor force participation was back up to 63.5 percent, but in the past year has been declining again and is at 62.9 percent as of March 2023.

While men are more likely to participate in the labor force than women, the labor force participation rate for men has fallen from 70.4 percent in the year prior to the pandemic to 68.0 in the months following, while the labor force participation rate for women has increased from 58.7 percent to 59.4 percent during the same period.

While one explanation for the declining labor force participation rate is the state's aging population, of concern is the decline in labor participation among the prime working age population (individuals age 25 to 54). Ms. Murray shared some insight into this trend by discussing breakdowns of survey results of individuals in this age range who are not currently in the labor force. The two most common responses are taking care of the home/family and disability. In 2022, 39.8 percent of prime working age respondents not in the labor force cited caregiving and 39.3 percent cited disability.

Among male respondents in the prime working age category, 61.9 percent cited disability as their reason for not participating in the labor force, compared to only 24.9 percent of women. Among women, 58.1 percent cited taking care of home or family, compared to only 12.0 percent of men.

REVENUES

Taxes. Revenues from taxes in FY 2023 are estimated to decrease 2.5 percent from FY 2022 collections and increase 2.0 percent in FY 2024 over the revised FY 2023 estimate. Total estimated tax revenues for FY 2023 of \$4,242.4 million are \$84.0 million below the November 2022 adopted estimate. FY 2024 total estimated taxes are \$4,326.6 million, \$44.5 million below the November estimate.

Personal Income Tax. The personal income tax estimates of \$1,813.7 million for FY 2023 and \$1,886.9 million for FY 2024 represent annual growth rates of -8.7 percent and 4.0 percent, respectively. The FY 2023 revised estimate is \$96.6 million less than previously estimated. The FY 2024 estimate is \$92.7 million less than the previous estimate. In both years, more than half of the projected decrease is in withholding revenues, the largest component of this tax. The personal income tax estimates include \$325.0 million across both fiscal years in corporate income taxes transferred to personal income tax via individuals filing as corporate passthrough entities (\$175.0 million in FY 2023 and \$180.0 million in FY 2024). This is a filing mechanism in which the State has seen increased activity beginning in FY 2020 with the elimination of the federal state and local tax (SALT) deduction cap. Though usage of this filing mechanism increased consistently year-over-year from FY 2020 through FY 2022, the Division of Taxation testified that filings have stabilized in terms of both dollars and the number of entities filing.

Business Taxes. The conferees estimate total business taxes of \$597.5 million in FY 2023 and \$615.0 million in FY 2024. Year-over-year growth rates are -3.2 percent and 2.9 percent. The FY 2023 estimate is \$5.1 million less than the November estimate, while the FY 2024 estimate is \$13.5 million more than the previous estimate.

Sales and Use Tax. Sales and use tax, the bulk of the consumption taxes, is estimated at \$1,579.0 million for FY 2023 and \$1,607.0 million for FY 2024. The FY 2023 revenues are \$4.0 million above the November estimate, which represents growth of 4.5 percent from the audited FY 2022 receipts. The FY 2024 estimate is \$27.0 million higher than the November estimate and represents growth of 1.8 percent over the revised FY 2023 estimate.

Excise Taxes Other Than Sales and Use Taxes. The conferees estimate \$157.1 million and \$146.4 million for FY 2023 and FY 2024, respectively from excise taxes other than sales and use taxes. These taxes include certain motor vehicle license fees for duplicate and updated licenses, tobacco taxes, and alcohol taxes. The FY 2023 revised estimate is \$17.0 million, or 9.7 percent, below the prior year. The FY 2024 estimate is \$4.9 million more than the November consensus, and \$10.7 million, or 6.8 percent less than the revised estimate for FY 2023.

Other Taxes. The estate and transfer, racing and athletics, and realty transfer taxes are estimated to produce \$95.1 million in FY 2023 and \$71.3 million in FY 2024. The FY 2023 revised estimate is \$14.8 million more than previously adopted primarily reflecting a recent large estate tax payment. The revised FY 2024 estimate for total other taxes is \$2.8 million more than the November estimate, but \$23.8 million less than the FY 2023 revised estimate, primarily reflecting the infrequent nature of large estate tax payments.

Departmental Receipts. The conferees adopted estimates of \$478.0 million for FY 2023 and \$306.5 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 \$14.0 million more than previously estimated reflecting adjustments based on year-to-date strength in several categories.

The revised FY 2024 estimate is \$26.5 million higher than the previously adopted estimate. The bulk of this change is due to an upward revision in interest payments on the State's general fund. The conferees received testimony that both cash balances and interest rates would be higher than previously assumed. The revised FY 2024 estimate is \$171.5 million less than the revised FY 2023 estimate, mainly due to the end of the hospital licensing 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 \$434.2 million in FY 2023, with \$319.9 million generated from the video lottery terminals installed at Bally's Twin River (Lincoln) and Bally's Tiverton; \$73.5 million derived from combined games, which include PowerBall, Mega Millions, scratch tickets, and Keno; \$14.5 million in net revenues received from the table games at both the Bally's Twin River and Tiverton locations; and, \$26.3 million from sports betting at both casino locations and via the mobile application. The FY 2023 revised estimate for the total lottery transfer is \$15.5 million above the FY 2023 November estimate, primarily from video lottery activity. The revised estimate is \$45.6 million above the FY 2022 transfer.

The revised transfer estimate for FY 2024 is \$428.6 million, which is \$17.9 million higher than the November estimate. This estimate is comprised of \$318.4 million from video lottery terminals, \$73.7 million from combined games, \$14.4 million from table games, and \$22.1 million from sports betting. The FY 2024 lottery transfer is projected to decrease by \$5.6 million from the FY 2023 revised estimate, primarily reflecting a full year of sports betting in Massachusetts (which is expected to affect all casino-based revenues along with sports betting activity). Additionally, beginning in FY 2024, the combined games estimate includes the prorated annual value of the upfront lottery contract payments consistent with accounting rules.

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 \$44.6 million in FY 2023 and \$40.2 million in FY 2024. Both years are revised down from the November 2022 consensus estimates due to a change in accounting treatment of the two \$13.5 million payments from the new long-term lottery contract authorized in 2021. The payments will now be recognized as part of the lottery transfer in annual installments over the twenty-year contract term. Some of this negative impact is offset by upward revisions in interest on bond proceeds due to higher interest rates than those previously forecast.

The tables that follow show the results by revenue category, along with information on the FY 2022 audited closing and comparison to the November 2022 consensus estimates.

May 2023 CRE	FY 2022 Audited	FY 2023 Estimate	FY 23 v. FY 22	FY 2024 Estimate	FY 24 v. FY 23
Personal Income Tax	\$ 1,985,923,414	\$ 1,813,700,000	-8.7%	\$ 1,886,900,000	4.0%
General Business Taxes					
Business Corporations	288,450,198	262,600,000	-9.0%	276,000,000	5.1%
Public Utilities Gross	90,447,160	99,200,000	9.7%	100,900,000	1.7%
Financial Institutions	36,263,375	34,400,000	-5.1%	34,500,000	0.3%
Insurance Companies	159,708,472	157,100,000	-1.6%	157,800,000	0.4%
Bank Deposits	4,208,761	4,700,000	11.7%	4,600,000	-2.1%
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	1,579,000,000	4.5%	1,607,000,000	1.8%
Motor Vehicle	965,283	1,000,000	3.6%	1,000,000	0.0%
Cigarettes	149,745,624	133,600,000	-10.8%	122,900,000	-8.0%
Alcohol	23,323,085	22,500,000	-3.5%	22,500,000	0.0%
Other Taxes					
Inheritance and Gift	39,301,855	77,600,000	97.4%	55,500,000	-28.5%
Racing and Athletics	507,844	500,000	-1.5%	500,000	0.0%
Realty Transfer	22,118,052	17,000,000	-23.1%	15,300,000	-10.0%
Total Taxes	\$ 4,350,459,869	\$ 4,242,400,000	-2.5%	\$ 4,326,600,000	2.0%
Departmental Receipts	433,130,859	478,000,000	10.4%	306,500,000	-35.9%
Other Miscellaneous	10,586,336	29,900,000	182.4%	23,700,000	-20.7%
Lottery	388,641,696	434,200,000	11.7%	428,600,000	-1.3%
Unclaimed Property	21,425,309	14,700,000	-31.4%	16,500,000	12.2%
Total General Revenues	\$ 5,204,244,069	\$ 5,199,200,000	-0.1%	\$ 5,101,900,000	-1.9%

May 2023 CRE	FY 2023 May	Change from Nov	FY 2024 May	Change from Nov
Personal Income Tax	\$ 1,813,700,000	\$ (96,600,000)	\$ 1,886,900,000	\$ (92,700,000)
General Business Taxes				
Business Corporations	262,600,000	10,600,000	276,000,000	14,700,000
Public Utilities Gross	99,200,000	(1,800,000)	100,900,000	5,900,000
Financial Institutions	34,400,000	(4,500,000)	34,500,000	-
Insurance Companies	157,100,000	(9,600,000)	157,800,000	(7,200,000)
Bank Deposits	4,700,000	200,000	4,600,000	100,000
Health Care Provider	39,500,000	-	41,200,000	-
Sales and Use Taxes				
Sales and Use	1,579,000,000	4,000,000	1,607,000,000	27,000,000
Motor Vehicle	1,000,000	-	1,000,000	-
Cigarettes	133,600,000	(300,000)	122,900,000	5,700,000
Alcohol	22,500,000	(800,000)	22,500,000	(800,000)
Other Taxes				
Inheritance and Gift	77,600,000	18,800,000	55,500,000	8,500,000
Racing and Athletics	500,000	-	500,000	-
Realty Transfer	17,000,000	(4,000,000)	15,300,000	(5,700,000)
Total Taxes	\$ 4,242,400,000	\$ (84,000,000)	\$ 4,326,600,000	\$ (44,500,000)
Departmental Receipts	478,000,000	14,000,000	306,500,000	26,500,000
Other Miscellaneous	29,900,000	(7,400,000)	23,700,000	(6,700,000)
Lottery	434,200,000	15,500,000	428,600,000	17,900,000
Unclaimed Property	14,700,000	700,000	16,500,000	3,900,000
Total General Revenues	\$ 5,199,200,000	\$ (61,200,000)	\$ 5,101,900,000	\$ (2,900,000)

NEXT MEETING

The next required meeting of the conference is November 2023.

cc: The Honorable Louis P. DiPalma, Chairman
 Senate Finance Committee

The Honorable Marvin L. Abney, Chairman
 House Finance Committee