State of Rhode Island

Revenue Estimating Conference

JOSEPH M. CODEGA JR.
State Budget Officer
November 2024 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. Ruggerio, 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, 2024

Subject: **November 2024 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on October 28, and November 4 and 8, 2024, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2025 to 2030 and issued revised estimates for FY 2025 and initial estimates for FY 2026 revenues. Based on collection trends through October, preliminary FY 2024 closing results, and the revised economic forecast, the Conference increased the FY 2025 estimates by $67.5 million from the enacted budget estimate of $5,489.1 million to $5,556.6 million.

The Conference adopted initial general revenue estimates totaling $5,467.1 million for FY 2026. This is $89.5 million less than the revised estimate for FY 2025 but does not include the hospital licensing fee. That fee accounts for $215.7 million in FY 2025 that cannot be included in FY 2026 because it is typically 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 28, the Conference heard forecasts for the national and Rhode Island economies from Moody's Analytics, presented by Associate Director and Senior Economist, Emily Mandel. The conferees also received testimony from Lisa Dutilly, Chief of Research and Statistics, of the Department of Labor and Training's Labor Market Information Division. 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 2024 Consensus Economic Forecast

	CY2023	CY2024	CY2025	CY2026	CY2027	CY2028	CY2029	CY2030
Nominal Level								
Nonfarm Employment (Thous.)	504.6	511.1	512.7	513.8	513.6	513.3	512.8	512.3
Personal Income (Millions $)	74,046	78,202	81,392	84,707	87,981	91,417	95,059	98,775
Housing Starts (Thous.)	1.1	1.2	1.4	1.5	1.5	1.5	1.5	1.4
Annual Growth Rates (% Year-over-Year)								
Nonfarm Employment Growth	1.4	1.3	0.3	0.2	0.0	-0.1	-0.1	-0.1
Personal Income Growth	5.1	5.6	4.1	4.1	3.9	3.9	4.0	3.9
Wage and Salaries Income Growth	4.1	6.2	4.0	3.7	3.5	3.5	3.4	3.4
Dividends, Interest and Rent Growth	11.2	4.0	2.3	2.8	2.7	3.6	4.0	3.7
Personal Consumption Expenditures Growth	4.9	4.5	4.9	4.2	4.0	3.9	3.9	3.7
Consumer Price Index (US)	4.1	2.9	2.4	2.4	2.3	2.3	2.2	2.2
Corporate Profits Growth (US)	6.9	6.2	0.2	0.3	3.1	4.4	4.1	3.5
S&P 500 Index Growth (US)	4.5	25.3	3.7	1.4	5.9	5.8	5.0	4.9
Rates (%)								
Unemployment Rate (RI)	2.9	4.3	4.6	4.6	4.6	4.6	4.6	4.7
	FY2023	**FY2024**	**FY2025**	**FY2026**	**FY2027**	**FY2028**	**FY2029**	**FY2030**
Nominal Level								
Nonfarm Employment (Thous.)	502.1	509.1	511.1	513.6	513.8	513.5	513.1	512.6
Personal Income (Millions $)	72,198	76,264	79,676	83,079	86,329	89,669	93,226	96,908
Housing Starts (Thous.)	1.3	1.0	1.3	1.4	1.5	1.5	1.5	1.4
Annual Growth Rates (% Year-over-Year)								
Nonfarm Employment Growth	2.5	1.4	0.4	0.5	0.0	-0.1	-0.1	-0.1
Personal Income Growth	5.0	5.6	4.5	4.3	3.9	3.9	4.0	3.9
Wage and Salaries Income Growth	4.6	6.1	4.4	4.0	3.5	3.5	3.5	3.4
Dividends, Interest and Rent Growth	11.4	7.5	2.2	2.8	2.6	3.1	4.0	3.9
Personal Consumption Expenditures Growth	6.1	4.1	5.1	4.4	4.1	4.0	3.9	3.8
Consumer Price Index (US)	6.3	3.3	2.4	2.5	2.4	2.3	2.3	2.2
Corporate Profits Growth (US)	7.0	8.6	1.8	0.0	1.5	4.1	4.2	3.9
S&P 500 Index Growth (US)	-8.9	19.6	16.6	-0.3	4.0	6.3	5.3	4.9
Rates (%)								
Unemployment Rate (RI)	2.9	3.6	4.6	4.6	4.6	4.6	4.6	4.6

Ms. Mandel's testimony on the U.S. economy began with an assessment of the Federal Reserve's efforts to fulfill its "dual mandate" of reigning in inflation while maintaining the labor market at or near full employment. This assessment was largely positive, highlighting that the economy is nearly at full employment, with a slight uptick in unemployment being a natural and expected side effect of anti-inflationary monetary policy. Additionally, inflation is nearing target levels and the Fed has begun cutting interest rates, though admittedly rates remain elevated from recent historical levels and a variety of risks remain as potential threats to a "soft landing." However, the above-listed factors, along with continued projections of strong consumer spending growth, inform Moody's' baseline outlook, which projects that the U.S. will avoid a near-term recession. The forecast expects the Fed to cut rates at one-quarter point per quarter through the middle of CY 2026, when rates stabilize around 3%. The forecast, which was developed in October 2024, assumes divided control of the federal government.

Ms. Mandel explained that one of the primary bellwethers of the economy is consumer spending, and highlighted three primary reasons the forecast takes an optimistic tone on this central economic driver. First, despite countervailing signals in popular consumer sentiment surveys, consumer spending continues to grow in both nominal and real terms. This is supported in large part by higher-income households, the top one-third of which contribute 55% of consumer spending. Households in this category have enjoyed the benefits of strong stock markets and home price appreciation, while incurring smaller housing cost increases due to having low fixed mortgage rates. Second, wage growth among all income quartiles has been steadily outpacing inflation. While wage growth has begun to decelerate over the past year or so, it has not done so at the same pace as prices, increasing the spending power of consumers at all income levels. Finally, as the Fed continues to cut interest rates, this is expected to positively impact consumers who have debt and those who may want to take on additional debt, such as auto loans or mortgages. However, some of this benefit will likely lag the actual interest rate cuts.

Turning to the Rhode Island economic outlook, Ms. Mandel began by discussing the state's labor market, which has not only seen strong year-over-year growth but has also continued to grow in the past few months, in contrast to some neighboring states, which have seen slight contractions. While this Rhode Island job growth has been relatively broad based, with areas of strength in professional and business services, healthcare, and government, there has been some weakness in the leisure and hospitality, construction, and finance sectors. While there has been a significant increase in the unemployment rate over the past year, Ms. Mandel pointed out that this is largely attributable to a proportional increase in labor force size and participation rate. As more individuals enter and reenter the labor force looking for jobs, the unemployment rate will naturally increase.

In other positive news for Rhode Island's economy, wage growth in the Providence-Warwick New England city and town area (NECTA) not only kept pace with national wage growth and outpaced inflation, but it has also consistently outpaced wage growth in the Boston-Cambridge-Nashua NECTA over the past two years. While Providence area wages still trail the Boston area in nominal terms, the gap has narrowed, and the forecast sees this as a sign that the Rhode Island economy is performing well.

However, this does not mean the Rhode Island economy is without headwinds. In addition to the risks to the national forecast, Ms. Mandel's testimony highlighted Rhode Island's uniquely tight housing market as a significant downside factor. While consumer prices are moderating, as discussed above, they are not moderating in the Providence metro area or New England as a whole to the same extent as the rest of the country. This is driven predominantly by housing prices. Rhode Island's housing affordability index is at its lowest level since the early 1990s, driven largely by some of the lowest supply rates in the country, both for homes and rentals. High housing costs undercut the gains in consumer purchasing power discussed above. However, the forecast projects some moderation in the home price index over the next two years, with housing starts expected to grow by 29% in FY 2025 and another 7% in FY 2026.

Ms. Dutilly of the Department of Labor and Training shared that the Rhode Island labor market hit an all-time high job count of 513,700 in April 2024 before shedding 5,200 jobs between May and July. However, as of September, it had regained 4,400 of those jobs, putting the current employment level just 800 jobs shy of the April 2024 record. Overall, jobs are up 6,500 since September 2023, driven largely by strong gains in health care, government, and administrative & waste services.

Echoing the testimony from Moody's, Ms. Dutilly explained that most of the jobs lost between May and July 2024 were concentrated in the accommodation and food services sector, and the recovery there has been slower than in other sectors, with this industry still down 2,600 jobs from April and down 2,300 year-over-year from September 2023. These accommodation and food service job losses are in seasonally adjusted terms and reflect a lack of expected growth during the summer (as opposed to layoffs). Despite these short-term challenges, the Department still projects long-term growth in this sector over the next 10 years.

An important caveat to the robust job growth currently estimated over the first three quarters of CY 2024 is that recent data trends identified at the national level indicate some of the growth is likely to be revised downward during the next benchmark revision. Ms. Dutilly testified that the Department anticipates this will likely hold true for Rhode Island as well, with average year-over-year job gains for the first half of CY 2024 revised down from 8,900 jobs to 6,500 compared to the first half of 2023.

Finally, while Rhode Island's unemployment rate has hovered slightly above the national level and is the highest in New England as of September, it remains under the 5% full employment benchmark. It has also been accompanied by steady increases in the labor force participation rate over the past three years, which sits at 64.9% for the working age population aged 16 and older. This has been driven predominantly by significant gains in participation rates among the prime working age (25-54) and older workers (55 plus) age groups, and is being tempered by participation declines in the teenagers (16-19) and young adult (20-24) age groups.

REVENUES

Taxes. Revenues from taxes in FY 2025 are estimated to increase by 5.1% from FY 2024 preliminary collections and increase by 2.9% in FY 2026 over the revised FY 2025 estimate. The conference received testimony from the Office of Accounts and Control indicating that, after discussions with the Auditor General, they intend to accrue back a large portion of the tax payments received in July 2024 for tax year 2023 taxes due to the natural disaster-related filing extension from April to July. Based on analysis from the Division of Taxation, the July payments total $46.4 million, of which $37.3 million is concentrated in personal income tax. Accounting for this change, the FY 2025 growth rate in total taxes would be 3.9%.

Personal Income Tax. The personal income tax (PIT) estimates project growth of 7.4% in FY 2025 over the preliminary FY 2024 close. However, as mentioned above, most of the July payments that should be attributed to FY 2024 are in PIT. Adjusting for this, the growth would temper to 5.2%. PIT revenues are expected to grow 4.0% in FY 2026 over the FY 2025 revised estimate. In both years, the largest share of this growth is in withholding tax, the largest share of this tax type. The growth projections are informed by strong year-to-date receipts for FY 2025 and strong projections for wage and salary income growth in the consensus economic forecast. The forecast also projects continued robust stock market growth, as captured by the S&P 500 Index, throughout the remainder of FY 2025, which informs the estimates for estimated and final payments for FY 2025.

Business Taxes. Business corporations taxes comprise the largest share of this category. Corporate profit growth is expected to decelerate over the next two years, and the conference anticipates $31.2 million in corporate passthrough entity (PTE) refunds to be paid out in FY 2025 due to large carryforwards accumulated over the past several years. The conference also expects significant usage of the Motion Picture Production Tax Credit in business taxes. Overall, general business taxes are expected to grow by 0.2% in FY 2025 and 1.1% in FY 2026. The FY 2025 growth rate is bolstered by the return to a full year of public utilities gross receipts tax collections after the partial suspension of the tax on electricity and natural gas in FY 2024, which reduced the base by $30.5 million. Adjusting for this one-time suspension, the FY 2025 decline in business taxes would be -20.5%.

Sales and Use Tax. Combined sales and excise tax receipts are expected to grow by 3.7% and 2.8%, respectively in FYs 2025 and 2026. The bulk of this category is made up of sales and use taxes, which are expected to remain strong based on the testimony from Moody's about consumer spending and relatively robust personal consumption expenditure growth in the consensus forecast, though spending growth is decelerating slightly from its post-pandemic highs.

Excise Taxes Other Than Sales and Use Taxes. Cigarette, smokeless, and electronic nicotine delivery systems (ENDS) taxes make up the next largest share of this category. Long-term decline trends in cigarette consumption drive this tax stream down, though in FY 2025, this is slightly abated by the cigarette tax increase and ENDS tax implementation that are included in the current enacted budget.

Other Taxes. This category, which contains inheritance taxes, racing and athletics (simulcast) taxes, and realty transfer tax, is estimated to grow at 31.0% and contract at -2.2%, respectively. The strong FY 2025 growth is mostly in inheritance and gift taxes, which have seen significant year-over-year growth through October, including a large non-recurring payment. This is why the conference expects this tax to see a slight decline in FY 2026. Realty transfer taxes are also projected to be strong in both years due to increased housing starts and decreased interest rates that are expected to boost sales volume.

Departmental Receipts. This category includes licensing fees, fines, penalties, and other miscellaneous departmental revenues that are deposited to the general fund. The largest single subcomponent of this stream is the hospital licensing fee (HLF), which is typically re-enacted each year, and is therefore not included in budget year conference estimates because estimates are based on current law. In FY 2025 the HLF accounts for $215.7 million, or 39.7%, of departmental revenues. The decline in departmental receipts in the FY 2025 estimate compared to the FY 2024 preliminary close is driven almost entirely by a decrease in income on investments, which is mostly interest and other investment income on the general fund and state fiscal recovery funds. These investment earnings are expected to decrease as the Federal Reserve continues to cut interest rates and as high current balances are spent down. The -42.0% decline in FY 2026 is driven by the exclusion of the HLF. Including the HLF at the FY 2025 rate would be a -2.4% decline for FY 2026, again driven by expected decline in investment income.

Lottery Transfer. The FY 2025 lottery transfer estimate of $424.0 million represents a -0.6% decline from FY 2024 and a $25.4 million downward revision from the enacted estimate. It consists of a -6.2% decline in all games, which includes the combination of traditional lottery (Powerball, Mega Millions, other numbers games, instant tickets and e-instants) and monitor games (Keno and Bingo). This component of lottery is heavily jackpot driven, and FY 2024 was an outlier in both the number and size of large jackpots. The revised estimated transfer includes $303.5 million from video lottery terminals (VLTs) at Bally's Twin River in Lincoln and Bally's Tiverton casinos. This represents a decline of -3.6% from FY 2024 based on year-to-date performance, a modest long-term decline attributed to demographics, and increased competition in neighboring states. The estimate includes $13.1 million in table games at the two Bally's casinos (a -4.9% decline), $22.1 million in sports betting revenue (11.0% growth), and $16.1 million from iGaming for iSlots and iTables combined. FY 2025 is the first full fiscal year of iGaming. Nearly half of the downward revision is attributable to VLTs, which have consistently trailed estimates through the first four months of the fiscal year.

The FY 2026 lottery transfer estimate of $432.7 million represents 2.1% growth. It includes $70.5 million for traditional lottery and monitor games (1.9% growth), $302.0 million for VLTs (-0.5% decline), $12.6 million for table games (-3.8% decline), $23.4 million for sports betting (5.9% growth), and $24.2 million for iGaming (50.3% growth).

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 $46.7 million in FY 2025 and $44.0 million in FY 2026. The FY 2025 estimate is revised down from the enacted, mostly due to the transfer of excess restricted receipts from the medical marijuana program. The enacted estimate had assumed all nine statutorily authorized compassion centers would pay licensing fees in FY 2025, but updated information from the agency led to a downward revision to seven compassion centers.

The tables that follow show the results by revenue category, along with information on the FY 2024 preliminary closing and comparison to the FY 2025 enacted estimates.

November 2024 CRE	FY 2024 Preliminary	FY 2025 Revised Estimate	FY 25 v. FY 24	FY 2026 Estimate	FY 26 v. FY 25
Personal Income Tax	$ 1,780,947,118	$ 1,913,500,000	7.4%	$ 1,989,100,000	4.0%
General Business Taxes					
Business Corporations	361,538,466	342,600,000	-5.2%	356,000,000	3.9%
Public Utilities Gross	75,169,736	105,300,000	40.1%	106,900,000	1.5%
Financial Institutions	47,678,060	39,500,000	-17.2%	25,300,000	-35.9%
Insurance Companies	172,870,002	167,500,000	-3.1%	172,000,000	2.7%
Bank Deposits	5,519,620	5,700,000	3.3%	5,900,000	3.5%
Health Care Provider	40,684,166	44,400,000	9.1%	46,900,000	5.6%
Sales and Use Taxes					
Sales and Use	1,635,427,555	1,704,000,000	4.2%	1,760,400,000	3.3%
Motor Vehicle	14,201	*	*	*	*
Cigarettes	119,314,097	115,300,000	-3.4%	110,100,000	-4.5%
Alcohol	20,788,520	21,200,000	2.0%	21,200,000	0.0%
Other Taxes					
Inheritance and Gift	47,292,008	65,500,000	38.5%	62,700,000	-4.3%
Racing and Athletics	664,568	700,000	5.3%	700,000	0.0%
Realty Transfer	15,731,668	17,200,000	9.3%	18,200,000	5.8%
Total Taxes	*$ 4,323,639,785*	*$ 4,542,400,000*	*5.1%*	*$ 4,675,400,000*	*2.9%*
Departmental Receipts	558,592,654	543,500,000	-2.7%	315,000,000	-42.0%
Other Miscellaneous	37,858,389	25,400,000	-32.9%	23,500,000	-7.5%
Lottery	426,419,555	424,000,000	-0.6%	432,700,000	2.1%
Unclaimed Property	22,292,320	21,300,000	-4.5%	20,500,000	-3.8%
Total General Revenues	**$ 5,368,802,703**	**$ 5,556,600,000**	**3.5%**	**$ 5,467,100,000**	**-1.6%**

* Formerly comprised of some duplicate and replacement driver's license fees moved to restricted Highway Maintenance Account in the FY 2024 enacted budget.

November 2024 CRE	FY 2025 Enacted	FY 2025 Revised Estimate	Change to Enacted	FY 2026 Estimate	Change from FY 2025 Revised Estimate
Personal Income Tax	$ 1,865,528,793	$ 1,913,500,000	$ 47,971,207	$ 1,989,100,000	$ 75,600,000
General Business Taxes					
Business Corporations	346,570,968	342,600,000	(3,970,968)	356,000,000	13,400,000
Public Utilities Gross	105,800,000	105,300,000	(500,000)	106,900,000	1,600,000
Financial Institutions	29,048,050	39,500,000	10,451,950	25,300,000	(14,200,000)
Insurance Companies	170,107,978	167,500,000	(2,607,978)	172,000,000	4,500,000
Bank Deposits	5,100,000	5,700,000	600,000	5,900,000	200,000
Health Care Provider	41,900,000	44,400,000	2,500,000	46,900,000	2,500,000
Sales and Use Taxes					
Sales and Use	1,701,970,187	1,704,000,000	2,029,813	1,760,400,000	56,400,000
Cigarettes	116,000,664	115,300,000	(700,664)	110,100,000	(5,200,000)
Alcohol	21,200,000	21,200,000	-	21,200,000	-
Other Taxes					
Inheritance and Gift	53,700,000	65,500,000	11,800,000	62,700,000	(2,800,000)
Racing and Athletics	600,000	700,000	100,000	700,000	-
Realty Transfer	16,700,000	17,200,000	500,000	18,200,000	1,000,000
Total Taxes	*$ 4,474,226,640*	*$ 4,542,400,000*	*$ 68,173,360*	*$ 4,675,400,000*	*$ 133,000,000*
Departmental Receipts	517,617,468	543,500,000	25,882,532	315,000,000	(228,500,000)
Other Miscellaneous	27,273,253	25,400,000	(1,873,253)	23,500,000	(1,900,000)
Lottery	449,400,000	424,000,000	(25,400,000)	432,700,000	8,700,000
Unclaimed Property	20,600,000	21,300,000	700,000	20,500,000	(800,000)
Total General Revenues	**$ 5,489,117,361**	**$ 5,556,600,000**	**$ 67,482,639**	**$ 5,467,100,000**	**$ (89,500,000)**

NEXT MEETING

The next required meeting of the conference is May 2025.

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

The Honorable Louis P. DiPalma, Chairman
Senate Finance Committee