



State of Rhode Island and Providence Plantations

Revenue & Caseload Estimating Conference

ROOM 306, STATE HOUSE, PROVIDENCE, RI 02903

November 12, 2007

To: The Honorable Donald L. Carcieri, Governor
The Honorable William J. Murphy, Speaker of the House
The Honorable Joseph A. Montalbano, President of the Senate

From: Michael O'Keefe, House Fiscal Advisor *Michael O'Keefe*
Rosemary Booth Gallogly, State Budget Officer *Rosemary Gallogly*
Russell C. Dannecker, Senate Fiscal Advisor *Russell C. Dannecker*

Subject: November 2007 Consensus Revenue Estimating Conference

Summary

The Revenue Estimating Conference concluded its deliberations November 9 in open public meetings to adopt the economic forecast and review and revise the estimated revenues for FY 2008 and adopt initial estimates for FY 2009. The Conference revised the FY 2008 estimate downward by \$113.3 million to \$3,359.7 million based on collections trends, results of the preliminary closing and the revised economic forecast. That is 3.6 percent more than FY 2007 reported revenues.

The conferees adopted an FY 2009 estimate of \$3,193.3 million which is \$166.4 million and 5.0 percent less than the FY 2008 revised estimate. The FY 2008 estimate includes \$124.0 million from tobacco securitization and \$78.0 million from the hospital license fee which are not included in FY 2009; adjusting for those, the growth rate would be 1.1 percent. Tables showing the estimates and the changes are included at the end of this report.

Economic Forecast

On October 31 Conferees heard updated economic forecasts for the nation and the state, as presented by Steven Cochrane of Moody's Economy.com and Dave Iaia of Global Insight. Robert J. Langlais, Rhode Island Department of Labor and Training, described the state's latest labor market data. Based on this information, Conferees adopted the following revised economic forecast for the US and Rhode Island.

The Economic consultants indicated that real US economic growth will slow to 2 percent this year and for much of calendar 2008 based on soaring oil prices, volatility in financial markets, declining housing, and credit market turmoil. Slower jobs growth will boost the unemployment rate toward 5 percent, versus 4.6 percent currently. A recession should be avoided due to big gains in real exports and sustained government spending that would offset large declines now expected for the housing sector and a much slower consumer spending. The slowdown in the national economy should end by mid-calendar 2008. By then, real growth would increase to over 3 percent-plus.

This outlook is substantially weaker than the one presented last May; and the forecasters reduced the probability of their forecasts to 55 percent. The forecasters also increased the probability for imminent recession to a very high 30-35 percent. A recession would result if crude oil prices stay in the current range of more than \$90 per barrel rather than swiftly falling toward \$75 as the baseline forecast assumes, or businesses pull back on investment and hiring.

Despite the dimmer national outlook and announced impending layoffs in Rhode Island's private and state sectors, forecasters see a somewhat better performance for the state's job market than projected last May: Employment growth should trend at a moderate 1 percent pace, adding about 5,000 jobs during each of the next two fiscal years. Accordingly, the unemployment rate will be about a half-percentage point better than last May's forecast, now expected to stay at or just below 5 percent.

November 2007 Forecast								
Annual Growth	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
Nonfarm Employment (000's)	493.5	498.9	503.4	509.0	514.0	517.6	521.8	525.4
Nonfarm Employment Growth	0.5	1.1	0.9	1.1	1.0	0.7	0.8	0.7
Personal Income	3.6	5.8	4.0	4.5	4.4	4.2	4.2	4.2
Wage and Salaries Income	4.9	5.7	3.3	4.0	4.0	3.8	3.8	3.6
Dividends, Interest and Rent	0.5	7.2	5.7	6.4	6.3	5.6	5.2	4.6
Rates								
Unemployment Rate	5.2	4.7	5.0	5.0	5.0	5.0	5.0	5.0
Consumer Price Index (US)	3.2	2.8	1.9	1.9	2.0	2.0	2.1	2.1
Ten Year Treasuries	4.8	4.8	5.1	5.4	5.5	5.4	5.5	5.4
Three Month Treasuries	4.7	4.5	4.1	4.5	4.6	4.5	4.5	4.5
Annual Growth	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Nonfarm Employment	491.8	496.1	501.2	506.2	511.5	515.8	519.7	523.6
Nonfarm Employment Growth	0.3	0.9	1.0	1.0	1.1	0.9	0.8	0.8
Personal Income	3.8	5.1	4.9	4.3	4.5	4.3	4.2	4.2
Wage and Salaries Income	3.6	6.0	4.5	3.7	4.0	3.9	3.8	3.7
Dividends, Interest and Rent	3.7	3.7	6.5	6.1	6.4	6.0	5.4	4.9
Rates								
Unemployment Rate	5.2	4.8	4.9	5.0	5.0	5.0	5.0	5.0
Consumer Price Index (US)	3.8	2.6	2.4	1.9	2.0	2.0	2.1	2.1
Ten Year Treasuries	4.6	4.8	5.0	5.3	5.5	5.5	5.5	5.5
Three Month Treasuries	4.1	4.9	4.3	4.3	4.6	4.6	4.5	4.5

Fiscal year 2008 is projected to have personal and wage and salary incomes increase by 4.9 percent and 4.5 percent, respectively. Though somewhat better than the forecast growth rates

adopted last May, this pace is significantly slower than in fiscal year 2007. Beginning fiscal year 2009, wage and salary income may slow considerably, trending at or below 4 percent. Such slow growth, versus 6 percent in fiscal 2007, reflects lower wage levels and slower wage gains that still typify the state's labor market.

November 2007 Consensus Economic Forecast Changes to May 2007 Forecast								
Annual Growth	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012
Nonfarm Employment	0.0	0.0	2.0	2.4	3.4	3.5	2.0	1.0
Nonfarm Employment Growth	0.0	0.0	0.4	0.1	0.2	0.0	-0.3	-0.2
Personal Income Growth	0.9	-1.7	1.7	-0.9	-0.4	-0.5	-0.3	-0.3
Wage and Salaries Income Growth	0.0	0.3	2.4	-0.8	-0.1	-0.1	0.0	0.0
Dividends, Interest and Rent Growth	6.0	-7.5	0.7	-1.8	0.1	0.4	-0.4	-0.2
Rates								
Unemployment Rate (RI)	0.0	0.0	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4
Consumer Price Index (US)	0.1	-0.2	0.5	-0.1	-0.1	0.0	0.0	-0.1
Ten Year Treasuries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Three Month Treasuries	0.0	0.0	-0.3	-0.8	-0.4	-0.3	-0.4	0.0
Annual Growth	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Nonfarm Employment	0.0	0.0	0.9	2.2	2.9	3.5	2.7	1.5
Nonfarm Employment Growth	0.0	0.0	0.3	0.2	0.1	0.1	-0.2	-0.3
Personal Income Growth	0.6	-0.4	0.4	0.4	-0.7	-0.5	-0.4	-0.3
Wage and Salaries Income Growth	0.4	-0.4	2.0	0.8	-0.5	-0.1	-0.1	0.0
Dividends, Interest and Rent Growth	4.3	0.1	-3.5	-0.6	-0.9	0.3	0.0	-0.3
Rates								
Unemployment Rate (RI)	0.0	0.0	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4
Consumer Price Index (US)	0.0	0.5	-0.2	0.2	-0.1	-0.1	0.0	-0.1
Ten Year Treasuries	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Three Month Treasuries	0.0	0.0	0.1	-0.6	-0.6	-0.4	-0.4	-0.2

Revenues

Taxes. Revenues from taxes of \$2,520.2 million for FY 2008 are 1.5 percent less than those reported for FY 2007. Total estimated taxes for FY 2009 of \$2,564.0 million reflect only 1.7 percent growth over the revised FY 2008 estimate.

Personal Income Tax. The estimates of \$1,048.1 million for FY 2008 and \$1,082.1 million for FY 2009 represent growth rates of -1.6 percent and 3.2 percent respectively, and are \$34.8 million below the previous estimate for FY 2008. The reduction is due to: lower than estimated withholding, \$22.3 million less than enacted largely based on collections to date; \$31.0 million less in final payments due to increased use of tax credits and loss of the historic tax credit sale offset saving; estimated filings \$6.2 million higher, and refunds \$17.0 million less, based partially on being less than estimated.

FY 2009 personal income tax receipts are estimated to increase \$34.0 million over the revised FY 2008 estimate, reflecting 3.2 percent growth.

Business Taxes. The Conference estimates \$387.0 million in FY 2008 and \$373.2 million in FY 2009. The FY 2008 estimate is \$10.8 million less than the enacted estimate and 0.4 percent less than FY 2007 reported revenues. FY 2007 financial institutions revenues included \$19.0 million more than estimated due to a filing that appears to have been an error, which the estimators project will be refunded in FY 2009.

FY 2009 business tax revenues are estimated to decrease \$13.8 million from the revised FY 2008 estimate, or 3.6 percent, mainly due to the large anticipated financial institutions refund with little growth to offset it due to a slowed economy.

Nov 2007 Consensus Estimates	FY 2007	FY 2008 Estimate		FY 2009 Estimate	
Personal Income Tax	\$ 1,065,667,247	\$ 1,048,100,000	-1.6%	\$ 1,082,100,000	3.2%
General Business Taxes					
Business Corporations	156,767,771	158,000,000	0.8%	160,000,000	1.3%
Public Utilities Gross	102,109,351	104,000,000	1.9%	104,000,000	0.0%
Financial Institutions	23,423,263	(600,000)	-102.6%	(19,000,000)	3066.7%
Insurance Companies	56,624,296	71,600,000	26.4%	73,000,000	2.0%
Bank Deposits	1,673,925	1,700,000	1.6%	1,700,000	0.0%
Health Care Provider	47,969,855	52,300,000	9.0%	53,500,000	2.3%
Sales and Use Taxes					
Sales and Use	873,841,139	865,000,000	-1.0%	888,400,000	2.7%
Motor Vehicle	46,878,903	44,500,000	-5.1%	46,400,000	4.3%
Motor Fuel	1,311,762	1,200,000	-8.5%	1,200,000	0.0%
Cigarettes	120,414,576	119,100,000	-1.1%	117,300,000	-1.5%
Alcohol	10,705,751	11,000,000	2.7%	11,000,000	0.0%
Other Taxes					
Inheritance and Gift	34,683,979	30,100,000	-13.2%	30,100,000	0.0%
Racing and Athletics	2,921,166	2,800,000	-4.1%	2,600,000	-7.1%
Realty Transfer	12,737,438	11,400,000	-10.5%	11,700,000	2.6%
Total Taxes	2,557,730,422	2,520,200,000	-1.5%	2,564,000,000	1.7%
Departmental Receipts	277,790,450	323,400,000	16.4%	240,000,000	
Gas Tax Transfer	4,704,602	4,685,000	-0.4%	4,685,000	0.0%
Other Miscellaneous	69,090,487	145,900,000	111.2%	11,300,000	-92.3%
Lottery	320,659,410	349,500,000	9.0%	363,900,000	4.1%
Unclaimed Property	11,456,513	16,000,000	39.7%	9,400,000	-41.3%
Total General Revenues	\$ 3,241,431,884	\$ 3,359,685,000	3.6%	\$ 3,193,285,000	-5.0%

Sales Tax. The Conference estimates \$865.0 million for FY 2008 and \$888.4 million for FY 2009, -1.0 and 2.7 percent growth rates, respectively. The revised FY 2008 estimate is \$43.7 million less than the enacted estimate. This reflects the revised economic forecasts, collections through October, and the recognition that FY 2007 ended \$11.2 million less than estimated in spite of downward revisions to the estimates in November 2006 and May 2007. FY 2007 sales taxes grew only 0.5 percent over FY 2006.

The FY 2009 estimate is \$23.4 million more than the revised FY 2008 estimate, 2.7 percent, reflecting an improved economy and consumer confidence.

Other Taxes. The Conferees adopted \$220.1 million for FY 2008 and \$220.3 million for FY 2009 from the other consumption taxes: motor vehicle, motor fuel, tobacco, alcohol, inheritance, racing and athletics, and realty transfer. The FY 2008 estimate is \$1.3 million less than enacted and reflects a 4.2 percent decline over FY 2007 revenues for these sources.

The FY 2009 estimate is \$0.2 million, 0.1 percent greater than the revised FY 2008 estimate, reflecting continued declines in tobacco consumption offset by marginal increases in selected other sources.

Departmental Receipts. The estimators adopted estimates of \$323.4 million in FY 2008 and \$240.0 million in FY 2009 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues. The FY 2008 estimate is \$39.5 million less than enacted mainly due to unachieved initiatives, including \$21.3 million of unachieved land sales.

The estimate for FY 2009 does not include the \$78.0 million in hospital license fees that are in the FY 2008 estimate because current law only provides for the fee annually since its inception. Adjusting for that, FY 2009 would be \$318.0 million, still less than the revised estimate for FY 2008 due to \$6.9 million of land sales included in FY 2008, and flat growth on other items.

Lottery. The estimators project \$349.5 million transferred to general revenues from the Lottery for FY 2008, \$9.8 million more than enacted, and growth of 9.0 percent over FY 2007. They estimate \$363.9 million for FY 2009, 4.1 percent growth.

- **Games.** The Conference decreased the FY 2008 estimate by \$9.1 million to \$59.5 million, a 5.8 percent decline over FY 2007, which was \$4.3 million less than FY 2006 and \$2.8 million less than estimated. The Conference estimates \$60.9 million for FY 2009, 2.4 percent growth, largely on testimony of the Division of Lottery that changes to the Powerball structure will produce an additional \$6.0 million.
- **Video Lottery Terminals.** The Conference adopted \$290.0 million for FY 2008, which is \$18.9 million more than the enacted budget and 12.6 percent growth over FY 2007. That transfer reflects \$468.1 million in net terminal income, 12.4 percent over FY 2007. That the increase in the general revenue transfer is less than the NTI growth reflects the fact that most of the NTI growth is at Lincoln, which yields a lower percentage to the state (61.2 percent) than does Newport Grand (63.5 percent). Net terminal income at Lincoln is estimated to increase 15.5 percent and to decrease at Newport Grand by 1.9 percent.

The Conference adopted a transfer of \$303.0 million for FY 2009, a \$13.0 million increase from the November FY 2008 estimate and represents 5.3 percent net terminal income growth at Lincoln and flat growth at Newport. The combined net terminal income growth is estimated to be 4.5 percent.

Nov 2007 Consensus Estimates	FY 2008 Rev. Est.	Change	FY 2009 Est.	Change to Enacted	Change to Rev.
Personal Income Tax	\$ 1,048.1	\$ (34.8)	\$ 1,082.1	\$ (0.8)	\$ 34.0
Business Corporations	158.0	(9.2)	160.0	(7.2)	2.0
Public Utilities Gross Earnings	104.0	(5.3)	104.0	(5.3)	-
Financial Institutions	(0.6)	(2.6)	(19.0)	(21.0)	(18.4)
Insurance Companies	71.6	2.8	73.0	4.2	1.4
Bank Deposits	1.7	0.1	1.7	0.1	-
Health Care Provider Assessment	52.3	3.4	53.5	4.6	1.2
Sales and Use	865.0	(43.7)	888.4	(20.3)	23.4
Motor Vehicle	44.5	(5.7)	46.4	(3.8)	1.9
Motor Fuel	1.2	0.1	1.2	0.1	-
Cigarettes	119.1	6.6	117.3	4.8	(1.8)
Alcohol	11.0	(0.1)	11.0	(0.1)	-
Inheritance and Gift	30.1	-	30.1	-	-
Racing and Athletics	2.8	0.2	2.6	-	(0.2)
Realty Transfer	11.4	(2.4)	11.7	(2.1)	0.3
Total Taxes	\$ 2,520.2	\$ (90.7)	\$ 2,564.0	\$ (46.9)	\$ 43.8
Departmental Receipts	323.4	(39.5)	240.0	(122.9)	(83.4)
Gas Tax Transfer	4.7	-	4.7	-	-
Other Miscellaneous	145.9	5.6	11.3	(129.0)	(134.6)
Lottery	349.5	9.8	363.9	24.2	14.4
Unclaimed Property	16.0	1.4	9.4	(5.2)	(6.6)
Total General Revenues	\$ 3,359.7	\$ (113.3)	\$ 3,193.3	\$ (279.7)	\$ (166.4)

All Other Sources. Other source revenue consists of transfers to the general revenue fund from gas tax deposited in the transportation fund, unclaimed property, and other miscellaneous sources, including tobacco bond sales. These are estimated to produce \$166.6 million in FY 2008, of which \$124.0 million is from tobacco bonds, and \$25.4 million in FY 2009.

Gas Tax Transfer. The estimators essentially retained the estimated transfers based on \$4.685 million per penny for FY 2008 and FY 2009.

Unclaimed Property. The Conference adopted \$16.0 million for FY 2008 and \$9.4 million for FY 2009 based on estimates provided by the Office of the General Treasurer.

Miscellaneous Other Revenues. The Conference included \$145.9 million in FY 2008, \$5.6 million more than the enacted budget, which includes \$124.0 million from tobacco bonds, and \$11.3 million in FY 2009. Increases over the enacted estimate include \$1.7 million more from

DEPCO settlements, \$2.2 million more in estimated bond interest earnings, and \$1.8 million in payments from agencies for general obligation debt service.

The FY 2009 estimate is \$134.6 million less than the revised FY 2008 estimate. It does not include any tobacco bond sales, \$3.8 million less in agency reimbursements for general obligation debt service, \$1.7 million less in DEPCO settlements, and \$4.8 million less assumed bond interest earnings.