



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

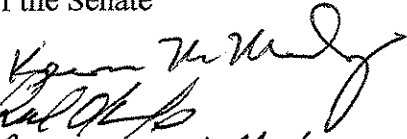
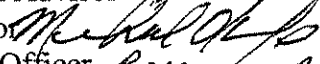

KEVIN M. MADIGAN
Deputy Senate Fiscal Advisor
November 2008 Conference Chair

MICHAEL O'KEEFE
House Fiscal Advisor

ROSEMARY BOOTH GALLOGLY
State Budget Officer

MEMORANDUM

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: Kevin M. Madigan, Deputy Senate Fiscal Advisor 
Michael F. O'Keefe, House Fiscal Advisor 
Rosemary Booth Gallogly, State Budget Officer 

Date: November 17, 2008

Subject: November 2008 Revenue Estimating Conference

SUMMARY

The Revenue Estimating Conference (REC) met on October 27 and 29, and November 5, 7, and 10, 2008, in open public meetings. The Conference adopted the economic forecast for 2008 to 2014, and issued revised estimates for FY2009 and initial estimates for FY2010 revenues. Based on collections trends, preliminary closing results, and the revised economic forecast, the Conference revised the FY2009 estimates downward by \$233.6 million from the FY2009 Budget as Enacted amount, to a total of \$3,113.1 million for FY2009.

The Conference estimated FY2010 revenues at \$3,008.9 million, which are \$104.2 million less than the revised estimates for FY2009. The estimates are based on current laws, which exclude the hospital licensing fee, which is estimated at \$111.4 million in FY2009, and do not include additional revenues from the 24/3 operations at Twin River, as these additional hours of operation sunset under the law at the end of FY2009. Tables showing the estimates and the changes are included at the end of this report.

ECONOMIC FORECAST

The Consensus Economic Forecast was adopted at the November 7th meeting. The principals heard testimony from their economic consultants David Iaia and Michael Lynch of Global Insight and Steven Cochrane and Andres Carbacho-Burgos of Moody's Economy.com. The consultants presented Conferees with updated economic forecasts for the United States and Rhode Island. Their testimony covered current economic performance and the outlook over the next several years and how the outlook changed since the May 2008 estimates. Robert J. Langlais, Assistant Director, Labor Market Information Unit, Rhode Island Department of Labor and Training reviewed and analyzed the latest labor market data for the State.

After questioning the presenters and deliberating their forecasts, Conferees adopted an updated consensus forecast for Rhode Island. The updated forecast made significant changes to the consensus outlook adopted at the May 2008 Conference.

The U. S. Economy

Economic consultants testified that the national economy is performing poorly and the job market, weakened by declining business investment, is expected to remain weak through much of the coming year. Energy prices continue to place a strain on both businesses and households, with lower income households most affected by the rapid price increases. While recent oil price declines are projected to help with energy price strains, home heating oil consumers, particularly in New England and the Upper Midwest, will continue to feel this pinch as many consumers locked into prices for the winter when prices were at or near peak.

The housing sector remains a drag on the overall economy as sales prices are exhibiting year-over-year declines and sales volumes are down. What started as localized "price corrections" have now spread to nearly all housing markets in the country. The collapse of the credit markets due in large part to the subprime mortgage market has and will continue to hold back housing well into 2009.

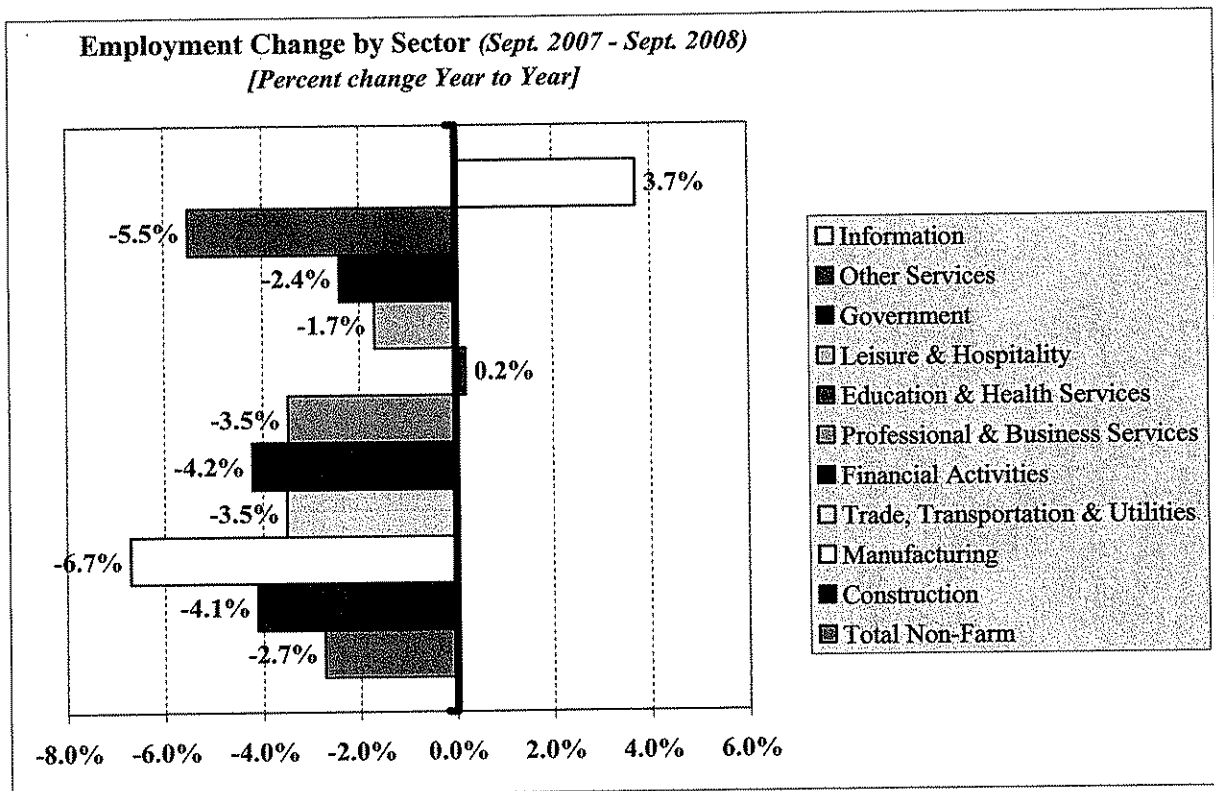
Of note, both economic consulting firms included a \$200 billion federal stimulus package in their baseline projections. Any actual federal stimulus could vary significantly from the projections used by the economic consultants, so the baseline forecasts presented to and used contains this potential risk.

The Rhode Island Economy

Rhode Island currently lays claim to the nation's highest unemployment rate at 8.8%, and the projected unemployment rate would bottom-out in FY2010 at a fiscal year average of 9.3%. Beginning FY2011 the rate gradually declines through the remainder of forecast years (through FY2014). Income growth is projected at 1.3% in FY2009 and increases to 2.6% in FY2010. Both economic consultants highlighted the downturn in the housing market as placing a particular strain on Rhode Island. Just as Rhode Island reaped benefits on rapidly increasing home prices earlier this decade, the State is realizing a market correction stronger than many areas of the country. Economists projected that sales volumes bottomed out in 2008 and will rise significantly in 2010, while sales prices continue to drop through mid-2010, after which they begin to rise.

Department of Labor and Training

The Rhode Island Department of Labor and Training reports that the RI unemployment rate has risen by 3.7 percentage points between September 2007 and September 2008. This represents the largest one-year increase on record. The September 2008 unemployment rate of 8.8% is the highest in the nation, and is significantly higher than the U.S. rate of 6.1%, and the Massachusetts and Connecticut rates of 5.3% and 6.1%, respectively. Between September 2007 and September 2008, employment losses were realized overall (-13,200); and in the following sectors: Manufacturing (-3,300); Trade, Transportation & Utilities (-2,900); Financial Activities (-1,400); Other Services (-1,400); Professional and Business Services (-1,200); Construction (-700); and Leisure and Hospitality (-700). Government lost employment during the period (-1,300), primarily due to a significant number of State employees that retired as a result of a prospective change in retiree health benefits. The only sectors experiencing year-over-year growth were Information (+400); and employment in the Educational & Health Services sectors remained unchanged.



Consensus Forecast

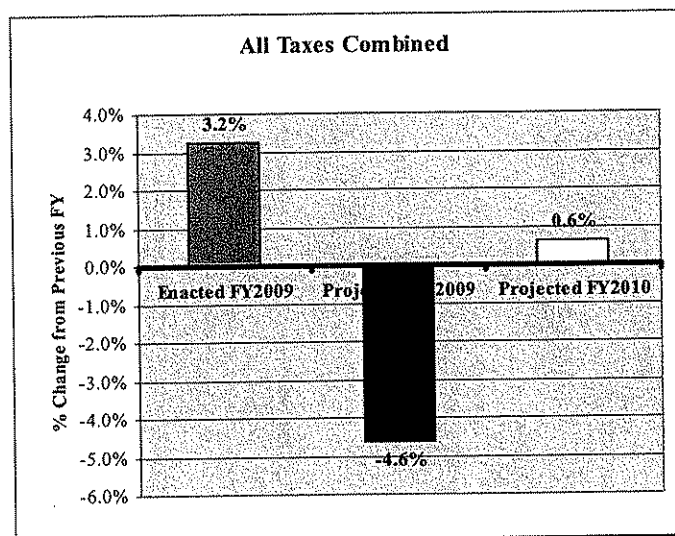
The Revenue Estimating Conference adopted an economic forecast that is based on further employment declines into FY2010, after which employment will gradually increase. Personal Income is projected to grow slowest in the current fiscal year, with growth rates at least double the FY2009 rate for the remainder of the forecast period. Inflation, as measured by the Consumer Price Index for all Urban Consumers, is projected to have already peaked in FY2008,

driven largely by what were ballooning oil prices. Oil prices have since subsided, and the CPI-U reflects oil price projections under \$90/barrel for the forecast period. The consensus economic forecast through 2014 is shown on the following table.

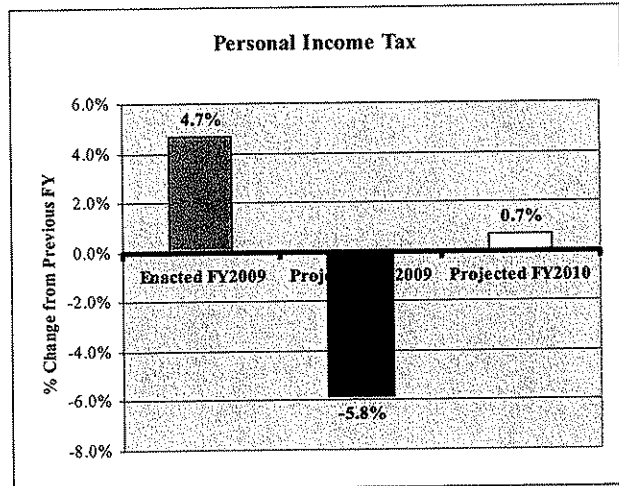
November 2007 Consensus Economic Forecast								
	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014
Nonfarm Employment	493.0	481.2	470.6	471.1	475.8	482.9	489.2	494.1
Annual Growth								
Nonfarm Employment	-0.1	-2.4	-2.2	0.1	1.0	1.5	1.3	1.0
Personal Income	5.3	2.8	1.1	3.8	4.7	4.8	4.3	4.1
Wage and Salaries Income	2.9	1.7	-0.2	1.9	3.6	4.3	3.8	3.6
Dividends, Interest and Rent	8.3	1.9	1.7	5.4	5.5	5.7	5.8	5.5
Rates								
Unemployment Rate	5.0	7.5	9.2	9.0	7.9	7.0	6.5	6.3
Consumer Price Index (US)	2.9	4.1	0.5	2.2	2.4	2.1	2.0	2.1
Ten Year Treasuries	4.6	3.8	4.0	4.8	5.2	5.2	5.2	5.1
Three Month Treasuries	4.4	1.6	1.1	2.4	4.2	4.5	4.4	4.4
Fiscal Year Conversion								
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Nonfarm Employment	494.7	488.3	474.8	470.3	473.5	479.6	486.6	492.2
Annual Growth								
Nonfarm Employment	0.6	-1.3	-2.8	-0.9	0.7	1.3	1.5	1.1
Personal Income	6.0	3.7	1.3	2.6	4.5	4.8	4.6	3.2
Wage and Salaries Income	5.4	1.0	0.8	0.7	2.9	4.2	4.1	2.8
Dividends, Interest and Rent	10.5	5.9	0.3	4.0	5.8	5.2	6.0	4.2
Rates								
Unemployment Rate	5.0	5.8	8.8	9.3	8.5	7.4	6.8	6.4
Consumer Price Index (US)	2.6	3.7	2.5	1.0	2.5	2.2	2.0	1.8
Ten Year Treasuries	4.8	4.1	3.9	4.4	5.0	5.2	5.2	5.2
Three Month Treasuries	4.9	2.8	1.0	1.6	3.3	4.5	4.5	4.4

REVENUES

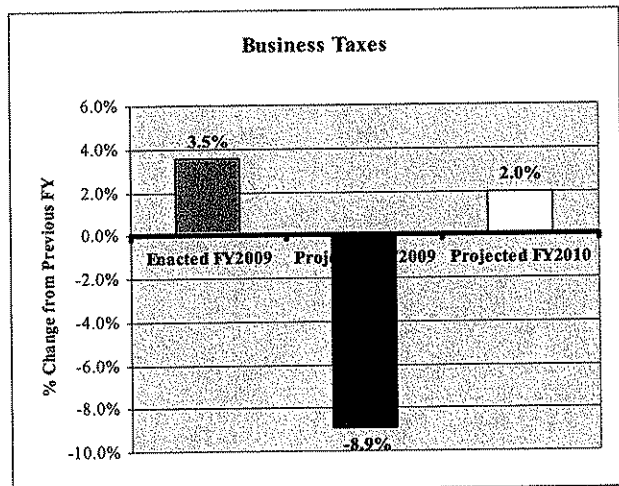
Taxes. Revenues from taxes are estimated to decrease 4.6% in FY2009 from FY2008 and grow 0.6% in FY2010 over the revised FY2009 estimate. Total estimated taxes for FY2009 of \$2,402.1 million are \$198.2 million below the enacted estimates. FY2010 total estimated taxes are \$2,417.1 million, \$15.0 million above the revised FY2009 estimate.



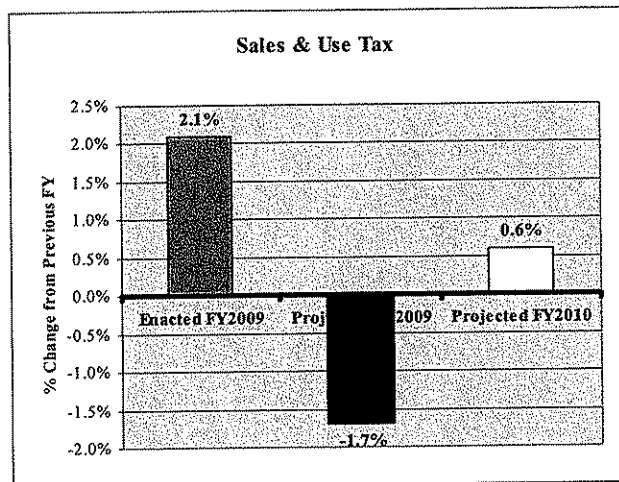
Personal Income Tax. The estimates of \$1,011.0 million for FY2009 and \$1,017.8 million for FY2010 represent unadjusted year over year growth rates of -5.8% and 0.7%, respectively. The FY2009 estimate is \$113.2 million less than enacted, reflecting downward revisions to employment and income estimates. The FY2010 estimate is \$6.8 million more than the FY2009 revised estimate.



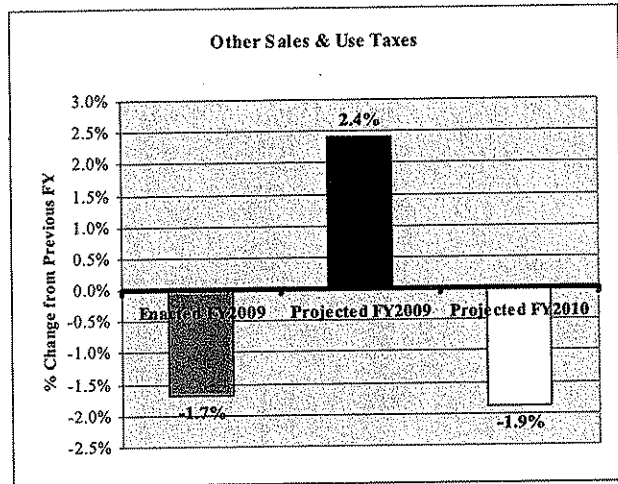
Business Taxes. The Conference estimates \$342.2 million in FY2009 and \$348.9 million in FY2010 for all business taxes. Year over year growth rates are -8.9% and +2.0%, respectively. The FY2009 estimate is \$46.9 million less than enacted; the FY2010 estimate is \$6.7 million more than the revised estimate. The Business Corporations Tax was the largest driver of negative growth in the current year, realizing a \$53.0 million (-28.7%) decrease from FY2009 Budget as Enacted estimates. For FY2010 it is projected to increase by \$2.8 million from FY2009, reflecting a modest 2.6% growth rate.



Sales Tax. The Conferees estimate Sales Tax revenues of \$831.0 million in FY2009 and \$836.0 million in FY2010. The FY2009 revenues are \$32.1 million below the enacted estimate, and represent decline of -1.7% from FY2008 receipts. Slower than anticipated year-to-date collections, continually weakening auto sales, and declining consumer confidence contributed to the downward revision by the estimators. The FY2010 estimate is \$5.0 million or 0.6% more than the revised estimate.

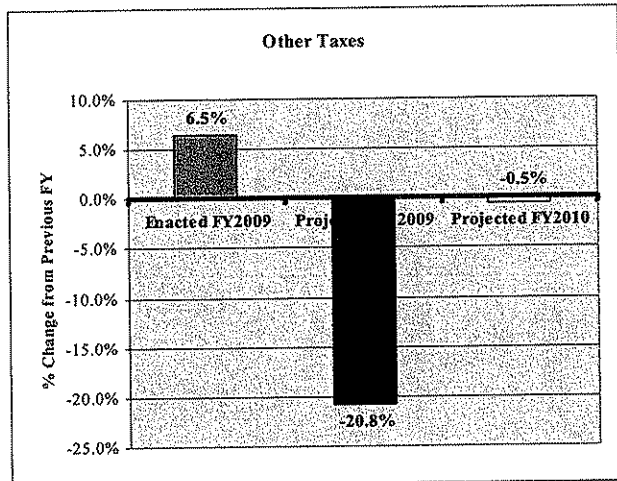


Other Sales and Use Taxes. The Conferees estimated \$179.6 million for FY2009 and \$176.3 million for FY2010 from the Other Sales and Use Taxes, which include Motor Vehicle Taxes, Cigarettes, and Alcohol Taxes. The FY2009 estimate is \$7.2 million more than enacted. The increase reflects the projection of \$5.1 million in additional Cigarette Tax receipts and another \$2.3 million in Motor Vehicle Taxes. The FY2010 estimate is \$3.4 million less than the revised estimate for FY2009, and totals \$176.3 million.

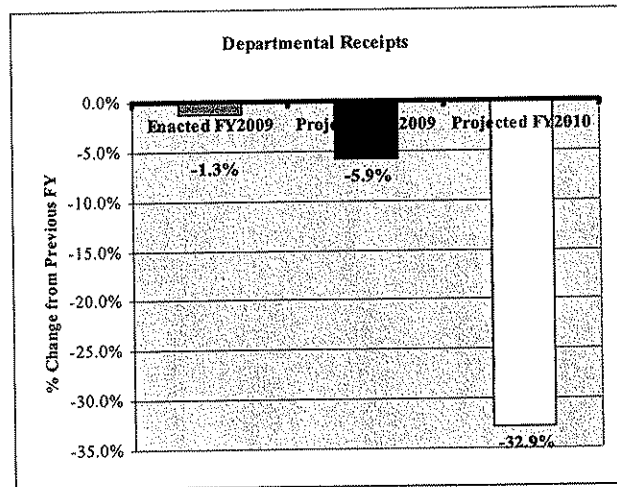


Conferees estimated the Tobacco Taxes by component, including \$117.0 million in Cigarette Taxes and \$2.6 million in taxes on Other Tobacco Products in FY2009. For FY2010, Cigarettes are estimated to decrease by \$3.0 million, to \$114.0 million, while revenues from Other Tobacco Products increase to \$2.7 million. For FY2010, historical consumption declines resume, albeit on an increased base from FY2009.

Other Taxes. The Inheritance, Racing and Athletics, and Realty Transfer Taxes are estimated to produce \$38.3 million in FY2009 and \$38.1 million in FY2010. The FY2009 estimate is \$13.2 million less than enacted, resulting from expected declines in collections for all three of the tax categories, but especially reflective of more than 20.0% expected declines in Inheritance and Realty Transfer Taxes. The rapid erosion of the housing market plays a large factor in both revisions, and major declines in portfolio values further reduce Inheritance Tax estimates. The FY2010 estimate for total other taxes are \$38.1 million, or \$200,000 less than the revised estimate.

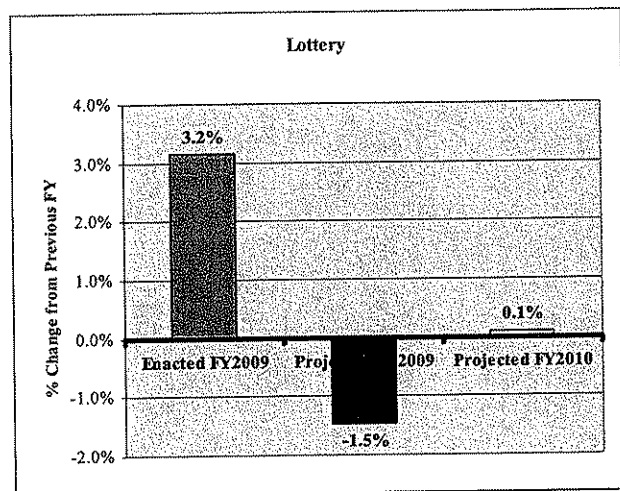


Departmental Receipts. The Estimators adopted estimates of \$331.5 million in FY2009 and \$222.5 million in FY2010 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as General Revenues. The FY2009 estimate is \$16.1 million (-5.9%) less than enacted. The FY2010 estimate is \$109.0 million less than the revised estimate.



FY2010 drops off mainly due to the end of the hospital license fee in FY2009, which produces \$111.4 million. That fee has been enacted on a year-to-year basis each year since its inception. However, the Estimators must estimate within current law, under which there would be no fee in FY2010.

Lottery. Lottery revenues are estimated to produce \$349.1 million in FY2009 consisting of \$289.4 million from Video and \$59.7 million from Games. The total is \$349.4 million in FY2010, consisting of \$290.4 million from Video and \$59.0 million from Games. The FY2009 estimate is \$16.4 million less than enacted. An estimated decline in Video Lottery Terminal receipts of \$13.6 million makes up the bulk of the decline. The FY2010 estimate grows by 0.1%, resulting in an additional \$300,000 transfer to the State.



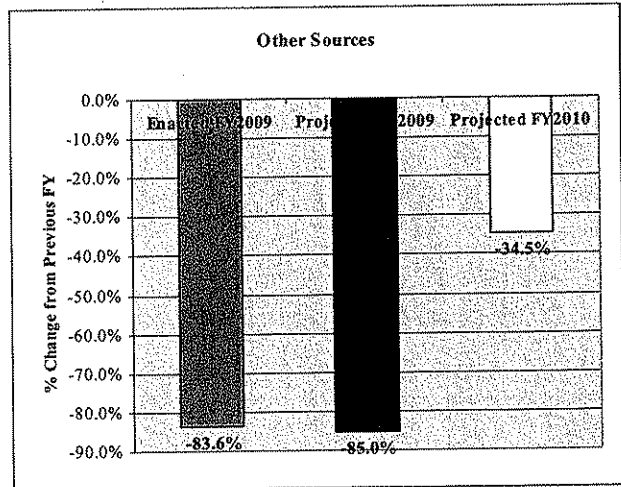
Estimators are required to determine the State share of net terminal income (NTI) at both Twin River (formerly Lincoln Park) and Newport Grand. For FY2009, Estimators project a State share of \$247.1 million based on total NTI of \$414.0 million at Twin River. At Newport Grand, the State expects to collect \$42.3 million on \$66.3 million NTI.

For FY2010, Twin River is projected to reap the State \$248.3 million on \$403.4 million NTI, while Newport is estimated to transfer \$42.1 million on \$65.3 million NTI. Year over year transfers are projected at plus \$1.2 million at Twin River and minus \$200,000 for Newport.

Of note, the FY2010 estimate does not include the "24/3" extended gaming hours that are included in the FY2009 estimates. The extended hours were enacted for one year, and would require changes to the General Laws to be extended into next fiscal year.

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. These are estimated to produce \$30.4 million in FY2009 and \$19.9 million in FY2010, or \$10.5 million below the revised estimate.

The FY2010 declines are primarily attributable to decreases in other miscellaneous sources of \$6.8 million, and a \$3.7 million decrease in unclaimed property receipts.



NEXT MEETING

The Revenue Estimating Conference is required to meet again in May 2009. However, the statutes provide for any of the principals to call additional conferences should it become clear that the estimates need revision. The principals are concerned that the economy is extremely unstable. Early signs of potential trouble include sales tax collections on holiday sales, which will be reported in February, personal income tax estimated filings due in January, and business tax estimated payments due in March.

REVENUE COMPARISONS- FY2009

REVENUE COMPARISONS - FY2009 TABLE REC #2 REC Report 17-Nov-08	Unaudited FY2008	Enacted June Estimate FY2009	Conference November Estimate FY2009	Conference November Vs Enacted FY2009	Growth Rate FY2008 to Enacted FY2009	Growth Rate FY2008 to Con. Nov. FY2009
GENERAL REVENUES						
TAXES						
Personal Income Tax	\$1,073,795,214	\$1,124,235,000	\$1,011,000,000	(\$113,235,000)	4.7%	-5.8%
GENERAL BUSINESS TAXES:						
Business Corporations	\$151,394,857	\$161,000,000	\$108,000,000	(\$53,000,000)	6.3%	-28.7%
Public Utilities Gross Earnings	\$99,436,915	\$100,000,000	\$104,500,000	\$4,500,000	0.6%	5.1%
Financial Institutions	\$1,830,270	\$1,100,000	\$2,000,000	\$900,000	-39.9%	9.3%
Insurance Companies	\$67,997,274	\$77,823,696	\$77,000,000	(\$823,696)	14.5%	13.2%
Bank Deposits	\$1,710,050	\$1,700,000	\$1,700,000	\$0	-0.6%	-0.6%
Health Care Provider Assessments	\$53,372,451	\$47,432,000	\$49,000,000	\$1,568,000	-11.1%	-8.2%
SALES AND USE TAXES:						
Sales and Use	\$845,365,207	\$863,100,000	\$831,000,000	(\$32,100,000)	2.1%	-1.7%
Motor Vehicle	\$48,610,020	\$45,667,548	\$48,000,000	\$2,332,452	-6.1%	-1.3%
Motor Fuel	\$991,473	\$1,200,000	\$930,000	(\$270,000)	21.0%	-6.2%
Cigarettes	\$114,674,498	\$114,500,000	\$119,600,000	\$5,100,000	-0.2%	4.3%
Alcohol	\$11,140,941	\$11,100,000	\$11,100,000	\$0	-0.4%	-0.4%
Marijuana Controlled Substances	\$0	\$0	\$0	\$0		
OTHER TAXES:						
Inheritance and Gift	\$35,333,925	\$38,000,000	\$28,000,000	(\$10,000,000)	7.5%	-20.8%
Racing & Athletics Tax	\$2,812,860	\$2,600,000	\$2,500,000	(\$100,000)	-7.6%	-11.1%
Realty Transfer	\$10,223,094	\$10,900,000	\$7,800,000	(\$3,100,000)	6.6%	-23.7%
TOTAL - Taxes	\$2,518,689,048	\$2,600,358,244	\$2,402,130,000	(\$198,228,244)	3.2%	-4.6%
DEPARTMENTAL REVENUE						
TOTAL - Departmental Revenues	\$352,107,297	\$347,627,559	\$331,500,000	(\$16,127,559)	-1.3%	-5.9%
TOTAL - Taxes & Departmentals	\$2,870,796,345	\$2,947,985,803	\$2,733,630,000	(\$214,355,803)	2.7%	-4.8%
OTHER SOURCES						
Gas Tax Transfers	\$4,513,745	\$4,630,000	\$4,475,000	(\$155,000)	2.6%	-0.9%
Other Miscellaneous	\$182,892,012	\$19,400,000	\$16,597,040	(\$2,802,960)	-89.4%	-90.9%
Lottery	\$354,311,448	\$365,500,000	\$349,100,000	(\$16,400,000)	3.2%	-1.5%
Unclaimed Property	\$15,387,030	\$9,200,000	\$9,300,000	\$100,000	-40.2%	-39.6%
TOTAL - Other Sources	\$557,104,235	\$398,730,000	\$379,472,040	(\$19,257,960)	-28.4%	-31.9%
TOTAL- GENERAL REVENUE	\$3,427,900,580	\$3,346,715,803	\$3,113,102,040	(\$233,613,763)	-2.4%	-9.2%

REVENUE COMPARISONS- FY2010

REVENUE COMPARISONS - FY2010 TABLE: REC #3 REC Report 13-Nov-08 GENERAL REVENUES	Conference November Estimate FY2009	Conference November Estimate FY2010	Conf. Nov. FY2009 Vs Conf. Nov. FY2010	Growth Rate FY2008 to Con. Nov. FY2009	Growth Rate Conf. Nov. FY2009 to Con. Nov. FY2010
TAXES					
Personal Income Tax	\$1,011,000,000	\$1,017,800,000	\$6,800,000	-5.8%	0.7%
GENERAL BUSINESS TAXES:					
Business Corporations	\$108,000,000	\$110,800,000	\$2,800,000	-28.7%	2.6%
Public Utilities Gross Earnings	\$104,500,000	\$106,800,000	\$2,300,000	5.1%	2.2%
Financial Institutions	\$2,000,000	\$1,000,000	(\$1,000,000)	9.3%	-50.0%
Insurance Companies	\$77,000,000	\$78,500,000	\$1,500,000	13.2%	1.9%
Bank Deposits	\$1,700,000	\$1,740,000	\$40,000	-0.6%	2.4%
Health Care Provider Assessments	\$49,000,000	\$50,100,000	\$1,100,000	-8.2%	2.2%
SALES AND USE TAXES:					
Sales and Use	\$831,000,000	\$836,000,000	\$5,000,000	-1.7%	0.6%
Motor Vehicle	\$48,000,000	\$47,400,000	(\$600,000)	-1.3%	-1.3%
Gasoline	\$930,000	\$850,000	(\$80,000)	-6.2%	-8.6%
Cigarettes	\$119,600,000	\$116,700,000	(\$2,900,000)	4.3%	-2.4%
Alcohol	\$11,100,000	\$11,300,000	\$200,000	-0.4%	1.8%
Marijuana Controlled Substances	\$0	\$0	\$0	0.0%	#DIV/0!
OTHER TAXES:					
Inheritance and Gift	\$28,000,000	\$28,000,000	\$0	-20.8%	0.0%
Racing & Athletics Tax	\$2,500,000	\$2,300,000	(\$200,000)	-11.1%	-8.0%
Realty Transfer	\$7,800,000	\$7,800,000	\$0	-23.7%	0.0%
TOTAL - Taxes	\$2,402,130,000	\$2,417,090,000	\$14,960,000	-4.6%	0.6%
DEPARTMENTAL REVENUE					
TOTAL - Departmental Revenues	\$331,500,000	\$222,500,000	(\$109,000,000)	-5.9%	-32.9%
TOTAL - Taxes & Departmentals	\$2,733,630,000	\$2,639,590,000	(\$94,040,000)	-4.8%	-3.4%
OTHER SOURCES					
Gas Tax Transfers	\$4,475,000	\$4,475,000	\$0	-0.9%	0.0%
Other Miscellaneous	\$16,597,040	\$9,819,836	(\$6,777,204)	-90.9%	-40.8%
Lottery	\$349,100,000	\$349,400,000	\$300,000	-1.5%	0.1%
Unclaimed Property	\$9,300,000	\$5,600,000	(\$3,700,000)	-39.6%	-39.8%
TOTAL- Other Sources	\$379,472,040	\$369,294,836	(\$10,177,204)	-31.9%	-2.7%
TOTAL- GENERAL REVENUE	\$3,113,102,040	\$3,008,884,836	(\$104,217,204)	-9.2%	-3.3%