



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

One Capitol Hill, 4th Floor, PROVIDENCE, RI 02903

ROSEMARY BOOTH GALLOGLY
State Budget Officer
November 2009 Conference Chair

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MEMORANDUM

To: The Honorable Donald L. Carcieri, Governor
The Honorable William J. Murphy, Speaker of the House
The Honorable M. Teresa Paiva Weed, President of the Senate

From: Rosemary Booth Gallogly, State Budget Officer
Michael F. O'Keefe, House Fiscal Advisor
Peter M. Marino, Senate Fiscal Advisor

Date: November 16, 2009

Subject: **November 2009 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference (REC) met on November 3rd, 4th, 5th, and 10th, 2009, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2009 to 2015, and issued a revised estimate for FY2010 and a first estimate of FY2011 revenues. Based on collections trends, preliminary closing results, and the revised economic forecast, the Conference revised the FY2010 estimates downward by \$130.5 million from the FY2010 Budget as Enacted amount, to a total of \$2,946.4 million for FY2010. The estimates do include additional revenues from the operation of video lottery terminals at Twin River on 24 hours per day, seven days per week basis. During the October 28-29, 2009 special session of the General Assembly an increased share of Twin River's video lottery net terminal income was enacted for the Town of Lincoln for FY2010 only. The estimates adopted at the November 2009 REC incorporate this change in the share of video lottery net terminal income.

The Conference estimated FY2011 revenues at \$2,834.4 million, which is \$112.0 million less than the November 2009 REC estimates for FY2010. The FY2011 estimates are based on current laws and exclude the hospital licensing fee from the estimate. In FY2010, the hospital

licensing fee is estimated at \$128.8 million. Tables showing the estimates and the changes by revenue component are included at the end of this report.

ECONOMIC FORECAST

The Consensus Economic Forecast was adopted at the November 4th meeting. The principals heard testimony from their economic consultant Andres Carbacho-Burgos of Moody's Economy.com. The consultant presented Conferees with updated economic forecasts for the United States and Rhode Island. Carbacho-Burgos' testimony covered current economic performance and the outlook over the next several years and how the outlook changed since the May 2009 Revenue Estimating Conference. 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, the Conferees adopted an updated consensus economic forecast for Rhode Island. The updated forecast made significant changes to the consensus outlook adopted at the May 2009 Conference.

The U. S. Economy

Mr. Carbacho-Burgos testified that the 'Great Recession' is over for the U.S. economy as a whole. The recession is estimated to have lasted 20 months, the longest recession since World War II and double the average length of the 11 post-war recessions. During the recession U.S. real Gross Domestic Product shrunk by 3.9 percent, industrial production dropped by 19.2 percent, and non-farm employment declined by 6.2 percent. Each of these contractions was the largest on record for any post-World War II recession. The federal stimulus package "provided a meaningful boost" to real GDP growth in the third quarter of 2009 but its impact is expected to subside by CY2010.

The pace of layoffs has begun to decelerate but there has not been an upswing in hiring as of yet. It is expected that the decline in non-farm employment will end somewhere in the first quarter of CY2010. The housing market has been a mixed bag with house sales reaching a bottom in the first quarter of CY2009 but house prices continuing to fall due to the high level of foreclosures. House prices should hit bottom in the second quarter of CY2010 but not begin to rise again until the first quarter of CY2011. At that point in time, the U.S. economy should enter a period of "self-sustaining expansion."

At this point in time, Moody's Economy.com does not anticipate a second round of federal stimulus spending. This is primarily due to the swelling of the federal deficit and the need for Washington to take steps to address this problem. Thus, in the fourth quarter of CY2011, fiscal pressures are expected to intensify at the federal level likely resulting in a tax increase or, at a minimum, allowing for the expiration of most if not all of the tax cuts passed during the Bush presidency.

The Rhode Island Economy

With respect to the Rhode Island economy, Mr. Carbacho-Burgos noted that the state's economic recovery will lag that of the U.S. In particular, he stated that although both the U.S. and Rhode

Island will experience “U” shaped recoveries, the bottom of the “U” for Rhode Island’s economic recovery will be significantly broader than the bottom of the “U” for the U.S. recovery. Rhode Island unemployment claims continue to rise while the housing market, in terms of house sales and house starts, has begun to stabilize. Foreclosures will continue to put downward pressure on house prices even as income growth starts to recover.

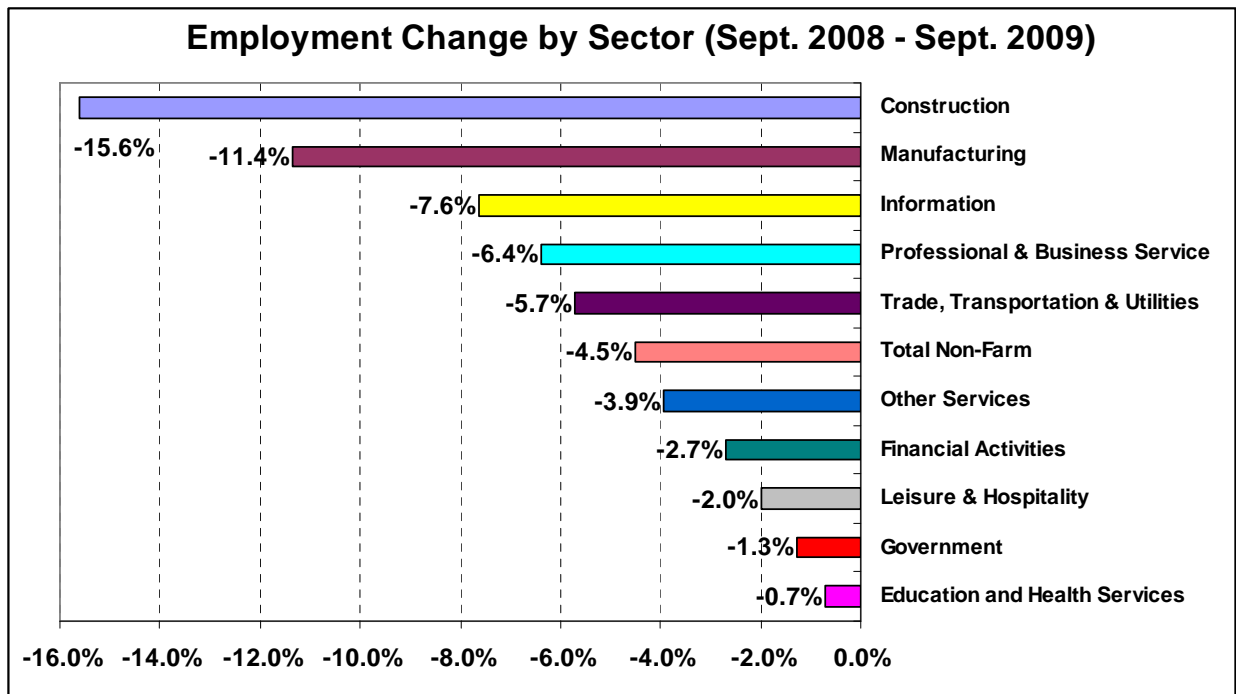
Of particular concern is the fact that Rhode Island’s job market is expected to recover more slowly than that of the U.S. and the New England economies not reaching its prerecession employment peak until late in CY2013. Because of this slow growth in jobs, Rhode Island’s unemployment rate is expected to continue to rise before reaching a peak of 14.0 percent in the second quarter of CY2010. Housing prices in the state are projected to bottom out in mid-CY2010 and show modest increases over the second half of CY2010 and the beginning of CY2011. Personal income growth is anticipated to trail that of the U.S. as a whole but be positive for the CY2010 to CY2014 forecast period.

Department of Labor and Training

The Rhode Island Department of Labor and Training reported that the Rhode Island unemployment rate has risen by 4.5 percentage points between September 2008 and September 2009. The September 2009 unemployment rate of 13.0 percent is the is the third highest in the nation, behind Michigan and Nevada,, and is markedly higher than the U.S. rate of 9.8 percent, and the Massachusetts and Connecticut unemployment rates of 8.4 and 9.3 percent, respectively. The rise in Rhode Island’s unemployment rate is due to a large decline in the number of employed residents, 22,800 fewer than in September 2008, and a large increase in the number of unemployed, 25,600 more than in September 2008.

Utilization of Rhode Island’s WorkShare program has risen dramatically in 2009. The WorkShare program allows employers to reduce the hours of a larger number of workers in lieu of a layoff of a smaller group of employees. The workers recapture the lost earnings due to the reduction in hours through regular unemployment benefits. Initial claims rose 182.5 percent from September 2008 to September 2009, and payments are up 273.0 percent from this time a year ago. The Department estimates that more than 5,000 layoffs have been averted through the first nine months of 2009 due to the program.

Between September 2008 and September 2009, losses in Rhode Island establishment employment were realized overall, -21,600; and in the following sectors: Manufacturing, -5,400; Trade, Transportation & Utilities, -4,400; Professional and Business Services, -3,500; Construction, -3,200; Leisure and Hospitality, -1,000; Financial Activities, -900; Other Services, -900; Information, -800; Government, -800; and Educational & Health Services, -700. No broad sector of the Rhode Island economy added jobs year-over-year in September 2009. In fact, since the January 2007 peak employment of 496,400 jobs, Rhode Island businesses have shed 37,700 jobs as of September 2009, a decline of 7.6 percent.



Consensus Forecast

The principals of the Revenue Estimating Conference adopted a consensus economic forecast based on the testimony of Moody’s Economy.com economist Andres Carbacho-Burgos. The forecast projects additional declines in employment of 12,700 jobs in FY2010 and 1,400 jobs in FY2011 before employment growth turns positive in FY2012. Employment growth is expected to average 2.3 percent in the FY2012 – FY2015 forecast period. Personal income growth is anticipated to be minimal in FY2010 and FY2011, at 0.2 percent and 1.4 percent respectively, before rising more aggressively in FY2012. Personal income growth is forecasted to average 4.1 percent in the FY2012 – FY2015 period. Unfortunately, wage and salary growth is expected to be negative in both FY2010 and FY2011 before turning positive in FY2012. More aggressive growth in wages and salaries is not expected to take hold until FY2013. The state’s unemployment rate is projected to be above 13.0 percent for both FY2010 and FY2011 before falling to 10.7 percent in FY2012. Rhode Island’s unemployment rate is not expected to fall below 7.0 percent until FY2015.

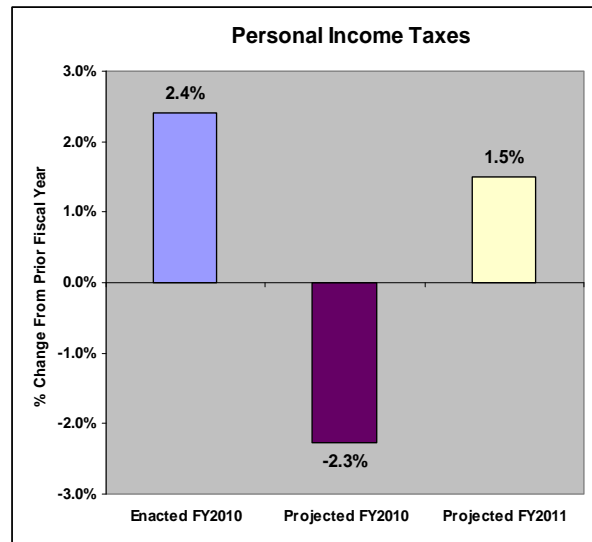
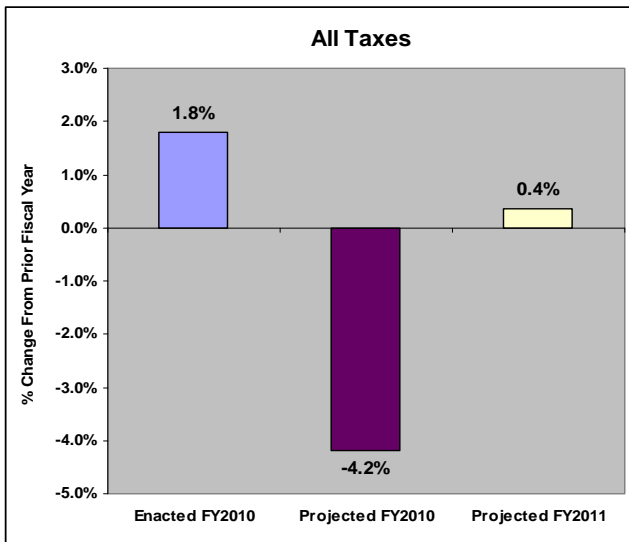
The consensus economic forecast through 2015 on both a calendar and fiscal year basis is shown in the following tables.

Forecast Metric	November 2009 Consensus Economic Forecast							
	CY2008	CY2009	CY2010	CY2011	CY2012	CY2013	CY2014	CY2015
Non-Farm Employment (Thousands)	481.8	462.5	455.8	461.8	476.0	491.3	499.2	503.7
Growth Rates								
Non-Farm Employment	-2.2	-4.0	-1.4	1.3	3.1	3.2	1.6	0.9
Personal Income	2.6	-1.1	1.1	2.3	3.9	4.9	4.2	3.9
Wages and Salaries	1.2	-4.9	-1.3	1.0	3.6	5.0	4.1	3.6
Dividends, Interest, and Rent	2.1	-3.3	0.4	3.0	5.5	7.8	6.0	4.6
Percentage Rates								
Unemployment	7.8	12.1	13.7	12.1	9.5	8.0	7.2	6.6
Consumer Price Index (U.S.)	3.8	-0.4	1.7	1.8	2.1	2.0	2.0	2.2
Ten Year U.S. Treasury Notes	3.7	3.3	4.3	5.2	5.6	4.9	4.7	4.6
Three Month U.S. Treasury Bills	1.4	0.2	0.4	2.0	3.7	4.2	4.2	4.0

Forecast Metric	November 2009 Consensus Economic Forecast							
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Non-Farm Employment (Thousands)	488.3	471.6	458.9	457.5	468.4	484.3	496.0	501.6
Growth Rates								
Non-Farm Employment	-1.3	-3.4	-2.7	-0.3	2.4	3.4	2.4	1.1
Personal Income	3.7	0.6	0.2	1.4	3.1	4.7	4.6	4.0
Wages and Salaries	0.8	-1.4	-3.2	-0.6	2.4	4.6	4.7	3.7
Dividends, Interest, and Rent	6.0	-0.7	-2.5	2.0	3.9	7.4	7.0	5.2
Percentage Rates								
Unemployment	6.3	9.9	13.4	13.2	10.7	8.6	7.6	6.9
Consumer Price Index (U.S.)	3.7	1.4	0.8	1.5	2.0	2.0	2.0	2.1
Ten Year U.S. Treasury Notes	4.1	3.3	3.8	4.8	5.6	5.3	4.8	4.6
Three Month U.S. Treasury Bills	2.8	0.5	0.2	1.0	3.0	4.1	4.2	4.1

REVENUES

Taxes. Revenues from taxes are estimated to decrease 4.2 percent in FY2010 from preliminary FY2009 collections and increase by 0.4 percent in FY2011 over the revised FY2010 estimate. Total estimated taxes for FY2010 of \$2,238.8 million are \$139.8 million below the enacted estimate for total taxes. FY2011 total estimated taxes are \$2,246.7 million, \$7.9 million above the revised FY2010 estimate.

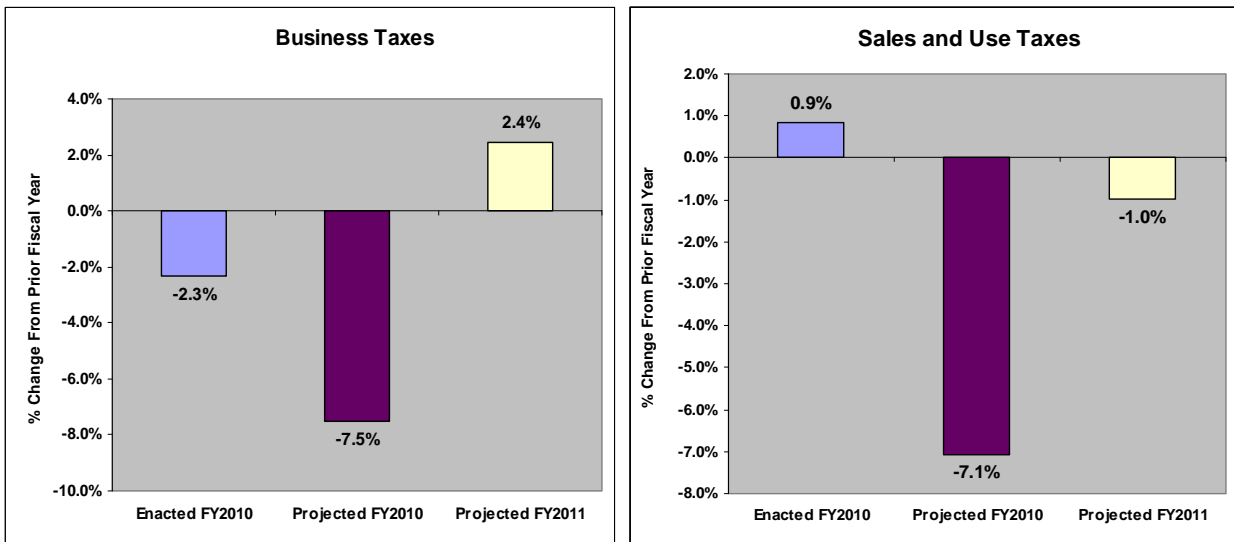


Personal Income Tax. The estimates of \$919.2 million for FY2010 and \$933.0 million for FY2011 represent unadjusted year over year growth rates of -2.3 percent and 1.5 percent, respectively. The FY2010 estimate is \$44.0 million less than enacted, reflecting downward

revisions to employment and personal income growth estimates. The FY2011 estimate is \$13.8 million more than the FY2010 revised estimate.

Business Taxes. The Conference estimates total business taxes of \$332.8 million in FY2010 and \$340.9 million in FY2011 for all business taxes. Year over year growth rates are -7.5 percent and 2.4 percent respectively. The FY2010 estimate is \$18.7 million less than enacted while the FY2011 estimate is \$8.1 million more than the revised estimate. The Business Corporations Tax was the largest driver of negative growth in FY2010, realizing an \$18.9 million decrease, or -16.7 percent, from the FY2010 Budget as Enacted estimate. For FY2011 the Business Corporations Tax is projected to increase by \$5.9 million from revised FY2010, reflecting a 6.3 percent growth rate.

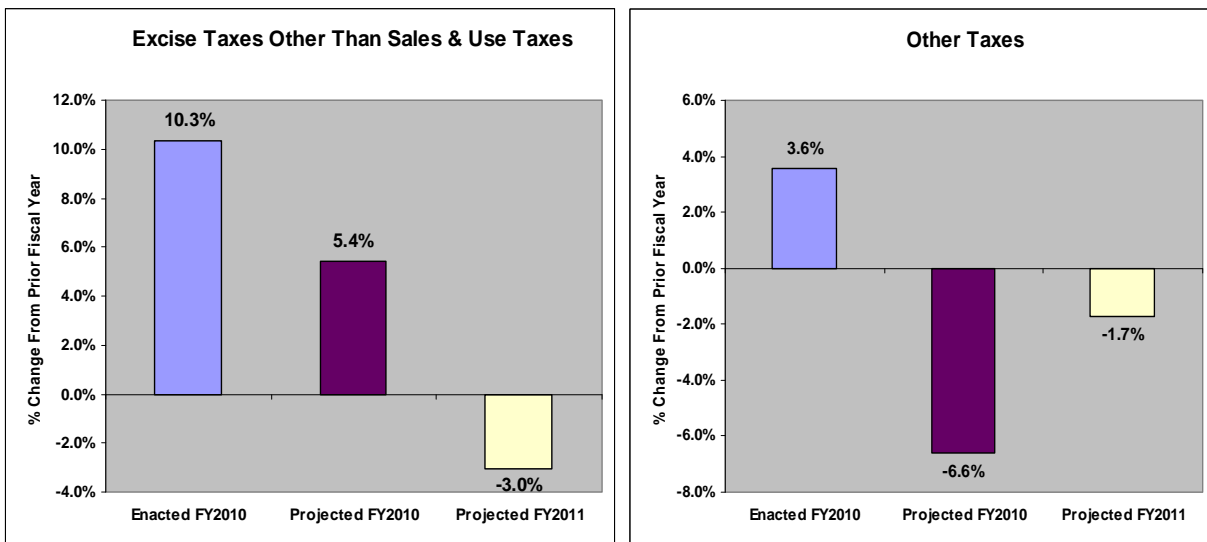
Sales and Use Taxes. The Conferees estimate Sales and Use Tax revenues of \$751.0 million in FY2010 and \$743.7 million in FY2011. The FY2010 revenues are \$64.0 million below the enacted estimate and represent growth of -7.1 percent from preliminary actual FY2009 receipts. Slower than anticipated year-to-date collections, continually weakening auto sales, and declining consumer confidence contributed to the downward revision by the estimators. The FY2011 estimate is \$7.3 million less than, or -1.0 percent, the revised FY2010 estimate.



Excise Taxes Other Than Sales and Use Taxes. The Conferees estimated \$200.9 million for FY2010 and \$194.8 million for FY2011 from Excise Taxes Other Than Sales and Use Taxes. These taxes include Motor Vehicle License and Registration Fees, Cigarettes Taxes, and Alcohol Taxes. The FY2010 estimate is \$9.3 million less than enacted. The decrease reflects the projection of \$7.7 million less in Cigarettes Tax receipts and another \$1.8 million less in Motor Vehicle Fees. The FY2011 estimate is \$6.1 million less than the revised estimate for FY2010, reflecting further declines in Cigarettes Tax receipts.

Other Taxes. The Inheritance, Racing and Athletics, and Realty Transfer Taxes are estimated to produce \$34.9 million in revised FY2010 and \$34.3 million in FY2011. The FY2010 estimate is \$3.8 million less than enacted, resulting from expected declines in collections for all three of the tax categories, but especially reflective of a more than 10.7 percent expected decline in Inheritance Taxes. It should be noted the state's weakened housing markets has also contributed to the downward revision in FY 2010. The FY2011 estimate for total other taxes is \$600,000

less than the revised FY2010 estimate. This decrease is due primarily to a decline in anticipated Inheritance Tax collections.



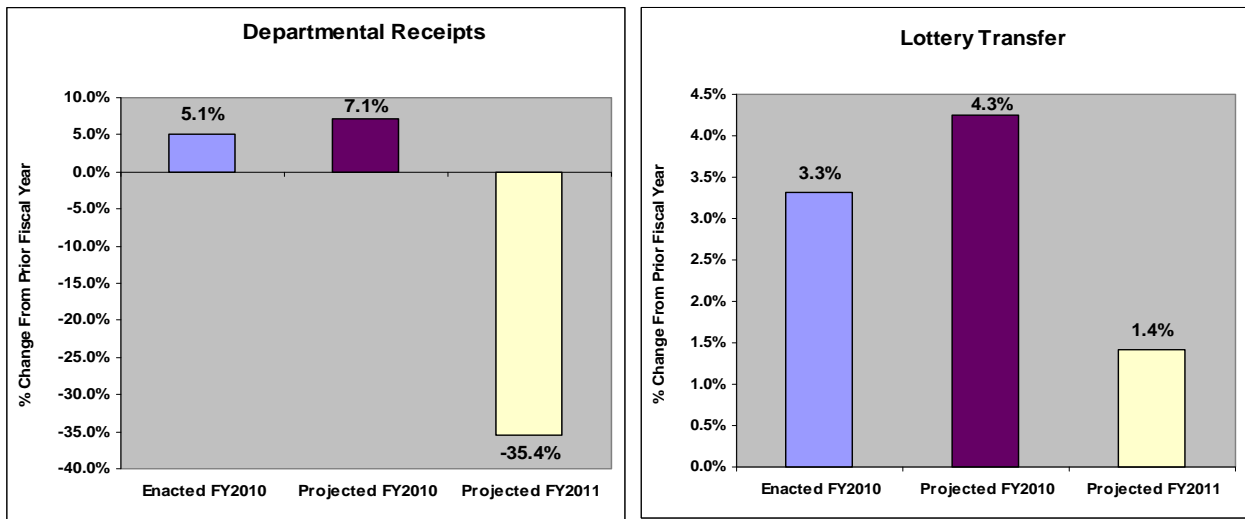
Departmental Receipts. The Estimators adopted estimates of \$342.0 million for FY2010 and \$221.0 million for FY2011 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts that are deposited as General Revenues. The FY2010 estimate is \$6.5 million more than enacted, but includes \$8.6 million of new revenues from the statewide student transportation program.

The FY2011 estimate is \$121.0 million less than the revised FY2010 estimate. FY2011 drops off mainly due to the end of the hospital license fee, which produces \$128.8 million in FY2010. 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 FY2011.

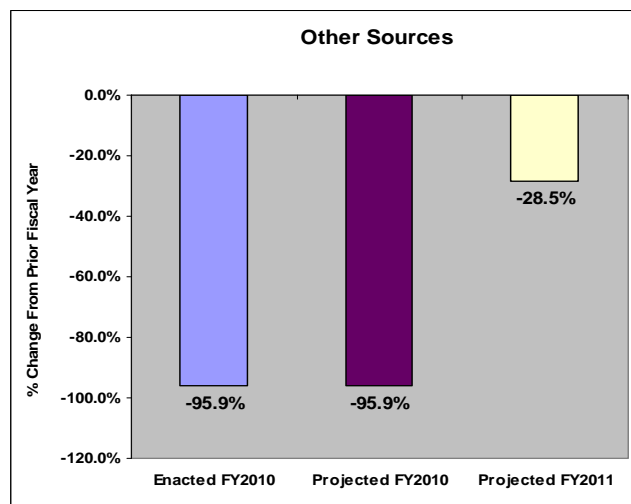
Lottery Transfer. The Lottery Transfer is estimated to produce \$351.9 million in FY2010 with \$295.9 million from Video Lottery Terminals installed at Twin River and Newport Grand and \$60.0 million from Games, which includes PowerBall, scratch tickets, and Keno. The estimated transfer is \$356.9 million in FY2011, with of \$296.9 million from Video Lottery Terminals and \$60.0 million from Games. The Games estimates for both FY2010 and FY2011 include the addition of the Mega Millions bi-weekly drawing to the slate of available games in Rhode Island. The Division of Lottery testified that they expect Mega Millions to become operational by January 31, 2010. The FY2010 estimate is \$3.2 million more than enacted. The FY2011 estimate grows by 4.3 percent resulting in an additional \$3.2 million transfer to the State.

The estimators are required to determine the State share of video lottery net terminal income (NTI) at both Twin River and Newport Grand. For FY2010, the conferees project a State share of \$252.6 million based on total NTI of \$411.0 million at Twin River. At Newport Grand, the State expects to receive \$39.3 million from the generation of \$61.5 million in NTI. For FY2011, Twin River is projected to provide the State with \$259.5 million from the \$421.0 million of NTI generated while Newport Grand is expected to transfer \$37.4 million from the \$58.5 million of NTI it generates. Year over year transfers are projected at plus \$6.8 million at Twin River and -\$1.9 million at Newport Grand.

Of note, the General Assembly enacted, and the Governor signed into law, an increased share of Twin River’s net terminal income for the Town of Lincoln, Twin River’s host municipality. In particular, the legislation granted the Town of Lincoln an additional dedication of 19 basis points (100 basis points equal 1.0 percentage point) of Twin River’s total NTI, or a total of 1.45 percent, for FY2010, or revenue of \$6.0 million. FY2011’s estimate does not include this enhanced distribution for the Town of Lincoln thereby increasing the State’s share of the NTI generated at Twin River. For FY2011, the Town of Lincoln’s share of Twin River’s NTI is 1.26 percent, or revenue of \$5.3 million. It would require a statutory change for the Town of Lincoln’s distributive share to remain at FY2010 levels.



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 \$13.7 million in FY2010 and \$9.8 million in FY2011, or \$3.9 million below the revised estimate. The FY2011 declines are primarily attributable to decreases in other miscellaneous revenue sources of \$4.0 million.



NEXT MEETING

The next required meeting of the conference is scheduled for May 2010.

Revenue Comparisons- FY2010

FY 2010	FY 2009 Preliminary	FY 2010 Enacted	Growth From FY 2009	FY 2010 Consensus	Growth From FY 2009	FY 2010 Consensus vs. FY 2010 Enacted
Personal Income Tax	\$ 940,513,781	\$ 963,200,000	2.4%	\$ 919,200,000	-2.3%	\$ (44,000,000)
General Business Taxes						
Business Corporations	104,436,811	113,000,000	8.2%	94,100,000	-9.9%	(18,900,000)
Public Utilities Gross	126,664,890	115,000,000	-9.2%	120,000,000	-5.3%	5,000,000
Financial Institutions	2,901,945	3,750,000	29.2%	2,000,000	-31.1%	(1,750,000)
Insurance Companies	78,016,930	81,900,000	5.0%	80,000,000	2.5%	(1,900,000)
Bank Deposits	1,802,796	1,730,000	-4.0%	1,800,000	-0.2%	70,000
Health Care Provider	46,030,570	36,126,589	-21.5%	34,900,000	-24.2%	(1,226,589)
Sales and Use Taxes						
Sales and Use	808,125,293	815,000,000	0.9%	751,000,000	-7.1%	(64,000,000)
Motor Vehicle	47,925,805	50,400,000	5.2%	48,600,000	1.4%	(1,800,000)
Motor Fuel	1,325,034	920,000	-30.6%	1,000,000	-24.5%	80,000
Cigarettes	130,503,213	148,000,000	13.4%	140,300,000	7.5%	(7,700,000)
Alcohol	10,811,831	10,900,000	0.8%	11,000,000	1.7%	100,000
Other Taxes						
Inheritance and Gift	28,096,912	29,399,700	4.6%	26,400,000	-6.0%	(2,999,700)
Racing and Athletics	2,450,809	2,100,000	-14.3%	2,000,000	-18.4%	(100,000)
Realty Transfer	6,811,322	7,200,000	5.7%	6,500,000	-4.6%	(700,000)
Total Taxes	2,336,417,942	2,378,626,289	1.8%	2,238,800,000	-4.2%	(139,826,289)
Departmental Receipts	319,361,734	335,532,188	5.1%	342,000,000	7.1%	6,467,812
Gas Tax Transfer	4,327,710	-	-100.0%	-	-100.0%	-
Other Miscellaneous	17,739,819	9,000,000	-49.3%	8,500,000	-52.1%	(500,000)
Lottery	337,529,754	348,700,000	3.3%	351,900,000	4.3%	3,200,000
Unclaimed Property	8,044,126	5,000,000	-37.8%	5,200,000	-35.4%	200,000
Total General Revenues	3,023,421,085	3,076,858,477	1.8%	2,946,400,000	-2.5%	(130,458,477)
Lottery						
All Games	59,314,806	58,900,000	-0.7%	60,000,000	1.2%	1,100,000
VLT	278,214,948	289,800,000	4.2%	291,900,000	4.9%	2,100,000
Total	337,529,754	348,700,000	3.3%	351,900,000	4.3%	3,200,000
Lincoln NTI	396,638,140	404,700,000	2.0%	411,000,000.0	3.6%	6,300,000.0
Newport NTI	64,202,010	63,100,000	-1.7%	61,500,000.0	-4.2%	(1,600,000.0)
Total NTI	460,840,150	467,800,000	1.5%	472,500,000	2.5%	4,700,000

Revenue Comparisons- FY2011

FY 2011	FY 2010 Consensus	Growth From FY 2009	FY 2011 Consensus	Growth From FY 2010	FY 2011 Consensus vs. FY 2010 Consensus
Personal Income Tax	\$ 919,200,000	-2.3%	\$ 933,000,000	1.5%	\$ 13,800,000
General Business Taxes					
Business Corporations	94,100,000	-9.9%	100,000,000	6.3%	5,900,000
Public Utilities Gross	120,000,000	-5.3%	121,000,000	0.8%	1,000,000
Financial Institutions	2,000,000	-31.1%	1,000,000	-50.0%	(1,000,000)
Insurance Companies	80,000,000	2.5%	82,400,000	3.0%	2,400,000
Bank Deposits	1,800,000	-0.2%	1,800,000	0.0%	-
Health Care Provider	34,900,000	-24.2%	34,700,000	-0.6%	(200,000)
Sales and Use Taxes					
Sales and Use	751,000,000	-7.1%	743,700,000	-1.0%	(7,300,000)
Motor Vehicle	48,600,000	1.4%	48,100,000	-1.0%	(500,000)
Motor Fuel	1,000,000	-24.5%	1,000,000	0.0%	-
Cigarettes	140,300,000	7.5%	134,600,000	-4.1%	(5,700,000)
Alcohol	11,000,000	1.7%	11,100,000	0.9%	100,000
Other Taxes					
Inheritance and Gift	26,400,000	-6.0%	26,000,000	-1.5%	(400,000)
Racing and Athletics	2,000,000	-18.4%	1,800,000	-10.0%	(200,000)
Realty Transfer	6,500,000	-4.6%	6,500,000	0.0%	-
Total Taxes	2,238,800,000	-4.2%	2,246,700,000	0.4%	7,900,000
Departmental Receipts	342,000,000	7.1%	221,000,000	-35.4%	(121,000,000)
Gas Tax Transfer	-	-100.0%	-	n/a	-
Other Miscellaneous	8,500,000	-52.1%	4,500,000	-47.1%	(4,000,000)
Lottery	351,900,000	4.3%	356,900,000	1.4%	5,000,000
Unclaimed Property	5,200,000	-35.4%	5,300,000	1.9%	100,000
Total General Revenues	2,946,400,000	-2.5%	2,834,400,000	-3.8%	(112,000,000)
Lottery					
All Games	60,000,000	1.2%	60,000,000	0.0%	-
VLT	291,900,000	4.9%	296,900,000	1.7%	5,000,000
Total	351,900,000	4.3%	356,900,000	1.4%	5,000,000
Lincoln NTI	411,000,000	3.6%	421,000,000.0	2.4%	10,000,000
Newport NTI	61,500,000	-4.2%	58,500,000.0	-4.9%	(3,000,000)
Total NTI	472,500,000	2.5%	479,500,000	1.5%	7,000,000