

State of Rhode Island and Providence Plantations

Revenue & Caseload Estimating Conference

ROOM 306, STATE HOUSE, PROVIDENCE, RI 02903



May 12, 2006

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 Booth Gallogly*
Russell C. Dannecker, Senate Fiscal Advisor *Russell C. Dannecker*

Subject: May 2006 Consensus Revenue Estimating Conference

Summary

The Revenue Estimating Conference concluded its deliberations May 10 in open public meetings to adopt the economic forecast and review and revise the estimated revenues for FY 2006 and FY 2007 adopted at the November 2005 conference. The Conference revised the FY 2006 estimate upward by \$55.6 million based on collections trends through April and the revised economic forecast, and revised the FY 2007 forecast upward by \$35.0 million based on its FY 2006 revisions, the new economic forecast, and an anticipated insurance settlement. Tables showing the estimates and the changes are included at the end of this report.

Economic Forecast

On May 1, the Conferees heard forecasts for the national and Rhode Island economies from Steven Cochrane, Director of Regional Economics for Economy.com and James Diffley, economist for Global Insight and received testimony from Robert J. Langlais, Assistant Director, Labor Market Information, Department of Labor and Training. The Conferees adopted a revised economic forecast for Rhode Island based on the information presented.

The national economy is growing at capacity with unemployment below 5.10 percent and the consumer price index moving toward the upper bound of the Federal Reserve Board target range. These factors pose an inflationary risk that could tend to slow the economy down, as

the Board increases interest rates. Mr. Cochrane anticipates one more rate increase; Mr. Diffley anticipates two.

The economists anticipate that the economy will perform well for the remainder of 2006 but begin slowing in 2007. The 2006 growth pattern changed over 2005 with the business and trade sectors making the larger contribution instead of consumer spending. Both economists indicate that the national economy is actually expanding above its long term growth capacity.

The Rhode Island outlook is for stable employment growth, stable wage and income growth, but declining personal income growth. The outlook is less favorable, however, than that adopted at the November 2005 conference.

Nonfarm employment will grow by 7,000 jobs between calendar years 2005 and 2007, less than 1.0 percent per year. The consensus forecast is 0.7 percent in FY 2006 and the same in FY 2007. Personal income growth is estimated at 5.2 percent and 4.8 percent for the two fiscal years. That is reduced from the 5.5 percent and 5.1 percent agreed upon at the November 2005 Revenue Estimating Conference.

Wage and salary income growth of 4.5 percent and 4.9 percent is also less than the November estimates of 5.0 percent and 5.2 percent. The unemployment rate remains unchanged at 5.0 percent each year.

Annual Growth	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
Nonfarm Employment (000's)	488.5	491.7	494.8	498.7	503.8	508.9	513.0	516.7
Nonfarm Employment Growth	0.9	0.7	0.6	0.8	1.0	1.0	0.8	0.7
Personal Income	5.8	5.3	5.0	4.6	4.6	4.6	4.4	4.4
Wage and Salaries Income	4.1	4.1	4.8	5.0	4.8	4.7	4.4	4.3
Nonfarm Business Income	9.4	8.3	6.6	4.7	5.2	5.3	5.0	5.0
Dividends, Interest and Rent	4.9	5.1	6.0	5.1	5.2	4.9	4.9	4.9
Total Transfer Payments	7.6	6.1	6.0	4.4	4.5	4.4	4.4	4.4
Rates								
Unemployment Rate	5.2	5.0	5.0	5.0	4.9	4.9	4.9	4.9
Consumer Price Index (US)	2.7	3.4	2.9	2.1	2.1	2.2	2.2	2.2
Ten Year Treasuries	4.3	4.3	5.0	5.0	5.2	5.5	5.5	5.5
Three Month Treasuries	1.4	3.2	4.8	4.5	4.5	4.6	4.6	4.6
Annual Growth	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Nonfarm Employment	486.5	490.0	493.3	496.8	501.3	506.4	511.0	514.9
Nonfarm Employment Growth	1.1	0.7	0.7	0.7	0.9	1.0	0.9	0.8
Personal Income	4.8	6.1	5.2	4.8	4.6	4.6	4.5	4.4
Wage and Salaries Income	5.0	4.5	4.5	4.9	4.9	4.8	4.6	4.4
Nonfarm Business Income	7.3	8.5	7.5	5.7	5.0	5.3	5.2	5.0
Dividends, Interest and Rent	1.0	6.5	5.6	5.6	5.2	5.1	4.9	4.9
Total Transfer Payments	5.5	7.0	6.1	5.2	4.5	4.5	4.4	4.4
Rates								
Unemployment Rate	5.4	5.1	5.0	5.0	5.0	4.9	4.9	4.9
Consumer Price Index (US)	2.2	3.0	3.2	2.5	2.1	2.2	2.2	2.2
Ten Year Treasuries	4.3	4.2	4.7	5.0	5.1	5.4	5.5	5.5
Three Month Treasuries	1.0	2.2	4.0	4.7	4.5	4.6	4.6	4.6

Revenues

Taxes. Revenues from taxes are estimated to increase 4.0 percent over the prior year in FY 2006. Total estimated taxes for FY 2006 of \$2,472.0 million are \$32.3 million more than the November conference estimates. FY 2007 total estimated taxes are \$2,532.7 million, \$14.3 million below the November conference estimate, and \$60.7 million, or 2.5 percent, above revised FY 2006 estimated tax revenues.

May 2006 REC Estimates	FY 2005		FY 2006 Estimate		FY 2007 Estimate	
Personal Income Tax	\$ 979,082,106	12.5%	\$ 1,003,100,000	2.5%	\$ 1,065,100,000	6.2%
General Business Taxes						
Business Corporations	116,026,739	52.7%	158,000,000	36.2%	121,400,000	-23.2%
Public Utilities Gross	86,357,789	-6.3%	95,000,000	10.0%	99,300,000	4.5%
Financial Institutions	(1,480,365)	-79.7%	(300,000)	-79.7%	(6,200,000)	1966.7%
Insurance Companies	53,333,488	22.8%	53,500,000	0.3%	52,700,000	-1.5%
Bank Deposits	1,524,111	-3.5%	1,600,000	5.0%	1,600,000	0.0%
Health Care Provider	46,827,408	16.1%	48,000,000	2.5%	49,900,000	4.0%
Sales and Use Taxes						
Sales and Use	847,726,627	3.0%	875,000,000	3.2%	912,500,000	4.3%
Motor Vehicle	47,137,097	-0.5%	48,800,000	3.5%	50,000,000	2.5%
Motor Fuel	1,961,280	128.2%	1,200,000	-38.8%	1,100,000	-8.3%
Cigarettes	136,342,162	16.3%	126,600,000	-7.1%	124,000,000	-2.1%
Alcohol	10,536,807	1.9%	10,700,000	1.5%	11,000,000	2.8%
Other Taxes						
Inheritance and Gift	32,980,957	38.0%	32,000,000	-3.0%	32,000,000	0.0%
Racing and Athletics	3,990,803	-13.0%	3,500,000	-12.3%	3,300,000	-5.7%
Realty Transfer	14,423,038	10.6%	15,300,000	6.1%	15,000,000	-2.0%
Total Taxes	2,376,770,047	10.2%	2,472,000,000	4.0%	2,532,700,000	2.5%
Departmental Receipts						
Departmental Receipts	267,952,890	-6.0%	286,000,000	6.7%	217,500,000	-24.0%
Gas Tax Transfer	9,022,662	16.3%	4,760,000	-47.2%	4,800,000	0.8%
Other Miscellaneous	28,197,313	43.1%	23,789,000	-15.6%	55,247,000	132.2%
Lottery	307,549,646	9.4%	332,500,000	8.1%	362,500,000	9.0%
Unclaimed Property	15,617,732	-8.4%	15,400,000	-1.4%	10,800,000	-29.9%
Total General Revenues	\$ 3,005,110,290	8.6%	3,134,449,000	4.3%	3,183,547,000	1.6%

Personal Income Tax. The estimates of \$1,003.1 million for FY 2006 and \$1,065.1 million for FY 2007 represent growth rates of 2.5 percent and 6.2 percent respectively, and are \$12.8 million below the previous estimate for FY 2006 and \$1.8 million below for FY 2007.

The reductions are due to refunds significantly higher than estimated for FY 2006 with subsequent revision to FY 2007 based on the revised FY 2006 estimates, and estimated and withholding payments lower than anticipated. The estimates reflect both the historic tax credits and motion picture tax credits.

The November conference had estimated refunds for FY 2006 at \$198.4 million; information provided by the Division of Taxation showed that refunds and adjustments processed through

early May were well ahead of last year, causing the estimators to revise the FY 2006 estimate to \$222.5 million, a difference of \$24.4 million. The revised estimate for FY 2007 of \$238.0 million is \$31.8 million more than the November estimates.

The estimators included withholding estimates of \$828.5 million in FY 2006 and \$886.5 million in FY 2007, reductions from the November estimates of \$12.8 million and \$11.3 million, respectively, reflecting lowered economic forecasts. Similarly, the conferences lowered estimates for estimating filings from \$210.0 million to \$206.0 million in FY 2006 and from \$216.8 million to \$209.0 million in FY 2007.

The reductions are partially offset by upward revisions to final payments in both years. The estimators adopted \$195.5 million for FY 2006 and \$212.3 million for FY 2007, which include increases of \$27.8 million and \$48.9 million to the November Conference estimates.

Business Taxes. The Conference estimates \$355.8 million in FY 2006 and \$318.7 million in FY 2007. The FY 2006 estimate is \$52.6 million more than the November conference estimate; FY 2007 is \$3.0 million more. The Division of Taxation indicated that corporate income taxes include those from a single filer estimated at \$0.8 million in 2004, \$23.5 million in 2005, \$41.1 million in 2006, and \$0.2 million in 2007. That significant increase in FY 2006 and subsequent drop in FY 2007 is incorporated into the estimates.

Consumption Taxes. The Conferees adopted \$1,062.3 million for FY 2006 and \$1,098.6 million for FY 2007 from the consumption taxes, reductions of \$9.7 million and \$16.4 million from the November estimates. Sales taxes, the bulk of the consumption taxes, are estimated at \$875.0 million for FY 2006 and \$912.5 million for FY 2007. FY 2006 revenues are behind those estimated to have been received through April, while the lowered economic forecast for FY 2007 combined with the FY 2006 estimate reduced by \$6.5 million resulted in a \$13.3 million downward revision for FY 2007.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$50.8 million in FY 2006 and \$50.3 million in FY 2007.

Other Sources. Other source revenue consists of departmental revenues, transfers to the general revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources, including tobacco settlement funds. These are estimated to produce \$662.4 million in FY 2006 and \$650.8 million in FY 2007. The FY 2006 estimate is \$23.3 million more than previously estimated; the FY 2007 estimate is \$49.3 million more, largely due to \$40.0 million included for the AIG settlement, with an additional \$40.0 million estimated for FY 2008.

Departmental Receipts. The estimators adopted estimates of \$286.0 million in FY 2006 and \$217.5 million in FY 2007 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues.

The FY 2006 estimate is an increase of \$10.9 million. FY 2007 drops off mainly due to the end of the hospital license fee in FY 2006, which produces \$71.6 million in FY 2006. That fee has been on a year-to-year basis, and has been extended each year since its inception. However, the estimators must estimate within current law, under which there would not be a fee in FY 2007. The May estimate for departmental receipts is \$10.0 million more than the November estimate.

Gas Tax Transfer. The estimators essentially retained the estimated transfers. They estimated \$4.76 million per penny for FY 2006 and \$4.80 million in FY 2007, down slightly from the November Conference estimate of \$4.81 million.

Lottery is estimated to transfer \$332.5 million in FY 2006 and \$362.5 million in FY 2007. The FY 2006 estimate is an upward revision of \$7.4 million over the November estimate while the FY 2007 estimate is a downward revision of \$1.7 million.

- Games. The Conference increased the FY 2006 estimate by \$11.0 million to \$69.0 million. There were two significant Powerball jackpots in FY 2006. They increased the FY 2007 estimate by \$11.3 million to \$70.5 million.

- Video Lottery Terminals. The Conference adopted \$263.5 million for FY 2006, which is a downward revision of \$3.6 million from the November Conference. This is the first year that combined growth rates are estimated to be less than double digit.

The Conference adopted \$292.0 million for FY 2007, a \$13.0 million downward revision from the November estimate. The estimates assume that no additional new machines will be operating at Newport during the period. The Division of Lottery indicated that all authorized machines will be operating for a brief period at Lincoln, but that most of the year will see many fewer than authorized as construction progresses.

Unclaimed Property. The Conference adopted \$15.4 million for FY 2006 and \$10.8 million for FY 2007, a decrease of \$0.8 million in FY 2006 from the November estimates and no change for FY 2007.

May 2005 REC

Estimates	FY 2006 No.	FY 2006 May	Change	FY 2007 No.	FY 2007 May	Change
Personal Income Tax	\$ 1,015,900,000	\$ 1,003,100,000	\$ (12,800,000)	\$ 1,066,900,000	\$ 1,065,100,000	\$ (1,800,000)
General Business Taxes						
Business Corporations	107,300,000	158,000,000	50,700,000	111,600,000	121,400,000	9,800,000
Public Utilities Gross	97,300,000	95,000,000	(2,300,000)	95,200,000	99,300,000	4,100,000
Financial Institutions	(8,400,000)	(300,000)	8,100,000	3,600,000	(6,200,000)	(9,800,000)
Insurance Companies	57,000,000	53,500,000	(3,500,000)	54,100,000	52,700,000	(1,400,000)
Bank Deposits	1,600,000	1,600,000	-	1,600,000	1,600,000	-
Health Care Provider	48,400,000	48,000,000	(400,000)	49,600,000	49,900,000	300,000
Sales and Use Taxes						
Sales and Use	881,500,000	875,000,000	(6,500,000)	925,800,000	912,500,000	(13,300,000)
Motor Vehicle	48,900,000	48,800,000	(100,000)	50,000,000	50,000,000	-
Motor Fuel	900,000	1,200,000	300,000	1,100,000	1,100,000	-
Cigarettes	129,700,000	126,600,000	(3,100,000)	126,700,000	124,000,000	(2,700,000)
Alcohol	11,000,000	10,700,000	(300,000)	11,400,000	11,000,000	(400,000)
Other Taxes						
Inheritance and Gift	28,000,000	32,000,000	4,000,000	28,700,000	32,000,000	3,300,000
Racing and Athletics	3,600,000	3,500,000	(100,000)	3,400,000	3,300,000	(100,000)
Realty Transfer	17,000,000	15,300,000	(1,700,000)	17,300,000	15,000,000	(2,300,000)
Total Taxes	2,439,700,000	2,472,000,000	32,300,000	2,547,000,000	2,532,700,000	(14,300,000)
Departmental Receipts	275,100,000	286,000,000	10,900,000	207,500,000	217,500,000	10,000,000
Gas Tax Transfer	4,760,000	4,760,000	-	4,810,000	4,800,000	(10,000)
Other Miscellaneous	18,019,300	23,789,000	5,769,700	14,249,500	55,247,000	40,997,500
Lottery	325,100,000	332,500,000	7,400,000	364,200,000	362,500,000	(1,700,000)
Unclaimed Property	16,200,000	15,400,000	(800,000)	10,800,000	10,800,000	-
Total General Revenues	3,078,879,300	3,134,449,000	55,569,700	3,148,559,500	3,183,547,000	34,987,500

