



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, State House, Providence, RI 02903

PETER M. MARINO
Senate Fiscal Advisor
May 2010 Conference Chair

SHARON REYNOLDS FERLAND
House Fiscal Advisor

THOMAS A. MULLANEY
State Budget Officer

MEMORANDUM

To: The Honorable Donald L. Carcieri, Governor
The Honorable M. Teresa Paiva Weed, President of the Senate
The Honorable Gordon D. Fox, Speaker of the House

From: Peter M. Marino, Senate Fiscal Advisor
Sharon Reynolds Ferland, House Fiscal Advisor
Thomas A. Mullaney, State Budget Officer

Date: May 13, 2010

Subject: **May 2010 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference (REC) met on May 5, 6, and 10, 2010, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2009 to 2015, and issued revised estimates for both FY2010 and FY2011 revenues. Based on collection trends, FY2009 closing results, and the revised economic forecast, the Conference revised the FY2010 estimates upward by \$78.3 million from the November 2009 REC estimate, to a total of \$3,024.7 million.

The Conference estimated FY2011 revenues at \$2,898.9 million, which is \$125.8 million less than the May 2010 REC estimates for FY2010. The FY2011 estimate is based on current laws and excludes the hospital licensing fee. 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 May 6 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's testimony covered current economic performance and the outlook over the next several years and the outlook changed since the November 2009 REC. 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 U.S. Economy

Mr. Carbacho-Burgos testified that the U.S. labor market has begun a slow recovery. Initial unemployment claims have declined, and the number of continuing claims is beginning to taper. Most of the reduced continuing claims are likely due to benefits exhaustion rather than job growth.

Household wealth is starting to recover, largely mirroring stock market recoveries. Household net worth still remains approximately \$8 trillion below the peak in the first quarter of 2007. The housing market has seen mixed results, with home prices seeing continued slight declines until mid-2011, however federal government intervention in the mortgage markets is effectively reducing the rate of foreclosures.

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 United States. According to testimony, the Rhode Island labor market has reached a cyclical bottom, and initial unemployment claims are decreasing. Of note, the March 2010 flood events are projected to have some short-term impacts on the labor market, primarily impacting retail and leisure/hospitality employment. These impacts are expected to last between six and nine months, after which the forecasted employment levels will exceed what was projected pre-floods. By the end of CY2011, the outlook for retail employment and leisure/hospitality employment show net gains of more than 3,000 jobs in each sector, as compared to Moody's pre-flood projections. Overall, job growth in Rhode Island is expected to mirror both that of the New England region, and the U.S. as a whole. However, the state is projected to return to peak employment levels in early 2014, more than one year after the nation and region.

Housing continues to be an economic weakness, but the deterioration in the markets is ebbing. Mortgage defaults and foreclosures are declining, and the outlook for housing starts has improved since the November 2009 conference.

Department of Labor and Training

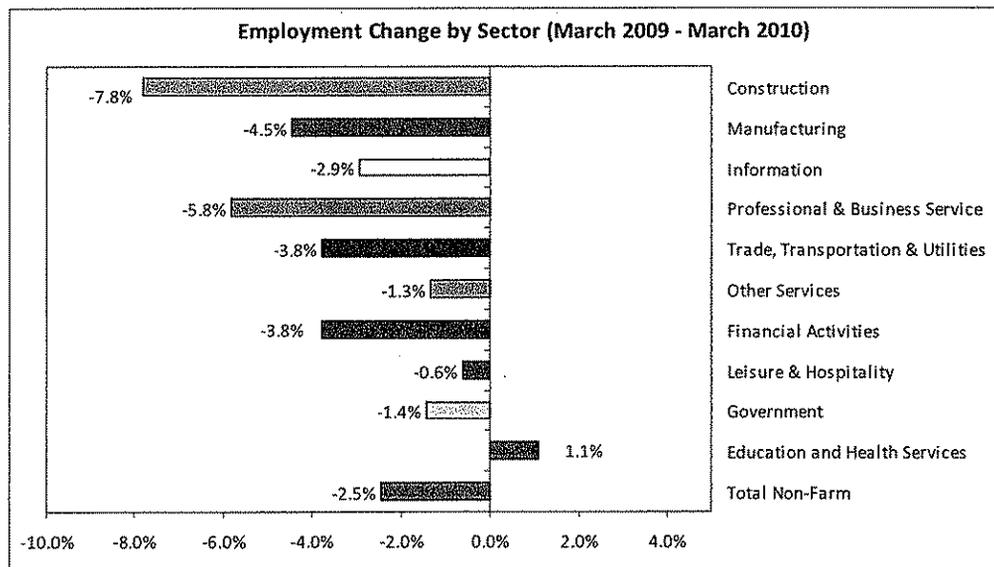
The Rhode Island Department of Labor and Training reported that the Rhode Island unemployment rate peaked at 12.7 percent in December 2009. The March 2010 unemployment rate of 12.6 percent was the third highest in the nation, tied with California and behind Michigan and Nevada, and is markedly higher than the U.S. rate of 9.7 percent. Massachusetts and Connecticut had unemployment rates of 9.3 and 9.2 percent, respectively.

Initial unemployment claims for the first 17 weeks of the year are 22.6 percent below 2009 levels. Of note, there was a recent uptick (2,500) in the number of initial claims in April due to the March 2010 floods. However, the Department notes that the bulk of these claimants will not be classified as unemployed, as they are still employed and not actively seeking other work. Continuing unemployment claims are in decline, mirroring the U.S., in large part due to benefits exhaustion.

Use of Rhode Island’s WorkShare program has fallen from historically high 2009 levels. 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 a portion of lost earnings due to the reduction in hours through regular unemployment benefits. The Department reported initial claims of 4,075 for the first quarter of 2010, versus 7,073 for the same period in 2009, a 42 percent decline. While initial claims have subsided, the number of WorkShare payments has dropped a modest 3.7 percent. The Department estimates that more than 6,600 layoffs were averted in 2009 due to the WorkShare program.

Between March 2009 and March 2010, losses in Rhode Island establishment employment were realized overall. The changes break down as follows:

Sector	Jobs Change	Sector	Jobs Change
Education and Health Services	1,100	Financial Activities	(1,200)
Professional & Business Service	(3,100)	Government	(900)
Trade, Transportation & Utilities	(2,800)	Leisure & Hospitality	(300)
Manufacturing	(1,900)	Other Services	(300)
Construction	(1,400)	Information	(300)
<i>* Seasonally Adjusted</i>		Total Non-Farm	(11,400)



Consensus Forecast

The Conferees adopted a consensus economic forecast based on the testimony of Mr. Carbacho-Burgos. The forecast projects a decline in employment of 17,200 jobs in FY2010 and the addition of 1,100 jobs in FY2011. Employment growth is expected to average 2.4 percent in the FY2012 – FY2015 forecast period. Personal income growth is anticipated to be minimal in FY2010 and FY2011, at 0.4 percent and 1.5 percent respectively, before rising in FY2012. Personal income growth is forecasted to average 4.4 percent in the FY2012 – FY2015 period, an increase of 0.3 percent from the November 2009 estimate. Wage and salary growth is expected to remain negative in FY2010, but return to positive growth in FY2011. Wage and salary growth is projected to average 4.1 percent annually from FY2012 through FY2015. The state’s unemployment rate is projected to peak at 12.8 percent in 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.

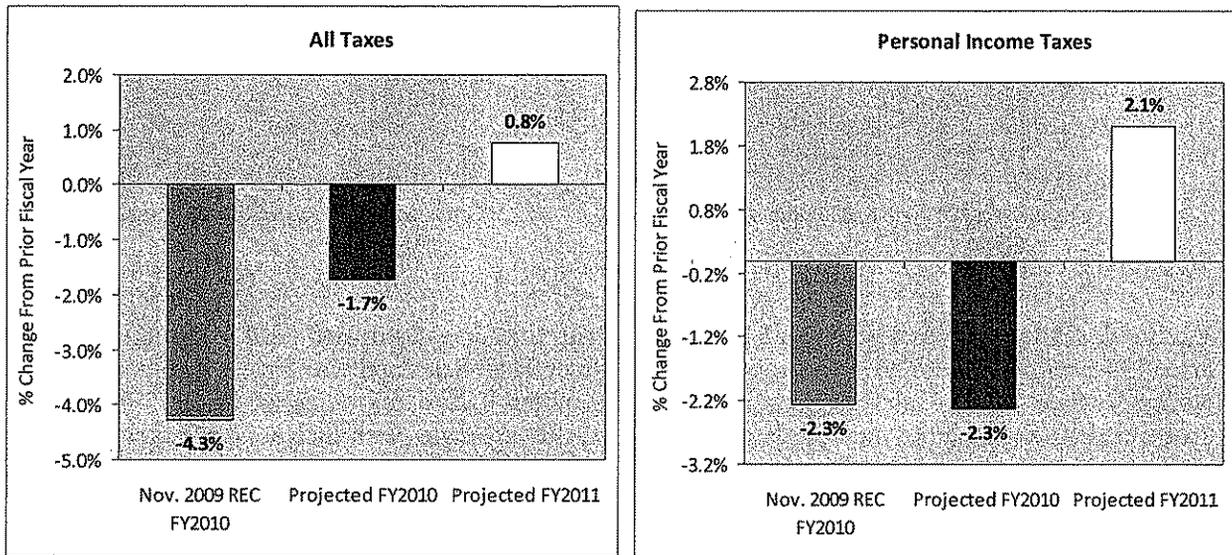
The consensus economic forecast through 2015 on both a calendar and fiscal year basis is shown in the following tables.

Forecast Metric	May 2010 Consensus Economic Forecast							
	CY2008	CY2009	CY2010	CY2011	CY2012	CY2013	CY2014	CY2015
Non-Farm Employment (Thousands)	482.0	459.0	452.3	459.2	473.2	488.1	496.9	502.6
Growth Rates								
Non-Farm Employment	-2.2	-4.8	-1.5	1.5	3.0	3.2	1.8	1.2
Personal Income	2.6	-0.7	1.2	2.6	4.3	5.1	4.3	3.8
Wages and Salaries	1.2	-3.7	-0.2	1.8	4.2	5.0	4.2	3.6
Dividends, Interest, and Rent	2.0	-2.6	0.7	1.6	5.2	8.8	7.6	5.7
Percentage Rates								
Unemployment	7.7	11.2	13.0	12.0	9.4	7.9	7.0	6.3
Consumer Price Index (U.S.)	3.8	-0.3	1.8	2.0	2.8	2.4	2.1	2.1
Ten Year U.S. Treasury Notes	3.7	3.3	3.9	4.9	5.6	4.9	4.6	4.6
Three Month U.S. Treasury Bills	1.4	0.2	0.2	1.5	3.5	3.8	3.7	3.6

Forecast Metric	May 2010 Consensus Economic Forecast							
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Non-Farm Employment (Thousands)	488.3	470.6	453.4	454.5	465.7	481.1	493.1	500.1
Growth Rates								
Non-Farm Employment	-1.3	-3.6	-3.7	0.2	2.5	3.3	2.5	1.4
Personal Income	3.7	0.8	0.4	1.5	3.7	4.9	4.8	4.0
Wages and Salaries	0.8	-1.0	-2.1	0.5	3.1	4.9	4.7	3.8
Dividends, Interest, and Rent	6.0	-0.7	-1.9	1.3	2.7	6.3	7.6	6.4
Percentage Rates								
Unemployment	6.2	9.4	12.6	12.8	10.7	8.5	7.4	6.7
Consumer Price Index (U.S.)	3.7	1.4	1.1	1.5	2.6	2.6	2.3	2.1
Ten Year U.S. Treasury Notes	4.1	3.3	3.6	4.3	5.5	5.2	4.7	4.6
Three Month U.S. Treasury Bills	2.8	0.5	0.1	0.6	2.6	3.8	3.8	3.7

REVENUES

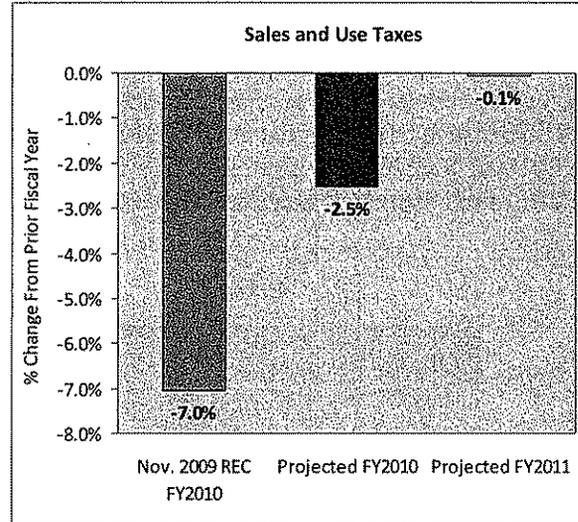
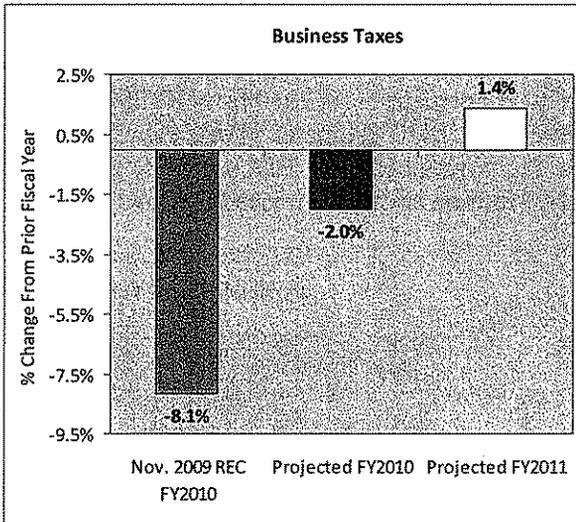
Taxes. Revenues from taxes are estimated to decline by 1.7 percent in FY2010 from FY2009 collections, and increase by 0.8 percent in FY2011 over the revised FY2010 estimate. Total estimated taxes for FY2010 of \$2,298.6 million are \$59.8 million above the November 2009 REC estimate for total taxes. FY2011 total estimated taxes are \$2,316.2 million, \$17.6 million above the revised FY2010 estimate.



Personal Income Tax. The estimates of \$918.5 million for FY2010 and \$937.9 million for FY2011 represent unadjusted year-over-year growth rates of -2.3 percent and 2.1 percent, respectively. The FY2010 estimate is \$700,000 less than the November 2009 REC, reflecting year-to-date collection trends. The FY2011 estimate is \$19.4 million more than the FY2010 revised estimate.

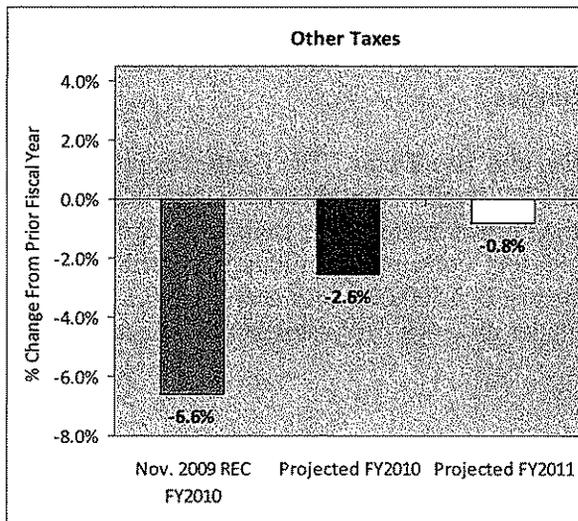
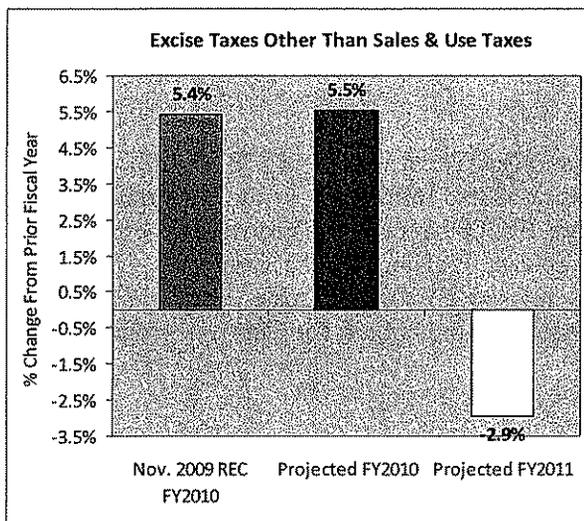
Business Taxes. The Conferees estimate total business taxes of \$355.1 million in FY2010 and \$360.0 million in FY2011 for all business taxes. Year over year growth rates are -2.0 percent and 1.4 percent respectively. The FY2010 estimate is \$22.3 million more than the November 2009 REC while the FY2011 estimate is \$6.1 million more than the revised estimate. For both fiscal years, Business Corporations and Insurance taxes increased, partially offset by reductions to Public Utilities Corporation estimates.

Sales and Use Taxes. The Conferees estimate Sales and Use Tax revenues of \$787.5 million in FY2010 and \$787.0 million in FY2011. The FY2010 revenues are \$36.5 million above the November 2009 REC estimate and represent a change of -2.5 percent from FY2009 receipts. Year-to-date collections and increasing consumer confidence contributed to the upward revision by the Conferees. The FY2011 estimate is \$500,000 less than, or -0.1 percent, the revised FY2010 estimate. The FY2011 decline includes downward adjustments to reflect the end of federal stimulus Cash for Clunkers program.



Excise Taxes Other Than Sales and Use Taxes. The Conferees estimated \$201.1 million for FY2010 and \$195.2 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 \$200,000 more than the November 2009 REC estimate, with increases in motor vehicle and alcohol taxes, partially offset by reductions to cigarette tax estimates. The FY2011 estimate is \$4.5 million less than the revised estimate for FY2010, largely reflective of a \$4.2 million decline in the cigarette tax estimate.

Other Taxes. The Inheritance, Racing and Athletics Tax and Realty Transfer Tax are estimated to produce \$36.4 million in FY2010 and \$36.1 million in FY2011. The FY2010 estimate is \$1.5 million more than the November 2009 REC estimate, resulting largely from a \$1.6 million increase in the estimate for Inheritance Taxes. The FY2011 estimate for total other taxes is \$300,000 less than the revised FY2010 estimate, due primarily to a \$400,000 decline in anticipated Inheritance Tax collections. The FY2011 estimate includes \$300,000 in Racing and Athletics tax receipts for dog racing at Twin River.

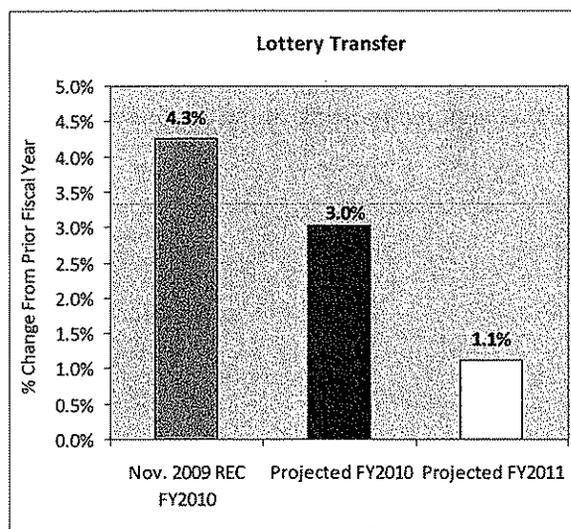
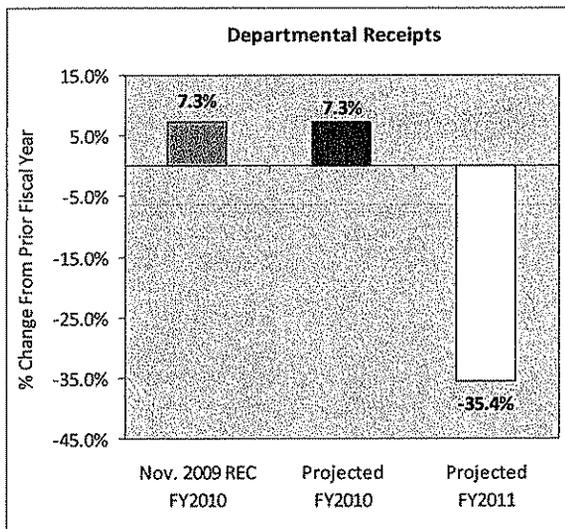


Departmental Receipts. The Conferees adopted estimates of \$342.0 million for FY2010 and \$220.8 million for FY2011 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts that are deposited as General Revenues. The FY2010 estimate is unchanged from the November 2009 REC estimate.

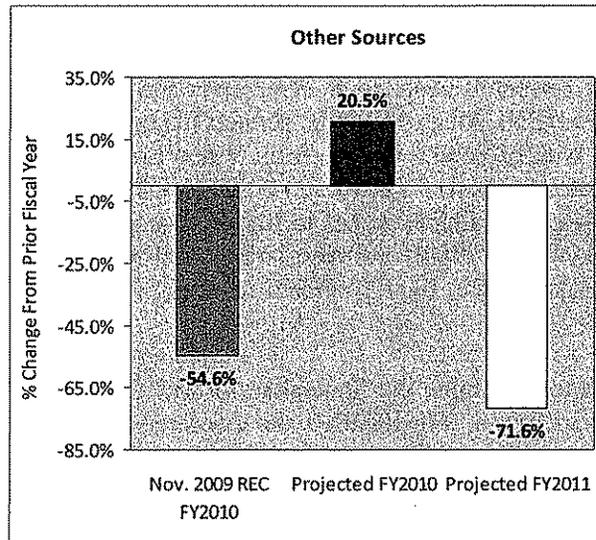
The FY2011 estimate is \$121.2 million less than the revised FY2010 estimate. FY2011 declines due to the end of the hospital license fee, which produces \$128.8 million in FY2010. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law, under which no fee is enacted for FY2011.

Lottery Transfer. The Lottery Transfer is estimated to produce \$347.7 million in FY2010 with \$291.9 million from Video Lottery Terminals installed at Twin River and Newport Grand and \$55.8 million from Games, which includes PowerBall, Mega Millions, scratch tickets, and Keno. The estimated transfer is \$351.6 million in FY2011, with of \$294.6 million from Video Lottery Terminals and \$57.0 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 began Mega Millions in February 2010. The FY2010 estimate is \$4.2 million less than the November 2009 REC estimate. The FY2011 estimate grows by 1.1 percent resulting in an additional \$3.9 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 \$291.9 million based on total NTI of \$415.0 million at Twin River and \$57.8 million at Newport Grand. For FY2011, that State share estimate of \$294.6 million is calculated from an estimated NTI of \$421.2 million at Twin River and \$54.8 million at Newport Grand. NTI is projected to grow by 1.5 percent at Twin River, and decline by 5.2 percent at Newport Grand in FY2011.



Other Sources. Other source revenue consists of transfers to the General Revenue fund from unclaimed property, and other miscellaneous sources. These are estimated to produce \$36.4 million in FY2010 and \$10.3 million in FY2011. The FY2011 declines are primarily attributable to the \$26.4 million decrease in other miscellaneous revenue sources. Major items one-time items included in the FY2010 estimate, but not in FY2011 include: Land Sales (\$9.5 million); Judicial Child Support Enforcement Recoveries (\$7.4 million); Voluntary payments from Developmental Disability Providers (\$6.0 million); Fund Transfer from the Human Resources Investment Council (\$1.5 million); and, Fund Transfer from the RI Health and Educational Building Corporation (\$1.0 million).



NEXT MEETING

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

Revenue Comparisons – FY2010

FY2010	FY2009 Final	FY2010 November 2009 REC	Growth from FY2009	May 2010 FY2010 Consensus	Growth From FY2009	FY2010 Consensus vs. FY2010 Nov. Est.
Personal Income Tax	\$ 940,513,781	\$ 919,200,000	-2.3%	\$ 918,500,000	-2.3%	\$ (700,000)
General Business Taxes						
Business Corporations	104,436,811	94,100,000	-9.9%	115,000,000	10.1%	20,900,000
Public Utilities Gross	126,664,890	120,000,000	-5.3%	97,000,000	-23.4%	(23,000,000)
Financial Institutions	5,358,740	2,000,000	-62.7%	2,900,000	-45.9%	900,000
Insurance Companies	78,016,930	80,000,000	2.5%	98,000,000	25.6%	18,000,000
Bank Deposits	1,802,796	1,800,000	-0.2%	2,200,000	22.0%	400,000
Health Care Provider	46,030,570	34,900,000	-24.2%	40,000,000	-13.1%	5,100,000
Sales and Use Taxes						
Sales and Use	807,946,985	751,000,000	-7.0%	787,500,000	-2.5%	36,500,000
Motor Vehicle	47,925,805	48,600,000	1.4%	49,000,000	2.2%	400,000
Motor Fuel	1,325,034	1,000,000	-24.5%	1,000,000	-24.5%	-
Cigarettes	130,503,213	140,300,000	7.5%	139,600,000	7.0%	(700,000)
Alcohol	10,811,831	11,000,000	1.7%	11,500,000	6.4%	500,000
Other Taxes						
Inheritance and Gift	28,096,912	26,400,000	-6.0%	28,000,000	-0.3%	1,600,000
Racing and Athletics	2,450,809	2,000,000	-18.4%	1,500,000	-38.8%	(500,000)
Realty Transfer	6,811,322	6,500,000	-4.6%	6,900,000	1.3%	400,000
Total Taxes	2,338,696,429	2,238,800,000	-4.3%	2,298,600,000	-1.7%	59,800,000
Departmental Receipts	318,804,246	342,000,000	7.3%	342,000,000	7.3%	-
Gas Tax Transfer	4,327,710	-	-100.0%	-	-100.0%	-
Other Miscellaneous	17,813,994	8,500,000	-52.3%	30,770,000	72.7%	22,270,000
Lottery	337,515,478	351,900,000	4.3%	347,700,000	3.0%	(4,200,000)
Unclaimed Property	8,044,126	5,200,000	-35.4%	5,600,000	-30.4%	400,000
Total General Revenues	3,025,201,983	2,946,400,000	-2.6%	3,024,670,000	0.0%	78,270,000
Lottery						
All Games	59,214,263	60,000,000	1.3%	55,800,000	-5.8%	(4,200,000)
VLT	278,301,215	291,900,000	4.9%	291,900,000	4.9%	-
Total	337,515,478	351,900,000	4.3%	347,700,000	3.0%	(4,200,000)
Lincoln NTI	396,638,140	411,000,000	3.6%	415,000,000.0	4.6%	4,000,000.0
Newport NTI	64,202,010	61,500,000	-4.2%	57,800,000.0	-10.0%	(3,700,000.0)
Total NTI	460,840,150	472,500,000	2.5%	472,800,000	2.6%	300,000

Revenue Comparisons – FY2011

FY2011	May 2010 FY2010 Consensus	Growth From FY2009	May 2010 FY2011 Consensus	Growth From FY2010	FY2011 Consensus vs. FY2010 Consensus
Personal Income Tax	\$ 918,500,000	-2.3%	\$ 937,900,000	2.1%	\$ 19,400,000
General Business Taxes					
Business Corporations	115,000,000	10.1%	119,000,000	3.5%	4,000,000
Public Utilities Gross	97,000,000	-23.4%	98,000,000	1.0%	1,000,000
Financial Institutions	2,900,000	-45.9%	1,000,000	-65.5%	(1,900,000)
Insurance Companies	98,000,000	25.6%	100,000,000	2.0%	2,000,000
Bank Deposits	2,200,000	22.0%	2,200,000	0.0%	-
Health Care Provider	40,000,000	-13.1%	39,800,000	-0.5%	(200,000)
Sales and Use Taxes					
Sales and Use	787,500,000	-2.5%	787,000,000	-0.1%	(500,000)
Motor Vehicle	49,000,000	2.2%	48,500,000	-1.0%	(500,000)
Motor Fuel	1,000,000	-24.5%	1,000,000	0.0%	-
Cigarettes	139,600,000	7.0%	134,000,000	-4.0%	(5,600,000)
Alcohol	11,500,000	6.4%	11,700,000	1.7%	200,000
Other Taxes					
Inheritance and Gift	28,000,000	-0.3%	27,600,000	-1.4%	(400,000)
Racing and Athletics	1,500,000	-38.8%	1,600,000	6.7%	100,000
Realty Transfer	6,900,000	1.3%	6,900,000	0.0%	-
Total Taxes	2,298,600,000	-1.7%	2,316,200,000	0.8%	17,600,000
Departmental Receipts	342,000,000	7.3%	220,800,000	-35.4%	(121,200,000)
Gas Tax Transfer	-	-100.0%	-	n/a	-
Other Miscellaneous	30,770,000	72.7%	4,331,000	-85.9%	(26,439,000)
Lottery	347,700,000	3.0%	351,600,000	1.1%	3,900,000
Unclaimed Property	5,600,000	-30.4%	6,000,000	7.1%	400,000
Total General Revenues	3,024,670,000	0.0%	2,898,931,000	-4.2%	(125,739,000)
Lottery					
All Games	55,800,000	-5.8%	57,000,000	2.2%	1,200,000
VLT	291,900,000	4.9%	294,600,000	0.9%	2,700,000
Total	347,700,000	3.0%	351,600,000	1.1%	3,900,000
Lincoln NTI	415,000,000	4.6%	421,200,000.0	1.5%	6,200,000
Newport NTI	57,800,000	-10.0%	54,800,000.0	-5.2%	(3,000,000)
Total NTI	472,800,000	2.6%	476,000,000	0.7%	3,200,000