***State of Rhode Island and Providence Plantations***

***Revenue Estimating Conference***

ONE CAPITOL HILL, PROVIDENCE, RI 02903

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# MEMORANDUM

To: The Honorable Gina M. Raimondo, Governor
The Honorable Nicholas A. Mattiello, Speaker of the House
The Honorable Dominick J. Ruggerio, President of the Senate

From: Thomas A. Mullaney, State Budget Officer
Stephen H. Whitney, Senate Fiscal Advisor
Sharon Reynolds Ferland, House Fiscal Advisor

Date: May 18, 2020

Subject: **May 2020 Revenue Estimating Conference**

## SUMMARY


The Revenue Estimating Conference met on April 29th, May 4th and 8th, 2020, in open public meetings. These public meetings were provided over Capitol TV due to the Governor's Executive Order limiting attendance at such meetings but requiring they still be made available to the public for viewing. The Conference adopted the economic forecast for both calendar and fiscal years 2020 to 2026 and issued revised estimates for FY 2020 and estimates for FY 2021 revenues. Based on collection trends through April and the revised economic forecast, the Conference decreased the FY 2020 estimates by $280.9 million from the FY 2020 adopted November estimate of $4,178.8 million to $3,897.9 million. The Conference estimated FY 2021 revenues at $3,725.9 million, which is $515.8 million less than the November estimate and $172.1 million less than the FY 2020 revised estimate.

The end of the third quarter of FY 2020 saw the State of Rhode Island in the middle of the COVID-19 pandemic that necessitated the closure of most businesses and required many Rhode Islanders to remain at home to help decrease the spread of the virus. These events have had an unprecedented impact on the Rhode Island economy and by extension on the state's revenues. The economic impacts from the pandemic are described further under the Economic Forecast below.

The table below displays the newly adopted revenue estimates for FY 2020 and FY 2021 by component and audited revenue data for last fiscal year. A table showing these estimates and the changes by revenue component from the November revenue estimating conference is included at the end of this report.

| May 2020 CRE | FY 2019 Audited | FY 2020 Estimate | | FY 2021 Estimate | |
|---|---|---|---|---|---|
| **Personal Income Tax** | $ 1,396,962,571 | $ 1,358,900,000 | -2.7% | $ 1,295,800,000 | -4.6% |
| **General Business Taxes** | | | | | |
| Business Corporations | 155,110,673 | 132,900,000 | -14.3% | 132,300,000 | -0.5% |
| Public Utilities Gross | 101,612,604 | 100,000,000 | -1.6% | 98,900,000 | -1.1% |
| Financial Institutions | 21,145,195 | 24,400,000 | 15.4% | 21,200,000 | -13.1% |
| Insurance Companies | 116,968,195 | 125,000,000 | 6.9% | 120,700,000 | -3.4% |
| Bank Deposits | 2,899,581 | 3,100,000 | 6.9% | 3,100,000 | 0.0% |
| Health Care Provider | 43,945,864 | 41,600,000 | -5.3% | 42,000,000 | 1.0% |
| **Sales and Use Taxes** | | | | | |
| Sales and Use | 1,125,698,274 | 1,129,000,000 | 0.3% | 1,109,100,000 | -1.8% |
| Motor Vehicle | 1,034,994 | 1,000,000 | -3.4% | 2,000,000 | 100.0% |
| Cigarettes | 138,859,128 | 138,100,000 | -0.5% | 130,600,000 | -5.4% |
| Alcohol | 20,436,502 | 20,300,000 | -0.7% | 20,500,000 | 1.0% |
| **Other Taxes** | | | | | |
| Inheritance and Gift | 48,019,188 | 58,100,000 | 21.0% | 44,900,000 | -22.7% |
| Racing and Athletics | 1,151,342 | 900,000 | -21.8% | 1,000,000 | 11.1% |
| Realty Transfer | 12,748,199 | 14,200,000 | 11.4% | 14,500,000 | 2.1% |
| *Total Taxes* | *$ 3,186,592,310* | *$ 3,147,500,000* | *-1.2%* | *$ 3,036,600,000* | *-3.5%* |
| Departmental Receipts | 416,720,527 | 440,500,000 | 5.7% | 403,000,000 | -8.5% |
| Other Miscellaneous | 12,367,090 | 29,100,000 | 135.3% | 12,050,000 | -58.6% |
| Lottery | 397,321,087 | 268,600,000 | -32.4% | 265,200,000 | -1.3% |
| Unclaimed Property | 11,578,604 | 12,200,000 | 5.4% | 9,000,000 | -26.2% |
| **Total General Revenues** | **$ 4,024,579,618** | **$ 3,897,900,000** | **-3.1%** | **$ 3,725,850,000** | **-4.4%** |

## ECONOMIC FORECAST

On April 29, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit. They were represented by James Bohnaker, Associate Director – US Macro & Consumer Economics, and Michael Lynch, US Regional Economics. The conferees also received testimony from Donna Murray, Assistant Director, Labor Market Information, of the Department

of Labor and Training. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the following table.

**May 2020 Consensus Economic Forecast**

| | CY 2019 | CY 2020 | CY 2021 | CY 2022 | CY 2023 | CY 2024 | CY 2025 | CY 2026 |
|---|---|---|---|---|---|---|---|---|
| **Nominal Level** | | | | | | | | |
| Nonfarm Employment (Thous.) | 503.7 | 432.3 | 449.3 | 495.0 | 505.8 | 505.1 | 503.6 | 503.4 |
| Personal Income (Millions $) | 59,899 | 58,416 | 61,164 | 64,815 | 67,057 | 69,343 | 72,050 | 74,975 |
| Housing Starts (Thous.) | 1.2 | 1.0 | 1.1 | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 |
| **Annual Growth Rates** | | | | | | | | |
| Nonfarm Employment Growth | 0.6 | -14.2 | 3.9 | 10.2 | 2.2 | -0.2 | -0.3 | -0.1 |
| Personal Income Growth | 3.3 | -2.5 | 4.7 | 6.0 | 3.5 | 3.4 | 3.9 | 4.1 |
| Wage and Salaries Income Growth | 2.6 | -11.2 | 8.2 | 13.2 | 5.1 | 3.3 | 3.6 | 3.9 |
| Dividends, Interest and Rent Growth | 2.4 | 1.3 | 2.0 | 1.9 | 0.4 | 2.4 | 4.4 | 4.6 |
| Personal Consumption Expenditures Growth | 3.9 | -7.1 | 9.1 | 7.1 | 3.1 | 3.3 | 3.6 | 3.6 |
| Consumer Price Index (US) | 1.8 | 0.7 | 2.1 | 2.7 | 2.7 | 2.4 | 2.4 | 2.3 |
| **Rates** | | | | | | | | |
| Unemployment Rate (RI) | 3.6 | 14.8 | 11.3 | 5.1 | 4.1 | 4.5 | 4.8 | 4.8 |
| | | | | | | | | |
| | **FY 2019** | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **FY 2025** | **FY 2026** |
| **Nominal Level** | | | | | | | | |
| Nonfarm Employment (Thous.) | 502.5 | 480.3 | 421.6 | 475.8 | 503.6 | 506.0 | 504.2 | 503.4 |
| Personal Income (Millions $) | 59,095 | 59,388 | 58,993 | 63,244 | 65,996 | 68,163 | 70,640 | 73,506 |
| Housing Starts (Thous.) | 1.2 | 1.2 | 1.0 | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 |
| **Annual Growth Rates** | | | | | | | | |
| Nonfarm Employment Growth | 0.7 | -4.4 | -12.2 | 12.8 | 5.9 | 0.5 | -0.4 | -0.2 |
| Personal Income Growth | 3.9 | 0.5 | -0.7 | 7.2 | 4.4 | 3.3 | 3.6 | 4.1 |
| Wage and Salaries Income Growth | 2.6 | -3.7 | -7.2 | 16.2 | 8.6 | 3.6 | 3.4 | 3.8 |
| Dividends, Interest and Rent Growth | 6.2 | 1.1 | 1.6 | 2.2 | 0.9 | 1.1 | 3.6 | 4.6 |
| Personal Consumption Expenditures Growth | 4.2 | -0.6 | -2.4 | 11.2 | 4.2 | 3.0 | 3.5 | 3.6 |
| Consumer Price Index (US) | 2.1 | 1.4 | 1.1 | 2.4 | 2.9 | 2.4 | 2.4 | 2.3 |
| **Rates** | | | | | | | | |
| Unemployment Rate (RI) | 3.7 | 7.4 | 15.9 | 7.5 | 4.2 | 4.3 | 4.7 | 4.8 |

Testimony from Mr. Bohnaker focused on the United States economy. His testimony began by laying out the forecast assumptions related to the COVID-19 pandemic. IHS Markit assumes that the global peak of the virus will be between May and August of 2020, with a general vaccine not available until November 2021 at the earliest. The national economy is expected to enter a recession, with the trough occurring in the second quarter of CY 2020. The recession will result in a peak-to-trough decline in real gross domestic product of 8.3 percent over the first three quarters of 2020. The forecast includes the new $2.3 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, which funds unemployment benefits, "recovery rebates" to individuals, business loans, and aid to state and local governments and hospitals. This stimulus is expected to reinforce personal income but do little for consumer spending.

Mr. Bohnaker discussed how the pandemic recession is expected to impact the national economy. The consumer service sector is the hardest hit, with at-risk industries (such as transportation, restaurants and bars, amusement parks, museums, sporting events, casinos) comprising 14 percent of national employment. Given the depth of the recession, other industries outside the consumer service sector (such as retail and home construction) will also be impacted.

The pandemic recession is likely to have downstream effects that will disrupt the national economy. Large-scale layoffs will further decrease consumer spending and reduce business revenue. Volatility in the financial markets will impact household and businesses balance sheets and lead to more bankruptcies. All of this is against a backdrop of global uncertainty that not only derives from the pandemic, but also oil price volatility and trade tensions.

Mr. Bohnaker discussed how the economic recovery is predicated on the path of the disease, including the emergence of testing, treatments, and vaccines. He pointed out that even if government-mandated social distancing relaxes, consumers and businesses may be reticent to return to normal activity. Mr. Bohnaker noted that high unemployment, balance sheet destruction, health concerns, and business closures will likely delay the rebound in consumer spending. Fiscal and monetary relief along with pent-up demand is expected to aid the consumer recovery. Overall, IHS Markit does not expect a V-shaped recovery, only assigning a 20 percent probability of that outcome. IHS Markit also assigned a 35 percent probability of a downside scenario, with a peak-to-trough decline in real gross domestic product of 22.9 percent over the first three quarters of 2020.

Mr. Michael Lynch gave the testimony on the Rhode Island economy. He began by discussing how the state economy was situated before the arrival of COVID-19. Benchmark revisions from the Bureau of Labor Statistics revised downward nonfarm payrolls in December 2019, but payroll counts were revised upward for 2018 and 2019, generally smoothing out employment growth. Population growth in 2019 was slow but positive, and home prices and sales began 2020 on a strong footing.

Mr. Lynch reviewed jobs data from March 2020, which began to show the first impacts from the pandemic. Payrolls lost over 5,000 jobs and the unemployment rate increase from 3.4 percent in February to 4.6 percent in March. He also noted that through the middle of April, unemployment insurance claims had surged past 100,000.

Mr. Lynch then discussed IHS Markit's revised forecast, which has Rhode Island entering a recession in the second quarter of CY 2020. Both employment and output are projected to contract sharply as the effects of the spread of COVID-19 and the accompanying disease mitigation policies take hold. The unemployment rate is expected to hit double digits during the second quarter. Echoing Mr. Bohnaker, Mr. Lynch noted that the at-risk sectors include accommodations/food services, entertainment, retail trade, and administrative services. Given the severity of the downturn, losses are projected in other industries including finance, healthcare, and construction. The contraction continues into the third quarter of 2020, but at a much-reduced pace. While the decline is confined to a short period, the depth of losses in employment and output is expected to be deeper than the Great Recession.

IHS Markit's forecast assumes that the economic rebound begins in the fourth quarter of 2020. This is predicated on an easing of social distancing policies beginning in June, with the pandemic beginning to subside in the third quarter. The rebound, while generally strong, still takes time to return to pre-COVID-19 levels. The annual average unemployment rate remains in the double digits in 2021, and nonfarm payrolls do not fully recover until 2023.

Ms. Murray from the Department of Labor and Training discussed the benchmark revisions to the state's employment data in more detail. Generally, job counts were revised up across the first half

of 2019. This indicates that job growth was generally flat across the first three quarters of 2019. The largest annual upward job revisions to the 2019 seasonally adjusted estimates were made to the Government sector. This revision was the result of better data about student workers at the state colleges. The largest downward revision (not including Arts, Entertainment & Recreation which was impacted by a coding change) was to Health Care & Social Assistance.

Prior to the pandemic, the state's labor market was strong. The February 2020 unemployment rate was 3.4 percent, unchanged from January and down three-tenths of a percentage point over the year. The state's unemployment rate had not been as low as 3.4 percent since February 1989. Rhode Island experienced record-breaking employment in February, with an estimated 508,400 RI-based jobs, the highest job count on record. Employment had increased for five straight months and jobs were up 4,500 (0.9 percent) from February 2019. Ten economic sectors showed over-the-year growth led by a gain of 2,100 in Health Care & Social Assistance.

The Department reviewed the March 2020 employment data, which showed a loss of 5,600 jobs and an unemployment rate of 4.6 percent. Large losses in the Accommodation & Food Services (-2,000) Professional & Business Services (-1,400), Health Care & Social Assistance (-1,000), and Arts, Entertainment & Recreation (-900) were mainly responsible for the over-the-month job loss.

Ms. Murray discussed the state's most recent unemployment insurance claims data. Between March 12 and April 17, 2020, over 135,000 initial claims for unemployment insurance benefits were filed by employees of Rhode Island businesses accounting for nearly 30 percent of the workers eligible for unemployment insurance. Another 42,000 claims were filed by self-employed individuals and others not eligible for traditional unemployment insurance. The industry with the highest number of claims was the Accommodation and Foods Services sector, where 53.3 percent of workers filed a claim. The Health Care & Social Assistance (which includes daycare workers) and Retail Trade sectors had the second and third highest number of claims, respectively. Workers employed in lower wage occupations have been more impacted by the social distancing guidelines than those whose jobs pay average and higher wages. Nearly two-thirds of the initial claims filed have been by workers employed in occupations paying less than $20 per hour.

Ms. Murray concluded her testimony by discussing the impact of the CARES Act on unemployment benefits, including the new benefits offered to self-employed workers along with the extension of benefits beyond the standard 26-week program, and the additional $600 per week in benefits provided by the federal government. The department estimated that job losses relating to COVID-19 will reduce second quarter 2020 wages by 20 percent, a loss of $1.1 billion, while total unemployment benefits will total $980 million for the same quarter.

## REVENUES

### Taxes

Revenues from taxes in FY 2020 are estimated to decrease 1.2 percent from the prior year. Total estimated tax revenues for FY 2020 of $3,147.5 million are $169.8 million, 5.1 percent, less than the November 2019 estimate of $3,317.3 million. FY 2021 total estimated taxes are $3,036.6 million, $376.4 million, or 11.0 percent, below the adopted November 2019 estimate.

Personal Income Tax
The personal income tax estimates of $1,358.9 million for FY 2020 and $1,295.8 million for FY 2021 represent annual growth rates of -2.7 percent and -4.6 percent, respectively. The FY 2020 revised estimate is $82.9 million less than previously estimated. The FY 2021 estimate is $199.9 million less than the November estimate and $63.1 million below the revised FY 2020 estimate.

Business Taxes
The conferees estimate total business taxes of $427.0 million in FY 2020 and $418.2 million in FY 2021. The adopted FY 2020 estimate represents a decrease to FY 2019 audited collections of 3.3 percent. FY 2021 is 2.1 percent below the FY 2020 revised estimate. The estimates for FY 2020 and FY 2021 are $18.3 million less and $38.0 million less than assumed in November, respectively.

Sales and Use Taxes
Sales tax, the bulk of the consumption taxes, is estimated at $1,129.0 million for FY 2020 and $1,109.1 million for FY 2021. The FY 2020 estimate declined by $63.1 million from the November consensus, while the FY 2021 estimate is down $130.7 million from the prior estimate, largely reflecting the impact of the pandemic on consumer spending.

Excise Taxes Other Than Sales and Use Taxes

The conferees estimate $159.4 million for FY 2020 and $153.1 million for FY 2021 from excise taxes other than sales and use taxes. These taxes include motor vehicle license and registration fees, cigarettes taxes, and alcohol taxes. The FY 2020 revised estimate is $0.9 million, or 0.6 percent, below the prior year, but $0.1 million more than the November estimate. The total FY 2021 estimate decreases by $6.3 million, or 4.0 percent, from the revised estimate for FY 2020.

Other Taxes
The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce $73.2 million in FY 2020 and $60.4 million in FY 2021. The FY 2020 revised estimate is $11.3 million more than the previous year. The FY 2021 estimate for total other taxes is $12.8 million less than the FY 2020 revised estimate.

**Other Sources**
Other source revenue consists of transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce $41.3 million in FY 2020 and $21.1 million in FY 2021. The FY 2020 amount is $17.4 million above the previous year. This reflects several one-time transfers not repeated in FY 2021. Other sources also include departmental receipts and lottery revenues, described further below.

Departmental Receipts
The conferees adopted estimates of $440.5 million for FY 2020 and $403.0 million for FY 2021 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 FY 2020 revised estimate is $23.8 million greater than the previous year.

The FY 2021 estimate is $37.5 million less than the revised FY 2020 estimate, primarily due to the reduction in the hospital licensing fee to 5.0% based on current law. Excluding the decline in

the hospital licensing fee, FY 2021 departmental receipts are projected to be $5.1 million below the revised FY 2020 estimate.

Lottery Transfer

The lottery transfer is estimated to produce general revenue of $268.6 million in FY 2020, with $201.1 million generated from the video lottery terminals installed at Twin River and Tiverton, $51.1 million derived from combined games, which includes PowerBall, Mega Millions, scratch tickets, and Keno, $7.0 million in net revenues received from the table games, and $9.4 million from sports betting. The FY 2020 revised estimate is $128.7 million below the FY 2019 transfer. The two casinos were closed in mid-March under the Governor's Executive Order and are projected to reopen with limitations sometime in June.

The estimated transfer is $265.2 million for FY 2021, with $195.3 million derived from video lottery terminals, $53.5 million from combined games, $4.5 million from the table games and $11.9 million from sports betting. The consensus estimates assume a gradual reopening of both casino facilities and resumption of sports activities upon which sports betting would occur during the early part of the fiscal year.

| May 2020 CRE | FY 2020 Nov | FY 2020 May | Change | FY 2021 Nov | FY 2021 May | Change |
|---|---|---|---|---|---|---|
| **Personal Income Tax** | $ 1,441,800,000 | $ 1,358,900,000 | $ (82,900,000) | $ 1,495,700,000 | $ 1,295,800,000 | $ (199,900,000) |
| **General Business Taxes** | | | | | | |
| Business Corporations | 143,700,000 | 132,900,000 | (10,800,000) | 153,100,000 | 132,300,000 | (20,800,000) |
| Public Utilities Gross | 104,000,000 | 100,000,000 | (4,000,000) | 105,000,000 | 98,900,000 | (6,100,000) |
| Financial Institutions | 24,400,000 | 24,400,000 | - | 21,100,000 | 21,200,000 | 100,000 |
| Insurance Companies | 126,500,000 | 125,000,000 | (1,500,000) | 129,500,000 | 120,700,000 | (8,800,000) |
| Bank Deposits | 3,000,000 | 3,100,000 | 100,000 | 3,000,000 | 3,100,000 | 100,000 |
| Health Care Provider | 43,700,000 | 41,600,000 | (2,100,000) | 44,500,000 | 42,000,000 | (2,500,000) |
| **Sales and Use Taxes** | | | | | | |
| Sales and Use | 1,192,100,000 | 1,129,000,000 | (63,100,000) | 1,239,800,000 | 1,109,100,000 | (130,700,000) |
| Motor Vehicle | 1,800,000 | 1,000,000 | (800,000) | 3,000,000 | 2,000,000 | (1,000,000) |
| Cigarettes | 137,300,000 | 138,100,000 | 800,000 | 133,600,000 | 130,600,000 | (3,000,000) |
| Alcohol | 20,200,000 | 20,300,000 | 100,000 | 20,600,000 | 20,500,000 | (100,000) |
| **Other Taxes** | | | | | | |
| Inheritance and Gift | 63,400,000 | 58,100,000 | (5,300,000) | 48,200,000 | 44,900,000 | (3,300,000) |
| Racing and Athletics | 1,200,000 | 900,000 | (300,000) | 1,200,000 | 1,000,000 | (200,000) |
| Realty Transfer | 14,200,000 | 14,200,000 | - | 14,700,000 | 14,500,000 | (200,000) |
| *Total Taxes* | *$ 3,317,300,000* | *$ 3,147,500,000* | *$ (169,800,000)* | *$ 3,413,000,000* | *$ 3,036,600,000* | *$ (376,400,000)* |
| Departmental Receipts | 443,500,000 | 440,500,000 | (3,000,000) | 410,000,000 | 403,000,000 | (7,000,000) |
| Other Miscellaneous | 31,000,000 | 29,100,000 | (1,900,000) | 14,700,000 | 12,050,000 | (2,650,000) |
| Lottery | 377,100,000 | 268,600,000 | (108,500,000) | 395,500,000 | 265,200,000 | (130,300,000) |
| Unclaimed Property | 9,900,000 | 12,200,000 | 2,300,000 | 8,400,000 | 9,000,000 | 600,000 |
| **Total General Revenues** | **$ 4,178,800,000** | **$ 3,897,900,000** | **$ (280,900,000)** | **$ 4,241,600,000** | **$ 3,725,850,000** | **$ (515,750,000)** |

## NEXT MEETING

The next required meeting of the conference is November 2020.

cc: The Honorable Marvin L. Abney, Chairman
House Finance Committee

The Honorable William J. Conley, Jr., Chairman
Senate Finance Committee