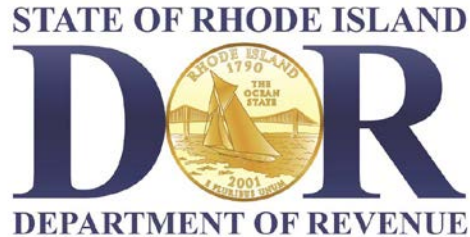


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
FY 2020 Monthly and Year-to-Date as of March 2020

The monthly revenue assessment report compares adjusted revenues, on a monthly and fiscal year-to-date basis, to the Office of Revenue Analysis' monthly and fiscal year-to-date estimates of expected revenues based on the current fiscal year revenue estimates. It should be noted that the fiscal year revenue estimates will vary over the course of the fiscal year as the Revenue Estimating Conference (REC) (see Rhode Island General Laws § 35-16-1 et seq.) convenes and modifies the fiscal year revenue estimates as enacted by the General Assembly.

The purpose of the Revenue Assessment Report is to give readers a sense of how the state's general revenues compare to those that might be expected if the official revenue estimates were being met in a predictable way. Caution should be exercised when interpreting this report as actual revenues may vary significantly from historical patterns. In addition, it is important for the reader to understand that enacted and adopted revenue estimates are made on an accrual basis, not a cash basis. Revenue accruals are not determined until at least one month after the fiscal year-end in June. Thus, even if the assessment of actual fiscal year-to-date revenues trails the fiscal year-to-date revenue estimates, it is possible for the fiscal year-end accrual to make up any shortfall.

This monthly revenue assessment report compares adjusted revenues to expected revenues based on the revised revenue estimates adopted at the November 2019 REC. The November 2019 REC revised revenue estimates will remain the basis of comparison for all Revenue Assessment Reports through the April 2020 report. For the May 2020 Revenue Assessment Report, the basis of comparison will be revenue estimates adopted at the May 2020 REC. There is no Revenue Assessment Report issued for the month of June. Instead, a Special Report on Preliminary Revenues for FY 2020 will be prepared and issued in September 2020.

FY 2020 STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Year-to-Date Estimate to Actual

| | YTD March Adjusted Revenues FY 2020 | | YTD March Estimate of Revised FY 2020 Revenues † | | Difference | Variance |
|--------------------------------------|---|-------|--|---|----------------------|-------------|
| Personal Income Tax | \$ 958,591,273 | a,b,c | \$ 965,569,758 | | \$ (6,978,485) | -0.7% |
| General Business Taxes | | | | | | |
| Business Corporation | 143,014,212 | d | 93,232,792 | | 49,781,420 | 53.4% |
| Public Utilities Gross Earnings | 53,815,959 | | 54,726,247 | | (910,289) | -1.7% |
| Financial Institutions | 35,965,836 | e | 8,284,896 | | 27,680,940 | 334.1% |
| Insurance Company Gross Premiums † | 71,440,548 | | 57,444,104 | | 13,996,443 | 24.4% |
| Bank Deposits | 1,893,309 | f | 1,603,589 | | 289,720 | 18.1% |
| Health Care Provider Assessment † | 31,402,637 | | 32,584,036 | | (1,181,399) | -3.6% |
| Excise Taxes | | | | | | |
| Sales and Use † | 901,513,261 | g | 891,622,670 | | 9,890,591 | 1.1% |
| Motor Vehicle License and Reg Fees | 993,400 | | 1,263,637 | | (270,237) | -21.4% |
| Cigarettes | 104,366,283 | | 102,453,790 | | 1,912,494 | 1.9% |
| Alcohol | 14,972,487 | | 14,500,921 | | 471,566 | 3.3% |
| Controlled Substances | 4,000 | | 4,000 | + | - | 0.0% |
| Other Taxes | | | | | | |
| Estate and Transfer | 49,181,797 | h | 54,911,050 | | (5,729,253) | -10.4% |
| Racing and Athletics | 845,141 | | 861,709 | | (16,569) | -1.9% |
| Realty Transfer | 11,101,615 | i | 11,012,653 | | 88,961 | 0.8% |
| Total Taxes | \$ 2,379,101,758 | | \$ 2,290,075,853 | | \$ 89,025,905 | 3.9% |
| Departmental Receipts † | \$ 174,329,885 | j | \$ 171,290,478 | | \$ 3,039,407 | 1.8% |
| Taxes and Departmentals | \$ 2,553,431,642 | | \$ 2,461,366,330 | | \$ 92,065,312 | 3.7% |
| Other General Revenue Sources | | | | | | |
| Other Miscellaneous Revenues | 13,931,522 | + | 13,931,522 | + | - | 0.0% |
| Lottery Transfer † | 249,873,371 | k | 243,998,994 | | 5,874,377 | 2.4% |
| Unclaimed Property | - | + | - | + | - | n/a |
| Total Other Sources | \$ 263,804,893 | | \$ 257,930,516 | | \$ 5,874,377 | 2.3% |
| Total General Revenues | \$ 2,817,236,536 | | \$ 2,719,296,847 | | \$ 97,939,689 | 3.6% |

| PIT Component | YTD March Adj. Revenues | | YTD March Revised Estimates | | Difference | Variance |
|-------------------------|----------------------------|-----|--------------------------------|--|-----------------------|--------------|
| Estimated payments | \$ 165,144,747 | a,b | \$ 169,900,742 | | \$ (4,755,995) | -2.8% |
| Final payments † | 86,345,076 | c | 75,402,969 | | 10,942,107 | 14.5% |
| Withholding | 963,479,019 | b | 958,600,500 | | 4,878,519 | 0.5% |
| Refunds and Adjustments | (256,377,569) | a | (238,334,453) | | (18,043,116) | 7.6% |
| Total | \$ 958,591,273 | | \$ 965,569,758 | | \$ (6,978,485) | -0.7% |

† Revised FY 2020 estimated revenues for insurance company gross premiums tax and departmental receipts are calculated using modified revenue flows to align expected revenues with the actual realization of revenues.

+ Set equal to actual amounts received.

Detailed notes on the following page

- ^a Personal income tax estimated payments do not include payments of \$1,093,109 received in October and September 2019, and personal income tax final payments do not include payments of \$284,000 received in September and December 2019 that were paid to business corporation tax. Personal income tax refunds and adjustments include net adjustments between personal income tax and business corporation tax of \$6,064,768 for payments received in FY 2017-FY 2020. Personal income tax refunds and adjustments also include an adjustment of \$112,500 for transfer(s) from sales and use tax.
- ^b Personal income tax withholding payments include an adjustment of \$(1,338,404) to reclassify payments received in September 2018 and January 2019 as personal income tax estimated payments. Personal income tax refunds and adjustments include an offsetting adjustment of \$1,338,404.
- ^c Final payments do not include payment(s) of \$438,531 received in September 2019 and December 2019 that were paid to business corporation tax. The offsetting adjustments for these payment(s) are included in refunds/adjustments.
- ^d Business corporation tax includes net adjustments of \$(4,533,128) for payments received in FY 2017-FY 2019 and includes \$38.3 million in pass-through entity tax payments received in January-March 2020.
- ^e Includes \$10 million in reimbursed Historic Structures Tax Credits received in February 2020. Also includes large estimated payment(s) of \$15 million received in March 2020.
- ^f Subtracts \$262,500 for estimated payment(s) received in July 2019 but accrued back to FY 2019.
- ^g Includes a \$(112,500) adjustment for transfer(s) to personal income tax for payment(s) received in January 2019.
- ^h Includes infrequently occurring large payment(s) of \$25.8 million.
- ⁱ Subtracts \$271,187 in funds that are designated to the Housing Resources Commission. The amount reflects the March 2020 transfer that will occur in April 2020.
- ^j Subtracts \$173,957,413 of hospital licensing fee payments received in FY 2020 year-to-date but accrued back to FY 2019. Also subtracts \$355,493 for board and support payment(s) to the Rhode Island Veterans Home that were expected to be deposited in April 2020.
- ^k Subtracts \$2.0 million of revenues that were transferred in October 2019 but accrued back to FY 2019. Also subtracts \$13.6 million of net advanced payments for gaming activity revenues that were advanced in March 2020. Revenues from March gaming activity are normal transferred in April.

FY 2020 STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

| | March 2020 Adjusted Revenues FY 2020 | | March 2020 Estimate of Revised FY 2020 Revenues † | | Difference | Variance |
|--------------------------------------|--|---|---|---|----------------------|--------------|
| Personal Income Tax | \$ 83,150,651 | a | \$ 64,673,709 | | \$ 18,476,943 | 28.6% |
| General Business Taxes | | | | | | |
| Business Corporation | 36,691,606 | b | 18,550,264 | | 18,141,342 | 97.8% |
| Public Utilities Gross Earnings | 2,377,933 | | 7,548,987 | | (5,171,054) | -68.5% |
| Financial Institutions | 15,689,324 | c | 506,711 | | 15,182,613 | 2,996.3% |
| Insurance Company Gross Premiums † | 6,680,359 | | 4,987,996 | | 1,692,363 | 33.9% |
| Bank Deposits | 163,090 | | 116,235 | | 46,855 | 40.3% |
| Health Care Provider Assessment † | 3,263,452 | | 3,782,933 | | (519,481) | -13.7% |
| Excise Taxes | | | | | | |
| Sales and Use † | 84,387,119 | | 84,047,193 | | 339,926 | 0.4% |
| Motor Vehicle License and Reg Fees | 81,650 | | 176,110 | | (94,460) | -53.6% |
| Cigarettes | 13,188,454 | | 9,979,444 | | 3,209,010 | 32.2% |
| Alcohol | 1,532,977 | | 1,295,427 | | 237,550 | 18.3% |
| Controlled Substances | 1,000 | | 1,000 | + | - | 0.0% |
| Other Taxes | | | | | | |
| Estate and Transfer | 1,428,450 | | 4,054,631 | | (2,626,181) | -64.8% |
| Racing and Athletics | 55,400 | | 99,970 | | (44,570) | -44.6% |
| Realty Transfer | 811,761 | d | 997,145 | | (185,384) | -18.6% |
| Total Taxes | \$ 249,503,226 | | \$ 200,817,754 | | \$ 48,685,473 | 24.2% |
| Departmental Receipts † | \$ 18,299,986 | e | \$ 16,789,700 | | \$ 1,510,286 | 9.0% |
| Taxes and Departmentals | \$ 267,803,213 | | \$ 217,607,454 | | \$ 50,195,759 | 23.1% |
| Other General Revenue Sources | | | | | | |
| Other Miscellaneous Revenues | 4,000,831 | + | 4,000,831 | + | - | 0.0% |
| Lottery Transfer † | 33,373,045 | f | 30,194,841 | | 3,178,204 | 10.5% |
| Unclaimed Property | - | + | - | + | - | n/a |
| Total Other Sources | \$ 37,373,876 | | \$ 34,195,672 | | \$ 3,178,204 | 9.3% |
| Total General Revenues | \$ 305,177,089 | | \$ 251,803,126 | | \$ 53,373,963 | 21.2% |

| PIT Component | March 2020 Adj. Revenues | | March 2020 Revised Estimates | | Difference | Variance |
|-------------------------|-----------------------------|---|---------------------------------|--|----------------------|--------------|
| Estimated payments | \$ 6,540,904 | | \$ 5,614,579 | | \$ 926,325 | 16.5% |
| Final payments † | 28,027,766 | | 24,965,590 | | 3,062,176 | 12.3% |
| Withholding | 135,889,826 | | 123,202,297 | | 12,687,529 | 10.3% |
| Refunds and Adjustments | (87,307,845) | a | (89,108,758) | | 1,800,913 | -2.0% |
| Total | \$ 83,150,651 | | \$ 64,673,709 | | \$ 18,476,943 | 28.6% |

† Revised FY 2020 estimated revenues for insurance company gross premiums tax and departmental receipts are calculated using modified revenue
+ Set equal to actual amounts received.

Detailed notes on the following page

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

- ^a An adjustment of \$670,500 is included in personal income tax refunds and adjustments and reflects transfer(s) from business corporation tax to correct for estimated payment(s) of \$386,500 and final payment(s) of \$284,000 that occurred in prior periods.
- ^b Includes an adjustment of \$(670,500) for transfer(s) to personal income tax to correct for estimated and final payments received in prior periods. Also includes \$10.6 million in pass-through entity tax payments received in March 2020.
- ^c Includes large estimated payment(s) of \$15.0 million received in March 2020.
- ^d Adds \$147,231 in funds that are designated to the Housing Resources Commission. The amount reflects the difference between the February 2020 transfer that occurred in March 2020 and the March 2020 transfer that will occur in April 2020.
- ^e Subtracts \$737,182 for board and support payments to the Rhode Island Veterans Home that were expected to be deposited in February 2020 and April 2020.
- ^f Subtracts \$13.6 million of net advanced payments for gaming activity revenues that were advanced in March 2020. Revenues from March gaming activity are normal transferred in April.

Law Changes Enacted in the 2019 Session That Impact General Revenues

In the 2019 session, and earlier sessions, the General Assembly enacted several changes to the state's general laws that impact general revenues. These changes can be categorized as follows: (1) changes that reclassify revenues that were previously considered to be general revenues to other funds; and (2) changes that impact FY 2020 general revenues that will be realized through monthly revenue flows. Those changes in state law that impact monthly revenue flows will generally exhibit seasonality in the receipt of the revenue. The Office of Revenue Analysis (ORA) attempts to model the seasonality in such revenue flows in order to better align the expected receipt of revenues with the actual receipt of revenues. A more specific discussion of these items is provided in the appendix to this report.

Estimate of Revised FY 2020 Revenues Adopted at the November 2019 REC

In order to determine the expected monthly and fiscal year-to-date revenues for the fiscal year, ORA first calculated the average percentage of total adjusted revenues that occurred in a given month over the previous five fiscal years for each revenue item, except for estate and transfer taxes for which the previous ten fiscal years are used.¹ For business corporation tax, public utilities gross earnings tax, financial institutions tax, insurance company gross premiums tax, and bank deposits tax revenues, ORA used adjusted FY 2019 percentages to account for the change in the estimated payments schedule for these tax types.² For motor vehicle license and registration fees adjusted FY 2019 percentages were used to account for the change in the transfer to the Rhode Island Highway Maintenance Account (RIHMA).³ In prior years, ORA then applied these percentages to the revised FY 2020 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages were summed and then applied to the revised FY 2020 revenue estimate for each revenue item.

ORA has changed the methodology it uses in the calculation of the expected monthly and fiscal year-to-date revenues based on the November 2019 REC. ORA now incorporates the fact that the revised estimates were based on actual revenues through October of the fiscal year. Beginning

¹ The previous five fiscal years are FY 2015 through FY 2019, and the previous ten fiscal years are FY 2010 through FY 2019. In the case of personal income tax refunds and adjustments revenues, FY 2013 through FY 2015 and FY 2018 through FY 2019 were used in computing the five-fiscal year average percentages. These fiscal years were selected due to the impact on refund processing in FY 2016 and FY 2017 that resulted from the implementation of the new personal income tax system by the Division of Taxation.

² Prior to tax year 2018, these taxpayers paid 100 percent of their projected tax year liability by the sixth month of their tax year. For taxpayers with a tax year that coincided with the calendar year, this meant that 100 percent of their projected tax liability had to be paid by June of the calendar year which was the end of the state fiscal year. Effective for tax year 2018 and beyond, these same taxpayers now pay 50 percent of their projected tax year liability by the sixth month of their tax year. As a result of the change in the estimated payment schedule, ORA used the actual revenues received in each month of FY 2019 as a percentage of the total revenues received in FY 2019.

³ In FY 2019, all motor vehicle license and registration fees were transferred to the Rhode Island Highway Maintenance Account except for duplicate license and license update fees, which were retained as general revenues. Since registration fees are the largest component of motor vehicle license and registration fees and registration fee deposits have an uneven periodicity, ORA chose to use the FY 2019 percentages for FY 2020 since only duplicate license and license update fees will be retained as general revenues in FY 2020.

with the November 2019 REC revised estimates, ORA set expected revenues for the months of July through October equal to the actual revenues received in these months inclusive of adjustments and reimbursements of redeemed tax credits. ORA then subtracted from the revised November 2019 REC estimates for FY 2020 these actual revenues to determine the remaining amount of the adopted estimate that is expected to be realized over the November through June period. To determine how much of the remaining estimate will be received in each month, ORA took the percentage noted above for the relevant month and divided it by the sum of the remaining monthly percentages for November through June. ORA then applied this percentage to the amount of the estimate expected to be realized over the November to June period. This yielded the monthly expected revenues for each revenue item. The fiscal year-to-date expected revenues were determined by summing these monthly percentages and applying this percentage to the amount of the estimate expected to be realized over the November to June period. For controlled substances and other miscellaneous revenues, the actual monthly and fiscal year-to-date revenues are used in place of an estimate due to the discrete and unpredictable nature in the timing of these receipts. Since November is the first month post the November 2019 REC, the monthly and fiscal year-to-date calculations are equal for each revenue item.

Table A provides the rounded five-year or ten-year, in the case of estate and transfer tax revenues, average percentages used to determine expected monthly and fiscal year-to-date revenues for March.⁴ It should be noted that ORA has made adjustments to these percentages based on the estimated flow of revenues that result from the changes in law enacted by the 2019 General Assembly and included as part of the revenue estimates adopted at the November 2019 REC. These monthly and fiscal year-to-date percentages are unchanged from previous Revenue Assessment Reports and were used to execute ORA's new methodology in estimating expected revenues based on the revised revenue estimates adopted at the November 2019 REC.

⁴ As noted previously, FY 2019 percentages were used for business corporation tax, public utilities gross earnings tax, financial institutions tax, insurance company gross premiums tax, and bank deposits tax revenues due to the change in the estimated payments schedule for tax year 2018 and beyond and for motor vehicle license and registration fees due to the retention of only duplicate license and license update fees as general revenue in FY 2020..

| Revenue Item | <u>Percent Received</u> | | Revenue Item | <u>Percent Received</u> | |
|---------------------------------|--------------------------------|------------|-----------------------|--------------------------------|------------|
| | March | YTD | | March | YTD |
| Personal Income Taxes | | | Sales and Use Taxes | 7.1 % | 74.8 % |
| Estimated Payments | 2.4 % | 66.5 % | Motor Vehicles Fees | 8.5 % | 74.1 % |
| Final Payments | 9.2 % | 25.5 % | Cigarettes Taxes | 7.3 % | 74.6 % |
| Withholding Payments | 9.7 % | 75.5 % | Alcohol Excise Taxes | 6.2 % | 72.7 % |
| Refunds/Adjustments | 24.8 % | 65.0 % | Estate and Transfer | 10.9 % | 79.9 % |
| Business Corporation Taxes | 11.6 % | 68.6 % | Racing and Athletics | 8.6 % | 70.7 % |
| Utilities Gross Earnings Taxes | 7.5 % | 51.2 % | Realty Transfer | 7.3 % | 76.5 % |
| Financial Institutions Taxes | 2.4 % | 22.8 % | Departmental Receipts | 6.7 % | 68.6 % |
| Insurance Co. Gross Premiums | 4.0 % | 43.2 % | Lottery Transfer | 7.9 % | 64.8 % |
| Bank Deposits | 4.1% | 50.3 % | Other Misc. Revenues | n/a | n/a |
| Health Care Provider Assessment | 8.7 % | 74.6 % | Unclaimed Property | 0.0 % | 0.0 % |

The health care provider assessment consists of an assessment on nursing homes. Motor vehicle fees are comprised of fees paid to issue updated or duplicate operators' licenses. Racing and athletics taxes consist of a tax on wagers placed on out-of-state greyhound and horse races that are broadcast to Rhode Island via closed circuit television. The "Percent Received" for monthly and year-to-date departmental receipts is calculated excluding hospital licensing fee revenues, which are large and generally made only once in the fiscal year. Finally, the lottery transfer does not begin in a given fiscal year until August, while the unclaimed property transfer occurs only in June of each fiscal year.

Due to the characteristics of the enacted FY 2020 legislative changes included in the November 2019 REC revenue estimates for insurance company gross premiums tax and departmental receipts, ORA had to adjust the revenue bases against which November through June adjusted revenues would be assessed for these revenue items. As a result, ORA will use modified revenue flows for expected November through June revenues for these revenue items to gauge the sufficiency of adjusted November through June revenues in meeting estimated revenues. The footnotes to Table B detail the breakdown of modified cash revenue flows and accruals for each of these revenue items.

The revised FY 2020 estimates by revenue item as adopted at the November 2019 REC are as follows:

| Table B. FY 2020 Revised Revenue Estimates by Major Revenue Item | | | |
|--|---|------------------------------------|---|
| Revenue Item | Nov. 2019 Revised FY 2020 Estimate | Revenue Item | Nov. 2019 Revised FY 2020 Estimate |
| Personal Income Taxes | | Sales and Use Taxes | \$ 1,192,100,000 |
| Estimated Payments | \$ 250,000,000 | Motor Vehicles Fees | 1,800,000 |
| Final Payments | 277,400,000 | Cigarettes Taxes | 137,300,000 |
| Withholding Payments | 1,270,300,000 | Alcohol Excise Taxes | 20,200,000 |
| Refunds/Adjustments | (364,100,000) | Estate and Transfer | 63,400,000 |
| Business Corporation Taxes | 143,700,000 | Racing and Athletics | 1,200,000 |
| Public Utilities Gross Earnings | 104,000,000 | Realty Transfer | 14,200,000 |
| Financial Institutions Taxes | 24,400,000 | Departmental Receipts ^b | 443,500,000 |
| Insurance Co. Gross Premiums ^a | 126,500,000 | Lottery | 377,100,000 |
| Bank Deposits | 3,000,000 | Other Misc. Revenues | 31,000,000 |
| Health Care Provider Assessment | 43,700,000 | Unclaimed Property | 9,900,000 |
| | | Total General Revenues * | \$ 4,178,800,000 |
| * Total general revenues estimate includes a personal income tax net accrual of \$8,200,000. | | | |

Notes to Table B:

^a Insurance company gross premiums tax revenues estimate of \$126,500,000 includes a projected revenue impact of \$(11,182) from a downward revision to a 1% increase in the nursing home provider rate paid directly by the state, effective October 1, 2019. The realization of this revenue impact is expected to occur in November 2019 through June 2020. The insurance company gross premiums tax revenues estimate also includes a revenue impact of \$(47,698) from a shift in enrollment from the state's RIt Care program to its RIt Share program resulting in reduced capitation payments made to Medicaid plan sponsors, effective January 1, 2020. The realization of these revenues is expected to occur in March 2020 through June 2020. Additionally, the insurance company gross premiums tax revenues estimate includes \$(102,758) from the repeal of a managed care organization performance goal program, \$(5,700) from an initiative to reduce the number of C-section births, \$(127,201) from the shifting of audit recoveries realized by the Office of Internal Audit from the Department of Administration to the Executive Office of Health and Human Services, and \$469,777 from a 7.2 percent increase in the rate paid to hospitals for inpatient and outpatient services. These revenues are expected to be realized in FY 2020 in accordance to the general flow of revenues for insurance company gross premiums tax. Insurance company gross premiums tax adjusted revenues were \$28,515,972 in FY 2020 through October, leaving an estimated \$97,984,028 to be received in November through June based on the November 2019 REC estimate. Due to the budgetary changes included in the revised estimate as noted above, ORA will assess adjusted November through June insurance company gross premiums tax revenue flows against "base" insurance company gross premiums tax revenues of \$98,031,726 for November 2019 through January 2020, and \$97,984,028 for February 2020 through June 2020.

^b Departmental receipts revenues estimate includes hospital licensing fee revenues of \$193,849,765. These revenues will be booked as a receivable in June. The departmental receipts revenues estimate also includes \$5,000,000 from a transfer of settlement monies received by the Office of the Attorney General to general revenues, which occurred in October 2019. Estimated departmental receipts revenues include

\$(5,600,000) from the restructuring of the state's E-911 surcharge into an E-911 fee and a first response surcharge, with revenues generated from the E-911 fee being deposited in a restricted receipts account (these revenues were deposited as general revenues prior to October 1, 2019). The restructured E-911 fee/first response surcharge takes effect on October 1, 2019, and thus, the realization of this revenue impact is expected to occur unevenly in November 2019 through June 2020. Additionally, the departmental receipts enacted revenue estimate includes a projected impact of \$1,247,400 from the increase in the mortgage loan originator license fee and \$577,850 from the increase in the debt collector license fee. The revenue impacts from these fee increases are expected to occur in November 2019 through January 2020. Finally, the departmental receipts revenue estimate includes a net impact of \$2,376,638 from enacted changes to various fees, such as the increased beverage container case fee, Department of Environmental Management campground and hard-to-dispose fees, etc. Revenues associated with these changes are expected to be realized in FY 2020 in accordance to the general flow of revenues for departmental receipts. Further information on these fee changes may be found in the Appendix. Departmental receipts adjusted revenues were \$72,284,390 in FY 2020 through October, leaving an estimated \$177,365,845 net of the hospital licensing fee to be received in November through June based on the November 2019 REC estimate. Due to the budgetary changes included in the revised estimate as noted above, ORA will assess adjusted November through June departmental receipts revenue flows against "base" departmental receipts revenues of \$177,365,845 for November 2019 through January 2020 and \$175,540,595 for February 2020 through June 2020.

Results for FY 2020 through March

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2020 through March. As is apparent from the table, the Department of Revenue finds that FY 2020 adjusted total general revenues through March exceeded the revised FY 2020 expected total general revenues estimate through March by \$98.0 million, a variance of 3.6%. In total taxes, fiscal year-to-date through March adjusted revenues were more than the revised FY 2020 year-to-date expected revenues estimate by \$89.1 million, a difference of 3.9%. For departmental receipts, FY 2020 through March adjusted revenues led the revised FY 2020 expected fiscal year-to-date revenues estimate by \$3.0 million, a variance of 1.8%. For other general revenue sources, adjusted FY 2020 through March revenues were \$5.9 million more than revised FY 2020 expected fiscal year-to-date revenues.

Seven revenue items had adjusted revenues in FY 2020 through March that exceeded expected FY 2020 revenue estimates, based on the revised revenue estimates adopted at the November 2019 REC, by more than \$1.0 million.

- Business corporation tax adjusted revenues for FY 2020 through March were \$49.8 million more than expected fiscal year-to-date business corporation tax revenues, a variance of 53.4%. Business corporation tax final payments adjusted revenues include the receipt of \$9.1 million and business corporation tax estimated payments adjusted revenues include the receipt of \$29.2 million in elective pass-through entity tax payments due to an enacted change in the FY 2020 budget, which allowed pass-through entities to pay the state income tax of shareholders, at a rate of 5.99%, and provide shareholders with a credit on their personal income tax returns for the income taxes paid on their behalf by the pass-through entities. Pass-through entities who elect to pay this tax are not required to withhold Rhode Island personal income tax for non-resident owners. It is expected that there will be no net impact to revenues in FY 2020.

- FY 2020 year-to-date financial institutions tax adjusted revenues were \$27.7 million more than expected fiscal year-to-date financial institutions tax revenues based on the revised estimate, a difference of 334.1%. February 2020 financial institutions tax adjusted revenues include \$10.0 million in reimbursed Historic Structures Tax Credits. March 2020 financial institutions tax adjusted revenues include \$15.0 million in large estimated payment(s).
- Adjusted FY 2020 year-to-date insurance company gross premiums tax revenues were \$14.0 million more than expected fiscal year-to-date insurance company gross premiums tax revenues, a difference of 24.4%.
 - The fiscal year-to-date revenues from health insurers were \$7.4 million more than expected, accounting for 53.1 percent of the positive variance in fiscal year-to-date insurance company gross premiums tax revenues. Adjusted FY 2020 insurance company gross premiums tax revenues from health insurers through March include \$2.4 million of reimbursed Historic Structures Tax Credits (HSTCs).
 - The fiscal year-to-date gross premiums tax revenues from property, casualty, and life insurance companies were \$6.5 million more than expected for FY 2020 through March. Adjusted FY 2020 insurance company gross premiums tax revenues from property, casualty, and life insurance companies through March include \$900,000 of reimbursed HSTCs.
- FY 2020 year-to-date sales and use tax adjusted revenues were \$9.9 million more than expected fiscal year-to-date sales and use tax revenues based on the revised estimate, a difference of 1.1%. Sales and use tax revenues include a transfer to public utilities gross earnings tax revenues of \$1.6 million for payment(s) received in June 2019.
- Adjusted lottery transfer revenues in FY 2020 through March, which reflect gaming activity through February, were \$5.9 million above the expected FY 2020 year-to-date lottery transfer revenues estimate of \$244.0 million, a variance of 2.4%.
 - The transfer of net terminal income from video lottery terminals (VLTs) in FY 2020 through March was \$5.2 million more than expected.
 - The transfer of gross profit from on-site sports wagering in FY 2020 through March was \$2.8 million more than expected fiscal year-to-date revenues. The transfer of gross profit from remote sports betting was \$236,191 less than expected for FY 2020 through March.
 - The transfer of operating income from table games had a shortfall of \$1.3 million in FY 2020 through March.
 - The transfer of net income from traditional lottery games (i.e. scratch tickets, Daily Numbers, Powerball, etc.) and lottery monitor games (i.e. Keno, etc.) in FY 2020 through March was \$592,534 less than expected.
- FY 2020 year-to-date departmental receipts adjusted revenues were \$3.0 million more than expected fiscal year-to-date departmental receipts revenues based on the revised estimate, a difference of 1.8%.
- Cigarette and other tobacco products (OTP) excise tax revenues through March were \$1.9 million more than expected FY 2020 through March cigarette and OTP tax revenues, a difference of 1.9%.

- FY 2020 through March cigarette excise tax adjusted revenues were \$2.3 million more than expected revenues for the same period.
- OTP excise tax adjusted revenues through March were \$387,463 less than expected.

FY 2020 adjusted revenues through March for alcohol excise tax, bank deposits tax, and realty transfer tax were above the expected FY 2020 through March revised revenue estimates but by less than \$1.0 million each.

On the negative side, three revenue items had adjusted revenues through March that fell short of the expected FY 2020 through March revenues estimate by \$1.0 million or more.

- Personal income tax adjusted revenues through March were \$7.0 million less than expected FY 2020 through March personal income tax revenues, a variance of -0.7%.
 - Adjusted FY 2020 personal income tax refunds and adjustments revenues through March were \$18.0 million more than expected fiscal year-to-date personal income tax refunds and adjustments revenues, a difference of 7.6%.
 - Adjusted fiscal year-to-date personal income tax estimated payments revenues were \$4.8 million less than expected year-to-date FY 2020 personal income tax estimated payments, a variance of -2.8%.
 - Adjusted FY 2020 through March personal income tax final payments revenues were \$10.9 million, or 14.5%, more than expected FY 2020 through March personal income tax final payments revenues. Adjusted FY 2020 personal income tax final payments revenues through March include \$6.8 million of reimbursed HSTCs.
 - Adjusted fiscal year-to-date personal income tax withholding payments revenues were \$4.9 million more than the \$958.6 million of expected FY 2020 year-to-date personal income tax withholding payments, a variance of 0.5%.
- Adjusted FY 2020 year-to-date estate and transfer tax revenues were \$5.7 million less than expected fiscal year-to-date estate and transfer tax revenues, a difference of -10.4%.
- Health care provider assessment revenues through March were \$1.2 million less than expected FY 2020 through March health care provider assessment revenues, a difference of -3.6%.

FY 2020 adjusted revenues through March for public utilities gross earnings tax, motor vehicle license and registration fees, and racing and athletics tax were below their expected FY 2020 through March revenue estimates but by less than \$1.0 million each.

Results for the Month of March 2020

The table, *Monthly Estimate to Actual*, gives the results for March 2020. As is apparent from the table, the Department of Revenue finds that March adjusted total general revenues were above the revised FY 2020 expected total general revenues estimate for March by \$53.4 million, or 21.2%. In total taxes, March adjusted revenues were more than the revised FY 2020 expected monthly revenue estimate by \$48.7 million, or 24.2%. For departmental receipts, March adjusted revenues exceeded the revised FY 2020 expected monthly revenues estimate by \$1.5 million, or 9.0%. For

other general revenue sources, adjusted FY 2020 monthly revenues for March were \$3.2 million more than revised FY 2020 expected monthly revenues for March, a variance of 9.3%.

Seven revenue items had adjusted revenues in March that exceeded the revised FY 2020 expected monthly estimate by \$1.0 million or more.

- Personal income tax adjusted revenues in March were \$18.5 million more than revised March personal income tax expected revenues, a variance of 28.6%.
 - Adjusted March personal income tax withholding payments revenues were \$12.7 million more than the \$123.2 million of expected monthly personal income tax withholding payments revenues based on the estimate adopted at the November 2018 REC, a variance of 10.3%. This excess accounts for about 68.7% of the total surplus in personal income tax revenues for the month of March.
 - Adjusted March personal income tax final payments revenues were \$3.1 million, or 12.3%, more than expected personal income tax final payments revenues based on the FY 2020 revised monthly estimate. Adjusted March personal income tax final payments revenues include \$30,139 of reimbursed HSTCs.
 - Adjusted personal income tax refunds and adjustments revenues in March were \$1.8 million less than expected March personal income tax refunds and adjustments revenues based on the estimate adopted at the November 2019 REC, a difference of -2.0%.
 - Personal income tax estimated payments adjusted March revenues were \$926,325, or 16.5%, above expected March personal income tax estimated payments revenues based on the revised monthly estimate.
- Business corporation tax adjusted revenues for March were \$18.1 million more than expected revenues for the month, a difference of 97.8%. Business corporation tax final payments adjusted revenues include the receipt of \$9.1 million and business corporation tax estimated payments adjusted revenues include the receipt of \$1.5 million in elective pass-through entity tax payments due to an enacted change in the FY 2020 budget, which allowed pass-through entities to pay the state income tax of shareholders, at a rate of 5.99%, and provide shareholders with a credit on their personal income tax returns for the income taxes paid on their behalf by the pass-through entities. Pass-through entities who elect to pay this tax are not required to withhold Rhode Island personal income tax for non-resident owners. It is expected that there will be no net impact to revenues in FY 2020.
- Financial institutions tax adjusted revenues in March were \$15.2 million more than expected revenues for the month, a difference of 2,996.3%. March 2020 financial institutions tax adjusted revenues include \$15.0 million in large estimated payment(s).
- Cigarette and other tobacco products (OTP) excise tax adjusted revenues were \$3.2 million, or 32.2%, more than revised expected monthly revenues for March.
 - March cigarette excise tax adjusted revenues were \$3.4 million more than expected revenues for the same period.
 - March OTP excise tax adjusted revenues were \$159,368 less than expected.

- Adjusted lottery transfer revenues in March, which reflect gaming activity in February, were \$3.2 million above the expected March lottery transfer revenues estimate of \$30.2 million, a variance of 10.5%.
 - The transfer of net terminal income from video lottery terminals (VLTs) in March was \$2.9 million more than expected.
 - The transfer of gross profit from on-site sports wagering in March was \$625,474 more than expected monthly revenues. The transfer of gross profit from remote sports betting was \$143,766 less than expected for March.
 - The transfer of net income from traditional lottery games (i.e. scratch tickets, Daily Numbers, Powerball, etc.) and lottery monitor games (i.e. Keno, etc.) in March was \$13,711 more than expected.
 - The transfer of operating income from table games had a shortfall of \$189,279 in March.
- Insurance company gross premiums tax adjusted revenues in March were \$1.7 million more than expected revenues for the month, a difference of 33.9%.
 - March gross premiums tax revenues from property, casualty, and life insurance companies were \$1.7 million more than expected for March. Adjusted monthly insurance company gross premiums tax revenues from property, casualty, and life insurance companies in March include \$108,841 of reimbursed HSTCs.
 - March revenues from health insurers were \$116,716 less than expected.
- March departmental receipts adjusted revenues exceeded expected monthly departmental receipts revenues by \$1.5 million, or 9.0%.

March 2020 adjusted revenues for the sales and use tax, alcohol excise tax, and bank deposits tax were above the revised FY 2020 revenue estimates for March, but by less than \$1.0 million each.

On the negative side, two revenue items had adjusted revenues in March that fell short of the revised FY 2020 expected monthly revenues estimate by \$1.0 million or more.

- March public utilities gross earnings tax adjusted revenues were \$5.2 million less than expected monthly public utilities gross earnings tax revenues based on the revised estimate, a difference of -68.5%.
- Estate and transfer tax adjusted revenues were \$2.6 million, or 64.8%, below revised expected monthly estate and transfer tax revenues for March.

March 2020 adjusted revenues for healthcare provider assessment, realty transfer tax, motor vehicle license, and racing and athletics tax were below the revised FY 2020 revenue estimates for March, but by less than \$1.0 million each.



Mark A. Furcolo, Director
Department of Revenue
April 16, 2020

Appendix: Law Changes Enacted in the 2019 Session of the General Assembly

Revenue Changes That Reclassify General Revenues

Departmental Receipts

The 2019 General Assembly enacted legislation that restructured the state's E-911 wireline and wireless surcharges. Prior to the restructuring, the state imposed a \$1.00 per month per line E-911 surcharge on both wireline and wireless telecommunications. The revenues generated from this surcharge were deposited as general revenues. In the 2019 session, the General Assembly repealed the E-911 surcharge for both wireline and wireless telecommunications and replaced this surcharge with a new E-911 fee and a new first response surcharge. The new E-911 fee is set at \$0.50 per month per line and is applied to both wireline and wireless telecommunications. The revenues generated from the E-911 fee will be deposited as restricted receipts and used only for the support of the state's E-911 system. In addition, the 2.5 percent surcharge that is applied to prepaid wireless telecommunications is also being reclassified from general revenues to restricted receipts and will also be used only to finance the state's E-911 system. The effective date of this restructuring of the state's E-911 wireline and wireless surcharges and the reclassification of the prepaid wireless assessment was October 1, 2019. The estimated impact of these changes is a reduction in general revenues of \$5.6 million and an associated increase in restricted receipts. The estimated impact on general revenue is included in the revised FY 2020 estimate of departmental receipts adopted at the November 2019 REC. The decrease in general revenues will be realized over the November 2019 through June 2020 period.

Revenue Changes That Will Be Realized Through Monthly Revenue Flows

Insurance Company Gross Premiums Tax

The 2019 General Assembly enacted initiatives that will impact the monthly revenue flows and are included in the November 2019 REC revised estimates for insurance company gross premiums taxes. Several of these legislative changes became effective on July 1, 2019. These initiatives are the elimination of the managed care organization performance goal program, the reduction in C-section births, a 7.2 percent increase in the payment to hospitals for inpatient and outpatient services, and the shifting of Office of Internal Audit recoveries from the Department of Administration to the Executive Office of Health and Human Services. The net impact of these changes is to increase insurance company gross premiums tax revenues by \$234,118, with this increased revenue realized in accordance with the general monthly flow of revenues for this revenue item.

Two legislative enactments become effective after July 1, 2019. These are the downward adjustment to a 1% increase in the nursing home provider rate paid directly by the state, which was effective October 1, 2019, and a shift in enrollment from the state's RItE Care program to its RItE Share program resulting in reduced capitation payments made to Medicaid plan sponsors, which is effective January 1, 2020. The downward revision to the 1% increase in the nursing home provider rate is expected to decrease revenues by \$11,182 over the period from November 2019 to June 2020, while the shift of enrollment from the RItE Care program to the RItE Share program

is estimated to decrease insurance company gross premiums tax revenues by \$47,698 over the March 2020 to June 2020 period.

Health Care Provider Assessment

The 2019 General Assembly enacted legislation that includes a projected revenue impact of \$(302,500) to correct for an error in the reimbursement of hospice care and nursing homes, which took effect on July 1, 2019. The realization of this decrease in revenues is expected to be in the July through June period in FY 2020. The health care provider assessment revenues estimate also includes an impact of \$(379,267) from the downward adjustment to a 1% increase in the nursing home provider rate paid directly by the state. As noted under the Insurance Company Gross Premiums Tax section, this reduced increase took effect on October 1, 2019. These estimates are included in the revised FY 2020 estimate of the health care provider assessment adopted at the November 2019 REC, and the realization of this change on monthly revenue flows will cover the November 2019 to June 2020 period.

Sales and Use Tax

During the 2019 session, the General Assembly passed legislation that would reimburse the general fund for Rebuild Rhode Island sales and use tax rebates, effective July 1, 2019. The budgetary impact for this item, which was included in the November 2019 REC revised estimate for sales and use tax, is \$5,600,000. In July 2019, \$42,728 was received in sales and use tax rebates related to the Rebuild Rhode Island tax credit program. The remaining refund applications are expected to be received in November through June, and it is assumed that the reimbursements will be received in a pattern similar to the general flow of revenues for the sales and use tax.

The 2019 General Assembly also enacted legislation to expand the sales and use tax base to specified digital products, which include movies, TV shows, music, e-books, and related items, that are streamed or downloaded to computers, phones, TVs, or other devices. Effective October 1, 2019, the estimated revenue impact included in the November 2019 REC revised estimate for sales and use tax is \$2,625,759 and is expected to be realized in accordance with the general monthly flow of revenues for this revenue item during the period of November 2019 through June 2020.

Further, the 2019 General Assembly enacted legislation to provide a sales and use tax exemption for feminine hygiene products and to expand the sales and use tax exemption for coffins and caskets to urns. Effective October 1, 2019, these sales and use tax exemptions have estimated revenue impacts of \$(617,211) and \$(75,000), respectively. These revenue impacts are included in the revised estimate for sales and use tax adopted at the November 2019 REC and are expected to be realized in accordance with the general monthly flow of revenues for this revenue item during the period of November 2019 through June 2020.

Departmental Receipts

The 2019 General Assembly passed legislation that impacts the FY 2020 revenue flows for several departmental receipts items. These revenue impacts were included in the revised FY 2020 estimate for departmental receipts adopted at the November 2019 REC. As noted above, the state E-911

surcharge has been restructured to now consist of a \$0.50 monthly per line E-911 fee assessed on wireline and wireless telecommunications and a first response surcharge, which is \$0.50 per month per line for wireline telecommunications and \$0.75 per month per line for wireless telecommunications. In addition, the \$0.26 per month per line technical and geographic information system (GIS) charge on wireless telecommunications has been repealed. The revenues generated by the E-911 fee will be deposited as restricted receipts, while the revenues generated from the first response surcharge will be deposited as general revenues. These changes took effect on October 1, 2019. Prior to October 1, 2019, the \$1.00 per month per line E-911 surcharge on wireline and wireless telecommunications and the \$0.26 per month per line technical and GIS surcharge on wireless telecommunications remain in place with the revenue generated being deposited as general revenues. Once the new E-911 fee is in place, there will be an expected general revenue impact on departmental receipts of \$(5,600,000), which will be realized in the November 2019 through June 2020 period.

During the 2019 session, the General Assembly enacted fee increases for the mortgage loan originator license, from \$100 to \$400, and the debt collector license, from \$100 to \$750. These items have estimated revenue impacts of \$1,247,400 and \$577,850, respectively, and are expected to be received relatively evenly in the months of November 2019 through January 2020.

The 2019 General Assembly also enacted legislation to transfer excess settlement payments from the Office of the Attorney General's restricted receipts account to general revenues. The estimated budgetary impact of this transfer is \$5,000,000, and it is anticipated that the full amount of the transfer will occur in September 2019.

Other changes enacted by the 2019 General Assembly, which impact departmental receipts, include an increase in the beverage container case fee from \$0.04 to \$0.08, which is expected to generate \$2,117,450; an increase in campground fees, which is estimated to produce \$495,539; an increase in Department of Environmental Management parks fees, which is anticipated to generate \$74,979; an increase in fees assessed at the time of purchase on hard-to dispose items, which is forecasted to produce \$1,000,000; an increase in oversized and overweight permit fees charged by the Division of Motor Vehicles, which is estimated to generate \$501,840; and the delay in the issuance of new license plates, which reduces license plate reissuance fees by \$1,813,170. These revenue changes are effective July 1, 2019, and the monthly distribution of these revenue flows is expected to be the same as departmental receipts revenues in general.

Other Miscellaneous Revenues

In the 2019 Session, the General Assembly enacted legislation that added \$18,800,000 to FY 2020 other miscellaneous revenues. This revenue includes \$8,200,000 in transfers of excess reserves from various quasi-public agencies as follows: the Rhode Island Infrastructure Bank, \$4,000,000; the Rhode Island Student Loan Authority, \$1,500,000; Rhode Island Housing, \$1,500,000; and the Rhode Island Quonset Development Corporation, \$1,200,000. Additionally, other miscellaneous revenues include a transfer of \$5,000,000 from the Rhode Island Commerce Corporation's First Wave Closing fund. The enacted legislation also includes the transfer of five percent of the total resources deposited in the Rhode Island Highway Maintenance Account (RIHMA) to general revenues to offset the Division of Motor Vehicles costs in assessing and collecting the revenues it

deposits in RIHMA. This transfer will occur quarterly on the 15th of the month following the end of a fiscal quarter. The principals at the November 2019 REC revised down the expected FY 2020 revenues from the Department of Revenue's Central Collections Unit to \$500,000, down from the enacted estimate of \$2.8 million. Finally, there was an addition of \$2,045,438 to the revised other miscellaneous revenues estimate adopted at the November 2019 REC from a Providence Place Mall bond closeout. The Revenue Assessment report accounts for these revenues as they are received.

Further, in the 2019 session, the General Assembly passed legislation to expand the number of "full service" medical marijuana compassion centers from three to nine. The six new compassion centers are required to pay a licensing fee of \$500,000 annually, and the General Assembly included \$3.0 million in additional revenues based on the opening of the six new compassion centers in FY 2020. Given the complexity associated with the regulatory process for establishing these new "full service" compassion centers, it is assumed that the first new compassion center will not open until January 2020 and that one additional new compassion center will open in each subsequent month. Thus, the expected revenue will be realized in equal increments over the January 2020 to June 2020 period.

Lottery Transfer

The 2019 General Assembly approved the Governor's proposal to add remote legalized sports betting in Rhode Island. The principals of the November 2019 REC revised the estimate of the revenue impact to be \$3,300,000 for this item, down from the enacted estimate of \$17.2 million. The implementation of statewide remote sports betting was on September 4, 2019, and, as a result, the realization of the revenue from this law change will occur in October 2019 through June 2020. It should be noted that, in general, the revenue from a given month's gaming activity is not transferred to general revenues until the following month.