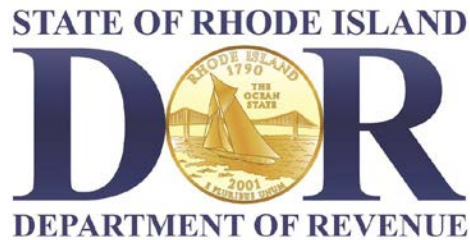


STATE OF RHODE ISLAND
GOVERNOR DANIEL J. MCKEE



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
FY 2022 Monthly and Year-to-Date as of October 2021

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 revenue estimates enacted in the FY 2022 budget, which was signed into law on July 6, 2021. The enacted revenue estimates will remain the basis of comparison for all Revenue Assessment Reports through the October 2021 report. Beginning with the November 2021 Revenue Assessment Report, the basis of comparison will be revenue estimates adopted at the November 2021 REC. For the May 2022 Revenue Assessment Report, the basis of comparison will be revenue estimates adopted at the May 2022 REC. There is no Revenue Assessment Report issued for the month of June. Instead, a Special Report on Preliminary Revenues for FY 2022 will be prepared and issued in September 2022.

FY 2022 STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Year-to-Date Estimate to Actual

	YTD October Adjusted Revenues FY 2022		YTD October Estimate of Enacted FY 2022 Revenues †	Difference	Variance
Personal Income Tax	\$ 505,516,176	a, b	\$ 456,546,504	\$ 48,969,672	10.7%
General Business Taxes					
Business Corporation †	72,051,494	b, c, d	36,314,081	35,737,413	98.4%
Public Utilities Gross Earnings	22,600,010		25,748,362	(3,148,352)	-12.2%
Financial Institutions	18,825,895	d	3,826,687	14,999,207	392.0%
Insurance Company Gross Premiums †	39,031,380		35,964,302	3,067,078	8.5%
Bank Deposits	1,130,603		731,099	399,504	54.6%
Health Care Provider Assessment †	12,443,458		13,384,397	(940,938)	-7.0%
Excise Taxes					
Sales and Use	517,849,173		458,745,061	59,104,112	12.9%
Motor Vehicle License and Reg Fees	413,765		364,707	49,058	13.5%
Cigarettes	53,243,468		54,510,404	(1,266,935)	-2.3%
Alcohol	8,092,040		7,596,860	495,179	6.5%
Controlled Substances	2,000		2,000 +	-	0.0%
Other Taxes					
Estate and Transfer	12,852,742		14,777,335	(1,924,593)	-13.0%
Racing and Athletics	177,941		343,615	(165,674)	-48.2%
Realty Transfer	7,621,104	e, f	6,909,651	711,453	10.3%
Total Taxes	\$ 1,271,851,250		\$ 1,115,765,067	\$ 156,086,183	14.0%
Departmental Receipts †	\$ 62,922,432	g, h	\$ 68,683,513	\$ (5,761,081)	-8.4%
Taxes and Departmentals	\$ 1,334,773,682		\$ 1,184,448,580	\$ 150,325,102	12.7%
Other General Revenue Sources					
Other Miscellaneous Revenues	1,404,074		1,404,074 +	-	0.0%
Lottery Transfer	97,676,576	i	97,044,093	632,483	0.7%
Unclaimed Property	-		- +	-	n/a
Total Other Sources	\$ 99,080,650		\$ 98,448,167	\$ 632,483	0.6%
Total General Revenues	\$ 1,433,854,332		\$ 1,282,896,747	\$ 150,957,585	11.8%

PIT Component	YTD October Adj. Revenues		YTD October Enacted Estimates	Difference	Variance
Estimated payments	\$ 81,327,394		\$ 70,239,256	\$ 11,088,138	15.8%
Final payments †	48,186,834	a	24,569,122	23,617,711	96.1%
Withholding	425,379,134		407,988,701	17,390,433	4.3%
Refunds and Adjustments	(49,377,185)	b	(46,250,575)	(3,126,610)	6.8%
Total	\$ 505,516,176		\$ 456,546,504	\$ 48,969,672	10.7%

† FY 2022 expected revenues are based on estimates enacted in the FY 2022 budget. The estimate for personal income tax final payments, business corporation tax, insurance company gross premiums tax, health care provider assessment, and departmental receipts were 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

FY 2021 STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Year-to-Date Estimate to Actual

- ^a Adds to personal income tax final payments \$13,085,443 in net revenues from pass-through entities made on behalf of shareholders received in FY 2022 year-to-date and recorded as business corporation tax payments. ORA adjusted the pass-through entity payments recorded as personal income tax final payments to be consistent with the treatment of said payments in the estimates included in the FY 2022 enacted budget.
- ^b Includes an adjustment of \$597,000 for net transfers between business corporation tax and personal income tax refunds and adjustments for payment(s) received in prior periods. The offsetting adjustment of \$(597,000) is included in business corporation tax.
- ^c Subtracts \$18,640,758 in business corporation tax payments made by pass-through entities for the personal income tax of shareholders received in FY 2022 year-to-date that were transferred to personal income tax final payments.
- ^d Includes an adjustment of \$525,000 for transfer(s) from business corporation tax to financial institutions tax for payment(s) received in FY 2021. The offsetting transfer of \$(525,000) is included in business corporation tax.
- ^e Subtracts \$598,782 that is designated for transfer to the Housing Resources Commission. The amount reflects the October 2021 transfer that will occur in November 2021.
- ^f Includes \$282,501 in late real estate conveyance tax payment(s) for real estate transactions that occurred in FY 2020 and \$574,257 in late controlling interest realty transfer tax payment(s) received in August 2021 for transactions in FY 2021.
- ^g Subtracts \$151,533,685 of FY 2021 hospital licensing fee payments received in FY 2022 year-to-date and accrued back to FY 2021.
- ^h Includes large, infrequently occurring payment(s) to license and fees state assent application fees account of \$803,750 received in September 2021.
- ⁱ Subtracts \$3,358,186 of revenues that were transferred in October 2021 but accrued back to FY 2021.

FY 2022 STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

	October 2021 Adjusted Revenues FY 2022		October 2021 Estimate of Enacted † FY 2022		Difference	Variance
Personal Income Tax	\$ 105,832,111	a, b	\$ 98,091,162		\$ 7,740,949	7.9%
General Business Taxes						
Business Corporation †	2,417,956	b, c, d	6,092,512		(3,674,556)	-60.3%
Public Utilities Gross Earnings	101,344		(1,061,308)		1,162,652	-109.5%
Financial Institutions	7,661,004	d	4,049		7,656,955	189,104.6%
Insurance Company Gross Premiums †	918,884		805,024		113,860	14.1%
Bank Deposits	67,002		(108)		67,110	-62,283.9%
Health Care Provider Assessment †	3,276,523		3,250,086		26,437	0.8%
Excise Taxes						
Sales and Use	129,337,445		112,082,735		17,254,710	15.4%
Motor Vehicle License and Reg Fees	90,875		90,917		(42)	0.0%
Cigarettes	10,837,284		12,484,555		(1,647,271)	-13.2%
Alcohol	2,223,895		1,722,962		500,933	29.1%
Controlled Substances	2,000		2,000	+	-	0.0%
Other Taxes						
Estate and Transfer	2,851,595		3,537,080		(685,485)	-19.4%
Racing and Athletics	38,122		88,487		(50,365)	-56.9%
Realty Transfer	1,783,071	e	1,771,160		11,911	0.7%
Total Taxes	\$ 267,439,112		\$ 238,961,313		\$ 28,477,799	11.9%
Departmental Receipts †	\$ 22,129,469	f, g	\$ 23,415,551		\$ (1,286,082)	-5.5%
Taxes and Departmentals	\$ 289,568,581		\$ 262,376,864		\$ 27,191,717	10.4%
Other General Revenue Sources						
Other Miscellaneous Revenues	1,178,714		1,178,714	+	-	0.0%
Lottery Transfer	32,001,758	h	31,943,318		58,440	0.2%
Unclaimed Property	-		-	+	-	n/a
Total Other Sources	\$ 33,180,472		\$ 33,122,032		\$ 58,440	0.2%
Total General Revenues	\$ 322,749,053		\$ 295,498,896		\$ 27,250,157	9.2%

PIT Component	October 2021 Adj. Revenues		October 2021 Enacted Estimates		Difference	Variance
Estimated payments	\$ 10,772,956		\$ 7,814,425		\$ 2,958,531	37.9%
Final payments †	17,127,373	a	11,253,412		5,873,960	52.2%
Withholding	101,394,809		99,823,565		1,571,244	1.6%
Refunds and Adjustments	(23,463,026)	b	(20,800,240)		(2,662,787)	12.8%
Total	\$ 105,832,111		\$ 98,091,162		\$ 7,740,949	7.9%

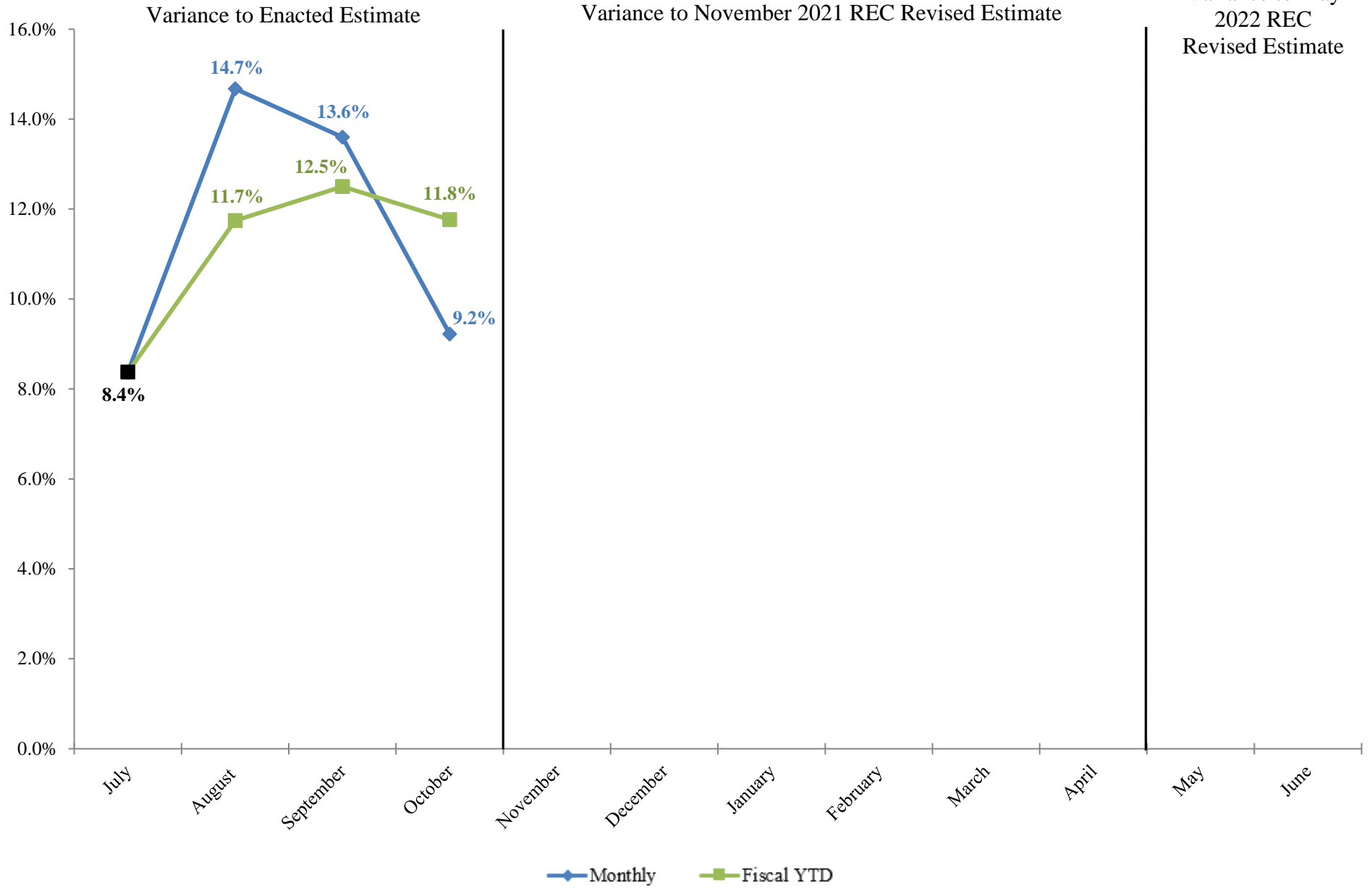
† FY 2022 expected revenues are based on estimates enacted in the FY 2022 budget. The estimate for personal income tax final payments, business corporation tax, insurance company gross premiums tax, health care provider assessment, and departmental receipts were calculated using modified revenue flows to align expected revenues with the actual realization of revenues.

+ Set equal to actual amounts received.

Detailed notes on the following page

- ^a Adds to personal income tax final payments \$1,466,746 in net revenues from pass-through entities made on behalf of shareholders received in October 2021 and recorded as business corporation tax payments. ORA adjusted the pass-through entity payments recorded as personal income tax final payments to be consistent with the treatment of said payments in the estimates included in the FY 2022 enacted budget.
- ^b Includes an adjustment of \$(85,500) for net transfers between business corporation tax and personal income tax refunds and adjustments for payment(s) received in prior periods. The offsetting adjustment of \$85,500 is included in business corporation tax.
- ^c Subtracts \$2,089,441 in business corporation tax payments made by pass-through entities for the personal income tax of shareholders received in October 2021 that were transferred to personal income tax final payments.
- ^d Includes an adjustment of \$6,125,000 for transfer(s) from business corporation tax to financial institutions tax for payment(s) received in prior periods. The offsetting transfer of \$(6,125,000) is included in business corporation tax.
- ^e Subtracts \$11,138 that is designated for transfer to the Housing Resources Commission. The amount reflects the difference between the September 2021 transfer that occurred in October 2021 and the October 2021 transfer that will occur in November 2021.
- ^f Subtracts \$1,004,455 of FY 2021 hospital licensing fee payment(s) received in October 2021 and accrued back to FY 2021.
- ^g Includes an adjustment of \$(219,767) for net transfers between general revenues first response surcharge accounts and E911 restricted receipts accounts for payment(s) received in September 2021.
- ^h Subtracts \$3,358,186 of revenues that were transferred in October 2021 but accrued back to FY 2021.

FY 2022 Variance of Adjusted Revenues to Estimate



Prologue to the Revenue Assessment Report for FY 2022

Beginning with the July 2021 Revenue Assessment Report, the Department of Revenue, Office of Revenue Analysis (ORA) has restructured the report. Section I. of the report contains the results for the fiscal year-to-date and monthly periods. Section II. of the report contains a discussion of ORA's new methodology for determining expected revenues on a fiscal year-to-date and monthly basis. Section III. of the report contains a description and the associated revenue projections of law changes enacted in the 2021 session of the General Assembly that impact general revenues.

It should be noted that as of May 21, 2021, Rhode Island businesses are allowed to operate at full capacity. At this time, there are no restrictions in place due to the COVID-19 pandemic that impact the adjusted or expected revenues in this report.

I. Summary of Results

Results for Enacted FY 2022 Revenues through October

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2022 year-to-date. The Department of Revenue finds that FY 2022 adjusted total general revenues through October exceeded the enacted FY 2022 expected total general revenues estimate through October by \$151 million, a variance of 11.8%. In total taxes, fiscal year-to-date adjusted revenues were more than the enacted FY 2022 year-to-date expected revenues estimate by \$156.1 million, a difference of 14%. For departmental receipts, FY 2022 through October adjusted revenues trailed the enacted FY 2022 expected fiscal year-to-date revenues estimate by \$5.8 million, a variance of -8.4%. For other general revenue sources, adjusted FY 2022 year-to-date revenues were above the enacted FY 2022 expected fiscal year-to-date revenues by \$632,483, a variance of 0.6%.

Five revenue items had adjusted revenues in FY 2022 through October that exceeded the expected FY 2022 enacted revenue estimates by more than \$1 million.

- FY 2022 year-to-date sales and use tax adjusted revenues were \$59.1 million more than expected fiscal year-to-date sales and use tax revenues based on the enacted estimate, a difference of 12.9%.
- Personal income tax adjusted revenues in year-to-date FY 2022 were \$49 million more than expected FY 2022 through October personal income tax revenues, a variance of 10.7%.
 - Adjusted FY 2022 year-to-date personal income tax final payments revenues were \$23.6 million, or 96.1%, more than expected FY 2022 year-to-date personal income tax final payments revenues.
 - Adjusted FY 2022 personal income tax final payments revenues through October include \$351,720 of reimbursed Historic Structures Tax Credits (HSTCs) versus an unknown amount of HSTC redemptions included in enacted FY 2022 personal income tax final payments.
 - Adjusted fiscal year-to-date personal income tax final payments revenues also include \$13.1 million of personal income tax payments

received from pass-through entities that were made on behalf of shareholders compared to an expected amount of \$8.7 million.

- Adjusted fiscal year-to-date personal income tax withholding payments revenues were \$17.4 million more than the \$408 million of expected FY 2022 year-to-date personal income tax withholding payments, a variance of 4.3%.
 - Personal income tax withholding tax revenues in fiscal year-to-date 2022 include, to the extent recipients opted to withhold personal income tax, the Federal Emergency Management Agency's \$300 Lost Wages Supplemental Payment Assistance payments made to unemployment recipients in FY 2022 year-to-date for unemployment through September 6, 2021.
- Adjusted fiscal year-to-date personal income tax estimated payments revenues were \$11.1 million more than expected year-to-date FY 2022 personal income tax estimated payments, a variance of 15.8%.
- Adjusted FY 2022 personal income tax refunds and adjustments revenues through October were \$3.1 million, or 6.8%, more than expected personal income tax refunds and adjustments for FY 2022 year-to-date.
- Adjusted fiscal year-to-date revenues from business corporation tax were up \$35.7 million, or 98.4%, over expected business corporation tax enacted revenues for FY 2022 year-to-date.
- Financial institutions tax adjusted revenues for FY 2022 year-to-date were greater than the expected fiscal year-to-date financial institutions tax enacted revenues by \$15 million, a difference of 392%.
- Adjusted FY 2022 year-to-date insurance company gross premiums tax revenues were \$3.1 million more than expected fiscal year-to-date insurance company gross premiums tax enacted revenues, a difference of 8.5%.
 - The fiscal year-to-date gross premiums tax revenues from property, casualty, and life insurance companies were \$3.6 million more than expected for FY 2022 through October.
 - The fiscal year-to-date revenues from health insurers were \$571,028 less than expected.

FY 2022 adjusted revenues through October for realty transfer tax, the lottery transfer, alcohol excise tax, bank deposits tax, and motor vehicle license and registration fees were above the expected FY 2022 year-to-date enacted revenue estimates but by less than \$1.0 million each.

On the negative side, four revenue items had adjusted revenues through October that fell short of the expected FY 2022 enacted revenue estimates by \$1 million or more.

- Departmental receipts adjusted revenues in year-to-date FY 2022 were \$5.8 million less than FY 2022 through October departmental receipts expected revenues, a variance of -8.4%.

- Adjusted revenues from public utilities gross earnings tax for FY 2022 through October were \$3.1 million less than expected revenues based on the enacted budget, a variance of -12.2%.
- Estate and transfer tax adjusted revenues were down by \$1.9 million, or 13%, in year-to-date FY 2022 compared to expected year-to-date estate and transfer tax revenues.
- Cigarette and other tobacco products (OTP) excise tax adjusted revenues were \$1.3 million less than expected year-to-date cigarette and OTP taxes revenues, a variance of -2.3%.
 - FY 2022 through October cigarette excise tax adjusted revenues were \$791,581 less than expected revenues for the same period.
 - FY 2022 through October OTP excise tax adjusted revenues were \$480,326 less than expected.

FY 2022 adjusted revenues through October for the health care provider assessment and racing and athletics tax were below their expected FY 2022 year-to-date enacted revenue estimates by less than \$1 million each.

Results for Month of October

The table, *Monthly Estimate to Actual*, gives the results for October 2021. The Department of Revenue finds that October adjusted total general revenues exceeded the enacted FY 2022 expected total general revenues estimate for October by \$27.3 million, a variance of 9.2%. In total taxes, October adjusted revenues were more than the enacted FY 2022 expected revenues estimate for October by \$28.5 million, a difference of 11.9%. For departmental receipts, October adjusted revenues trailed the enacted FY 2022 expected monthly revenues estimate by \$1.3 million, a variance of -5.5%. For other general revenue sources, adjusted October revenues were above the expected October enacted revenues by \$58,440, a variance of 0.2%.

Four revenue items had adjusted revenues in October that exceeded the FY 2022 expected monthly enacted revenue estimates by more than \$1 million.

- October sales and use tax adjusted revenues were \$17.3 million more than expected monthly sales and use tax revenues based on the enacted estimate, a difference of 15.4%.
- Personal income tax adjusted revenues in October were \$7.7 million more than expected monthly personal income tax revenues, a variance of 7.9%.
 - October adjusted personal income tax final payments revenues were \$5.9 million, or 52.2%, more than expected monthly personal income tax final payments revenues.
 - October adjusted personal income tax final payments revenues include \$1.5 million of personal income tax payments received from pass-through entities that were made on behalf of shareholders compared to an expected \$359,289.
 - October adjusted personal income tax final payments revenues include \$195,459 of reimbursed Historic Structures Tax Credits (HSTCs).

- Adjusted October personal income tax estimated payments revenues were \$3 million more than expected October personal income tax estimated payments, a variance of 37.9%.
- Adjusted October personal income tax withholding payments revenues were \$1.6 million more than the \$99.8 million of expected October personal income tax withholding payments, a variance of 1.6%.
- October adjusted personal income tax refunds and adjustments revenues were \$2.7 million more than expected monthly personal income tax refunds and adjustments revenues, a difference of 12.8%.
- October financial institutions tax adjusted revenues were \$7.7 million more than expected monthly financial institution tax revenues based on the enacted estimate, a difference of 189,104.6%.
 - October financial institutions tax adjusted revenues include an adjustment of \$6.1 million for transfer(s) from business corporation tax to financial institutions tax for payment(s) received in prior periods.
- Public utilities gross earnings tax revenues for October were more than the expected monthly revenue estimate by \$1.2 million, a difference of 109.5%.

October 2021 adjusted revenues for alcohol excise tax, insurance company gross premiums tax, bank deposits tax, the lottery transfer, health care provider assessment, and the realty transfer tax were above the expected October enacted revenue estimates by less than \$1 million each.

On the negative side, three revenue items had adjusted revenues for October that fell short of the expected monthly revenue estimates based on the revenue estimates enacted in the FY 2022 budget by \$1 million or more.

- Adjusted October revenues from business corporation tax were down \$3.7 million, or 60.3%, from expected business corporation tax enacted revenues for October.
 - October business corporation tax adjusted revenues include an adjustment of \$(6.1 million) for transfer(s) from business corporation tax to financial institutions tax for payment(s) received in prior periods.
- October cigarette and other tobacco products (OTP) taxes adjusted revenues were \$1.6 million less than the expected monthly revenue estimate, a difference of -13.2%.
 - October cigarette excise tax adjusted revenues were \$1.6 million less than expected revenues for the same period.
 - October OTP excise tax adjusted revenues were \$68,702 less than expected.
- Adjusted October revenues from departmental receipts were down \$1.3 million, or 5.5%, from expected departmental receipts enacted revenues for October.

October adjusted revenues for estate and transfer tax, racing and athletics tax, and motor vehicle license and registration fees were below their expected October enacted revenue estimates by less than \$1 million each.

A handwritten signature in black ink that reads "Guillermo Tello". The signature is written in a cursive style with a large, sweeping initial 'G' and a distinct 'T' at the end.

Guillermo L. Tello, Director
Department of Revenue
November 16, 2021

II. Methodology Used to Estimate Expected Monthly and Year-to-Date FY 2022 Revenues

To determine the expected monthly and fiscal year-to-date revenues for the fiscal year, ORA first calculated, for each revenue item and fiscal year, the percentage of total fiscal year revenues that each month in the fiscal year comprised. ORA then took the historical revenue data and used different weighting methods to calculate moving averages to find the method that preformed the “best” in predicting the monthly distribution of the historical data. The best method was determined by calculating the standard error for each weighting method.¹ The weighting method that minimized the standard error for the revenue stream was selected. By undertaking this analysis, ORA was able to choose the weighting methodology that most accurately distributes total revenue over the months using history as a guide.

The methods tested included, but were not limited to:²

- A three-year moving average of the monthly share of total revenue, in which each year is weighted equally (i.e., 33⅓% per year).
- A five-year moving average of the monthly share of total revenue, in which each year is weighted equally (i.e., 20% per year).
- A five-year moving average of the monthly share of total revenue, in which each year is weighted using an exponentially decreasing order, with the most recent year (α) weighted at 50%, followed by 25% for the second most recent year, 12.5% for the third most recent year, and 6.25% each for the fourth and fifth most recent years.
- Lastly, a five-year moving average of the monthly share of total revenue, in which the Microsoft Excel Solver add-in program was used to determine alpha (α), which is the weight for the most recent year. The calculation of alpha by Excel Solver was subject to the following constraints: Minimize the sum of squared errors; the value of α must be greater than zero and less than one; and the weight of each year must be lower than the previous year’s weight. The weights of the subsequent years were calculated according to the following equations:
 - The weight of the second year = $\alpha(1-\alpha)$;
 - The weight of the third year = $\alpha(1-\alpha)^2$;
 - The weight of the fourth year = $\alpha(1-\alpha)^3$; and
 - The weight of the fifth year = $1-(\alpha + \alpha(1-\alpha) + \alpha(1-\alpha)^2 + \alpha(1-\alpha)^3)$.

¹ The standard error was measured as the root mean squared error (RMSE) of the weighting method divided by the average revenue value across all months of history. This statistic measures the average “miss” for each monthly prediction.

² A ten-year moving average, in which each year is weighted equally, was also tested for the estate and transfer tax.

A table depicting the weights used in each method tested is below:

Fiscal Year	3-year Moving Average, Equal Weights	5-year Moving Average, Equal Weights	10-year Moving Average, Equal Weights	5-year Moving Average, Exponentially Declining Weights Starting with $\alpha=50\%$	Solver Determined α, Exponentially Declining Weights
2021	33 $\frac{1}{3}$ %	20%	10%	50%	α
2020	33 $\frac{1}{3}$ %	20%	10%	25%	$\alpha(1-\alpha)$
2019	33 $\frac{1}{3}$ %	20%	10%	12.5%	$\alpha(1-\alpha)^2$
2018	n/a	20%	10%	6.25%	$\alpha(1-\alpha)^3$
2017	n/a	20%	10%	6.25%	1-sum of others
2016	n/a	n/a	10%	n/a	n/a
2015	n/a	n/a	10%	n/a	n/a
2014	n/a	n/a	10%	n/a	n/a
2013	n/a	n/a	10%	n/a	n/a
2012	n/a	n/a	10%	n/a	n/a

After testing, the best fit models for each revenue item were determined as follows:

Best Fit Model	Revenue Items
3-Year Moving Average Equal Weight	Sales and Use Tax
5-Year Moving Average Equal Weight	<u>Personal Income Tax</u> Estimated Payments; Final Payments Financial Institutions Tax Health Care Provider Assessment Motor Vehicle License Fees Cigarette Excise Tax Racing and Athletics Tax Lottery Transfer
5-Year Moving Average Exponentially Declining Weights ($\alpha = 50\%$)	<u>Personal Income Tax</u> Withholding Payments; Refunds and Adjustments Bank Deposits Tax Other Tobacco Products Excise Tax Alcohol Excise Tax Realty Transfer Tax Departmental Receipts
5-Year Moving Average Exponentially Declining Weights (α determined by Excel Solver)	Business Corporation Tax Public Utilities Gross Earnings Tax Insurance Company Gross Premiums Taxes
10-Year Moving Average Equal Weight	Estate and Transfer Tax

ORA then applied the weights associated with the best fit model for each revenue item to the percentage of adjusted revenues that occurred in a given month over the previous five fiscal years, except for estate and transfer taxes for which the previous ten fiscal years were used.³ The results were added to obtain a single monthly percentage of expected revenue. These percentages were then applied to the enacted FY 2022 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages were summed and then applied to the enacted FY 2022 revenue estimate for each revenue item.

For FY 2022 monthly and fiscal year-to-date expected personal income tax final payment revenues, the expected revenues were determined using the above methodology for all revenues except for the pass-through entity payments. ORA then added the estimated net pass-through entity payments to realized personal income tax final payments to yield adjusted personal income tax final payments revenues. The adjusted personal income tax final payments are then compared to the enacted FY 2022 personal income tax final payments expected revenues, which include estimated pass-through entity payments.

Table A provides the average percentages used to determine expected monthly and fiscal year-to-date revenues for October. Monthly and fiscal year-to-date average percentages were determined as noted above.

Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	Oct.	YTD		Oct.	YTD
Personal Income Taxes			Sales and Use Taxes	8.6 %	35.1 %
Estimated Payments	3.0 %	27.2 %	Motor Vehicles Fees	9.1 %	36.5 %
Final Payments	3.7 %	10.5 %	Cigarettes Taxes	8.0 %	34.9 %
Withholding Payments	7.4 %	30.2 %	Alcohol Excise Taxes	7.7 %	33.9 %
Refunds/Adjustments	5.2 %	11.7 %	Estate and Transfer	8.5 %	35.4 %
Business Corporation Taxes	3.4 %	20.3 %	Racing and Athletics	8.8 %	34.4 %
Utilities Gross Earnings Taxes	-1.1 %	25.5 %	Realty Transfer	9.4 %	36.8 %
Financial Institutions Taxes	0.0 %	14.2 %	Departmental Receipts	9.3 %	27.2 %
Insurance Co. Gross Premiums	0.6 %	26.1 %	Lottery Transfer	8.5 %	25.7 %
Bank Deposits	0.0 %	20.9 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.4 %	34.5 %	Unclaimed Property	0.0 %	0.0 %

The health care provider assessment consists of an assessment on nursing homes. Motor vehicle license and registration 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

³ The previous five fiscal years are FY 2017 through FY 2021, and the previous ten fiscal years are FY 2012 through FY 2021.

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. The lottery transfer does not begin in a given fiscal year until August, and fiscal year-to-date percentages reflect gaming activity from July through the prior month, while monthly percentages reflect the prior month’s gaming activity. The unclaimed property transfer occurs only in June of each fiscal year.

The FY 2022 estimates by revenue item as enacted by the General Assembly and signed into law by Governor McKee are as follows:

Table B. FY 2022 Enacted Revenue Estimates by Major Revenue Item			
Revenue Item	Enacted FY 2022 Estimate	Revenue Item	Enacted FY 2022 Estimate
Personal Income Taxes		Sales and Use Taxes	\$ 1,305,200,000
Estimated Payments	\$ 258,000,000	Motor Vehicles Fees	1,000,000
Final Payments ^a	318,065,915	Cigarettes Taxes	156,000,000
Withholding Payments	1,349,500,000	Alcohol Excise Taxes	22,400,000
Refunds/Adjustments	(397,000,000)	Estate and Transfer	45,000,000
Business Corporation Taxes ^b	179,009,821	Racing and Athletics	1,000,000
Public Utilities Gross Earnings	101,000,000	Realty Transfer	18,769,806
Financial Institutions Taxes	26,900,000	Departmental Receipts ^e	422,313,579
Insurance Co. Gross Premiums ^c	138,010,715	Lottery	375,860,000
Bank Deposits	3,500,000	Other Misc. Revenues	12,377,299
Health Care Provider Assessment ^d	38,829,212	Unclaimed Property	14,200,000
		Total General Revenues *	\$ 4,410,736,347
* Total general revenues estimate includes a personal income tax net accrual of \$20,800,000.			

Additional Footnotes to Table B:

^a Personal income tax final payments enacted revenue estimate includes \$70.9 million of estimated net pass-through entity payments. Personal income tax final payments were modified by adding in the net estimated pass-through entity payments as allocated by the percentage received in each month in FY 2021 separately from the estimated revenues from all other personal income tax final payments.

Final payments also include \$14,368,622 for the impact of taxing Paycheck Protection Program (PPP) loans greater than \$250,000 that were or will be forgiven in TY 2021. Also included is the revenue impact from exempting refunds from the Wavemaker Fellowship Program from state personal income tax. The revenue impacts from PPP loan forgiveness and the Wavemaker exemption are expected to be realized during the months of January through June 2022.

ORA will assess adjusted July through December personal income tax final payments revenue flows less pass-through entity payments against “base” personal income tax final payments revenues of \$232,800,000. ORA will assess adjusted January through June personal income tax final payments

revenue flows less pass-through entity payments against “base” personal income tax final payments revenues of \$247,165,915.

- ^b Business corporation tax revenue estimate includes \$31,809,821 for the impact of taxing Paycheck Protection Program (PPP) loans greater than \$250,000 that were or will be forgiven in TY 2021, which is expected to impact revenues in December through June.

ORA will assess adjusted July through November business corporation tax revenue flows against “base” business corporation tax revenues of \$147,200,000 and December through June business corporation revenue flows against “base” business corporation tax revenues of \$179,009,821.

- ^c Insurance company gross premiums tax revenue estimate includes \$3,769 from the impact of nursing home minimum staffing initiative, which is expected to impact revenues in October through June. Additionally, the revenue impact of \$97,386 from an initiative to offer improved long-term care options via the Medicaid Long-Term Services and Supports (LTSS) system and \$9,560 from an initiative to offer perinatal doula services through Medicaid are expected to be realized in FY 2022 in accordance with the general flow of revenues for insurance company gross premiums tax.

ORA will assess adjusted July through September insurance company gross premiums tax revenue flows against “base” insurance company gross premiums tax revenues of \$138,006,946 and December through June insurance company gross premiums tax revenue flows against “base” insurance company gross premiums tax revenues of \$138,010,715.

- ^d Health care provider assessment revenue estimate includes \$72,552 from the impact of nursing home minimum staffing initiative and \$53,194 from a community health workers investment initiative, which are expected to impact revenues in October through June. Additionally, the revenue impact of \$(196,534) from an initiative to offer improved long-term care options via the Medicaid Long-Term Services and Supports (LTSS) system is expected to be realized in FY 2022 in accordance with the general flow of revenues for the health care provider assessment.

ORA will assess adjusted July through September health care provider assessment revenue flows against “base” health care provider assessment revenues of \$38,703,466 and December through June health care provider assessment revenue flows against “base” health care provider assessment revenues of \$38,829,212.

- ^e Departmental receipts revenues estimate includes hospital licensing fee revenues of \$170,246,830. These revenues will be booked as a receivable in June. Also included in the departmental receipts revenue estimate is \$2,715,925 from the increase in the sales representative license fee for broker dealers, \$946,892 from the increase in the pesticide registration fee, \$366,300 from the imposition of a new licensing fee on marine shellfish processors, \$90,000 from the expansion of eligibility for engineer licensing, and \$(3,440,000) from the delay in motor vehicle license plate reissuance. These enacted changes are expected to impact revenues during the period of July 2021 through June 2022.

A restructuring of work release fees is expected to increase departmental receipts revenues by \$18,880 during the months of August 2021 through June 2022. An increase in Misquamicut beach fees is expected to have a revenue impact of \$595,372 during the months of August through September 2021 and June 2022. Additionally, there is an estimated revenue impact of \$100,000 from the transfer of CDL road test fees to the Division of Motor Vehicles and \$(341,620) from the elimination of sales tax permit fees. Both items are expected to impact departmental receipts revenues during the months of January through June 2022. Finally, the increase in Coastal Resources Management Council fines revenue impact of \$15,000 is expected to impact revenues during the months of March through June 2022.

ORA will assess adjusted July departmental receipts revenue flows against “base” departmental receipts revenues of \$251,679,117, August through September departmental receipts revenue flows against “base” departmental receipts revenues of \$252,293,369, October through December departmental receipts revenue flows against “base” departmental receipts revenues of \$251,697,997, January through February

departmental receipts revenue flows against “base” departmental receipts revenues of \$251,456,377, March through May departmental receipts revenue flows against “base” departmental receipts revenues of \$251,471,377, and June departmental receipts revenue flows against “base” departmental receipts revenues of \$252,066,749.

III. Law Changes Enacted in the 2021 Session That Impact General Revenues

In the 2021 session, 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 not considered to be general revenues to general revenues and (2) changes that impact FY 2022 general revenues that will be realized through monthly revenue flows. The 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 below.

Revenue Changes That Reclassify General Revenues

Departmental Receipts

The 2021 General Assembly approved of the transfer of the Commercial Driver’s License (CDL) road test program from the Community College of Rhode Island (CCRI) to the Department of Revenue, Division of Motor Vehicles (DMV). This transfer takes effect on January 1, 2022 and reclassifies restricted receipts revenues from when CCRI administered the program to general revenues when DMV administers the program. The projected revenue impact of \$100,000 is expected to occur evenly in the period of January 2022 through June 2022.

Revenue Changes That Will Be Realized Through Monthly Revenue Flows

Personal Income Tax Final Payments

The 2021 General Assembly enacted legislation adding a new modification increasing a taxpayer’s federal adjusted gross income (AGI) for the calculation of the Rhode Island personal income tax. This modification adds to federal AGI any amount of Paycheck Protection Program (PPP) loan forgiveness greater than \$250,000 received in TY 2021. For FY 2022, the impact of this change is projected to be \$14,368,622.

Additionally, there is an estimated revenue impact of \$(2,707) from the exemption from Rhode Island personal income tax of any refunds issued under the Stay Invested in RI Wavemaker Fellowship tax credit program.⁴ This change is applicable to tax years beginning on or after January 1, 2021.

The revenue impacts from these two legislative changes are expected to be realized in the period from January 2022 through June 2022, but primarily in the months of March and April.

⁴ For details on the Stay Invested in RI Wavemaker Fellowship see R.I. Gen. Laws Chapter 42-64.26.

Business Corporation Tax

The 2021 General Assembly passed legislation adding to the amount of net income for the purposes of calculating the business corporation tax any amount of PPP loan forgiveness greater than \$250,000 received in TY 2021. For FY 2022, the impact of this change is projected to be \$31,809,821. The revenue impacts from this legislative change is expected to be realized in the period from December 2021 through June 2022.

Insurance Company Gross Premiums Tax

The 2021 General Assembly enacted initiatives that will impact the monthly revenue flows for insurance company gross premiums tax for health insurers. An initiative to offer improved long-term care options via the Medicaid Long-Term Services and Supports (LTSS) system is expected to increase insurance company gross premiums tax revenues by \$97,386. This initiative includes the Governor's recommended changes to expand home and community-based services to delay entry into a nursing home. It includes rate increases for assisted living and shared living services, specialized residential placements, and home care services. This initiative has an effective date of July 1, 2021 and the increased revenues from it are expected to be realized in accordance with the monthly flow of all other insurance company gross premiums taxes paid by health insurers.

Additionally, an initiative to offer perinatal doula services through Medicaid is expected to increase insurance company gross premiums tax revenues by \$9,560. This initiative is also effective July 1, 2021 and the revenues generated by the initiative are expected to be realized in accordance with the monthly flow of revenues of all other insurance company gross premiums taxes paid by health insurers.

Effective October 1, 2021 is the imposition of a nursing home minimum staffing requirement, which has an expected revenue increase of \$3,769 in insurance company gross premiums tax paid by health insurers. The projected revenue increase from this proposal is expected to be realized in the period of October 2021 through June 2021 in accordance with the monthly flow of revenues of all other insurance company gross premiums taxes paid by health insurers during this period.

Health Care Provider Assessment

The LTSS system initiative noted under insurance company gross premiums tax is projected to decrease health care provider assessment revenues by \$196,534. The initiative has an effective date of July 1, 2021 and the decreased revenues are expected to be realized in accordance with the monthly flow of health care provider assessment revenues.

The nursing home minimum staffing requirement noted under the insurance company gross premiums tax is projected to increase health care provider assessment revenues by \$72,552. This requirement takes effect on October 1, 2021 and the revenue impact from this initiative is expected to be realized in the October 2021 through June 2022 period in the same manner as all other health care provider assessment revenues.

The 2021 General Assembly also enacted the authorization for Medicaid reimbursement for services provided by community health workers. This initiative is projected to increase health care

provider assessment revenues by \$53,194. The authorization for this reimbursement is effective October 1, 2021 and the revenue impact is expected to be realized in the period of October 2021 through June 2021 in accordance with the receipts of all other health care provider assessment revenues.

Realty Transfer Tax

Legislation was enacted in the 2021 session that created an affordable housing development exemption from the realty transfer tax for real estate transactions or transfers of acquired real estate companies that were either financed by federal low income housing tax credits or were completed by non-profit entities or entities owned by a non-profit entity exempt from tax under § 501(c)(3) of the Internal Revenue Code provided that the development falls under a qualifying affordable housing program. Realty transfer tax revenues are projected to be reduced under this initiative by \$30,194. The legislative change is effective July 1, 2021, and the revenue impact is expected to be realized in accordance with the monthly flow of all other realty transfer tax revenues.

It should be noted that the 2021 General Assembly passed legislation that imposes an additional \$2.30 tax for each \$500 value, or fractional part thereof, above \$800,000 that is paid for the purchase of property or the interest in an acquired real estate company. The amount of additional realty transfer tax collected from this surcharge will be deposited in the Housing Production Fund, a restricted receipt account. Thus, there is no impact on general revenues from this legislative change.

Departmental Receipts

Technical changes to the credentialing and licensure requirements for professional engineers and the creation of an engineering technologists license were enacted in the 2021 session. These changes are projected to increase departmental receipts by \$90,000 in FY 2022.

Also, during the 2021 session, legislation was enacted to increase the pesticide registration fee by \$100 and the commercial fertilizer registration fee by \$28, both as of July 1, 2021. The anticipated revenue increase from these two registration fee increases is \$946,892.

Additionally, a new license fee will be imposed on marine shellfish processors, with an effective date of July 1, 2021. This new license is projected to increase departmental receipts revenues by \$366,300.

The 2021 General Assembly enacted legislation that delays the reissuance of the state's standard motor vehicle license plate (the "Wave" plate) until July 1, 2022. The estimated revenue impact of this delay in motor vehicle plate reissuance is \$(3,440,000). The revenue impacts from each of the above departmental receipts legislative changes are expected to be realized during the period of July 2021 through June 2022 in the same manner as the already existing fees in the case of an increase in existing fees or in accordance with the flow of aggregate departmental receipts revenues in the case of new initiatives.

The 2021 General Assembly approved the Governor's proposal to increase the sales representative license fee for broker dealers from \$75 to \$100, effective July 1, 2021. This fee increase is projected to increase departmental receipts revenues by \$2,715,925 in FY 2022. This fee increase is expected to be realized in July 2021 through June 2022 but primarily in the month of January 2022 as is typical for this license fee.

Additionally, during the 2021 session the General Assembly approved the Governor's proposal to restructure the work release fees for participation in the work release program for incarcerated individuals, effective July 1, 2021. This enacted change is projected to increase departmental receipts by \$18,880 in the period between August 2021 and June 2022.

The 2021 General Assembly also approved the Governor's proposal to increase beach fees at Misquamicut State Beach, effective July 1, 2021. The projected revenue impact of \$595,372 is anticipated to be realized in the months of August and September 2021 and June 2022.

Effective July 1, 2021, the maximum fines and penalties that can be assessed by the Coastal Resources Management Council (CRMC) increased from \$2,500 to \$10,000. The revenue impact from this change of \$15,000 is expected to be realized in the months of March 2022 through June 2022.

Finally, the 2021 General Assembly approved the Governor's proposal to eliminate the \$10 administrative fee for the issuance of sales tax permits by the Department of Revenue. The elimination of this fee is effective as of January 1, 2022. The projected decrease in departmental receipts revenues of \$341,620 is anticipated to be realized in January 2022 through June 2022.