

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS



DEPARTMENT OF REVENUE

State of Rhode Island Revenue Assessment Report FY 2012 Monthly and Fiscal Year-to-Date December 2011

The monthly revenue assessment report compares revenue collections on a fiscal year-to-date basis to the Office of Revenue Analysis' fiscal year-to-date estimate of revenue collections based on the current fiscal year revenue estimate. It should be noted that the fiscal year revenue estimate will vary over the course of the fiscal year as the Revenue Estimating Conference (see RI General Law § 35-16-1) convenes and modifies the revenue estimates originally enacted by the General Assembly.

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

Estimates of Revised FY 2012 Revenues Adopted at the November 2011 REC

In order to determine the expected monthly and fiscal year-to-date revenue collections based on the estimates adopted at the November 2011 Revenue Estimating Conference (REC), the Office of Revenue Analysis first determines the average percentage of total adjusted cash collections that occurred in a given month over the past five fiscal years. For inheritance and gift taxes the past ten fiscal years are used. For monthly estimates, these percentages are applied to the November 2011 REC revised FY 2012 estimate for each revenue item. For fiscal year-to-date estimates, the monthly percentages are summed and then applied to the November 2011 REC revised FY 2012 estimate for each revenue item. In the case of other miscellaneous revenues,

the actual year-to-date collections are used in place of an estimate due to the discrete and unpredictable nature of the timing of these receipts.

Thus, for example, the November 2011 REC revised revenue estimate for the health care provider assessment for FY 2012 is \$41.8 million. The average percentage of adjusted cash total health care provider assessments that were collected through December of the fiscal year over the past five fiscal years is approximately 49.4 percent. For the month of December, the relevant percentage is 8.6 percent. These percentages are applied to the revised FY 2012 estimate for the health care provider assessment adopted at the November 2011 Revenue Estimating Conference to yield the monthly and fiscal-year-to-date November estimates of \$3.6 million and \$20.6 million respectively. This process is repeated for all November 2011 REC revised FY 2012 revenue estimates except other miscellaneous revenues and the unclaimed property transfer.

The table below provides the rounded five year or ten year average percentages for monthly and fiscal year-to-date collections for December:

| Revenue Item | <u>Percent Collected</u> | | Revenue Item | <u>Percent Collected</u> | |
|--------------------------------|---------------------------------|------------|------------------------|---------------------------------|------------|
| | Month | YTD | | Month | YTD |
| Personal Income Tax | | | Motor Vehicles Fees | 2.6 % | 35.8 % |
| Estimated Payments | 12.4 % | 40.2 % | Motor Carrier Fuel Use | 3.9 % | 40.0 % |
| Final Payments | 1.5 % | 13.8 % | Cigarettes Tax | 8.8 % | 52.5 % |
| Withholding Payments | 9.7 % | 48.5 % | Alcohol Excise Tax | 8.9 % | 52.0 % |
| Refunds & Adjustments | 3.0 % | 17.6 % | Inheritance & Gift Tax | 7.2 % | 52.7 % |
| Business Corporations Tax | 6.9 % | 16.5 % | Racing & Athletics Tax | 6.9 % | 48.7 % |
| Utilities Gross Earnings Tax | 0.1 % | 1.7 % | Realty Transfer Tax | 8.4 % | 55.9 % |
| Financial Institutions Tax | 9.1 % | 32.5 % | Departmental Receipts | 6.2 % | 40.8 % |
| Insurance Gross Premiums Tax | 0.3 % | 0.6 % | Lottery Transfer | 7.6 % | 40.8 % |
| Bank Deposits Tax | -1.5 % | 4.3 % | Other Misc. Revenues | n/a | n/a |
| Health Care Provider Assmnt. | 8.6 % | 49.4 % | Unclaimed Property | 0.0 % | 0.0 % |
| Sales and Use Tax ¹ | 7.8 % | 52.1 % | | | |

¹ Percentages are a weighted average of the standard monthly and fiscal year-to-date percentages for base sales and use tax adjusted cash collections and monthly and fiscal year-to-date percentages calculated by the Office of Revenue Analysis for sales and use tax revenues generated by the expansion of the State's sales and use tax base that went into effect on October 1, 2011. See below for a more detailed discussion of this methodology.

It should be noted that the health care provider assessment consists only of an assessment on nursing homes. Racing and athletics taxes consist of a tax on simulcast wagering. In addition, the "Percent of Total Collected through Fiscal YTD" for departmental receipts is calculated

excluding hospital licensing fee revenues, which are large, generally made only once in the fiscal year, and not always at the same time each fiscal year. Finally, the lottery transfer does not begin in a given fiscal year until August while the unclaimed property transfer occurs in June of each fiscal year.

The revised FY 2012 revenue estimates adopted at the November 2011 Revenue Estimating Conference by revenue item are as follows:

| Revenue Item | Revised FY 2012 Estimate | Revenue Item | Revised FY 2012 Estimate |
|---------------------------------|---------------------------------|-------------------------------|---------------------------------|
| Personal Income Tax | | Motor Vehicles | \$48,200,000 |
| Estimated Payments | \$ 187,000,000 | Motor Carrier Fuel | 1,100,000 |
| Final Payments | 175,000,000 | Cigarettes | 131,500,000 |
| Withholding Payments | 945,500,000 | Alcohol | 11,800,000 |
| Refunds Paid | (269,600,000) | Inheritance & Gift | 34,000,000 |
| Business Corporations Taxes | 112,600,000 | Racing & Athletics | 1,200,000 |
| Public Utilities Gross Earnings | 99,400,000 | Realty Transfer | 6,100,000 |
| Financial Institutions Taxes | 1,000,000 | Departmental Rcpts. | 340,500,000 |
| Insurance Co. Gross Premiums | 99,500,000 | Lottery | 367,200,000 |
| Bank Deposits | 2,000,000 | Other Misc. Revs | 11,015,000 |
| Health Care Provider Assessment | 41,800,000 | Unclaimed Property | 7,800,000 |
| Sales and Use Tax ¹ | 845,100,000 | | |
| | | Total General Revenues | \$3,195,415,000 |

¹ The Office of Revenue Analysis determines that the revised FY 2012 sales and use tax estimate adopted at the November 2011 Revenue Estimating Conference is comprised of \$829.1 million of “base” sales and use tax revenues and \$16.0 million of “additional” sales and use tax revenues that are the result of the sales and use tax base expansion that went into effect on October 1, 2011.

As noted above, the estimate adopted at the November 2011 Revenue Estimating Conference (REC) for sales and use taxes is \$845.1 million. The Office of Revenue Analysis has determined that this figure is comprised of \$829.1 million of “base” sales and use tax revenues and \$16.0 million of “additional” sales and use tax revenues generated by the expansion of the State’s sales and use tax base effective October 1, 2011. (Sales and use taxes collected in October 2011 are not remitted to the Division of Taxation until November.) Beginning in November, the Office of Revenue Analysis altered the methodology for estimating FY 2012 expected revised sales and use tax revenues to account for this change in the sales and use tax base.

In particular, the standard methodology for estimating expected FY 2012 revised sales and use tax revenues was used to determine the monthly and fiscal year-to-date expected FY 2012

revised “base” sales and use tax revenues. That is, average percentages based on the ratio of monthly adjusted cash collections to total fiscal year adjusted cash collections for July through June for the past five fiscal years were calculated. These percentages, 7.8 percent for the month of December and 52.0 percent for the fiscal year-to-date period through December, were applied to the \$829.1 million of estimated “base” sales and use tax expected FY 2012 revised revenues to arrive at monthly and fiscal year-to date estimates of \$64.3 million and \$430.8 million respectively.

Once these “base” expected sales and use tax revenues were determined, the “additional” sales and use tax expected FY 2012 revised revenues due to the expansion of the State’s sales and use tax base were estimated. In this case, average percentages based on the ratio of monthly adjusted cash collections to total adjusted cash collections for November through June for the past five fiscal years were calculated. These percentages, 12.1 percent on a monthly and 24.9 percent on a partial fiscal year-to-date basis for December, were applied to the \$16.0 million of estimated “additional” sales and use tax expected FY 2012 revised revenues to arrive at month of December and partial fiscal year-to-date through December estimates of \$1.9 million and \$4.0 million respectively.

The estimates of expected FY 2012 revised “base” sales and use tax revenues and expected FY 2012 revised “additional” sales and use tax revenues were then summed to arrive at total expected FY 2012 revised sales and use tax revenues. These are the values that are displayed in the Year-to-Date Estimate to Actual and Monthly Estimate to Actual tables that accompany this report.

Results for Year-to-Date FY 2012 through December 2011

The table Year-to-Date Estimate to Actual gives the results for the first half of FY 2012. As is apparent from the table, the Department of Revenue finds that FY 2012 year-to-date through December 2011 adjusted cash collections for total general revenues exceed expected FY 2012 revised revenue collections based on the estimates adopted at the November 2011 Revenue Estimating Conference by \$44.5 million, or 3.3 percent. In total taxes, the variance from the November 2011 REC expected FY 2012 revised revenues is \$40.0 million, or 3.6 percent. For departmental receipts, the difference from the November 2011 REC expected FY 2012 revised revenues is \$2.6 million or 3.3 percent. For other general revenue sources, FY 2012 year-to-date adjusted cash collections through December differ from the November 2011 REC revised FY 2012 revenue estimate by \$1.9 million or 1.2 percent.

It is important to note that six revenue items have fiscal year-to-date adjusted cash collections that exceed expected FY 2012 year-to-date revised revenues by \$1.0 million or more. Personal income tax fiscal year-to-date adjusted cash collections exceed year-to-date expected FY 2012 revised revenues by \$24.4 million, or 4.8 percent. This positive difference is attributable to fiscal year-to-date adjusted cash estimated payments exceeding year-to-date expected FY 2012 revised estimated payments by \$3.1 million, fiscal year-to-date adjusted cash refunds trailing year-to-date expected FY 2012 revised refunds by \$16.7 million, and adjusted cash withholding

payments exceeding year-to-date expected FY 2012 revised withholding payments by \$3.8 million. Fiscal year-to-date personal income tax adjusted cash collections include \$977,547 of reimbursed Historic Structures Tax Credits (HSTCs). Business corporations taxes fiscal year-to-date adjusted cash collections are \$9.4 million or 50.6 percent more than year-to-date expected FY 2012 revised business corporations tax revenues. Fiscal year-to-date business corporations tax adjusted cash collections include \$369,855 of reimbursed Historic Structures Tax Credits (HSTCs). Inheritance and gift tax fiscal year-to-date adjusted cash collections exceed year-to-date expected FY 2012 revised revenues by 27.2 percent or \$4.9 million. Fiscal year-to-date departmental receipts exceed expected FY 2012 revised revenues by \$2.6 million or 3.3 percent. The fiscal year-to-date lottery transfer exceeds the year-to-date expected FY 2012 revised lottery transfer by \$1.9 million, or 1.2 percent. Motor vehicle operator license and registration fees year-to-date adjusted cash collections are \$1.7 million or 9.6 percent more than year-to-date expected FY 2012 revised motor vehicle operator license and registration fees. Finally, fiscal year-to-date financial institutions taxes, public utilities gross earnings taxes, the health care provider assessment, bank deposit taxes, alcohol excise taxes, and racing and athletics taxes adjusted cash collections are all greater than year-to-date expected FY 2012 revised revenues through December of the fiscal year in each of these revenue categories but by less than \$1.0 million.

On the negative side, one revenue item has fiscal year-to-date adjusted cash collections that trail year-to-date expected FY 2012 revised revenues by more than \$1.0 million. Fiscal year-to-date sales and use taxes adjusted cash collections are \$1.4 million or 0.3 percent less than year-to-date expected FY 2012 revised sales and use taxes. Fiscal year-to-date adjusted cash collections for cigarette and other tobacco product taxes, insurance companies gross premium taxes, realty transfer taxes, and motor carrier fuel use taxes are below year-to-date expected FY 2012 revised revenues through December 2011 for each of these revenue categories but by less than \$1.0 million each.

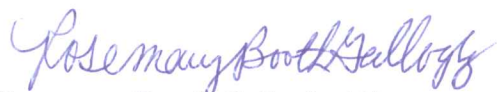
Results for the Month of December

The table Monthly Estimate to Actual gives the results for December of FY 2012. As is apparent from the table, the Department of Revenue finds that December adjusted cash collections for total general revenues exceed expected December revenue collections based on the estimates adopted at the November 2011 REC by \$1.6 million, or 0.6 percent. In total taxes, the variance from expected FY 2012 revised December revenues is 277,694 or 0.1 percent. For departmental receipts, the difference from the expected FY 2012 revised revenues for December is \$178,980 or 1.5 percent. For other general revenue sources, December adjusted cash collections differ from the expected FY 2012 revised revenue estimate for December by \$1.1 million or 3.9 percent.

Two revenue items have adjusted cash collections for December that exceed expected FY 2012 revised revenues for December by \$1.0 million or more. Personal income tax monthly adjusted cash collections exceed expected FY 2012 revised revenues for December by \$2.0 million, or 1.8 percent. This positive difference is attributable to December adjusted cash refunds being less

than monthly expected FY 2012 revised refunds by \$4.8 million and estimated payments being less than monthly expected FY 2012 revised estimated payments by \$3.1 million. December personal income tax adjusted cash collections include \$98,631 of reimbursed Historic Structures Tax Credits (HSTCs). The December 2011 lottery transfer adjusted cash collections are \$1.1 million or 3.9 percent more than monthly expected FY 2012 revised lottery transfer revenues. Finally, monthly motor vehicle operator license and registration fees, public utilities gross earnings taxes, financial institution taxes, bank deposit taxes, departmental receipts, alcohol excise taxes, racing and athletics taxes, and realty transfer taxes adjusted cash collections are all greater than December expected FY 2012 revised revenues for each of these revenue categories but by less than \$1.0 million.

On the negative side, one revenue item has monthly adjusted cash collections that trail December expected FY 2012 revised revenues by more than \$1.0 million. December sales and use taxes adjusted cash collections are \$1.4 million or 2.1 percent less than the monthly expected FY 2012 revised sales and use taxes. Monthly adjusted cash collections for cigarette and other tobacco product taxes, inheritance and gift taxes, business corporation taxes, insurance companies gross premium taxes, the health care provider assessment, and motor carrier fuel use taxes adjusted cash collections are below monthly FY 2012 expected revised revenues for each of these revenue categories but by less than \$1.0 million for December.



Rosemary Booth Gallogly, Director
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January 11, 2011

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

| | YTD December Estimate of Revised FY 2012 | YTD December Adjusted Cash FY 2012 | Difference | Variance |
|--------------------------------------|--|--|----------------------|-------------|
| Personal Income Tax | \$ 510,470,302 | \$ 534,859,928 | \$ 24,389,626 | 4.8% |
| General Business Taxes | | | | |
| Business Corporations | 18,577,822 | 27,978,508 | 9,400,686 | 50.6% |
| Public Utilities Gross Earnings | 1,724,499 | 2,397,983 | 673,484 | 39.1% |
| Financial Institutions | 324,719 | 1,275,902 | 951,183 | 292.9% |
| Insurance Companies | 659,405 | 300,249 | (359,156) | -54.5% |
| Bank Deposits | 85,891 | 205,546 | 119,655 | 139.3% |
| Health Care Provider Assessment | 20,643,419 | 20,932,102 | 288,683 | 1.4% |
| Excise Taxes | | | | |
| Sales and Use | 434,747,411 | 433,395,957 * | (1,351,454) | -0.3% |
| Motor Vehicle | 17,270,678 | 18,931,867 | 1,661,189 | 9.6% |
| Motor Carrier Fuel Use | 440,219 | 419,483 | (20,736) | -4.7% |
| Cigarettes | 69,015,897 | 68,373,205 | (642,692) | -0.9% |
| Alcohol | 6,138,293 | 6,175,116 | 36,823 | 0.6% |
| Other Taxes | | | | |
| Inheritance and Gift | 17,927,371 | 22,801,695 | 4,874,324 | 27.2% |
| Racing and Athletics | 583,914 | 614,095 | 30,181 | 5.2% |
| Realty Transfer | 3,406,932 | 3,370,401 | (36,531) | -1.1% |
| Total Taxes | \$ 1,102,016,771 | \$ 1,142,032,037 | \$ 40,015,266 | 3.6% |
| Total Departmental Receipts | \$ 80,243,353 | \$ 82,891,806 ^ | \$ 2,648,453 | 3.3% |
| Taxes and Departmentals | \$ 1,182,260,124 | \$ 1,224,923,843 | \$ 42,663,719 | 3.6% |
| Other General Revenue Sources | | | | |
| Other Miscellaneous Revenues | 353,915 + | 353,915 ^^ | - | 0.0% |
| Lottery Transfer | 149,655,172 | 151,514,709 ** | 1,859,537 | 1.2% |
| Unclaimed Property | - | - | - | n/a |
| Total Other Sources | \$ 150,009,087 | \$ 151,868,624 | \$ 1,859,537 | 1.2% |
| Total General Revenues | \$ 1,332,269,211 | \$ 1,376,792,466 | \$ 44,523,255 | 3.3% |

* Deducts \$2,092,342 from the Sales and Use Tax to account for the receipt tax and interest payments from the audit of prior year sales activity.

^ Deducts \$132,403,489 in Hospital Licensing Fees for cash receipts received in FY 2012 that were accrued back to FY 2011, deducts \$839,301 from the Imaging Services Surcharge for the "payment of bills" from an audit recovery for prior years and \$210,228 in Interim Medicaid Hospital Rate Settlement cash receipts received in FY 2012 that were accrued back to FY 2011.

^^ Deducts \$1,951,166 in Tobacco Settlement cash receipts received in FY 2012 that were accrued back to FY 2011.

** Deducts \$2,731,761 from the Lottery Transfer to account for the receipt of revenues that were accrued back to FY 2011.

+ Set equal to actual amounts received due to general receipt of transfers in June.

| PIT Component | YTD Estimates | YTD Actuals | Difference | Variance |
|---------------|-----------------------|-----------------------|----------------------|-------------|
| Estimateds | \$ 75,098,268 | \$ 78,234,327 | \$ 3,136,059 | 4.2% |
| Finals | 24,074,858 | 24,778,355 | 703,497 | 2.9% |
| Withholding | 458,826,414 | 462,632,884 | 3,806,470 | 0.8% |
| Refunds | (47,529,237) | (30,785,638) | 16,743,599 | -35.2% |
| Total | \$ 510,470,302 | \$ 534,859,928 | \$ 24,389,626 | 4.8% |

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

| | December Estimate of Revised FY 2012 | December Adjusted Cash FY 2012 | Difference | Variance |
|--------------------------------------|--|--------------------------------------|---------------------|-------------|
| Personal Income Tax | \$ 109,774,274 | \$ 111,780,782 | \$ 2,006,508 | 1.8% |
| General Business Taxes | | | | |
| Business Corporations | 7,740,195 | 7,607,243 | (132,952) | -1.7% |
| Public Utilities Gross Earnings | 80,756 | 591,606 | 510,850 | 632.6% |
| Financial Institutions | 90,831 | 336,000 | 245,169 | 269.9% |
| Insurance Companies | 301,320 | 184,426 | (116,894) | -38.8% |
| Bank Deposits | (29,396) | 173,202 | 202,598 | -689.2% |
| Health Care Provider Assessment | 3,592,192 | 3,513,546 | (78,646) | -2.2% |
| Excise Taxes | | | | |
| Sales and Use | 66,240,125 | 64,872,711 | (1,367,414) | -2.1% |
| Motor Vehicle | 1,264,052 | 1,992,962 | 728,910 | 57.7% |
| Motor Carrier Fuel Use | 42,541 | 32,860 | (9,681) | -22.8% |
| Cigarettes | 11,598,143 | 10,625,731 | (972,412) | -8.4% |
| Alcohol | 1,054,372 | 1,105,350 | 50,978 | 4.8% |
| Controlled Substances | - | - | - | - |
| Other Taxes | | | | |
| Inheritance and Gift | 2,438,863 | 1,642,527 | (796,336) | -32.7% |
| Racing and Athletics | 83,328 | 90,261 | 6,933 | 8.3% |
| Realty Transfer | 513,118 | 513,202 | 84 | 0.0% |
| Total Taxes | \$ 204,784,715 | \$ 205,062,409 | \$ 277,694 | 0.1% |
| Total Departmental Receipts | \$ 12,113,076 | \$ 12,292,056 | \$ 178,980 | 1.5% |
| Taxes and Departmentals | \$ 216,897,791 | \$ 217,354,465 | \$ 456,674 | 0.2% |
| Other General Revenue Sources | | | | |
| Gas Tax Transfer | - | - | - | |
| Other Miscellaneous Revenues | 15,749 + | 15,749 | - | 0.0% |
| Lottery Transfer | 28,064,769 | 29,165,476 | 1,100,707 | 3.9% |
| Unclaimed Property | - + | - | - | |
| Total Other Sources | \$ 28,080,518 | \$ 29,181,225 | \$ 1,100,707 | 3.9% |
| Total General Revenues | \$ 244,978,310 | \$ 246,535,690 | \$ 1,557,381 | 0.6% |

^ Deducts \$568,373 in Hospital Licensing Fees for cash receipts received in FY 2012 that were accrued back to FY 2011 and \$35,752 in Interim Medicaid Hospital Rate Settlement cash receipts received in FY 2012 that were accrued back to FY 2011.

+ Set equal to actual amounts received due to receipt of transfers in June.

| PIT Component | Estimates | Actuals | Difference | Variance |
|---------------|-----------------------|-----------------------|---------------------|-------------|
| Estimateds | \$ 23,140,458 | \$ 20,060,954 | \$ (3,079,504) | -13.3% |
| Finals | 2,673,715 | 2,934,551 | 260,836 | 9.8% |
| Withholding | 92,106,105 | 92,089,281 | (16,824) | 0.0% |
| Refunds | (8,146,004) | (3,304,004) | 4,842,000 | -59.4% |
| Total | \$ 109,774,274 | \$ 111,780,782 | \$ 2,006,508 | 1.8% |

FY 2012 Variance of Adjusted Cash Collections to Estimate

