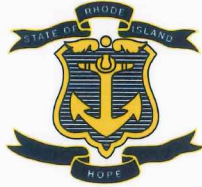


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
GOVERNOR LINCOLN D. CHAFEE



DEPARTMENT OF REVENUE
Office of Revenue Analysis

CORRECTED October 2013

State of Rhode Island Revenue Assessment Report
Year-to-Date FY 2014 through August 2013

The Office of Revenue Analysis erred in its August 2013 Revenue Assessment Report by incorrectly deducting a large estate and transfer tax payment from August 2013 and fiscal year-to-date through August adjusted revenues. The impact of this error was to understate estate and transfer tax adjusted revenues for the month of August and fiscal year-to-date through August by \$4,156,721.

In addition, ORA determined that the enacted FY 2014 expected departmental receipts estimate was calculated incorrectly. The impact of this miscalculation was to understate the expected FY 2014 enacted monthly departmental receipts estimate by \$162,756 and the expected FY 2014 enacted fiscal year-to-date departmental receipts estimate by \$278, 543.

The two errors combined materially understated August and fiscal year to date estimate to actual revenues by \$3,993,965 and \$3,878,178, respectively. This CORRECTED version of the report corrects for the estate and transfer tax error and the calculation error that occurred in determining the expected FY 2014 enacted departmental receipts tax revenues.

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 estimate of revenues based on the current fiscal year enacted 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 Rhode Island General Laws § 35-16-1) 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 estimate was 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 close of the fiscal year in June. Thus, even if the assessment of actual fiscal year-to-date revenues trail the fiscal year-to-date revenue estimates, it is possible for the fiscal year-end accrual to make up any shortfall.

Estimate of Enacted FY 2014 Revenues

In order to determine the expected monthly and fiscal year-to-date estimates based on the enacted FY 2014 budget signed into law by Governor Chafee on July 3, 2013, the Office of Revenue Analysis (ORA) first calculates the average percentage of total adjusted revenues that occurred in a given month over the previous five fiscal years for each revenue item. For estate and transfer taxes the previous ten fiscal years are used. For monthly estimates, these percentages are applied to the enacted FY 2014 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages are summed and then applied to the enacted FY 2014 revenue estimate for each revenue item. In the case of other miscellaneous revenues, the actual fiscal year-to-date revenues are used in place of an estimate due to the discrete and unpredictable nature of the timing of these receipts

The following table provides the rounded five-year or ten-year average percentages used to determine expected monthly and fiscal year-to-date revenues for August:

Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	August	YTD		August	YTD
Personal Income Taxes			Motor Vehicles Fees	6.7 %	12.9 %
Estimated Payments	1.6 %	3.4 %	Motor Carrier Fuel Use	11.6 %	15.7 %
Final Payments	1.7 %	3.4 %	Cigarettes Taxes	8.8 %	17.8 %
Withholding Payments	8.2 %	15.4 %	Alcohol Excise Taxes	8.7 %	15.8 %
Refunds/Adjustments	1.9 %	4.1 %	Estate and Transfer	9.3 %	16.5 %
Business Corporations Taxes	0.4 %	4.6 %	Racing and Athletics	9.2 %	17.3 %
Utilities Gross Earnings Taxes	0.3 %	1.0 %	Realty Transfer	11.0 %	20.6 %
Financial Institutions Taxes	-7.3 %	-8.5 %	Departmental Receipts	7.1 %	12.4 %
Insurance Co. Gross Premiums	0.0 %	0.8 %	Lottery Transfer	8.6 %	8.6 %
Bank Deposits	0.0 %	1.9 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.1 %	16.3 %	Unclaimed Property	0.0 %	0.0 %
Sales and Use Taxes+	9.2 %	18.6 %			

+ Percentages are a weighted average of the monthly and fiscal year-to-date percentages for the “base” sales and use tax adjusted revenues and the monthly and fiscal year-to-date percentages calculated by the ORA for foregone sales and use tax revenues projected from changes to the State’s sales and use tax base effective October 1, 2013 and December 1, 2013. See below for a more detailed discussion of this methodology.

The health care provider assessment consists only of an assessment on nursing homes. Racing and athletics taxes consist of a tax on simulcast wagering. The “Percent Received” for monthly and year-to-date 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 only in June of each fiscal year.

Beginning July 1, 2013, alcoholic beverages are subject to a temporary increase in the alcohol excise tax. The period of the tax increase is July 1, 2013 through March 31, 2015. As the alcohol excise taxes generated during the month of July are not remitted to the Division of Taxation until August, the ORA has adapted the average percentages for alcohol excise taxes to take into account the increase in alcohol excise tax revenues beginning in August 2013.

It should also be noted that it is the Office of Revenue Analysis’ understanding that the State will no longer be in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA) beginning October 1, 2013, due to the enactment of a \$250 per item threshold above which clothing and footwear became taxable that went into effect on October 1, 2012. A potential

impact of this non-compliance is that the State will no longer receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. The principals of the May 2013 Revenue Estimating Conference (REC) assumed no further receipts of voluntary sales and use tax payments after October 2013 and ORA has adjusted the revenue percentages to reflect this for November 2013 through June 2014. In addition, effective December 1, 2013, a sales tax exemption will apply to the sale of original works by artists, writers and composers who reside and have a principal place of business in Rhode Island. The exemption also applies to sales of these works by galleries located in the State. A temporary sales tax exemption will also apply to wine and spirits beginning December 1, 2013, which is scheduled to terminate on April 1, 2015. ORA has taken into account the anticipated decreases in sales and use tax revenues from these sales tax exemptions when determining the average percentages used to determine expected sales and use tax revenues.

The FY 2014 estimates by revenue item as enacted by the General Assembly and signed into law by Governor Chafee are as follows:

Revenue Item	Enacted FY 2014 Estimate	Revenue Item	Enacted FY 2014 Estimate
Personal Income Taxes ^		Motor Vehicles	\$ 51,800,000
Estimated Payments	\$ 197,700,000	Motor Carrier Fuel	1,000,000
Final Payments	202,054,500	Cigarettes Taxes	130,700,000
Withholding Payments	1,015,300,000	Alcohol Excise Taxes	18,173,328
Refunds/Adjustments	(298,900,000)	Estate and Transfer	31,800,000
Business Corporations Taxes	141,300,000	Racing and Athletics	1,200,000
Public Utilities Gross Earnings	94,900,000	Realty Transfer	7,500,000
Financial Institutions Taxes	4,300,000	Departmental Receipts ‡	348,707,542
Insurance Co. Gross Premiums	98,815,832	Lottery	394,100,000
Bank Deposits	2,500,000	Other Misc. Revenues	5,545,000
Health Care Provider Assessment	42,610,544	Unclaimed Property	9,700,000
Sales and Use Taxes	887,201,672		
		Total General Revenues ^	\$ 3,381,008,418
^ Total General Revenues include a net accrual for personal income taxes estimated to be \$(7,000,000) in the enacted FY 2014 budget.			
‡ The Departmental Receipts figure includes an estimate of hospital licensing fee revenues of \$141,257,582.			

As the table indicates, the enacted FY 2014 estimate for sales and use taxes is \$887.2 million. The Office of Revenue Analysis (ORA) has estimated that this figure is comprised of \$897.0 million of “base” sales and use tax revenues and \$(9.8 million) of foregone sales and use tax

revenues as a result of narrowing the State's sales and use tax base. Sales and use tax revenues relating to non-compliance with SSUTA are estimated at \$(1.8 million). The sales tax exemption on wine and spirits and original creative works is estimated at \$(8.0 million). ORA adjusted the methodology used for determining the enacted FY 2014 expected revenues for sales and use taxes to account for the onset of the changes noted above.

The enacted FY 2014 revenue estimate for alcohol excise taxes is \$18.2 million. ORA has determined that this figure is comprised of \$12.2 million of "base" alcohol excise tax revenues and \$6.0 million of "additional" alcohol excise tax revenues generated by the temporary increase in the excise tax effective July 1, 2013. ORA adjusted the methodology used for determining the enacted FY 2014 expected revenues for alcohol excise taxes to account for the one month delay in revenues received noted above.

Results for FY 2014 through August

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2014 through August. As is apparent from the table, the Department of Revenue finds that fiscal year-to-date adjusted total general revenues through August trail the enacted FY 2014 expected total general revenues estimate through August by \$411,538 or -0.1 percent. In total taxes, the fiscal year-to-date adjusted revenues through August are less than expected FY 2014 enacted revenues by \$711,462 or -0.2 percent. For departmental receipts, the difference from the fiscal year-to-date adjusted revenues through August to expected FY 2014 enacted revenues is \$1.2 million or 4.8 percent. For other general revenue sources, fiscal year-to-date adjusted revenues through August are less than expected FY 2014 enacted revenues by \$926,329 or -2.7 percent.

In addition to departmental receipts, two revenue items have fiscal year-to-date adjusted revenues through August that exceed expected FY 2014 enacted revenues by \$1.0 million or more.

- Estate and transfer tax adjusted revenues for FY 2014 through August are \$4.0 million or 76.0 percent higher than enacted FY 2014 expected revenues of \$5.2 million.
- Cigarette excise tax adjusted revenues for FY 2014 through August are \$1.3 million or 5.7 percent higher than enacted FY 2014 expected revenues of \$23.2 million.

Fiscal year-to-date motor vehicle operator's license and vehicle registration fee, financial institutions tax, alcohol excise tax, motor carrier fuel use tax, and health care provider assessment adjusted revenues are greater than enacted FY 2014 expected revenues through August, but by less than \$1.0 million.

On the negative side, four revenue items have adjusted revenues in August that fall short of the enacted FY 2014 expected monthly revenue estimate by \$1.0 million or more.

- Personal income tax adjusted revenues through August are \$2.8 million or 1.8 percent less than the enacted FY 2014 expected monthly revenue estimate of \$157.2 million. This decrease is attributed to fiscal year-to-date withholding tax adjusted revenues

coming in less than the expected FY 2014 revised withholding tax revenues by \$4.2 million or -2.7 percent. In addition, fiscal year-to-date final payments adjusted revenues trail the expected FY 2014 enacted final payments revenues by \$1.5 million or -22.2 percent. Fiscal year-to-date personal income tax final payments adjusted revenues include \$28,646 of reimbursed Historic Structures Tax Credits (HSTCs). Fiscal year-to-date estimated tax payments adjusted revenues trail the expected FY 2014 estimated tax revenues by \$578,483 or -8.7 percent. Partially offsetting this shortage, fiscal year-to-date refunds and adjustments adjusted revenues are less than the expected FY 2014 enacted refunds and adjustments tax revenues by \$3.5 million or -28.8 percent.

- Sales and use tax adjusted revenues through August are \$1.6 million or -0.9 percent less than the enacted FY 2014 expected year to date revenue estimate of \$165.2 million.
- Business corporations tax adjusted revenues through August are \$1.4 million or -21.5 percent less than the enacted FY 2014 expected revenues of \$6.6 million.
- Public utilities gross earnings tax adjusted revenues through August are \$1.2 million or -124.9 percent less than the enacted FY 2014 expected revenues of \$922,012.

Fiscal year-to-date lottery transfer, insurance companies gross premiums tax, bank deposit tax, racing and athletics tax, and realty transfer tax adjusted revenues are below expected FY 2014 enacted revenues through August, but by less than \$1.0 million.

Results for the Month of August 2013

The table, *Monthly Estimate to Actual*, gives the results for August 2013. As is apparent from the table, the Department of Revenue finds that August adjusted total general revenues trail the enacted FY 2014 expected total general revenues estimate for August by \$2.8 million or -1.2 percent. In total taxes, August adjusted revenues are greater than the enacted FY 2014 expected monthly estimate by \$66,340. For departmental receipts, August adjusted revenues are less than the enacted FY 2014 expected monthly estimate by \$1.9 million or -13.2 percent. For other general revenue sources, August adjusted revenues fall short of the enacted FY 2014 expected monthly estimates by \$926,329 or -2.7 percent.

One revenue item has adjusted revenues in August exceeding the enacted FY 2014 expected monthly estimate by \$1.0 million or more.

- Estate and transfer tax adjusted revenues for August are \$3.2 million or 109.0 percent higher than enacted FY 2014 expected monthly revenue estimate of \$2.9 million.

August adjusted revenues for business corporations tax, financial institutions income tax, cigarette excise tax, health care provider assessment, realty transfer tax, alcohol excise tax, insurance companies gross premiums tax, and motor carrier fuel use tax adjusted revenues are greater than the enacted FY 2014 expected monthly estimates for August, but by less than \$1.0 million.

On the negative side, in addition to departmental receipts, two revenue items have adjusted revenues in August that fall short of the enacted FY 2014 expected monthly revenue estimate by \$1.0 million or more.

- Personal income tax adjusted revenues for August are \$1.9 million or 2.3 percent less than the enacted FY 2014 expected monthly revenue estimate of \$83.8 million. This decrease is attributed to August withholding tax adjusted revenues coming in less than the monthly expected FY 2014 enacted withholding tax revenues by \$3.0 million or -3.6 percent. In addition, August final payments adjusted revenues trail the monthly expected FY 2014 enacted final payments revenues by \$983,518 or -28.3 percent. August personal income tax final payments adjusted revenues include \$24,388 of reimbursed Historic Structures Tax Credits (HSTCs). August refunds and adjustments adjusted revenues are less than the monthly expected FY 2014 enacted refunds and adjustments tax revenues by \$2.1 million or -36.9 percent, while August estimated tax payments adjusted revenues are greater than the monthly expected FY 2014 estimated tax revenues by \$28,993 or 0.9 percent.
- Sales and use tax adjusted revenues for August are \$1.7 million or -2.1 percent less than the enacted FY 2014 expected monthly revenue estimate of \$82.0 million.

August adjusted revenues for estate and transfer tax, the lottery transfer, public utilities gross earnings tax, motor vehicle operator's license and vehicle registration fee, racing and athletics tax and bank deposit tax adjusted revenues are below the enacted FY 2014 expected revenues for August, but by less than \$1.0 million.



Rosemary Booth Gallogly, Director
Department of Revenue

October 4, 2013

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

	YTD August Estimate of Enacted FY 2014 Revenues		YTD August Adjusted Revenues FY 2014		Difference	Variance
Personal Income Tax	\$ 157,235,292		\$ 154,432,707		\$ (2,802,584)	-1.8%
General Business Taxes						
Business Corporations	6,553,024		5,141,653		(1,411,371)	-21.5%
Public Utilities Gross Earnings	922,012		(229,252)		(1,151,264)	-124.9%
Financial Institutions	(367,557)		-		367,557	
Insurance Companies	755,981		486,338		(269,643)	-35.7%
Bank Deposits	46,786		-		(46,786)	
Health Care Provider Assessment	6,932,616		6,940,530		7,914	0.1%
Excise Taxes						
Sales and Use	165,197,861		163,645,822		(1,552,039)	-0.9%
Motor Vehicle	6,677,843		7,417,222		739,379	11.1%
Motor Carrier Fuel Use	156,611		171,048		14,437	9.2%
Cigarettes	23,245,945		24,560,163		1,314,218	5.7%
Alcohol	2,864,261		2,977,971		113,710	4.0%
Controlled Substances	-		-		-	
Other Taxes						
Estate and Transfer	5,234,017		9,210,575		3,976,558	76.0%
Racing and Athletics	207,114		199,505		(7,609)	-3.7%
Realty Transfer	1,541,429		1,537,491		(3,938)	-0.3%
Total Taxes	\$ 377,203,236		\$ 376,491,773		\$ (711,462)	-0.2%
Departmental Receipts	\$ 25,620,117		\$ 26,846,370	^a	\$ 1,226,253	4.8%
Taxes and Departmentals	\$ 402,823,353		\$ 403,338,143		\$ 514,791	0.1%
Other General Revenue Sources						
Other Miscellaneous Revenues	23,674	+	23,674	^b	-	0.0%
Lottery Transfer	33,850,562		32,924,233		(926,329)	-2.7%
Unclaimed Property	-	+	-		-	n/a
Total Other Sources	\$ 33,874,236		\$ 32,947,907		\$ (926,329)	-2.7%
Total General Revenues	\$ 436,697,588		\$ 436,286,050		\$ (411,538)	-0.1%

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

^a Deducts \$127,998,503 in Hospital Licensing Fees and \$30,738 in Interim Medicaid Hospital Rate settlements. Each of these revenues were received in FY 2014, but were accrued back to FY 2013.

^b Deducts \$159,971 for Medicaid Fraud drug settlements received in FY 2014, but were accrued back to prior fiscal years.

PIT Component	YTD Estimates		YTD Actuals		Difference	Variance
Estimated payments	\$ 6,625,623		6,047,140		\$ (578,483)	-8.7%
Final payments	6,957,659		5,416,022		(1,541,637)	-22.2%
Withholding	155,978,727		151,748,002		(4,230,725)	-2.7%
Refunds	(12,326,718)		(8,778,457)		3,548,261	-28.8%
Net Accrual					-	
Total	\$ 157,235,292		\$ 154,432,707		\$ (2,802,584)	-1.8%

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

	August Estimate of Enacted FY 2014 Revenues		August Adjusted Revenues FY 2014		Difference	Variance
Personal Income Tax	\$ 83,798,494		\$ 81,902,006		\$ (1,896,488)	-2.3%
General Business Taxes						
Business Corporations	569,576		1,274,231		704,655	123.7%
Public Utilities Gross Earnings	302,646		(358,109)		(660,755)	-218.3%
Financial Institutions	(312,727)		-		312,727	
Insurance Companies	(41,270)		9,581		50,851	-123.2%
Bank Deposits	1,232		-		(1,232)	
Health Care Provider Assessment	3,458,801		3,558,991		100,190	2.9%
Excise Taxes						
Sales and Use	81,967,676		80,258,546		(1,709,130)	-2.1%
Motor Vehicle	3,469,498		3,182,747		(286,751)	-8.3%
Motor Carrier Fuel Use	116,341		137,275		20,934	18.0%
Cigarettes	11,502,689		11,606,219		103,530	0.9%
Alcohol	1,573,959		1,628,495		54,536	3.5%
Controlled Substances	-		-		-	
Other Taxes						
Estate and Transfer	2,947,903		6,162,188		3,214,285	109.0%
Racing and Athletics	110,216		100,204		(10,012)	-9.1%
Realty Transfer	823,875		892,876		69,001	8.4%
Total Taxes	\$ 190,288,910		\$ 190,355,250		\$ 66,340	0.0%
Departmental Receipts	\$ 14,699,613		\$ 12,760,665	^b	\$ (1,938,948)	-13.2%
Taxes and Departmentals	\$ 204,988,524		\$ 203,115,915		\$ (1,872,608)	-0.9%
Other General Revenue Sources						
Other Miscellaneous Revenues	21,202	+	21,202		-	0.0%
Lottery Transfer	33,850,562		32,924,233		(926,329)	-2.7%
Unclaimed Property	-	+	-		-	n/a
Total Other Sources	\$ 33,871,764		\$ 32,945,435		\$ (926,329)	-2.7%
Total General Revenues	\$ 238,860,287		\$ 236,061,350		\$ (2,798,937)	-1.2%

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

^a Deduct \$4,156,721 for large infrequent tax payment.

^b Deduct \$470,296 in Hospital Licensing Fees received in FY 2014 that were accrued back to FY 2013 and deduct \$30,738 in Interim Hospital Rate received in FY 2014 that were accrued back to FY 2013.

PIT Component	Estimates		Actuals		Difference	Variance
Estimated payments	\$ 3,065,143		3,094,137		\$ 28,993	0.9%
Final payments	3,478,770		2,495,252		(983,518)	-28.3%
Withholding	82,860,586		79,849,605		(3,010,981)	-3.6%
Refunds	(5,606,005)		(3,536,988)		2,069,017	-36.9%
Total	\$ 83,798,494		\$ 81,902,006		\$ (1,896,488)	-2.3%

FY 2014 Variance of Adjusted Revenues to Estimate

