

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



DEPARTMENT OF REVENUE
Office of Revenue Analysis

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

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 accruals to make up any shortfall.

Estimate of Revised FY 2014 Revenues Adopted at the November 2013 REC

In order to determine the expected monthly and fiscal year-to-date estimates based on the revised revenue estimates adopted at the November 2013 Revenue Estimating Conference (REC), 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 revised 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 revised FY 2014 adopted 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 February:

Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	February	YTD		February	YTD
Personal Income Taxes			Motor Vehicles Fees	7.5 %	51.9 %
Estimated Payments	1.2 %	63.8 %	Motor Carrier Fuel Use	9.7 %	66.7 %
Final Payments	2.2 %	17.3 %	Cigarettes Taxes	6.7 %	66.9 %
Withholding Payments	8.4 %	66.2 %	Alcohol Excise Taxes	6.1 %	65.2 %
Refunds/Adjustments	22.9 %	43.5 %	Estate and Transfer	7.1 %	65.8 %
Business Corporations Taxes	-1.4 %	18.2 %	Racing and Athletics	7.8 %	63.7 %
Utilities Gross Earnings Taxes	2.2 %	4.7 %	Realty Transfer	6.4 %	70.8 %
Financial Institutions Taxes	-10.3 %	29.3 %	Departmental Receipts	6.6 %	60.1 %
Insurance Co. Gross Premiums	4.1 %	5.2 %	Lottery Transfer	7.8 %	56.5 %
Bank Deposits	0.4 %	12.0 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.2 %	66.2 %	Unclaimed Property	0.0 %	0.0 %
Sales and Use Taxes+	7.1 %	68.3 %			

+ 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 beverage tax revenues 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.

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.

It should also be noted that prior to the November Revenue Estimating Conference, it was the Office of Revenue Analysis' understanding that the State would 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 was that the State would no longer receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. Based on testimony provided by the Rhode Island Division of Taxation, the principals of the November 2013 Revenue Estimating Conference (REC) determined that any action by the SSUTA Governing Board with regard to Rhode Island's non-compliance with the SSUTA would not be finalized prior to the end of FY 2014. As a result, receipts of voluntary sales and use tax payments for FY 2014 are included in the sales and use tax estimate. On December 19, 2013, the Streamlined Sales Tax Governing Board voted unanimously to find Rhode Island out of compliance with the Streamlined Sales and Use Tax Agreement.

The revised FY 2014 estimates adopted at the November 2013 Revenue Estimating Conference by revenue item are as follows:

Revenue Item	Nov 2013 Revised FY 2014 Estimate	Revenue Item	Nov 2013 Revised FY 2014 Estimate
Personal Income Taxes [^]		Motor Vehicles	\$ 50,800,000
Estimated Payments	\$ 202,100,000	Motor Carrier Fuel	700,000
Final Payments	200,000,000	Cigarettes Taxes	136,300,000
Withholding Payments	997,000,000	Alcohol Excise Taxes	18,200,000
Refunds/Adjustments	(275,000,000)	Estate and Transfer	31,800,000
Business Corporations Taxes	136,000,000	Racing and Athletics	1,200,000
Public Utilities Gross Earnings	95,900,000	Realty Transfer	8,000,000
Financial Institutions Taxes	4,300,000	Departmental Receipts [‡]	360,100,000
Insurance Co. Gross Premiums	100,600,000	Lottery	394,200,000
Bank Deposits	2,900,000	Other Misc. Revenues	7,455,000
Health Care Provider Assessment	42,600,000	Unclaimed Property	10,900,000
Sales and Use Taxes	904,000,000		
		Total General Revenues [^]	\$ 3,426,655,000
[^] Total General Revenues include a net accrual for personal income taxes estimated to be \$(3,400,000) in the revised FY 2014 adopted revenues.			
[‡] The Departmental Receipts figure includes an estimate for hospital licensing fee revenues of \$152,360,104. It should be noted that \$5,585,024 of FY 2012 Hospital Licensing Fees that were adopted as FY 2014 revenues were received in December 2013 and accrued back to FY 2013.			

As the table indicates, the enacted FY 2014 estimate for sales and use taxes is \$904.0 million. The Office of Revenue Analysis (ORA) has estimated that this figure is comprised of \$912.0 million of “base” sales and use tax revenues and \$(8.0 million) of foregone sales and use tax revenues as a result of narrowing the State’s sales and use tax base. The sales tax exemption on wine and spirits is estimated at \$(7.2 million) and original creative works is estimated at \$(825,000). ORA adjusted the methodology used for determining the revised FY 2014 adopted revenue estimate for sales and use taxes to account for the onset of the changes noted above.

The revised FY 2014 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 revised FY 2014 adopted revenue estimate for alcohol excise taxes to account for the one month delay in revenues received as noted above.

Results for FY 2014 through February

The table, *Year-to-Date Estimate to Actual*, gives the fiscal year-to-date results for FY 2014 through February. As is apparent from the table, the Department of Revenue finds that fiscal year-to-date adjusted total general revenues through February exceed the adopted FY 2014 November 2013 Revenue Estimating Conference (REC) revised total general revenues estimate through February by \$25.7 million or 1.4 percent. In total taxes, the fiscal year-to-date adjusted revenues through February are more than the adopted FY 2014 November 2013 REC estimate of revised total taxes through February by \$31.2 million or 2.0 percent. For departmental receipts, the difference in the fiscal year-to-date adjusted revenues through February and the adopted FY 2014 November 2013 REC estimate of revised departmental receipts through February totaled \$1.3 million or 1.1 percent. For other general revenue sources, fiscal year-to-date adjusted revenues through February are less than the adopted FY 2014 November 2013 REC estimate of revised other general revenue sources through February by \$6.9 million or -3.1 percent.

Eight revenue items besides departmental receipts have fiscal year-to-date adjusted revenues through February that exceed the expected FY 2014 November revised revenue estimates through February by \$1.0 million or more.

- Personal income tax adjusted revenues of \$720.4 million are \$16.9 million or 2.4 percent greater than the expected FY 2014 November revised personal income tax estimate of \$703.5 million. This difference is attributed to fiscal year-to-date final payments adjusted revenues exceeding the expected FY 2014 November revised final payments estimate by \$1.7 million or 5.0 percent. Fiscal year-to-date personal income tax final payments adjusted revenues include \$5.1 million of reimbursed Historic Structures Tax Credits (HSTCs). In addition, fiscal year-to-date withholding tax adjusted revenues are greater than the expected FY 2014 November revised withholding tax estimate by \$9.8 million or 1.5 percent and fiscal year-to-date refunds and adjustments adjusted revenues are less than the expected FY 2014 November revised refunds and adjustments estimate by \$14.0 million or -11.7 percent. This increase is in spite of fiscal year-to-date estimated tax payments adjusted revenues trailing the expected FY 2014 November revised estimated tax payments estimate by \$8.6 million or -6.7 percent.
- Estate and transfer tax adjusted revenues of \$25.7 million are \$4.8 million or 23.0 percent more than the expected FY 2104 November revised estate and transfer tax estimate of \$20.9 million.
- Motor vehicle operator's license and vehicle registration fees adjusted revenues of \$29.9 million are \$3.5 million or 13.3 percent higher than the expected FY 2014 November revised motor vehicle operator's license and vehicle registration fee estimate of \$26.4 million.
- Public utilities gross earnings tax adjusted revenues of \$7.7 million are \$3.2 million or 71.9 percent higher than the expected FY 2014 November revised public utilities gross earnings tax estimate of \$4.5 million.
- Business corporations tax adjusted revenues of \$26.9 million are \$2.2 million or 8.7 percent higher than the expected FY 2014 November revised business corporations tax estimate of \$24.7 million.

- Cigarette and other tobacco product excise tax adjusted revenues of \$93.3 million are \$2.1 million or 2.3 percent higher than the expected FY 2014 November revised revenue estimate of \$91.2 million.
- Financial institutions income tax adjusted revenues of \$2.5 million are \$1.2 million or 94.3 percent higher than the expected FY 2014 November revised revenue estimate of \$1.3 million.
- Insurance companies gross premiums tax adjusted revenues through February are \$1.2 million higher than the expected FY 2014 November revised insurance companies gross premiums tax estimate of \$5.2 million.

Fiscal year-to-date realty transfer tax adjusted revenues through February are greater than the expected FY 2014 November revised revenue estimates through February, but by less than \$1.0 million.

On the negative side two revenue items' fiscal year-to-date adjusted revenues through February fall short of the expected FY 2014 November revised revenue estimates through February by \$1.0 million or more.

- The lottery transfer adjusted revenues are \$6.9 million or 3.1 percent less than the expected FY 2014 November revised revenue estimate of \$222.6 million.
- Sales and use tax adjusted revenues are \$3.0 million or 0.5 percent less than the expected FY 2014 November revised revenue estimate of \$617.4 million.

Fiscal year-to-date alcohol excise tax, bank deposits tax, motor carrier fuel use tax, health care provider assessment, and racing and athletics tax adjusted revenues through February are below the expected FY 2014 November revised revenue estimates through February, but by less than \$1.0 million.

Results for the Month of February 2014

The table, *Monthly Estimate to Actual*, gives the results for February 2014. As is apparent from the table, the Department of Revenue finds that February adjusted total general revenues exceed the adopted FY 2014 November 2013 Revenue Estimating Conference's estimate of revised total general revenues for February by \$10.4 million or 6.5 percent. In total taxes, February adjusted revenues are greater than the adopted FY 2014 November 2013 REC estimate of revised total taxes for February by \$11.8 million or 10.1 percent. For departmental receipts, February adjusted revenues exceed the adopted FY 2014 November 2013 REC estimate of revised departmental receipts for February by \$627,659 or 4.6 percent. For other general revenue sources, February adjusted revenues are less than the adopted FY 2014 November 2013 REC estimate of revised other general revenue sources for February by \$2.0 million or -6.4 percent.

Four revenue items have February adjusted revenues that exceed the expected FY 2014 November revised revenue estimates for February by \$1.0 million or more.

- Public utilities gross earnings tax adjusted revenues for February are \$4.6 million more than the expected FY 2014 November revised monthly public utilities gross earnings tax estimate of \$2.1 million.
- Business corporation tax adjusted revenues for February are \$3.6 million more than the expected FY 2014 November revised monthly business corporations tax estimate of \$(1.9 million).
- Motor vehicle operator's license and vehicle registration fees adjusted revenues for February are \$2.0 million more than the expected FY 2014 November revised monthly revenue estimate of \$3.8 million.
- Estate and transfer tax adjusted revenues for February of \$3.5 million are \$1.3 million or 56.7 percent more than the expected FY 2014 November revised monthly estate and transfer tax estimate of \$2.3 million.

In February, departmental receipts, financial institutions, cigarette and other tobacco product excise tax, and sales and use tax adjusted revenues are greater than the expected FY 2014 November revised monthly revenue estimates for February, but by less than \$1.0 million.

One revenue item has adjusted revenues in February that fall short of the expected FY 2014 November revised monthly revenue estimate by \$1.0 million or more while personal income taxes falls short of the estimate but by less than a million.

- The lottery transfer adjusted revenues for February are \$2.0 million less than the expected FY 2014 November revised monthly lottery transfer estimate of \$30.9 million.
- Personal income tax adjusted revenues for February are \$75,266 or 0.3 percent less than the expected FY 2014 November revised monthly personal income tax estimate of \$27.6 million. This decrease is attributed to February estimated tax payments adjusted revenues trailing the monthly expected FY 2014 November revised estimated tax payments revenue estimate by \$548,145 or -23.2 percent. February final payments adjusted revenues are less than the monthly expected FY 2014 November revised final payments estimate by \$193,237 or -4.4 percent. February personal income tax final payments adjusted revenues include \$44,309 of reimbursed Historic Structures Tax Credits (HSTCs). February refunds and adjustments adjusted revenues are greater than the monthly expected FY 2014 November revised refunds and adjustments tax estimate by \$7.2 million or 11.4 percent. This is partially offset by February withholding tax adjusted revenues exceeding the monthly expected FY 2014 November revised withholding tax revenues by \$7.8 or 9.3 percent.

In February, alcohol excise tax, insurance companies gross premiums tax, health care provider assessment, bank deposits tax, racing and athletics tax, realty transfer tax, and motor carrier fuel use tax adjusted revenues are below the expected FY 2014 November revised revenue estimates for February, but by less than \$1.0 million.



Rosemary Booth Gallogly, Director

Department of Revenue

March 10, 2014

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

	YTD February Estimate of Nov Rev FY 2014 Revenues	YTD February Adjusted Revenues FY 2014		Difference	Variance
Personal Income Tax	\$ 703,473,543	\$ 720,383,057		\$ 16,909,514	2.4%
General Business Taxes					
Business Corporations	24,709,387	26,860,477		2,151,090	8.7%
Public Utilities Gross Earnings	4,477,165	7,694,037		3,216,872	71.9%
Financial Institutions	1,261,086	2,450,499		1,189,413	94.3%
Insurance Companies	5,193,305	6,356,466		1,163,161	22.4%
Bank Deposits	348,226	79,645		(268,581)	-77.1%
Health Care Provider Assessment	28,213,293	28,121,818		(91,475)	-0.3%
Excise Taxes					
Sales and Use	617,356,108	614,327,488	^a	(3,028,620)	-0.5%
Motor Vehicle	26,366,669	29,875,410		3,508,741	13.3%
Motor Carrier Fuel Use	466,944	372,250		(94,694)	-20.3%
Cigarettes	91,222,625	93,295,340		2,072,715	2.3%
Alcohol	11,860,551	11,549,367		(311,184)	-2.6%
Controlled Substances	-	-		-	
Other Taxes					
Estate and Transfer	20,921,674	25,726,328		4,804,654	23.0%
Racing and Athletics	764,735	756,873		(7,862)	-1.0%
Realty Transfer	5,661,002	5,683,183		22,181	0.4%
Total Taxes	\$ 1,542,296,314	\$ 1,573,532,238		\$ 31,235,924	2.0%
Departmental Receipts	\$ 124,785,237	\$ 126,132,441	^b	\$ 1,347,204	1.1%
Taxes and Departmentals	\$ 1,667,081,551	\$ 1,699,664,680		\$ 32,583,129	2.0%
Other General Revenue Sources					
Other Miscellaneous Revenues	271,046	271,046	^c	-	0.0%
Lottery Transfer	222,612,149	215,740,082	^d	(6,872,067)	-3.1%
Unclaimed Property	-	-		-	n/a
Total Other Sources	\$ 222,883,195	\$ 216,011,128		\$ (6,872,067)	-3.1%
Total General Revenues	\$ 1,889,964,745	\$ 1,915,675,808		\$ 25,711,062	1.4%

+ Set equal to actual amounts received.

^a Includes \$944,845 received from a field audit recovery received in November.

^b Deducts \$135,644,535 in Hospital Licensing Fees and \$30,738 in Interim Medicaid Hospital Rate settlements. Deducts \$2,563,132 for a pharmaceutical settlement received in December. Each of these revenues were received in FY 2014, but were accrued back to FY 2013.

^c Deducts \$159,971 for a Medicaid fraud drug settlement received in FY 2014 that was accrued back to the prior fiscal year.

^d Deducts \$847,359 for the lottery transfer that accrues back to FY 2013 received in November.

PIT Component	YTD Feb Estimates	YTD Feb Adj Revs		Difference	Variance
Estimated payments	\$ 128,950,397	120,360,219		\$ (8,590,178)	-6.7%
Final payments	34,611,817	36,353,583		1,741,766	5.0%
Withholding	659,652,524	669,442,862		9,790,338	1.5%
Refunds	(119,741,194)	(105,773,606)		13,967,588	-11.7%
Net Accrual				-	
Total	\$ 703,473,543	\$ 720,383,057		\$ 16,909,514	2.4%

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

	February Estimate of Nov Rev FY 2014 Revenues	February Adjusted Revenues FY 2014	Difference	Variance
Personal Income Tax	\$ 27,610,872	\$ 27,535,606	\$ (75,266)	-0.3%
General Business Taxes				
Business Corporations	(1,863,043)	1,707,946	3,570,989	-191.7%
Public Utilities Gross Earnings	2,137,581	6,775,311	4,637,730	217.0%
Financial Institutions	(441,943)	100	442,043	-100.0%
Insurance Companies	4,151,115	3,997,172	(153,943)	-3.7%
Bank Deposits	10,501	(21,175)	(31,676)	-301.7%
Health Care Provider Assessment	3,499,317	3,439,887	(59,430)	-1.7%
Excise Taxes				
Sales and Use	64,573,484	64,675,927	102,443	0.2%
Motor Vehicle	3,812,038	5,819,004 ^a	2,006,966	52.6%
Motor Carrier Fuel Use	67,841	66,438	(1,403)	-2.1%
Cigarettes	9,124,711	9,400,261	275,550	3.0%
Alcohol	1,118,783	900,015	(218,768)	-19.6%
Controlled Substances	-	-	-	
Other Taxes				
Estate and Transfer	2,258,823	3,540,138	1,281,315	56.7%
Racing and Athletics	93,564	84,674	(8,890)	-9.5%
Realty Transfer	508,363	500,872	(7,491)	-1.5%
Total Taxes	\$ 116,662,006	\$ 128,422,176	\$ 11,760,171	10.1%
Departmental Receipts	\$ 13,735,992	\$ 14,363,651 ^b	\$ 627,659	4.6%
Taxes and Departmentals	\$ 130,397,997	\$ 142,785,827	\$ 12,387,830	9.5%
Other General Revenue Sources				
Other Miscellaneous Revenues	86,574 ⁺	86,574	-	0.0%
Lottery Transfer	30,877,804	28,904,746	(1,973,058)	-6.4%
Unclaimed Property	- ⁺	-	-	n/a
Total Other Sources	\$ 30,964,378	\$ 28,991,320	\$ (1,973,058)	-6.4%
Total General Revenues	\$ 161,362,376	\$ 171,777,147	\$ 10,414,772	6.5%

+ Set equal to actual amounts received.

^a Includes a late rental vehicle payment of \$290,478 that is normally received in January but was received in February 2014.

^b Deducts \$392,609 for Hospital Licensing Fees received in FY 2014, but were accrued back to FY 2013.

PIT Component	Feb Estimates	Feb Adj Revs	Difference	Variance
Estimated payments	\$ 2,360,049	1,811,904	\$ (548,145)	-23.2%
Final payments	4,399,956	4,206,719	(193,237)	-4.4%
Withholding	83,794,216	91,617,058	7,822,842	9.3%
Refunds	(62,943,349)	(70,100,075)	(7,156,726)	11.4%
Total	\$ 27,610,872	\$ 27,535,606	\$ (75,266)	-0.3%

FY 2014 Variance of Adjusted Revenues to Estimate

