STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DEPARTMENT OF REVENUE

State of Rhode Island Revenue Assessment Report
CORRECTED Year-to-Date FY 2011 through May 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year as the Revenue Estimating Conference (see RI General Law § 35-16-1) convenes and modifies the revenue estimates originally enacted by the General Assembly.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.

In the July 2010 through September 2010 reports, the Departmental Receipts adjusted cash collections figures failed to take into account that $7.1 million of disproportionate share revenues received by Eleanor Slater Hospital in July 2010 were accrued back to FY 2010. The effect of this omission was to overstate the amount by which fiscal year-to-date adjusted cash collections exceeded expected enacted revenues. Beginning with the October 2010 report this oversight has been corrected. As of the May 2011 report, the revenue estimates adopted at the May 2011 Revenue Estimating Conference are used as the basis of comparison for fiscal year-to-date adjusted cash collections.

Fiscal Year-to-Date Estimate of Revised FY 2011 Revenues

In order to determine the expected year-to-date revenue collections based on the revised FY 2011 revenue estimates adopted at the May 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. These percentages are then applied to the May 2011 REC revised FY 2011 estimate for each revenue item. In the case of Other Miscellaneous Revenues and the Unclaimed Property transfer, 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 May 2011 REC revised revenue estimate for Sales and Use taxes for FY 2011 is $810.4 million. The average percentage of adjusted cash total Sales and Use taxes that were collected through May of the fiscal year over the past five fiscal years is approximately 91.5 percent. This percentage applied to the May 2011 REC estimate for Sales and Use taxes for FY 2011 yields the Year-To-Date May Estimate of revised FY 2011 Sales and Use taxes of $741.7 million. This process is repeated for all May 2011 REC revised revenue items except Other Miscellaneous Revenues and the Unclaimed Property Transfer.

The table below provides the rounded five year or ten year average percentages for year-to-date collections through May:

Revenue Item	Percent of Total Collected through Fiscal YTD	Revenue Item	Percent of Total Collected through Fiscal YTD
Personal Income Tax		Motor Vehicles	85.8 %
Estimated Payments	81.2 %	Motor Carrier Fuel	80.5 %
Final Payments	97.8 %	Cigarettes	90.8 %
Withholding Payments	91.5 %	Alcohol	89.1 %
Refunds Paid	95.5 %	Inheritance & Gift	88.8 %
Business Corporations Taxes	69.9 %	Racing & Athletics	91.3 %
Public Utilities Gross Earnings	44.9 %	Realty Transfer	91.7 %
Financial Institutions Taxes	69.0 %	Departmental Rcpts.	83.7 %
Insurance Co. Gross Premiums	44.9 %	Lottery	82.8 %
Bank Deposits	42.2 %	Other Misc. Revs.	n/a
Health Care Provider Assessment	91.8 %	Unclaimed Property	0.0 %
Sales and Use Tax	91.5 %		

It should be noted that the FY 2011 Health Care Provider Assessment consists only of an assessment on nursing homes. Also, in the 2010 session, the General Assembly passed legislation signed by Governor Carcieri that prohibits the running of live greyhound races anywhere in the state in FY 2011 and beyond. As a result, Racing and Athletics taxes now consist only 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, 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 2011 revenue estimates adopted at the May 2011 Revenue Estimating Conference by revenue items are as follows:

Revenue Item	**Revised FY 2011 Estimate**	**Revenue Item**	**Revised FY 2011 Estimate**
Personal Income Tax		Motor Vehicles	$51,500,000
Estimated Payments	$ 165,000,000	Motor Carrier Fuel	1,100,000
Final Payments	186,200,000	Cigarettes	136,900,000
Withholding Payments	926,600,000	Alcohol	11,900,000
Refunds Paid	(269,000,000)	Inheritance & Gift	49,700,000
Business Corporations Taxes	95,100,000	Racing & Athletics	1,300,000
Public Utilities Gross Earnings	104,200,000	Realty Transfer	6,400,000
Financial Institutions Taxes	1,000,000	Departmental Rcpts.	334,100,000
Insurance Co. Gross Premiums	68,000,000	Lottery	353,200,000
Bank Deposits	2,000,000	Other Misc. Revs	13,130,000
Health Care Provider Assessment	40,500,000	Unclaimed Property	7,100,000
Sales and Use Tax	810,400,000		
		Total General Revenues	**$3,091,130,000**

The May 2011 REC adopted estimates for FY 2011 include a substantive change to the accrual methodology for FY 2011 as recommended by the Office of the Auditor General (OAG) and the Office of Accounts and Controls (OAC). The FY 2011 adopted estimates for four revenue items are significantly impacted by this change in the accrual methodology. Business Corporations Taxes and Insurance Companies Gross Premiums Taxes are negatively impacted by the change in the FY 2011 accrual methodology. Inheritance and Gift Taxes are positively impacted by the change in the FY 2011 accrual methodology.

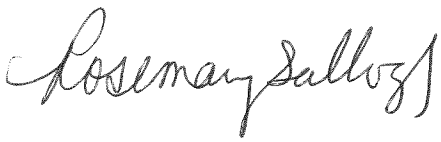
Results for the First Eleven Months of FY 2011

The attached table gives the results for the first eleven months of FY 2011. As is apparent from the table, the Department of Revenue finds that fiscal year-to-date May adjusted cash collections for Total General Revenues exceed expected revenue collections based on the May 2011 REC revised FY 2011 revenue estimates by $18.3 million, or 0.7 percent. In Total Taxes, the variance from the May 2011 REC revised expected revenues is $15.4 million, or 0.7 percent. It should be noted that the change in the FY 2011 accrual methodology that is to be implemented by OAG and OAC at the fiscal year end closing may reverse in whole or in part any surplus in Total Taxes reflected in the May 2011 *Revenue Assessment Report*. For Departmental Receipts, the difference from the May 2011 REC revised expected revenues is $1.9 million or 1.2 percent. For Other General Revenue Sources, fiscal year-to-date May adjusted cash collections are more than the May 2011 REC revised estimate by $920,577 or 0.3 percent.

It is important to note that four revenue items have adjusted cash collections that exceed revised expected revenues by $1.0 million or more. Within taxes, Insurance Gross Premiums Tax cash collections have the largest positive difference from expected revenues with a variance of $16.6 million or 54.3 percent. Fiscal year-to-date Insurance Companies Gross Premiums Tax adjusted cash collections include $6.6 million of reimbursed Historic Structures Tax Credits (HSTCs). It should be noted that the change in the FY 2011 accrual methodology that is to be implemented by OAG and OAC at the fiscal year end closing may reverse in whole or in part any surplus in the Insurance Companies Gross Premiums Tax reflected in the May 2011 *Revenue Assessment Report*. Business Corporations Tax adjusted cash collections are $12.5 million or 18.8 percent more than the revised expected revenues. Fiscal year-to-date Business Corporations Tax adjusted cash collections include $818,010 of reimbursed HSTCs. It should be noted that the change in the FY 2011 accrual methodology that is to be implemented by OAG and OAC at the fiscal year end closing may reverse in whole or in part any surplus in the Business Corporations Tax reflected in the May 2011 *Revenue Assessment Report*. Sales and Use Tax cash collections exceed expected revenues by $5.2 million or 0.7 percent through May of FY 2011. The last general revenue source which is at least $1.0 million higher than expected revenues is Personal Income Tax adjusted cash collections which exceed expected revenues by $3.6 million or 0.4 percent. Fiscal year-to-date Personal Income Tax collections include $6.3 million of reimbursed HSTCs. Finally, the Lottery Transfer, Financial Institutions, Public Utilities Gross Earnings, Realty Transfer, Bank Deposits, and Racing and Athletics taxes adjusted cash collections are all greater than expected revised revenues but by less than $1.0 million through May of the fiscal year. A change in the calculation of the allowance for uncollectible revenues in Public Utilities Gross Earnings taxes will be implemented by the Division of Taxation for FY 2011.

On the negative side, two revenue items have adjusted cash collection that trail expected revised revenues by more than $1.0 million. The largest shortfall is in Inheritance and Gift Taxes which

are $19.6 million or 44.3 percent below expected collections. It should be noted that the change in the FY 2011 accrual methodology that is to be implemented by OAG and OAC at the fiscal year end closing may reverse in whole or in part any deficit in the Inheritance and Gift Tax reflected in the May 2011 *Revenue Assessment Report*. Cigarette Taxes cash collections are $2.6 million less than expected revised cash collections through May, a difference of -2.1 percent. Motor Vehicle Registration and License Fees, Health Care Provider Assessment, Alcohol, and Motor Fuel Use taxes adjusted cash collections are below expected revised revenues but by less than $1.0 million through May of FY 2011.



Rosemary Booth Gallogly, Director
Department of Revenue

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

	YTD May Estimate of Revised FY 2011		YTD May Adjusted Cash FY 2011		Difference		Variance
Personal Income Tax	$ 907,283,547		$ 910,905,660		$ 3,622,113		0.4%
General Business Taxes							
Business Corporations	66,465,444		78,945,004	*	12,479,560	@	18.8%
Public Utilities Gross Earnings	46,764,013		46,963,262	**	199,249		0.4%
Financial Institutions	689,586		1,012,147	***	322,561		46.8%
Insurance Companies	30,500,629		47,066,123		16,565,494	@	54.3%
Bank Deposits	844,031		879,271		35,240		4.2%
Health Care Provider Assessment	37,171,257		37,114,091		(57,166)		-0.2%
Excise Taxes							
Sales and Use	741,661,519		746,826,798		5,165,279		0.7%
Motor Vehicle	44,531,680		43,800,492	#	(731,188)		-1.6%
Motor Fuel	885,414		878,808		(6,606)		-0.7%
Cigarettes	124,332,080		121,705,724		(2,626,356)		-2.1%
Alcohol	10,608,836		10,598,272		(10,564)		-0.1%
Other Taxes							
Inheritance and Gift	44,150,619		24,579,783		(19,570,836)	@	-44.3%
Racing and Athletics	1,187,101		1,190,710		3,609		0.3%
Realty Transfer	5,866,473		5,915,682		49,209		0.8%
Total Taxes	**$ 2,062,942,229**		**$ 2,078,381,826**		**$ 15,439,598**		**0.7%**
Total Departmental Receipts	**$ 160,950,493**		**$ 162,872,108**	^,#	**$ 1,921,615**		**1.2%**
Taxes and Departmentals	**$ 2,223,892,722**		**$ 2,241,253,934**		**$ 17,361,212**		**0.8%**
Other General Revenue Sources							
Other Miscellaneous Revenues	8,463,794	+	8,463,794	^^	-		0.0%
Lottery Transfer	292,436,752		293,357,329	^^^	920,577		0.3%
Unclaimed Property	-	+	-		-		n/a
Total Other Sources	**$ 300,900,546**		**$ 301,821,123**		**$ 920,577**		**0.3%**
Total General Revenues	**$ 2,524,793,268**		**$ 2,543,075,057**		**$ 18,281,789**		**0.7%**

* Deducts $25.1 million in Business Corporations cash receipts received in FY 2011 that have been accrued back to FY 2010

** Deducts $3.3 million in Public Utilities Gross Earnings cash receipts received in July that were accrued back to FY 2010.

*** Adds back $1.7 million in Financial Institutions cash receipts that were issued as a refund in October that was accrued back to FY 2010.

^ Deducts $124,410,510 in Hospital Licensing Fees cash receipts and $7.1 million in disproportionate share revenues received in FY 2011 that were accrued back to FY 2010.

^ ^ Deducts for $1.8 million in Other Miscellaneous Revenues cash receipts received in FY 2011 that were accrued back to FY 2010.

^ ^ ^ Deducts for $1.6 million in Lottery Transfer cash receipts received in October 2010 that were accrued back to FY 2010.

Deducts $322,560 from Motor Vehicle License and Registration Fees and adds $322,560 to Departmental Receipts to correct for the misposting of Driving Record Abstracts fees in May 2011.

@ The change in the accrual methodology that is to be implemented by the Office of the Auditor General and the Office of Accounts and Controls at the fiscal year end closing may reverse in whole or in part any surplus or deficit reflected in the May 2011 Revenue Assessment Report

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

PIT Component	YTD Estimates	YTD Actuals	Difference	Variance
Estimateds	$ 134,055,859	$ 133,304,569	$ (751,290)	-0.6%
Finals	182,039,336	183,392,502	1,353,166	0.7%
Withholding	848,070,105	848,276,270	206,165	0.0%
Refunds	(256,881,753)	(254,067,682)	2,814,072	-1.1%
Total	**$ 907,283,547**	**$ 910,905,660**	**$ 3,622,113**	**0.4%**