



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUDGET OFFICE
One Capitol Hill
Providence, R.I. 02908-5886

To: The Honorable Donald L. Carcieri, Governor
The Honorable William J. Murphy, Speaker of the House
The Honorable Joseph A. Montalbano, President of the Senate

From: Rosemary Booth Gallogly, State Budget Officer
Russell C. Dannecker, Senate Fiscal Advisor
Michael O'Keefe, House Fiscal Advisor

Date: November 30, 2006

Subject: November 2006 Consensus Revenue Estimating Conference

Summary

The Revenue Estimating Conference met October 31, November 1, 2, and 10 in open public meetings. The conferees issued revised estimates for FY 2007 and initial estimates for FY 2008 shown in the attached tables. The adopted estimates reflect current projections for the Rhode Island economy and are based on current statutory provisions with respect to rates and assessments, including the expiration of the hospital licensing fee in FY 2007 and the impacts of historic preservation and motion picture tax credits, the phase out of long term capital gains taxes, and the ramp up of the flat tax on revenue collections.

At the November 10 meeting, the Conference revised the consensus revenue estimates for FY 2007 and FY 2008. The conferees decreased the FY 2007 revenue estimates by \$74.2 million from Enacted FY 2007 estimates. The FY 2007 revised revenue estimate is \$3.190 billion. This reflects a growth rate of 3.8 percent over the FY 2006 preliminary actual general revenues. The conferees estimated FY 2008 growth total general revenues of \$3.256 billion, an increase of \$66.2 million over the November 2006 consensus estimate for FY 2007. If one were to add the hospital tax of \$71.6 million to the FY 2008 adopted estimates, the growth rate would be 4.3 percent over the FY 2007 adopted estimates.

The Consensus Economic Forecast was adopted at the October 31 meeting after the principals heard testimony from its economic consultants, Larissa Duzhansky, Economist, U.S. Regional Service for Global Insight and Dr. Steven G. Cochrane, Senior Managing Director for Moody's

Economy.com Inc. Both economic consultants provided testimony on the recent performances of the U.S. and Rhode Island economies as well as their respective firm's forecasts. In general, the consultants agreed that the State's economy is on a path of slowing growth for FY 2007 with a moderate rebound in FY 2008, but they disagreed as to how sensitive Rhode Island's economy will be to downside risks, particularly in the housing market. In addition, Robert J. Langlais of the Rhode Island Department of Labor and Training gave testimony on the performance of the Rhode Island labor market over the past 12 months.

On November 2, the conferees heard testimony from Michael A. McNamara, Finance Administrator, and Sandra Lee, Controller, of the Rhode Island Lottery. They indicated that Powerball sales were down \$3.1 million on a year-to-date basis due the lack of large jackpots of \$200.0 million or more, being generated since February 2006's record high jackpot of \$365.0 million. In addition, monitor games, which consist primarily of Keno, had seen a slight decline in year-to-date sales through October of -0.6 percent despite adding Rhody Poker, a new monitor game. Mr. McNamara and Ms. Lee testified that Rhody Poker appears to be cannibalizing Keno sales to some degree.

Further, the Lottery's representatives testified that year-to-date combined Video Lottery Terminals (VLTs) Net Terminal Income (NTI) is down by 3.8 percent which they attribute to the extensive construction and parking problems at Lincoln Park and lower than usual NTI in the region in general. The Lottery's representatives informed the conferees that Lincoln Park had 3,602 installed and activated authorized VLTs available as of November 1, 2006 and that, during construction, the number of VLTs online will fluctuate until the completion date. On March 24, 2007, it is expected that Lincoln Park will have 4,340 VLTs in operation. Expected completion of construction at Lincoln Park is November 2007, at which time VLTs will total 4,752 at that facility. The Lottery's representatives informed the conferees that renovation delays due to denial of a zoning permit at Newport Grand has resulted in new plans for the construction of a new room within the current facility on the former jai alai courts and installation of additional machines. Further, a new hotel is planned to be built to the right of the Newport Grand parking lot. There was uncertainty concerning the ability of Newport Grand to proceed with those plans.

Richard Coffey and Paul Dombroski of the Office of the General Treasurer provided testimony on the performance of the State's unclaimed property program. As compared to their May 2006 estimates, the representatives from the Office of the General Treasurer testified that FY 2007 total revenues would be slightly higher due to expectations of higher sales prices from the FY 2007 stock sales. They indicated that total FY 2007 revenues would be down compared to FY 2006 and up again in FY 2008 due to de-mutualizations occurring in FY 2006 and FY 2008.

Ted Sanderson from the Rhode Island Historical Preservation & Heritage Commission provided testimony on the Historic Structure Tax Credits, and Stephen Feinberg of the Rhode Island Film & Television Office provided testimony on the Motion Picture Production Tax credits. In both cases the volume of credits had increased since the May 2006 Revenue Estimating Conference testimony. Since inception, Historic Structure Tax credits are projected to total \$372.5 million and Motion Picture Production Tax credits are projected to total \$35.1 million.

On November 2, David Sullivan, the state's Tax Administrator, testified before the Conference concerning tax collections for the FY 2007 year-to-date period through October. Also in attendance were John Nugent and Michael Derham. Mr. Sullivan told the principals that the \$41.1 million in unusually large Business Corporations Taxes paid in FY 2006 are not expected to continue into FY 2007 to the same degree and that no refunds are expected to be paid in the future in relation to these payments. In September 2006, another excessively large payment of \$13.0 million was made in Business Corporations Taxes but no further payments of this magnitude were indicated. Mr. Sullivan testified that the Tax Amnesty granted from July 1, 2006 through October 31, 2006 brought in \$6.7 million late tax payments and \$3.1 million in late interest payments deposited as general revenues in FY 2007. In addition, Mr. Sullivan updated the Conference on the State's Historic Preservation Tax Credits program, indicating that \$119.8 million worth of HPTC certificates had been issued to date with \$64.0 million having been used through the end of FY 2006.

Economic Forecast

The U.S. Economy

Dr. Cochrane and Ms. Duzhansky concur that the U.S. economic expansion is softening mostly due to corrections in the housing market but with an easing in energy prices cushioning the effect of adjustment on the overall economy. To date, the sources of U.S. economic growth have been consumer spending fueled by historically low interest rates that have kept housing markets strong. Both economists agree that the housing market slowdown has hit sooner and harder than previously expected, but with lower energy costs U.S. economic growth will be able to moderate rather than falter. Further, healthy job growth, even without residential construction employment, is expected to facilitate the U.S. economy in emerging from the contraction sooner than expected. In spite of easing energy costs an increase in inflation has been felt in the money market where increased interest rates have slowed consumer spending growth. In the near term, inflation and interest rates are expected to rise only slightly as increasing wages as passed through to consumer prices, meanwhile investment spending by businesses should strengthen employment and personal income growth in the future.

The Rhode Island Economy

The Conference focused its attention on the Rhode Island economy. The State's economic consultants agreed that Rhode Island will experience an economic slowdown. Both Global Insight and Economy.com believe that Rhode Island will face a variety of different risks in the near future. Such risks stem from an array of sources including higher than the national average unemployment, worsening household balance sheets, highly leveraged housing markets, and slower population growth than the rest of the country. Having been at the forefront of the housing market surge, Rhode Island has been among the first states to experience the fallout from dropping prices, sales, and construction employment which should also lead to an economic recovery sooner.

Moody's Economy.com

Dr. Cochrane reported that the Rhode Island economy is subject to a short-term slowdown but maintains a positive outlook for the long-term. Rhode Island's job growth has flagged and, although it is considered the weakest in the Northeast due mainly to shrinking manufacturing and transportation and utilities sectors, the financial services sector in Rhode Island is growing with the expectation that it will continue to increase as a source of employment and personal income growth. Unemployment in Rhode Island is higher than for the rest of New England and for the U.S. overall however the State's high levels of construction employment are due in large part to public infrastructure projects rather than residential housing construction and, as such, Rhode Island is poised for improvement in its employment situation while the rest of the nation is subject to sensitivity to residential construction. Despite being among the regions experiencing the highest price appreciation in terms of median sales price of single family homes Rhode Island is less reliant on construction employment than the rest of the U.S. Because Rhode Islanders have extracted a high ratio of equity to household income, they are considered at risk for credit quality deterioration which could put a damper on consumer spending. Dr. Cochrane concluded by noting that the Rhode Island economy has likely seen the peak in income growth however weak the jobs outlook for 2007 is expected to improve in 2008.

Global Insight

Ms. Duzhansky reported that Rhode Island employment growth from 2006 through 2011 is expected to average between 0.5 percent and 0.8 percent annually, among the lowest rates in the nation. However, she reported that Rhode Island personal income growth is expected to perform better for the same period, annually averaging between 4.9 percent and 5.0 percent, although it is expected to remain lower than the national average. Personal income growth was stronger in 2006 than in 2005. Global Insight's forecast for housing growth indicates that both single-family and multi-family home sales will slow in 2007 before improving in 2008 along with a higher rate of growth for home prices after 2007. Although Ms. Duzhansky does not expect price declines in Rhode Island home sales, Dr. Cochrane of Moody's Economy.com disagrees and estimates a price decline of approximately 2.0 percent before improvement in 2008. Ms. Duzhansky did cite further deterioration of the housing market as a downside risk to the State economy. Additional risks include response from the oil market to a colder than expected winter and further decline in the manufacturing sector. Ms. Duzhansky expects Rhode Island employment to grow more quickly than the U.S. average in 2007 but expects it to slow in 2008 while the national average improves.

Department of Labor and Training

Robert J. Langlais, Assistant Director of the Department of Labor and Training's Labor Market Information, testified that Rhode Island's unemployment rate was 5.6 percent in July and August 2006, the highest it has been since January 1996. It has since fallen to a 5.2 percent seasonally rate in September 2006, which represents an increase of one-tenths of a percentage point in the unemployment rate compared to September of 2005. Rhode Island's seasonally adjusted unemployment rate has been above that of the United States as a whole for 8 consecutive months. Unemployment insurance benefits continued to remain below prior year levels for the last three

years however the gap between FY 2007 and FY 2006 has narrowed considerably. Mr. Langlais testified that although the number of final payments for those collecting Unemployment insurance benefits was down by 5.9 percent between January and mid-October 2006 compared to the same period in 2005, the gap has been narrowing in recent weeks.

Average annual job totals have grown steadily for Rhode Island, increasing by 2,300 in the first three quarters of CY 2006 over the first three quarters of CY 2005. The largest gains in the first three quarters of CY 2006 have been seen in financial activities with a 5.0 percent increase in seasonally adjusted employment, professional and business services with a 2.7 gain, construction employment with a 5.5 percent gain, and educational and health services with a 1.2 percent gain. Smaller gains were seen in the leisure and hospitality segment with no change in government employment. These gains more than offset drops in manufacturing and trade, transportation and utilities.

The Consensus Economic Forecast

Legislation enacted by the 1998 Assembly amended the Revenue Estimating Conference statutes to require a consensus economic forecast. That forecast appears in the table below.

November 2006 Consensus Economic Forecast							
Annual Growth	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012
Nonfarm Employment (000's)	494.0	496.5	501.8	506.8	511.6	515.6	518.7
Nonfarm Employment Growth (%)	0.5	0.5	1.1	1.0	0.9	0.8	0.6
Personal Income (%)	6.0	4.5	4.5	4.7	4.7	4.5	4.4
Wage and Salaries Income (%)	6.0	3.9	4.2	4.4	4.4	4.2	3.9
Dividends, Interest and Rent (%)	7.4	6.5	6.3	6.3	5.9	6.0	5.4
Rates							
Unemployment Rate	5.4	5.6	5.6	5.5	5.4	5.4	5.5
Consumer Price Index (US)	3.4	2.3	2.0	2.0	2.0	2.0	2.2
Ten Year Treasuries	4.8	4.8	5.1	5.4	5.5	5.4	5.5
Three Month Treasuries	4.7	4.6	4.5	4.6	4.5	4.5	4.5
Annual Growth	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Nonfarm Employment (000's)	493.1	495.3	499.2	504.3	509.2	513.6	517.2
Nonfarm Employment Growth (%)	0.6	0.5	0.8	1.1	1.0	0.9	0.7
Personal Income (%)	4.6	5.3	4.5	4.6	4.7	4.6	4.5
Wage and Salaries Income (%)	4.6	5.0	4.1	4.3	4.4	4.3	4.1
Dividends, Interest and Rent (%)	3.7	7.0	6.4	6.3	6.1	6.0	5.7
Rates							
Unemployment Rate	5.2	5.5	5.6	5.6	5.5	5.4	5.5
Consumer Price Index (US)	3.8	2.9	2.2	2.0	2.0	2.0	2.1
Ten Year Treasuries	4.6	4.8	5.0	5.3	5.5	5.5	5.5
Three Month Treasuries	4.1	4.7	4.6	4.6	4.6	4.5	4.5

With respect to employment growth, the November 2006 Conference projects total non-farm employment growth of 0.5 percent in FY 2007 and 0.8 percent in FY 2008, 0.2 percentage points lower in FY 2007 and 0.1 percentage point lower in FY 2008 from the growth rates agreed upon at the May 2006 Conference. The difference in FY 2007 equates to 1,450 fewer jobs created in FY 2007 and as a result, 2,050 fewer jobs in FY 2008 than estimated in May. Despite the downward adjustment to non-farm employment, wage and salaries income growth has been revised upward from May 2006 estimates by 0.1 percentage point in FY 2007 although it was revised downward by 0.8 percentage points in FY 2008.

Wage and salaries are expected to move in line with personal income growth than with nonfarm employment growth overall. The November 2006 Conference forecasts that personal income will exceed May 2006 Conference expectations in FY 2007 then fall below May's forecast in FY 2008. Compared to May 2006 Conference, FY 2009 personal income growth is forecast to remain as expected and improve from 2010 through FY 2012 over previously estimated personal income growth.

Personal income is forecast to be more robust for the period FY 2007 – FY 2008 overall than expected in May, with growth in excess of inflation of 2.9 percent in FY 2007 and 2.2 percent in FY 2008. The Conferees forecast consumer price inflation to remain below 3.0 percent for the entire forecast horizon. This is consistent with the inflation forecast of the May FY 2006 Conference however after inflation proved higher than expected in FY 2006, from 3.2 percent to 3.8 percent, FY 2007 and FY 2008 consumer price inflation was revised upward by 0.4 and 0.1 percentage points respectively followed by downward revisions of 0.2 percentage points for each fiscal year in the remainder of the forecast period. The unemployment rate is projected to increase more than was anticipated in the May 2006 Conference. FY 2007 unemployment projections increased to 5.5 percent from 5.0 percent and FY 2008 unemployment was revised from 5.0 percent to 5.6 percent. This trend of increasing unemployment projections was consistent through FY 2012. Additionally, dividends, interest, and rent growth has been revised upward from May estimates for the entire period from FY 2007 through FY 2012 by 1.25 percentage points on average and no less than 1.1 percentage point in any of the forecast years.

FY 2007 Revenue Estimates

The November Revenue Estimating Conference revised FY 2007 total general revenues to \$3.190 billion, growth of 1.5 percent. This results in growth of \$46.5 million over preliminary FY 2006 total general revenues as compared to enacted growth of \$120.7 million over preliminary FY 2006 total general revenues.

November Revenue Estimates versus Enacted Estimates and Preliminary FY 2006 Collections

Compared to the Enacted 2007 revenue estimate, **total general revenues** in FY 2007 were revised lower by \$74.2 million or 2.3 percent. The Enacted estimate of FY 2007 total general revenues was \$3.264 billion. Total taxes in FY 2007 were estimated in November 2006 to be

\$2.533 billion versus \$2,482 billion in preliminary FY 2006, an increase of 2.0 percent. FY 2007 other general revenue sources, including departmental receipts and the lottery transfer to the general fund, were revised down by \$78.7 million in November from the enacted estimate of \$735.4 million. FY 2007 total revenues are estimated to increase by 1.5 percent over preliminary FY 2006 collections of \$3.143 billion.

The revised FY 2007 estimate for **personal income taxes** is \$1.068 billion and represents growth of 7.2 percent from preliminary FY 2006 personal income tax collections and 1.6 percent from the FY 2007 enacted estimate. The enacted growth rate for FY 2007 was 5.5 percent. The largest increases in personal income tax components was in withholding payments at 8.0 percent above preliminary FY 2006 and 1.0 percent above the enacted estimate, and in estimated payments at 7.6 percent more than preliminary FY 2006 and 7.7 percent more than the enacted estimate. Both of these components had shown slowing growth since FY 2005. Personal income taxes are the largest single source of revenue for the State. It should be noted that, while specific amounts were not agreed on, the personal income tax estimate includes the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

The Conference's revised FY 2007 estimate of **general business tax** collections is \$338.0 million, a growth rate of -8.1 percent from preliminary FY 2006 collections of \$367.6 million. The FY 2007 November Conference's revised estimate is \$18.4 million above the enacted FY 2007 estimate, a growth rate of 5.8 percent. While business corporations taxes are estimated to decrease by 17.3 percent over preliminary FY 2006, and the business corporations tax was revised upward by \$15.3 million, this is an increase of 12.4 percent over the enacted FY 2007 estimate of \$122.3 million. In addition, health provider assessments are projected to grow by 3.2 percent over preliminary FY 2006 collections. It should be noted that, while specific amounts were not agreed on, the general business tax estimates includes the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections. The estimates also include decreased public utilities gross earnings tax receipts resulting from energy fund credits.

The State's second largest revenue source remains the **sales and use tax**. The conferees estimated FY 2007 sales and use tax collections of 24.9 million, or 2.9 percent, over preliminary FY 2006 collections. Relative to the enacted estimate of FY 2007 sales and use taxes, the November Conference revised FY 2007 estimate is \$25.8 million, or 2.8 percent, less. The decrease in the FY 2007 estimate reflects weakening fiscal year-to date sales tax collections due to decreases in consumer spending from a slowdown in major purchases such as cars, which are subject to the Rhode Island sales tax.

The conferees November 2006 revised FY 2007 estimate for **other sales and use taxes** is \$81.7 million, a decrease of \$4.2 million or 2.3 percent, from the enacted estimate. Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The November Conference FY 2007 estimate is \$8.4 million below preliminary FY 2006 collections, a decrease of 4.4 percent. The difference between the revised November FY 2007 estimate and

the enacted estimate is due to a decrease of \$2.0 million in motor vehicle fees and a decrease of \$2.1 million in cigarette taxes. The decrease in motor vehicle fees is directly correlated with the decline in car and light truck sales over the past year. The decrease in cigarette tax collections is the result of consumption declines due to higher cigarette prices as well as illegal sales of cigarettes without official stamps.

The Conference's revised FY 2007 estimate for **inheritance, racing and athletics, and realty transfer taxes** is \$49.4 million. The revised November FY 2007 estimate is \$973,614, or 1.9 percent, below the enacted FY 2007 estimate. The decrease from the November FY 2007 estimate is primarily a result of the principals decreasing the estimate for realty transfer tax collections by \$1.2 million. This decrease was based on fiscal year-to-date collections and forecasted price and volume declines in the local housing market. The November FY 2007 other taxes revenues estimate is \$8.1 million lower than preliminary FY 2006 collections.

The principals adopted a revised estimate of \$295.2 million for FY 2007 **departmental receipts** at the November Conference. These receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues. The revised November FY 2007 estimate is a decrease of \$1.2 million, or 0.4 percent, from the enacted FY 2007 estimate. The November FY 2007 estimate for departmental receipts is an increase of \$7.8 million, or 2.7 percent, over preliminary FY 2006 collections.

Other source revenues consist of transfers to the general fund from motor fuel taxes deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources, including DEPCO settlement payments. The principals' revised FY 2007 estimate for these revenue sources is \$361.5 million, a decrease of \$77.5 million from the enacted FY 2007 estimate. The decrease from November's estimate is due to downward revisions in the other miscellaneous sources of \$35.2 million and in the lottery transfer of \$41.5 million adopted by the Conference's principals. A decrease of \$40.0 million in other miscellaneous sources is based on testimony from the Department of Business Regulation that the proceeds from the AIG settlement will most likely be received in FY 2008 rather than in FY 2007. At the time of the May 2006 Revenue Estimating Conference, the principals incorporated \$40.0 million in the 2007 fiscal year with the understanding that another \$40.0 million would be available by FY 2008.. However, the department's testimony in November 2006 indicated that the settling states were requesting a six month extension by to the State of New York, which if granted, would allow states further time to resolve legal issues surrounding acceptance of the settlement.

Further, \$35.2 million of the decrease in other revenue sources is due to the downward revision in the lottery transfer of \$41.5 million. The FY 2007 revised estimate is \$12.1 million less than FY 2006 preliminary collections. The revised FY 2007 estimate for the **lottery transfer** is \$321.0 million, a decrease of \$41.5 million from the enacted FY 2007 estimate. The revised growth in Lottery receipts in FY 2007 is -0.9 percent over preliminary FY 2006 revenues. The principals' revised FY 2007 estimated growth in the transfers to the general fund from video lottery terminals is -0.5 percent over preliminary FY 2006 revenues, for a total of \$255.0 million. The estimate reflects the negative year-to-date growth evidenced at Lincoln Park.

FY 2008 Revenue Estimates

The November Revenue Estimating Conference set initial FY 2008 total general revenues \$66.2 million greater than consensus FY 2007 total general revenues adopted in November. This original estimate represents a growth rate of 2.1 percent. If one were to adjust for the renewal of the hospital licensing tax of an estimated \$71.6 million, the growth would be 4.3 percent. Total FY 2008 general revenues adopted at the November Conference were \$3.256 billion.

November FY 2008 Revenue Estimates versus November FY 2007 Estimates

The November 2006 estimate of FY 2008 **total general revenues** was \$3.256 billion, 2.1 percent more than the revised estimate for FY 2007, and do not include the hospital licensing fee. Total taxes in FY 2008 were estimated to be \$2.574 billion in November, an increase of 1.6 percent over FY 2007 taxes estimated in November 2006. FY 2008 other general revenue sources, including departmental receipts and the lottery transfer to the general fund, were estimated at \$681.6 million.

The FY 2008 estimate for **personal income taxes** is \$1.088 billion and represents growth of 1.8 percent from November consensus FY 2007 personal income tax collections. The largest increase in personal income tax components was in income tax withholding payments at 4.4 percent above the consensus November FY 2007 estimate. The largest decrease in personal income tax components was in income tax estimated payments at -6.6 percent less than the consensus November FY 2007 estimate. Personal income taxes are the largest single source of revenue for the State. It should be noted that, while specific amounts were not agreed on, the personal income tax estimate includes the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits as well as the second phase of the flat tax rate reduction and the ending of tax liability on capital gains held for five or more years on collections.

The Conference's FY 2008 estimate of **general business tax** collections is \$328.8 million, a growth rate of -2.7 percent from November consensus FY 2007 general business tax collections of \$338.0 million. The primary driver of the estimated decrease in general business taxes between FY 2007 and FY 2008 is business corporations' taxes which are estimated to decrease by 17.3 percent from FY 2007. The slowing in general business taxes between FY 2007 and FY 2008 is due to a projected decrease in business corporations taxes that more than offsets the modest gains forecast for the other general business tax components. The primary reason for this decrease in business corporation taxes is the expected discontinuation of excessively high payments in FY 2007. It should be noted that, while specific amounts were not agreed to, the general business tax estimates includes the projected impact of the Rhode Island Historic Preservation Tax Credits and Motion Picture Production Tax Credits on collections.

The State's **sales and use tax** is projected to be the second largest revenue source in FY 2008. The principals estimated the FY 2008 sales tax revenues would be \$929.5 million, an increase of

\$34.5 million, or 3.9 percent, over the consensus FY 2007 estimate. The increase in the FY 2008 estimate is mostly due to the expectation of a rebound in the overall state economy after the correction to the housing market completes.

The conferees' November 2006 FY 2008 estimate for **other sales and use taxes** is \$178.9 million, a decrease of \$2.8 million or -1.5 percent, from the revised FY 2007 estimate. Other sales and use taxes include motor vehicle fees, motor fuel taxes, and cigarette and alcohol excise taxes. The difference between the FY 2007 estimate and the FY 2008 estimate is due to a decrease of \$4.5 million in cigarette taxes.

The Conference's revised FY 2008 estimate for **inheritance, racing and athletics, and realty transfer taxes** is \$49.4 million. There is no difference between the FY 2007 estimate and the FY 2008 estimate for this group of taxes; however, each is heading in a different direction individually. Inheritance taxes are expected to remain at the same levels in FY 2008 as estimated in FY 2007. The increase of \$300,000 from the FY 2007 realty tax estimate is offset by the decrease of \$300,000 from the FY 2007 racing and athletics tax.

The estimators adopted an estimate of \$236.3 million for FY 2008 **departmental receipts** at the November Conference. These receipts include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental revenues deposited as general revenues. The November FY 2008 estimate is a decrease of \$58.9 million from the consensus FY 2007 estimate. It should be noted that the conferees are limited to estimating revenues under current law which specifies the expiration of the hospital licensing fee at the end of FY 2007. The November FY 2007 estimate for the hospital licensing fee is \$71.6 million. In addition, the disproportionate share ("dish") reimbursement to Slater Hospital will not be paid in FY 2007 and will be paid again in FY 2008. Thus, the decrease in November FY 2008 departmental receipts is accounted for by the expiration of the hospital licensing fee and the resumption of the "dish" payment. The November FY 2008 departmental receipts estimate is a decrease 20.0 percent from the consensus FY 2007 estimate.

The conferees' FY 2008 estimate for **other source revenues** is \$445.3 million, an increase of \$83.8 million from the FY 2007 estimate. This increase is a result of an increase in the estimate for the other miscellaneous revenues of \$65.0 million and an increase in the estimate for the lottery transfer of \$16.7 million. The remaining increase is from the increase in unclaimed property estimate of \$2.1 million for FY 2008.

The November FY 2008 estimate for the **lottery transfer** is \$337.7 million, an increase of 5.2 percent from the November FY 2007 estimate. The conferees estimated FY 2008 growth in the transfers to the general fund from video lottery terminals to be 5.5 percent over FY 2007 revenues, for a total of \$269.1 million. The growth from FY 2007 to FY 2008 does include the expected impact from the introduction of additional video lottery terminals at Lincoln Park in FY 2008.

The FY 2008 estimate for **other miscellaneous revenues** includes \$80.0 million anticipated from the AIG settlement, including \$40.0 million shifted from FY 2007 and \$40.0 million planned for FY 2008.

November 2006 Consensus Estimates	FY 2006 Preliminary		FY 2007 Consensus		FY 2008 Consensus	
Personal Income Tax	\$ 996,792,298	1.8%	\$ 1,068,800,000	7.2%	\$ 1,087,600,000	1.8%
General Business Taxes						
Business Corporations	166,230,970	43.3%	137,500,000	-17.3%	129,000,000	-6.2%
Public Utilities Gross	96,027,349	11.2%	96,700,000	0.7%	95,900,000	-0.8%
Financial Institutions	3,988,509	-369.4%	1,000,000	-74.9%	1,000,000	0.0%
Insurance Companies	52,877,704	-0.9%	52,700,000	-0.3%	51,700,000	-1.9%
Bank Deposits	1,494,366	-2.0%	1,600,000	7.1%	1,600,000	0.0%
Health Care Provider	47,002,360	0.4%	48,500,000	3.2%	49,600,000	2.3%
Sales and Use Taxes						
Sales and Use	870,131,045	2.6%	895,000,000	2.9%	929,500,000	3.9%
Motor Vehicle	52,625,943	11.6%	48,000,000	-8.8%	49,000,000	2.1%
Motor Fuel	53,635	-97.3%	1,000,000	1764.5%	1,100,000	10.0%
Cigarettes	126,522,196	-7.2%	121,700,000	-3.8%	117,500,000	-3.5%
Alcohol	10,870,193	3.2%	11,000,000	1.2%	11,300,000	2.7%
Other Taxes						
Inheritance and Gift	39,383,663	19.4%	32,500,000	-17.5%	32,500,000	0.0%
Racing and Athletics	3,489,811	-12.6%	3,100,000	-11.2%	2,800,000	-9.7%
Realty Transfer	14,591,822	1.2%	13,800,000	-5.4%	14,100,000	2.2%
Total Taxes	2,482,081,864	4.4%	2,532,900,000	2.0%	2,574,200,000	1.6%
Departmental Receipts	287,430,365	7.3%	295,200,000	2.7%	236,300,000	-20.0%
Gas Tax Transfer	4,322,195	-52.1%	4,685,000	8.4%	4,685,000	0.0%
Other Miscellaneous	31,163,069	10.5%	25,536,000	-18.1%	90,505,000	254.4%
Lottery	323,899,490	5.3%	321,000,000	-0.9%	337,700,000	5.2%
Unclaimed Property	14,243,183	-8.8%	10,300,000	-27.7%	12,400,000	20.4%
Total General Revenues	\$ 3,143,140,166	4.6%	\$ 3,189,621,000	1.5%	\$ 3,255,790,000	2.1%

Enacted versus November 2006 Consensus Estimates	November 2006 FY 2007 Estimate	Change to Enacted	November 2006 FY 2008 Estimate	Change from FY 2007	Growth
Personal Income Tax	\$ 1,068,800,000	\$ 17,010,639	\$ 1,087,600,000	\$ 18,800,000	1.8%
General Business Taxes					
Business Corporations	137,500,000	15,209,064	129,000,000	(8,500,000)	-6.2%
Public Utilities Gross	96,700,000	(2,600,000)	95,900,000	(800,000)	-0.8%
Financial Institutions	1,000,000	7,200,000	1,000,000	-	0.0%
Insurance Companies	52,700,000	-	51,700,000	(1,000,000)	-1.9%
Bank Deposits	1,600,000	-	1,600,000	-	0.0%
Health Care Provider	48,500,000	(1,364,000)	49,600,000	1,100,000	2.3%
Sales and Use Taxes					
Sales and Use	895,000,000	(25,774,717)	929,500,000	34,500,000	3.9%
Motor Vehicle	48,000,000	(2,000,000)	49,000,000	1,000,000	2.1%
Motor Fuel	1,000,000	(106,029)	1,100,000	100,000	10.0%
Cigarettes	121,700,000	(2,091,000)	117,500,000	(4,200,000)	-3.5%
Alcohol	11,000,000	-	11,300,000	300,000	2.7%
Other Taxes					
Inheritance and Gift	32,500,000	426,386	32,500,000	-	0.0%
Racing and Athletics	3,100,000	(200,000)	2,800,000	(300,000)	-9.7%
Realty Transfer	13,800,000	(1,200,000)	14,100,000	300,000	2.2%
Total Taxes	2,532,900,000	4,510,343	2,574,200,000	41,300,000	1.6%
Departmental Receipts	295,200,000	(1,232,332)	236,300,000	(58,900,000)	-20.0%
Gas Tax Transfer	4,685,000	(242,335)	4,685,000	-	0.0%
Other Miscellaneous	25,536,000	(35,243,212)	90,505,000	64,969,000	254.4%
Lottery	321,000,000	(41,500,000)	337,700,000	16,700,000	5.2%
Unclaimed Property	10,300,000	(500,000)	12,400,000	2,100,000	20.4%
Total General Revenues	\$ 3,189,621,000	\$ (74,207,536)	\$ 3,255,790,000	\$ 66,169,000	2.1%