

Office of Legislative Services May Revenue Update

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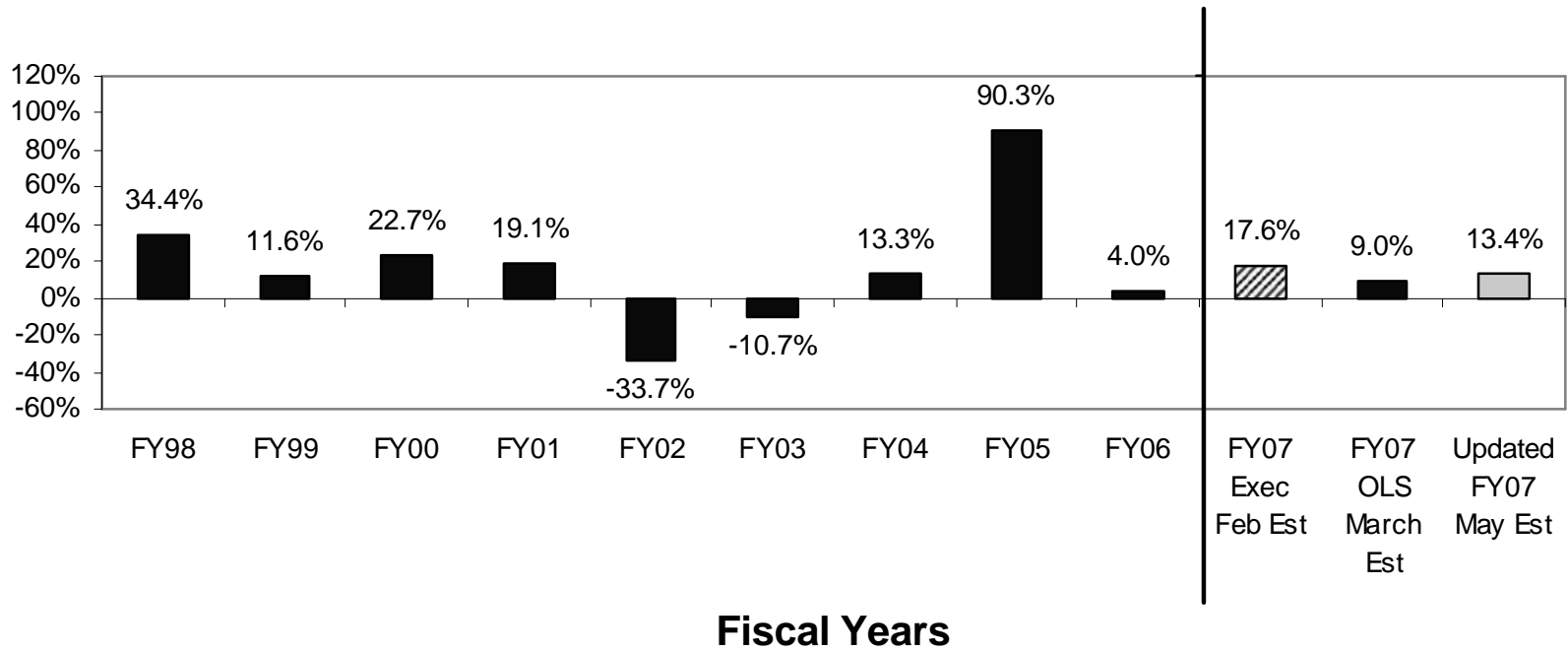
Revenue Outlook Improves, But Still Below Governor's Original Target

- March Revenue Estimates included an OLS warning that revenues could fall \$625 million below the Governor's Budget Message.
- Revenue collections jumped in March and April.
- Potential Revenue shortfall now estimated at \$88 million.
- Reasons for revenue spike and future implications remain murky.

Some Revenues Remain Weak

- Lower OLS estimates in March focused on income tax final payments and sales tax.
- Income tax final tax payments fell short of GBM by about \$80 million.

Figure 9 Updated: April and May Income Tax Final Payments Percentage Growth



- April and May final tax payments up an estimated 13%.
- Midway between previous estimates, but short of Executive target by about \$80 million.

Some Revenues Remain Weak

- Lower OLS estimates in March focused on income tax final payments and sales tax.
- Income tax final tax payments fell short of GBM by about \$80 million.
- Sales tax revenues appear to be more than \$200 million below GBM.

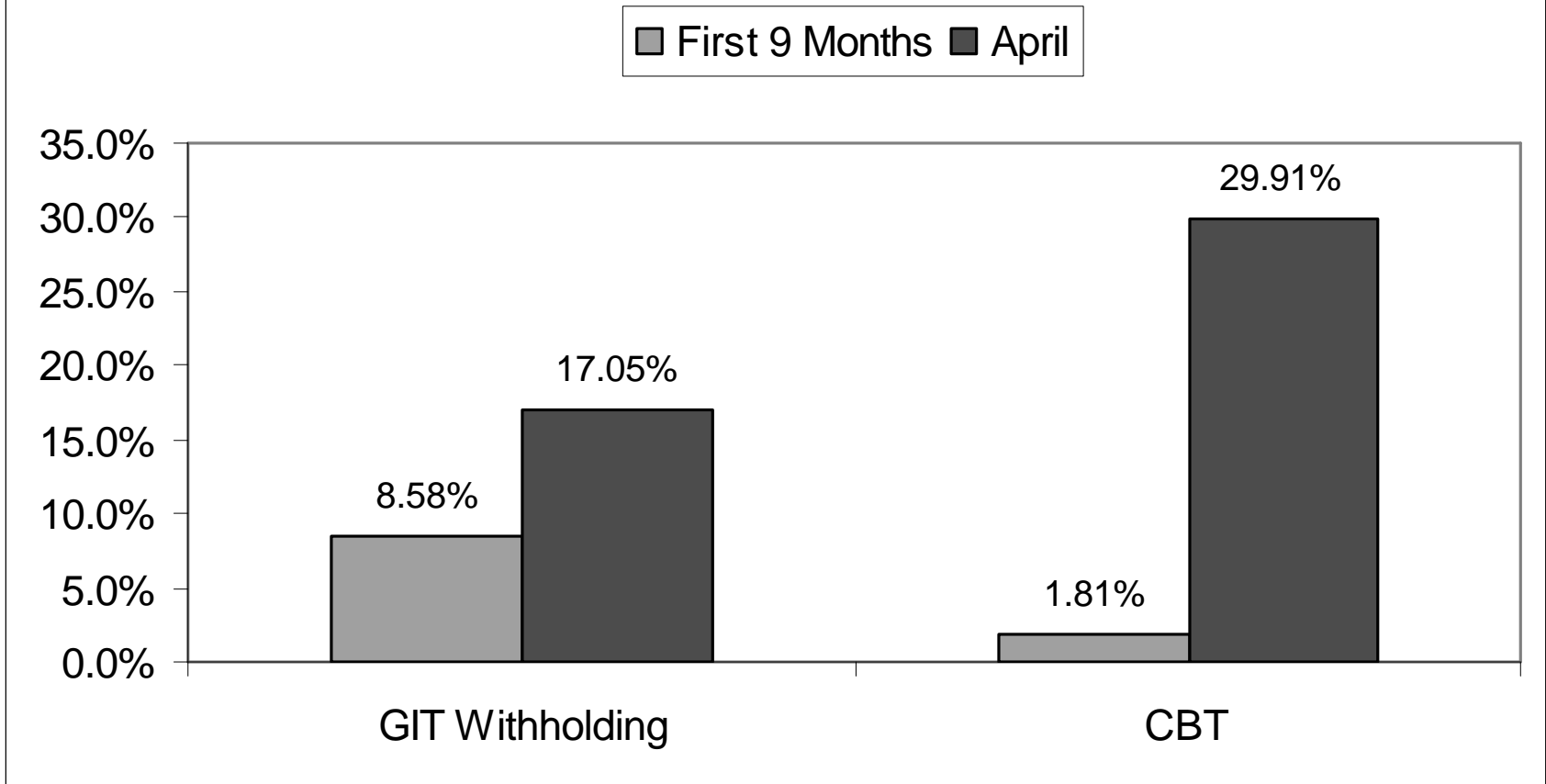
Sales Tax

- GBM estimated 25% growth in FY07.
- Actual growth through 3rd Quarter is 20%.
- Tax would need 37% growth in 4th Quarter to hit GBM target.
- OLS estimates 24% growth in 4th Quarter.
- Shortfall of \$228 million in FY07.
- Shortfall of \$243 million in FY08.

Other Revenues Surged Unexpectedly

- Income tax withholding is more than \$100 million above expectations.
- Corporation business tax revenues spiked upward by \$340 million in March and April.

FY 2007 Growth Comparison for Selected Revenues



- April GIT withholding growth rate doubled first 9 months.
- April CBT soared by nearly 30%, compared to under 2% growth in the first 3 quarters.

Income Tax

- Withholding strength is unexpected and seems unsupported by employment data.
- Withholding may be driven by the exercise of stock options and late bonus payments.
- Withholding jump offsets shortfall in final payments.
- GIT will get an estimated \$70 million bonus transfer from certain partnership revenues.
- OLS GIT estimates now close to the Governor's Budget for each fiscal year.

Corporation Business Tax

- Spring surge comes from 2 sources.
- Revenue from tax enforcement efforts is up 52%, or just over \$100 million so far.
- Payments from partnerships on behalf of non-resident individual and corporate partners are up 55%, or nearly \$180 million so far.
- A partnership tax law change has accelerated certain payments into FY07.

Corporation Business Tax (continued)

- OLS expects CBT surge to push revenue in FY07 close to \$3.0 billion, \$265 million more than prior estimates.
- FY08 revenues estimated at \$2.5 billion, \$158 million more than prior estimates.
- Corporation bank and financial institutions will also add \$90 million over both FY's.
- Total corporate revenue estimates are up a remarkable \$513 million.

Summary of OLS May Revenue Revisions

- OLS estimates for FY07 and FY08 combined are \$88 million below the estimates in the GBM.
- FY07 = \$80 million above GBM.
- FY08 = \$168 million below GBM.