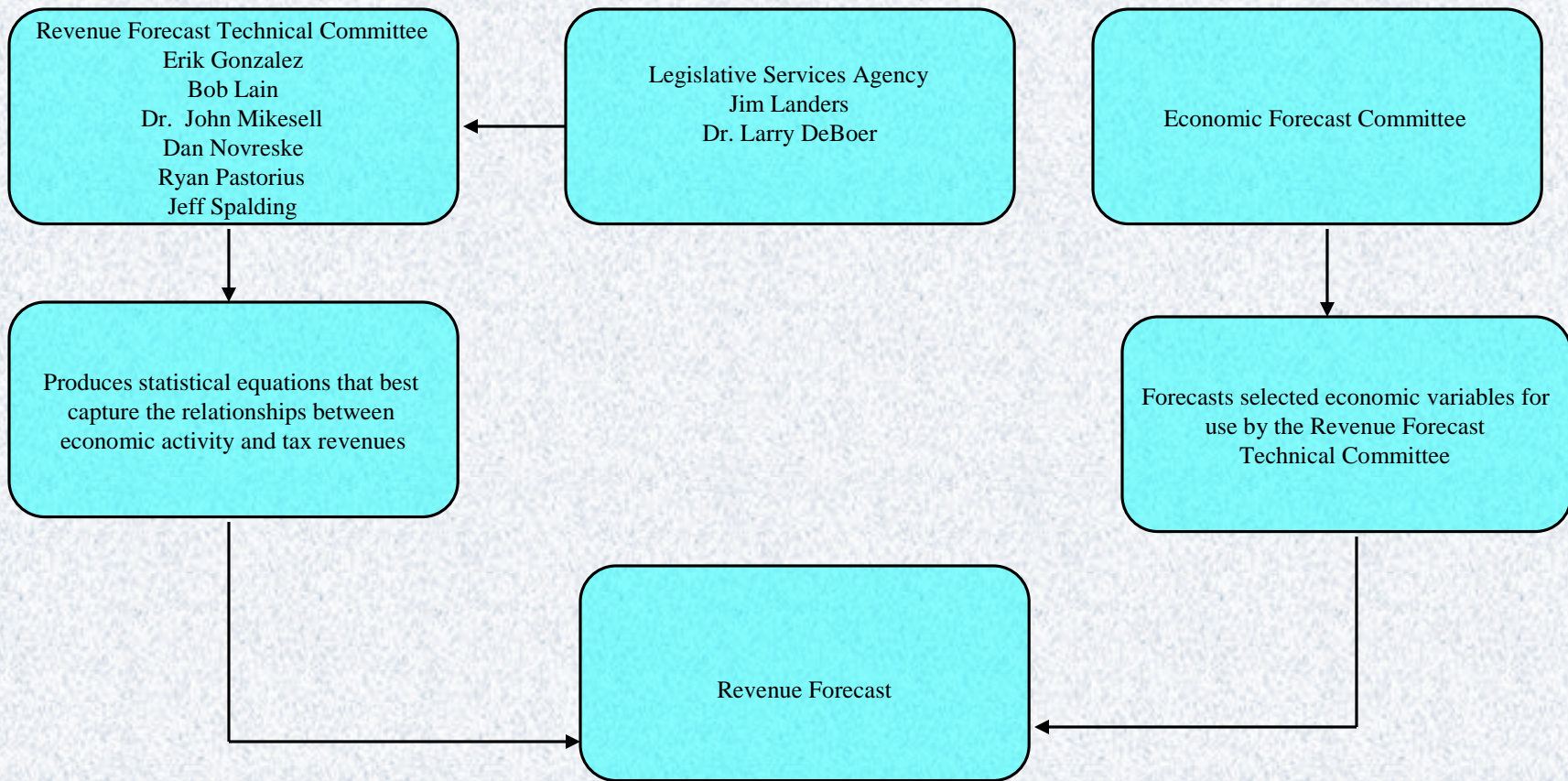


**GENERAL FUND AND PROPERTY TAX REPLACEMENT FUND  
REVENUE FORECAST**

**REVENUE FORECAST TECHNICAL COMMITTEE  
DECEMBER 14, 2006**



# GENERAL FUND AND PROPERTY TAX REPLACEMENT FUND REVENUE FORECAST PROCESS





# LOCAL OPTION INCOME TAXES

- Distributions of local income taxes are determined based on tax returns processed during the previous fiscal year.
  - Example:
    - CY 2006 distributions = amounts reported on tax returns processed during FY 2005
    - Tax returns processed during FY 2005 = returns for tax years 2003 and 2004
    - Transfers from current month revenues in FY 2006 = CY 2006 distributions
    - Transfers from current month revenues in FY 2006 = tax years 2003 and 2004 liabilities
    - Local income tax collections in FY 2006 are for tax years 2005 and 2006
  - Implications:
    - As long as incomes are growing, transfers from current month revenues will be less than current month collections of local income taxes.
    - This difference represents a liability that under statute must be distributed to local units once the exact amount is determined and allocated to the counties.
  - Incorporation into the forecast:
    - The Committee has determined that removing the differences between estimated local income tax collections and estimated transfers out of current period revenues provides an undistorted forecast of state income tax revenues.
    - Therefore, the Committee has incorporated these estimated differences into its individual income tax forecasts. These differences are estimated to be \$71.4M in FY 2007, \$48.3M in FY 2008, and \$27.5M in FY 2009.
  - Caveat:
    - These adjustments are based on the Committee's aggregate estimates of local income tax collections and transfers out. The exact amounts of the differences and the counties to which the differences should be allocated will not be known until tax returns for the respective periods are filed and processed.



## FORECAST OVERVIEW

- The FY 2007 forecast
  - Forecasted growth over FY 2006 = 2.5% or \$298.2M
- The FY 2008 forecast
  - Forecasted growth over FY 2007 = 4.2% or \$514.9M
- The FY 2009 forecast
  - Forecasted growth over FY 2008 = 4.5% or \$574.8M



**STATE REVENUE FORECAST**  
**Combined General Fund and Property Tax Replacement Fund**  
**Fiscal Years 2007, 2008, and 2009**  
**December 14, 2006**  
(in millions)

	<u>Actual</u> <u>2006</u>	<u>Prior</u> <u>Forecast</u> <u>2007</u>	<u>Updated</u> <u>Forecast</u> <u>2007</u>	<u>Diff. From</u> <u>Prior</u> <u>Forecast</u>	<u>Percent</u> <u>Diff. From</u> <u>Prior</u> <u>Forecast</u>	<u>Percent</u> <u>Growth</u> <u>Over</u> <u>2006</u>	<u>Forecast</u> <u>2008</u>	<u>Percent</u> <u>Growth</u> <u>Over</u> <u>2007</u>	<u>Forecast</u> <u>2009</u>	<u>Percent</u> <u>Growth</u> <u>Over</u> <u>2008</u>
<b><u>General &amp; PTR Funds</u></b>										
Sales	5,226.3	5,472.1	5,365.7	-106.4	-1.9%	2.7%	5,598.1	4.3%	5,858.7	4.7%
Individual	4,322.4	4,522.5	4,494.6	-27.9	-0.6%	4.0%	4,736.9	5.4%	4,993.1	5.4%
Corporate	925.4	803.8	894.9	91.1	11.3%	-3.3%	901.0	0.7%	923.1	2.5%
Subtotal "Big Three"	10,474.1	10,798.4	10,755.2	-43.2	-0.4%	2.7%	11,236.0	4.5%	11,774.9	4.8%
Gaming	589.9	636.3	626.7	-9.6	-1.5%	6.2%	656.8	4.8%	688.0	4.8%
Cigarette	298.0	300.2	302.6	2.4	0.8%	1.5%	306.3	1.2%	310.6	1.4%
AB Taxes	15.0	15.2	15.2	0.0	0.0%	1.7%	15.5	2.0%	15.9	2.6%
Inheritance	148.9	140.0	140.0	0.0	0.0%	-6.0%	140.0	0.0%	140.0	0.0%
Insurance	174.1	175.7	175.7	0.0	0.0%	0.9%	175.7	0.0%	175.7	0.0%
Interest	84.5	75.6	130.6	55.0	72.8%	54.5%	130.6	0.0%	130.6	0.0%
Other	275.8	207.5	212.5	5.0	2.4%	-23.0%	212.5	0.0%	212.5	0.0%
Subtotal	996.3	914.2	976.6	62.4	6.8%	-2.0%	980.6	0.4%	985.3	0.5%
<b><u>Total General &amp; PTR Funds</u></b>	12,060.3	12,348.9	12,358.5	9.6	0.1%	2.5%	12,873.4	4.2%	13,448.2	4.5%



**STATE REVENUE FORECAST**  
**Detail for General Fund and Property Tax Replacement Fund**  
**Fiscal Years 2007, 2008, and 2009**  
**December 14, 2006**  
**(in millions)**

	<u>Actual 2006</u>	<u>Prior Forecast 2007</u>	<u>Updated Forecast 2007</u>	<u>Diff. From Prior Forecast</u>	<u>Percent Diff. From Prior Forecast</u>	<u>Percent Growth Over 2006</u>	<u>Forecast 2008</u>	<u>Percent Growth Over 2007</u>	<u>Forecast 2009</u>	<u>Percent Growth Over 2008</u>
<b>General Fund</b>										
Sales	2,576.3	2,713.8	2,654.6	-59.1	-2.2%	3.0%	2,776.2	4.6%	2,905.5	4.7%
Individual	3,706.6	3,889.4	3,870.3	-19.1	-0.5%	4.4%	4,073.7	5.3%	4,294.1	5.4%
Corporate	925.4	803.8	894.9	91.1	11.3%	-3.3%	901.0	0.7%	923.1	2.5%
<b>Subtotal "Big Three"</b>	<b>7,208.3</b>	<b>7,406.9</b>	<b>7,419.8</b>	<b>12.9</b>	<b>0.2%</b>	<b>2.9%</b>	<b>7,751.0</b>	<b>4.5%</b>	<b>8,122.7</b>	<b>4.8%</b>
Cigarette	298.0	300.2	302.6	2.4	0.8%	1.5%	306.3	1.2%	310.6	1.4%
AB Taxes	15.0	15.2	15.2	0.0	0.0%	1.7%	15.5	2.0%	15.9	2.6%
Inheritance	148.9	140.0	140.0	0.0	0.0%	-6.0%	140.0	0.0%	140.0	0.0%
Insurance	174.1	175.7	175.7	0.0	0.0%	0.9%	175.7	0.0%	175.7	0.0%
Interest	84.5	75.6	130.6	55.0	72.8%	54.5%	130.6	0.0%	130.6	0.0%
Other	275.8	207.5	212.5	5.0	2.4%	-23.0%	212.5	0.0%	212.5	0.0%
<b>Subtotal</b>	<b>996.3</b>	<b>914.2</b>	<b>976.6</b>	<b>62.4</b>	<b>6.8%</b>	<b>-2.0%</b>	<b>980.6</b>	<b>0.4%</b>	<b>985.3</b>	<b>0.5%</b>
<b>Total General Fund</b>	<b>8,204.6</b>	<b>8,321.1</b>	<b>8,396.4</b>	<b>75.3</b>	<b>0.9%</b>	<b>2.3%</b>	<b>8,731.6</b>	<b>4.0%</b>	<b>9,108.0</b>	<b>4.3%</b>
<b>PTR Fund</b>										
Sales	2,650.1	2,758.3	2,711.1	-47.3	-1.7%	2.3%	2,821.9	4.1%	2,953.2	4.7%
Individual	615.7	633.2	624.3	-8.8	-1.4%	1.4%	663.2	6.2%	699.0	5.4%
Gaming	589.9	636.3	626.7	-9.6	-1.5%	6.2%	656.8	4.8%	688.0	4.8%
<b>Total PTR Fund</b>	<b>3,855.7</b>	<b>4,027.8</b>	<b>3,962.1</b>	<b>-65.7</b>	<b>-1.6%</b>	<b>2.8%</b>	<b>4,141.8</b>	<b>4.5%</b>	<b>4,340.2</b>	<b>4.8%</b>
<b>Total General &amp; PTR Funds</b>	<b>12,060.3</b>	<b>12,348.9</b>	<b>12,358.5</b>	<b>9.6</b>	<b>0.1%</b>	<b>2.5%</b>	<b>12,873.4</b>	<b>4.2%</b>	<b>13,448.2</b>	<b>4.5%</b>



## THE IMPACTS OF THE LOCAL INCOME TAX ADJUSTMENTS ON THE FORECAST

		ESTIMATED			
		LOIT COLL.	REVENUE	CHG	% CHG.
		IN EXCESS	NET OF	FROM	FROM
	<u>REVENUE</u>	<u>OF TRANSFERS</u>	<u>LOIT EXCESS</u>	<u>PRIOR YR</u>	<u>PRIOR YR</u>
FY 2006 (Actual)	4,322.4	55.2	4,267.2		
FY 2007 (Forecast)	4,566.0	71.4	4,494.6	227.4	5.33%
FY 2008 (Forecast)	4,785.2	48.3	4,736.9	242.3	5.39%
FY 2009 (Forecast)	5,020.6	27.5	4,993.2	256.3	5.41%



While the Revenue Forecast Technical Committee strives to produce the best possible forecasts for each revenue source, it is unlikely each component of this forecast will prove to be completely accurate. The Committee believes that in total it has produced a realistic and responsible forecast.