

# Idaho General Fund Revenue Forecasts for FY08 and FY09

Presented to the Joint Legislative  
Economic Outlook and Revenue  
Assessment Committee

**C. Scott Benson, Jr.**, Idaho State University  
**Stephen Cooke**, University of Idaho  
**Don Holley**, Boise State University

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# Actual & Forecasted General Fund Revenues

(nominal \$ million)

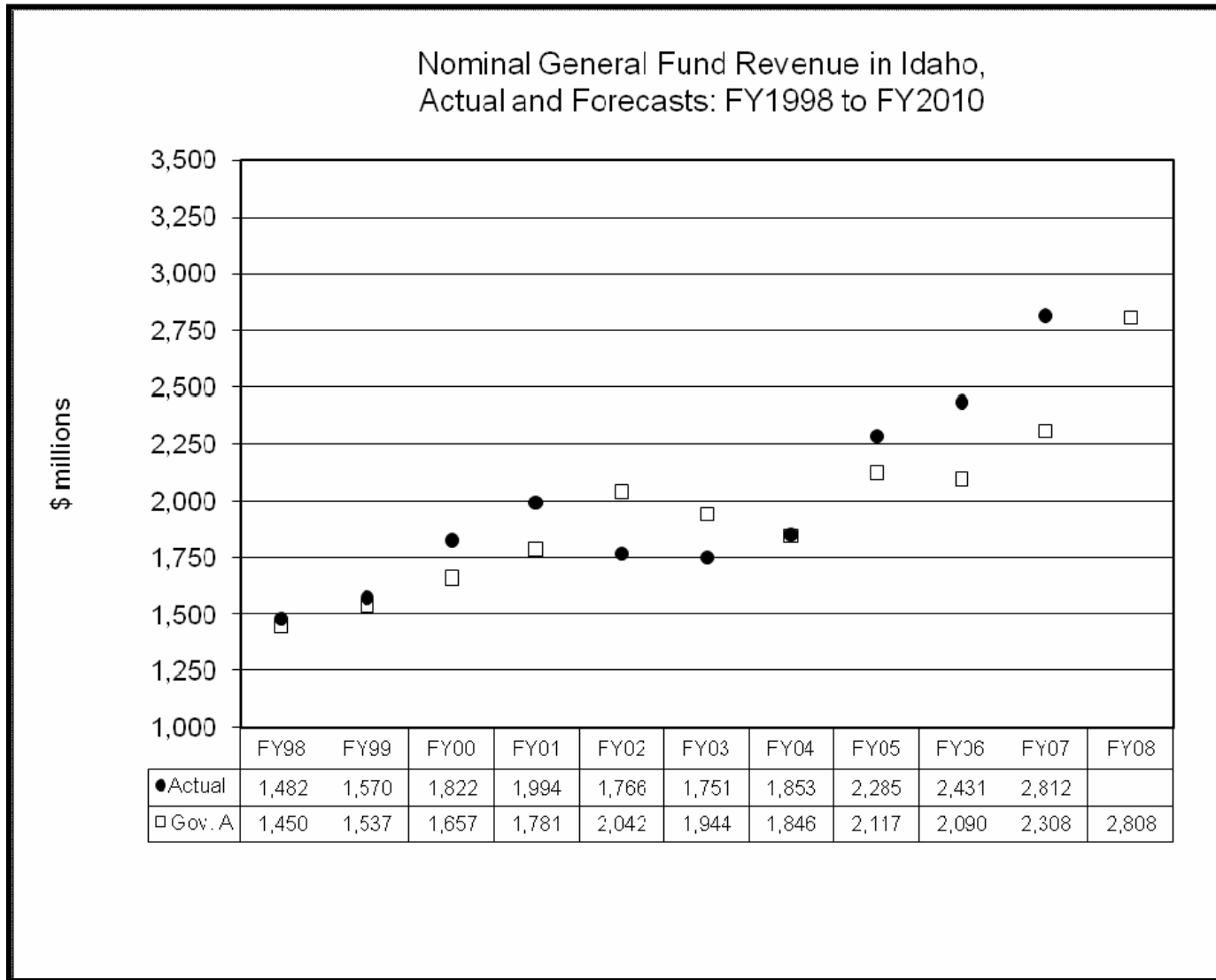
|                                 | ACTUAL REVENUE |           |           | FORECAST         |                  |
|---------------------------------|----------------|-----------|-----------|------------------|------------------|
|                                 | FY05           | FY06      | FY07      | FY08             | FY09             |
| <b>Individual Income Tax</b>    | \$1,035.5      | \$1,216.5 | \$1,400.2 | \$1,484.0        | \$1,560.0        |
| <b>Corporate Income Tax</b>     | 139.6          | 194.1     | 190.2     | 172.0            | 176.0            |
| <b>Total Sales Tax</b>          | 950.8          | 880.8     | 1,077.4   | 1,161.0          | 1,210.0          |
| <b>Product Taxes</b>            | 22.8           | 23.5      | 22.4      | 32.0             | 32.0             |
| <b>Miscellaneous Revenue</b>    | 119.0          | 116.4     | 122.3     | 127.0            | 127.0            |
| <b>Total Gen. Fund Revenues</b> | \$2,267.7      | \$2,431.3 | \$2,812.4 | <b>\$2,976.0</b> | <b>\$3,105.0</b> |
| <i>Percent Change</i>           | 8.8%           | 7.2%      | 15.7%     | <b>5.8%</b>      | <b>4.3%</b>      |
| On-going                        | -              | -         | 2,604.0   | <b>2,832.0</b>   | <b>3,016.0</b>   |
| One-time                        | -              | -         | 208.4     | <b>147.0</b>     | <b>89.0</b>      |

# Actual & Forecasted General Fund Revenues

(% change from previous year, nominal \$ million)

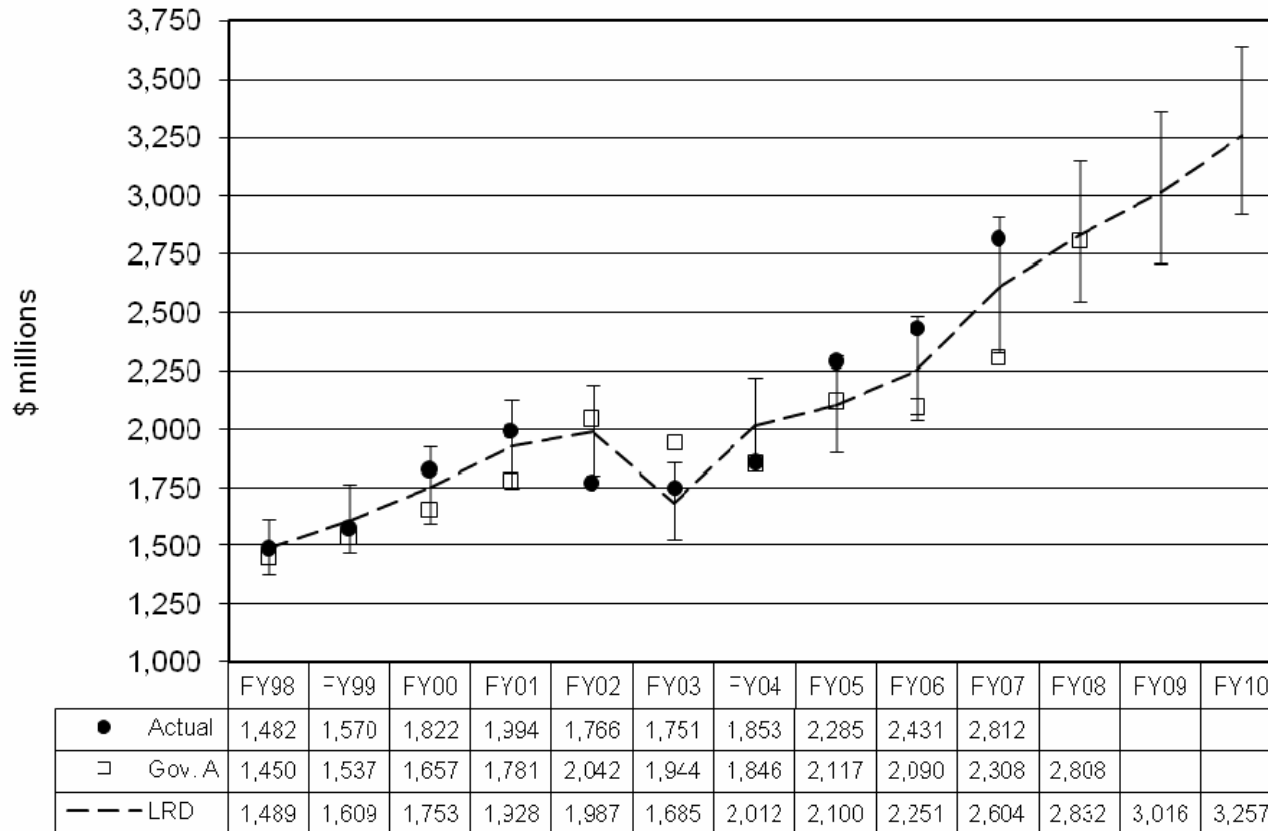
|                                 | ACTUAL REVENUE   |                  |                  | FORECAST         |                  |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
|                                 | FY05             | FY06             | FY07             | FY08             | FY09             |
| <b>Individual Income Tax</b>    | 14.8%            | 17.5%            | 15.1%            | 6.0%             | 5.1%             |
| <b>Corporate Income Tax</b>     | 35.5%            | 39.1%            | (2.0%)           | (9.6%)           | 2.3%             |
| <b>Total Sales Tax</b>          | 7.3%             | (7.4%)           | 22.3%            | 7.8%             | 4.2%             |
| <b>Product Taxes</b>            | (48.9%)          | 3.1%             | (4.6%)           | 42.8%            | 0.0%             |
| <b>Miscellaneous Revenue</b>    | (19.5%)          | (2.2%)           | 5.0%             | 3.9%             | 0.0%             |
| <b>Total Gen. Fund Revenues</b> | <b>\$2,267.7</b> | <b>\$2,431.3</b> | <b>\$2,812.4</b> | <b>\$2,976.0</b> | <b>\$3,105.0</b> |
| <i>Percent Change</i>           | 8.8%             | 7.2%             | 15.7%            | <b>5.8%</b>      | <b>4.3%</b>      |
| On-going                        | -                | -                | -                | <b>8.7%</b>      | <b>6.6%</b>      |

# Increased Variability Between Actual General Fund Revenues and General Fund Forecasts



# General Fund Revenue in Idaho

Nominal General Fund Revenue in Idaho,  
Actual and Forecasts: FY1998 to FY2010

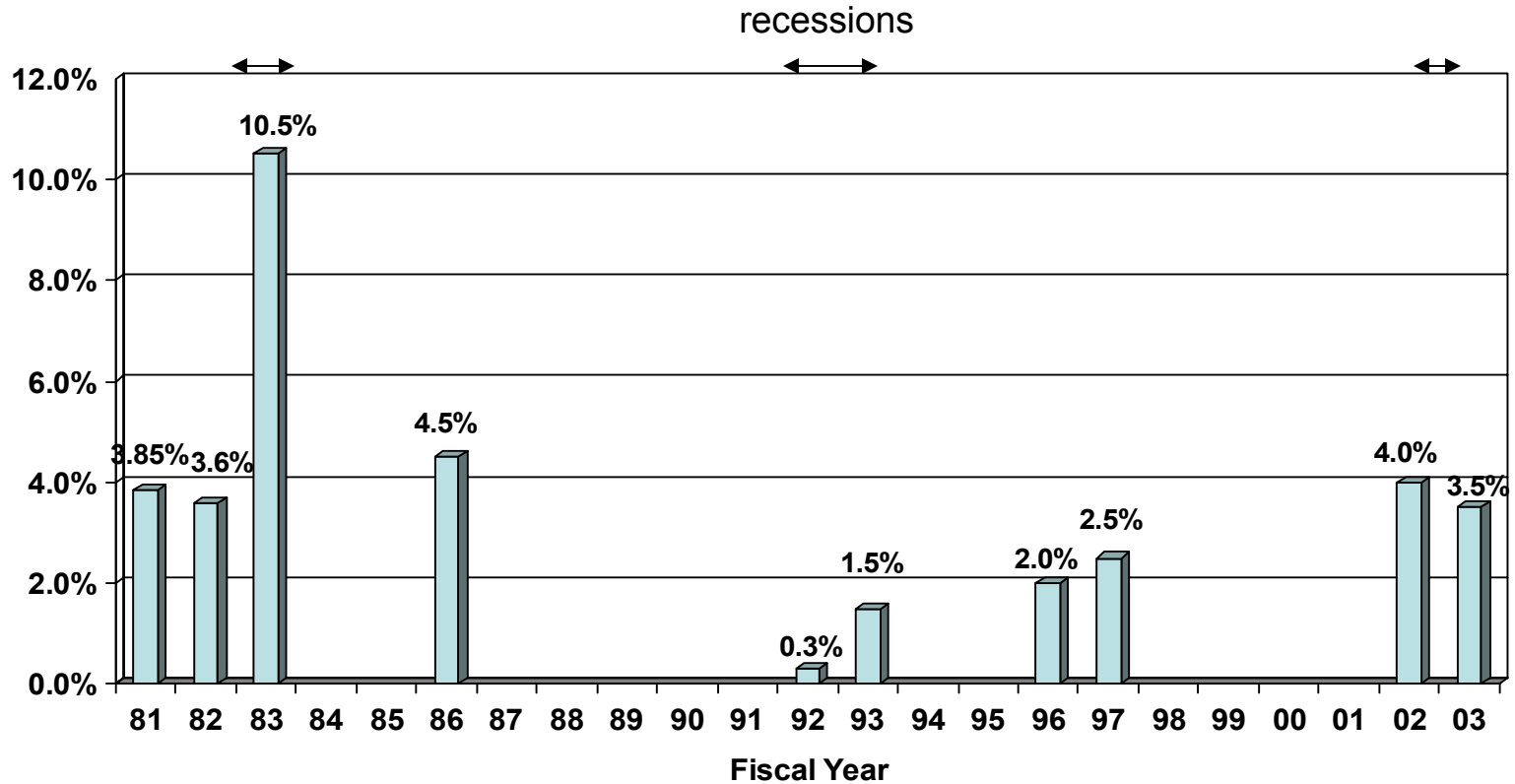


# Sources of Variability

- Increased importance of capital gains
  - Financial Assets
  - Home equity
- Impact of sub-prime mortgages on financial institutions

| <u>Out of the Blue</u>               | <u>Out of Left Field</u>   | <u>Relatively Easy</u>  | <u>From Global Insight</u>  |   |                                  |
|--------------------------------------|--|---|---|---|----------------------------------|
| <p>9/11</p> <p>Hurricane Katrina</p> | <p>Wealth effect of the stock market during the 1990's</p> <p>Housing market in the 2000's</p> <p>Iraq War</p> <p>Flu Pandemic</p> | <p><u>Monetary Policy</u></p> <p><u>Fiscal Policy</u></p> <p><u>OPEC Policy</u></p> <p><u>Population Growth</u></p> | <p><u>GDP</u></p> <p><u>Interest Rates</u></p> <p><u>Inflation</u></p> <p><u>Oil Prices</u></p> | <p><u>Idaho Personal Income</u></p> <p><u>Definition of tax base</u></p> <p><u>Tax Rate</u></p> | <p><u>Idaho General Fund</u></p> |

# Idaho GFR Holdback Percentages: FY 1981 - FY 2003



This chart reflects the final holdback or negative supplemental action at the end of the fiscal year. FY 1985 is not reflected because the 3.0% holdback imposed by the Governor at the start of the year was rescinded.

**Source:** Mike Ferguson, Division of Financial Management, Idaho



|  |                     |   |
|--|---------------------|---|
| <b>Forecast of Idaho<br/>Personal Income for<br/>FY2008<br/>Division of Financial<br/>Management</b> |                     | <b>Impact on General Fund Revenue<br/>Projections</b> |
| January<br>2007  | January<br>2008     | Total General Fund                                    |
| \$50,216<br>million  | \$48,668<br>million | \$97m.  |

# So what!

1. Forecasts come with a certain amount of error
2. In normal times the error is less than in unsettled times, i.e. now
  - How many more financial institutions will write off billions in losses due to sub-prime mortgages?
  - How many more will be forced out of their homes because they can't afford the higher payments?
  - How much longer will we be in Iran and Afghanistan and will conditions improve or deteriorate?
  - What will be the next event in the War on Terror?

# So what!

3. In more normal times we could say, with 95% certainty, that General Fund revenues will be \$3,105 million plus or minus \$50 million
4. With the increased uncertainty about the future we can say, with 95% certainty, that General Fund revenues will be \$3,105 million plus or minus \$300 million

# So what!

5. As legislators, you would be unwise not to take the increased uncertainty into account.
  - What are the consequences if revenues come in less than expected?
  - What can you do if that happens?
  - What are the consequences if revenues exceed the forecast?
  - What can you do if that happens?

# Conclusions

- General Fund revenues in FY08 will increase 5.8% over FY07 to \$2,976 million.
- General Funds in FY09 will increase to \$3,105 million, 4.3%.