

January 18, 2013

The Honorable Shawn Keough, Co-Chair
Joint Legislative Economic Outlook and
Revenue Assessment Committee
Idaho State Legislature
State Capitol Building
PO Box 83720
Boise, ID 83720-0081

The Honorable Marc Gibbs, Co-Chair
Joint Legislative Economic Outlook and
Revenue Assessment Committee
Idaho State Legislature
State Capitol Building
PO Box 83720
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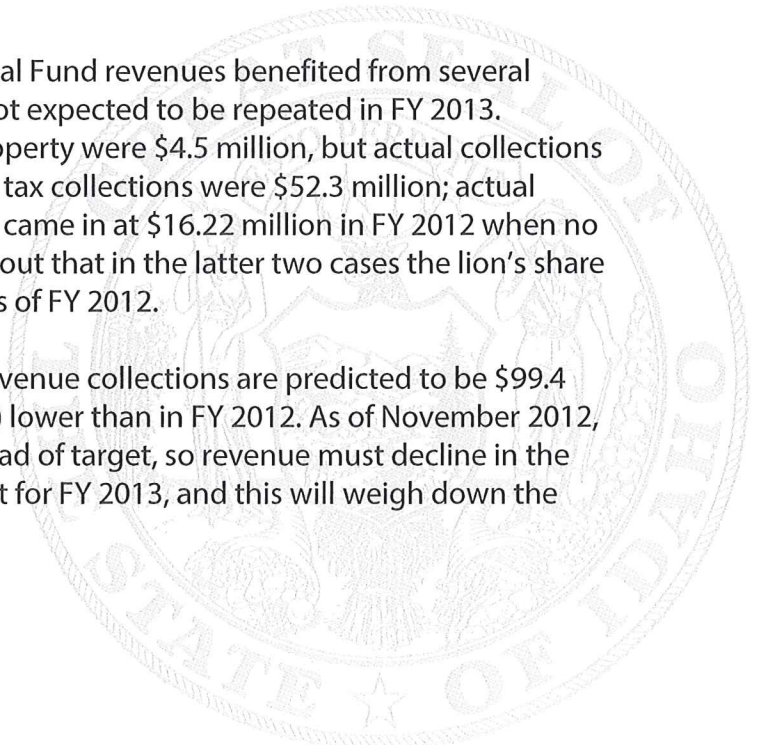
Dear Senator Keough and Representative Gibbs:

During my presentation before the Joint Legislative Economic Outlook and Revenue Assessment Committee on January 10, 2013, President Pro Tempore Brent Hill raised a question regarding the Idaho Division of Financial Management's (DFM) revised General Fund projected growth rate being slower in the second half of FY 2013 than in the first half. I have looked into this matter and this is what I have found.

Actual General Fund collections for the first five months of FY 2013 were \$1,055.7 million, or 3.9%, higher than for the same period in the previous fiscal year. In order to meet DFM's revised FY 2013 General Fund forecast of \$2,658.0 million, receipts will have to total \$1,602.3 million in the remaining months of this fiscal year. This amount is 2.0% more than the \$1,571.7 million collected in the previous year.

A major reason for this slowing is FY 2012 General Fund revenues benefited from several boosts to the miscellaneous category that are not expected to be repeated in FY 2013. Forecasted FY 2012 receipts from unclaimed property were \$4.5 million, but actual collections were \$8.9 million. Projected insurance premium tax collections were \$52.3 million; actual revenues were \$56.6 million. One-time transfers came in at \$16.22 million in FY 2012 when no collections were expected. It should be pointed out that in the latter two cases the lion's share of excess revenue came in the last seven months of FY 2012.

Absent these one-time factors, miscellaneous revenue collections are predicted to be \$99.4 million in FY 2013, which is \$24.3 million (19.7%) lower than in FY 2012. As of November 2012, miscellaneous revenue was running slightly ahead of target, so revenue must decline in the last seven months of this year to make the target for FY 2013, and this will weigh down the General Fund's growth rate.



I also reviewed my forecasts of the individual income, corporate income and sales taxes to see how their actual year-over-year growth rates during the first five months of FY 2013 compare to the growth rates in the following seven months. The short answer is both the predicted individual and corporate income tax collections are forecast to grow faster during the second half of FY 2013 than in the first half. The individual income tax is forecast to grow 4.6% during the December 2012–June 2013 period compared to the actual growth of 0.7% during the July 2012–November 2012 period. The corporate income tax was down 3.3% for the first five months of FY 2013 compared to the previous fiscal year, but is projected to be down just 1.1% in the remaining months of the fiscal year.

Interestingly, the forecasted sales tax growth slows in the last seven months of FY 2013. To understand what is going on we need to go to the beginning of FY 2012. During the first five months of that fiscal year collections were 2.5% ahead of the same period in FY 2011. Collections picked up speed after that, so in the next seven months they were 8.2% higher than during the same period of the previous fiscal year. It was 7.4% above FY 2012 in the beginning of FY 2013. Part of this growth was due to recovering Idaho automobile sales. It is forecast to slow in the remaining months of this fiscal year and be just 3.9% above FY 2012's late surge.

Please let me know if I can be of further assistance.

Sincerely,



Derek E. Santos
Chief Economist

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