

Revenue Study Commission
SCR 103 of the 2012 Regular Session
July 23, 2012

Revenue Forecasting

State tax revenue forecasts are developed by the Legislative Fiscal Office and the Office of Planning and Budget three to four times per year and presented to the Consensus Revenue Estimating Conference (REC) for adoption. Those forecasts are composed of approximately forty gross revenue sources and forty dedications of those sources (see pages Apx 1), the net of which constitutes the REC-based revenue available for state general fund direct appropriation.

Various methodologies may be applied to forecast any particular revenue source, but the larger revenue sources are typically forecast with some basic econometric technique that models the history of the tax and extrapolates the patterns and explanations of that history through a five-year forecast horizon. For a well-behaved series of data this can be a fairly easy task. However, from a forecasting standpoint, state tax collections are rarely well-behaved. Economic turning-points are notoriously difficult to predict, and historical patterns and underlying economic relationships can and do change unexpectedly. These changes can occur gradually over time or suddenly over short time periods. Multiple events can occur over the same or over-lapping time periods. Inconsistent seasonality in collections can be experienced along with one-time aberrations. All these complications have to be accounted for in the forecasting process and contribute to error in the forecasts.

In addition, a variety of legislatively imposed changes to revenue collection streams have to be accounted for. Those imposed changes can increase revenues, but of particular interest to this commission are those associated with tax "...exclusions, exemptions, suspensions, deductions, credits, refunds, rebates and preferential tax calculation methods..." as referenced in SCR 103 of the 2012 Regular Session. These policies and programs are also associated with error in forecasts.

Initially, the likely fiscal effect of legislation providing for these policies and programs is estimated through the fiscal note process during the legislative session. In some cases fiscal note estimates can be made with high degrees of confidence as to the specific dollar amount of revenue loss and the fiscal year timing of that loss. In many cases, however, specific dollar estimates are not possible, or high degrees of confidence cannot be achieved. The best that may be achieved are ranges of estimates or only minimum or maximum estimated exposures. Programs are created with substantial discretion granted the administering agency, with delayed start dates, phased-in implementation, varying termination dates for new participation but continuing participation for existing participants, and repeated

renewals of programs while modifying their operational parameters (effectively creating new programs).

The revenue losses that will ultimately result from these policies and programs are often not known in advance. Participation levels ramp up over time and can vary widely from year to year. Significant time lags can occur between enactment, participation, eligible activity, benefit awards, and realization of benefits against state revenue receipts. A number of programs can be developing through these stages simultaneously, but at different speeds and magnitudes. New programs are being implemented and existing ones modified, and essentially being re-implemented on a continuing basis. Program participation and revenue losses can be erratic, exhibiting material surges and drop-offs from year-to-year. All of these realities make accounting for the effects of these programs within the revenue forecasts difficult. The result from a forecasting standpoint is increased error.

To the extent possible, initial estimated revenue losses are incorporated into the forecasts as incremental adjustments to the baseline revenue forecasts. As the programs are implemented and revenue effects become realized in the collections history, the incremental adjustments are decreased until all of the revenue effects are reflected in the collections history and the patterns and relationships being modeled and extrapolated into the forecast horizon. Ultimately, the programs become imbedded in the underlying pattern of historical collections and the relationships between various economic variables and tax collections.

For illustration purposes, pages Apx 2 at the end of this write-up itemize the credits contained only on corporate tax (income and franchise) and individual income tax returns. These two pages are extracted directly from the latest Revenue Department Annual Report (FY10/11). For just these taxes, there are 42 nonrefundable corporate credits and 53 nonrefundable individual credits, and 23 refundable corporate credits and 26 refundable individual credits. These lists of credits help illustrate a few issues.

(a) There are a large number of these programs influencing revenue forecasts. Again, the lists on Apx 2 are only those influencing the corporate tax and individual income tax. An especially long list of exemptions exists for the sales tax, and numerous exemptions exist for various other taxes.

(b) Some of these credits report little or no revenue activity in any particular year. However, any of them can exhibit revenue activity in any year, and any of them can have program participation activity ongoing but not yet to the point of being claimed and realized against a particular year's tax collections. In addition, this activity in the pipeline can be occurring faster or slower than originally anticipated, and be materially larger or smaller than anticipated.

(c) Over a multi-year time frame these programs can exhibit substantial volatility. Once incorporated into baseline history, steady program trends would be fairly easy

to deal with in the forecasts. However, these programs can exhibit surprisingly rapid growth, and erratic surges and drop-offs. They are subject to the behavior and business conditions of particular groups and industries. The broad historical patterns and economic relationships of forecasting are not necessarily indicative of patterns and conditions in these narrower subsets of the economy.

(d) The bulk of revenue effect is contained in a relative handful of the programs, all subject to the issues above. The numerous smaller programs, while not individually discernible, taken together tend to distort the discernible relationships and build up error in the forecasts that can not be separately accounted for.

(e) These credit lists and data do not reflect the full revenue cost of certain programs because they do not include the payments made through rebate mechanisms. Rebate payments do not show up in tax return data because such payments are made without the filing of returns. Yet rebate payments are charged against particular tax collections, require further information gathering, and are associated with error in the forecasts.

(f) Many of these programs are not tax programs at all; they are spending programs. They do not change any tax filer's calculation of tax base or tax rate application. They simply reimburse the recipient for some portion of spending they engaged in that is eligible for the program. Rebate payment mechanisms make the spending nature of these programs obvious, but tax credit mechanisms are spending just the same. Tax liability is a wholly separate calculation, and only after that calculation are credit reimbursements considered. With refundable credits the full annual benefits of the program are provided without any regard to the recipient's annual tax liability. With nonrefundable credits the state only limits its annual payout of the program benefits to the annual liabilities of the recipients, but carry-forward provisions are typical so the state is exposed to the entire benefit payout over time. These mechanisms are simply various ways to use the Revenue Department to reimburse program participants for eligible spending. The programs essentially constitute un-appropriated and typically open-ended spending.

The revenue forecasts are attempting to account for both variations in the economic tax base and consequent tax revenue collections, and for spending programs being realized through tax revenue collections. There are a wide variety of difficulties associated with forecasting the traditional tax base and collections, and the proliferation of policies and programs that change the tax base or charge spending against tax collections, add to those difficulties. While all error in the forecasts cannot be attributed to these policies and programs, they cannot be perfectly accounted for, and work to add error to the final revenue forecasts.

REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 13 FORECAST

(In Million \$)

ADOPTED

REVENUE SOURCE / Dedications	Official Forecast 12/14/2011	Proposed DOA Forecast 4/24/2012	Proposed LFO Forecast 4/24/2012	DOA +/- Official Forecast	LFO +/- Official Forecast
Alcoholic Beverage	21.8	19.5	21.9	(2.3)	0.1
Beer	35.9	35.6	35.7	(0.3)	(0.2)
Corporate Franchise					
Corporate Income					
<i>Total Corp Fran. & Inc.</i>	246.6	155.9	177.2	(90.7)	(69.4)
Gasoline & Special Fuels	622.7	592.2	614.3	(30.5)	(8.4)
Gift	-	-	-	-	-
Hazardous Waste	3.1	3.3	3.1	0.2	-
Individual Income	2,886.6	2,627.1	2,565.9	(259.5)	(320.7)
Inheritance	0.5	1.0	0.5	0.5	-
Natural Gas Franchise	2.5	2.5	3.0	0.0	0.5
Public Utilities	5.0	11.6	7.5	6.6	2.5
Auto Rental Excise	-	-	-	-	-
Sales Tax - General	2,764.4	2,767.5	2,754.4	3.1	(10.0)
Severance	682.9	784.2	781.0	101.3	98.1
Special Fuels	-	-	-	-	-
Supervision/Inspection Fee	8.0	8.3	8.0	0.3	-
Tobacco	136.1	138.6	136.1	2.5	-
Unclaimed Property	34.0	37.8	43.0	3.8	9.0
Miscellaneous Receipts	6.1	5.5	6.1	(0.6)	-
Total-Dept. of Revenue	7,456.2	7,190.5	7,157.7	(265.7)	(298.5)
Royalties	574.5	570.0	602.0	(4.5)	27.5
Rentals	14.9	15.0	14.7	0.1	(0.2)
Bonuses	20.1	22.5	24.1	2.4	4.0
Mineral Interest	3.0	3.6	3.0	0.8	-
Total-Natural Res.	612.5	611.3	643.8	(1.3)	31.2
Interest Earnings (SGF)	100.0	100.0	93.0	-	(7.0)
Interest Earnings (TTF)	1.0	1.0	1.0	-	-
Var. Agy. Receipts	51.8	41.3	51.8	(10.5)	-
Agency SGR Over-Collections	25.9	18.1	25.9	(7.7)	-
Bond Reimbursements	4.0	4.0	4.0	(0.0)	-
Quality Ed. Support Fund	51.6	48.1	52.9	(3.5)	1.3
Lottery Proceeds	130.3	144.8	144.8	14.6	14.5
Land-based Casino	75.0	80.2	75.0	5.2	-
Tobacco Settlement	91.5	97.3	93.7	5.8	2.2
DHH Provider Fees	106.1	108.4	109.0	2.3	2.9
Total Treasury	637.2	643.3	651.1	6.1	13.9
Excise License	407.4	374.1	396.5	(33.3)	(10.9)
Ins. Rating Fees (SGF)	57.0	57.9	61.1	0.9	4.0
Total-Insurance	464.4	432.0	457.6	(32.4)	(6.9)
Misc. DPS Permits & ABC Permits	13.8	12.6	13.8	(1.1)	-
Titles	24.4	21.9	24.4	(2.5)	-
Vehicle Licenses	120.5	105.0	113.5	(15.5)	(7.0)
Vehicle Sales Tax	327.4	333.0	327.4	5.6	-
Riverboat Gaming	362.3	356.0	363.4	(6.3)	1.1
Racetrack slots	60.5	59.2	61.5	(1.3)	1.0
Video Draw Poker	198.7	193.0	197.0	(5.7)	(1.7)
Total-Public Safety	1,107.5	1,080.7	1,100.9	(26.8)	(6.6)
Total Taxes, Lic., Fees	10,277.9	9,957.8	10,011.1	(320.1)	(266.8)
<i>Less: Dedications</i>	<i>(1,871.1)</i>	<i>(1,854.8)</i>	<i>(1,893.8)</i>	16.4	(22.6)
<i>Less: NOW Waiver Fund Allocation</i>	-	-	-	-	-
STATE GENERAL FUND REVENUE - DIRECT	8,406.7	8,103.0	8,117.3	(303.7)	(289.5)
Oil Price (\$/barrel)	\$97.42	\$102.14	\$100.91	\$4.72	\$3.49

Some columns and lines do not add precisely due to rounding.

OFFICIAL FORECAST

ADOPTED

4-24-12

REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 13 FORECAST

(In Million \$)

ADOPTED

REVENUE SOURCE / Dedicatons	Official Forecast 12/14/2011	Proposed DOA Forecast 4/24/2012	Proposed LFO Forecast 4/24/2012	DOA +(-) Official Forecast	LFO +(-) Official Forecast
Transp. Trust/Motor Fuels/93% Veh. Sales	498.2	473.8	491.4	(24.4)	(6.7)
Transp. Mobility Fund / 7% Veh. Sales	0.0	0.0	0.0	-	-
Motor Vehicles Lic. - TTF	53.0	45.7	49.9	(7.3)	(3.1)
Aviation Tax - TTF	29.8	29.8	29.8	-	-
TTF/Interest and Fees	28.9	26.8	28.9	(2.1)	-
Motor Fuels - TIME Program	124.5	118.4	122.9	(6.1)	(1.7)
Motor Veh.Lic - Hwy Fund #2	12.1	11.5	11.4	(0.6)	(0.7)
State Highway Improvement Fund	51.8	47.5	52.2	(4.4)	0.4
Severance Tax -Parishes	38.6	43.0	44.1	4.4	5.5
Severance Tax - Forest Prod. Fund	2.0	2.3	2.0	0.3	-
Royalties - Parishes	57.5	57.0	60.2	(0.5)	2.8
Royalties-DNR/AG Support Fund	1.6	1.6	1.6	-	-
Wetlands Fund	28.9	30.7	31.3	1.9	2.4
Mineral Audlt Settlement Fund	0.0	0.0	0.0	-	-
Quality Ed. Support Fund	51.6	48.1	52.9	(3.5)	1.3
LA Econ Dev Port Dev Infra Fund	0.0	-	0.0	-	-
Sales Tax Econ. Development	13.5	13.5	13.4	(0.0)	(0.0)
Tourist Promotion District	24.7	23.3	24.6	(1.4)	(0.1)
Excise Lic. - 2% Fire Ins.	21.2	21.1	20.6	(0.1)	(0.6)
Excise Lic. -Fire Mars. Fd.	16.3	15.7	15.9	(0.6)	(0.4)
Excise Lic. - LSU Fire Tr.	3.5	3.1	3.4	(0.3)	(0.1)
Insurance Fees	57.0	57.9	61.1	0.9	4.0
State Police Salary Fund	15.6	15.6	15.6	-	-
Video Draw Poker	61.7	59.6	61.2	(2.1)	(0.5)
Racetrack Slots	28.6	32.5	28.6	4.0	0.1
Lottery Proceeds Fund	129.8	144.3	144.3	14.6	14.5
SELF Fund	152.2	157.0	152.4	4.8	0.2
Riverboat 'Gaming' Enforce.	56.9	52.2	57.1	(4.6)	0.2
Compulsive Gaming Fund	2.5	2.5	2.5	-	-
Stabilization Fund	0.0	0.0	0.0	-	-
Hazardous Waste Funds	3.1	3.3	3.1	0.2	-
Supervision/Inspection Fee	8.0	8.3	8.0	0.3	-
Insp. Fee/Gasoline, Ag. Petr. Fund	5.0	5.1	5.0	0.1	-
Tobacco Settlement/4 cent Tob Tax dedication	104.0	110.0	106.2	6.0	2.2
Tob Tax Health Care Fd / Reg Enf Fd	38.2	40.2	38.2	2.0	-
Rapid Response Fund/Econ Dev	10.0	10.0	10.0	-	-
Rapid Response Fund/Workforce	10.0	10.0	10.0	-	-
Unclaimed Property / 1-49	15.0	15.0	15.0	-	-
Capitol Tech	10.0	10.0	10.0	-	-
DHH Provider Fees	106.1	108.4	109.0	2.3	2.9
Total Dedications	1,871.1	1,854.8	1,893.8	(16.4)	22.6

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OFFICIAL FORECAST
ADOPTED 4-24-12

CORPORATION income & franchise tax (credits claimed on returns)

NONREFUNDABLE CREDITS CLAIMED ON RETURNS Processed During Fiscal Year 2011

Credit	Amount Claimed Against Corporation Income Tax	Amount Claimed Against Corporation Franchise Tax
Angel Investor Tax Credit*	\$ 0	\$ 0
Apprenticeship	209,084	555,857
Atchafalaya Trace	18,490	0
Basic Skills Training	750	0
Biomedical/University Research	0	0
Bone Marrow Donor	0	N/A
Brownfields Investor Credit	357,621	N/A
Cane River Heritage Area	0	0
Contributions to Educational Institutions	0	N/A
Credit for Refunds Paid by Utilities	500	N/A
Debt Issuance Costs	0	0
Dedicated Research Investments	0	N/A
Digital Interactive Media	0	N/A
Donations of Materials, Equipment, Advisors, Instructors	0	0
Donations to Public Schools	0	25
Donations to Qualified Playgrounds	0	0
Eligible Reentrants	0	N/A
Employee & Dependent Health Insurance	43,986	0
Employment of the Previously Unemployed	1,230	42,718
Enterprise Zone	9,770,527	6,430,024
Insurance Company Premium Tax	250,536,363	N/A
LA Capital Companies	3,348,424	N/A
LA Community Development Financial Institutions Act Credit	61,383	64,875
LA Community Economic Development	0	0
Manufacturing Establishments	0	1,495,112
Motion Picture Employment of Resident	23,820	146,711
Motion Picture Infrastructure Credit	323,090	N/A
Motion Picture Investor Credit	24,139,807	N/A
Neighborhood Assistance	0	N/A
New Jobs Credit	497,506	N/A
New Markets Credit	6,088,232	10,172,459
Nonviolent Offenders Employment Credit	0	N/A
Ports of Louisiana Import Export Cargo	0	0
Ports of Louisiana Investor	0	0
Quality Jobs*	0	0
Recycling Credit	3,473	438,089
Rehabilitation of Historic Structures	7,069,671	6,597,209
Research and Development*	1,710,118	9,933,727
Tax Equalization	4,191,212	3,907,436
Technology Commercialization*	0	0
Vehicle Alternative Fuels*	705	N/A
Other Nonrefundable Credits	0	621,438
TOTAL	\$308,395,992	\$ 40,405,680

* These credits are reported as both Refundable and Nonrefundable due to statutory changes. See below for refundable amounts.

REFUNDABLE CREDITS CLAIMED ON RETURNS Processed During Fiscal Year 2011

Credit	Amount Claimed	Credit	Amount Claimed
Inventory Tax Credit	\$ 363,458,221	Retention And Modernization	0
Ad Valorem for Natural Gas	4,981,974	School Readiness Business Supported Child Care	208,345
Ad Valorem for Offshore Vessels	21,311,160	School Readiness Child Care Provider	2,795,797
Angel Investor	189,120	School Readiness Fees & Grants to Resource & Referral Agencies	88,700
Conversion of Vehicle to Alternative Fuel	59,511	Sound Recording Investment	0
Louisiana Citizens Insurance Credit	3,335,688	Sugar Cane Trailer Conversion	745,950
Mentor-Protege	11,475	Technology Commercialization	0
Milk Producers	210,000	Telephone Company Property Tax	22,705,668
Musical & Theatrical Productions	515,467	Urban Revitalization	6,740
Prison Industry Enhancement	7,379	Wind and Solar Energy System	110,548
Quality Jobs	102,730	Other Refundable	451,664
Research And Development	8,069,122	TOTAL	\$ 429,365,259

INDIVIDUAL income tax (refundable credits claimed on returns)

PROCESSED DURING FISCAL YEAR 2011

Refundable Credits	Amount Claimed
Ad Valorem on Natural Gas Storage Facilities Credit	\$ 76,255
Ad Valorem on OCS Vessels Credit	16,463,961
Angel Investor Credit**	3,291,755
Child Care Credit*	11,610,946
Historical Residence Credit	250,435
Inventory Tax Credit	11,736,859
LA Citizen's Insurance Credit	39,855,743
LA Earned Income Credit	45,755,599
LA Property Insurance Credit	1,152,753
Mentor-Protégé Credit	15,277
Military Hunting & Fishing License Fee Credit	112,710
Milk Producer's Credit	1,568,750
Musical & Theatrical Productions	73,196
Quality Jobs Program Rebate**	273,774

PROCESSED DURING FISCAL YEAR 2011

Refundable Credits	Amount Claimed
Research & Development**	4,671,666
Retention & Modernization	10,846
School Readiness Business Supported Child Care	28,382
School Readiness Child Care Provider	1,866,243
School Readiness Child Care*	1,200,513
School Readiness Directors & Staff	4,574,250
School Readiness Fees & Grants to Resource & Referral Agencies	174,824
Sugarcane Tractor Conversion	154,629
Technology Commerce Credit	91,849
Vehicle to Alternative Fuel**	642,821
Wind and Solar Energy System	12,947,669
Other Refundable Credits	323,612
TOTAL	\$ 158,925,317

* These credits are both Refundable and Nonrefundable based on taxpayer's AGI. See below for nonrefundable amounts.

** These credits are reported as both Refundable and Nonrefundable due to statutory changes. See below for nonrefundable amounts.

INDIVIDUAL income tax (nonrefundable credits claimed on returns)

PROCESSED DURING FISCAL YEAR 2011

Nonrefundable Credits	Amount Claimed
Angel Investors Credit	\$ 4,000
Apprenticeship	316,760
Atchafalaya Trace Heritage Zone Credit	3,925
Bone Marrow	5,975
Brownfields Investor	859,856
Cane River Heritage Credit	1,971
Child Care Credit (Includes Carry Forward from Prior Years)	4,974,417
Commercial Fishing Credit	62,812
Contributions to Educational Institutions	1,030,854
Credit for Certain Disabilities	3,551,000
Credit for Certain Federal Tax Credits	1,976,150
Credit for Liabilities Paid to Other States	81,792,162
Credit for Purchase of Bulletproof Vest	17,319
Credit for Refunds Paid by Utilities	77,557
Debt Issuance Cost Credit	51,403
Dedicated Research	0
Disabled Dependents Credit	699,573
Digital Interactive Media Producers Credit	1,493,988
Donations of Materials, Equipment, Advisors, Instructors	327,069
Education Credit	17,847,750
Employing Eligible Reentrants	548
Employing First Time Drug Offenders	20,124
Employing the Previously Unemployed	327,576
Enterprise Zone	23,580,768
Family Responsibility Credit	173,199
Insurance Premium Tax Credit	59,160
LA Basic Skills Training Credit	68,078

PROCESSED DURING FISCAL YEAR 2011

Nonrefundable Credits	Amount Claimed
LA Biomedical Research Credit	6,053
LA Community Economic Development	14,747
LA Capital Company	27,309
Law Enforcement Degree	175,267
LCDFI Credit	2,057,470
Manufacturing Establishments	351
Motion Picture Employment of Resident	411,897
Motion Picture Infrastructure Credit	4,669,179
Motion Picture Investor Credit	85,263,682
Neighborhood Assistance Credit	26,787
New Jobs Credit	1,190,153
New Markets Credit	17,423,969
Nonviolent Offenders Employment Credit	23,086
Organ Donation Credit	21,531
Other	77,496
Playground Donation Credit	27,165
Ports of Louisiana Import Export Cargo	0
Ports of Louisiana Investor	2,500
Providing Employee & Dependent Health Ins.	25
Recycling Credit	195,283
Rehabilitation of Historic Structures	27,304,398
Research and Development Credit	3,557,942
School Readiness Credit (Includes Carry Forward from Prior Years)	526,783
Small Town Doctors/Dentists	1,495,774
Tax Equalization Credit	265,267
Vehicle Alternative Fuel Credit	30,585
TOTAL	\$ 284,118,693