EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW

RECEIPTS OVERVIEW

The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2008-09 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the 2008-09 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodology* and a *Data Appendix* for this volume are available at the Division of the Budget's website at www.budget.state.ny.us. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

The Economic and Revenue Outlook is presented in the following general sections:

- **Financial Plan Receipts and Projections**: Provides a summary of Financial Plan receipts for the current year and the 2008-09 Budget year by tax category and fund type.
- **Financial Plan Tables and Cash Flow**: Provides Financial Plan tables for receipts by fund type and includes a detailed report on monthly cash flow projections for the upcoming fiscal year.
- **2008-09 Revenue Actions**: Summarizes the revenue actions proposed with the 2008-09 Executive Budget.
- **Economic Backdrop**: Provides a detailed description of the Division's forecast of key economic indicators for the National and New York State economies.
- **Recent Trends in All Funds Receipts**: Examines historical trends in State receipts over the past three decades along with projections of receipts for fiscal years 2007-08 through 2011-12.
- **Comparison of New York State Tax Structure to Other States**: Compares the New York tax structure and burden to other states.
- **Forecast Performance:** Provides a detailed report on recent revenue forecasting performance.
- **Tax Receipt Explanation**: Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the Executive Budget, and significant legislation that has been enacted.
- **Dedicated Fund Tax Receipts**: Provides a report on dedicated tax receipt estimates, with an emphasis on transportation-related dedicated taxes.

- **Audit and Compliance Receipts**: Provides data and analysis to better understand receipts collections.

THE NATIONAL ECONOMY

- The Budget Division expects the national economic slowdown to continue through the first half of 2008. Real U.S. GDP is projected to grow 2.2 percent for 2008, following growth of about the same magnitude for 2007.
- The sub-prime mortgage debacle is still unfolding and the housing market is still searching for a bottom. Corporate profits are soft; financial sector profits are falling. Growth in U.S. corporate profits is projected to slow further to 3.1 percent in 2008, following growth of 3.7 percent in 2007. These growth rates represent a significant decline from average growth of more than 15 percent over the five preceding years.
- The national labor market has continued to lose momentum, underscored by the December increase in the unemployment rate to 5.0 percent. The Budget Division projects nonfarm job growth to slow to 1.0 percent for 2008, following growth of 1.3 percent for 2007. The unemployment rate is projected to rise from 4.6 percent in 2007 to 5.0 percent in 2008.
- Although there has been some improvement in credit market liquidity in recent weeks, the market remains tight, generating a significant drag on both households and business. Real household spending is projected to grow only 1.5 percent in the current quarter and 1.9 percent for all of 2008, well below its long-term trend of about 3.0 percent.
- Cushioning the current slowdown are solid growth in the global economy and an activist stance on the part of the Federal Reserve, which has already cut its policy target rate by 100 basis points with more expected to come. The Federal government is also poised to take stimulative action through fiscal policy measures.
- The Budget Division projects inflation of 2.7 percent for 2008, roughly equal to its 2007 level of 2.8 percent; however, excessive energy price volatility could push overall price growth still higher, putting downward pressure on household spending and tying the Federal Reserve's hand as it tries to stimulate the economy with lower interest rates.
- The housing market could take longer to recover, particularly if foreclosure rates rise higher than anticipated. Moreover, the S&P 500 index is about 11 percent below its most recent October peak. A steeper decline in household wealth than anticipated could push real household spending below our forecast.
- Larger financial sector write-downs associated with the sub-prime mortgage debacle could result in a more severe credit crunch than anticipated. A more severe credit crunch could also result in lower household spending, as well as lower business investment in plant and equipment than currently projected.
- On the positive side, lower energy prices or stronger global growth than anticipated could result in stronger economic growth than is reflected in the forecast.

THE NEW YORK STATE ECONOMY

- Given New York City's status as an international financial center, the current credit crisis is expected to have an especially deleterious impact on the New York State economy.
- Consistent with the slowing of both the national and New York economies, the Budget Division projects a decline in State employment growth from 1.1 percent for 2007 to 0.6 percent for 2008.
- As a result of the mortgage-backed security debt write-downs, the Budget Division projects a 5.5 percent decline in finance and insurance sector bonuses for the first quarter of 2008, representing a loss of about $2.1 billion in wages relative to the first quarter of 2007.
- Wage growth is similarly projected to fall from 7.6 percent in 2007 to 3.3 percent in 2008. Slower growth in both the wage and nonwage components of income will result in total personal income growth of 4.3 percent for 2008, following 7.4 percent growth for 2007.
- The State's housing and commercial real estate markets are in better shape than the nation's but significant risks exist.
- All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, the current credit crunch poses a particularly large degree of uncertainty for New York.
- New York City vacancy rates remain low, but with employment growth slowing and Wall Street cutting jobs, rates could rise substantially, depressing the outlook for the State's real estate market.

THE REVENUE SITUATION

- Base receipt growth over the fiscal years 2004-05 to 2006-07, supported by a strong financial services sector and real estate market, averaged over 11 percent. However, the current slowdown in economic activity is estimated to negatively impact receipt growth for 2007-08 and 2008-09. As a result, base tax receipt growth (correcting for law changes) falls to 4.2 percent in 2008-09 from 6.5 percent in 2007-08.
- The negative impact of the sub-prime mortgage situation on the financial services industry is expected to result in declines in bonus payouts over the remainder of the current fiscal year (5.5 percent decline) and reduced growth in business tax receipts over the remaining years of the Financial Plan.
- The financial sector is expected to slowly recover in 2008 and bonus growth levels return to roughly 10 percent per year over the 2008-09 to 2010-11 period.
- The risks stemming from the volatile real estate and financial markets represent even greater risks to revenues due to the high concentration of taxable income among a relatively small segment of the taxpaying population.
- The slowdown in the residential housing market is projected to largely eliminate the recent surge in taxable capital gains realizations associated with real estate sales.
- The economy is expected to slow but not enter recession, and as a result, it is expected that personal income tax withholding (6.2 percent) and sales tax collections (2.7 percent) will continue to grow but at a more modest pace in 2008-09.
- The combined impact of slowing real estate and financial markets and weakening profitability in the financial sector projected for 2008 results in estimated personal income tax liability growth of only 3.9 percent in 2008, rebounding to 6.5 percent in 2009.
- The large audit settlements associated with financial service industry firms continued into 2007-08 but are expected to be largely concluded before 2008-09, and this loss of resources represents another negative to the receipts forecast.

TOTAL RECEIPTS (millions of dollars)	2006-07 Actual	2007-08 Estimated	Annual Change	Percent Change	2008-09 Projected	Annual Change	Percent Change
General Fund	**51,380**	**53,169**	**1,789**	**3.5**	**56,342**	**3,173**	**6.0**
Taxes	38,668	38,568	(100)	(0.3)	41,671	3,103	8.0
Miscellaneous Receipts	2,268	2,444	176	7.8	2,238	(206)	(8.4)
Federal Grants	152	71	(81)	(53.3)	41	(30)	(42.3)
Transfers	10,292	12,086	1,794	17.4	12,392	306	2.5
State Funds	**76,755**	**80,920**	**4,165**	**5.4**	**86,114**	**5,194**	**6.4**
Taxes	58,739	60,926	2,187	3.7	64,912	3,986	6.5
Miscellaneous Receipts	17,864	19,922	2,058	11.5	21,160	1,238	6.2
Federal Grants	152	72	(80)	(52.6)	42	(30)	(41.7)
All Funds	**112,396**	**116,834**	**4,438**	**3.9**	**123,105**	**6,271**	**5.4**
Taxes	58,739	60,926	2,187	3.7	64,912	3,986	6.5
Miscellaneous Receipts	18,078	20,067	1,989	11.0	21,310	1,243	6.2
Federal Grants	35,579	35,841	262	0.7	36,883	1,042	2.9

FISCAL YEAR 2007-08 OVERVIEW

- Total All Funds receipts are estimated to reach nearly $117 billion, an increase of $4.4 billion, or 3.9 percent from 2006-07 results. All Funds tax receipts are estimated to grow by $2.2 billion, or 3.7 percent. The majority of the increase in tax receipts is attributable to continued but slowing economic growth.
- All Funds miscellaneous receipts are projected to increase by $2.0 billion, or 11.0 percent over 2006-07, driven by increases in bond proceeds ($964 million), HCRA surcharge revenues ($689 million), and lottery revenues ($256 million).
- Total State Funds receipts are estimated to reach nearly $81 billion, an increase of $4.2 billion, or 5.4 percent.
- Total General Fund receipts are estimated at $53.2 billion, an increase of $1.8 billion, or 3.5 percent from 2006-07 results. General Fund tax receipts are estimated to decrease by 0.3 percent, reflecting both slower economic growth and the impact of the large increase in the STAR transfer that is deducted from General Fund income tax receipts. General Fund miscellaneous receipts are estimated to increase by 7.8 percent, reflecting actions taken with the 2007-08 Budget including a one-time increase in abandoned property receipts as well as significant increases in investment income.
- Receipts growth has slowed substantially from the prior three fiscal years, reflecting the housing sector induced slowdown in economic activity.
- Base tax receipts growth, which nets out the impact of law changes, will increase by an estimated 6.5 percent in 2007-08 after base increases of 12.9 percent in 2006-07 and 9.5 percent in 2005-06.

FISCAL YEAR 2008-09 OVERVIEW

- Total All Funds receipts are expected to reach just over $123 billion, an increase of $6.3 billion, or 5.4 percent from 2007-08 estimates. All Funds tax receipts are projected to grow by nearly $4.0 billion or 6.5 percent. The majority of this increase is attributable to modest growth in base tax receipts bolstered by revenue-positive actions proposed with the 2008-09 Budget. All Funds Miscellaneous receipts are projected to increase by approximately $1.2 billion, or 6.2 percent, largely driven by increased lottery revenue and bond proceeds. All Funds Federal grants are expected to increase by more than $1.0 billion, or 2.9 percent.

- Total State Funds receipts are projected to be over $86 billion, an increase of $5.2 billion, or 6.4 percent from the 2007-08 estimate.
- Total General Fund receipts are projected at $56.3 billion, an increase of nearly $3.2 billion, or 6.0 percent from 2007-08 estimates. General Fund tax receipts are projected to grow by 8.0 percent, while General Fund miscellaneous receipts are projected to decrease by 8.4 percent, the result of the loss of several one-time revenue actions taken in 2007-08. Federal grants are expected to decrease by 42.3 percent, largely the result of the loss of one-time Federal grants from the Medicare Part D program.
- After controlling for the impact of policy changes, base tax revenue growth is estimated to grow by 4.2 percent for fiscal year 2008-09. The current slowdown in economic activity is expected to reduce base growth in tax receipts below historical averages and significantly below growth exhibited in recent fiscal years.

CHANGE FROM MID-YEAR UPDATE

Revised Estimates and Projections

REVISED ESTIMATES AND PROJECTIONS
(millions of dollars)

	2007-08 Mid-Year Update	Revisions to Base	2007-08 Executive Budget	2008-09 Mid-Year Update	Revisions to Base	Proposed Changes	2008-09 Executive Budget
General Fund	**41,320**	**(237)**	**41,083**	**42,731**	**(261)**	**1,480**	**43,950**
Taxes	38,805	(237)	38,568	40,624	(313)	1,360	41,671
Miscellaneous Receipts	2,444	0	2,444	2,052	52	134	2,238
Federal Grants	71	0	71	55	0	(14)	41
State Funds	**81,187**	**(267)**	**80,920**	**84,427**	**(809)**	**2,496**	**86,114**
Taxes	61,204	(278)	60,926	64,499	(728)	1,141	64,912
Miscellaneous Receipts	19,911	11	19,922	19,872	(81)	1,369	21,160
Federal Grants	72	0	72	56	0	(14)	42
All Funds	**117,279**	**(445)**	**116,834**	**122,349**	**(1,748)**	**2,504**	**123,105**
Taxes	61,204	(278)	60,926	64,499	(728)	1,141	64,912
Miscellaneous Receipts	20,059	8	20,067	20,015	(82)	1,377	21,310
Federal Grants	36,016	(175)	35,841	37,835	(938)	(14)	36,883

All Funds receipts estimates have been revised downward by $445 million for fiscal year 2007-08 from the Mid-Year Financial Plan Update. The recent slowdown in economic activity began to negatively impact tax receipts after the release of the Mid-Year Update in early November. In addition, recent stresses on Wall Street suggest modest declines in bonus payouts over the remainder of the fiscal year. As a result, All Funds tax receipt estimates have been revised down by $278 million from the Mid-Year Update. A downward revision in Federal grants of $175 million is driven by slower-than-expected spending against Federal homeland security grants and delayed implementation of the Federal Help Americans Vote Act mandate.

The downward revision to General Fund receipts for fiscal year 2007-08 is $237 million, reflecting the revisions in tax receipts described above.

All Funds receipts have been revised downward by over $1.7 billion for fiscal year 2008-09. This decrease from the Mid-Year Update is attributed to downward revisions in: Federal grants ($938 million), as a result of lower-than-projected spending supported by Federal aid in the areas of Medicaid, homeland security and elections; tax receipts ($712 million); and miscellaneous receipts ($82 million). The large downward tax revision is due almost entirely to the impact of the slowing economy on receipts. In particular, a slowing housing market and the ancillary impact on capital gain realizations is a major factor reducing expected income tax liability growth to 3.9 percent. Further, the recently revealed large write downs on bank and financial company balance sheets due to sub-prime lending issues is expected to significantly reduce business tax collections more than anticipated with the Mid-Year Update. The economic growth assumptions underlying this forecast are provided in extensive detail later in this volume.

The downward revision to General Fund receipts for fiscal year 2008-09 is $261 million. Tax revisions account for a decrease of $313 million, which is slightly offset by an increase of $52 million in miscellaneous receipts.

Proposed Law Changes

The 2008-09 Budget contains no tax increases. Measures are included to ensure that taxpayers are properly reflecting New York taxable income and that unintended and anachronistic tax statutes are changed to eliminate tax loopholes. In addition, given the current fiscal stress caused by the slowdown in national economic activity, measures are proposed to delay certain already enacted STAR provisions. Other actions reform existing provisions of Tax Law to make them operate more effectively and equitably. This Budget proposes several modest tax reduction initiatives. The tax policy changes proposed with this Budget are reported in summary below and in detail in the tax-by-tax write-ups contained in this report.

ALL FUNDS LEGISLATION ($ in millions)	2008-09	2009-10	2010-11	2011-12
REVENUE ENHANCEMENTS	**1,519**	**1,588**	**1,350**	**1,365**
PERSONAL INCOME TAX	**211**	**247**	**247**	**247**
Amend Definitions of Temporary Stay	0	15	15	15
Amend Definition of Presence in New York	0	5	5	5
Tax Gain from Sale of Partnerships	0	10	10	10
Refund Offsets	1	1	1	1
Improve Audit and Compliance Efforts	175	175	175	175
LLC Minimum Partner Fees	35	35	35	35
Make Permanent Reporting of Tax Shelters	0	6	6	6
STAR	**354**	**380**	**165**	**175**
Increase STAR Exemption Floor from 5 percent to 10 percent	110	115	120	125
Delay Basic Middle Class Rebates	209	225	0	0
Authorize Tax Department to Offset Debts Against STAR Rebates	15	15	15	15
Restructure New York City STAR	20	25	30	35
USER TAXES AND FEES	**192**	**200**	**177**	**182**
Voluntary Disclosure and Compliance Program	30	0	0	0
Repeal Bad Debt Provisions	7	9	9	9
Limit Tax Exemptions for Sales by Non-Profits	8	15	15	15
Close Loophole on Tax Avoidance	4	6	6	6
Require Sales Tax Vendors to Re-register	12	37	12	4
Conform Tax Treatment of Little Cigars	4	5	5	5
Conform Tax Treatment of Flavored Malt Beverages	15	18	18	18
Require Tax Stamp on Illegal Drugs	13	17	17	17
Western Hemisphere Travel Initiative	53	20	10	10
Sales Tax Nexus	47	73	85	98
BUSINESS TAXES	**762**	**761**	**761**	**761**
Improve Audit and Compliance Efforts	55	75	75	75
Voluntary Disclosure and Compliance Program	20	0	0	0
LLC Partnership/Corporation Fees and Minimum Taxes	40	40	40	40
Make Permanent Reporting of Tax Shelters	0	11	11	11
Credit Card Nexus	95	75	75	75
Conforming HMOs Taxation	247	288	288	288
Capital Base	98	70	70	70
Decoupling from Federal QPAI Regulations	56	56	56	56
Expiration of ITC for Financial Services	35	75	75	75
Simplify Taxation of Motor Fuel	13	56	56	56
License/Reader Enforcement	8	15	15	15
Modify Prepayment Requirements	95	0	0	0
TAX REDUCTIONS	**(24)**	**(23)**	**(23)**	**(20)**
Encourage Alternative Fuel Production - Biofuel	0	(1)	(1)	(1)
Expand the New York State Film Credit	(5)	(10)	(15)	(15)
Low Income Housing Credit	(4)	(4)	(4)	(4)
Handicapped Accessible Taxis Credit	0	(3)	(3)	0
Power for Jobs Program	(15)	(5)	0	0
ALL FUNDS LEGISLATION CHANGE WITH STAR	**1,495**	**1,565**	**1,327**	**1,345**
ALL FUNDS LEGISLATION CHANGE WITHOUT STAR	**1,141**	**1,185**	**1,162**	**1,170**

STAR

- Postpone for one year scheduled increases in Basic Middle Class STAR Rebates and New York City personal income tax credits.
- Increase the "floor" in STAR exemption amounts from 5 percent to 10 percent.
- Authorize the Tax Department to offset tax and other debts against STAR rebates.
- Eliminate the New York City STAR credit for taxpayers with income over $250,000.

Personal Income Tax

- Create a tax credit for purchases of clean heating fuel ("bioheat") used for residential purposes.

- Restructure and reform the fees and minimum taxes imposed on limited liability companies, other partnerships, and corporations.
- Amend the definition of "presence in New York" for determining the residency of taxpayers.
- Require inclusion of the gain from the sale of partnership interests as NY-source income to non-resident taxpayers to the extent that these gain are from sales of real property located in New York.
- Require taxpayers to pay the fees charged by the Federal government and other states for offsetting refunds for New York State income tax debts owed by those taxpayers.
- Enact a tax enforcement and compliance reform program.
- Reform the Brownfields Tax Credit program.
- Make tax shelter reporting requirements permanent.
- Authorize the Department of Taxation and Finance to conduct a study of the taxation of nonresidents with limited work presence in New York (administrative).

Business Taxes

- Increase the aggregate amount of low-income housing tax credits that the Commissioner of Housing and Community Renewal may allocate.
- Continue to deter the use of tax shelters by making permanent the provisions allowing the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable and listed transactions that may be improper tax avoidance practices.
- Conform to the practices of 18 other states that have decoupled from the Federal deduction related to qualified production activities and require taxpayers to add back income from this deduction for New York tax purposes.
- Make statutory technical corrections and structural alterations necessary to eliminate real estate investment trust (REIT) and regulated investment company (RIC) loopholes that remained after legislation was enacted in 2007 to address REIT and RIC loopholes.
- Restructure and reform the fees and minimum taxes imposed on limited liability companies, other partnerships, and corporations.
- Reduce the corporation franchise tax capital base rate, eliminate the tax liability cap on this base for non-manufacturers, and conform the definition of "manufacturer" under the capital base to the definition under the entire net income base.
- Reclassify for-profit health maintenance organizations (HMOs) as insurance taxpayers so that these HMOs would be subject to the premiums tax of Tax Law section 1502-a instead of the business corporation tax of Article 9-A and would be treated like traditional health insurers for tax purposes.
- Classify credit card companies doing a specified level of business in the State as taxpayers under the Article 32 bank tax.
- Reform the Brownfields Tax Credit program.
- Extend MTA surcharges on business taxes by four years.
- Change the mandatory first estimated tax payment for all business taxes from 25 percent to 30 percent.
- Extend for two years the credit for taxicabs and livery service vehicles that are accessible by individuals with disabilities.
- Expand the New York State film credit.
- Extend the Power for Jobs program by one year, through June 30, 2009.

- Create a new personal income and corporate franchise tax credit for purchases of clean heating fuel ("bioheat") used for residential purposes.
- Enact a tax enforcement and compliance reform program.
- Combine the petroleum business tax, the motor fuel tax and the State sales tax on fuel into one petroleum business tax.
- Allow the Commissioner of Taxation and Finance to use new technologies to help combat boot legging of fuels into the State and provide a level playing field.

Other Actions

- Require non-profit tax-exempt organizations to collect sales tax on certain sales, rentals and leases.
- Narrow the sales tax exemption for commercial aircraft and the use tax exemption for motor vehicle, vessels, and aircraft in order to curtail certain abusive sales and use tax avoidance schemes.
- Institute a re-registration program that would be applicable to new registrations and re-registrations of vendors.
- Create an evidentiary presumption that certain sellers using New York State residents to solicit sales in the State are vendors required to collect sale and use tax.
- Institute a voluntary disclosure and compliance program.
- Extend the seven day liquor sales law.
- Eliminate the sunset of Quick Draw and remove the location restrictions.
- Reclassify little cigars as cigarettes.
- Modify the tax treatment of flavored malt beverages.
- Repeal the private label credit card provision.
- Require a tax stamp on illegal drugs.

FISCAL YEARS 2009-10, 2010-11 AND 2011-12 OVERVIEW

TOTAL RECEIPTS
(millions of dollars)

	2008-09 Projected	2009-10 Projected	Annual Change	Percent Change	2010-11 Projected	Annual Change	Percent Change	2011-12 Projected	Annual Change	Percent Change
General Fund	**56,342**	**58,724**	**2,382**	**4.2**	**61,343**	**2,619**	**4.5**	**64,527**	**3,184**	**5.2**
Taxes	41,671	43,951	2,280	5.5	45,940	1,989	4.5	48,651	2,711	5.9
State Funds	**86,114**	**89,967**	**3,853**	**4.5**	**93,813**	**3,846**	**4.3**	**97,480**	**3,667**	**3.9**
Taxes	64,912	68,802	3,890	6.0	72,126	3,324	4.8	76,074	3,948	5.5
All Funds	**123,105**	**128,182**	**5,077**	**4.1**	**133,288**	**5,106**	**4.0**	**138,269**	**4,981**	**3.7**
Taxes	64,912	68,802	3,890	6.0	72,126	3,324	4.8	76,074	3,948	5.5

Overall, tax receipts growth in the three fiscal years following 2008-09 is expected to remain in the range of 4.8 percent to 6.0 percent. This is consistent with a projected return to trend economic growth in the U.S. and New York economies in the second half of 2008. Receipt growth is supported by proposals contained with this Budget that eliminate unintended tax loopholes, reform and simplify the Tax Law, and supplement Department of Taxation and Finance efforts to find non-compliant and fraudulent taxpayers. These factors are expected to continue to enhance expected receipt growth through 2011-12.

- Total All Funds receipts in 2009-10 are projected to reach over $128 billion, an increase of $5.1 billion, or 4.1 percent from 2008-09 estimates. All Funds receipts in 2010-11 are expected to increase by $5.1 billion (4.0 percent) over 2009-10 projections. In 2011-12, receipts are expected to increase by nearly $5.0 billion (3.7 percent) over 2010-11 projections.
- Total State Funds receipts are projected to be nearly $90 billion in 2009-10, nearly $94 billion in 2010-11 and over $97 billion in 2011-12.
- Total General Fund receipts are projected to reach nearly $59 billion in 2009-10, over $61 billion in 2010-11 and nearly $65 billion in 2011-12.
- All Funds tax receipts are expected to increase by 6.0 percent in 2009-10, 4.8 percent in 2010-11 and 5.5 percent in 2011-12. Again, the growth pattern is consistent with an economic forecast of continued but slower economic growth.

BASE GROWTH

Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Personal Income Growth
2000-01	7.9	10.1	6.1
2001-02	(4.9)	(4.2)	(0.2)
2002-03	(6.7)	(8.0)	0.2
2003-04	8.2	5.8	4.2
2004-05	13.4	11.4	6.5
2005-06	10.2	9.5	8.7
2006-07	9.6	12.9	7.2
2007-08	3.7	6.5	5.6
2008-09	6.5	4.2	4.6
2009-10	6.0	6.1	4.9
2010-11	4.8	5.2	5.2
2011-12	5.5	5.5	5.1

	Actual Receipts	Base Receipts	Inflation Adjusted Base Change	Personal Income Growth
Historical Average (87-88 to 06-07)	**4.6**	**4.4**	**1.3**	**5.2**
Forecast Average (07-08 to 11-12)	**5.3**	**5.5**	**2.9**	**5.1**
Recessions	**1.5**	**(0.6)**	**(3.3)**	**2.6**
Expansions	**4.5**	**5.3**	**2.1**	**6.3**

Base growth, adjusted for law changes, in tax receipts for fiscal year 2007-08 is estimated at 6.5 percent and 4.2 percent for 2008-09. Overall base growth in tax receipts is dependent on a multitude of factors. Over the past several fiscal years, the most important factors explaining tax receipt growth have been related to:

- improvements in overall economic activity, especially in New York City and surrounding counties;
- continued profitability and compensation gains of financial services companies;
- continued growth in downstate commercial real estate market; and
- continued positive impact of high-income taxpayers on personal income tax growth.

Each of these factors is expected to become a negative drag on receipts over the next fiscal year. The same factors that spurred economic and tax receipt growth in recent fiscal years are now expected to retard growth in 2007-08 and 2008-09.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)					
	2006-07 Actual	2007-08 Estimated	Annual Change	2008-09 Projected	Annual Change
General Fund	**22,940**	**22,735**	**(205)**	**24,391**	**1,656**
Gross Collections	40,090	43,123	3,033	45,861	2,738
Refunds	(5,510)	(6,572)	(1,062)	(7,056)	(484)
STAR	(3,994)	(4,678)	(684)	(4,713)	(35)
RBTF	(7,646)	(9,138)	(1,492)	(9,701)	(563)
State/All Funds	**34,580**	**36,551**	**1,971**	**38,805**	**2,254**
Gross Collections	40,090	43,123	3,033	45,861	2,738
Refunds	(5,510)	(6,572)	(1,062)	(7,056)	(484)

All Funds personal income tax receipts, which reflect the net of gross payments minus refunds, for 2007-08 are estimated at $36.6 billion, an increase of nearly $2.0 billion or 5.7 percent over the prior year. The increase is primarily attributable to moderately strong growth in withholding of $1.6 billion, or 6 percent, and solid growth in estimated taxes for tax year 2007 liabilities of $1.0 billion (13.2 percent). In addition, reflecting taxpayer uncertainty with the expiration of the temporary surcharge, final settlement payments for the 2006 tax year were mixed. The strongest component was a 12.3 percent ($442 million) increase in extension payments. The $64 million (3.3 percent) growth in payments accompanying final returns was relatively weak, and the 19.3 increase (roughly $1.1 billon) in refunds reflected in large part some $650 million of claims for the Empire State child credit effective in tax year 2006. The following table summarizes, by component, actual receipts for 2006-07 and forecast amounts through 2011-12.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2006-07 (Actual)	2007-08 (Estimated)	2008-09 (Projected)	2009-10 (Projected)	2010-11 (Projected)	2011-12 (Projected)
Receipts						
Withholding	26,802	28,401	30,176	32,093	33,795	36,283
Estimated Payments	10,355	11,697	12,527	13,481	14,751	15,455
Current Year	7,572	8,572	9,152	9,726	10,576	11,030
Prior Year*	2,783	3,125	3,375	3,755	4,175	4,425
Final Returns	2,102	2,116	2,211	2,359	2,516	2,682
Current Year	194	145	180	180	180	180
Prior Year*	1,907	1,971	2,031	2,179	2,336	2,502
Delinquent Collections	831	909	947	986	1027	1065
Gross Receipts	40,090	43,123	45,861	48,919	52,089	55,485
Refunds						
Prior Year*	3,231	4,248	4,412	4415	4765	5163
Previous Years	257	315	290	310	330	330
Current Year*	1,500	1500	1,750	1,750	1,750	1,750
State-City Offset*	522	509	604	684	758	841
Total Refunds	5,510	6,572	7,056	7,159	7,603	8,085
Net Receipts	34,580	36,551	38,805	41,760	44,486	47,400

* These components, collectively, are known as the “settlement” on the prior year’s tax liability.

All Funds income tax receipts for 2008-09 of $38.8 billion are projected to increase by $2.3 billion or 6.2 percent over the prior year. Gross receipts are projected to increase 6.3 percent and reflect projected withholding growth of 6.2 percent ($1.8 billion), while the growth in estimated taxes for tax year 2008 liabilities is expected to reach 6.8 percent ($580 million). Payments from extensions and final returns for tax year 2007 are projected to increase by 8.0 percent and 4.5 percent, respectively. Receipts from delinquencies are projected to increase $38 million over the prior year. Growth in total refunds is estimated at $484 million or 7.4 percent.

General Fund income tax receipts are net of deposits to the STAR Fund, which provides property tax relief, and the Revenue Bond Tax Fund (RBTF), which supports debt service payments on State Personal Income Tax Revenue Bonds. General Fund income tax receipts for 2007-08 of $22.7 billion are expected to decrease by $205 million or 0.9 percent from the prior year. This decline reflects both a large increase in STAR deposits of $685 million associated with the middle class rebate program, and a $1,492 million increase in deposits to the RBTF. The latter reflects Enacted Budget legislation that provides that deposits to the RBTF be calculated before the deposit of income tax receipts to the STAR Fund; in previous fiscal years this transfer was calculated after the STAR transfer, so the RBTF transfer was effectively lower by 25 percent of the amount of the STAR deposit.

General Fund income tax receipts for 2008-09 of $24.4 billion are projected to increase by $1.7 billion or 7.3 percent over the prior year. The increase reflects a slight reduction in the STAR transfer, which in turn is attributable to a one-time delay of a $250 million payment to New York City until June 2009. Deposits to the RBTF are expected to increase by 6.2 percent, the same percentage increase as projected for net collections since the transfer equals 25 percent of net collections.

PERSONAL INCOME TAX CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS (millions of dollars)

	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change	2008-09 Mid-Year Update	2008-09 Executive Budget	Change	Percent Change
General Fund	**22,697**	**22,735**	**38**	**0.2**	**23,940**	**24,391**	**451**	**1.9**
Gross Collections	42,933	43,123	190	0.4	45,896	45,861	(35)	(0.1)
Refunds	(6,363)	(6,572)	(209)	3.3	(6,832)	(7,056)	(224)	3.3
STAR	(4,730)	(4,678)	52	(1.1)	(5,358)	(4,713)	645	(12.0)
RBTF	(9,143)	(9,138)	5	(0.1)	(9,766)	(9,701)	65	(0.7)
State/All Funds	**36,570**	**36,551**	**(19)**	**(0.1)**	**39,064**	**38,805**	**(259)**	**(0.7)**
Gross Collections	42,933	43,123	190	0.4	45,896	45,861	(35)	(0.1)
Refunds	(6,363)	(6,572)	(209)	3.3	(6,832)	(7,056)	(224)	3.3

Compared to the Mid-Year Update, 2007-08 All Funds income tax receipts are revised down by $19 million. The decrease reflects a modest decrease in withholding of $100 million, and higher-than-projected estimated and final return payments for tax year 2007 of $250 million and $40 million, respectively, offset by higher-than-expected refunds of $209 million ($164 million for tax year 2006 and $45 million for prior tax years).

Compared to the Mid-Year Update, 2008-09 All Funds income tax receipts are revised downward by $259 million. This reflects lower withholding of $200 million, additional estimated tax payments related to tax year 2008 of $130 million, an increase in current return payments of $35 million related to legislation proposed with this Budget, and a $224 million increase in total refunds. The increase in refunds is the net of a $500 million upward re-estimate for current tax year 2007 refunds, $250 million of which is the one-time impact of increasing the January-March refund cap from $1,500 million to $1,750 million, a $100 million downward revision in the State-city offset, and a $176 million reduction in refunds due to legislation intended to promote improved tax compliance.

PERSONAL INCOME TAX (millions of dollars)

	2008-09 Projected	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change	2011-12 Projected	Annual Change
General Fund	**24,391**	**25,897**	**1,506**	**27,415**	**1,518**	**29,315**	**1,900**
Gross Collections	45,861	48,919	3,058	52,089	3,170	55,485	3,396
Refunds	(7,056)	(7,159)	(103)	(7,603)	(444)	(8,085)	(482)
STAR	(4,713)	(5,423)	(710)	(5,949)	(526)	(6,235)	(286)
RBTF	(9,701)	(10,440)	(739)	(11,122)	(682)	(11,850)	(728)
State/All Funds	**38,805**	**41,760**	**2,955**	**44,486**	**2,726**	**47,400**	**2,914**
Gross Collections	45,861	48,919	3,058	52,089	3,170	55,485	3,396
Refunds	(7,056)	(7,159)	(103)	(7,603)	(444)	(8,085)	(482)

All Funds income tax receipts for 2009-10 of $41.8 billion are projected to increase $3.0 billion or 7.6 percent over the prior year. Gross receipts are projected to increase 6.7 percent and reflect withholding that is projected to grow by 6.4 percent ($1.9 billion). Total estimated taxes on prior and current year liabilities reflect the expectation of continued growth in incomes of wealthy taxpayers and will increase by an estimated 7.6 percent ($954 million). Payments from final returns are expected to increase 6.7 percent

($148 million). Delinquencies are projected to increase $39 million or 4.1 percent over the prior year. Growth in total refunds is projected at $103 million or 1.5 percent over the prior year. This low growth reflects the one-time $250 million increase in 2008-09 refunds noted above.

General Fund income tax receipts for 2009-10 of $25.9 billion are projected to increase by $1.5 billion, or 6.2 percent. General Fund receipts for 2009-10 reflect an increase in STAR deposits of $710 million due to the resumption of the middle class rebate program as well as the fact that 2008-09 transfers were reduced by $250 million for the New York City timing change noted above, and a $739 million increase in deposits to the RBTF.

All Funds income tax receipts for 2010-11 and 2011-12 are projected to reach $44.5 billion and $47.4 billion, respectively. General Fund receipts are projected at $27.4 billion and $29.3 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES
(millions of dollars)

	2006-07 Actual	2007-08 Estimated	Annual Change	2008-09 Projected	Annual Change
General Fund	**8,186**	**8,503**	**317**	**8,832**	**329**
Sales Tax	7,539	7,865	326	8,080	215
Cigarette and Tobacco Taxes	411	407	(4)	437	30
Motor Vehicle Fees	(16)	(21)	(5)	47	68
Alcoholic Beverage Taxes	194	200	6	220	20
ABC License Fees	58	52	(6)	48	(4)
State/All Funds	**13,456**	**13,903**	**447**	**14,217**	**314**
Sales Tax	10,738	11,199	461	11,504	305
Cigarette and Tobacco Taxes	985	973	(12)	1,052	79
Motor Fuel	513	511	(2)	351	(160)
Motor Vehicle Fees	769	772	3	830	58
Highway Use Tax	153	148	(5)	162	14
Alcoholic Beverage Taxes	194	200	6	219	19
ABC License Fees	58	51	(7)	48	(3)
Auto Rental Tax	46	49	3	51	2

All Funds user taxes and fees receipts for 2007-08 are estimated to be $13.9 billion, an increase of $447 million or 3.3 percent from 2006-07. Sales tax receipts are expected to increase by $461 million from the prior year due to a base growth of 3.5 percent before the impact of law changes. This is due largely to projected modest increases in employment, income and overall taxable consumption. Non-sales tax user taxes and fees are estimated to decrease by $14 million from 2006-07 mainly due a decrease in cigarette and tobacco taxes and highway use tax collections.

General Fund user taxes and fees receipts are expected to total $8.5 billion in 2007-08, an increase of $317 million or 3.9 percent from 2006-07. The increase reflects an increase in sales tax receipts of $326 million due to base growth.

All Funds user taxes and fees receipts for 2008-09 are projected to be nearly $14.2 billion, an increase of $314 million, or 2.3 percent from 2007-08. General Fund user taxes and fees receipts are projected to total $8.8 billion in 2008-09, an increase of $329 million, or 3.9 percent from 2007-08. This increase largely reflects a projected increase in sales tax and motor vehicle fee receipts. Motor vehicle fee receipts are projected to increase due to a proposal to offer a "Western Hemisphere Travel Initiative" compliant driver's license in New York State. The large decline in motor fuel tax receipts reflects the proposal in this Budget to combine the motor fuel tax and State sales tax on motor fuel and diesel motor fuel into the petroleum business tax.

USER TAXES AND FEES CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS
(millions of dollars)

	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change	2008-09 Mid-Year Update	2008-09 Executive Budget	Change	Percent Change
General Fund	**8,506**	**8,503**	**(3)**	**(0.0)**	**8,805**	**8,832**	**27**	**0.3**
Sales Tax	7,865	7,865	0	0.0	8,103	8,080	(23)	(0.3)
Cigarette and Tobacco Taxes	407	407	0	0.0	436	437	1	0.2
Motor Vehicle Fees	(18)	(21)	(3)	16.7	13	47	34	261.5
Alcoholic Beverage Taxes	200	200	0	0.0	205	220	15	7.3
ABC License Fees	52	52	0	0.0	48	48	0	0.0
State/All Funds	**13,906**	**13,903**	**(3)**	**(0.0)**	**14,369**	**14,217**	**(152)**	**(1.1)**
Sales Tax	11,199	11,199	0	0.0	11,546	11,504	(42)	(0.4)
Cigarette and Tobacco Taxes	973	973	0	0.0	1,048	1,052	4	0.4
Motor Fuel	511	511	0	0.0	523	351	(172)	(32.9)
Motor Vehicle Fees	775	772	(3)	(0.4)	794	830	36	4.5
Highway Use Tax	148	148	0	0.0	154	162	8	5.2
Alcoholic Beverage Taxes	200	200	0	0.0	205	219	14	6.8
ABC License Fees	51	51	0	0.0	48	48	0	0.0
Auto Rental Tax	49	49	0	0.0	51	51	0	0.0

All Funds user taxes and fees in 2007-08 are revised down by $3 million from the Mid-Year Update. All Funds user taxes and fees are revised down by $152 million for 2008-09; this revision is mainly due to the proposed combination of the State sales tax on motor fuel and diesel motor fuel and the motor fuel tax into the petroleum business tax, effective December 1, 2008. This will be offset by an increase in the petroleum business tax rate.

USER TAXES AND FEES
(millions of dollars)

	2008-09 Projected	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change	2011-12 Projected	Annual Change
General Fund	**8,832**	**8,913**	**81**	**9,251**	**338**	**9,620**	**369**
Sales Tax	8,080	8,126	46	8,438	312	8,778	340
Cigarette and Tobacco Taxes	437	432	(5)	428	(4)	428	0
Motor Vehicle Fees	47	76	29	105	29	126	21
Alcoholic Beverage Taxes	220	227	7	232	5	236	4
ABC License Fees	48	52	4	48	(4)	52	4
State/All Funds	**14,217**	**14,017**	**(200)**	**14,470**	**453**	**15,006**	**536**
Sales Tax	11,504	11,597	93	12,044	447	12,527	483
Cigarette and Tobacco Taxes	1,052	1,040	(12)	1,027	(13)	1,025	(2)
Motor Fuel	351	0	(351)	0	0	0	0
Motor Vehicle Fees	830	870	40	883	13	919	36
Highway Use Tax	162	178	16	181	3	188	7
Alcoholic Beverage Taxes	219	227	8	232	5	236	4
ABC License Fees	48	52	4	48	(4)	53	5
Auto Rental Tax	51	53	2	55	2	58	3

All Funds user taxes and fees in 2009-10 are projected to decrease by $200 million and then increase by $453 million in 2010-11 and $536 million in 2011-12. Again, the 2009-10 decrease reflects the proposed consolidation of the motor fuel tax and State sales tax on motor fuel and diesel motor fuel into the petroleum business tax.

Business Taxes

BUSINESS TAXES (millions of dollars)					
	2006-07 Actual	2007-08 Estimated	Annual Change	2008-09 Projected	Annual Change
General Fund	**6,468**	**6,300**	**(168)**	**7,254**	**954**
Corporate Franchise Tax	3,676	3,575	(101)	4,138	563
Corporation & Utilities Tax	626	618	(8)	589	(29)
Insurance Tax	1,142	1,176	34	1,405	229
Bank Tax	1,024	931	(93)	942	11
Petroleum Business Tax	0	0	0	180	180
State/All Funds	**8,606**	**8,437**	**(169)**	**9,721**	**1,284**
Corporate Franchise Tax	4,228	4,106	(122)	4,745	639
Corporation & Utilities Tax	820	816	(4)	787	(29)
Insurance Tax	1,258	1,292	34	1,555	263
Bank Tax	1,210	1,094	(116)	1,096	2
Petroleum Business Tax	1,090	1,129	39	1,538	409

All Funds business tax receipts for 2007-08 are estimated at $8.4 billion, a decrease of $169 million, or 2.0 percent from the prior year. The decrease is primarily due to expected decreases in corporate franchise tax receipts of 2.9 percent and bank tax receipts of 9.6 percent. The decrease in corporate franchise tax receipts is attributable to reduced audit and compliance payments and high refund payments, more than offsetting current-year receipts growth in the ongoing base. In addition, current year receipts were supplemented by the closing of several loopholes in the 2007-08 Enacted Budget. The change in current year bank tax receipts reflects a significant decrease in audit receipts and a modest increase in the payments on current year estimated liability. In addition, an overall 0.5 percent decrease in corporation and utilities taxes reflects growth of 4.6 percent in non-audit receipts and a decline of 40 percent in audit receipts from 2006-07 levels. Year-to-date trends suggest that increases in receipts from electric utilities will be offset by decreases in receipts from the telecommunications industry.

All Funds Business Tax Audit and Non Audit Receipts ($ millions)					
	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Estimated
Corporate Franchise Tax	**1,700**	**2,110**	**3,053**	**4,228**	**4,106**
Audit	232	397	653	1,133	1,020
Non-Audit	1,469	1,713	2,400	3,095	3,086
Corporation and Utilties Taxes	**882**	**827**	**832**	**820**	**816**
Audit	30	43	101	52	20
Non-Audit	852	784	731	768	796
Insurance Taxes	**1,031**	**1,108**	**1,083**	**1,258**	**1,292**
Audit	28	32	33	56	41
Non-Audit	1,003	1,076	1,050	1,202	1,251
Bank Tax	**342**	**675**	**975**	**1,210**	**1,094**
Audit	39	24	330	299	116
Non-Audit	303	651	645	911	978

The decreases in All Funds corporate franchise and bank tax receipts are partially offset by increases in the All Funds receipts from the insurance tax of 2.7 percent and the petroleum business tax of 3.6 percent. The overall increase in insurance tax receipts reflects modest growth in the ongoing base of insurance tax receipts of 4.1 percent over the prior year and a 27 percent decline in audit receipts from the prior year. The increase in petroleum business tax receipts is primarily due to the increase of 5.0 percent in the petroleum business tax rate index effective January 1, 2007, offset by an expected 1.2 percent decrease in January 2008. The petroleum business tax increase also reflects the impact of proposed legislation to consolidate the motor fuel and petroleum business tax.

All Funds business tax receipts for 2008-09 of $9.7 billion are projected to increase by $1.3 billion, or 15.2 percent over the prior year. $358 million of the increase is due to legislation proposed with this Budget that would combine receipts from the motor fuel tax and State sales tax on motor fuel and diesel motor fuel into petroleum business tax receipts. This increase will be offset by a comparable decrease in the sales tax and motor fuel tax receipts in the user taxes and fees category. (See "User Taxes and Fees" above.)

Non-audit business tax receipts before these Executive Budget initiatives are projected to increase by just 0.2 percent. The overall increase reflects a projected increase in non-audit corporate franchise tax receipts of 4.3 percent, a decrease of 16.0 percent in non-audit bank tax receipts, an increase in non-audit corporation and utilities taxes of 0.6 percent, and a 4.4 percent increase in the petroleum business tax receipts. Non-audit receipts from the insurance taxes are projected to decrease by 1.3 percent. Audit receipts related to All Funds business taxes are projected to increase by approximately 5.3 percent or roughly $58 million from 2007-08.

General Fund business tax receipts for 2007-08 of $6.3 billion are estimated to decrease by $168 million, or 2.6 percent below 2006-07. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

General Fund business tax receipts for 2008-09 of $7.3 billion are projected to increase $954 million, or 15.1 percent over the prior year. Business tax receipts deposited to the General Fund reflect the All Funds trends and the Executive Budget initiatives discussed above.

BUSINESS TAXES CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS
(millions of dollars)

	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change	2008-09 Mid-Year Update	2008-09 Executive Budget	Change	Percent Change
General Fund	**6,500**	**6,300**	**(200)**	**(3.1)**	**6,669**	**7,254**	**585**	**8.8**
Corporate Franchise Tax	3,675	3,575	(100)	(2.7)	3,966	4,138	172	4.3
Corporation & Utilities Tax	618	618	0	0.0	623	589	(34)	(5.5)
Insurance Tax	1,176	1,176	0	0.0	1,161	1,405	244	21.0
Bank Tax	1,031	931	(100)	(9.7)	919	942	23	2.5
Petroleum Business Tax	0	0	0	0.0	0	180	180	-
State/All Funds	**8,652**	**8,437**	**(215)**	**(2.5)**	**8,881**	**9,721**	**840**	**9.5**
Corporate Franchise Tax	4,206	4,106	(100)	(2.4)	4,531	4,745	214	4.7
Corporation & Utilities Tax	816	816	0	0.0	821	787	(34)	(4.1)
Insurance Tax	1,292	1,292	0	0.0	1,276	1,555	279	21.9
Bank Tax	1,209	1,094	(115)	(9.5)	1,073	1,096	23	2.1
Petroleum Business Tax	1,129	1,129	0	0.0	1,180	1,538	358	30.3

Compared to the Mid-Year Update, 2007-08 All Funds business tax receipts are revised down by $215 million, or 2.5 percent, to $8.4 billion. The decrease reflects year-to-date results in the business taxes, which suggest lower growth in the corporate franchise tax receipts and bank tax receipts than anticipated in the Mid-Year Update.

All Funds business tax receipts for 2008-09 are revised up by $840 million, or 9.5 percent from the Mid-Year Update. The increase reflects a downward revision in the base of $235 million, more than offset by the first-year impact of Executive Budget initiatives proposed with this Budget.

BUSINESS TAXES (millions of dollars)							
	2008-09 Projected	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change	2011-12 Projected	Annual Change
General Fund	**7,254**	**7,816**	**562**	**7,866**	**50**	**8,218**	**352**
Corporate Franchise Tax	4,138	4,265	127	4,258	(7)	4,497	239
Corporation & Utilities Tax	589	599	10	608	9	612	4
Insurance Tax	1,405	1,466	61	1,505	39	1,549	44
Bank Tax	942	928	(14)	935	7	997	62
Petroleum Business Tax	180	558	378	560	2	563	3
State/All Funds	**9,721**	**10,700**	**979**	**10,763**	**63**	**11,171**	**408**
Corporate Franchise Tax	4,745	4,891	146	4,883	(8)	5,156	273
Corporation & Utilities Tax	787	797	10	807	10	812	5
Insurance Tax	1,555	1,625	70	1,668	43	1,716	48
Bank Tax	1,096	1,076	(20)	1,084	8	1,156	72
Petroleum Business Tax	1,538	2,311	773	2,321	10	2,331	10

All Funds business tax receipts for 2009-10, 2010-11 and 2011-12 reflect trend growth that is determined in part by the expected level of corporate profits, the projected increase in taxable insurance premiums, estimated increases in electric utility consumption prices and the consumption of telecommunications services. In addition, the fully effective impact of the Executive Budget initiatives supplements out-year growth. Business tax receipts will increase to $10.7 billion (10.1 percent) in 2009-10, $10.8 billion (0.6 percent) in 2010-11, and $11.2 billion (3.8 percent) in 2011-12. Projected General Fund business tax receipts reflect the factors outlined above and the out-year impact of Executive Budget initiatives. General Fund business tax receipts over this period are expected to increase to $7.8 billion (7.7 percent) in 2009-10, $7.9 billion (0.6 percent) in 2010-11, and $8.2 billion (4.5 percent) in 2011-12.

Other Taxes

OTHER TAXES (millions of dollars)					
	2006-07 Actual	2007-08 Estimated	Annual Change	2008-09 Projected	Annual Change
General Fund	**1,075**	**1,030**	**(45)**	**1,194**	**164**
Estate Tax	1,063	1,006	(57)	1,170	164
Gift Tax	(10)	0	10	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-mutuel Taxes	21	23	2	23	0
All Other Taxes	1	1	0	1	0
State/All Funds	**2,097**	**2,036**	**(61)**	**2,169**	**133**
Estate Tax	1,063	1,006	(57)	1,170	164
Gift Tax	(10)	0	10	0	0
Real Property Gains Tax	0	0	0	0	0
Real Estate Transfer Tax	1,022	1,006	(16)	975	(31)
Pari-mutuel Taxes	21	23	2	23	0
All Other Taxes	1	1	0	1	0

All Funds other tax receipts for 2007-08 are estimated to be just over $2.0 billion, down $61 million or 2.9 percent from 2006-07 receipts, reflecting declines in estate tax receipts and the real estate transfer tax. General Fund other tax receipts are expected to total just over $1.0 billion in fiscal year 2007-08, a decrease of $45 million.

All Funds other tax receipts in 2008-09 are projected to be nearly $2.2 billion, up $133 million or 6.5 percent from 2007-08, reflecting modest retrenchment in real estate transfer tax receipts as well as a return to a normal estate tax collection pace. General Fund receipts for 2008-09 are projected to total nearly $1.2 billion, an increase of $164 million.

OTHER TAXES CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS
(millions of dollars)

	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change	2008-09 Mid-Year Update	2008-09 Executive Budget	Change	Percent Change
General Fund	**1,102**	**1,030**	**(72)**	**(6.5)**	**1,211**	**1,194**	**(17)**	**(1.4)**
Estate Tax	1,081	1,006	(75)	(6.9)	1,190	1,170	(20)	(1.7)
Gift Tax	0	0	0	0.0	0	0	0	0.0
Real Property Gains Tax	0	0	0	0.0	0	0	0	0.0
Pari-mutuel Taxes	20	23	3	15.0	20	23	3	15.0
All Other Taxes	1	1	0	0.0	1	1	0	0.0
State/All Funds	**2,077**	**2,036**	**(41)**	**(2.0)**	**2,186**	**2,169**	**(17)**	**(0.8)**
Estate Tax	1,081	1,006	(75)	(6.9)	1,190	1,170	(20)	(1.7)
Gift Tax	0	0	0	0.0	0	0	0	0.0
Real Property Gains Tax	0	0	0	0.0	0	0	0	0.0
Real Estate Transfer Tax	975	1,006	31	3.2	975	975	0	0.0
Pari-mutuel Taxes	20	23	3	15.0	20	23	3	15.0
All Other Taxes	1	1	0	0.0	1	1	0	0.0

All Funds other tax receipt estimates for 2007-08 have been revised down $41 million from the Mid-Year Update estimate. Receipts estimates for the estate tax have been reduced reflecting the decline in collections from larger estates while the real estate transfer tax estimate has been increased modestly as the strength of the Downstate commercial real estate market continues.

General Fund other taxes receipts projections for 2008-09 are revised down by $17 million from the Mid-Year Update, reflecting slightly slower growth in estate tax collections.

OTHER TAXES (millions of dollars)							
	2008-09 Projected	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change	2011-12 Projected	Annual Change
General Fund	**1,194**	**1,325**	**131**	**1,408**	**83**	**1,498**	**90**
Estate Tax	1,170	1,301	131	1,384	83	1,474	90
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-mutuel Taxes	23	23	0	23	0	23	0
All Other Taxes	1	1	0	1	0	1	0
State/All Funds	**2,169**	**2,325**	**156**	**2,408**	**83**	**2,498**	**90**
Estate Tax	1,170	1,301	131	1,384	83	1,474	90
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	975	1,000	25	1,000	0	1,000	0
Pari-mutuel Taxes	23	23	0	23	0	23	0
All Other Taxes	1	1	0	1	0	1	0

The 2009-10 All Funds receipts projection for other taxes is just over $2.3 billion, up $156 million or 7.2 percent from 2008-09 receipts. Growth in the estate tax is projected to follow expected increases in household net worth and receipts from the real estate transfer tax continue to reflect the slowdown in the housing market.

The 2010-11 All Funds receipts projection for other taxes is approximately $2.4 billion, up $83 million or 3.6 percent from 2009-10 receipts. The forecast reflects continued increases in household net worth as well as in the value of real property transfers.

The 2011-12 All Funds receipts projection for other taxes is nearly $2.5 billion, up $90 million (3.7 percent) from 2010-11 as continued moderate growth in estate tax collections is expected.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)					
	2006-07 Actual	2007-08 Estimated	Annual Change	2008-09 Projected	Annual Change
General Fund	**2,420**	**2,515**	**95**	**2,279**	**(236)**
Miscellaneous Receipts	2,268	2,444	176	2,238	(206)
Federal Grants	152	71	(81)	41	(30)
State Funds	**18,016**	**19,994**	**1,978**	**21,202**	**1,208**
Miscellaneous Receipts	17,864	19,922	2,058	21,160	1,238
Federal Grants	152	72	(80)	42	(30)
All Funds	**53,657**	**55,908**	**2,251**	**58,193**	**2,285**
Miscellaneous Receipts	18,078	20,067	1,989	21,310	1,243
Federal Grants	35,579	35,841	262	36,883	1,042

All Funds miscellaneous receipts include moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to total nearly $20.1 billion in 2007-08, an increase of $2.0 billion from 2006-07 largely driven by growth in: HCRA surcharge revenues ($689 million); lottery revenues, including VLTs ($256 million); and children and family services restructuring of the Youth Facility Per Diem Account ($115 million.)

Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, school aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing sometimes varies. All Funds Federal grants are projected to total $35.8 billion in 2007-08, an increase of $262 million from 2006-07. Federal aid is expected to increase for Public Health ($315 million), mental hygiene ($147 million), transportation ($129 million), homeland security ($141 million) and temporary and disability assistance ($80 million). These increases are partially offset by a reduction in Federal Medicaid ($593 million).

General Fund miscellaneous receipts collections are estimated to be $2.4 billion in 2007-08, up $176 million from 2006-07 receipts. This increase is primarily due to a New York Power Authority payment, ESDC property sale, Driver's Responsibility Program portion dedicated to the General Fund and the Hartford Financial Services Settlement. General Fund Federal grants are expected to decline by $81 million from the prior year, reflecting the loss of the Medicare Part D subsidy.

All Funds miscellaneous receipts are projected to total $21.3 billion in 2008-09, an increase of more than $1.2 billion from the current year, driven by: growth in programs financed with authority bond proceeds ($706 million), including spending for economic development, environment, education and mental health; projected first year receipts for the proposal to redirect all unclaimed bottle deposits to support spending in the Environmental Protection Fund ($25 million); growth in lottery revenues, including VLTs ($340 million); SUNY revenue ($68 million); and statewide Civil Legal Services funding ($53 million.) All Funds Federal grants are projected to total $36.9 billion in 2008-08, an increase of $1.0 billion from the current year. Federal aid is expected to increase for Medicaid ($471 million, social services ($160 million), and homeland security ($76 million). These increases are slightly offset by a decline of $30 million due to the loss of the Medicare Part D Subsidy. In most cases, the grant levels reflect projected changes in State spending levels and a corresponding change in estimated Federal reimbursement, not changes in aid levels for New York authorized by Congress.

General Fund miscellaneous receipts collections in 2008-09 are projected to reach approximately $2.2 billion, down $206 million from 2007-08 estimates, due to the loss of revenue from the New York Power Authority, and decreases in indirect costs revenue and abandoned property transfers, partially offset by increases in receipts due to the Monroe County’s Medicaid sales tax intercept payments.

MISCELLANEOUS RECEIPTS & FEDERAL GRANTS CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS (millions of dollars)								
	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change	2008-09 Mid-Year Update	2008-09 Executive Budget	Change	Percent Change
General Fund	**2,515**	**2,515**	**0**	**0.0**	**2,107**	**2,279**	**172**	**8.2**
Miscellaneous Receipts	2,444	2,444	0	0.0	2,052	2,238	186	9.1
Federal Grants	71	71	0	0.0	55	41	(14)	(25.5)
State Funds	**19,983**	**19,994**	**11**	**0.1**	**19,928**	**21,202**	**1,274**	**6.4**
Miscellaneous Receipts	19,911	19,922	11	0.1	19,872	21,160	1,288	6.5
Federal Grants	72	72	0	0.0	56	42	(14)	(25.0)
All Funds	**56,075**	**55,908**	**(167)**	**(0.3)**	**57,850**	**58,193**	**343**	**0.6**
Miscellaneous Receipts	20,059	20,067	8	0.0	20,015	21,310	1,295	6.5
Federal Grants	36,016	35,841	(175)	(0.5)	37,835	36,883	(952)	(2.5)

All Funds miscellaneous receipts are projected to total nearly $20.1 billion in 2007-08, virtually unchanged from the Mid-Year Update. All Funds Federal grants are projected to total $35.8 billion in 2007-08, a downward revision of $175 million from the Mid-Year Update. This results from slower than expected spending against Federal homeland security grants and delayed implementation of the Federal Help Americans Vote Act mandate.

General Fund miscellaneous receipts and Federal grants in 2007-08 have not been revised from the Mid-Year Update.

All Funds Federal grants are projected to total $36.9 billion in 2008-09, a downward revision of nearly $1.0 billion from the Mid-Year Update. Federal aid is expected to decrease for Medicaid ($620 million), homeland security ($202 million) and elections ($103 million).

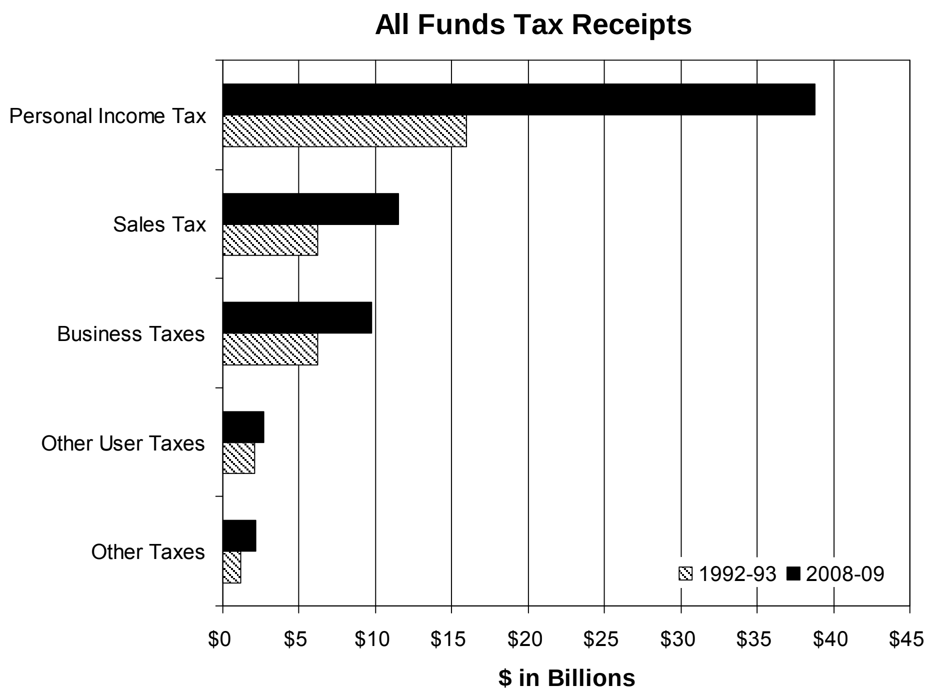
General Fund miscellaneous receipts and Federal grants projections for 2008-09 are revised up by $172 million from the Mid-Year Update, primarily due to a larger than expected one-time payment from the State of New York Mortgage Agency (SONYMA) and increases in investment income, abandoned property and bond issuance charges.

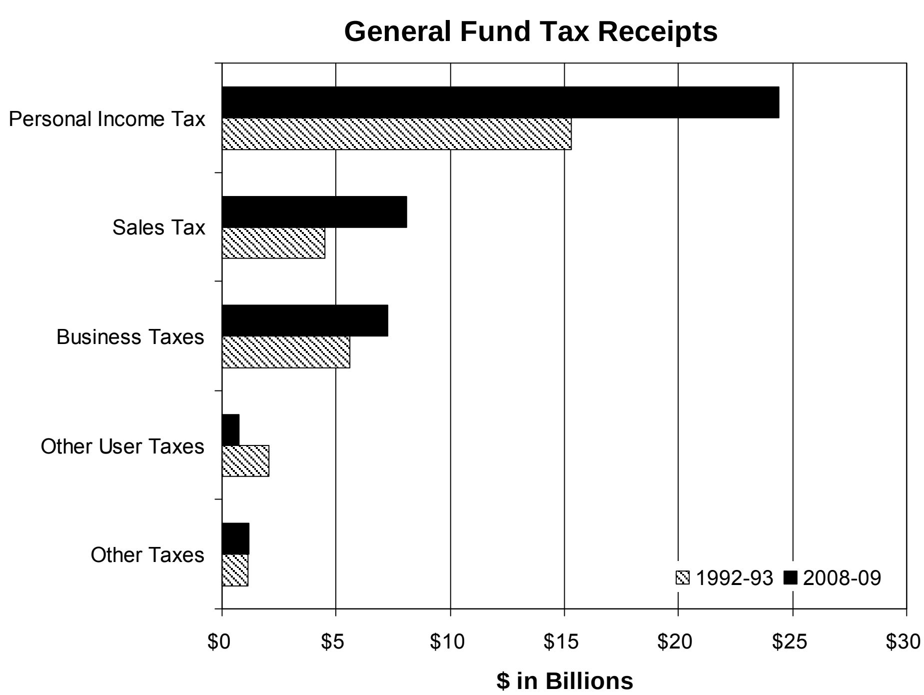
MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)							
	2008-09 Projected	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change	2011-12 Projected	Annual Change
General Fund	**2,279**	**2,186**	**(93)**	**2,261**	**75**	**2,060**	**(201)**
Miscellaneous Receipts	2,238	2,186	(52)	2,261	75	2,060	(201)
Federal Grants	41	0	(41)	0	0	0	0
State Funds	**21,202**	**21,165**	**(37)**	**21,687**	**522**	**21,406**	**(281)**
Miscellaneous Receipts	21,160	21,164	4	21,686	522	21,405	(281)
Federal Grants	42	1	(41)	1	0	1	0
All Funds	**58,193**	**59,380**	**1,187**	**61,162**	**1,782**	**62,195**	**1,033**
Miscellaneous Receipts	21,310	21,305	(5)	21,826	521	21,547	(279)
Federal Grants	36,883	38,075	1,192	39,336	1,261	40,648	1,312

In 2009-10, General Fund miscellaneous receipts are projected to be nearly $2.2 billion, down $52 million from 2008-09. This decrease primarily results from the loss of the previously discussed SONYMA payment, reduced transfers from abandoned property and a conversion of a Medicare D (Prescription Drug) Plan for Retirees to a contracted Medicare D plan.

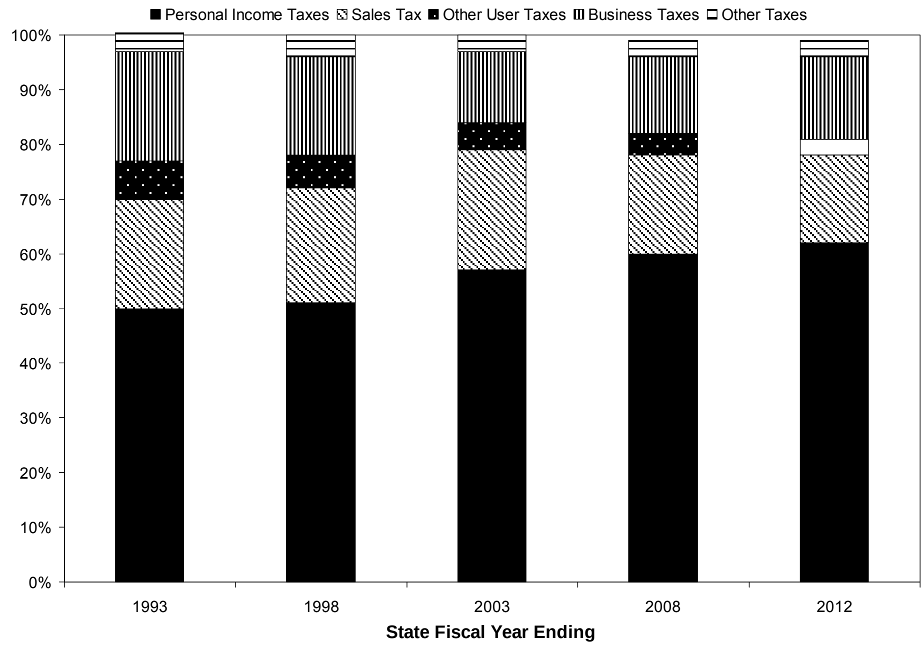
General Fund miscellaneous receipts in 2010-11 are projected to be almost $2.3 billion, up $75 million from 2009-10. This increase is primarily due to projected increases in collections from other transactions.

In 2011-12, General Fund receipts are projected to be nearly $2.1 billion, a decrease of approximately $201 million from 2010-11. This projected decrease is almost solely due to reduced collections from other transactions.





All Funds Tax Receipts Percent Share



CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,939	3,994	0	7,647	34,580
User taxes and fees	8,186	1,598	1,161	2,511	13,456
Sales and use tax	7,539	688	0	2,511	10,738
Cigarette and tobacco taxes	411	574	0	0	985
Motor fuel tax	0	108	406	0	514
Motor vehicle fees	(16)	228	557	0	769
Highway Use tax	0	0	153	0	153
Alcoholic beverages taxes	194	0	0	0	194
Alcoholic beverage control license fees	58	0	0	0	58
Auto rental tax	0	0	45	0	45
Business taxes	6,468	1,517	621	0	8,606
Corporation franchise tax	3,676	551	0	0	4,227
Corporation and utilities tax	626	178	17	0	821
Insurance taxes	1,142	116	0	0	1,258
Bank tax	1,024	186	0	0	1,210
Petroleum business tax	0	486	604	0	1,090
Other taxes	1,075	0	147	875	2,097
Estate tax	1,063	0	0	0	1,063
Gift tax	(10)	0	0	0	(10)
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	147	875	1,022
Pari-mutuel taxes	21	0	0	0	21
Other taxes	1	0	0	0	1
Total Taxes	38,668	7,109	1,929	11,033	58,739
Miscellaneous receipts	2,268	12,715	2,247	848	18,078
Federal grants	151	33,690	1,738	0	35,579
Total	41,087	53,514	5,914	11,881	112,396

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,735	4,678	0	9,138	36,551
User taxes and fees	8,503	1,621	1,163	2,615	13,902
Sales and use tax	7,865	718	0	2,615	11,198
Cigarette and tobacco taxes	407	565	0	0	972
Motor fuel tax	0	107	405	0	512
Motor vehicle fees	(21)	231	562	0	772
Alcoholic beverages taxes	200	0	0	0	200
Highway Use tax	0	0	147	0	147
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	49	0	49
Business taxes	6,300	1,495	642	0	8,437
Corporation franchise tax	3,575	531	0	0	4,106
Corporation and utilities tax	618	181	17	0	816
Insurance taxes	1,176	116	0	0	1,292
Bank tax	931	163	0	0	1,094
Petroleum business tax	0	504	625	0	1,129
Other taxes	1,030	0	212	794	2,036
Estate tax	1,006	0	0	0	1,006
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	794	1,006
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	38,568	7,794	2,017	12,547	60,926
Miscellaneous receipts	2,444	13,741	3,211	671	20,067
Federal grants	71	33,911	1,859	0	35,841
Total	41,083	55,446	7,087	13,218	116,834

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	24,391	4,713	0	9,701	38,805
User taxes and fees	8,832	1,660	1,042	2,684	14,218
Sales and use tax	8,080	742	0	2,684	11,506
Cigarette and tobacco taxes	437	614	0	0	1,051
Motor fuel tax	0	74	277	0	351
Motor vehicle fees	47	230	553	0	830
Alcoholic beverages taxes	220	0	0	0	220
Highway Use tax	0	0	161	0	161
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	51	0	51
Business taxes	7,254	1,650	816	0	9,720
Corporation franchise tax	4,138	607	0	0	4,745
Corporation and utilities tax	589	181	17	0	787
Insurance taxes	1,405	150	0	0	1,555
Bank tax	942	154	0	0	1,096
Petroleum business tax	180	558	799	0	1,537
Other taxes	1,194	0	237	738	2,169
Estate tax	1,170	0	0	0	1,170
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	237	738	975
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	41,671	8,023	2,095	13,123	64,912
Miscellaneous receipts	2,238	14,409	3,979	684	21,310
Federal grants	41	34,832	2,010	0	36,883
Total	43,950	57,264	8,084	13,807	123,105

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	25,897	5,423	0	10,440	41,760
User taxes and fees	8,913	1,607	794	2,702	14,016
Sales and use tax	8,125	769	0	2,702	11,596
Cigarette and tobacco taxes	433	607	0	0	1,040
Motor fuel tax	0	0	0	0	0
Motor vehicle fees	76	231	563	0	870
Alcoholic beverages taxes	227	0	0	0	227
Highway Use tax	0	0	178	0	178
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	53	0	53
Business taxes	7,816	1,767	1,118	0	10,701
Corporation franchise tax	4,265	626	0	0	4,891
Corporation and utilities tax	599	181	17	0	797
Insurance taxes	1,466	159	0	0	1,625
Bank tax	928	148	0	0	1,076
Petroleum business tax	558	653	1,101	0	2,312
Other taxes	1,325	0	287	713	2,325
Estate tax	1,301	0	0	0	1,301
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	287	713	1,000
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	43,951	8,797	2,199	13,855	68,802
Miscellaneous receipts	2,186	14,277	4,155	687	21,305
Federal grants	0	36,031	2,044	0	38,075
Total	46,137	59,105	8,398	14,542	128,182

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	27,415	5,949	0	11,122	44,486
User taxes and fees	9,251	1,625	786	2,807	14,469
Sales and use tax	8,438	798	0	2,807	12,043
Cigarette and tobacco taxes	428	599	0	0	1,027
Motor fuel tax	0	0	0	0	0
Motor vehicle fees	105	228	550	0	883
Alcoholic beverages taxes	232	0	0	0	232
Highway Use tax	0	0	181	0	181
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	55	0	55
Business taxes	7,866	1,774	1,123	0	10,763
Corporation franchise tax	4,258	625	0	0	4,883
Corporation and utilities tax	608	182	17	0	807
Insurance taxes	1,505	163	0	0	1,668
Bank tax	935	149	0	0	1,084
Petroleum business tax	560	655	1,106	0	2,321
Other taxes	1,408	0	287	713	2,408
Estate tax	1,384	0	0	0	1,384
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	287	713	1,000
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	45,940	9,348	2,196	14,642	72,126
Miscellaneous receipts	2,261	14,791	4,087	687	21,826
Federal grants	0	37,347	1,989	0	39,336
Total	48,201	61,486	8,272	15,329	133,288

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2011-2012
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	29,315	6,235	0	11,850	47,400
User taxes and fees	9,620	1,658	807	2,920	15,005
Sales and use tax	8,778	829	0	2,920	12,527
Cigarette and tobacco taxes	428	598	0	0	1,026
Motor fuel tax	0	0	0	0	0
Motor vehicle fees	126	231	562	0	919
Alcoholic beverages taxes	236	0	0	0	236
Highway Use tax	0	0	188	0	188
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	57	0	57
Business taxes	8,218	1,826	1,127	0	11,171
Corporation franchise tax	4,497	659	0	0	5,156
Corporation and utilities tax	612	183	17	0	812
Insurance taxes	1,549	167	0	0	1,716
Bank tax	997	159	0	0	1,156
Petroleum business tax	563	658	1,110	0	2,331
Other taxes	1,498	0	287	713	2,498
Estate tax	1,474	0	0	0	1,474
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	287	713	1,000
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	48,651	9,719	2,221	15,483	76,074
Miscellaneous receipts	2,060	15,106	3,695	686	21,547
Federal grants	0	38,703	1,945	0	40,648
Total	50,711	63,528	7,861	16,169	138,269

CASH RECEIPTS
GENERAL FUND
2006-2007 THROUGH 2008-2009
(millions of dollars)

	2006-2007 Actual	2007-2008 Estimated	2008-2009 Recommended	2008-2009 Compared with 2007-2008
Personal income tax	22,939	22,735	24,391	1,656
User taxes and fees	8,186	8,503	8,832	329
Sales and use tax	7,539	7,865	8,080	215
Cigarette and tobacco taxes	411	407	437	30
Motor fuel tax	0	0	0	0
Motor vehicle fees	(16)	(21)	47	68
Alcoholic beverages taxes	194	200	220	20
Alcoholic beverage control license fees	58	52	48	(4)
Auto rental tax	0	0	0	0
Business taxes	6,468	6,300	7,254	954
Corporation franchise tax	3,676	3,575	4,138	563
Corporation and utilities tax	626	618	589	(29)
Insurance taxes	1,142	1,176	1,405	229
Bank tax	1,024	931	942	11
Petroleum business tax	0	0	180	180
Other taxes	1,075	1,030	1,194	164
Estate tax	1,063	1,006	1,170	164
Gift tax	(10)	0	0	0
Real property gains tax	0	0	0	0
Pari-mutuel taxes	21	23	23	0
Other taxes	1	1	1	0
Total Taxes	38,668	38,568	41,671	3,103
Miscellaneous receipts	2,268	2,444	2,238	(206)
Licenses, fees, etc.	699	638	538	(100)
Abandoned property	708	684	650	(34)
Reimbursements	165	200	172	(28)
Investment income	191	200	200	0
Other transactions	505	722	678	(44)
Federal Grants	151	71	41	(30)
Total	41,087	41,083	43,950	2,867

CASH RECEIPTS
GENERAL FUND
2009-2010 THROUGH 2011-2012
(millions of dollars)

	2009-2010 Recommended	2010-2011 Recommended	2011-2012 Recommended
Personal income tax	25,897	27,415	29,315
User taxes and fees	8,913	9,251	9,620
Sales and use tax	8,125	8,438	8,778
Cigarette and tobacco taxes	433	428	428
Motor fuel tax	0	0	0
Motor vehicle fees	76	105	126
Alcoholic beverages taxes	227	232	236
Alcoholic beverage control license fees	52	48	52
Auto rental tax	0	0	0
Business taxes	7,816	7,866	8,218
Corporation franchise tax	4,265	4,258	4,497
Corporation and utilities tax	599	608	612
Insurance taxes	1,466	1,505	1,549
Bank tax	928	935	997
Petroleum business tax	558	560	563
Other taxes	1,325	1,408	1,498
Estate tax	1,301	1,384	1,474
Gift tax	0	0	0
Real property gains tax	0	0	0
Pari-mutuel taxes	23	23	23
Other taxes	1	1	1
Total Taxes	43,951	45,940	48,651
Miscellaneous receipts	2,186	2,261	2,060
Licenses, fees, etc.	537	549	551
Abandoned property	600	600	600
Reimbursements	170	170	170
Investment income	200	200	200
Other transactions	679	742	539
Federal Grants	0	0	0
Total	46,137	48,201	50,711

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2006-2007 THROUGH 2008-2009
(millions of dollars)

	2006-2007 Actual	2007-2008 Estimated	2008-2009 Recommended	2008-2009 Compared with 2007-2008
Personal income tax	3,994	4,678	4,713	35
User taxes and fees	1,598	1,621	1,660	39
Sales and use tax	688	718	742	24
Cigarette and tobacco taxes	574	565	614	49
Motor fuel tax	108	107	74	(33)
Motor vehicle fees	228	231	230	(1)
Business taxes	1,517	1,495	1,650	155
Corporation franchise tax	551	531	607	76
Corporation and utilities tax	178	181	181	0
Insurance taxes	116	116	150	34
Bank tax	186	163	154	(9)
Petroleum business tax	486	504	558	54
Total Taxes	7,109	7,794	8,023	229
Miscellaneous receipts	12,715	13,741	14,409	668
HCRA	3,642	4,331	4,331	0
State university income	2,759	2,773	2,839	66
Lottery	2,544	2,800	3,141	341
Medicaid	736	490	485	(5)
Industry assessments	501	537	561	24
All other	2,533	2,810	3,052	242
Federal grants	33,690	33,911	34,832	921
Total	53,514	55,446	57,264	1,818

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2009-2010 THROUGH 2011-2012
(millions of dollars)

	2009-2010 Recommended	2010-2011 Recommended	2011-2012 Recommended
Personal income tax	5,423	5,949	6,235
User taxes and fees	1,607	1,625	1,658
Sales and use tax	769	798	829
Cigarette and tobacco taxes	607	599	598
Motor fuel tax	0	0	0
Motor vehicle fees	231	228	231
Business taxes	1,767	1,774	1,826
Corporation franchise tax	626	625	659
Corporation and utilities tax	181	182	183
Insurance taxes	159	163	167
Bank tax	148	149	159
Petroleum business tax	653	655	658
Total Taxes	8,797	9,348	9,719
Miscellaneous receipts	14,277	14,791	15,106
HCRA	4,079	4,208	4,097
State university income	2,879	2,912	2,947
Lottery	3,182	3,499	3,836
Medicaid	485	485	485
Industry assessments	567	574	577
All other	3,085	3,113	3,164
Federal grants	36,031	37,347	38,703
Total	59,105	61,486	63,528

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2006-2007 THROUGH 2008-2009
(millions of dollars)

	2006-2007 Actual	2007-2008 Estimated	2008-2009 Recommended	2008-2009 Compared with 2007-2008
User taxes and fees	1,161	1,163	1,042	(121)
Motor fuel tax	406	405	277	(128)
Motor vehicle fees	557	562	553	(9)
Highway use tax	153	147	161	14
Auto rental tax	45	49	51	2
Business taxes	621	642	816	174
Corporation and utilities tax	17	17	17	0
Petroleum business tax	604	625	799	174
Other taxes	147	212	237	25
Real estate transfer tax	147	212	237	25
Total Taxes	1,929	2,017	2,095	78
Miscellaneous receipts	2,247	3,211	3,979	768
Authority bond proceeds	2,062	2,931	3,637	706
State park fees	23	27	103	76
Environmental revenues	39	51	77	26
All other	123	202	162	(40)
Federal grants	1,738	1,859	2,010	151
Total	5,914	7,087	8,084	997

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2009-2010 THROUGH 2011-2012
(millions of dollars)

	2009-2010 Recommended	2010-2011 Recommended	2011-2012 Recommended
User taxes and fees	794	786	807
Motor fuel tax	0	0	0
Motor vehicle fees	563	550	562
Highway use tax	178	181	188
Auto rental tax	53	55	57
Business taxes	1,118	1,123	1,127
Corporation and utilities tax	17	17	17
Petroleum business tax	1,101	1,106	1,110
Other taxes	287	287	287
Real estate transfer tax	287	287	287
Total Taxes	2,199	2,196	2,221
Miscellaneous receipts	4,155	4,087	3,695
Authority bond proceeds	3,714	3,651	3,268
State park fees	59	24	24
Environmental revenues	103	103	103
All other	279	309	300
Federal grants	2,044	1,989	1,945
Total	8,398	8,272	7,861

CASH RECEIPTS
DEBT SERVICE FUNDS
2006-2007 THROUGH 2008-2009
(millions of dollars)

	2006-2007 Actual	2007-2008 Estimated	2008-2009 Recommended	2008-2009 Compared with 2007-2008
Personal income tax	7,647	9,138	9,701	563
User taxes and fees	2,511	2,615	2,684	69
Sales and use tax	2,511	2,615	2,684	69
Motor fuel tax	0	0	0	0
Other taxes	875	794	738	(56)
Real estate transfer tax	875	794	738	(56)
Total Taxes	11,033	12,547	13,123	576
Miscellaneous receipts	848	671	684	13
Mental hygiene patient receipts	332	228	233	5
SUNY dormitory fees	373	326	335	9
Health patient receipts	121	98	98	0
All other	22	19	18	(1)
Total	11,881	13,218	13,807	589

CASH RECEIPTS
DEBT SERVICE FUNDS
2009-2010 THROUGH 2011-2012
(millions of dollars)

	2009-2010 Recommended	2010-2011 Recommended	2011-2012 Recommended
Personal income tax	10,440	11,122	11,850
User taxes and fees	2,702	2,807	2,920
Sales and use tax	2,702	2,807	2,920
Motor fuel tax	0	0	0
Other taxes	713	713	713
Real estate transfer tax	713	713	713
Total Taxes	13,855	14,642	15,483
Miscellaneous receipts	687	687	686
Mental hygiene patient receipts	233	233	233
SUNY dormitory fees	338	341	341
Health patient receipts	98	98	98
All other	18	15	14
Total	14,542	15,329	16,169

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2006-2007 THROUGH 2008-2009
(millions of dollars)

	2006-2007 Actual	2007-2008 Estimated	2008-2009 Recommended
Withholdings	26,802	28,401	30,176
Estimated Payments	10,355	11,697	12,527
Final Payments	2,101	2,116	2,211
Delinquencies	832	909	947
Gross Collections	40,090	43,123	45,861
State/City Offset	(522)	(509)	(604)
Refunds	(4,989)	(6,063)	(6,452)
Reported Tax Collections	34,579	36,551	38,805
STAR	(3,994)	(4,678)	(4,713)
RBTF	(7,646)	(9,138)	(9,701)
General Fund	22,939	22,735	24,391

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2009-2010 THROUGH 2011-2012
(millions of dollars)

	2009-2010 Recommended	2010-2011 Recommended	2011-2012 Recommended
Withholdings	32,093	33,795	36,283
Estimated Payments	13,481	14,751	15,455
Final Payments	2,359	2,516	2,682
Delinquencies	986	1,027	1,065
Gross Collections	48,919	52,089	55,485
State/City Offset	(684)	(758)	(841)
Refunds	(6,475)	(6,845)	(7,244)
Reported Tax Collections	41,760	44,486	47,400
STAR	(5,423)	(5,949)	(6,235)
RBTF	(10,440)	(11,122)	(11,850)
General Fund	25,897	27,415	29,315

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts. Actual results are provided for 2006-07 and the first nine months of the current State fiscal year, and estimates are reported for the remainder of 2007-08 and all of 2008-09 and 2009-10. The monthly estimates for 2007-08, 2008-09, and 2009-10 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. This section contains a sub-heading that details cash flow results through December and compares them with Mid-Year estimates. This section also contains charts showing monthly General, Special Revenue, Capital Projects and Debt Service Funds cash flow for total taxes and major tax categories and General Fund miscellaneous receipts and Federal grants. Note that year to date collections through December are based upon preliminary December data.

PERSONAL INCOME TAX

The personal income tax cash flow through December has followed a fairly typical pattern in 2007-08, with prepayments in withholding and estimated tax in line with Tax Law requirements. The settlement for tax year 2006 returns was weaker than in recent years, especially higher refunds paid in October and November, indicating taxpayers overpaid due to the expiration of the temporary surcharge beginning in tax year 2006. Estimated tax for tax year 2007 has followed the normal quarterly patterns.

Cash flow for 2008-09 gross collections is expected to exhibit a normal cash flow pattern. The one exception is the decision to pay an additional $250 million in refunds during the January to March period, raising the “cap” on pre-April refunds from $1,500 million to $1,750 million. Proposed Budget initiatives would not have an appreciable impact on cash flow patterns.

USER TAXES AND FEES

The cash flow pattern in user taxes and fees follow a quarterly pattern, with months at the conclusion of calendar quarters that are larger reflecting the impact of quarterly taxpayers. The 2008-09 cash flow for sales tax is expected to be consistent with historical averages. Historically, the fourth quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

General Fund cash flow for business taxes typically follows a pattern of large monthly collections in June, September, December and March. In 2007-08, this pattern has been affected by large audit and compliance collections in the corporate franchise tax in May, August, October and January. However, cash flow for 2008-09 is expected to return to a more normal historical pattern.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax which comprises approximately 98 percent of the total. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. A minor portion of the tax category comes from pari-mutuel taxes on horse racing which display some seasonality but are a minor portion of the category and has little impact on overall cash flow. Monthly cash flow for the estate tax for 2008-09 is assumed to be uniform throughout the fiscal year. This methodology is employed in years when there are no statutory changes.

GENERAL FUND 2006-07 MONTHLY CASHFLOW ACTUALS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,170	689	2,393	1,340	1,537	1,943	835	198	1,502	5,112	1,849	1,373	22,939
Gross collections	6,817	2,033	3,420	1,882	2,133	3,483	2,247	2,088	3,287	6,830	3,295	2,576	40,090
Refunds	(1,257)	(1,114)	(229)	(95)	(84)	(110)	(115)	(667)	(203)	(14)	(830)	(792)	(5,510)
STAR Fund deposit	0	0	0	0	0	(783)	(1,019)	(1,157)	(1,081)	0	0	47	(3,994)
DRRF deposit/RBTF	(1,390)	(230)	(798)	(447)	(512)	(648)	(278)	(66)	(501)	(1,704)	(616)	(458)	(7,647)
User taxes and fees	600	597	843	653	607	852	617	608	888	654	539	728	8,186
Sales and use taxes	543	546	783	578	555	794	563	553	833	591	497	703	7,539
Cigarette and tobacco taxes	36	33	39	38	36	36	36	35	33	36	26	27	411
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	(17)	(17)
Alcoholic beverage taxes	17	15	17	21	13	18	15	16	18	22	11	11	194
ABC license fees	4	4	4	16	3	4	4	4	3	4	5	4	58
Business taxes	325	84	1,002	120	76	1,091	576	145	1,102	81	216	1,652	6,468
Corporation franchise tax	176	57	494	106	63	543	567	111	550	56	154	801	3,676
Corp. & utilities taxes	3	3	125	4	(1)	136	7	1	175	1	(1)	172	626
Insurance taxes	9	18	220	2	6	260	(3)	18	225	13	7	368	1,142
Bank tax	137	5	164	8	9	152	5	15	152	11	56	311	1,024
Other taxes	104	81	112	119	70	61	107	82	179	50	54	56	1,075
Estate & gift tax	103	79	109	118	68	58	106	81	178	49	52	54	1,053
Real property gains tax	0	0	1	(0)	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	2	2	2	2	3	3	1	1	1	1	1	2	21
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	5,199	1,450	4,350	2,232	2,290	3,947	2,135	1,032	3,671	5,897	2,657	3,809	38,668
Miscellaneous Receipts	167	120	279	117	110	187	176	234	143	154	197	383	2,268
Licenses, Fees, etc.	42	63	52	38	71	72	102	26	39	42	46	106	699
Abandoned Property	38	0	30	20	5	45	13	149	20	50	120	218	708
Reimbursements	3	8	20	5	14	25	9	11	27	4	13	26	165
Investment Income	52	(6)	12	24	(3)	14	37	21	23	33	(16)	0	191
Other Transactions	32	55	165	29	23	32	16	28	35	25	34	33	505
Federal Grants	0	0	112	0	0	0	15	0	10	6	8	0	151
TOTAL RECEIPTS	5,366	1,570	4,741	2,348	2,400	4,134	2,325	1,266	3,825	6,058	2,862	4,192	41,087
TOTAL TAXES (Before Transfers & STAR)	6,867	1,943	5,489	2,946	3,072	5,735	3,701	2,494	5,645	7,873	3,543	4,534	53,842

SPECIAL REVENUE FUNDS 2006-07 MONTHLY CASHFLOW ACTUALS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	783	1,019	1,157	1,081	0	0	(47)	3,994
User taxes and fees	179	128	165	123	142	136	137	123	155	135	107	71	1,598
Sales and use taxes	103	49	71	54	51	65	55	54	69	58	49	10	688
Cigarette and tobacco taxes	50	46	56	53	50	49	50	48	48	51	36	37	574
Motor fuel tax	8	10	10	8	10	10	9	9	9	9	8	8	108
Motor vehicle fees	19	23	28	8	30	12	23	13	29	17	13	16	229
Business taxes	89	54	199	60	62	214	138	72	195	59	70	307	1,517
Corporation franchise tax	24	10	66	14	15	79	94	17	70	14	23	125	551
Corp. & utilities taxes	1	1	36	0	1	37	2	2	39	1	(2)	60	178
Insurance taxes	0	3	26	0	(1)	31	1	2	21	(5)	1	37	116
Bank tax	29	1	30	2	4	24	1	10	31	1	10	43	186
Petroleum business taxes	35	38	41	43	42	43	40	40	35	48	39	42	486
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	267	182	363	183	204	1,133	1,294	1,352	1,431	194	177	330	7,109

CAPITAL PROJECTS FUND 2006-07 MONTHLY CASHFLOW ACTUALS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	91	102	125	76	118	99	98	80	122	93	80	78	1,161
Motor fuel tax	29	37	37	30	40	37	35	31	35	35	31	30	406
Motor vehicle fees	48	52	64	31	66	34	50	36	62	44	40	31	557
Highway use tax	13	13	13	15	13	13	13	13	13	13	10	11	153
Auto rental tax	3	0	11	0	0	14	0	0	12	0	0	6	46
Business taxes	44	48	54	54	52	57	50	50	47	60	47	58	621
Corp. & utilities taxes	0	0	3	0	0	3	0	0	3	0	0	7	17
Petroleum business taxes	44	48	51	54	52	54	50	50	43	60	47	51	604
Other taxes	0	0	14	14	14	14	14	14	14	14	14	24	147
Real estate transfer tax	0	0	14	14	14	14	14	14	14	14	14	24	147
TOTAL	135	150	193	143	184	170	162	144	182	166	141	160	1,929

DEBT SERVICE FUNDS 2006-07 MONTHLY CASHFLOW ACTUALS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,390	230	798	447	512	648	278	66	501	1,704	616	458	7,647
User taxes and fees	176	182	261	190	182	269	187	184	278	197	166	240	2,512
Sales and use taxes	176	182	261	190	182	269	187	184	278	197	166	240	2,512
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	102	82	67	63	74	75	68	41	101	61	90	51	875
Real estate transfer tax	102	82	67	63	74	75	68	41	101	61	90	51	875
TOTAL	1,668	493	1,126	700	768	991	533	291	879	1,962	872	749	11,033

CASH FLOW

GENERAL FUND 2007-08 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	4,017	749	2,414	1,396	1,376	1,970	745	91	1,152	5,219	1,679	1,926	22,735
Gross collections	7,388	2,247	3,700	2,103	2,335	3,778	2,488	2,115	3,629	7,078	3,536	2,726	43,123
Refunds	(2,032)	(1,249)	(173)	(108)	(101)	(135)	(218)	(777)	(136)	(119)	(1,298)	(227)	(6,572)
STAR Fund deposit	0	0	(232)	(100)	(300)	(762)	(957)	(912)	(1,467)	0	0	52	(4,678)
DRRF deposit/RBTF	(1,339)	(249)	(882)	(499)	(559)	(911)	(567)	(335)	(873)	(1,740)	(560)	(625)	(9,138)
User taxes and fees	679	623	877	670	646	872	632	674	868	648	547	768	8,503
Sales and use taxes	618	570	817	608	588	814	576	617	812	597	502	746	7,865
Cigarette and tobacco taxes	37	33	38	37	39	34	36	36	34	32	28	23	407
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	(21)	(21)
Alcoholic beverage taxes	19	16	18	21	15	18	15	18	19	14	12	15	200
ABC license fees	5	5	4	4	4	5	4	3	3	5	5	5	52
Business taxes	58	146	1,103	98	139	1,209	124	64	1,144	378	173	1,665	6,300
Corporation franchise tax	44	126	481	82	114	562	126	41	645	368	156	831	3,575
Corp. & utilities taxes	(4)	1	119	5	4	147	0	1	155	3	2	185	618
Insurance taxes	3	8	250	13	4	251	(6)	9	227	4	7	407	1,176
Bank tax	16	11	254	(2)	17	249	4	13	117	3	8	242	931
Other taxes	81	80	107	100	64	81	80	82	118	79	79	79	1,030
Estate & gift tax	80	78	105	98	61	78	78	80	116	77	77	77	1,006
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	(1)	0
Pari-mutuel taxes	1	2	2	2	3	3	2	2	2	1	2	2	23
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	4,836	1,599	4,501	2,264	2,224	4,132	1,580	911	3,281	6,324	2,477	4,438	38,567
Miscellaneous Receipts	131	127	237	138	120	156	149	256	312	150	128	542	2,444
Licenses, Fees, etc.	38	98	20	45	67	50	33	70	45	25	35	113	638
Abandoned Property	5	0	0	18	9	33	22	135	25	71	53	312	684
Reimbursements	6	6	25	11	10	20	14	6	22	10	16	53	200
Investment Income	70	7	25	22	(11)	6	53	15	3	14	(4)	0	200
Other Transactions	13	15	167	41	44	47	27	30	217	30	27	64	722
Federal Grants	0	12	22	1	5	0	10	10	0	5	6	0	71
TOTAL RECEIPTS	4,967	1,738	4,759	2,403	2,349	4,288	1,739	1,177	3,593	6,479	2,610	4,980	41,082
TOTAL TAXES (Before Transfers & STAR)	6,441	2,108	6,014	3,160	3,385	6,175	3,373	2,455	5,957	8,333	3,273	5,330	56,005

SPECIAL REVENUE FUNDS 2007-08 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	0	0	232	100	300	762	957	912	1,467	0	0	(52)	4,678
User taxes and fees	177	139	154	128	136	141	128	131	159	135	115	79	1,621
Sales and use taxes	103	53	71	54	53	74	53	56	71	61	52	18	718
Cigarette and tobacco taxes	51	47	51	52	54	46	50	50	47	45	41	32	565
Motor fuel tax	8	9	10	10	10	9	8	10	10	9	8	7	107
Motor vehicle fees	15	30	22	12	20	12	17	15	31	19	15	22	231
Business taxes	59	68	230	58	66	228	64	62	223	103	55	280	1,495
Corporation franchise tax	13	23	70	11	16	78	24	12	87	63	15	120	531
Corp. & utilities taxes	5	0	42	1	1	40	1	(0)	40	1	1	50	181
Insurance taxes	(1)	2	33	1	0	25	1	2	24	0	0	31	116
Bank tax	4	1	40	(0)	3	43	(1)	3	27	1	1	41	163
Petroleum business taxes	40	41	45	46	46	42	39	45	46	38	38	38	504
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	236	206	616	285	502	1,131	1,149	1,105	1,849	238	170	307	7,795

CAPITAL PROJECTS FUND 2007-08 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	92	113	115	88	99	96	86	88	115	93	88	92	1,163
Motor fuel tax	32	33	35	37	37	34	31	37	39	34	29	28	405
Motor vehicle fees	43	68	56	38	49	37	42	38	48	48	48	47	562
Highway use tax	13	12	13	13	12	13	13	13	13	11	11	12	148
Auto rental tax	5	0	11	0	0	13	0	0	15	0	0	6	49
Business taxes	50	51	59	56	57	56	48	56	60	48	47	55	642
Corp. & utilities taxes	(0)	(0)	3	(1)	0	3	(0)	0	3	0	0	8	17
Petroleum business taxes	50	51	56	57	57	53	48	56	57	48	47	47	625
Other taxes	0	0	21	21	21	21	21	21	21	21	21	21	212
Real estate transfer tax	0	0	21	21	21	21	21	21	21	21	21	21	212
TOTAL	142	163	195	165	177	173	156	165	196	162	156	168	2,017

DEBT SERVICE FUNDS 2007-08 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,339	249	882	499	559	911	567	335	873	1,740	560	625	9,138
User taxes and fees	201	190	272	203	196	271	192	205	267	200	168	251	2,615
Sales and use taxes	201	190	272	203	196	271	192	205	267	200	168	251	2,615
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	66	71	106	73	85	78	55	71	47	48	48	48	794
Real estate transfer tax	66	71	106	73	85	78	55	71	47	48	48	48	794
TOTAL	1,605	510	1,260	774	840	1,260	814	611	1,187	1,988	775	923	12,547

GENERAL FUND 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,576	683	2,387	1,556	1,595	2,114	656	248	1,507	5,395	1,716	1,957	24,391
Gross collections	8,083	2,388	3,999	2,290	2,400	3,835	2,704	2,223	3,938	7,299	3,845	2,857	45,861
Refunds	(1,981)	(1,477)	(297)	(131)	(106)	(142)	(214)	(565)	(231)	(105)	(1,557)	(251)	(7,056)
STAR Fund deposit	0	0	(390)	(62)	(125)	(655)	(1,212)	(996)	(1,274)	0	0	0	(4,713)
DRRF deposit/RBTF	(1,526)	(228)	(926)	(540)	(574)	(923)	(623)	(414)	(927)	(1,799)	(572)	(649)	(9,701)
User taxes and fees	672	647	908	694	665	905	658	702	901	667	559	855	8,832
Sales and use taxes	606	589	846	627	606	840	599	641	841	611	512	762	8,080
Cigarette and tobacco taxes	41	36	38	40	39	42	38	38	35	36	30	26	437
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	47	47
Alcoholic beverage taxes	22	17	20	23	16	20	17	19	21	16	12	17	220
ABC license fees	4	4	4	4	4	4	4	4	4	4	4	4	48
Business taxes	266	50	1,214	185	151	1,260	223	77	1,427	232	204	1,965	7,254
Corporation franchise tax	237	47	612	155	136	658	203	81	641	185	160	1,023	4,138
Corp. & utilities taxes	5	2	107	6	2	131	2	1	157	3	2	172	589
Insurance taxes	(1)	1	260	4	5	262	9	(2)	363	0	(2)	505	1,405
Bank tax	24	1	236	21	7	209	8	(3)	217	1	1	219	942
Petroleum business taxes	0	0	0	0	0	0	0	0	49	43	43	45	180
Other taxes	99	99	100	100	101	101	99	99	99	99	99	99	1,194
Estate & gift tax	98	98	98	98	98	98	98	98	98	98	98	98	1,170
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	1	2	2	2	3	3	2	2	2	1	2	2	23
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	5,613	1,480	4,609	2,535	2,512	4,380	1,635	1,126	3,933	6,393	2,578	4,877	41,671
Miscellaneous Receipts	138	111	262	109	126	176	164	270	146	133	130	474	2,238
Licenses, Fees, etc.	28	61	44	26	61	41	51	48	32	37	49	59	538
Abandoned Property	20	0	18	12	8	53	9	167	34	41	39	249	650
Reimbursements	4	11	24	5	14	22	13	10	23	7	12	26	172
Investment Income	60	7	25	22	(11)	6	53	15	3	14	0	6	200
Other Transactions	26	32	151	43	53	54	38	30	53	34	30	134	678
Federal Grants	0	11	4	0	4	0	9	9	0	5	0	0	41
TOTAL RECEIPTS	5,751	1,602	4,875	2,643	2,642	4,556	1,807	1,405	4,079	6,530	2,708	5,351	43,951
TOTAL TAXES (Before Transfers & STAR)	7,417	1,972	6,285	3,429	3,505	6,331	3,759	2,824	6,498	8,483	3,394	5,848	59,743

SPECIAL REVENUE FUNDS 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	390	62	125	655	1,212	996	1,274	0	0	0	4,713
User taxes and fees	186	145	158	133	139	155	134	135	155	134	111	74	1,660
Sales and use taxes	107	55	73	55	54	76	55	59	74	63	54	18	742
Cigarette and tobacco taxes	56	51	54	56	55	57	54	52	51	51	43	35	614
Motor fuel tax	8	9	9	10	10	9	9	10	0	0	0	0	74
Motor vehicle fees	15	30	22	12	20	12	17	15	31	19	15	20	230
Business taxes	106	91	187	69	104	187	89	62	201	78	117	359	1,651
Corporation franchise tax	56	50	25	23	54	36	44	21	31	29	67	173	607
Corp. & utilities taxes	5	0	42	1	1	40	1	(0)	40	1	1	50	181
Insurance taxes	(0)	0	33	1	1	34	1	(0)	32	0	(0)	50	150
Bank tax	2	(3)	43	2	6	34	(1)	(2)	41	(3)	(1)	37	154
Petroleum business taxes	45	43	43	43	44	44	44	44	58	51	51	49	559
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	292	236	735	264	368	997	1,435	1,193	1,630	212	229	433	8,023

CAPITAL PROJECTS FUND 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	92	112	115	88	98	100	87	88	75	61	61	66	1,043
Motor fuel tax	31	33	35	37	37	35	32	37	0	0	0	0	277
Motor vehicle fees	42	67	54	37	48	36	41	37	47	48	48	47	553
Highway use tax	14	13	14	14	13	14	13	13	15	13	13	14	162
Auto rental tax	5	0	12	0	0	16	0	0	13	0	0	6	51
Business taxes	55	55	58	55	55	59	55	55	101	87	87	93	816
Corp. & utilities taxes	(0)	(0)	3	(1)	0	3	(0)	0	3	0	0	8	17
Petroleum business taxes	55	55	55	55	55	55	55	55	98	87	87	85	799
Other taxes	0	0	24	24	24	24	24	24	24	24	24	24	237
Real estate transfer tax	0	0	24	24	24	24	24	24	24	24	24	24	237
TOTAL	147	167	197	167	177	182	166	167	200	171	171	183	2,095

DEBT SERVICE FUNDS 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,526	228	926	540	574	923	623	414	927	1,799	572	649	9,701
User taxes and fees	202	197	282	209	202	280	200	214	277	202	169	251	2,683
Sales and use taxes	202	197	282	209	202	280	200	214	277	202	169	251	2,683
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	76	67	55	59	69	69	65	51	63	66	51	48	738
Real estate transfer tax	76	67	55	59	69	69	65	51	63	66	51	48	738
TOTAL	1,803	492	1,263	808	845	1,272	888	678	1,267	2,067	792	948	13,122

CASH FLOW

GENERAL FUND 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	5,106	769	2,217	1,629	1,713	2,277	601	(8)	1,632	5,825	2,011	2,125	25,897
Gross collections	8,901	2,385	4,026	2,493	2,583	4,119	2,825	2,290	4,096	7,875	4,246	3,081	48,919
Refunds	(2,093)	(1,359)	(208)	(125)	(103)	(108)	(220)	(860)	(162)	(108)	(1,565)	(248)	(7,159)
STAR Fund deposit	0	0	(647)	(147)	(147)	(732)	(1,352)	(1,080)	(1,318)	0	0	0	(5,423)
DRRF deposit/RBTF	(1,702)	(256)	(955)	(592)	(620)	(1,003)	(651)	(357)	(984)	(1,942)	(670)	(708)	(10,440)
User taxes and fees	671	645	916	694	664	906	658	703	919	674	562	900	8,913
Sales and use taxes	604	587	851	626	604	844	600	643	858	618	516	775	8,125
Cigarette and tobacco taxes	41	35	41	41	39	37	36	36	36	35	29	29	432
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	76	76
Alcoholic beverage taxes	22	18	20	23	17	21	18	20	21	17	13	17	227
ABC license fees	5	5	4	4	4	4	4	4	4	4	4	4	52
Business taxes	317	94	1,351	235	201	1,403	275	124	1,398	237	210	1,971	7,816
Corporation franchise tax	243	46	633	158	139	682	209	83	664	189	163	1,058	4,265
Corp. & utilities taxes	6	2	109	6	2	134	2	1	161	3	2	172	599
Insurance taxes	(2)	(0)	331	4	6	335	11	(3)	314	(1)	(3)	473	1,466
Bank tax	24	1	232	21	7	206	8	(2)	213	0	2	216	928
Petroleum business taxes	46	46	46	46	46	46	46	46	46	46	46	52	558
Other taxes	110	110	111	111	111	112	110	110	110	110	110	110	1,325
Estate & gift tax	108	108	108	109	108	108	108	109	109	108	108	108	1,301
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	1	2	2	2	3	3	2	2	2	1	2	2	23
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	6,204	1,619	4,594	2,668	2,689	4,697	1,645	930	4,059	6,846	2,892	5,107	43,950
Miscellaneous Receipts	137	109	163	108	125	171	161	253	146	115	128	570	2,186
Licenses, Fees, etc.	28	61	45	26	61	41	52	48	31	35	49	59	537
Abandoned Property	20	0	18	12	8	48	9	149	34	26	39	237	600
Reimbursements	4	8	23	5	13	20	10	11	24	6	11	37	171
Investment Income	60	7	25	22	(11)	6	53	15	3	14	0	6	200
Other Transactions	26	33	52	43	53	55	38	30	54	34	30	231	679
Federal Grants	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	6,340	1,728	4,757	2,777	2,813	4,868	1,806	1,183	4,205	6,961	3,020	5,678	46,137
TOTAL TAXES (Before Transfers & STAR)	8,187	2,141	6,558	3,696	3,747	6,801	3,938	2,662	6,735	9,084	3,819	6,146	63,516

SPECIAL REVENUE FUNDS 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

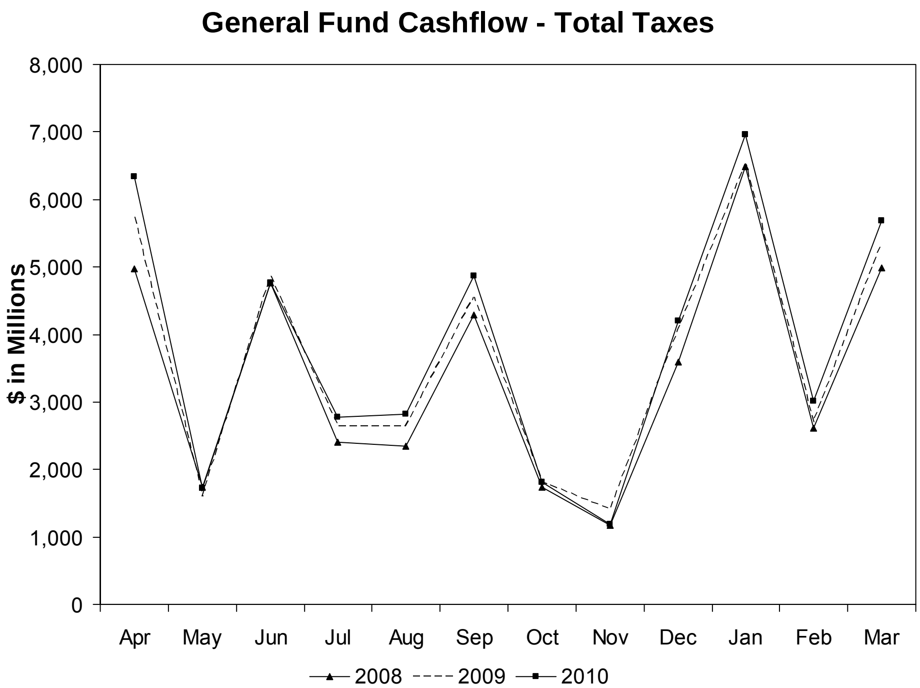
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	647	147	147	732	1,352	1,080	1,318	0	0	(0)	5,423
User taxes and fees	183	138	154	128	132	143	126	126	158	132	109	78	1,607
Sales and use taxes	111	58	76	58	57	79	58	62	74	64	54	18	769
Cigarette and tobacco taxes	58	50	55	58	55	51	51	49	53	49	40	40	607
Motor fuel tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Motor vehicle fees	15	30	23	12	20	12	17	15	31	19	15	21	232
Business taxes	135	248	196	104	90	190	88	100	207	89	76	244	1,767
Corporation franchise tax	76	197	34	46	29	27	33	47	40	37	22	39	626
Corp. & utilities taxes	3	(0)	30	2	0	38	0	1	39	1	1	66	181
Insurance taxes	(0)	0	36	0	1	36	1	(0)	34	(0)	(0)	52	159
Bank tax	2	(3)	42	1	5	34	(1)	(2)	40	(3)	(1)	34	148
Petroleum business taxes	55	55	55	55	55	55	55	55	55	55	55	53	653
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	318	386	997	379	368	1,064	1,566	1,306	1,684	221	185	322	8,797

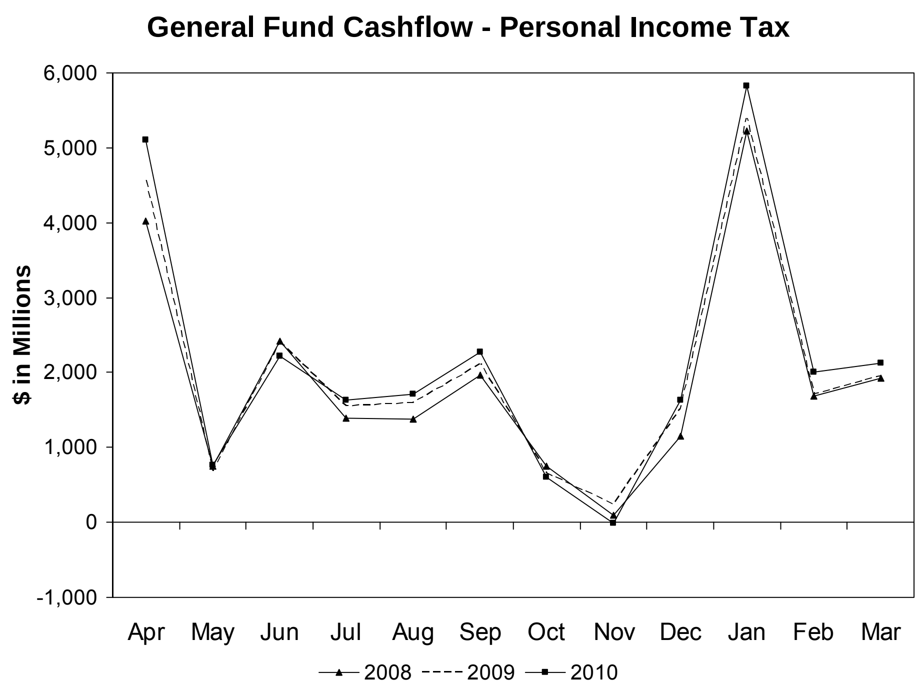
CAPITAL PROJECTS FUND 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	59	79	80	49	61	64	54	50	83	60	57	99	794
Motor fuel tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Motor vehicle fees	38	65	52	34	46	33	40	35	53	46	43	78	563
Highway use tax	15	14	15	16	15	15	15	14	17	14	14	15	178
Auto rental tax	5	0	12	0	0	16	0	0	14	0	0	6	53
Business taxes	92	92	95	93	92	95	92	92	95	92	92	94	1,118
Corp. & utilities taxes	0	(0)	3	1	0	3	0	0	3	0	0	6	17
Petroleum business taxes	92	92	92	92	92	92	92	92	92	92	92	88	1,101
Other taxes	0	0	29	29	29	29	29	29	29	29	29	29	287
Real estate transfer tax	0	0	29	29	29	29	29	29	29	29	29	29	287
TOTAL	151	171	203	171	182	188	175	171	207	181	178	222	2,199

DEBT SERVICE FUNDS 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,702	256	955	592	620	1,003	651	357	984	1,942	670	708	10,440
User taxes and fees	202	196	282	209	202	279	200	215	284	206	172	256	2,703
Sales and use taxes	202	196	282	209	202	279	200	215	284	206	172	256	2,703
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	80	70	51	51	61	61	61	51	61	61	56	47	713
Real estate transfer tax	80	70	51	51	61	61	61	51	61	61	56	47	713
TOTAL	1,984	522	1,288	852	883	1,344	913	623	1,329	2,210	899	1,010	13,856

ALL GOVERNMENTAL FUNDS AVERAGE HISTORICAL SHARES: 2001-2002 through 2006-2007 (percent)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	18	2	9	6	6	9	6	5	10	17	8	3	100
Gross collections	16	5	8	5	6	9	6	6	9	14	8	7	100
Refunds	26	22	4	2	2	2	2	7	6	0	10	16	100
STAR Fund deposit	0	0	0	0	0	10	18	22	45	0	0	6	100
DRRF deposit/RBTF	10	2	9	6	23	9	4	3	5	17	8	5	100
User taxes and fees	8	7	10	8	8	10	8	7	10	8	7	9	100
Sales and use taxes	7	7	10	8	7	10	8	7	11	8	6	9	100
Cigarette and tobacco taxes	10	8	9	9	9	9	8	8	8	8	7	7	100
Motor fuel tax	8	9	9	9	9	9	9	8	8	8	7	7	100
Motor vehicle fees	9	9	9	8	9	6	8	8	8	7	10	8	100
Alcoholic beverage taxes	9	8	8	10	7	9	8	8	9	12	6	6	100
ABC license fees	9	8	8	11	9	9	8	7	6	9	10	7	100
Highway use tax	9	8	9	8	9	8	8	9	9	8	8	7	100
Auto rental tax	5	0	20	0	0	31	1	0	27	0	0	14	100
Business taxes	4	2	18	3	3	18	3	2	18	3	3	25	100
Corporation franchise tax	4	(0)	18	3	2	18	4	1	18	2	2	27	100
Corp. & utilities taxes	1	0	19	1	0	22	0	1	25	1	0	30	100
Insurance taxes	1	0	21	1	1	21	0	1	20	1	0	32	100
Bank tax	4	(1)	28	1	0	20	0	(1)	22	(1)	1	26	100
Petroleum business taxes	8	8	8	9	9	9	8	8	8	9	8	8	100
Other taxes	8	8	10	8	9	8	9	7	10	9	8	6	100
Real property gains tax	28	10	38	(2)	6	16	8	6	(23)	6	1	6	100
Estate and gift taxes	7	8	10	9	8	8	8	7	10	9	8	6	100
Real estate transfer tax	9	7	9	8	10	9	10	6	10	8	7	6	100
Pari-mutuel taxes	5	9	10	9	13	12	7	8	7	6	7	8	100
Other taxes	9	4	5	4	11	19	17	0	13	11	4	3	100
TOTAL	13	4	10	6	6	11	7	6	11	12	7	7	100

CASH FLOW


General Fund Cashflow - Total Taxes
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2008
2009
2010


General Fund Cashflow - Personal Income Tax
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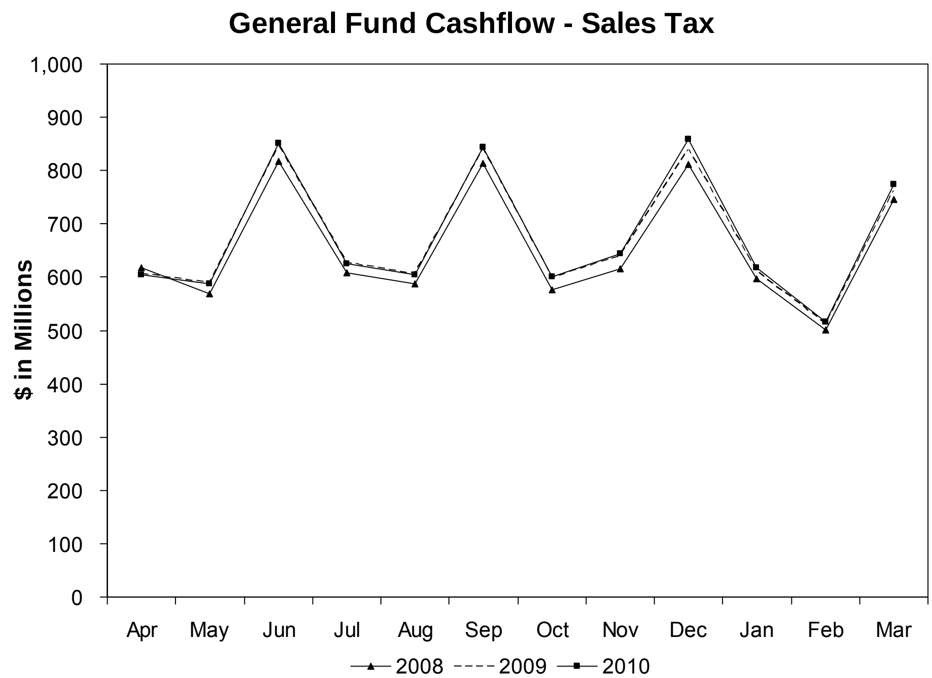
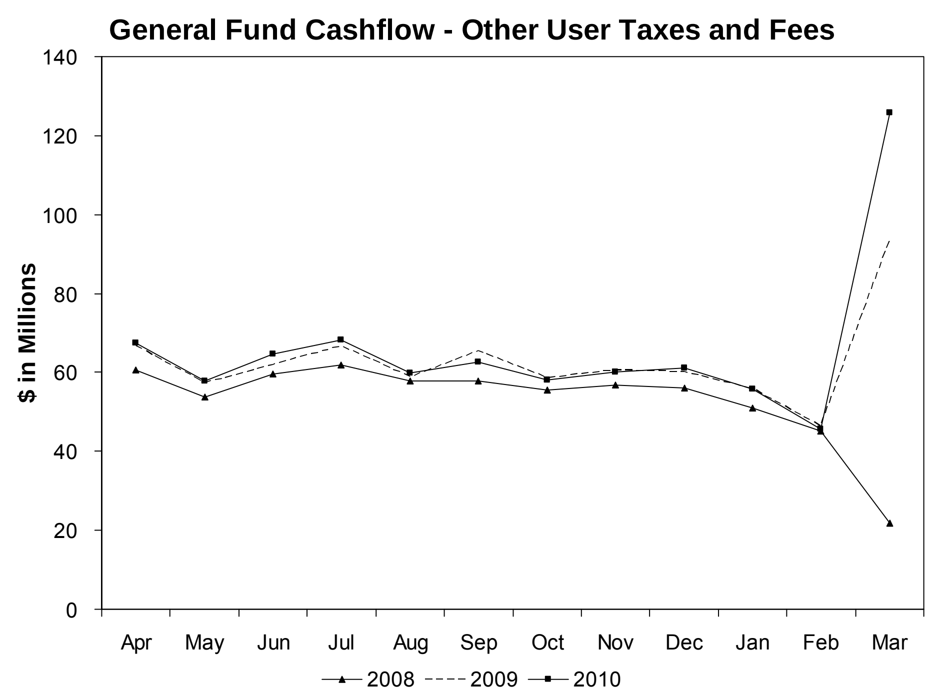
5,000
4,000
3,000
2,000
1,000
0
-1,000
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2008
2009
2010


General Fund Cashflow - Sales Tax
$ in Millions
1,000
900
800
700
600
500
400
300
200
100
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2008
2009
2010


General Fund Cashflow - Other User Taxes and Fees
$ in Millions
140
120
100
80
60
40
20
0
Apr
May
Jun
Jul
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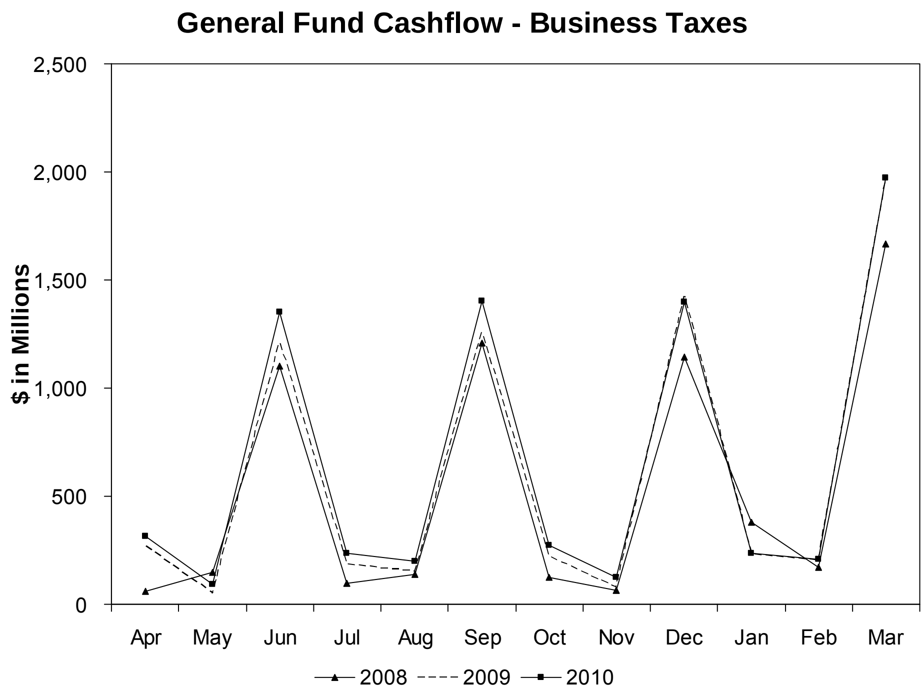
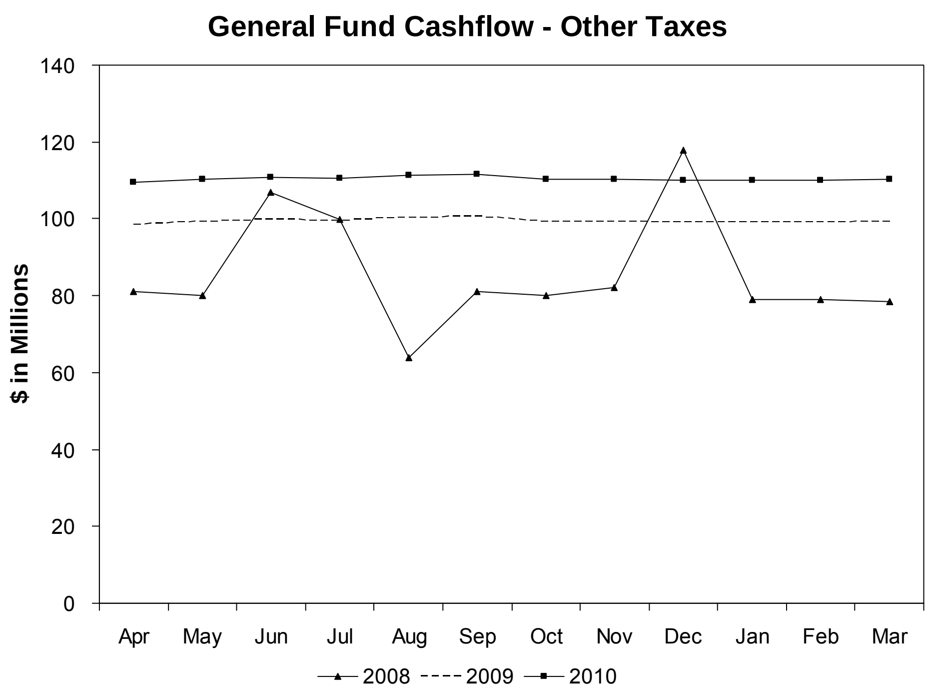
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2008
2009
2010


General Fund Cashflow - Business Taxes
2,500
2,000
1,500
1,000
500
0
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2008
2009
2010


General Fund Cashflow - Other Taxes
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120
100
80
60
40
20
0
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
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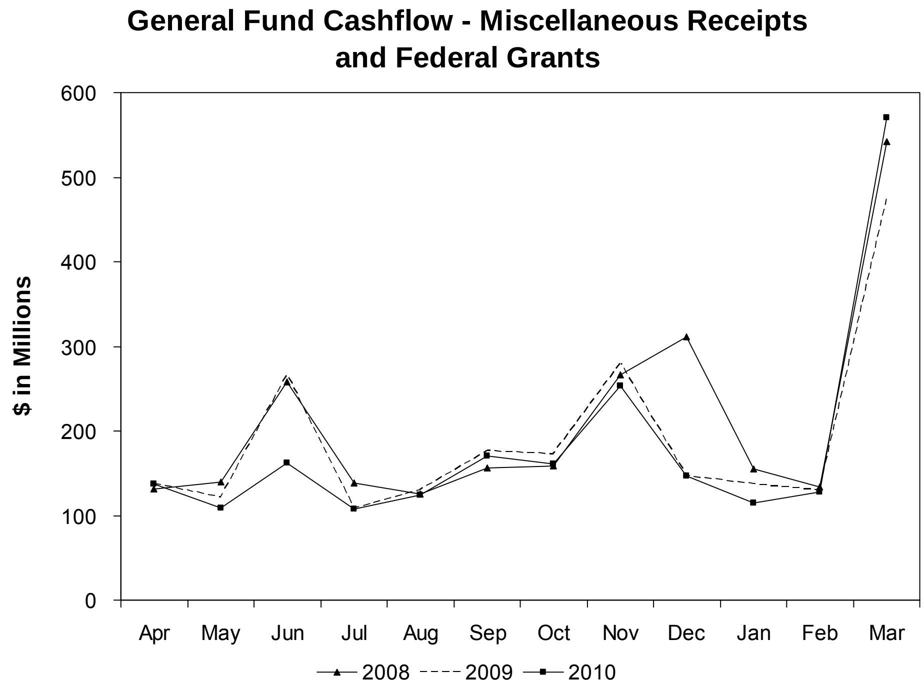
Jan
Feb
Mar
2008
2009
2010



RESULTS TO DATE

APRIL-DECEMBER RESULTS VS. THE MID-YEAR UPDATE PROJECTIONS

Cumulative results for the April to December period are $85 million below the Mid-Year forecast, mainly due to higher-than-expected refunds of personal income tax, and lower-than-anticipated business tax collections, offset by higher-than-expected real estate transfer tax collections and miscellaneous receipts collections.

Personal Income Tax

April through December General Fund PIT receipts of $13.9 billion were $55 million above the Mid-Year forecast, due mainly to higher than-expected refunds ($178 million), largely offset by higher-than-expected estimated payments on 2007 liability ($154 million).

User Taxes and Fees

April through December General Fund User Taxes and Fees were $3 million less than the Mid-Year forecast.

Business Taxes

Year-to-date General Fund business tax receipts fell short of cash flow expectations by $293 million. The variance is attributable to lower-than-projected receipts from the corporate franchise tax ($153 million), bank tax ($112 million), corporation and utilities taxes ($10 million) and insurance taxes ($18 million).

Other Taxes

April through December General Fund tax receipts were $14 million less than the Mid-Year estimate due to modestly lower estate tax payments (especially large payments).

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $147 million above Financial Plan estimates due to the earlier than expected transfer from New York Power Authority ($175 million), higher-than-projected collections from fees ($13 million), bond issuance charges ($11 million), fines and penalties ($11 million) and wireless surcharge ($7 million), offset by lower-than-anticipated collections from abandoned property ($66 million) and indirect costs ($15 million).

All Other

The remainder of the change from the Mid-Year Update was due to an increase in transfers from other funds ($61 million).

APRIL-DECEMBER RESULTS VS. ENACTED BUDGET PROJECTIONS

Cumulative results for the April to December period are $585 million below the Enacted Budget, mainly due to lower-than-expected estimated payments, corporate franchise taxes and miscellaneous receipts collections, and higher-than-expected refunds of the personal income tax.

Personal Income Tax

April through December General Fund personal income tax receipts of $13.9 billion was $81 million above Enacted Budget projections. Higher withholding ($177 million) and estimated payments on 2007 liability ($220 million) were largely offset by higher-than-expected refunds ($312 million).

User Taxes and Fees

April through December General Fund user taxes and fees were $23.6 million below Enacted Budget projections, due to the court mandated delay in implementing the enforcement on sales made to non-Native Americans on New York reservations.

Business Taxes

Year-to-date General Fund business tax receipts fell short of Enacted Budget projections by $504 million. The largest shortfall, or $388 million, was in corporate franchise tax receipts, due to the timing of large corporate franchise tax audit collections originally expected in December 2007, but now expected in the last quarter of 2007-08. The remaining receipts shortfall was attributable to insurance taxes ($29 million), corporation and utilities taxes ($13 million), and the bank tax ($74 million).

Other Taxes

Year-to-date General Fund other taxes were $60 million below the Enacted Budget forecast due to lower estate tax payments.

Miscellaneous Receipts & Federal Grants

General Fund miscellaneous receipts and Federal grants were almost $2 million above Enacted Budget projections due mainly to the earlier transfer from New York Power Authority ($175 million), higher-than-expected receipts from short-tern investment income ($77 million), bond issuance charges ($16 million), federal grants ($16 million), licenses ($11 million), fines and penalties ($11 million) and wireless surcharge ($9 million). Additionally, revenues were higher due to Driver's Responsibility Program collections which were previously deposited into Special Revenue Fund only ($41 million) and Hartford Financial Services Settlement ($20 million). This positive variance was offset by lower-than-anticipated collections from abandoned property ($166 million) and indirect costs ($35 million). Moreover, the Youth Facility per diem account revenue has been reclassified from GF to SRO, which offset the variance by $90 million, and unrealized $75 million revenue from ESDC property sale which was expected in July 2007.

All Other

The remainder of the change from the Enacted Budget projections was due to an increase in transfers from other funds ($34 million).

REVENUE ACTIONS

REVENUE ACTIONS

The 2008-09 Budget includes a net positive increment of nearly $2.1 billion in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required (legislative or administrative) and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

FEE AND REVENUE ACTIONS LIST

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
I. ADMINISTRATIVE							
ERDA	Increase ERDA Assessment - 4/1/08	SFMR	N/A	N/A	2007	$2,400	$2,400
HCR	SONYMA Excess Balance - 4/1/08	GFMR	N/A	N/A	N/A	$100,000	$0
SED	Increase State Records Center Storage Fee - 4/1/09	GFMR/SFMR	Various	$2.90	1987	$0	$525
T&F	Eliminate NYC Fringe/Indirect Waiver - 4/1/08	GFMR	N/A	N/A	N/A	$10,025	$10,025
					Administrative Actions - Subtotal	**$112,425**	**$12,950**
II. STATUTORY							
AG&MKTS	Increase Food Safety Penalties – 4/1/08	GFMR	$300 and $600	$1,000 and $2,000	1990	$1,200	$1,200
BUDGET	Include IDA's in Cost Recovery Billings – 4/1/08	SFMR	N/A	N/A	N/A	$5,000	$5,000
BUDGET	Raise Cost Recovery Cap to $50 million – 4/1/08	SFMR	N/A	N/A	2003	$10,000	$10,000
CIV SERV	Reimbursement for NYC Plan Review – 8/1/08	GFMR	N/A	N/A	N/A	$550	$550
DMNA	Power Plant Assessment - 4/1/08	SFMR	N/A	N/A	N/A	$11,700	$11,700
DOH	Increase Fines Dedicated to Patient Safety - 4/1/08	SFMR	Up to $2,000	Up to $10,000	1990	$500	$500
DOH	Increase Covered Lives Assessment on Insurers from $850M to $990M - 4/1/08	SFMR	N/A	N/A	N/A	$140,000	$140,000
DOH	CLEP Specialist Certification Program - 4/1/08	SFMR	N/A	N/A	N/A	$420	$420
DOH	CLEP Waived Testing Limited Laboratory Registration Program - 4/1/08	SFMR	N/A	$200	N/A	$400	$400
DOT	Motor Vehicle Law Enforcement and Highway Safety Fee - 7/1/08	CFMR	$0	$10	N/A	$96,800	$129,000

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
DOT	Bidding Administrative Efficiencies - 4/1/08	CFMR	N/A	N/A	N/A	$40	$42
ENCON	Increase Operating Permit Program Fee - 4/1/08	SFMR	$45	$80	1999	$19,000	$19,000
ENCON	Expand Bottle Bill to Cover Additional Beverage Containers - 4/1/08	CFMR	N/A	N/A	N/A	$25,000	$100,000
INSUR	Violation of Insurance Law - 4/1/08	GFMR	$500	$10,000	1966	$90	$90
INSUR	Failure to File Annual Statement - 4/1/08	GFMR	$250	$500	1979	$5	$5
INSUR	Failure to Respond to Special Report - 4/1/08	GFMR	$500	$1,000	1997	$5	$5
INSUR	Failure to Comply with Reporting Requirements of the Financial Security Act - 4/1/08	GFMR	$500	$1,000	1998	$5	$5
INSUR	Doing Insurance Business Without a License - 4/1/08	GFMR	$1,000	$10,000	1970	$90	$90
INSUR	Violation of Section 1222 - 4/1/08	GFMR	N/A	$10,000	N/A	$90	$90
INSUR	Violation of Insurance Law Article 15 - 4/1/08	GFMR	$500	$1,000	1969	$1	$1
INSUR	Doing Business as Agent, Broker, Adjuster or Reinsurance Intermediary without a License - 4/1/08	GFMR	$5,000	$10,000	1976	$90	$90
INSUR	Act as Agent for Unauthorized Insurer - 4/1/08	GFMR	$500	$10,000	1939	$90	$90
INSUR	Penalty in Lieu of Revocation of License Issued under Article 21 - 4/1/08	GFMR	$500	$5,000	1958	$20	$20
INSUR	Violation of Article 23, Prior Approval not Required - 4/1/08	GFMR	$1,000	$5,000	1975	$20	$20
INSUR	Violation of Article 23, Prior Approval Required - 4/1/08	GFMR	$25	$100	1939	$1	$1
INSUR	Violation of Article 2324 - 4/1/08	GFMR	$500	$1,000	1939	$4	$4
INSUR	Unfair Methods of Competition, Power of the Superintendent - 4/1/08	GFMR	$500	$1,000	1997	$4	$4
INSUR	Violation of Prompt Pay - 4/1/08	GFMR	$500	$1,000	1997	$4	$4
INSUR	Failure of Insurer to Comply with Workers' Compensation law - 4/1/08	GFMR	$2,500	$10,000	1944	$90	$90
INSUR	Violation of Holocaust Victims Insurance Act - 4/1/08	GFMR	$1,000	$2,000	1998	$5	$5

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
INSUR	Violation of Section 3216 - 4/1/08	GFMR	$100	$5,000	1951	$20	$20
INSUR	Violation of Section 3224-a - 4/1/08	GFMR	N/A	$1,000	N/A	$5	$5
INSUR	Inspection and Coverage of Physical Damage for Private Passenger Auto - 4/1/08	GFMR	$500	$5,000	1984	$20	$20
INSUR	Gap Insurance, Failure to Notify Lessee or Debtor - 4/1/08	GFMR	$500	$1,000	1995	$5	$5
INSUR	Violation of Section 4224 - 4/1/08	GFMR	N/A	$5,000	N/A	$20	$20
INSUR	Violation of Section 4228 - 4/1/08	GFMR	$1,000	$10,000	1997	$90	$90
INSUR	Violation of Article 4241 - 4/1/08	GFMR	$1,000	$5,000	1952	$20	$20
INSUR	Willful Failure to Comply with Article 44 - 4/1/08	GFMR	$2,500	$10,000	1956	$90	$90
INSUR	Failure to File per Section 4504 - 4/1/08	GFMR	$500	$10,000	1961	$90	$90
INSUR	Violation of Section 4228 - 4/1/08	GFMR	$1,000	$2,000	1997	$5	$5
INSUR	Soliciting Membership in Unauthorized Societies - 4/1/08	GFMR	$100	$1,000	1939	$5	$5
INSUR	False Statements Filed with MVAIC - 4/1/08	GFMR	$500	$1,000	1958	$5	$5
INSUR	Violation of Section 6409 - 4/1/08	GFMR	$1,000	$2,000	1975	$5	$5
INSUR	Alternate Penalty that can be Leveled Under Section 7711 - 4/1/08	GFMR	$100	$1,000	1985	$5	$5
INSUR	Failure to Comply with Reporting Requirements or Payments Listed in Section 9109b - 4/1/08	GFMR	$100	$500	1968	$1	$1
LABOR	SERB Arbitration Fee - 10/1/08	SFMR	$0	$1,500	N/A	$225	$450
LOTTERY	Extend Quick Draw, Eliminate Restrictions - 4/1/08	SFMR	N/A	N/A	N/A	$36,000	$60,000
OGS	Contract/Vendor Service Fee - 4/1/08	GFMR	$0	.005% of invoice value	N/A	$8,000	$20,000
ORPS	Real Property Transfer Fee - 4/1/08	SFMR	$50 Co-op, $75 Residential, $165 Commercial	Banded, $75 - $400 Residential, $165 - $575 Commercial	2005	$21,500	$31,500
ST POLICE	Motor Vehicle Law Enforcement and Highway Safety Fee - 7/1/08	SFMR	$5	$10	2003	$48,400	$64,500

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
WIRELESS	Close Prepaid Wireless Loophole - 4/1/08	GFMR/ SFMR	N/A	N/A	N/A	$5,000	$12,000
					Statutory Actions - Subtotal	**$430,735**	**$607,262**
					ADMINISTRATIVE AND STATUTORY - TOTAL	**$543,160**	**$620,212**

III. OTHER REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
DMV	Western Hemisphere Travel Initiative - 9/1/08	SFTX/CFTX	$0	$20	N/A	$52,527	$10,150
ORPS	Increase STAR Exemption Floor from 5% to 10% - 7/1/08	GFTX	N/A	N/A	N/A	$110,000	$120,000
T&F	Amend Temporary Stay Definitions - 1/1/08	GFTX/DFTX	N/A	N/A	N/A	$0	$15,000
T&F	LLC Minimum Partner Fees – 1/1/08	GFTX/DFTX	N/A	N/A	N/A	$75,000	$75,000
T&F	Presence in New York Definition - 1/1/08	GFTX/DFTX	N/A	N/A	2006	$0	$5,000
T&F	Gain from Sale of Partnerships - 1/1/08	GFTX/DFTX	N/A	N/A	N/A	$0	$10,000
T&F	Refund Offsets - 1/1/08	GFTX/DFTX	N/A	N/A	N/A	$1,300	$1,300
T&F	Improve Audit and Compliance Efforts - 1/1/08	GFTX/DFTX	N/A	N/A	N/A	$230,000	$230,000
T&F	Voluntary Disclosure and Compliance - 4/1/08	GFTX	N/A	N/A	N/A	$50,000	$0
T&F	Make the reporting of tax Shelters permanent – 7/1/09	GFTX/SFTX/ DFTX	N/A	N/A	N/A	$0	$17,000
T&F	Credit Card Nexus – 1/1/08	GFTX/SFTX	N/A	N/A	N/A	$95,000	$75,000
T&F	Eliminate the use of real estate investment trusts to shelter income – 1/1/08	GFTX	N/A	N/A	N/A	$0	$0
T&F	Conforming HMOs Taxation - 1/1/08	GFTX/SFTX	N/A	N/A	N/A	$247,000	$288,000
T&F	Capital Base - 1/1/08	GFTX/SFTX	N/A	N/A	N/A	$98,000	$70,000
T&F	Decouple from Federal QPAI Regulations- 1/1/08	GFTX/SFTX	N/A	N/A	N/A	$56,000	$56,000
T&F	Expiration of ITC for Financial Services - 4/1/08	GFTX/SFTX	N/A	N/A	N/A	$35,000	$75,000
T&F	Extend the MTA Surcharge - 1/1/08	GFTX/SFTX	N/A	N/A	N/A	$0	$0
T&F	Modify Prepayment Requirements - 1/1/08	GFTX/SFTX	N/A	N/A	N/A	$90,000	$0
T&F	Repeal Bad Debt Provisions - 6/1/08	GFTX	N/A	N/A	N/A	$7,000	$9,000
T&F	Limit Tax Exemptions for Sales by Non-Profits - 9/1/08	GFTX	N/A	N/A	N/A	$7,500	$15,000

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
T&F	Close Loophole on Tax Avoidance - 6/1/08	GFTX	N/A	N/A	N/A	$4,000	$6,300
T&F	Vendor Registration Fee - 11/1/08	GFTX/DFTX	N/A	$50	N/A	$12,200	$11,800
T&F	Conform Tax Treatment of Little Cigars - 7/1/08	GFTX/SFTX	N/A	N/A	N/A	$3,600	$4,800
T&F	Conform Tax Treatment of Flavored Malt Beverages - 4/1/08	GFTX	$0.11 per gallon	$2.54 per gallon	1991	$15,000	$18,000
T&F	Extend Seven Day Liquor Sales - 4/1/08	GFTX	N/A	N/A	N/A	$0	$0
T&F	New Tax on Illegal Drugs - 9/1/08	GFTX	N/A	N/A	N/A	$13,000	$17,000
T&F	Delay by One Year the increase in basic Middle Class STAR Rebate Program - NYC PIT, 1/1/08; STAR relief, 7/1/08	GFTX	N/A	N/A	N/A	$209,000	$0
T&F	Repeal NYC STAR PIT Credit for high Income Taxpayers - 1/1/08	GFTX	N/A	N/A	N/A	$20,000	$30,000
T&F	Authorize the Tax Department to Offset Tax Debts, Child Support and Other Debts Against STAR Rebates - Upon Enactment	GFTX	N/A	N/A	N/A	$15,000	$15,000
T&F	Simplify Taxation of Motor Fuel - 12/1/08	GFTX/SFTX. DFTX/CFTX	N/A	N/A	N/A	$13,200	$55,900
T&F	Sales Tax Nexus - 4/1/08	GFTX	N/A	N/A	N/A	$47,000	$85,000
T&F	License/Reader Enforcement - 9/1/08	DFTX/CFTX	N/A	N/A	N/A	$7,500	$15,000
T&F	Allow Lower Real Estate Transfer Tax on Real Estate Investment Trusts to Expire - 4/1/08	DFTX	N/A	N/A	N/A	$200	$200
					Other Revenue Actions - Subtotal	**$1,514,027**	**$1,330,450**
IV. REVENUE REDUCTIONS							
DPS	Decrease Assessment - 4/1/08	SFMR	N/A	N/A	2007	($793)	($793)
T&F	Film Credit - 4/1/08	GFTX	N/A	N/A	N/A	($5,000)	($15,000)
T&F	Bioheat Credit - 4/1/08	GFTX/DFTX	N/A	N/A	N/A	$0	($1,000)
T&F	Handicapped Accessible Taxis Credit - 4/1/08	GFTX	N/A	N/A	N/A	$0	($3,000)
T&F	Low Income Housing Credit – 4/1/08	GFTX	N/A	N/A	N/A	($4,000)	($4,000)
					Revenue Reductions - Subtotal	**($9,793)**	**($23,793)**
					OTHER REVENUE ACTIONS AND REDUCTIONS - TOTAL	**$1,504,234**	**$1,306,657**
					ALL FEE AND REVENUE ACTIONS - GRAND TOTAL	**$2,047,394**	**$1,926,869**

REVENUE ACTIONS

The accompanying table summarizes enacted revenue actions taken over the past four state fiscal years by type of action (legislative or administrative) and provides a short description of the action, the date this action took place, the Fund type where the revenue is deposited and the incremental revenue gain or loss from the action.

ENACTED REVENUE ACTIONS
2004-05 through 2007-08

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
I. ADMINISTRATIVE					
AGMKTS	First violation food inspections	1/1/05	GFMR	$300	$400
CIV SVC	Increase exam fees sweep	4/1/04	SFMR	$5	$125
DCJS	Increase record review fee	4/1/04	GFMR	$50	$125
DHCR	Increase low income housing credit monitoring	10/1/04	SFMR	1%	$0
DHCR	Increase low income housing tax credit application fees	On or before 2/27/06	SFMR	$2,000 / 6%	$500
DOT	Increase divisible load permits and fines	4/1/04	CFMR	$360 - $900	$1,500
DOT	Increase divisible load permits and fines	4/1/04	GFMR	$150 - $3,750 + %	$3,000
GSC	Medicare Part D subsidy	1/1/06	GFMR	None	$67,300
PARKS	Increase weekend camping fees	4/1/05	SFMR	$17	$1,400
STATE	Campus fire safety	4/1/04	GFMR	$50 - $500	$128
DOT	Increase accident damage revenues	4/1/06	SFMR	N/A	$750
NYPA	Pilot payments	4/1/06	GFMR	N/A	($100,000)
OGS	Real property sales proceeds	4/1/06	SFMR	N/A	$0
PARKS	Parks user fees	4/1/06	SFMR	Various	$1,000
ERDA	3-Way agreement to restore PORC transfer to New York Power Authority. Includes Article VII transfer to the General Fund	Immediately	SFMR	N/A	$0
DPS	Increase Article 18-A assessment to support various State agencies' operations related to utility regulations	4/1/07	SFMR	N/A	$5,024
ERDA	Increase assessment to support spending for Article 18-A utility research and development costs	4/1/07	SFMR	N/A	$1,400
ESDC	Increased Cost recovery billings for Public Authorities deposited into the Revenue Arrearage Account	Upon enactment	SFMR	N/A	$7,000
Elections	Reestimate of interest earned from HAVA funds resulting from delay in purchasing of voting machines	4/1/07	SFMR	N/A	$0
				Administrative Actions - Subtotal	**($11,248)**

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
II. STATUTORY					
ABC	Increase filing fees	4/1/04	GFMR	Various Licensing Fees	$400
CPB	Increase fine	9/1/04	SFMR	$11,000	$200
CVB	Mandatory fees youthful offenders	8/1/04	SFMR	Felony - $250 Misdemeanor - $140 Violation - $75	$1,080
CVB	Sex offender fee	8/1/04	SFMR	$1,000	$1,112
DMV	Data search fee	10/1/05	SFMR/CFMR	$7 & $10	$24,000
DMV	Photo image fee	10/1/05	SFMR/CFMR	$10	$15,000
DOL	Boiler inspections	8/20/04	SFMR	Various	$2,306
DOL	Explosives magazine storage	8/20/04	SFMR	$50	$30
DOL	Amusement device	8/20/04	SFMR	$100	$59
DOL	Asbestos licenses	8/20/04	SFMR	$500	$590
DOL	Asbestos certifications	8/20/04	SFMR	Various	$818
DOL	Apparel registration renewal	8/20/04	SFMR	$150	$284
DOL	Easement day of rest	8/20/04	SFMR	$40	$3
DOL	Farm Permits	8/20/04	SFMR	Grower - $40 Labor Contractor - $200	$25
DOL	Defense dispensation	8/20/04	SFMR	$40	$1
DOL	Employment agency	8/20/04	SFMR	$700	$1
DOL	Commissary operator permits	8/20/04	SFMR	$40	$0
ENCON	Extend waste tire fee	9/12/03	GFMR/SFMR	$2.50	$25,500
ENCON	Increase storm water fees	4/1/04	GFMR/SFMR	$50 - $350	$2,100
ENCON	ATV registration fee increase	4/1/05	SFMR	$25	$2,500
HLTH OTH	Increase hospital surcharge	1/1/06	SFMR	6.54% on Government payers; 8.95% on other payers - net patient revenue	$13,000
HLTH OTH	Increase covered lives assessment	1/1/06	SFMR	$775 million Statewide target	$50,000
INS	Agent license fee increase	4/1/05	GFMR	$40	$2,670
INS	Service of process fee increase	4/1/05	GFMR	$40	$1,356
INS	Reinsurance license fee increase	4/1/05	GFMR	$500	$30
MEDASST	Nursing home assessment	4/1/04	SFMR	5% of gross revenue	$377,300
MEDASST	Increase nursing home reimbursable assessment to 6 percent	4/1/05	SFMR	6%	$69,200
MEDASST	Establish hospital assessment	12/1/05	SFMR	0.35% of gross revenue	$106,000
NYPA	Pilot payments	4/1/05	GFMR	None	$100,000
ORPS	Real property transfer filing fee	9/1/04	SFMR	Homes & Farms - $75; Other properties - $165	$18,900
PARKS	Increase snowmobile fee	8/1/04	GFMR/SFMR	$45	$5,500

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
PARKS	Increase non club members snowmobile fee	4/30/06	GFMR/SFMR	$100	$8,085
RWB	Racing fee increase	4/1/05	SFMR	0.50%	$2,600
BANKING	Increase fines/penalties	4/1/06	GFMR/SFMR	Various	$8,000
DMV	Internet point insurance reduction program	4/16/06	SFMR	$8 Student fee $7,500 insurance company provider fee	$2,400
DMV	Dedication of additional driver responsibility assessment revenue to DHBTF	4/1/06	CPMR	N/A	$28,569
ENCON	ATV registration fee	60 days after enactment	GFMR/SFMR	$10 to GF	($2,500)
HLTH OTH	HCRA - compliance/delinquency billings	4/1/06	SFMR	N/A	$50,000
MEDICAID	Continue nursing home reimbursable assessment	4/1/07	GFMR/SFMR	6.0%	$0
OSC	Accelerate dormancy periods for abandoned property	4/1/06	GFMR	Various	$0
TSCR	Tribal State Compact	4/1/06	SFMR	N/A	$5,800
HLTH OTH	HCRA - Increase Covered Lives Assessments	4/1/07	SFMR	N/A	$75,000
HLTH OTH	HCRA - Additional Insurance Conversion	4/1/07	SFMR	N/A	$284,000
HLTH OTH	Appropriates Existing Training Contract Fee Revenue in DOH (rather than OCFS)	4/1/07	SFMR	5%	$1,000
DOH/CMS	Federal State Health Reform Partnership Program - Annual Funding	10/1/06 - 9/30/11	SFMR	N/A	$300,000
MEDICAID	Continues 6% Nursing Home Assessment beyond statutory expiration date of March 31, 2009	3/31/09	SFMR	6%	$453,000
OMR	Reduced Provider Tax Assessment (PTA) from 6.0% to 5.5%	4/1/07	GFMR	5.5%	($20)
				Statutory Actions - Subtotal	**$2,035,899**
				ADMINISTRATIVE AND STATUTORY ACTIONS - TOTAL	**$2,024,651**
III. OTHER REVENUE ACTIONS					
DMV	Driver responsibility program	8/20/05	GFTX	$100 & $250	$44,300
DMV	Dealer issued temporary registration fee increase	10/1/05	SFTX/CFTX	$5	$2,400
DMV	Dealer/transporter registration fee increase	10/1/05	SFTX/CFTX	$450 & $37.50	$1,200
DMV	Insurance buyback program expansion	10/1/05	SFTX/CFTX	$8, $10 & $12	$7,850
DMV	Salvaged vehicle inspection fee increase	10/1/05	SFTX/CFTX	$150	$1,600
DMV	Title fee increase	10/1/05	SFTX/CFTX	$20 & $50	$125,000
Legislature	Mortgage recording tax	4/12/05	Local Revenue	None	$0

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
Legislature	Increase MTA sales and compensating use tax	6/1/05	SFTX	None	$245,300
Legislature	Native American regulations	9/1/05	GFTX/ SFTX	None	$60,000
Legislature	Authorizes the Interstate direct shipment of wine	7/12/05	GFTX/DFTX	None	$3,800
OSC	Abandoned property - Administrative	4/1/04	GFMR	N/A	$21,000
T&F	Add temporary fixed dollar minimum	1/1/04	GFTX	None	$0
T&F	Reverse *Meyers* decision	1/1/04	GFTX/DFTX	None	$0 acceleration
T&F	Tax nonresidents' gain from sale of co-op stock	1/1/04	GFTX/DFTX	Tax Base	$20,000
T&F	Seven day sales of alcoholic beverages	8/20/04	GFTX/DFTX	None	$2,000
T&F	Adopt tax shelter provisions	1/1/05	GFTX	None	$0
T&F	Change computation of long term care insurance credit for nonresidents	1/1/05	GFTX/DFTX	None	$6,000
T&F	Extend higher LLC fees	1/1/05	GFTX/DFTX	None	$0
T&F	Increase capital base cap under Article 9A from $350,000 to $1 million for non-manufacturers	1/1/05	GFTX	None	$26,000
T&F	Internet affiliate	1/1/05	GFTX/DFTX	None	$25,000
T&F	Allow tax department to enter into reciprocal offset agreements with other states	4/12/05	GFTX/DFTX	None	$2,000
T&F	Maintain Manhattan parking reporting requirements	4/12/05	GFTX/DFTX	None	$700
T&F	Delay permanent clothing exemption and create two exemption weeks at $110 threshold	8/20/04	GFTX/DFTX	None	$0
T&F	Sales tax intercept for Medicaid cap	4/12/05	GFTX/DFTX	None	$0
T&F	Sales tax on amusement park admissions	4/12/05	GFTX/DFTX	None	$0
T&F	Delay permanent clothing exemption with two $110 weeks and offer local option	6/1/05	GFTX/DFTX	None	$0
T&F	Extend Federal Gramm-Leach Bliley Act provisions for two years	1/1/06	GFTX	N/A	$0
T&F	Amend the make permanent Article 9 sections 183/184 distributions to DHBTF and MTOAF	4/1/06	GFTX	N/A	$0
T&F	Extend bank tax reform provisions for two years	1/1/06	GFTX	N/A	$0
T&F	Clarify treatment of taxability of certain income for non-State residents	1/1/06	GFTX/DFTX	N/A	$1,000
T&F	Limit amount that can offset EITC for debts owed to OTDA	1/1/07	GFTX/DFTX	N/A	$0

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Eliminate the Use of Out-of-State Entities to Shelter Partnership Income from Tax	1/1/07	GFTX/DFTX	N/A	$15,000
T&F	Eliminate the Use of S Corporation Elections to Shelter Income	1/1/07	GFTX/DFTX	N/A	$100,000
T&F	Repeal School Property Tax Credit Under the Personal income Tax	1/1/07	GFTX/DFTX	N/A	$675,000
T&F	Require the Filing of Combined Returns for Certain Corporate Franchise Taxpayers	1/1/07	GFTX/SFTX	N/A	$381,000
T&F	Extend the Reporting of Tax Shelters	7/1/07	GFTX/SFTX	N/A	$0
T&F	Eliminate the Use of Real Estate Investment Trusts to Shelter Income	1/1/07	GFTX/SFTX	N/A	$111,000
T&F	Eliminate the Use of Grandfathered Corporate Franchise Tax Companies to Shelter Income	1/1/07	GFTX/SFTX	N/A	$18,000
			Other Revenue Actions - Subtotal		**$1,895,150**

IV. REVENUE REDUCTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
Legislature	Empire zones	1/1/05	GFTX	None	($44,000)
Legislature	Farmers school tax credit for family property	1/1/05	GFTX/DFTX	Credit	($500)
Legislature	Motion picture production ITC	1/1/05	GFTX/DFTX	Credit	$0
Legislature	Qualified emerging technology credit	1/1/05	GFTX	None	($10,000)
Legislature	Security guard training credit	1/1/05	GFTX/DFTX	Credit	($5,000)
Legislature	CAPCOs	4/1/05	GFTX	None	($6,000)
Legislature	Single sales factor (Everyone)	4/1/05	GFTX	None	($80,000)
Legislature	Transferability of CAPCO credits	4/1/05	GFTX	None	$0
Legislature	Solar energy system credit	1/1/06	GFTX/DFTX	Credit	($500)
Legislature	Farmers school tax credit for commercial horse boarding	1/1/06	GFTX/DFTX	Credit	($500)
T&F	Extend alternative fuels vehicle credit	1/1/04	GFTX/DFTX	$2,000 Credit	$0
T&F	Exempt federal military pay	1/1/04	GFTX/DFTX	0%	($1,000)
T&F	Low income housing	1/1/04	GFTX/DFTX	None	($2,000)
T&F	Film production credit	1/1/04	GFTX/DFTX	None	($25,000)
T&F	Brownfield expansion	4/1/05	GFTX	None	($30,000)
T&F	Petroleum business tax on flights	11/1/04 & 6/1/05	CFTX/SFTX	None	($2,700)
T&F	Aircraft repair parts and labor	12/1/04	GFTX/DFTX	None	($2,000)
T&F	Water taxis	12/1/04	GFTX/DFTX	None	($400)
T&F	Long term care credit	1/1/04	GFTX/DFTX	None	($18,000)
T&F	Low income housing	1/1/05	GFTX/DFTX	None	($2,000)

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Personal income tax credit for payers of the nursing home assessment	1/1/05	GFTX/DFTX	Credit	($40,000)
T&F	Exempt lower Manhattan office equipment from sales tax	9/1/05	GFTX/DFTX	None	($18,000)
T&F	Exempt residential solar equipment from sales tax	12/1/05	GFTX	None	($200)
T&F	Exempt coin operated automatic car washes from sales tax	12/1/05	GFTX	None	($1,300)
T&F	Exempt marine container machinery and equipment from sales tax	12/1/05	GFTX	None	$0
T&F	Exempt waste transfer station services from sales tax	12/1/05	GFTX/DFTX	None	($3,800)
T&F	CAPCOs	2006	GFTX	None	($6,000)
T&F	Green buildings tax credit	1/1/06	GFTX	None	($2,000)
T&F	Exempt State chartered credit unions from sales tax	3/1/06	GFTX/DFTX	None	($1,700)
T&F	Exempt electricity produced by co-op cogeneration facility from sales tax	4/1/06	GFTX/DFTX	None	$0
T&F	Small business rate reduction	4/1/05	GFTX	$0	($5,000)
T&F	Personal income tax credit for special additional mortgage recording tax	1/1/04	GFTX/DFTX	Credit	($500)
T&F	Acceleration of six Empire Zones	1/1/06 & 1/1/07	GFTX	N/A	$0
T&F	Low-income housing credit	1/1/06	GFTX	N/A	($4,000)
T&F	Empire State film production credit	1/1/09	GFTX	N/A	($35,000)
T&F	Marginal tax rate for annuity premiums	1/1/06	GFTX	N/A	($3,000)
T&F	Eliminate S-corp differential rate	1/1/06	GFTX	N/A	($40,000)
T&F	Extension of lower REITS	Immediately	CFTX/DFTX	N/A	$0
T&F	Personal income and corporate franchise tax for the restoration of historic homes and buildings	1/1/06	GFTX/DFTX	N/A	($20,000)
T&F	Strengthening families - expand EITC to non-custodial parents	1/1/06	GFTX/DFTX	N/A	($20,000)
T&F	Eliminate personal income tax marriage penalty	1/1/06	GFTX/DFTX	N/A	($50,000)
T&F	Land conservation credits	1/1/06	GFTX/DFTX	N/A	($2,000)
T&F	Encourage alternative fuel production - Biofuel/Alternative refueling property	1/1/06	GFTX	N/A	($10,000)
T&F	National Guard personal income tax exemption	1/1/04	GFTX/DFTX	N/A	($1,000)
T&F	Personal income tax credit for improving home energy system/bio-heat	Expenses incurred between 7/1/06 and 6/30/07	GFTX/DFTX	N/A	($13,000)

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	STAR Rebate/Credit	School years beginning in 2006 (rebate), tax years beginning after 2006 (credit)	SFTX	N/A	($675,000)
T&F	Enhanced STAR exemption	1/1/07	SFTX	N/A	$0
T&F	Sales tax exemption for admission charges to amusement parks	4/1/06	GFTX/DFTX	N/A	($1,000)
T&F	Sales tax vendor credit	9/1/06	GFTX/DFTX	N/A	($54,000)
T&F	Hold the MTA harmless for Clothing	4/1/06	GFTX	N/A	($14,000)
T&F	Cabaret exemption	12/1/06	GFTX/DFTX	N/A	($2,200)
T&F	Credit card bad debt provisions	1/1/07	GFTX/DFTX	N/A	($8,100)
T&F	Exempt alternative fuels from petroleum business tax, motor fuel tax, highway use tax and sales tax	9/1/06 - 9/1/11	GFTX/DFTX	N/A	($3,100)
T&F	Farmer's credit	1/1/06	GFTX/DFTX	N/A	($10,000)
T&F	Enforcement of Native American regulations	3/1/07	GFTX/SFTX	N/A	$0
T&F	Child credit	1/1/06	GFTX/DFTX	N/A	($600,000)
T&F	Credit for voluntary firefighters	1/1/06	GFTX/DFTX	N/A	($20,000)
T&F	Sales tax on clothing returned to permanent	4/1/06	GFTX/DFTX	N/A	$0
T&F	Empire Zones - clean energy R&D enterprise	1/1/06	GFTX	N/A	$0
T&F	Brownfields - extend Empire Zone criteria	4/1/06	GFTX	N/A	$0
T&F	Commercial production credit	1/1/07	GFTX	N/A	($7,000)
T&F	Pari-mutuel rate and reductions	4/1/06	GFTX	N/A	($1,500)
T&F	Contract compliance	4/1/06	GFTX/DFTX	N/A	$0
T&F	Deduction for organ donors	1/1/07	GFTX	N/A	$0
T&F	Increased NYC STAR Credit	1/1/06	SFTX	N/A	($212,500)
T&F	Additional STAR participation	School years beginning in 2007 and after	SFTX	N/A	($80,000)
T&F	Gas tax	6/1/06	GFTX/DFTX	N/A	($127,000)
T&F	Zone benefits for investment	Immediately through 12/31/07	GFTX	N/A	($20,000)
T&F	Brownfield benefits for condos and co-ops	Immediately	GFTX	N/A	$0
T&F	Alternative fuels vehicles credit amendments	1/1/06	GFTX	N/A	($2,000)
T&F	First year business employment test	Immediately	GFTX	N/A	$0

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Zone benefits for certain Brownfield businesses	Immediately	GFTX	N/A	$0
T&F	Credit handicapped taxicab companies	1/1/06	GFTX	N/A	($3,000)
T&F	Middle Class STAR program	NYC PIT - 1/1/07; STAR relief - 7/1/07	GFTX	N/A	($1,841,500)
T&F	Increase and Make Permanent Low Income Housing Credit	1/1/07	GFTX	N/A	($4,000)
T&F	ENI Rate Cut from 7.5% to 7.1%	1/1/07	GFTX	7.10%	($75,000)
T&F	AMT Rate Cut from 2.5% to 1.5%	1/1/07	GFTX	1.50%	($20,000)
T&F	Accelerate effective date for single sales factor for apportionment of corporate franchise tax income	1/1/07	GFTX	N/A	$0
T&F	Special ENI rate of 6.5% for manufacturing	1/31/07	GFTX	N/A	($55,000)
				Revenue Reductions - Subtotal	**($4,357,300)**
				OTHER REVENUE ACTIONS AND REVENUE REDUCTIONS - TOTAL	**($2,462,150)**
				ALL FEE AND REVENUE ACTIONS - GRAND TOTAL	**($437,499)**

Key:

CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

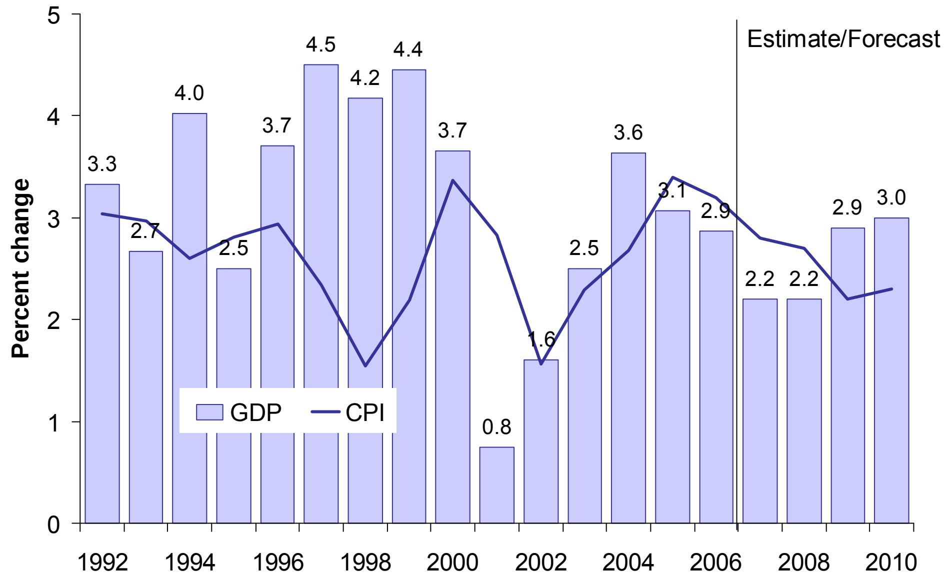
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

The U.S. economy has continued to lose momentum since the summer. Large declines in residential construction and reduced demand for autos and housing-related durable goods, combined with past energy price increases and credit market tightening, continue to generate a significant drag on economic growth. The uncertainty associated with the still unfolding subprime mortgage debacle has substantially increased financial market volatility, reduced financial sector profits, and diminished the accessibility of credit to the nation's households and businesses. In addition, labor market growth has decelerated since the early part of 2007. In response to these developments, the Federal Reserve has lowered its short-term interest rate target 100 basis points to 4.25 percent since August 2007 and has intervened in credit markets to enhance liquidity several times.

Figure 1
Outlook for Real U.S. GDP Growth and Inflation



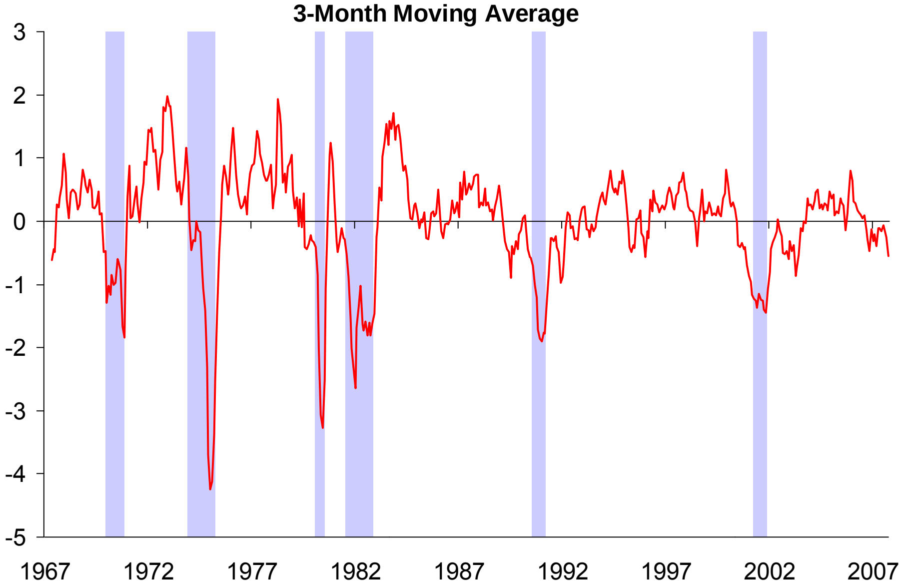
Note: Displayed values pertain to GDP growth.
Source: Moody's Economy.com; DOB staff estimates.

On the positive side, robust global growth and a weak dollar have produced strong demand for U.S. exports. In addition, the Federal government, in concert with the banking community, is developing a plan under which subprime borrowers whose rates are due to reset at much higher levels over the next several years can arrange more favorable terms with their lenders. Some states and private lenders are offering their own initiatives to forestall a rising foreclosure rate. In combination with Federal Reserve actions, these interventions are expected to allow the economy to gradually rebound to its long-term trend growth rate over the course of 2008, after bottoming out below 2 percent in the fourth quarter of 2007 and first quarter of 2008. The Budget Division projects real U.S. GDP growth of 2.2 percent for 2008, following growth of about the same magnitude for 2007 (see Figure 1). Though the Budget Division is not forecasting a recession at this time, the risk of a recession is judged to have increased significantly since the fall.

Slow output growth is expected to be a restraining force on inflation going forward, but continued volatility in energy prices is also expected. Rising energy prices could impinge on the Federal Reserve's flexibility in cutting interest rates. Inflation of 2.7 percent is projected for 2008, following 2.9 percent for 2007.

With credit markets now a key determinant of the economy's future path, the New York State economy is once again at the epicenter of national economic trends. With few exceptions, the subprime mortgage debacle took a large toll on third and fourth quarter financial firm profits. Indeed, third quarter pre-tax profits showed of a loss of $3.8 billion, the largest single-quarter loss since the securities industry started reporting results in the first quarter of 1980. Consequently, finance and insurance sector bonuses are expected to fall for the 2007-08 bonus season. The extent to which credit tightening continues to dampen such important revenue generating activities as high-yield lending and mergers and acquisitions will determine the ultimate impact on Wall Street profits and bonuses going forward. The Budget Division now projects growth in State wages to slow from 7.6 percent in 2007 to 3.3 percent in 2008. Growth in State private sector employment is projected to fall from 1.2 percent for 2007 to 0.7 percent for 2008.

Figure 2
Chicago Fed National Activity Index
3-Month Moving Average



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

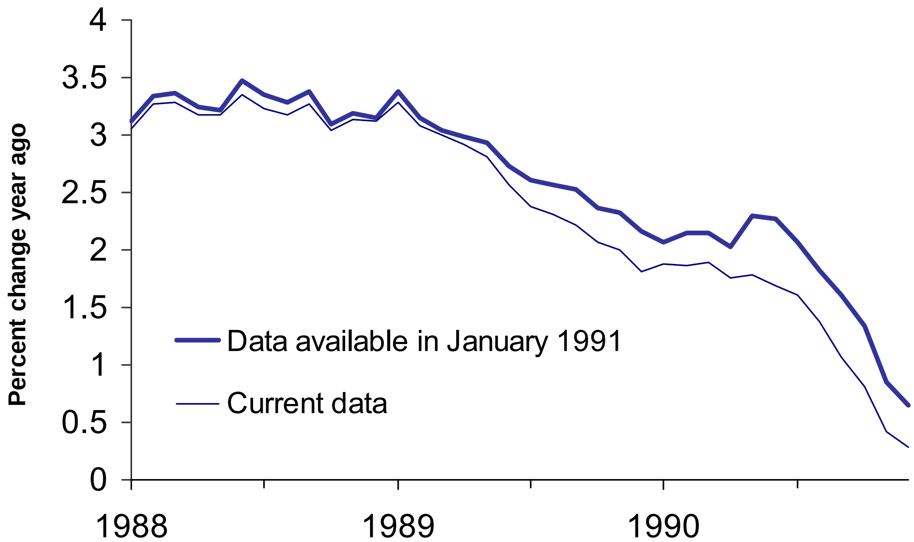
THE NATIONAL ECONOMY

To many observers, the national economy appears to be at a precipice. A recent poll of professional forecasters put the chance of a recession at an average of 42 percent, reportedly the highest in more than three years.[1] A number of high profile economists put the probability even higher, and a commonly cited coincident indicator of economic activity is in negative territory (see Figure 2). With the housing market still finding a bottom, credit markets tight, and the labor market losing momentum, the economy is weak

[1] See Phil Izzo, "Odds of Recession Seen Rising," *The Wall Street Journal*, January 11, 2008, page A2.

and thus highly vulnerable to shocks. For example, had the nation not been attacked on September 11, it is possible that the 2001 slowdown might not have turned into a recession. An extraordinary shock to an already weakened economy may have been what tipped the balance. This time around, what could tip the balance might be a severe oil price shock or a pullback by consumers in anticipation of a deterioration in their situation.

Figure 3
Is the Economy in Recession?
U.S. Employment Before and After Revision



Note: In April 1991, NBER announced that a recession had begun in July 1990.
Source: FRB Philadelphia; Moody's Economy.com.

Two important caveats pertain to any economic forecast. First, economic shocks are by definition unforeseeable. Thus, though it is virtually certain that the economy will experience shocks over the course of the forecast period, an economic forecast is predicated on the assumption that no shocks will occur. Second, an economic forecast is based on the data that is available at the time the forecast is made. Yet history suggests that by the end of this year, the economy of the latter part of 2007 will look different from how it appears based on the data that was available in January 2008. Figure 3 shows, based on the most recent U.S. Bureau of Labor Statistics data, that year-ago employment growth toward the end of 1990 was actually about one-half percentage point lower than it appeared in January 1991. Indeed, the NBER Business Cycle Dating Committee did not declare July 1990 to be a cyclical peak until April 25, 1991, fully nine months after the fact. Business cycle turning points are notoriously difficult to forecast and only made more so by these particularly uncertain times (see Box 1).

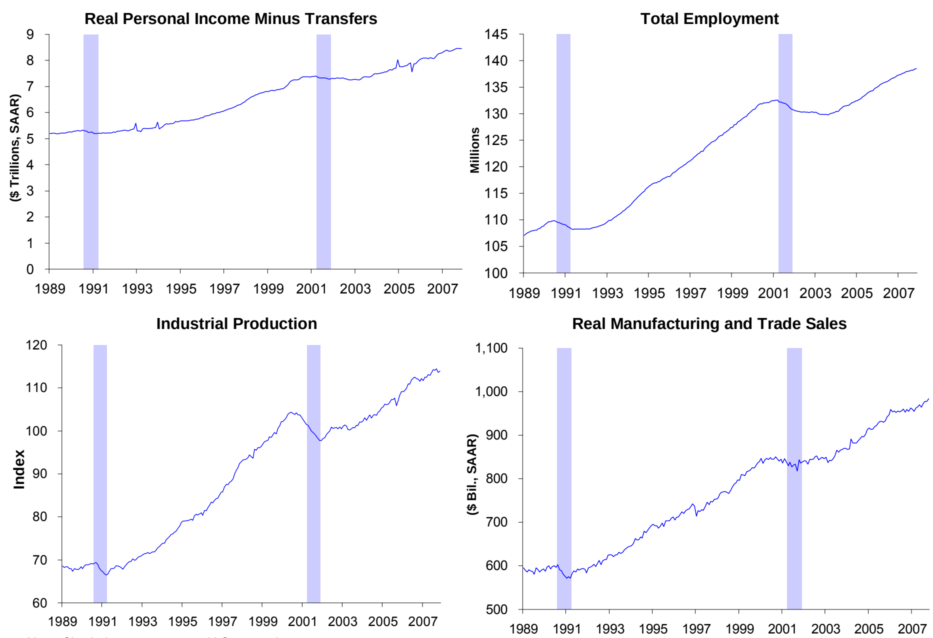
BOX 1
ARE WE ON THE BRINK OF RECESSION?

Given current housing market conditions, the credit crunch, a softening labor market, and high energy prices, there is little doubt that the likelihood that the U.S. economy could fall into recession has increased. But forecasting business cycle turning points is a very difficult task and history proves that economists more often than not have made wrong calls, typically by missing a turning point entirely, though sometimes by raising a false alarm. There are many different reasons for this poor performance, but foremost is the reality that high frequency economic data are subject to revision. This is part of why the National Bureau of Economic Research (NBER) Business Cycle Dating Committee often waits close to a year before declaring an official business cycle turning point.

Business cycles are defined by a group of private economists at the National Bureau of Economic Research (NBER) Business Cycle Dating Committee. Although the popular press typically defines a recession as two consecutive declines in real GDP, the Committee uses monthly data to determine business cycle peaks and troughs, usually focusing on the four key indicators shown in the figure below: real personal income minus transfers, nonfarm payroll employment, industrial production, and real manufacturing and trade sales. More recently they have added a fifth indicator, the monthly real GDP series constructed by Macroeconomic Advisors.

The four monthly economic series that appear below are generally considered coincident indicators. Close examination produces no clear indication that the economy is currently in recession. Employment has been increasing steadily since 2003, even though the rate of growth has slowed in recent months. A business cycle peak has never preceded a decline in employment during the postwar period, compelling evidence that we are not in recession at the current time. Real income less transfers fell during the last two months for which data are available, but these declines were small and are believed to be more attributable to spikes in inflation than to sustained declines in real income. Industrial production growth has weakened, but has not exhibited consistent declines and, as of November 2007, was still up 2.1 percent from a year ago. Real manufacturing and trade sales have exhibited only sporadic declines and, as of October 2007, was still up 2.6 percent from a year ago.

NBER Recession Indicators



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

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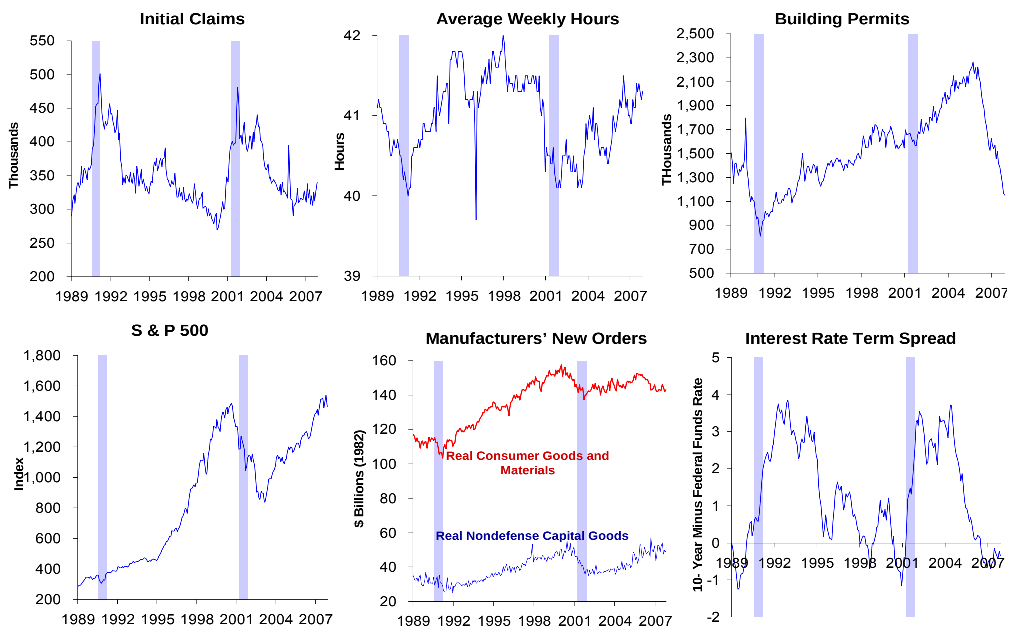
One thing economists can be sure about is that the most recent data on the NBER recession indicators are preliminary and subject to revision. The U.S. Bureau of Labor Statistics (BLS) has already announced that it will revise its headline payroll survey employment data as far back as April 2006, with the March 2007 level to be revised down by almost 300,000. However, it is not yet known what the monthly pattern will look like. Revisions to the U.S. Bureau of Economic Analysis (BEA) estimates of monthly personal income and its components can also be quite large.

To assess whether the economy may be headed toward recession, economists tend to look at leading economic indicators. Seven of the 10 indicators used in the construction of the Conference Board's leading economic index appear in the figure below. Careful examination of the employment related series indicates that labor market growth is weakened but still holding up. The number of initial unemployment insurance benefit claims is approaching 350,000, and while it has been slowly increasing, it is still well below recession levels. Average weekly hours worked remain well above recession levels, although this indicator can quickly deteriorate. The two financial market indicators offer mixed signals. Equity markets do not indicate a recession is coming, while the currently inverted spread between the federal funds rate and the 10-year Treasury yield has traditionally signaled a downturn. However, much has been written recently questioning the usefulness of interest rate spreads as a leading indicator given how much supply and demand conditions in the long-term bond market have changed in recent years in response to globalization, demographics, and other factors.

The real values of manufacturers' new orders for both consumer goods and materials and nondefense capital goods indicate the economy may be softening going forward. However, both are at high levels from a historical standpoint. Finally, and not surprisingly, building permits indicate severe recession-like conditions, but no other indicator is providing a definitive signal that spillover from the housing market into other sectors will be sufficient to cause a recession. In summary, while the possibility of a recession can not be ruled out, the data currently available on a broad array of economic indicators suggest that the U.S. economy can avoid a recession, but with below-trend growth continuing over the near term.

Leading Indicators



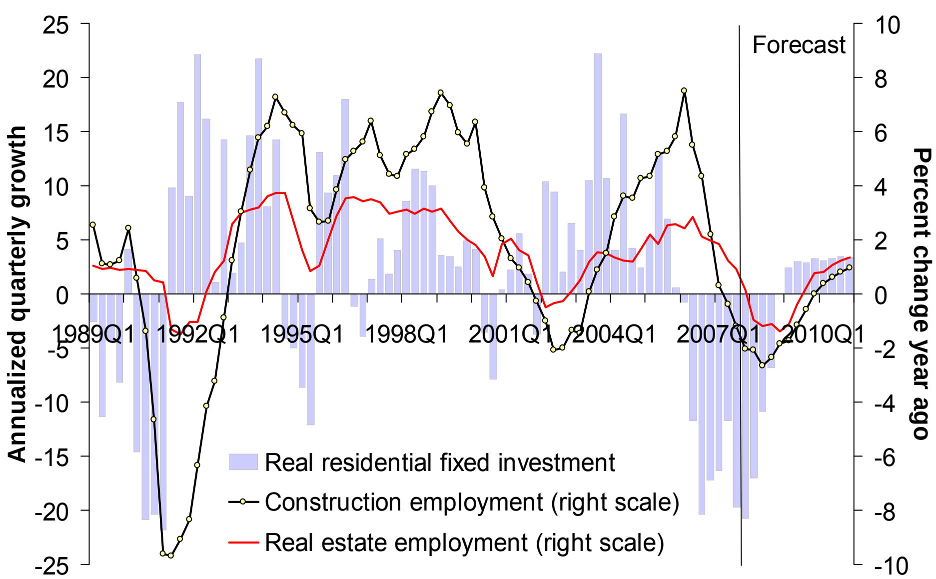
Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; The Conference Board.

Nevertheless, there are good reasons to believe that the economy will experience a period of low growth, but elude recession. The global economy overall is strong and should be able to sustain solid growth even in the face of a U.S. slowdown. Moreover, a falling dollar increases U.S. competitiveness in the global marketplace. Though the labor market has slowed, initial unemployment insurance claims are still low by historical standards and employee earnings growth remains healthy. Though credit markets are tight, interest rates are also low by historical standards. Finally, government spending has been strong and, perhaps more importantly, both the Federal government and the Federal Reserve are playing active roles in trying to keep the economy out of recession. As a result of all of these factors, following two quarters of very low growth in the fourth quarter of 2007 and the first quarter of 2008, the national economy is expected to improve with each subsequent quarter, until reaching growth of 3.0 percent by 2008Q4.

The Credit Crisis

The recent housing bubble has had a profound impact on both the real and financial segments of the economy. The real side effects are evident in Figure 4. The housing market bubble had been a boon to the construction industry and produced many real estate, rental and leasing sector jobs. Rising home prices induced a "wealth effect" among home-owners as the value of their homes grew, stimulating purchases of furniture, appliances, and other home furnishings. As illustrated in Figure 4, we are currently observing an unwinding of these effects.

Figure 4
Housing Sector Remains a Drag on the Economy

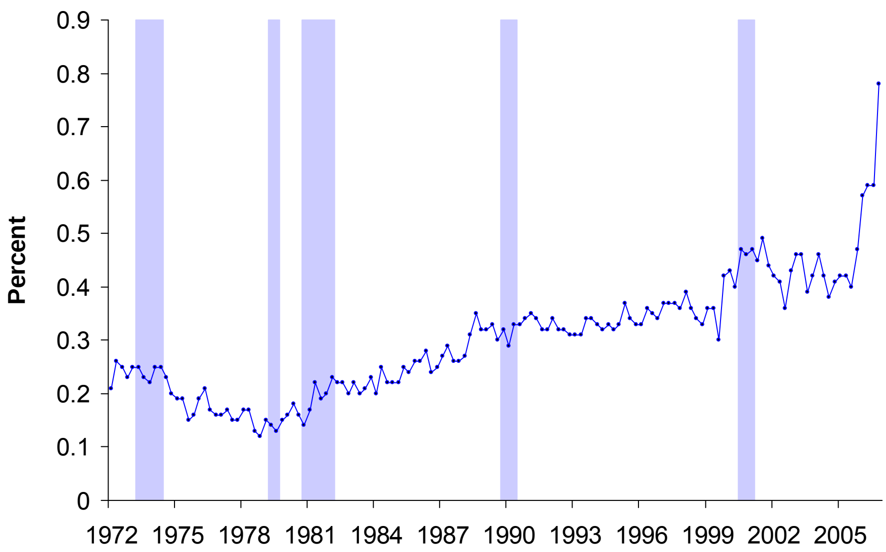


Note: Forecast period for employment data begins in 2008Q1.
Source: Moody's Economy.com; DOB staff estimates.

While financial innovations such as securitization and the creation of "structured products" produced the benefits associated with the diversification and dispersal of risk, they also reduced incentives to undertake "due diligence" in assessing borrowers' abilities to repay. In the context of a price bubble, this combination became a recipe for disaster. The proliferation of the use of off-balance sheet conduits, such as collateralized debt obligations (CDOs) and structured investment vehicles (SIVs) exacerbated the problem. Although it is difficult to assess the exact magnitude of the losses, the large volume of debt that has been recently downgraded by rating agencies is suggestive. By early December 2007, $290 billion in bonds had been downgraded, and fully 58 percent of subprime collateral-backed CDOs issued from 2005 to 2007 either downgraded or under review for downgrades.[2]

Figure 5 indicates the unprecedented rise in the rate at which mortgage loans entered the foreclosure process during the third quarter of 2007. Although mortgage defaults are occurring across all types of loans, the rate has been highest among adjustable rate subprime, Alt-A, and interest-only jumbo loans.[3] Moody's Economy.com estimates that of the approximately $10 trillion in mortgage debt outstanding during the first quarter of 2007, about $2.5 trillion was comprised of subprime, Alt-A, and interest-only jumbo mortgages. Of that amount, homeowners are expected to default on about $600 billion, resulting in estimated losses of about $200 billion to lenders. The loss volume could be pushed even higher by falling home prices or a slower economy. Losses of this magnitude could have far-reaching consequences for the stability of the credit supply process, risk spreads, and the value of the dollar.

Figure 5
Percent of Loans Entering Foreclosure



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Table 1 shows how total CDO holdings of about $3 trillion, estimated as of June 2007, were distributed across four types of institutions.[4] Banks and prime brokers are on the frontlines of exposure since they warehouse the assets that are restructured into CDOs and

[2] See Serena Ng, "Nearly 20,000 Downgrades — and Counting," *The Wall Street Journal*, Dec. 5, 2007, http://blogs.wsj.com/marketbeat/2007/12/05/nearly-20000-downgrades-and-counting/trackback/, viewed Jan. 3, 2008.

[3] Alt A is industry shorthand for alternative documentation and refers to borrowers with better, or A-rated, credit scores who borrow with little or no verification of income; jumbo loans are loans exceeding the limit on the size of loans guaranteed by Fannie Mae and Freddie Mac ($417,000 in the continental U.S.).

[4] See Adrian Blundell-Wignall, "Structured Products: Implications for Financial Markets," OECD, *Financial Market Trends*, N°93, Vol. 2007/2, pp. 27-57.

SIVs and may have to take impaired assets back onto their balance sheets if funding becomes unavailable for their SIVs. Indeed, a number of large banks and prime brokers have already begun the process. Banks may have an additional layer of exposure if they lent to other institutions, such as hedge funds, to invest in CDOs and SIVs. Bond insurers are also heavily exposed. All of the affected institutions are being forced to write down the value of their holdings of mortgage-backed securities. In the case of publicly held institutions, much of this process will occur in open view. But in the case of privately held entities, such as hedge funds, they will occur more quietly.

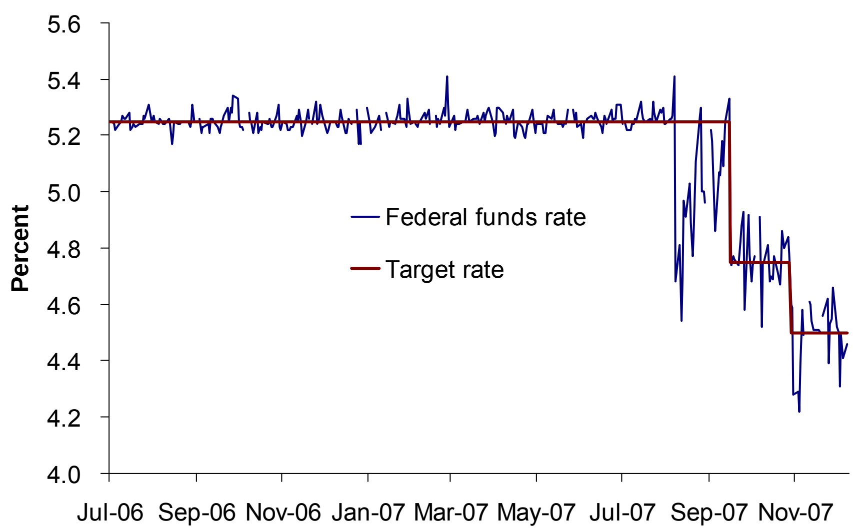
TABLE 1
COMPOSITION OF THE CDO MARKET AS OF JUNE 2007

Risk Level	Insurers	Hedge Funds	Banks and Prime Brokers	Asset Managers	Total
	%	%	%	%	%
AAA	6.9	12.1	14.5	5.8	39.3
AA	1.2	4.0	3.5	4.0	12.7
A	0.3	4.6	1.4	2.9	9.2
BBB	0.6	4.3	0.3	4.0	9.2
BB	0.0	2.3	0.3	0.3	2.9
Equity	0.9	19.1	4.9	1.7	26.6
Total (%)	9.8	46.5	24.9	18.8	100
Total (Bil.)	$295	$1,396	$746	$564	$3,001

Source: OECD.

Figure 6

Daily Federal Funds Rate vs Fed Policy Target Rate

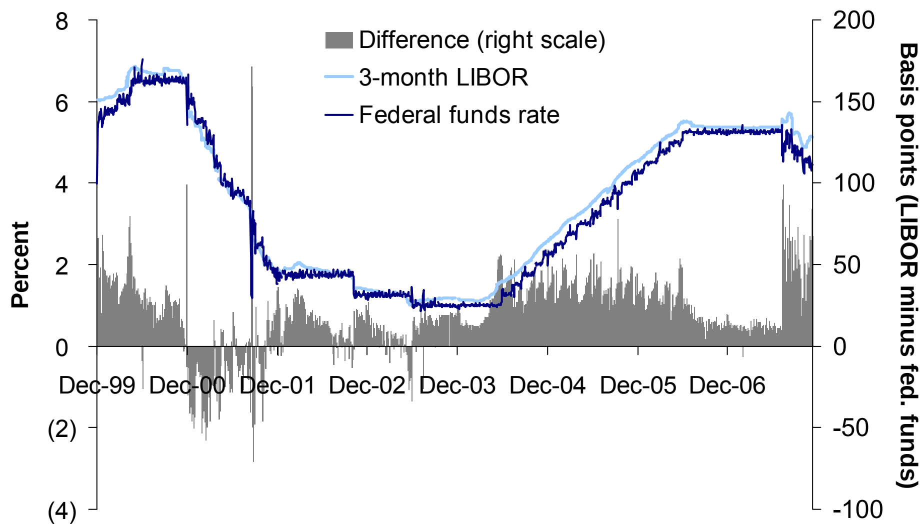


Source: Moody's Economy.com.

Disruptions to the credit supply process are one of the biggest threats to growth going forward. As indicated in Table 1, banks and prime brokers are estimated to have held 25 percent of outstanding CDOs in June 2007. The extent to which losses on these assets have diminished their capital reserves is suggested by the large infusions of capital recently sought by some of the nation's largest banks and prime brokers. Declines in capital reserves directly impact banks' willingness to lend to households, businesses, and each other. The resulting liquidity market uncertainty is evident in the recent behavior of two key interbank lending rates, the federal funds rate and the London Interbank Offering Rate, or LIBOR. Figure 6 shows the unusual degree of fluctuation in the federal funds rate around the Federal Reserve's policy target. Figure 7 shows a persistent divergence between the federal funds rate and the 3-month LIBOR, which normally move in the same direction and maintain a relatively stable gap. In an effort to promote the orderly functioning of credit markets, the Federal Reserve, along with other central banks, has injected billions of dollars into the financial system, in addition to lowering both its target short-term rate and the discount window borrowing rate. Recent central bank announcements underscore the critical need for confidence that global financial markets will operate smoothly.[5]

Figure 7

Daily Federal Funds Rate vs 3-month LIBOR



Source: Moody's Economy.com.

The Housing Contraction Deepens

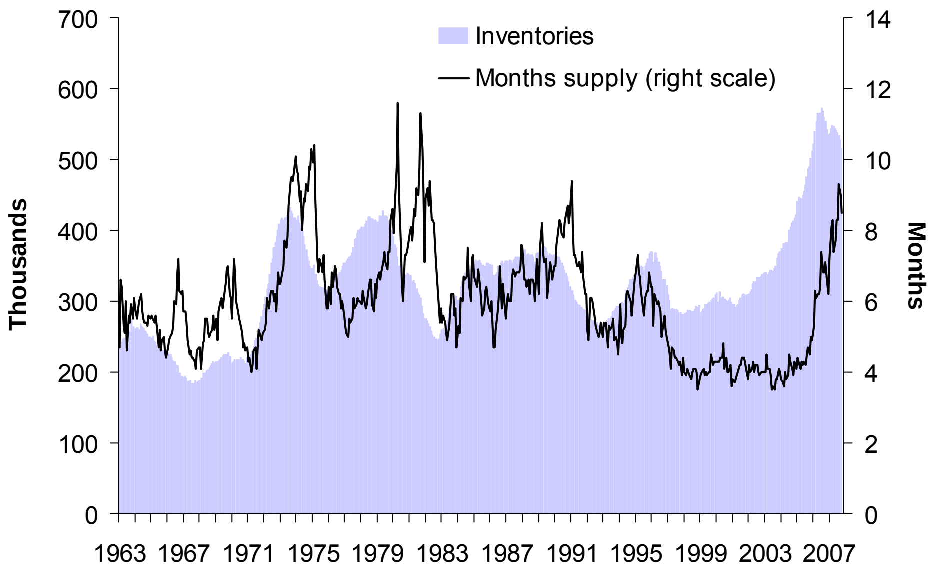
With an estimated 2 million homeowners seeing mortgage rate resets over the coming two years, the specter of rising foreclosures signals a deepening contraction of the residential construction market. Figure 8 illustrates both the dramatic inventory buildup of unsold new homes and the rise in the duration of time it takes to sell a home in the wake of the market collapse. This overhang has translated into an equally dramatic decline in new home construction, as well as falling home prices in many areas of the country. Figure 9 shows housing starts falling from a seasonally adjusted high of 2.3 million in January 2006 to about 1.2 million in September, October, and November 2007. The Budget Division estimates that the excesses of the construction boom have yet to fully unwind, with

[5] On December 12, the Federal Reserve, the European Central Bank, and other G-10 central banks announced a coordinated effort to add liquidity to inter-bank markets and ease cross-border, cross-currency transactions. In addition, the central bank announced that it would provide substantial injections of funds of about $20 billion on both December 17 and December 20, 2007, with further injections planned for January 14 and January 28, 2008.

quarterly declines in real residential investment spending expected to last through the third quarter of 2008. Real residential investment spending is now projected to decline 14.6 percent in 2008, following a decline of 16.6 percent in 2007.

Figure 8

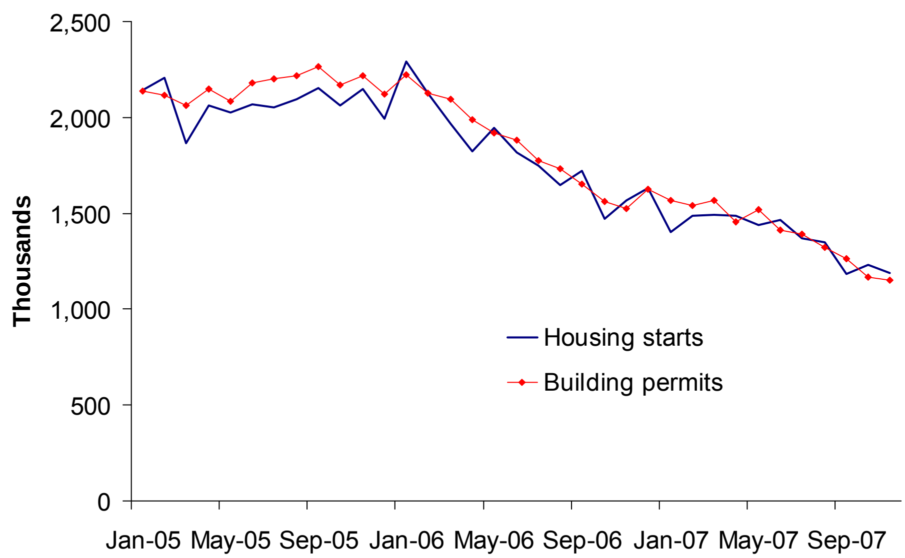
Inventory of New Homes for Sale



Source: Moody's Economy.com.

Figure 9

Housing Market Indicators Continue to Fall



Source: Moody's Economy.com.

BOX 2
HOUSING MARKET RISK ANALYSIS

In the third quarter of 2007, the rate at which homes entered foreclosure grew to 0.78 percent from 0.59 percent in the second quarter. These rates are unprecedented in the 35 years for which data are available and most observers agree that this rate will continue to rise. A fraction of these homes will be put back on the market, further bloating the inventory of unsold homes and depressing demand for new construction. Based on the statistical relationship between the inventory of unsold homes and housing starts, we estimate two scenarios that utilize alternative assumptions pertaining to the impact of foreclosures on inventories.

The model underlying the analysis includes real residential fixed investment, housing starts, and the inventory of unsold new and existing one-family homes, where all variables are in first-differenced logarithms. The equation for real residential fixed investment uses the DOB/US forecast for the 30-year conventional mortgage rate and real disposable personal income as exogenous inputs, as well its own lagged value and the contemporaneous and lagged value of housing starts; housing starts are a function of its own lag and of lagged values of inventories and investment; inventories are exogenously determined by its own history. Although a Granger causality test detected feedback from housing starts back to inventories, where two lags minimized the AIC, the coefficient was not significant and therefore dropped from the larger system.

THE RISK TO THE RESIDENTIAL INVESTMENT FORECAST FROM RISING HOME FORECLOSURES

		Baseline			Scenario 1			Scenario 2		
		Inventory of Unsold New and Existing Homes	Housing Starts	Residential Investment Growth (SAAR)	Inventory of Unsold New and Existing Homes	Housing Starts	Residential Investment Growth (SAAR)	Inventory of Unsold New and Existing Homes	Housing Starts	Residential Investment Growth (SAAR)
2007	1	3854	1460	(16.3)	3854	1460	(16.3)	3854	1460	(16.3)
2007	2	4126	1464	(11.8)	4126	1464	(11.8)	4126	1464	(11.8)
2007	3	4166	1300	(20.5)	4166	1300	(20.5)	4166	1300	(20.5)
2007	4	4158	1209	(20.0)	4301	1209	(20.0)	4435	1209	(20.0)
2008	1	4167	1180	(11.2)	4478	1162	(12.5)	4789	1146	(13.7)
2008	2	4166	1162	(5.0)	4678	1125	(7.7)	5189	1092	(10.2)
2008	3	4168	1152	(2.4)	4900	1090	(6.5)	5634	1037	(9.9)
2008	4	4168	1147	(0.7)	4988	1057	(5.8)	5818	985	(9.9)
2009	1	4169	1148	0.7	5061	1041	(4.1)	5970	957	(7.9)
2009	2	4169	1146	0.8	5095	1023	(3.3)	6042	928	(6.6)
2009	3	4169	1145	0.5	5118	1011	(2.8)	6092	909	(5.5)
2009	4	4169	1144	0.8	5131	1001	(1.9)	6118	894	(4.1)
2010	1	4169	1145	0.9	5139	996	(1.2)	6135	884	(2.9)
2010	2	4170	1144	0.9	5143	990	(0.7)	6144	875	(2.0)
2010	3	4170	1143	0.7	5145	985	(0.5)	6150	868	(1.5)
2010	4	4170	1141	0.5	5147	981	(0.4)	6153	862	(1.2)
2011	1	4170	1140	0.4	5148	978	(0.3)	6155	858	(0.8)
2011	2	4170	1138	0.6	5148	975	0.1	6156	855	(0.3)
2011	3	4170	1138	0.8	5149	974	0.4	6157	853	0.1
2011	4	4170	1139	1.1	5149	973	0.8	6157	852	0.6
2012	1	4170	1141	1.2	5149	975	1.0	6157	853	0.9
2012	2	4170	1142	1.2	5149	975	1.1	6157	853	1.0
2012	3	4170	1143	1.2	5149	976	1.1	6158	853	1.0
2012	4	4170	1145	1.3	5149	977	1.2	6158	854	1.1

Note: The number of housing starts for 2007Q4 and the inventory of unsold homes are estimates based on two months of actual data.
Source: Moody's Economy.com; DOB staff estimates.

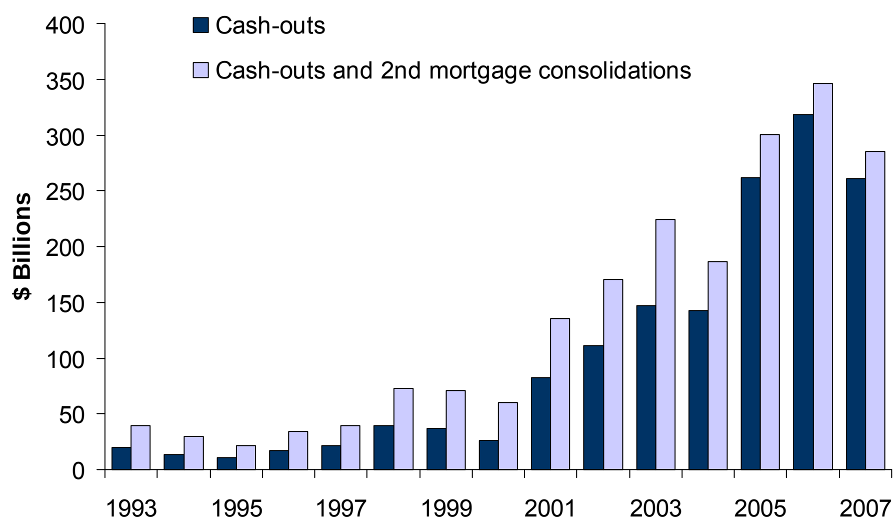
The foreclosure rate is assumed to grow by 0.1 percentage point to 0.88 percent and 0.98 percent for 2007Q4 and 2008Q1, respectively. Under the baseline scenario, the inventory of unsold homes is determined by a pure time series model that includes two of its own past values. Under the first alternative scenario, it is assumed that half of all homes entering foreclosure are put back on the market, adding to unsold home inventories with a two quarter lag. In the second scenario, all such homes return to market, again with a two-quarter lag. Under this scenario, residential investment continues to fall through the second quarter of 2011. Under the first scenario, the higher level of home inventories delays the turning point in real residential construction for about two years, subtracting 0.06 percentage points from real GDP growth in 2008 and 0.14 percentage points in 2009. Under the second scenario, 0.12 percentage points is subtracted from growth in 2008 and 0.26 percentage points in 2009.

The large expected number of foreclosures for 2007Q4 and all of 2008 will be a significant source of risk for the Budget Division residential investment forecast. As a fraction of these homes go back on the market, the inventory of homes for sale will increase, putting downward pressure on both prices and the demand for new construction. Box 2 presents an analysis of the sensitivity of residential construction to this risk. Based on only modest growth in the foreclosure rates for the 2007Q4 and 2008Q1, and alternative assumptions as to the rate at which foreclosed homes reenter the market, the resulting delay in the turning point in real residential construction subtracts up to 0.12 percentage points from real GDP growth in 2008 and 0.26 percentage points in 2009.

Consumers Finally Retrenching

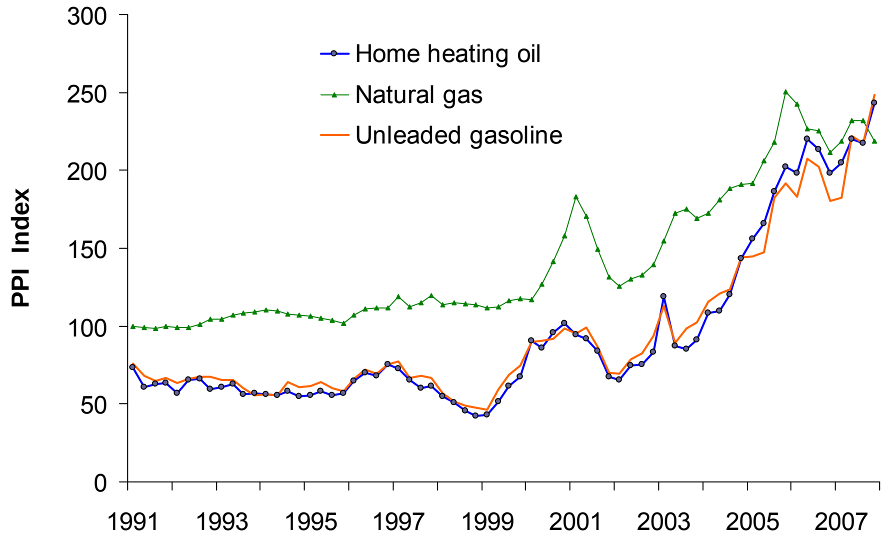
With energy prices high, the labor market slowing, and housing prices falling in many parts of the country, household spending is likely to remain weak through at least the first half of 2008. The large inventory of unsold homes threatens further declines in home values, which could lead to a further unwinding of the positive impact of the wealth effect in operation since the start of the boom in 2002. As indicated in Figure 10, the combination of low interest rates and rising home values led to a substantial rise in mortgage equity withdrawals. But with falling home prices and rising mortgage costs, home-equity withdrawals, which tend to track rising house prices (though with a lag), can be expected to slow further. Freddie Mac estimates that withdrawals will have fallen 17.5 percent in 2007 from their peak in 2006. Further declines can be expected going forward.

Figure 10
Home Equity Cash-Out Volume



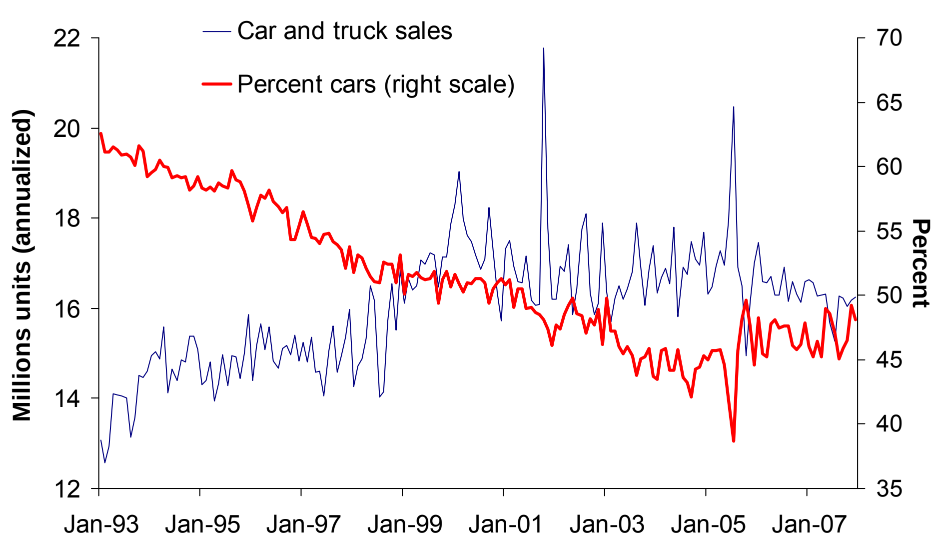
Note: Estimate for 2007 is based on three quarters of preliminary data and one quarter forecast.
Source: Freddie Mac.

Figure 11
Recent Trends in Energy Prices



Note: Data for 2007Q4 are based on two months of data.
Source: Moody's Economy.com.

Figure 12
U.S. Passenger Car and Truck Sales



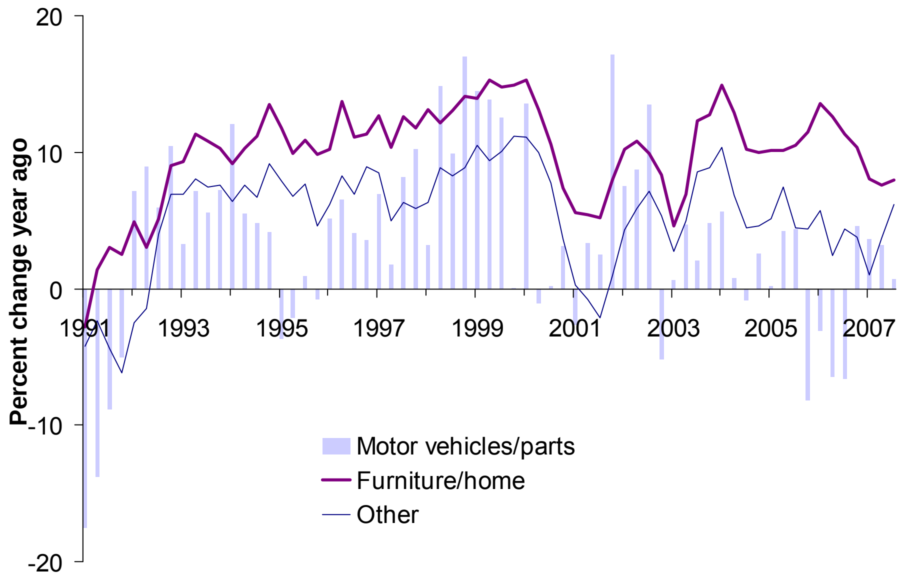
Source: Moody's Economy.com.

Rising energy prices pose yet another risk to household spending. Figure 11 indicates that prices for the most important household energy sources are at or near historic highs. Moreover, with oil prices near $100 per barrel, refinery capacity tight, and demand growing, the pressure on prices remains upward. Rising prices appear to have had a significant impact on household demand for autos. As indicated in Figure 12, the demand for passenger cars and light trucks has been trending downward since early 2005.

Moreover, the percentage of these sales represented by cars has leveled off, after falling for many years in favor of sport utility vehicles that tend to use more energy. Figure 13 shows parallel declining trends in real household spending growth for autos, home furnishings, and other durable goods.

Figure 13

Real Growth in Durable Goods Consumption by Type



Source: Moody's Economy.com.

The biggest risk to household spending comes from the labor market. As discussed below, job growth has gradually diminished since peaking in early 2006. The average monthly gain in employment fell from an average of 188,000 for the first six months of 2006 to 87,000 for the last six months of 2007. Consequently, the Budget Division forecast calls for a weakening of growth in real consumption spending to 1.9 percent for 2008, following growth of 2.8 percent for 2007. Not surprisingly, the larger decline in growth appears in the more cyclical durable consumption component, which is now projected to grow 1.8 percent in 2008, following growth of 4.7 percent for 2007. The less cyclically sensitive service and nondurable components are projected to grow a combined 1.9 percent in 2008 following growth of 2.6 percent in 2007.

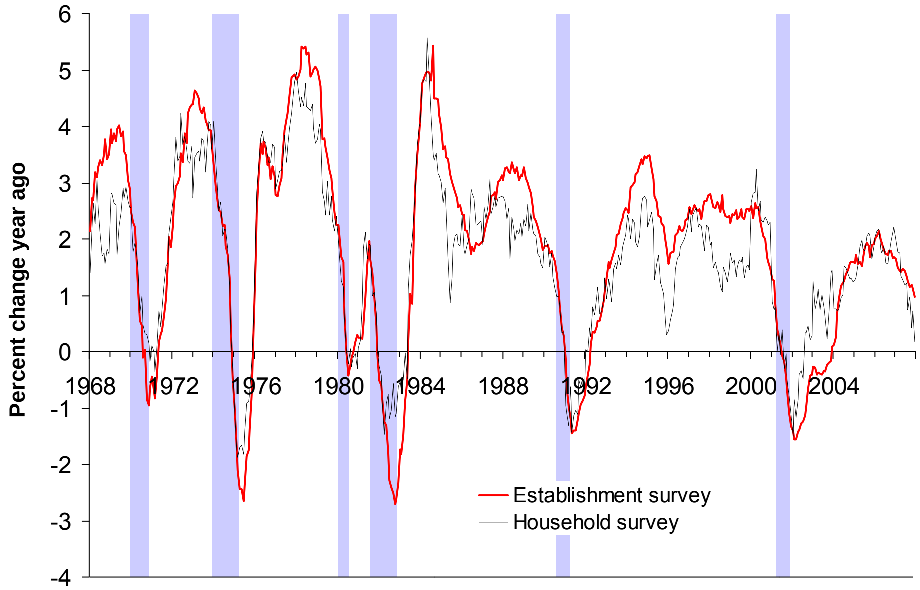
The Labor Market's Conflicting Signals

Several labor market indicators are signaling a slowdown but conflict as to the extent. According to the two most widely cited sources of employment statistics — the establishment or payroll survey and the household survey — labor market growth has slowed significantly since early 2006.[6] Both series show the monthly number of jobs added falling by about 50 percent between the first six months of 2006 and the last six months of 2007. This loss of momentum in both series is illustrated in Figure 14. Not

[6] The labor market was likely weaker in late 2006 and early 2007 than currently published data suggest. The U.S. Bureau of Labor Statistics (BLS) announced in October that, with the release of January 2008 data on February 1, 2008, employment for March 2007 will be revised down by 297,000, or 0.2 percent. For more information on the 2007 Benchmark revision, see <http://www.bls.gov/ces/cesprelbmk.htm>.

surprisingly, much of the slowdown has been concentrated in residential construction and manufacturing, with much of the decline in the latter related to the auto sector. Residential construction alone has shed almost 300,000 jobs since March 2006. However, the overall loss of momentum has been broad-based.

Figure 14
Establishment vs. Household Survey Employment



Source: Moody's Economy.com.

An alternative indicator of labor market strength, initial unemployment insurance claims, is signaling much less of a loss of momentum than the two indicators cited above. Comparing the first six months of 2006 with the most recent six months available, initial claims have indeed risen, but only about 5 percent. Continuing claims rose less than one percent. Another key indicator of labor market strength, the unemployment rate, is also low by historical standards. Even at 5.0 percent as of December 2007, the unemployment rate remains below the U.S. Congressional Budget Office's estimate of the non-accelerating inflation rate of unemployment (NAIRU) of 5.2 percent, though it is up from its March 2007 low of 4.4 percent. Thus, while these measures also indicate a loss of momentum, the degree is smaller than that being signaled in Figure 14.[7]

Some additional trends suggest that the recent decline in labor market momentum will fall short of recessionary conditions.[8] Spending on commercial building and large public-sector construction projects has continued to expand, with year-to-date nonresidential

[7] Alternative explanations have been cited as to why the initial claims data may now be a less accurate indicator of current labor market trends than in the past. Some have cited the fact that employment growth in the nation's recovery from the last recession was weaker than in prior recoveries. However, a statistical tests turn up no structural break in the relationship between initial claims and employment. Similarly, demographic shifts and shifting from full-time to part-time work have been cited as explanations as to how a relatively low unemployment rate can be associated with a weak labor market.

[8] Many have noted that the establishment survey data, also known as CES data, appear to be understating the impact of the residential housing contraction on employment. A BLS analysis indicates that construction-related job losses may be occurring among groups that are not captured by the construction payroll series, such as the self-employed, workers in the temporary help industry, and undocumented employees. For more information, see <http://www.bls.gov/opub/ils/pdf/opbils62.pdf>.

spending up 15.5 percent through November 2007, compared to a 17.6 percent decline in residential spending. In addition, the combined impact of global growth and the declining value of the dollar have increased the demand for manufactured U.S. exports, particularly capital equipment and industrial supplies. Finally, the weaker dollar has been a boon to the tourist industries, particularly leisure and hospitality, which experienced growth of 3.4 percent in 2007. The Budget Division projects nonfarm job growth of 1.0 percent for 2008, following growth of 1.3 percent for 2007.

With job growth falling to 1.0 percent for 2008, wage growth is also expected to fall. The Budget Division projects wage growth of 4.8 percent for 2008, following growth of 5.8 percent for 2007. The forecast implies that the strong nationwide performance of bonuses that occurred in the first quarter of 2007, leading to wage growth of 9.5 percent for that quarter (seasonally adjusted at an annualized rate), will not be repeated in 2008Q1. The substantial decline in wage growth is expected to pull down personal income growth from 6.2 percent in 2007 to 5.3 percent in 2008.

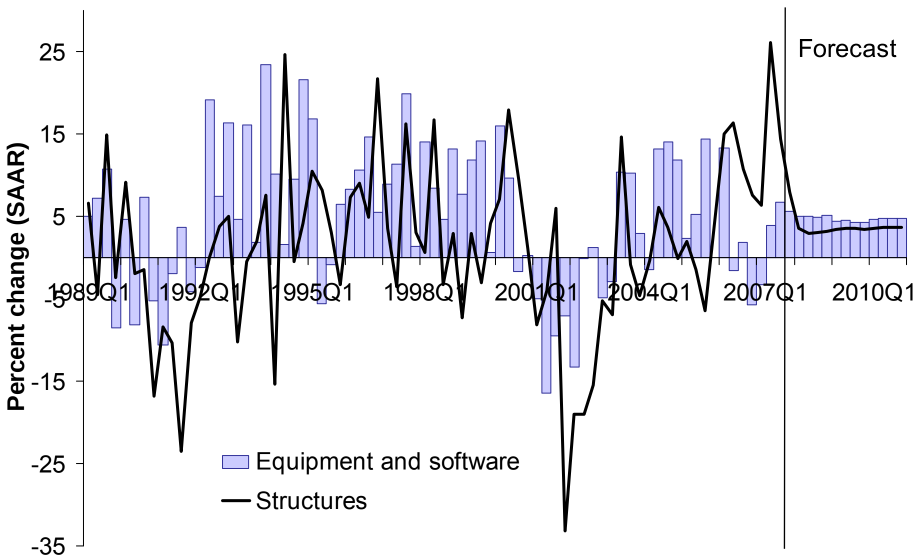
Business Spending Remains Tepid

Despite high profits and strong balance sheets, the nation's corporations have not been investing at rates close to what was observed throughout most of the 1990s. Figure 15 demonstrates that even at its post-recession height in early 2005, growth in real investment in equipment and software never attained its pre-recession peak. In contrast, investment in private nonresidential structures has been booming since the middle of 2006. However, given the current liquidity crisis, the availability of funds for investment remains in question going forward. Indeed, with credit markets now tight, it seems unreasonable to expect the nation's businesses to exhibit much higher rates of investment growth than when markets were more liquid.

For a given set of current and expected future input and output prices, profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment.[9] Since weak growth in late 2007 and early 2008 implies weaker sales, the incentive to expand and invest can be expected to diminish. In addition, an increase in the cost of acquiring and using capital goods, commonly referred to as the user cost of capital, also induces firms to decrease investment spending. Factors that increase the user cost include an increase in the prices of new investment goods, rising inflation-adjusted borrowing costs, falling equity prices, and changes in the tax code, such as the elimination of an investment tax credit.

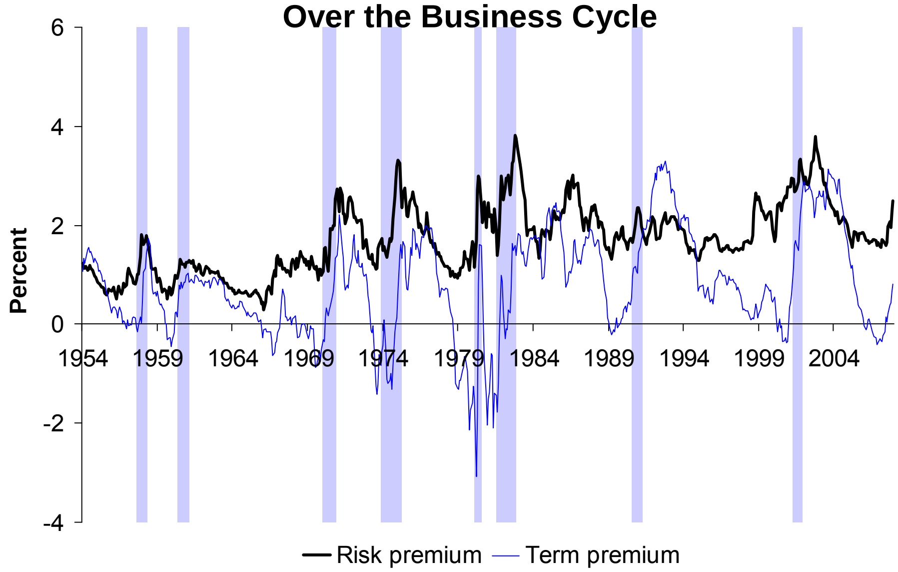
[9] Optimal investment is the level that maintains the profit maximizing or cost minimizing capital-output ratio. With a Cobb-Douglas production function, the optimal capital-output ratio will be equal to the ratio of the price of output to the rental rate of capital. This condition implies that the optimal growth rate of investment varies with output growth and changes in the rental rate of capital relative to output price.

Figure 15
Real Nonresidential Fixed Investment



Source: Moody's Economy.com; DOB staff estimates.

Figure 16
The Behavior of the Risk and Term Premiums Over the Business Cycle



Note: The term premium is defined as the gap between the one-year and 10-year Treasury yields. Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Although long-term bond rates are not high by historical standards, they have been rising. Figure 16 indicates that the risk premium, defined as the difference between the 10-year Treasury yield and Moody's seasoned Baa corporate bond yield, is now about where it was during the early 1990's recession, but still significantly below other recessions. Moreover, the current credit crisis has created conditions such that, given current interest rates, banks are less willing to lend than during prior periods.[10]

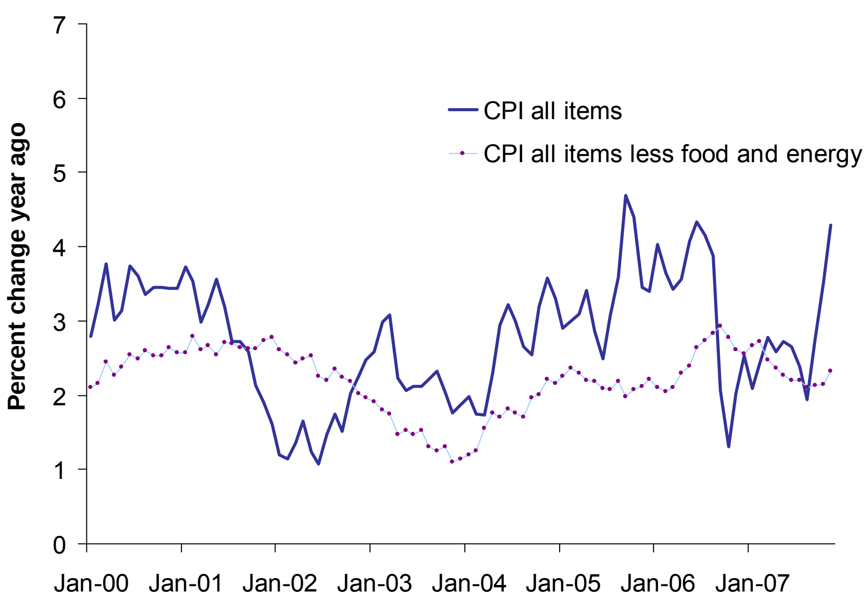
With long-term bond rates up from their recent lows and credit availability in question, investment in structures is expected to fall from its recent highs going forward. At the same time, the weakening dollar is expected to give a small boost to domestic investment in equipment and software, though muted by tight credit market conditions. Nonresidential fixed investment is expected to exhibit quarterly growth rates just above 5 percent in 2008, after a short-lived run-up during the latter three quarters of 2007 comprised largely of investment in structures. On an annual average basis, the Budget Division projects growth of 6.5 percent in total private nonresidential fixed investment for 2008, following growth of 4.8 percent for 2007.

Outlook for Inflation and Monetary Policy

As is apparent in Figure 17, inflation pressures had been easing in the summer until the recent spike in energy prices (see Box 3). Though down from earlier in the year, core inflation, which excludes volatile food and energy prices, may be poised to move upward. Figure 18 indicates that those goods and services that are not subject to a significant degree of foreign competition are still the biggest contributors to core inflation. However, prices are rising even for those goods that do indeed compete with imports, though, as Figure 19 shows, prices remain lower than a year ago. With emerging economies exhibiting strong growth and the dollar losing value, the downward pressure on domestic consumer prices stemming from globalization is likely to diminish going forward.

Figure 17

General vs. Core Inflation



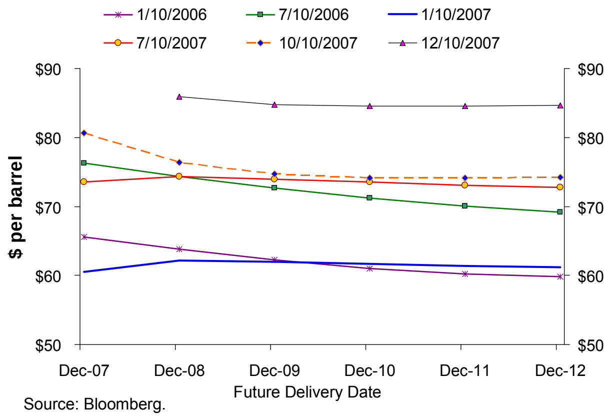
Source: Moody's Economy.com.

[10] A statistical analysis was undertaken to determine whether borrowing conditions exert an effect on business investment, independent of the level of the interest rate. The results indicate that total non-mortgage borrowing, an indicator of overall borrowing conditions, does indeed affect investment spending in equipment and software independent of the level of interest rates.

BOX 3
EXPLAINING OIL PRICE VOLATILITY

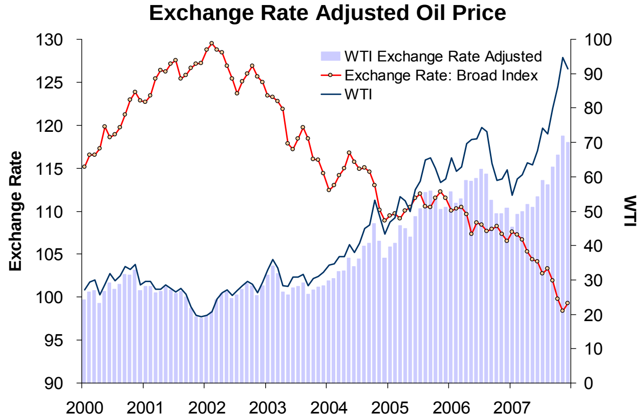
Oil prices have been extremely volatile and, consequently, more difficult to predict. The figure below shows how much prices per barrel for future delivery have changed over the two-year period since January 10, 2006. For each of the contract dates shown at the top, there is a path of prices that change slightly depending on the delivery date. But these paths have shifted substantially over time. For a barrel to be delivered in December 2012, the price shifted from about $60 for the January 10, 2006 contract to $85 for the December 10, 2007 contract. The fundamentals of supply and demand explain a portion but not all of these shifts. Market fundamentals tend to change gradually, but the rise in the price of oil over the last few years has been anything but gradual. World demand for oil is estimated to have increased 17.8 percent over the period from 1996 to 2006, from 71.9 million barrels per day to 84.7 million barrels per day. Demand from China and India alone has increased 81.5 percent, from 5.4 million barrels per day to 9.8 million barrels per day, while demand by the oil-exporting nations has also increased. However, the price of West Texas Intermediate Crude tripled over the same period. Thus, the connection between oil prices and market fundamentals is tenuous at best.

West Texas Intermediate Crude Oil Future Prices at Different Points in Time



Source: Bloomberg.

Exchange Rate Adjusted Oil Price



Source: Moody's Economy.com.

Two factors are thought to be primarily responsible for the recent increase in oil price volatility. Since oil trade transactions are denominated in U.S. dollars, when the U.S. dollar depreciates against other currencies, the dollar price of oil will tend to rise to prevent the oil exporting nations (and the purchasers of derivative contracts) from sustaining losses. As the figure above shows, the value of the dollar has fallen almost 25 percent since early 2002 against a trade-weighted basket of global currencies, explaining about $23 of the rise in the price of oil since then. However, that leaves a gap of about $50 left to explain, a gap which the fundamentals of supply and demand can not fill.

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It has been observed by many that the degree of speculation in the energy market has risen substantially over the last few years. Indeed, it is estimated that investment banks have invested billions of dollars in the energy market and have even purchased storage facilities. Similarly, hedge funds, pension funds, commodity-centered mutual funds, and insurance companies are also reported to be participating in the market.[1] Moreover, speculation could be exaggerating the effects of geopolitical events that either have threatened or could potentially threaten the supply of oil. There are additional factors which can affect demand and supply in the longer run, including the global effort to combat global warming, new extraction technologies, and energy-saving innovations, which, by definition, are difficult to predict.

In summary, the fundamental price of oil is difficult to pin down. One analyst has noted that, historically, the price of oil has been roughly triple its extraction cost, currently estimated at between $15 and $19 a barrel, implying that the current price of close to $100 has strayed significantly from its historical norm.[2] Given all of these factors, the Budget Division uses futures contracts to guide its oil price forecast, though as is evident from the figure above, these contracts provide a moving target at best.

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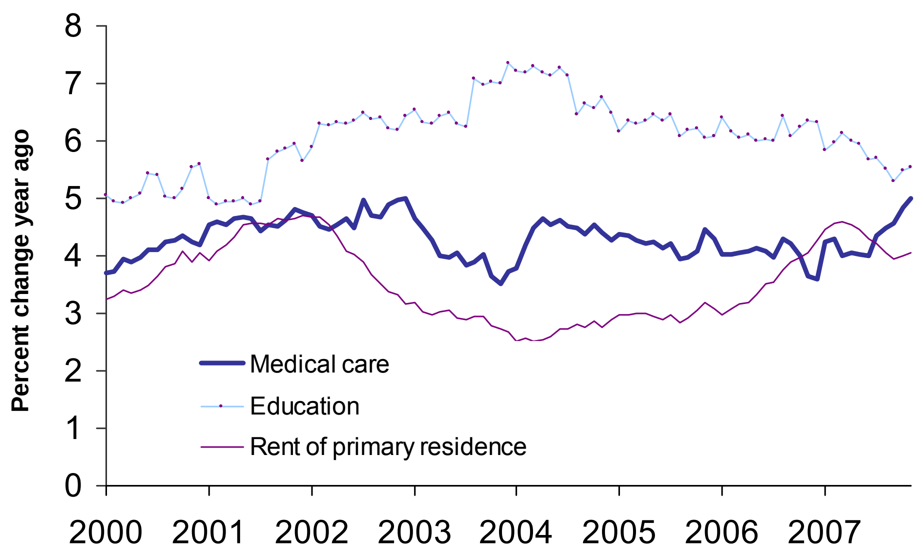
[1] See "$100 oil and the 'S' word: Is it growing demand and tight supply, or merely rampant speculation that has pushed crude to record highs?" < http://money.cnn.com/2007/11/27/markets/oil_speculation/index.htm>, viewed January 2, 2008.

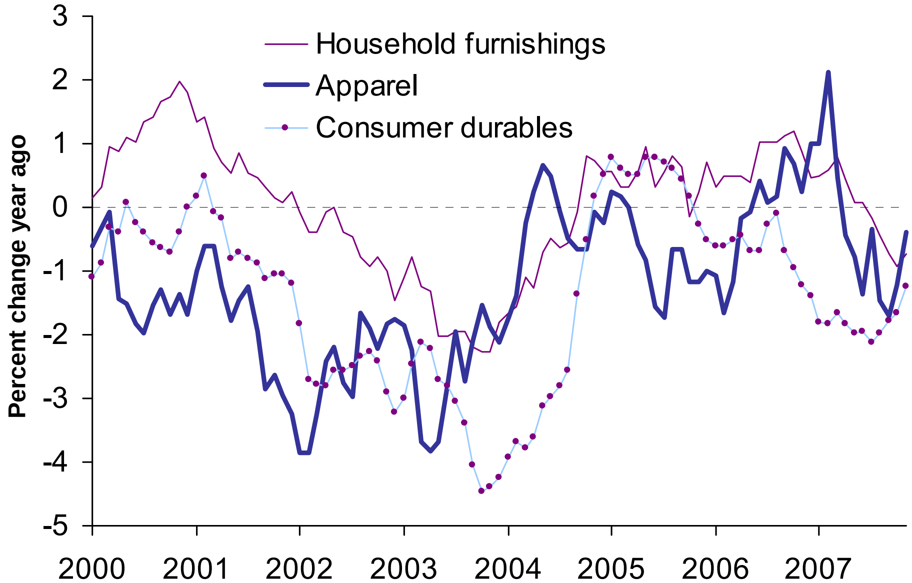
[2] See "The oil speculator premium: There is such a thing as a rational price for oil -- but world markets are far above it, because price bets have become self-fulfilling." < http://www.latimes.com/news/opinion/la-oeroberts10dec10,0,7648253. story?coll=la-opinion-rightrail>, viewed January 2, 2008.

Figure 18
Consumer Prices for Services Facing Little Foreign Competition



Source: Moody's Economy.com.

Figure 19
Consumer Prices for Goods Facing Foreign Competition



Source: Moody's Economy.com.

Inflation dynamics in 2007 were dominated by volatility in food and energy prices. Oil prices, as measured by the spot price for West Texas Intermediate Crude (WTI), began the year at about $55 per barrel but ended closer to $100. As discussed in Box 3, oil futures prices have fluctuated greatly over the course of the last two years, and even over the last few months, as geopolitical events combined with tight energy supplies and growing demand have resulted in wide price swings. The Budget Division projects that these events will diminish in importance going forward, bringing WTI down from its December 2007 level of about $91 per barrel to $80 by the end of 2008, settling at $77 in the out-years. Similarly, the refiners' acquisition cost for imported oil is expected to fall from its November 2007 level of about $86 per barrel to $72 by the end of the year, eventually settling at $69 over the long term.

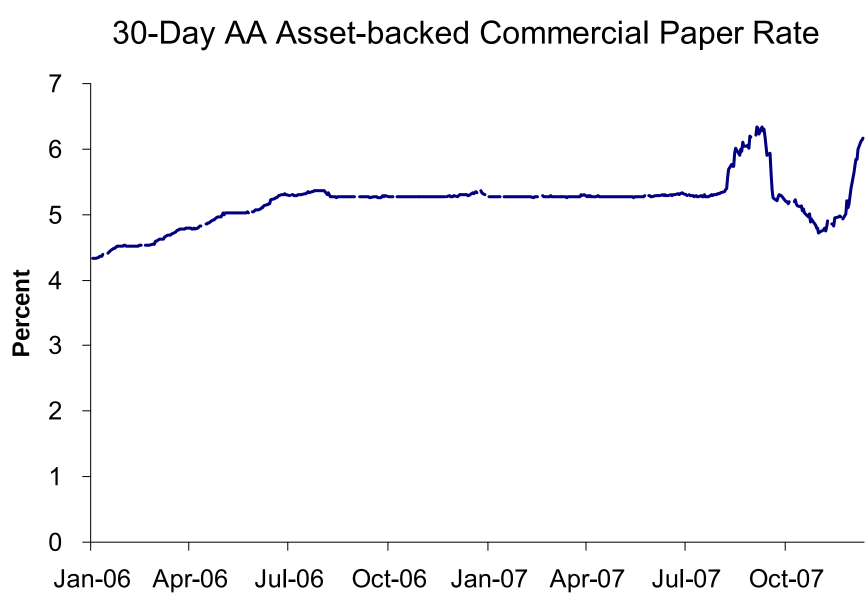
The spike in energy prices toward the end of 2007 is estimated to have brought the annualized quarterly growth in the CPI up to 3.9 percent for the fourth quarter and up to 2.9 percent for the year. Higher energy prices will continue to put upward pressure on inflation going forward. Slowing output growth represents a force restraining the spillover of food and energy prices into other prices, but the falling dollar is expected to put upward pressure on the prices of domestically produced goods since competing imports are now more expensive than they otherwise would be. On balance, the Budget Division projects annualized quarterly growth rates close to 2.2 percent for the four quarters of 2008, though the end-of-2007 spike results in average CPI growth of 2.7 percent for the year.

Monetary Policy's Twin Challenges

Though promoting growth through price stability is a critical objective of the central bank, promoting the orderly functioning of financial markets is one of the Federal Reserve's primary responsibilities as well. Recent financial market developments highlight the challenges presented to the central bank by the current turmoil. At the end of October, it appeared that liquidity was beginning to return to financial markets. For example, though the volume of lending in the asset-backed commercial paper market remains down from its early August highs, the interest rate on 30-Day AA asset-backed commercial paper had fallen from the 6.34 percent high reached on September 7 to 4.8 percent on October 31 (see Figure 20). The Federal Reserve lowered its target rate 25 basis points that day and hinted that it might pause, satisfied that the risks between growth and inflation were appropriately balanced. However, as bank losses continued to mount, eating into vital capital reserves, short-term markets began to freeze up once again, sending asset-backed commercial rates up once more. On December 11, the Federal Reserve lowered its target rate yet another 25 basis points; absent from its accompanying statement was any hint of a pause.

As Figure 6 and Figure 7 above indicate, the central bank's two objectives can not necessarily be met by adjusting its interest rate policy target alone. Figure 6 shows that in tumultuous times, the federal funds market rate, the rate at which banks loan to each other overnight, can fluctuate wildly around the Federal Reserve's policy target. Figure 7 indicates that the LIBOR, a somewhat longer-term interbank borrowing rate, does not always fall in lockstep with the federal funds rate, blunting the stimulative impact of the Federal Reserve's policy actions. To address these challenges, the Federal Reserve, at times in concert with other central banks, has attempted to inject liquidity into financial markets on several occasions since the current credit crisis began.

Figure 20



Source: Moody's Economy.com.

The risk to price stability posed by recent price spikes makes inflation a weightier concern as the central bank considers its options for dealing with a slowing economy. Consequently, the Federal Reserve is expected to cut its short-term interest rate target just one more time during the first quarter of 2008 and then hold steady through the end of the year. The Budget Division uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the Federal Reserve Board's federal funds policy target. Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of 1 while the output-growth deviation has a weight of 0.5. In addition, the contemporaneous value of inflation is replaced by an average of actual inflation for the past three quarters, estimated inflation for the current quarter, and expected inflation for one quarter ahead. A similar term is constructed for output growth.

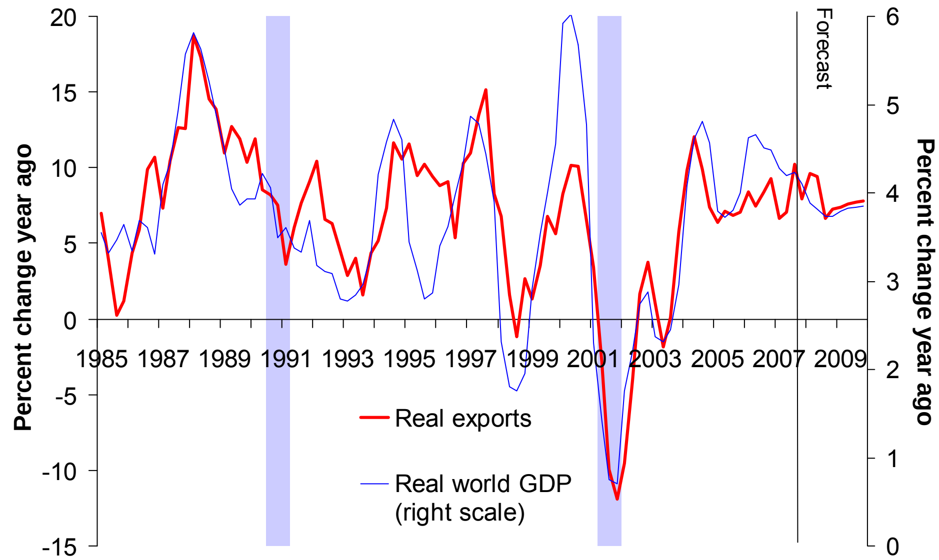
The effective federal funds rate is projected to average 4.02 percent in 2008, after averaging 5.03 percent for 2007. A relatively stable outlook for short-term interest rates implies a small pick-up in long-term rates from their current low levels, as fears of recession evaporate going forward. The 10-year Treasury yield is expected to average 4.25 percent for 2008, after averaging 4.62 percent in 2007. As a result, the yield curve is projected to reassume a positive slope early in 2008, with the spread between the federal funds rate and the 10-year rate rising to about 30 basis points by the end of 2008.

The International Economy

A recent bright spot for the U.S. economy has been the strong growth of the global economy, which along with the declining dollar has increased the demand for U.S. exports (see Figure 21). In the wake of the extraordinary growth experienced by large emerging economies such as China and India, the re-emergence of Russia, and heavy spending by the oil-producing nations, the global economy has become less dependent on the U.S. Hence, the threat of the slowdown in the U.S. economy being transmitted worldwide has diminished. The Budget Division projects real U.S. export growth of 8.2 percent for 2008, following growth of 8.0 percent for 2007. That growth will be supported by the expected further weakening in the dollar. For example, between December 2002 and December 2007, the U.S. dollar fell 21.9 percent against the euro and 11.3 percent against a trade-weighted index of Asian currencies excluding Japan (see Figure 22).

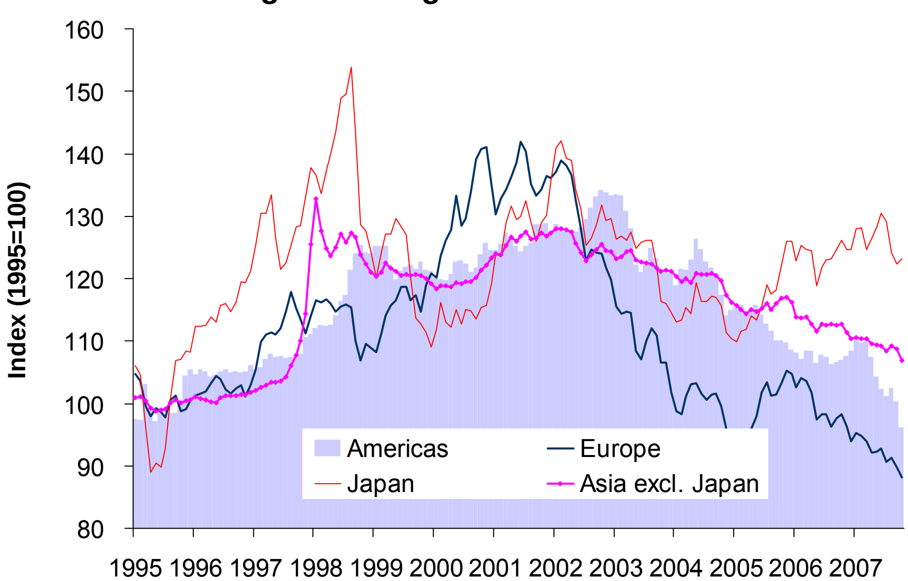
A weaker dollar combined with an overall slowdown in the domestic economy is expected to put downward pressure on import demand as well. The Budget Division projects real U.S. import growth of 3.9 percent for 2008, following growth of 2.1 percent for 2007. The recent excess of export growth over imports has reduced the size of the trade deficit. A commonly cited measure of the nation’s trade balance, the current account deficit, fell to 4.9 percent of U.S. GDP in the third quarter of 2007, representing a substantial decline from its 2005Q4 peak of 6.6 percent. The improvement in the trade balance should help to ensure that future changes in the dollar’s value occur gradually, thus averting a currency crisis.

Figure 21
Real Export and World GDP Growth



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; Global Insight; DOB staff estimates.

Figure 22
Foreign Exchange Value of U.S. Dollar

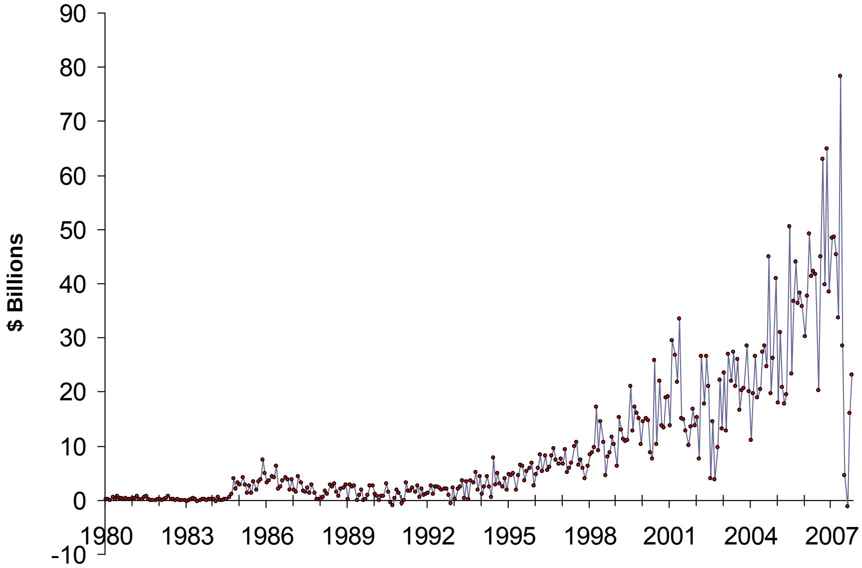


Note: Indexes for the Americas and Asia excluding Japan are trade weighted.
Source: Moody's Economy.com.

Though the Budget Division forecast reflects relatively smooth sailing for the U.S. dollar in a direction that is supportive of global demand for U.S. exports, there are risks to this forecast. Figure 23, which tracks foreigners' holdings of U.S. corporate bonds, shows that these holdings can be quite volatile. A sudden shift in the desire of foreigners to hold U.S. corporate securities due to a weak dollar would push the value of the dollar down even more.

Figure 23

Net Purchases of U.S. Corporate Bonds by Foreigners



Source: Moody's Economy.com.

TABLE 2
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*
($ Billions)

	Japan		Mainland China		United Kingdom		Oil Exporters		Grand Total**	
	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change
Jan-06	656.4	(13.6)	318.4	8.4	162.4	16.4	96.2	18.0	2,071.3	37.4
Feb-06	639.0	(17.4)	319.2	0.8	179.2	16.8	98.1	1.9	2,082.1	10.8
Mar-06	639.4	0.4	321.1	1.9	166.2	(13.0)	99.7	1.6	2,059.5	(22.6)
Apr-06	636.1	(3.3)	324.5	3.4	174.2	8.0	103.0	3.3	2,071.4	11.9
May-06	635.5	(0.6)	328.0	3.5	200.9	26.7	101.9	(1.1)	2,095.3	23.9
Jun-06	614.7	(20.8)	372.3	44.3	55.5	(145.4)	110.8	8.9	1,977.7	(117.6)
Jul-06	614.9	0.2	378.2	5.9	44.3	(11.2)	112.4	1.6	1,992.8	15.1
Aug-06	623.5	8.6	386.5	8.3	54.6	10.3	116.6	4.2	2,037.8	45.0
Sep-06	618.1	(5.4)	389.7	3.2	61.6	7.0	113.7	(2.9)	2,025.3	(12.5)
Oct-06	618.1	0.0	392.2	2.5	61.7	0.1	107.2	(6.5)	2,054.4	29.1
Nov-06	615.8	(2.3)	394.1	1.9	76.1	14.4	106.4	(0.8)	2,104.6	50.2
Dec-06	622.7	6.9	398.0	3.9	93.7	17.6	110.0	3.6	2,114.8	10.2
Jan-07	627.0	4.3	402.1	4.1	105.1	11.4	111.4	1.4	2,132.4	17.6
Feb-07	616.2	(10.8)	417.1	15.0	122.7	17.6	110.3	(1.1)	2,155.0	22.6
Mar-07	611.2	(5.0)	421.1	4.0	148.9	26.2	112.3	2.0	2,206.5	51.5
Apr-07	614.4	3.2	415.3	(5.8)	136.5	(12.4)	111.7	(0.6)	2,178.5	(28.0)
May-07	614.8	0.4	408.6	(6.7)	170.6	34.1	120.9	9.2	2,196.7	18.2
Jun-07	612.7	(2.1)	406.3	(2.3)	193.2	22.6	121.8	0.9	2,203.5	6.8
Jul-07	610.4	(2.3)	409.0	2.7	210.6	17.4	123.3	1.5	2,212.7	9.2
Aug-07	585.6	(24.8)	400.2	(8.8)	244.0	33.4	123.3	0.0	2,231.0	18.3
Sep-07	582.0	(3.6)	396.7	(3.5)	266.0	22.0	125.7	2.4	2,250.6	19.6
Oct-07	591.8	9.8	388.1	(8.6)	296.5	30.5	130.3	4.6	2,309.5	58.9

* Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment survey benchmarks and on monthly data reported under the Treasury International Capital (TIC) Reporting System.

** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.

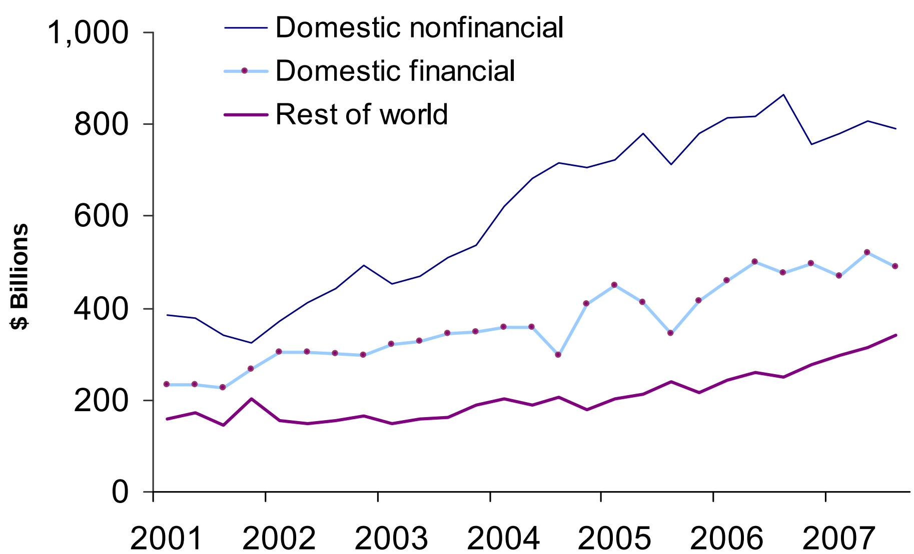
Source: U.S. Department of the Treasury/Federal Reserve Board.

Table 2 shows foreign holdings of U.S. Treasury securities, an indicator of the willingness of foreigners to hold U.S. government debt. Although the recent overall trend remains upward, that trend masks the appearance of some shifting beneath the surface. For example, the holdings of the two largest holders, Japan and China, show a decidedly downward trend, perhaps representing decisions by both the Bank of Japan and the government of China to allow their currencies to appreciate against the dollar. In contrast, holdings by the U.K. and the oil-exporting nations exhibit the opposite trend, presumably reflecting a desire by the Bank of England to stanch the recent rise of the British pound and the desire of oil exporters to stabilize the dollar, the currency in which oil sales are transacted. Sudden shifts in any of these trends could alter the pace at which the dollar loses value.

Outlook for U.S. Corporate Profits and the Stock Market

As is apparent in Figure 24, U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, more than doubled following the 2001 recession before slowing more recently. Growth of 2.7 percent for the first three quarters of 2007 over the same period in 2006 followed strong growth of 13.2 percent for all of 2006. However, with national economic growth slowing and the financial sector in crisis, profit growth is expected to slow further going forward. As cited above, pre-tax losses of $3.8 billion were posted by NYSE-member firms for the third quarter of 2007, with additional losses expected for the fourth quarter. Consequently, the composition of corporate profits is likely to shift in 2008, with profits from “rest of world” comprising a larger share of the total going forward. The Budget Division projects growth in profits of 3.1 percent in 2008, following growth of 3.7 percent in 2007.

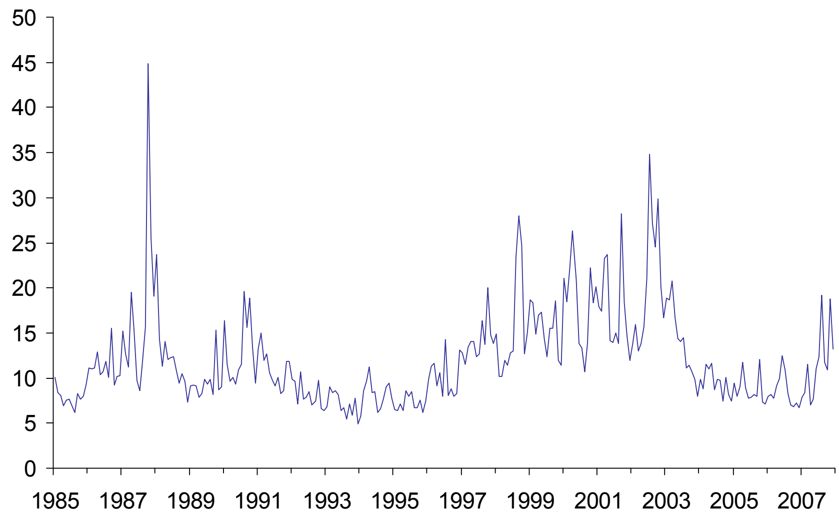
Figure 24
U.S. Corporate Profits



Source: Moody’s Economy.com.

Uncertainty surrounding the depth of the housing market contraction and the condition of global credit markets has increased equity price volatility since the summer, as illustrated in Figure 25. Nevertheless, the market remains on an upward path. But modest growth in corporate profits is expected to support slower growth in equity valuations over the near term. The Budget Division projects equity market growth, as represented by growth in the S&P 500, of 5.7 percent in 2008, following growth of 12.8 percent in 2007.

Figure 25
Equity Market Volatility



Note: Monthly S&P 500 volatility is measured as the monthly average spread between the daily high and low, divided by the monthly average level of the index itself.
Source: Yahoo Finance.

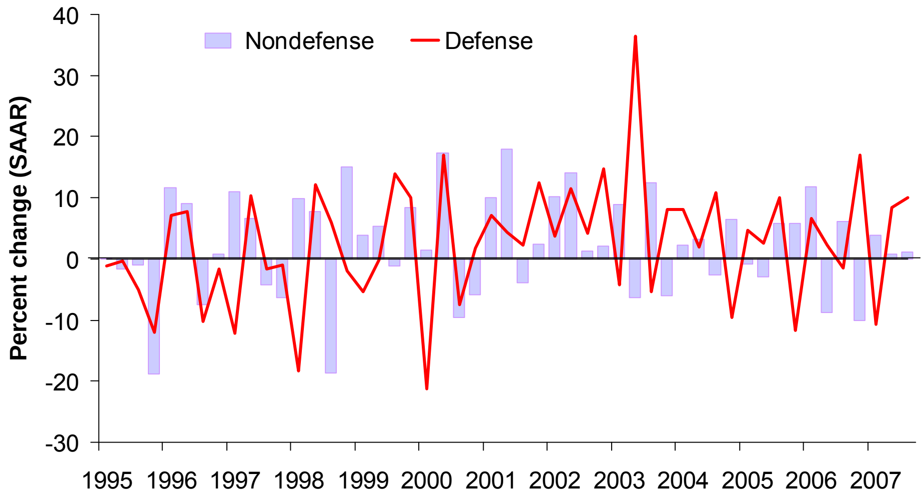
Outlook for Government Spending

Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statute. Since state and local governments tend to rely on revenue sources that are closely tied to the fortunes of the economy, such as sales and income taxes, the current slowdown is expected to restrain spending going forward. The Budget Division projects growth in the NIPA definition of real state and local government spending of 1.9 percent for 2008, following growth of 2.2 percent for 2007.

The Iraq war continued to be an important driver of Federal government spending in 2007. Between the first quarter of 2003 and the third quarter of 2007, real Federal government expenditures rose 15.3 percent, largely driven by a 21.1 percent rise in defense spending. During the 18 intervening quarters, real defense spending grew at an average annualized rate of 4.9 percent, compared to an average rate of 1.2 percent for nondefense spending (see Figure 26). In contrast, from the second quarter of 1991, the quarter just following the end of the first Gulf War, through the first quarter of 2003, the average annual percent change in the defense portion of real spending was slightly negative.

Figure 26

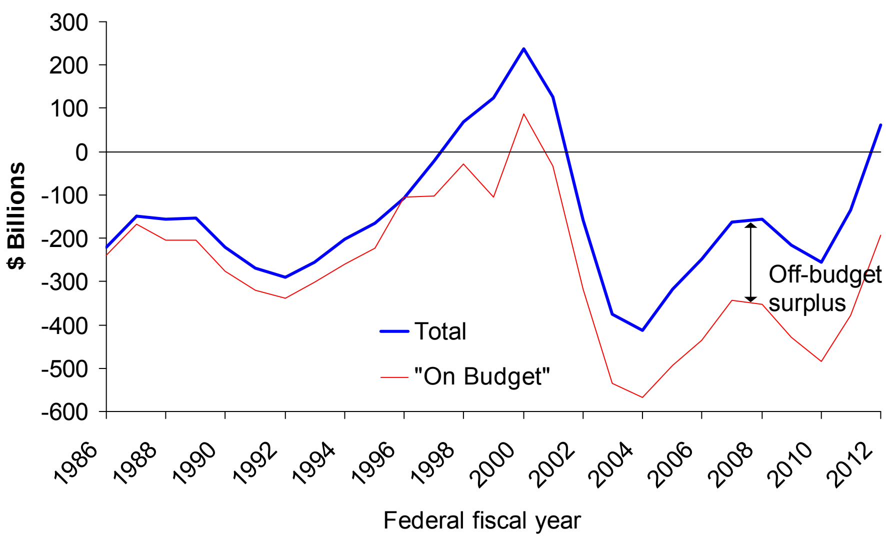
Real Federal Government Spending



Source: Moody's Economy.com.

Figure 27

Federal Budget Surplus or Deficit



Note: Values for 2008-2012 are Congressional Budget Office (CBO) forecast; off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Economy.com; The Budget and Economic Outlook: An Update, Congressional Budget Office (CBO), August 2007.

For 2008, Federal government spending is expected to accelerate, with military operations in Iraq expected to continue at least through the end of the year. The Budget Division projects growth of 3.0 percent in the NIPA definition of Federal government spending for 2008, following 1.9 percent growth for 2007. The moderate increase in spending for 2008 is expected to be accompanied by a small increase in the on-budget Federal government budget deficit for the Federal fiscal year (FFY) ending September 30, 2008, according to Congressional Budget Office (CBO) estimates.[11] However, that increase is projected to be more than offset by an increase in the off-budget surplus, resulting in a slight decline in the total deficit for the year.[12] For FFY 2007-08, CBO projects a constant law budget deficit of $155 billion, following a deficit of $163 billion for the 2006-07 fiscal year and $248 billion for 2005-06 (see Figure 27).[13] Although the current large demand for long-term U.S. government securities has recently been putting downward pressure on long-term yields, the nation's growing national debt — though it is growing at a declining rate — remains a risk to the Budget Division interest rate forecast.

Comparison with Other Forecasters

Table 3 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. Forecasts for the 2008 real U.S. GDP growth range from a low of 1.9 percent (Global Insight) to a high of 2.5 percent (Macroeconomic Advisers). The DOB 2008 inflation forecast of 2.7 percent is the middle of the forecast range. Unemployment rate forecasts for 2008 are very close, ranging from 4.9 percent to 5.1 percent.

TABLE 3
U.S. ECONOMIC FORECAST COMPARISON

	2007	2008	2009
Gross Domestic Product (GDP)			
(1996 chain wt. percent change)			
DOB	2.2	2.2	2.9
Blue Chip Consensus	NA	2.2	2.7
Moody's Economy.com	2.3	2.2	NA
Global Insight	2.2	1.9	2.7
Macroeconomic Advisers	2.2	2.5	2.9
Consumer Price Index (CPI)			
(percent change)			
DOB	2.8	2.7	2.2
Blue Chip Consensus	NA	2.9	2.3
Moody's Economy.com	2.8	2.6	NA
Global Insight	2.9	2.2	1.6
Macroeconomic Advisers	2.9	3.1	2.0
Unemployment Rate			
(percent)			
DOB	4.6	5.0	5.0
Blue Chip Consensus	NA	5.0	5.0
Moody's Economy.com	4.6	5.2	NA
Global Insight	4.6	5.1	5.1
Macroeconomic Advisers	4.6	4.9	4.9

Source: New York State Division of the Budget, December 2007; *Blue Chip Economic Indicators*, January 2008; Moody's Economy.com, *Macro Forecast*, January 2008; Global Insight, *US Forecast Summary*, January 2007; and Macroeconomic Advisers, *Forecast Details,* December 2007.

[11] An increase in the federal contribution to real U.S. GDP does not necessarily imply a higher deficit. For example, entitlement spending is accounted for under the NIPA as transfer payments to individuals and, therefore, does not represent value added by the government.
[12] The patch for the alternative minimum tax recently passed by Congress and signed into law is likely to increase both the projected on-budget deficit and total deficit.
[13] Discounting the Social Security trust fund surplus, these deficits were $344 billion in 2006-07 and $435 billion in 2005-06.

For a brief description of the methodology used by the Budget Division to construct its macroeconomic model for the national economy (DOB/US), see Box 4. For a more detailed description, see *New York State Economic, Revenue and Spending Methodologies*, October 31, 2007.[14]

BOX 4
THE DIVISION OF THE BUDGET
U.S. MACROECONOMIC MODEL

Macroeconomic modeling has undergone a number of important changes during the last 25 years, primarily as a result of developments in economic and econometric theory. These developments include the incorporation of both rational expectations and micro-foundations based on the long-run optimizing behavior of firms and households. In addition, analysts now employ more flexible specifications of behavioral relations within a vector autoregressive (VAR) model framework. Recent developments also include a more rigorous analysis of the time series properties of commonly used macroeconomic data series, as well as the implications of these properties for model specification and statistical inference. There has also been a significant improvement in the understanding of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 98 core equations, of which 29 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2004:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques.[1] We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

In economic parlance, DOB/U.S. could be termed a neoclassical model. Agents optimize their behavior subject to economically meaningful constraints. Households exhibit optimizing behavior when making consumption and labor supply decisions, subject to a wealth constraint. Expected wealth is, in part, determined by expected future output and interest rates. Likewise, firms maximize profits when making labor demand and investment decisions. The value of investment is affected by the cost of capital, as well as expectations about the future path of output and inflation. The economy's long-run growth path converges to an estimate of potential GDP growth. Monetary policy is administered through adjustments to the federal funds rate, as guided by Taylor's Rule. Current and anticipated changes in this rate influence agents' expectations and the rate of return on various financial assets.

DOB/U.S. incorporates three key theoretical elements into this neoclassical framework: expectations formation, equilibrium relationships, and dynamic adjustments (movements toward equilibrium). The model addresses expectations formation by first assuming that expectations are rational and then specifying a common information set that is available to economic agents who incorporate all relevant information when forming and making their expectations. Long-run equilibrium is defined as the solution to a dynamic optimization problem carried out by households and firms. The model structure incorporates an error-correction framework that ensures movement back to long-run equilibrium.

The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment mechanisms that reflect the fact that while agents are forward looking, they do not adjust to changes in economic conditions instantaneously. The presence of frictions (costs of adjusting productive inputs, sticky wages, persistent spending habits) governs the adjustment of nonfinancial variables. These frictions, in turn, create imbalances that constitute important signals in the setting of wages and prices. In contrast, the financial sector is assumed to be unaffected by frictions due to the negligible cost of transactions and the presence of well-developed primary and secondary markets for financial assets.

[1] "A Guide to FRB/USA Macroeconomic Model of the United States," edited by F. Brayton and P. Tinsley. Federal Reserve Board, Version 1.0, October 1996.

[14] See< http://www.budget.state.ny.us/pubs/supporting/EconomicRevenueandSpendingMethodologies.pdf>.

Risk to the U.S. Forecast

The Budget Division outlook calls for a slowdown in growth for much of 2008 but does not anticipate a recession at this time. However, there are a number of significant risks to the forecast. Larger financial sector write-downs associated with the subprime mortgage debacle could result in a more severe credit crunch than anticipated. A more severe credit crunch could result in lower business investment in plant and equipment than projected. Should the housing market contraction be even deeper than reflected in the current forecast, residential investment could take even longer to recover. Moreover, if housing prices fall further than anticipated, the rate of foreclosure could jump even higher than expected, impacting both construction spending and household net worth, which in combination would result in less consumption spending than anticipated.

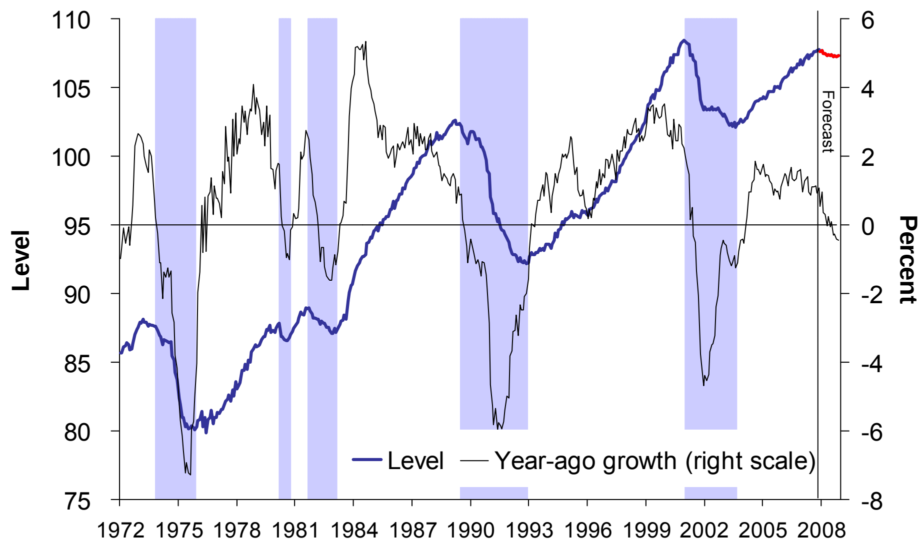
A resurgence in the growth in energy and food prices could serve to unanchor inflation expectations and result in even higher inflation than expected. That risk could be compounded by lower productivity growth or a weaker dollar than currently projected. Higher inflation, in turn, would further impinge upon the Federal Reserve's ability to stimulate the economy by lowering interest rates. Higher interest rates could result in weaker equity prices and further delay the recovery of the financial sector from the subprime mortgage debacle. On the other hand, lower energy prices or stronger global growth than anticipated could result in stronger economic growth than is reflected in the forecast.

THE NEW YORK STATE ECONOMY

The national economic slowdown is having a significant impact on the New York State economy. As indicated in Figure 28, the New York State Index of Coincident Economic Indicators has been decelerating almost continuously since the middle of 2006 (see Box 5). Moreover, the New York State Leading Index is signaling a mild downturn in the State economy starting in early 2008. The impact of the current credit market crisis on State wages is projected to be greatest in 2008Q1, during the height of the financial sector bonus season. Indeed, the current credit crisis could have a more deleterious effect on the New York State economy than on the nation as a whole given New York City's status as an international financial center.

Figure 28

New York State Index of Coincident Economic Indicators



Note: Shaded areas represent N.Y. recessions; forecast is derived from the New York State Leading Index.
Source: Moody's Economy.com; DOB staff estimates.

Consistent with the slowing of both the national and New York economies, the Budget Division projects a decline in State employment growth from 1.1 percent for 2007 to 0.6 percent for 2008. Wage growth is similarly projected to fall from 7.6 percent in 2007 to 3.3 percent in 2008. U.S. corporate profits are projected to weaken nationwide, with financial sector profits leading the downturn. As a result of the mortgage-backed security crisis, the Budget Division projects a 2.8 percent decline in finance and insurance sector bonuses for the 2007-08 bonus season, representing a loss of about $1.4 billion in wages relative to the prior year.

Though not insignificant, the decline in bonuses projected for 2007-08 is small compared to the declines of 30.2 percent in 2001-02 and 14.4 percent in 2002-03, in the wake of the 2001 national recession and September 11. Thus, though State economic growth is expected to slow in 2008, conditions are not expected to approach those of a recession. The State's large education and health sectors are expected to continue exhibiting robust growth. In addition, tourism and trade are expected to continue to be bolstered by the weak dollar, particularly in New York City and those areas bordering Canada.

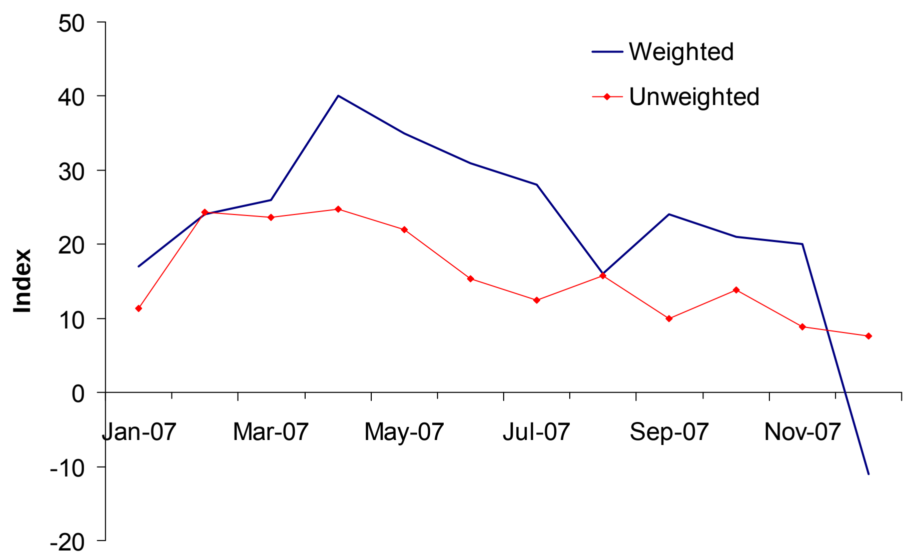
New York employment is estimated to have grown 1.1 percent in 2007, substantially above its long-term historical average rate of 0.7 percent. Indeed, last year's rate of State job growth was only 0.2 percentage point below that of the nation. However, much of last year's strength was concentrated in the first half of 2007, with a significant loss of momentum detectable for the second half (based on payroll survey data). The greatest degree of deceleration can be seen in real estate rental and leasing; the cyclically sensitive trade, transportation, and warehousing sector and professional and business services sector; and finance and insurance. Moreover, the decline in manufacturing employment appears to have accelerated in the second half of the year. These trends support the projected decline in State job growth for 2008.

The New York State Establishment Survey

In cooperation with the Survey Research Institute at Cornell University, the Budget Division conducts a survey of New York State private business establishments to assess the direction of business sentiment in the State. Every month, the survey asks the manager or CEO of participating firms about the direction of change in various economic indicators for the current month as compared to the prior month and about their expectations for those same indicators for the coming three months. Based on survey results, two types of diffusion indices are constructed. A pure diffusion index is constructed by comparing the proportion of firms indicating an improvement in the indicator in question with the proportion indicating a deterioration. In the pure version of the index, firms' responses are weighted equally. A weighted index is also constructed, where each firm's weight is equal to the size of its workforce as a share of total employment across all participating firms.

Figure 29

Expected Change in Employment Over the Next Three Months



Source: Survey Research Institute; DOB staff estimates.

BOX 5
NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson methodology and rests on the notion that co-movements in many macroeconomic time series can be captured by a single unobserved variable representing the overall state of the economy.[2] Four State data series — private sector employment, hours worked in the manufacturing sector, the unemployment rate, and sales tax receipts (as a proxy for retail sales) — are combined into a single index using the Kalman filter, a common approach to the estimation of unobserved variables. Based on the DOB Coincident Index, five business cycles have been identified for New York since the early 1970s, as reported in the table below. A recession is judged to have begun if the DOB Coincident Index sustains three to five consecutive declines of significant depth. A similar approach is used to date business cycle troughs.

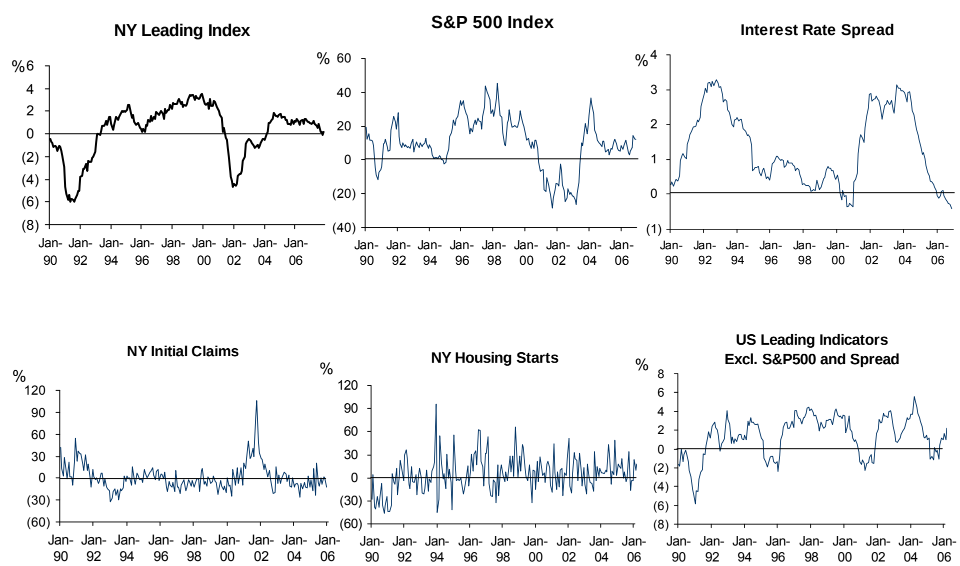
NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	54,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,700
December 2000	August 2003	32	324,600

Source: DOB staff estimates.

In order to gauge the future direction of the State economy, the Budget Division produces the New York State Index of Leading Economic Indicators, which yields a forecast for the Coincident Index up to 12 months ahead. The forecasting model includes the following five leading economic variables in a vector autoregressive framework: the U.S. Index of Leading Economic Indicators (excluding stock prices and the interest rate spread), New York housing starts, New York initial unemployment insurance claims, stock prices, and the spread between the 10-year and one-year U.S. Treasury rates.

Variables Used in New York Index of Leading Indicators



Note: All percent changes are from prior year.
Source: Moody's Economy.com, DOB staff estimates.

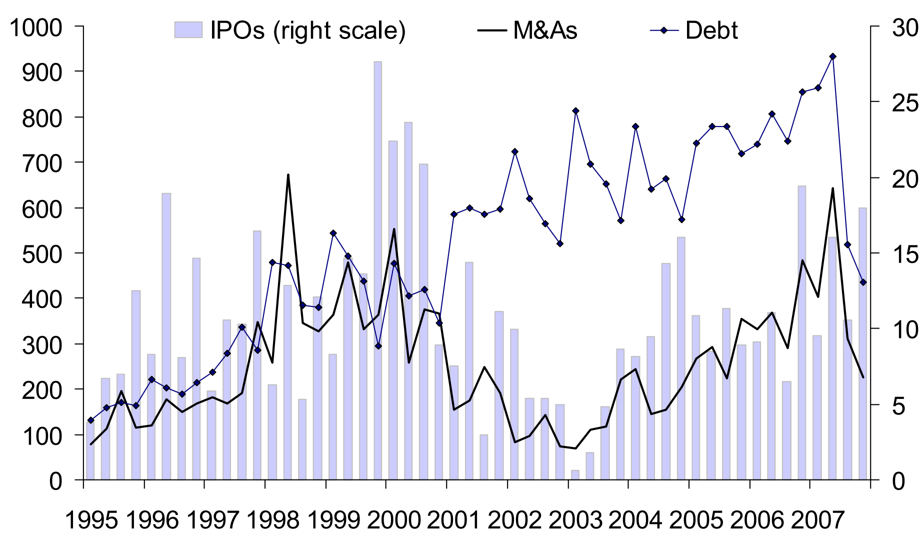
[1] R. Megna, and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," *International Journal of Forecasting*, Vol 19, pp 701-713.
[2] J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), *Leading Economic Indicators: New Approaches and Forecasting Records*, New York: Cambridge University Press, pp. 63-85.

The most recent results of the Establishment Survey support the conclusion that State employment growth slowed over the second half of 2007, and can be expected to slow further in early 2008. Figure 29 indicates that whether one examines the weighted or unweighted index, participating firms' expectations surrounding near-term employment growth deteriorated over the course of 2007. Indeed, the weighted December 2007 responses are signaling a decline in State employment rates for early 2008.

The Securities Industry and the Credit Crunch

Last year represented the best of times and the worst of times for the securities industry. The first half of 2007 produced high levels of financial market activity, with corporate debt underwriting and announced U.S. merger and acquisition activity appearing to be on a record-breaking path (see Figure 30). The value of announced mergers and acquisitions grew a strong 49.4 percent during the first half of 2007, compared to the same period of 2006, in a wave of industrial consolidation sparked by cash-rich firms attempting to improve their positions within the global marketplace. Corporate debt underwriting grew 16.3 percent, while initial public offerings (IPOs) grew a strong 26.6 percent. Helping to create a supportive environment for all of this activity was a strong equity market, which had started to gain momentum soon after the Federal Reserve ended its cycle of monetary tightening in August 2006. Equity prices, as represented by Standard and Poor's Index of 500 common stocks (S&P 500), rose a robust 13.9 percent during the first six months of the year compared to the same period in 2006, with the index on May 30, 2007, finally surpassing its pre-recession peak after a full seven years.

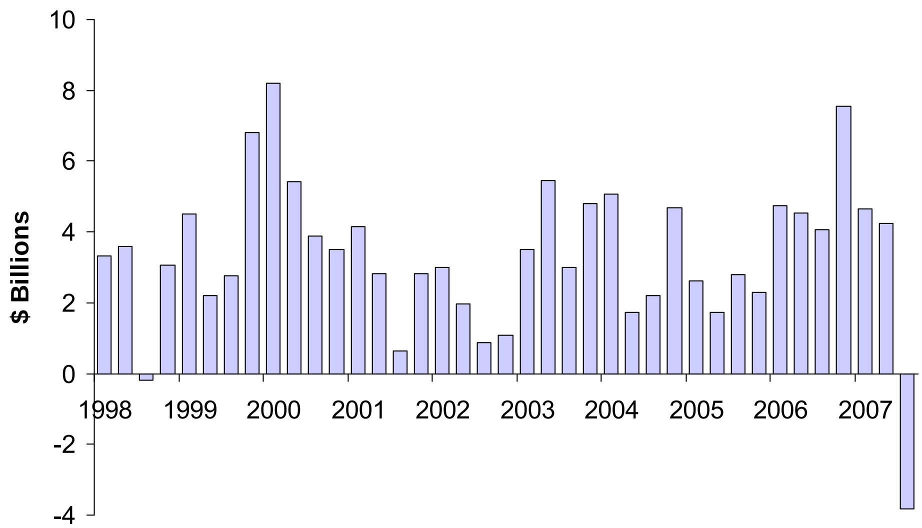
Figure 30
Major Drivers of Financial Market Activity
$ Billions



Note: Data for 2007Q4 are based on two months of data.
Source: Securities Industry and Financial Markets Association (SIFMA).

By August 2007, a credit crisis sparked by the threat of defaults on mortgage-backed securities was in full swing. Debt underwriting and merger and acquisition activity for the second half of 2007 are estimated to have fallen to about half of their levels for the first half of the year. The value of billions of dollars worth of collateralized debt obligations (CDOs) appearing on the balance sheets of major banks, prime brokers, and affiliated SIVs remains in question. It was reported that, as of the middle of December 2007, $153.5 billion in CDOs had been downgraded, and that by the end of the month, the volume of write-downs of mortgage-related securities would total more than $70 billion.[15] Consequently, securities industry pre-tax profits turned from levels exceeding $4 billion in the first and second quarters to a loss of $3.8 billion for 2007Q3 (see Figure 31). Banks who are not NYSE members are assumed to have experienced losses as well. Based on media reports, losses of a similar magnitude are expected for the fourth quarter as well.

Figure 31
Securities Industry Profits



Source: Securities Industry and Financial Markets Association (SIFMA).

Outlook for State Income

The credit crunch and expected decline in finance and insurance sector bonuses, combined with slowing job growth, will result in significantly lower wage growth in 2008. Indeed, State wage growth has largely been led by the finance and insurance sector in recent years (see Figure 32). The Budget Division projects total wage growth of 3.3 percent for 2008, following an estimated increase of 7.6 percent for 2007. Slower growth in both the wage and nonwage components of income will result in total personal income growth of 4.3 percent for 2008, following 7.4 percent growth for 2007.

Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State personal income tax liability and other taxes, the Budget Division constructs its own wage and personal income series based on Quarterly Census of Employment and Wages (QCEW) data. Moreover, because of the importance of trends in variable income — composed of stock-related incentive income and other one-time bonus payments — to the understanding of trends in State

[15] See Carrick Mollenkamp and Serena Ng, "Wall Street Wizardry Amplified Credit Crisis," *The Wall Street Journal*, December 27, 2007, p. A1.

wages overall, the Budget Division has developed a methodology for decomposing its wage series into bonus and nonbonus wages. For a detailed discussion, see Box 6. The Budget Division's outlook for State income is based on these constructed series.

BOX 6
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

Trends in State wages are critical to an accurate analysis and forecast of personal income tax liability and collections. To improve the link between the economic and tax variables on a quarterly basis, the Division of the Budget (DOB) constructs its own wage series from the available primary data sources. This series differs from the data published by the U.S. Bureau of Economic Analysis (BEA).

The DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) Program. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state-level wages add up to national estimates. The consequence is often a significant difference between the two series in both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the QCEW data, wage growth rates for the first and second quarters of 2000, on a percent-change-year-ago basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 6.1 percent and 9.9 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

A comparison with yet another source of wage data also demonstrates the greater accuracy of the QCEW data. Since the amount of wages withheld for personal income tax purposes varies systematically with wages itself, withholding data provide a useful guide for estimating State wage growth. For example, wages withheld during the first quarter of 2000 were 18.6 percent above withholding for the same quarter of the previous year. This estimate is much more consistent with the growth rate derived from the QCEW data than with the BEA's estimate of 2.4 percent.

Once an entire year of QCEW data becomes available, the BEA revises its state-level wage data to be more consistent with that data source. For this reason, DOB's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division's wage series more strictly comparable to the BEA wage series, noncovered and unreported legal wages must be added to wages taken directly from the QCEW data. The addition of these components typically changes the annual growth rate for State wages by no more than two-tenths of one percentage point.

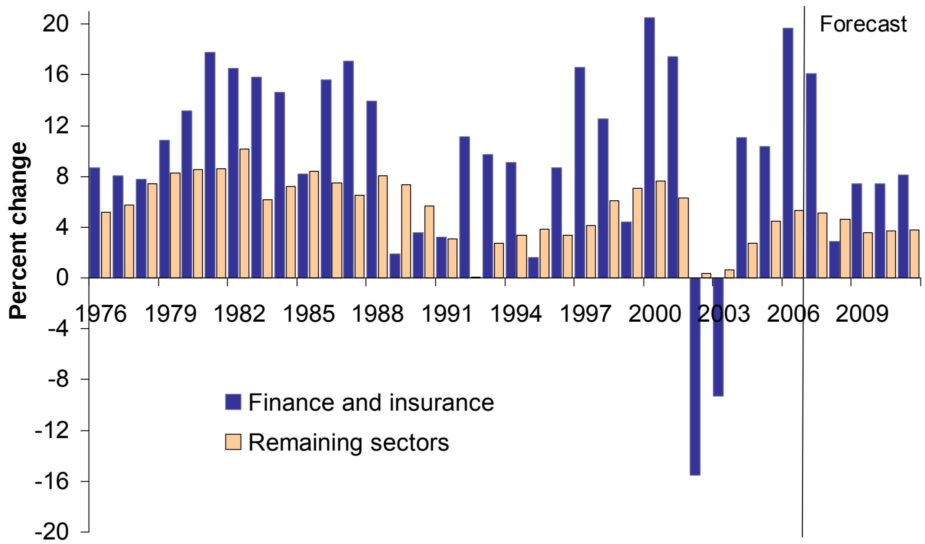
An increasing portion of New York State wages is paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, it must be estimated. DOB derives its bonus estimate from firm-level data collected under the QCEW program. This method allows a large degree of flexibility as to when individual firms actually make variable income payments. However, as with any estimation method, some simplifying restrictions are necessary. DOB's method incorporates the assumption that each establishment makes variable income payments during at most two quarters of the year. However, the determination as to which quarters contain these payments is made at the firm level.

Firms report their wages to the QCEW program on a quarterly basis. A firm's average wage per employee is calculated for each quarter. The average over the two quarters with the lowest average wages is assumed to reflect the firm's base pay, that is, wages excluding variable pay. If the average wage for either of the remaining quarters is significantly above the base wage, then that quarter is assumed to contain variable income.[1] The average variable payment is then defined as total average wage minus the base average wage, after allowing for an inflation adjustment to base wages. Total variable pay is then calculated by multiplying the average bonus payment by the total number of firm employees. It is assumed that only private sector employees earn variable pay.

[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five-percentage-point swing in this criterion.

Figure 32

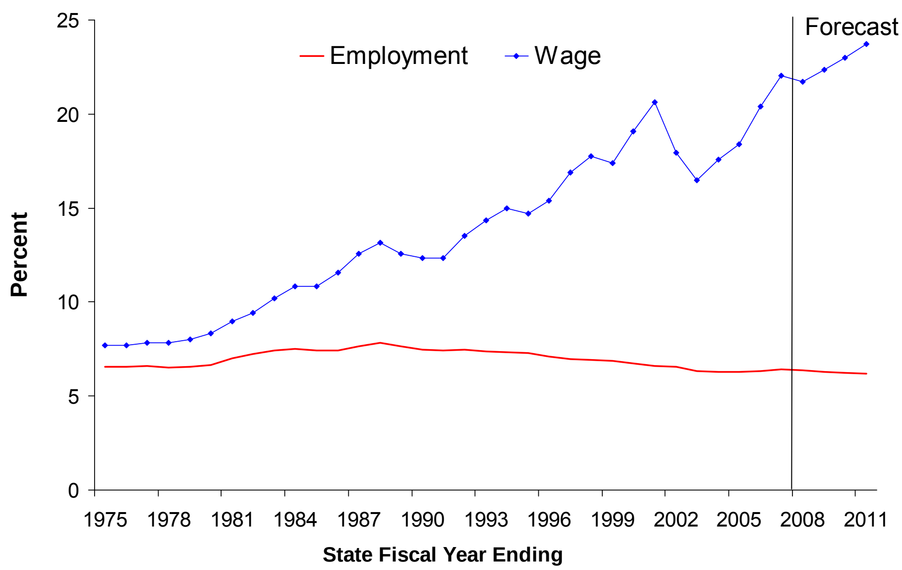
New York State Wage Growth
Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

Figure 33

Finance and Insurance Sector Employment and Wages
as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

Because of the prominence of New York City in the world of finance, New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 33 shows how finance and insurance sector wages as a share of the State total have grown over time on a State fiscal year basis. That share is estimated to have peaked at 22.0 percent during the 2006-07 bonus season, finally surpassing at last the 2000-01 peak that was reached just as the stock market was collapsing earlier in the decade. In contrast to its large wage share, finance and insurance sector employment is estimated to account for only 6.4 percent of total State employment for the current fiscal year, and that share is projected to continue to fall.

The financial markets affect employment and income in New York City and its surrounding suburbs, both directly — through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly — as finance sector workers spend their incomes on housing, entertainment, other purchases, and so on. Finance sector workers are, on average, very highly compensated. In the 1979-80 State fiscal year, the average finance and insurance sector wage was only 27 percent higher than the average wage for the rest of the State economy. For 2006-07, that gap is estimated to have grown to 312 percent and is expected to continue to widen. Between 1979-80 and 2006-07, total finance and insurance industry wages increased more than tenfold, while employment rose by only 14 percent. For the rest of the economy, total wages in 2006-07 were not even five times what they were in 1979-80, while employment grew 19 percent.

Variable Income Growth

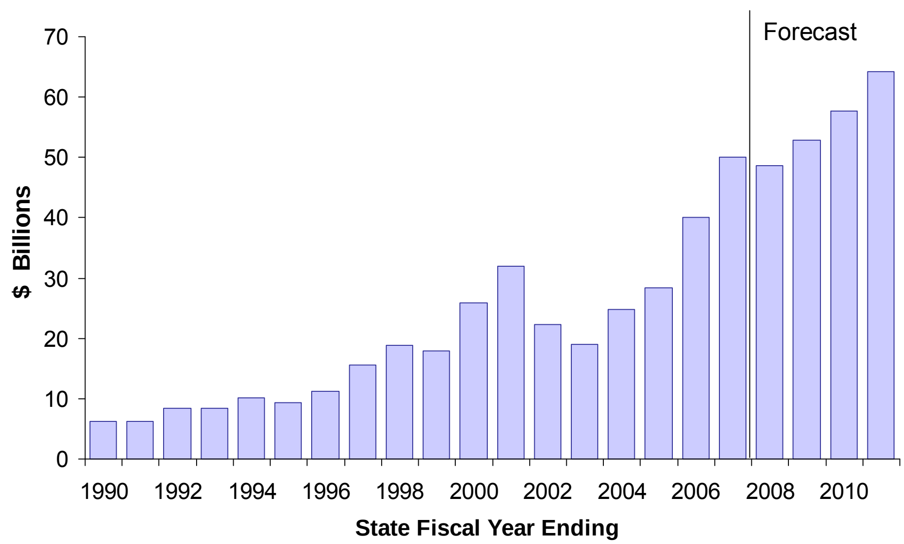
Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. As performance incentives for a given calendar year, firms tend to grant employee bonus "packages" during either the fourth quarter of that year or the first quarter of the following year. Although the cash component of bonus income is unambiguously counted (and taxes withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock options income does not appear in the wage data (and therefore not taxed) until they are exercised. Similarly, restricted stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[16]

Since 1990, there has been a substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay. Figure 34 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. The robust performance of security industry profits during 1999 and 2000 resulted in finance and insurance sector bonus growth of 43.5 percent and 23.7 percent in the 1999-2000 and 2000-01 State fiscal years, respectively, to levels that accounted for more than half of total bonuses paid in the State. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits. For example, when NYSE-member firm profits fell from $10.4 billion in 2001 to $6.9 billion in 2002, finance and insurance sector bonus income is estimated to have fallen 14.4 percent for the 2002-03 State fiscal year. In contrast, nonbonus wages for this sector are estimated to have increased 0.3 percent. Changes in nonbonus wages are largely determined by changes in employment and inflation.

[16] See Box 6 on page 117 for a more detailed discussion of bonus estimation.

The Budget Division projects State variable income growth of 1.9 percent and 6.2 percent for the 2007-08 and 2008-09 fiscal years, respectively. These growth rates are substantially lower than the double-digit rates of growth observed since the first bonus season of the State's current expansion in 2003-04. The low growth in 2007-08 is due largely to a projected decline in finance and insurance sector bonuses and generally weak growth for the other sectors due to the overall economic slowdown. Stronger growth is projected for 2008-09, with the State and national economies expected to recover momentum over the course of 2008.

Figure 34
New York State Finance and Insurance Sector Bonuses



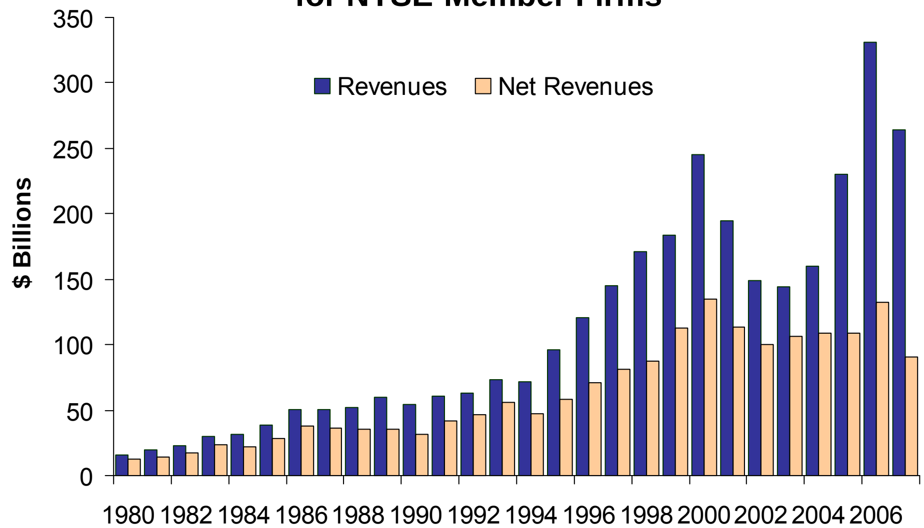
Source: NYS Department of Labor; DOB staff estimates.

Consistent with flat securities industry profits for 2007, the Budget Division is projecting a decline in finance and insurance sector bonuses of 2.8 percent for the 2007-08 bonus season now in progress. This forecast reflects the fact that, as shown in Figure 31 above, financial corporate profits were quite strong just prior to the current crisis. Moreover, much of the third quarter losses were concentrated in those divisions that managed asset-backed securities, while other divisions have continued to do well. Although corporate debt underwriting and merger and acquisition activity sustained large declines in the third and fourth quarters, the value of IPOs, an important revenue generating activity, has remained healthy (see Figure 30 above).

While the most recent information supports anticipation of a relatively shallow decline in finance and insurance sector bonuses, the outlook for the finance industry is highly uncertain at present, producing a great degree of risk to the Budget Division bonus forecast. Historically, there has been a close relationship between New York Stock Exchange (NYSE) member-firm profits and finance and insurance sector bonus payouts. Although an official estimate of fourth quarter profits for NYSE-member firms is not yet available, announced reports on earnings and write-downs suggest that industry profits could be down by as much as they were in the third quarter. A steep decline in profits could result in a steeper decline in bonuses than is currently forecasted. In addition, though bonus payouts have historically been evenly split between cash and stock incentive payments, the split is expected to be more heavily weighted toward stocks for the current bonus season. This shift could have substantial implications for Federal, State, and local tax revenues since income derived from stock options is not taxed until the option is exercised.

Figure 35

Securities Industry Revenues for NYSE-Member Firms



Note: Data for 2007 represent three quarters of data not annualized.
Net revenues are net of interest expenses.
Source: Securities Industry and Financial Markets Association (SIFMA).

The Budget Division model for finance and insurance sector bonuses is based on the underlying volume of activity that generates industry earnings, such as IPOs and corporate debt underwriting. The most recent data available suggest that while the value of debt underwriting is likely to fall for 2007, the value of IPOs is expected to rise. Figure 35 indicates a solid level of net revenues for the first three quarters of 2007. In addition, statistical analysis indicates a persistent upward trend in bonus payouts, which is consistent with anecdotal evidence of intense competition for the industry's best workers. In summary, there is both upside and downside risk to the forecast for finance and insurance sector bonuses for 2007-08.

Total finance and insurance sector bonuses of $52.8 billion are currently projected for 2008-09, representing growth of 8.6 percent from the prior year, or an increase of $4.2 billion. This forecast reflects projected growth for 2008 of 5.7 percent in the secondary market for equities that underlies the drivers of financial market activity, as represented by growth in the S&P 500. With lending activity virtually frozen as a result of the credit crunch, pent-up demand may result in a brisk increase in revenue generating deals once the markets settle. However, there is a substantial degree of uncertainty inherent in this outlook.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and, therefore, are relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles, shocks to the regional economy, or shocks to a specific industrial sector that is relatively more important to the State economy, such as finance and insurance. Nonbonus average wages are projected to increase by 3.6 percent for calendar 2008, following estimated growth of 4.0 percent for 2007. With positive but lower growth from employment, total nonbonus wages are projected to grow 4.1 percent for 2008, following an increase of 5.1 percent for 2007.

Average Wages and Inflation

Average wage growth is projected to fall to 2.7 percent for 2008, largely as a result of falling bonuses, following estimated growth of 6.5 percent for 2007. The Budget Division projects growth in the composite CPI for New York of 2.7 percent for 2008, following growth of 2.8 percent for 2007. Projected 2008 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 5.6 percent increase in the nonwage components of State personal income for 2008, following growth of 7.2 percent for 2007. For 2008, stronger growth in proprietors' income will be offset by slower growth in property and transfer income.

Outlook for Employment

Though there are parallels between State and national labor market trends, there are differences as well. Table 1 reports projected changes in employment for selected groups of North American Industry Classification System (NAICS) sectors. As at the national level, State private sector job growth is expected to be greatest in education and health care and social assistance services, with healthy gains expected for leisure, hospitality, and other services and professional, scientific, and technical services. Similarly, both the State and the nation are projected to see large declines in the manufacturing and mining sector. However, trends appear to diverge dramatically for the construction sector. The Budget Division projects national construction employment to decline for 2008, consistent with the national housing market contraction. However, State construction employment is projected to grow in 2008, albeit at a slower rate than in 2007. The continued strength of the New York City real estate market and the absence of a significant housing boom in much of upstate New York explain most of this difference. As for the nation, the State's average annual unemployment rate is expected to rise in 2008, from 4.4 percent for 2007 to 4.9 percent this year.

TABLE 4
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2008
SELECTED SECTORS

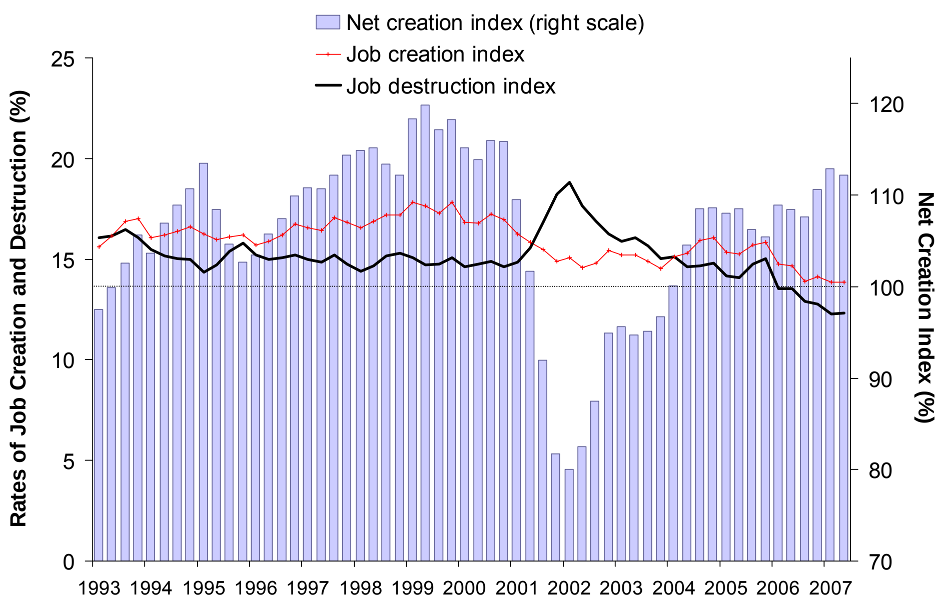
	Percent	Levels
Total Private	**0.7**	**47,097**
Utilities	(1.2)	(459)
Construction	1.6	5,641
Manufacturing and Mining	(1.7)	(9,517)
Wholesale Trade	0.7	2,521
Retail Trade	0.4	3,631
Transportation and Warehousing	0.6	1,481
Information	(0.4)	(1,050)
Finance and Insurance	(0.6)	(3,059)
Real Estate and Rental and Leasing	(0.1)	(271)
Professional, Scientific, and Technical Services	0.9	5,220
Management, Administrative, and Support Services	0.4	2,087
Educational Services	1.8	5,043
Healthcare & Social Assistance Services	1.7	20,833
Leisure, Hospitality and Other Services	1.4	14,356
Government	**0.1**	**1,349**
Total	**0.6**	**48,446**

Note: Management, and administration and support services includes NAICS sectors 55 and 56. Sum of sectors may not match the total due to rounding.

Source: NYS Department of Labor; DOB staff estimates.

Figure 36

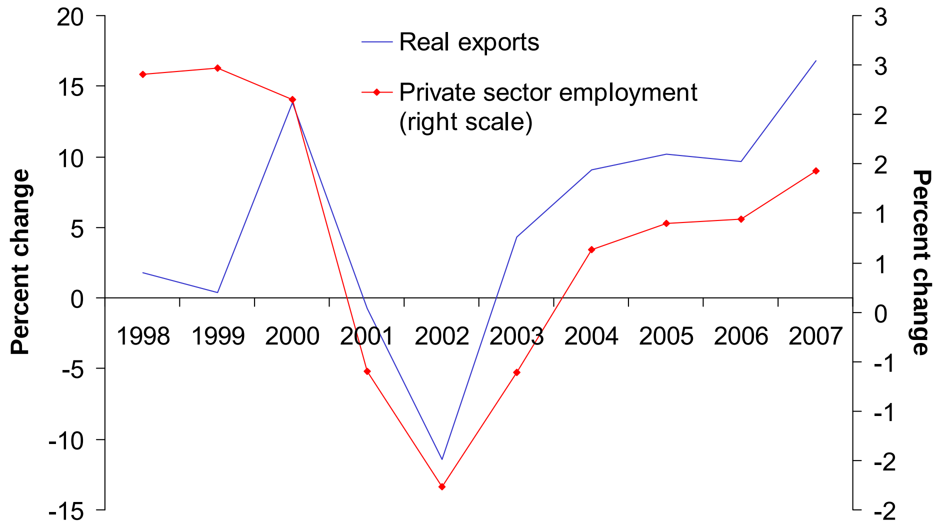
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

An examination of current labor market dynamics supports the Budget Division forecast for continued but slower growth in the State's labor market. Box 7 describes the methodology used to perform the analysis. Figure 36 shows the gross rates of job creation and destruction for the period from the first quarter of 1993 through the second quarter of 2007. When the State economy was booming during the early part of the period, the gross number of jobs created well exceeded the gross number destroyed. However, the tide turned in the third quarter of 2001, with the number of jobs destroyed overtaking the number of jobs created. The full impact of September 11 is seen during the first quarter of 2002, when the gap between the gross rates of job destruction and job creation is at its widest. The job gap shows a narrowing trend after that, except for a small widening in the second quarter of 2003, perhaps indicating the impact of the Iraq war on the business sector outlook.

Figure 37
Growth in Real Exports from New York and Private Sector Employment



Note: For 2007, real export growth is based on first 10 months of data, while employment growth is based on the first six months of QCEW data.
Source: Moody's Economy.com; NYS Department of Labor.

By late 2003, the economic stimulus provided by the expanding national economy was enough to bring the State's 2001-2003 recession to an end. Figure 37 indicates that because a significant portion of the State economy is export-oriented, there is a strong association between State export growth and private sector employment. Thus, a strong U.S. economy combined with global growth helped to keep the State's net job creation index above 100 percent from the first quarter of 2004 through the second quarter of 2007. Although the national economy was slowing during the second half of 2006 and early 2007, continued strong global growth and strong Wall Street profits and bonuses kept the rate of job creation well above the rate of job destruction for the first half of last year. However, the gross rate of job creation fell during both the first and second quarters. With the U.S. economy estimated to be slowing in late 2007 and early 2008, and finance sector bonuses projected to fall for the 2007-08 season, the State's net rate of job creation is expected to fall going forward, consistent with the Budget Division view that job growth will fall from 1.1 percent in 2007 to 0.6 percent in 2008.

BOX 7
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market — even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 2.4 percent in 2002, about 39.7 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2007, the most recent period for which data are available, the QCEW data covered 564,383 private sector establishments in New York State and 7,123,744 private sector employees.

Establishment-level data facilitate the investigation of questions that cannot be addressed at the aggregate level. Such questions include whether the primary source of job creation is new firm startups or existing firms that have chosen to expand, or whether net employment growth is the result of an increase in the rate of job creation or a decrease in the rate of job destruction. Two industries may exhibit the same net change in employment but one may have a high job turnover rate, resulting from high gross rates of gains and losses, while the other may have a low turnover rate. Previous studies have found that an increase in the turnover rate tends to be associated with an increase in net growth.[3] Hence, the underlying dynamics may give clues as to the near-term direction of the business cycle, and an industry that suddenly starts to experience an increase in firm startups or gross job creation may turn out to be a leading industry in the economy's next growth phase. Moreover, one can also determine whether new jobs are being created in relatively high-wage or low-wage industries.

Because QCEW data are not seasonally adjusted, comparisons over time should be restricted to the same quarter of various years. We therefore analyze job growth relative to the same quarter of the previous year. Comparability across time also requires normalizing by a common base. Because the jobs that were eliminated between the two quarters are no longer in the 2007 job count, we follow BLS and define the base as the average of the two quarters.

The gross number of jobs created between the second quarter of 2006 and the second quarter of 2007 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2006 but did not exist four quarters prior), expanding firms that existed in both quarters, and firms created through mergers and acquisitions. Between the second quarter of 2006 and the second quarter of 2007, a total of 978,259 jobs were created from these three sources. Performing this calculation for the second quarter of 2007 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain + Existing firm gain + M\&A gain}}{\text{Base}} = \frac{978{,}259}{7{,}070{,}662} = 13.8\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2007 is 13.8 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the over one million gross number of jobs created during the second quarter of 2007, 53.9 percent were created by firms with less than 50 employees. Another 24.5 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 21.6 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2006 but not in the second quarter of 2007, jobs lost from contracting firms that existed in both quarters, and jobs lost due to a merger or acquisition. We then divide by the State's job base as defined above, which for the second quarter of 2007 yields:

$$\text{Gross rate of job loss} = \frac{\text{Shutdown loss + Existing firm loss + M\&A loss}}{\text{Base}} = \frac{872{,}094}{7{,}070{,}662} = 12.3\%$$

(continued on next page)

[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2005," <http://www.bls.gov/news.release/pdf/cewbd.pdf>.
[2] For a detailed description of QCEW data, see *2003-04 New York State Executive Budget*, Appendix II, p. 100.
[3] See R. Jason Faberman, "Job Flows and Labor Dynamics in the U.S. Rust Belt." *Monthly Labor Review*, September 2002, Vol. 125, No. 9, pp. 3-10.

(continued from previous page)

This result states that the gross rate at which jobs were lost between the two quarters is 12.3 percent. Thus, for the second quarter of 2006, the gross rate of job creation exceeded the gross rate of job destruction. A net index of job creation is constructed by dividing the gross rate of job gains by the gross rate of job losses. For the second quarter of 2006, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{13.8\%}{12.3\%} = 112.2\%$$

A net index value of exactly 100 percent implies that the gross number of jobs created is entirely offset by the number of jobs destroyed; a value above 100 percent, as we see above, indicates that employment is growing; a value below 100 percent indicates a net job loss, implying the presence of a "job gap."

As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For example, for the second quarter of 2007, the educational services sector and the professional, scientific, and technical services sector had similar net indices of job creation of 118.9 percent and 129.5 percent, respectively. However, the professional, scientific, and technical services sector has a much higher turnover rate than the educational services sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2007Q2

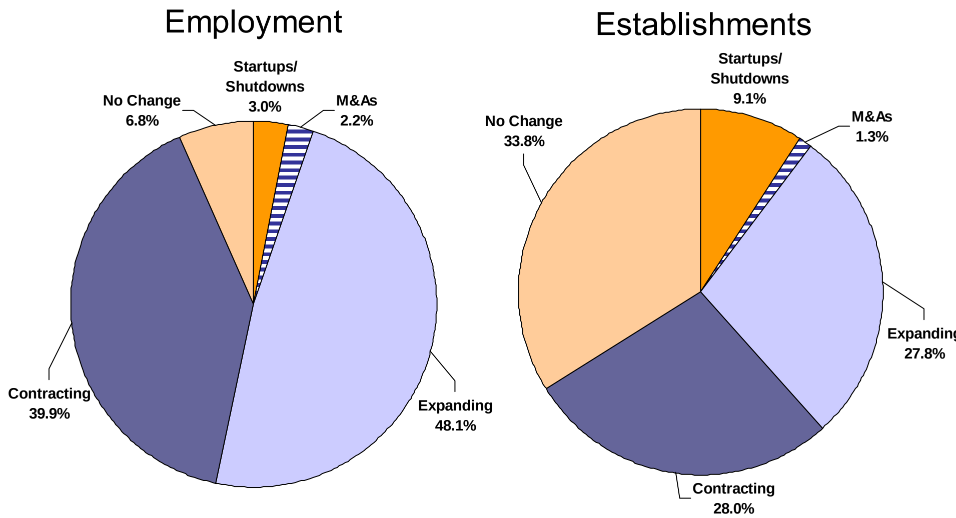
Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Educational Services (61)	7.1%	5.9%	118.9%
Professional, Scientific, and Technical Services (54)	16.1%	12.4%	129.5%

The State's Employment and Establishment Base

Figure 38 shows the composition of the State's employment and establishment base, as defined in Box 7, for the second quarter of 2007 by type of establishment. Startups and shutdowns accounted for about 9.1 percent of the establishment base for 2007Q2, but because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only about 3.0 percent of the State's private sector employment base for that quarter. Startup firms added about 71,000 employees to total employment, net of shutdowns. Firms that were either acquired or absorbed by other firms accounted for 1.3 percent of the establishment base and subtracted about 20,000 from total 2007Q2 employment compared with 2006Q2. The average size of these firms was about 22 employees and accounted for 2.2 percent of employment.

Existing firms are classified according to whether their employment levels expanded, contracted, or experienced no change relative to the same quarter of the prior year. Existing firms represent an overwhelming proportion of both private sector establishments and employment — 89.6 percent of the State's establishment base and 94.8 percent of the job base in the second quarter of 2007. As indicated in the right hand panel of Figure 38, the three types of existing firms accounted for roughly equal shares of establishments in the second quarter of 2007 but for very different shares of employment. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees in the second half of 2007, expanding firms averaging 24 employees, and contracting firms averaging 16. Because existing firms account for so large a share of industry employment at any given point in time, they account for an overwhelming share of employment growth over time as well. Existing firms added a net total of about 55,000 firms between 2006Q2 and 2007Q2.

Figure 38
Composition of State's Employment and Establishment Base
2007Q2



Source: NYS Department of Labor; DOB staff estimates.

Manufacturing

The Budget Division forecast for manufacturing sector employment represents a continuation of that sector's long-term downward trend, though the rate of decline has been slowing and is projected to continue to do so going forward.[17] For 2008, manufacturing employment is expected to fall 1.7 percent to about 549,000 workers, following a decline of 2.1 percent in 2007. The 2008 projected level of manufacturing employment is 40 percent below the 915,000 workers employed in that sector in 1991. The State's manufacturing sector will continue to be negatively affected by the ongoing restructuring of the nation's auto industry and the increasing globalization of production. Consequently, State manufacturing employment is expected to continue to fall through the end of the forecasting period.

Since the mid-1970s, New York's comparative advantage has been shifting away from manufacturing in favor of the production of services (see Figure 39). Productivity growth and competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment each year since 1984. The rate of job loss from this sector accelerated during the last recession, as it did during the earlier recessions of 1982 and 1991.

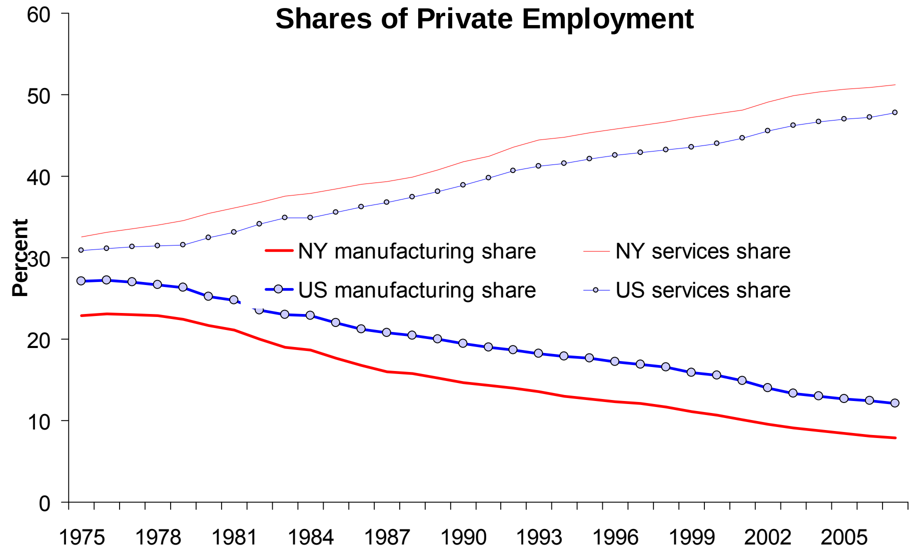
Although the manufacturing sector continues to bear the brunt of the State's job losses, there has been some improvement since the end of the recession. Manufacturing lost 50,400 jobs in 2002, a decline of 7.2 percent, representing the greatest rate of decline since data collection under the QCEW program began in 1975. Net job losses eased somewhat in 2003 due to a decline in the gross rate of job destruction, while the gross rate of job

[17] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2007, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

creation remained flat (see Figure 40). In 2004, job creation began to rise, while job destruction continued to fall, leading to a net index of job creation value of almost 90 percent by the end of the year. However, the improvement proved to be only temporary, with the net index back down to about 82 percent by the second quarter of 2007, consistent with the national manufacturing slowdown. Indeed, the large size of the job gap during the first half of 2007 signals the likelihood that the State's manufacturing sector will continue to lose jobs in 2008.

Figure 39

Manufacturing and Service Sector Shares of Private Employment



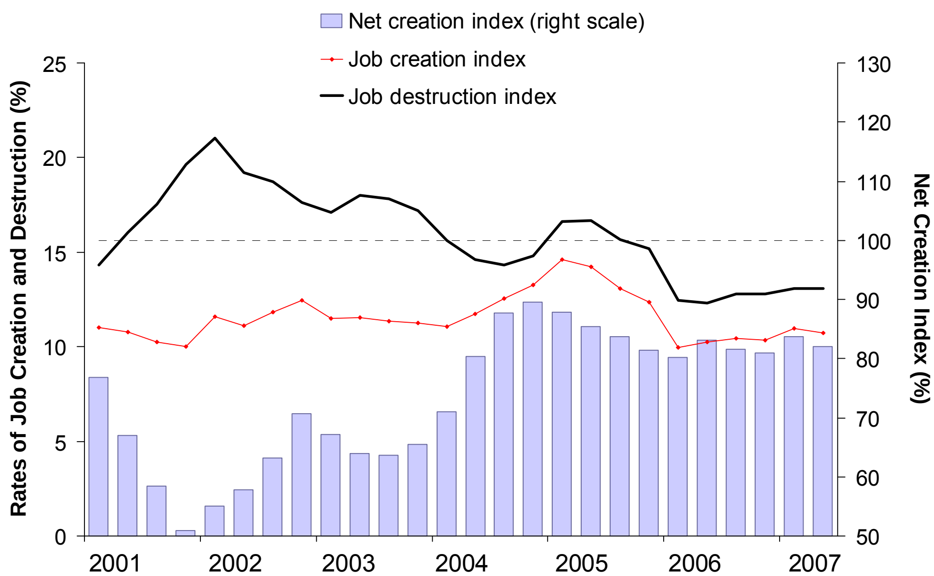
Note: Values for 2007 are based on two quarters of data for N.Y. and 11 months of data for the U.S.
Source: Moody's Economy.com; NYS Department of Labor.

Manufacturing is a very important part of the regional economies of Western New York and the Finger Lakes. During the first half of 2007, these two regions accounted for 29.0 percent of State manufacturing employment, though they accounted for only 13.7 percent of total State private sector employment. Greatly affected by the continued downsizing by the State's large manufacturers, the Finger Lakes region experienced the most severe decline in manufacturing as a share of total regional employment. That share fell from 23.2 percent in 2000 to 18.4 percent for the four quarters ending with 2007Q2, a decline of 4.8 percentage points. Western New York had a similar experience, with its manufacturing share falling 4.2 percentage points over the same period.

Manufacturing's share of total employment fell in the State's other regions as well, though less sharply. Although New York City experienced the greatest absolute number of manufacturing losses, the decline in the sector's share of total regional employment was among the smallest of the ten regions. Indeed, the New York City economy is the most heavily weighted toward services of all of the State's regions, with manufacturing comprising only 3.4 percent of City private sector employment, the smallest share of any region. In the first half of 2007, New York City's share of total State private sector employment was 43.6 percent, but its share of State manufacturing employment was only 18.2 percent. In contrast, the economies of Long Island and the Hudson Valley appear more proportionally balanced. Long Island accounts for 14.6 percent of State private sector employment and 15.0 percent of State manufacturing employment, while the Hudson Valley accounts for 10.3 percent of private sector employment and 10.7 percent of manufacturing employment.

Figure 40

Manufacturing



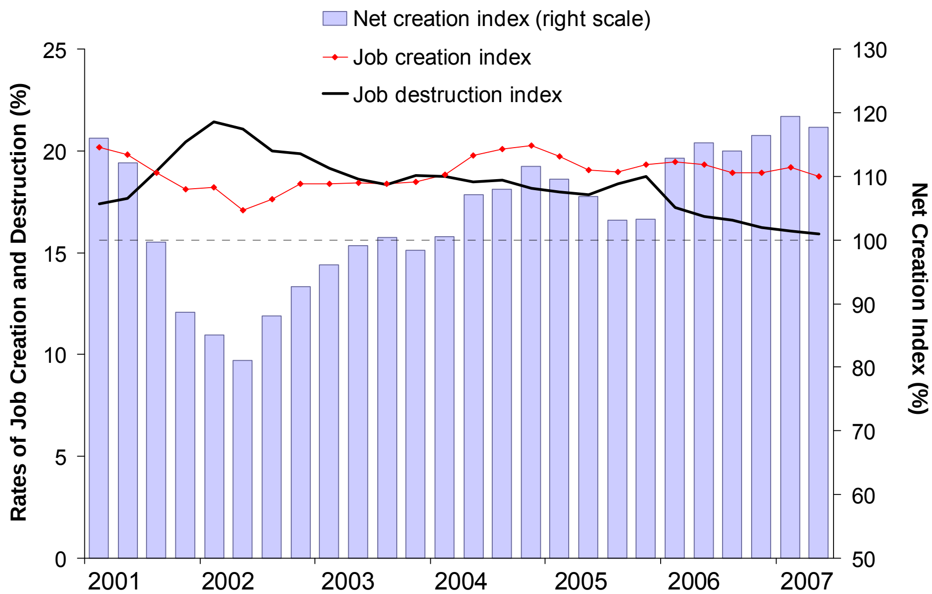
Source: NYS Department of Labor; DOB staff estimates.

Construction and Real Estate

Recent labor market dynamics indicate that the construction and real estate sectors were still strong during the first half of 2007 (see Figure 41). However, growth in State construction employment is estimated to have peaked at the end of 2006, due to the deceleration of housing market activity earlier that year. The Budget Division is projecting growth in construction employment of 1.6 percent for 2008, following strong growth of 3.5 percent for 2007. An even greater weakening of construction employment growth might have been expected were it not for strong levels of activity in the commercial building sector, particularly downstate. The housing market slowdown is estimated to have negatively impacted real estate, rental, and leasing employment starting in 2006, with job growth in this sector projected to remain virtually flat in 2008. Following growth of 0.3 percent in 2007, employment in this sector is projected to fall 0.1 percent in 2008, compared with a decline of 2.2 percent projected for the nation as a whole.

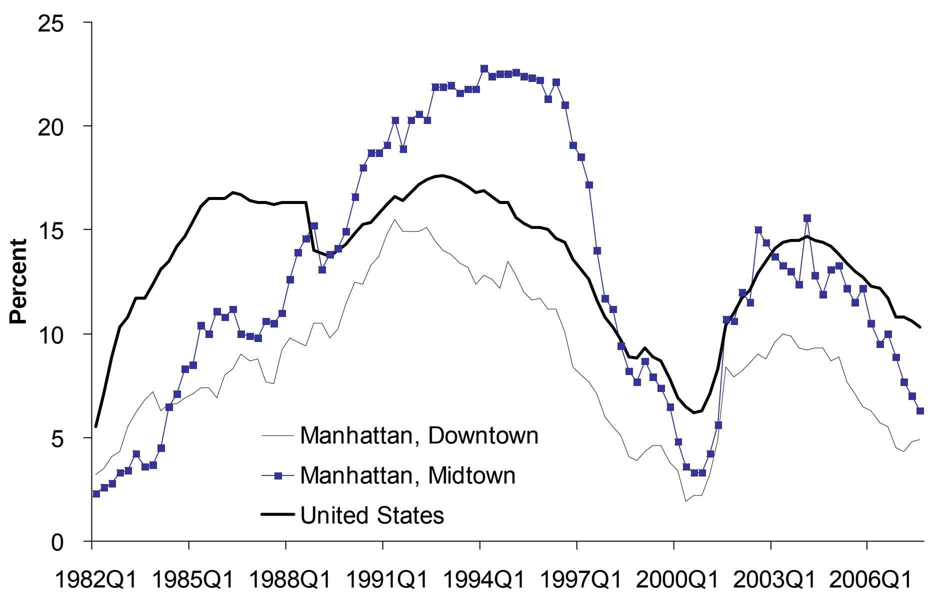
Construction employment had been increasing steadily since the second quarter of 2004, pushing this sector's index of net job creation above 100 percent since that point. Contributing to continued increases in the number of construction jobs over the longer term will be reconstruction on the site of the World Trade Center, as well as multi-year subway and stadium building projects. Also supporting the expectation that commercial construction will remain strong in 2008 are low office vacancy rates for both downtown and midtown Manhattan (see Figure 42), though the downtown rate ticked up slightly in the second and third quarters of 2007. However, with credit conditions much tighter than they were a year ago, the pace of construction spending can be expected to be below that of last year. Consequently, 2008 growth in State construction employment is expected to be less than half of what it was in 2007, but still strong compared with the 2.2 percent decline projected for the nation.

Figure 41
Construction and Real Estate



Source: NYS Department of Labor; DOB staff estimates.

Figure 42
Office Vacancy Rates



Source: Moody's Economy.com.

Regional data indicate that the recent housing sector boom did not affect construction and real estate employment uniformly across the State's regions. Indeed, for all of the upstate regions except the Capital District and the North Country, construction employment for the first half of 2007 was still below the level for the same period in 2000. For the three downstate regions of New York City, Long Island, and the Hudson Valley, the regional shares of total State construction employment were greater than the regional shares of total employment for the second half of 2007, an indication of the strength of the housing boom in those areas.

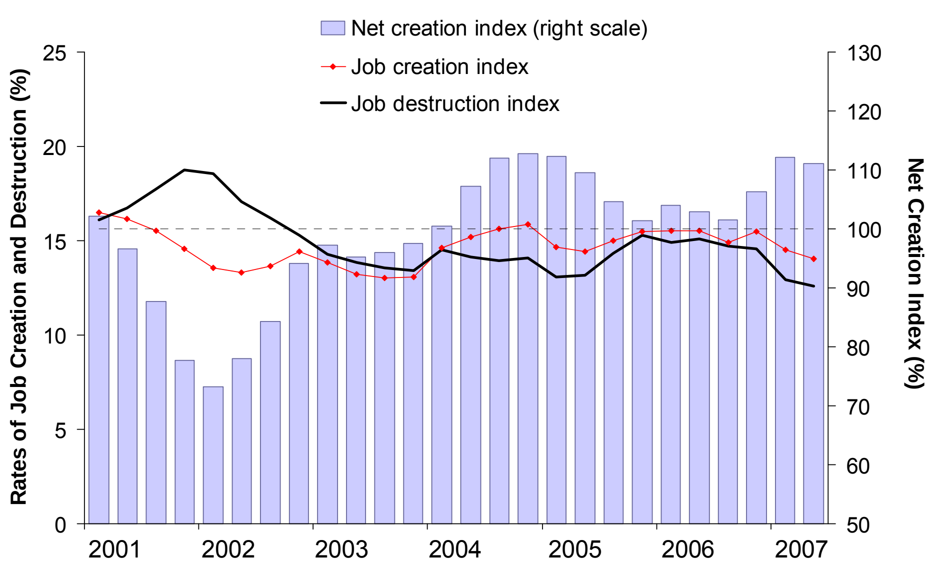
Trade, Transportation, and Warehousing

The retail trade, wholesale trade, and transportation and warehousing sectors are among the more cyclically sensitive industrial sectors and were hit hard during the 2001-2003 recession. While this super-sector began to show the effects of the national slowdown in 2006, employment growth picked up toward the end of that year and in early 2007, primarily due to declines in the gross rate of job destruction (see Figure 43). Nevertheless, employment in both the wholesale trade and transportation sectors were still below their pre-recession peaks in the first half of last year.

Employment in the wholesale trade sector is estimated to have grown 0.8 percent in 2007, with growth projected to fall slightly to 0.7 percent for 2008. The wholesale trade sector was dominated by job declines from early 2001 through the first quarter of 2004, but began to experience net growth by the second quarter of 2004. For 2004 as a whole, the sector added 2,100 jobs, producing growth of 0.6 percent, followed by yet another decline of 0.2 percent for 2005 and no growth for 2006. But for the first half of 2007, wholesale employment grew a solid 1.0 percent. Thus, wholesale trade is expected to be a solid contributor to State job growth in 2008.

Figure 43

Trade, Transportation, and Warehousing



Source: NYS Department of Labor; DOB staff estimates.

Retail trade is estimated to have grown a strong 1.2 percent for 2007, but growth is projected to fall to 0.4 percent for 2008. In the retail trade sector, the job gap narrowed significantly during the second half of 2002 and remained small in 2003. From the first quarter of 2004 through the second quarter of 2005, this sector's job creation index was well above 100 percent. A slowdown became well entrenched by the middle of 2006, but the sector rebounded in the first half of 2007. This result lends support to the expectation that retail trade will be a modest contributor to State job growth for 2008.

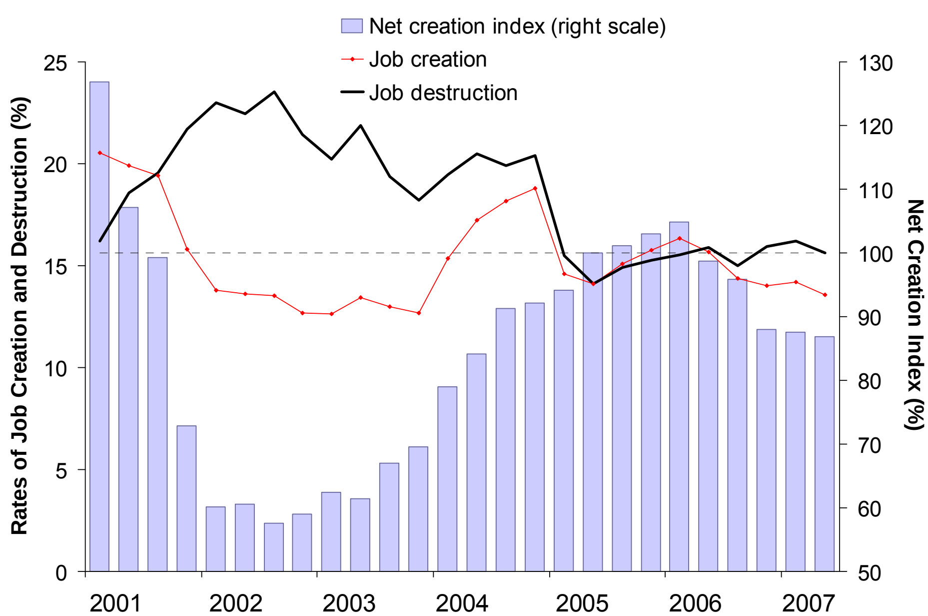
Transportation and warehousing employment is projected to increase 0.6 percent in 2008, following estimated growth of 1.3 percent for 2007. The impact of September 11 on employment is perhaps seen most dramatically in the transportation sector. The job gap in that sector was at its maximum during the first quarter of 2002, but has gradually narrowed since then, with job growth reaching 2.1 percent in 2006 due primarily to a decline in the gross rate of job destruction. High energy costs were likely to have been a restraining factor for this sector in 2007 and are expected to continue to be, along with the overall slowdown in the national and State economies going forward. Consequently, the transportation and warehousing sector is likely to see slower growth for 2008.

Information (Media and Communications)

The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, was among the hardest hit in the State during the last recession and among the last to recover (see Figure 44). Following six consecutive years of job losses, from 2001 through 2006, information sector employment is estimated to have plunged 1.4 percent in 2007. The State and national slowdowns are expected to contribute to yet another decline of 0.4 percent for 2008. It could take many years for this sector to attain its pre-recession employment peak.

Figure 44

Information



Source: NYS Department of Labor; DOB staff estimates.

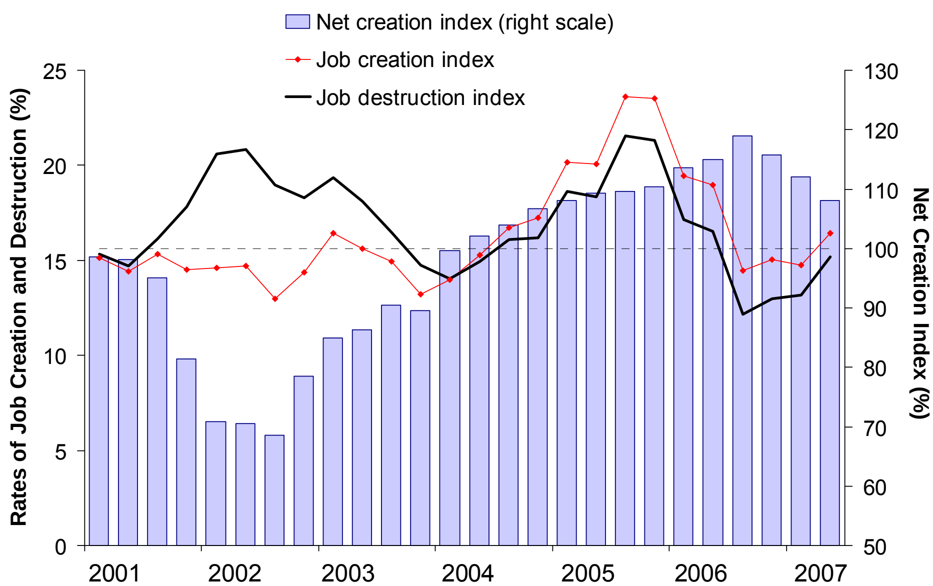
The information sector is one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages. It is also the most regionally concentrated, with almost 60 percent of State employment in this sector located in New York City.

Finance and Insurance

Until now, the finance and insurance sector has been a bright spot for State economic growth. Strong revenue and profit performances on Wall Street resulted in high rates of job growth in this sector of 1.9 percent for 2005, 2.3 percent for 2006, and estimated growth of 1.0 percent for 2007. But the current credit crisis is expected to result in increased layoffs for this sector, with the Budget Division projecting a decline of 0.6 percent for 2008. Finance and insurance sector employment was still below its pre-recession peak during the first half of 2007. In the aftermath of the stock market crash of 1987 and the recession of 1990-91, it took ten years for the securities industry to return to its 1987 peak.

Figure 45

Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

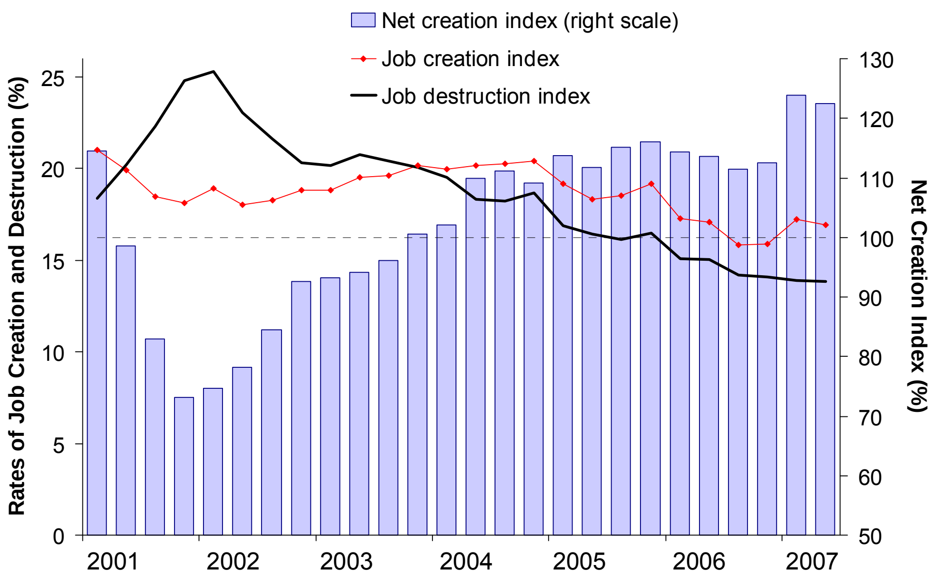
The attacks of September 11, the 2001 national recession, and corporate governance scandals all combined to have a significant impact on the State's financial sector during the State's last recession. As a result, 29,800 finance and insurance jobs were lost in 2002, a decline of 5.4 percent. As expected, an overwhelming proportion of these losses occurred in New York City. This trend continued in 2003, with finance and insurance losing another 11,000 jobs. However, these job losses lowered industry compensation costs and helped Wall Street firms to increase profits significantly in 2003. The net job creation index for finance and insurance became positive in 2004 and has continued to climb ever since. In addition, with gross rates of job creation and destruction climbing to about 20 percent in 2005, the finance and insurance sector has become one of the State's most dynamic sectors (see Figure 45). But the current crisis is expected to pose a setback for this sector going forward.

Professional and Business Services

The State's professional and business services industries — which include legal, accounting, architectural, engineering, advertising, technical, management, and other business support services — benefited greatly from the strength of the national economy in 2005, 2006, and the first half of 2007, and particularly from the strong growth in corporate profits (see Figure 46). Professional and technical services employment is estimated to have grown 2.9 percent in 2007, following 3.9 percent growth in 2006, making this sector one of the State's strongest over the last two years. However, the slowdown in national output and profit growth is projected to bring job growth in this sector down to 0.9 percent for 2008, still significantly above the projected statewide average. Similarly, job growth in the management and administrative support services industries is expected to slow to 0.4 percent in 2008, following 1.5 percent growth in 2007.

Figure 46

Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

With the collapse of the high-tech bubble, the State's professional, scientific, and technical services industries saw a significant increase in the rate of gross job destruction during 2001 and early 2002. However, the job gap in this sector narrowed substantially during the first three quarters of 2003, with the net index rising above 100 percent by the fourth quarter. The industry has continued to produce net job growth since then, with the gross rate of job destruction trending ever downward, supporting the forecast for continued but slower growth.

The gross rate of job destruction rose swiftly in the management, administrative, and support services sector in 2001, but the job gap had narrowed significantly by the fourth quarter of 2002. The job gap continued to narrow in 2003, which resulted in positive net job creation in 2004 and 2005. Management services growth may have been stymied by the desire to avoid expanding management operations in New York City in the wake of September 11, accelerating the decline in the number of corporate headquarters located in the State.

The management, administrative, and support services sector contains temporary help services, one of the first employment classes to grow following a downturn, and helps to explain the substantial improvement in this sector between 2003 and 2004. Many firms hire temporary workers coming out of a recession, uncertain as to whether an increase in the demand for their products will be sustained, contributing to the high job turnover rate in this sector, as well as its cyclical sensitivity. Temporary help services employment grew 6.1 percent in 2004, the first full year of the State's current expansion, compared to 0.8 percent growth for the private sector as a whole, with growth falling to 3.3 percent in 2005. Consistent with the slowing of the national economy, temporary help services jobs fell 4.6 percent in 2006 but were up 2.3 percent during the first half of 2007 compared to the same period in 2006, yielding only mixed signals as to the direction of the State labor market.

Employment in the professional and business services sector has surpassed its pre-recession peak in almost every region except for New York City, Mohawk Valley, and the Southern Tier. Nevertheless, New York City still retains a disproportionately large share of the State's jobs in this sector — 50.5 percent.

Education and Health Care

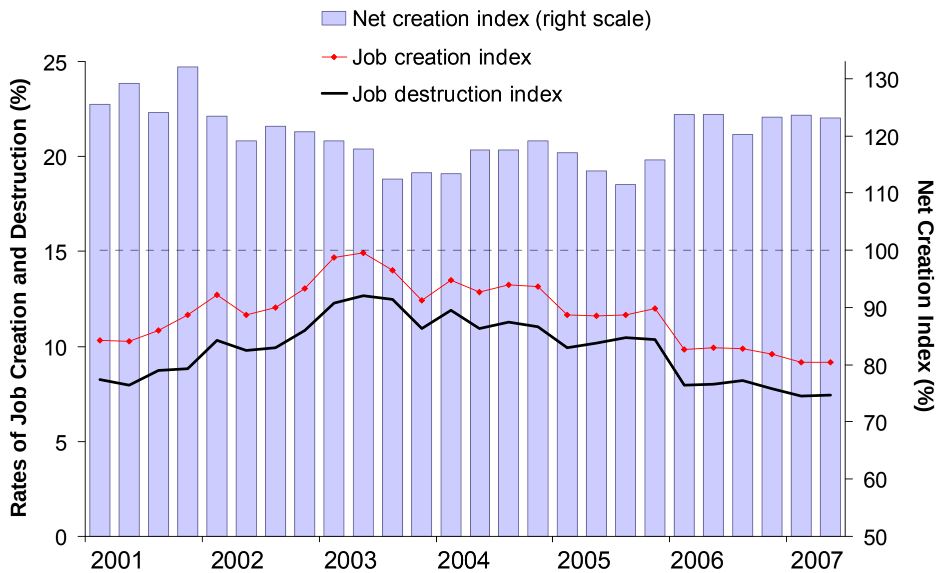
The private education, and health care and social assistance sectors have exhibited consistent strength, even throughout the last recession (see Figure 47). Together, these two sectors are expected to add almost 26,000 new jobs in 2008.

The health care industry is the larger of the two, employing an estimated total of 1.2 million workers in 2007. The private education sector is estimated to employ about 278,000, as it excludes the more than 600,000 workers employed at public educational institutions. Since neither of these sectors exhibits a significant degree of cyclical sensitivity, both are expected to exhibit growth well above the average for the private sector as a whole. Private education employment is projected to rise 1.8 percent for 2008, following estimated growth of 1.5 percent for 2007; health care and social assistance employment is projected rise 1.7 percent in 2008, following estimated growth of 1.8 percent for 2007.

Every region except for the Western New York experienced double-digit employment growth in the education and health care sector between 2000Q2 and 2007Q2. The strongest growth was in Long Island, with growth of 20.3 percent, followed by the North Country and Mohawk Valley regions, with growth of 17.4 percent and 16.7 percent, respectively.

Figure 47

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

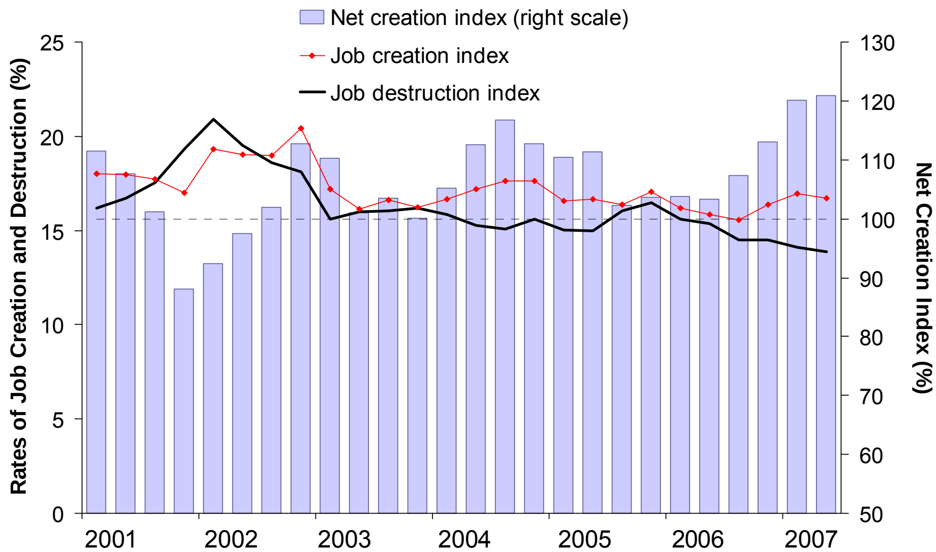
Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to grow 1.4 percent in 2008, following strong estimated growth of 2.1 percent in 2007. September 11 had a severe impact on this sector, particularly the arts, entertainment, and other tourism-related industries. The gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter (see Figure 48).

Although the net job creation index has remained above 100 percent since the first quarter of 2004, growth fell off in the third quarter of 2005. However, beginning in the third quarter of 2006, growth in this sector has taken off due to both increases in the rate of job creation and consistent decreases in the rate of job destruction. Both trends support the expectation that the sector will continue to add jobs in 2008. The slowdown in the national economy will contribute to a slowing of growth in this sector, but a weak U.S. dollar and continued global growth should provide countervailing forces going forward.

Figure 48

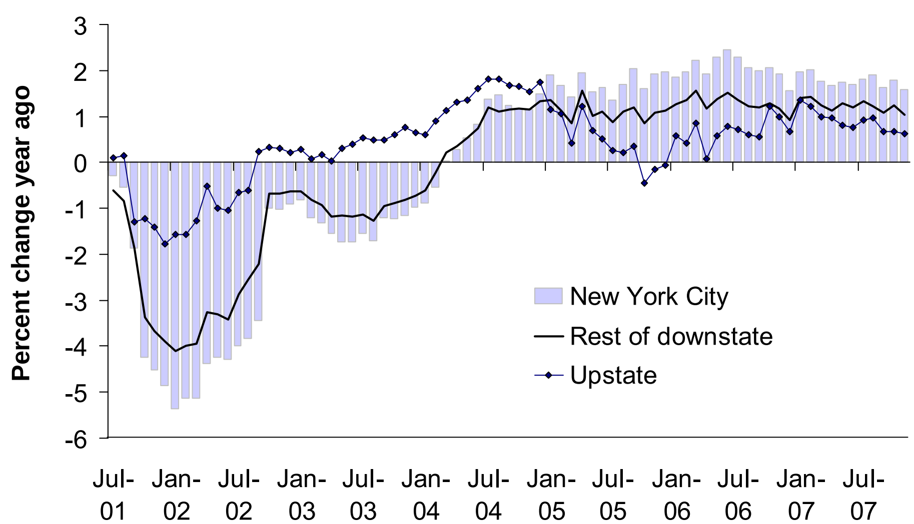
Leisure, Hospitality, and Other Services



Source: NYS Department of Labor; DOB staff estimates.

Figure 49

Private Sector Employment Growth: NYC, Rest of Downstate, and Upstate



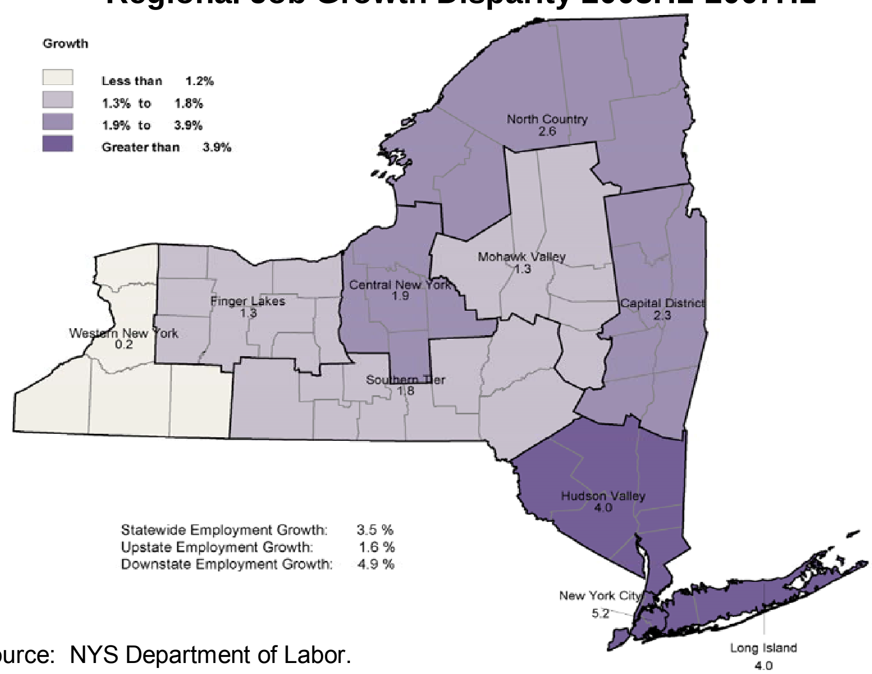
Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor, CES.

Regional Job Growth Disparity

Employment growth has been quite variable across the State's regions. Figure 49 compares private sector employment growth for New York City with that of the five downstate counties outside of New York City and Upstate, from January 2001 through November 2007. The figure makes evident that the recent strength of the State's labor market has emanated largely from New York City. This strength is attributable to the robust performance of Wall Street, the real estate market, tourism, and the City's business and professional business services industries. Employment growth for the rest of downstate has been significantly weaker, with the residential housing contraction having a notable impact on Long Island and the Hudson Valley. The upstate labor market has seen the largest impact of the national manufacturing downturn, with auto sector weakness particularly affecting the western part of the State.

Figure 50 compares the relative performance of New York's 10 regions since the first half of 2003, the six months just preceding the August 2003 trough of the State's last recession. Employment growth for the State as a whole grew 3.6 percent between the first half of 2003 and the first half of 2007, the most recent period for which the most accurate data — Quarterly Census of Employment and Wages (QCEW) data — are available. The downstate regions, led by New York City, grew a robust 4.9, while the upstate region grew a much weaker 1.6 percent. Employment growth was particularly weak in the Western New York region, growing only 0.2 percent over the period. The Finger Lakes and Mohawk Valley regions each exhibited growth of 1.3 percent. Manufacturing still accounts for a significant portion of employment in many of the upstate regions, but has suffered from weakness in the auto industry as well as longer term trends such as corporate restructuring and the transfer of production to other regions of the country and overseas.

Figure 50
Regional Job Growth Disparity 2003H1-2007H1



Source: NYS Department of Labor.

The most recent data indicate that the New York City economy has remained vibrant. Data for the first half of 2007, compared to the same period in 2006, indicate that New York City continued to experience the strongest growth in private sector employment of any region, growing 2.9 percent over the period. Several regions — the Capital District, North Country, and Southern Tier — saw a slowdown in private sector job growth during the first half of 2007 compared with the previous year, while the Hudson Valley, Central New York, and Finger Lakes regions saw significant improvements. Long Island and the

Mohawk Valley grew at virtually the same rate as in 2006, while Western New York saw declines in both years. A more detailed analysis of regional employment trends can be found in Table 5 through Table 8 on pages 141-142. A slowdown in job growth is expected for all of the State's regions going forward.

Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, the current credit crunch poses a particularly large degree of uncertainty for New York. Although the failure of a major Wall Street institution is not anticipated and the large volume of write-downs has been revealing, the full extent of the losses associated with the mortgage market debacle remains to be seen. Higher losses than anticipated could result in even lower bonuses than projected, reducing household spending. Should the State's commercial real estate market cool more rapidly than anticipated, taxable capital gains realizations could be negatively affected. These effects could ripple through the economy, reducing both employment and wage growth. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities, could result in higher wage and bonuses growth than projected for 2008 and the 2008-09 bonus season.

BOX 8
THE NEW YORK STATE DIVISION OF THE BUDGET
NEW YORK MACROECONOMIC MODEL

DOB's New York Macroeconomic model (DOB/N.Y.) attempts to capture the fundamental linkages between the New York and the national economies.[1] Clearly, New York's economy depends on economic developments in the U.S. economy, usually expanding when the national economy is growing and contracting when the nation is in recession. However, this relationship is neither simple nor static. The growth rate of the State's economy can vary substantially in comparison to the nation. For example, during the 1990-91 national recession, the State's recession began noticeably earlier and ended significantly later than for the nation as a whole. Alternatively, during the early 1980s recession, the State's economy fared better than the nation.

The objective of DOB/N.Y. is to quantify the linkages between the national and State economies within an econometric modeling framework. DOB/N.Y. is a structural time series model with most of the exogenous variables derived from DOB/U.S. In general, the long-run equilibrium relationships between State and national economic variables are captured by a cointegration/error-correction specification, while the State's specific dynamics are modeled using a restricted vector autoregressive (RVAR) framework. DOB/N.Y. has four major components: a nonfarm payroll employment segment, a real nonbonus average wage segment, a bonus payment segment, and a nonwage income segment.

Employment

The national economy affects New York employment through two channels. First, if State employment growth for a specific sector is related to the growth of the U.S. employment in the same sector, U.S. employment for that sector is specified as an exogenous variable in the equation. Second, overall U.S. economic conditions, as measured by the growth of real U.S. GDP, is included either directly in the employment equations for some sectors or indirectly through the VAR relationships.

Intra-sectoral relationships for New York employment can be different from those for the nation as a whole. These relationships are captured in a restricted VAR model where the impact of one sector on other sectors is explicitly specified.

Average Real Nonbonus Wages

Our analysis suggests the existence of a long-run equilibrium relationship between real nonbonus average wage for most New York sectors and the national real average wage. Thus, the State average real nonbonus wage by sector is modeled in a cointegration/error-correction framework. This modeling approach is based on the belief that, since both labor and capital are free to move in a market economy, regional differences in labor costs tend to converge toward their long-run equilibrium values, though this process may take quite a long time. This formulation allows for short-run adjustments towards equilibrium, which describe the short-run dynamics of State-specific economic conditions.

Bonus Income

The DOB model for finance and insurance bonus income incorporates those factors that drive Wall Street profits: merger and acquisition activity, IPOs, and the volume of debt underwriting. Our analysis shows that bonuses paid in the State's other economic sectors tend to have long-term equilibrium relationships with those paid in the finance and insurance sectors; more technically, bonus payments in the financial services sector are cointegrated with bonuses paid in most other sectors. Consequently, the results from the finance and insurance sector bonus model are used to estimate bonuses paid in other sectors.

Nonwage Incomes and Other Variables

The New York nonwage components, except for the residence adjustment, are all driven by their national counterparts. The relationship is modeled as a change in the New York variable, as a function of a change in the U.S. nonwage counterpart, along with lags of the independent and dependent variables as appropriate to account for short-term fluctuations.

[1] For more information, see *New York State Economic, Revenue and Spending Methodologies*, October 2007, pp. 45-52.

TABLE 5
NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

	Employment in Thousands					Percent Change				
INDUSTRY	**2003**	**2004**	**2005**	**2006**	**2007***	**2003**	**2004**	**2005**	**2006**	**2007***
Mining and Manufacturing	614.5	598.2	583.7	570.3	558.5	(6.0)	(2.6)	(2.4)	(2.3)	(2.2)
Construction and Real Estate	495.3	501.6	506.7	519.3	517.0	(0.3)	1.3	1.0	2.5	3.0
Trade, Trans., and Warehousing	1,417.8	1,434.2	1,447.6	1,455.5	1,459.4	(0.5)	1.2	0.9	0.5	1.5
Information	275.4	268.2	268.0	266.7	261.1	(6.8)	(2.6)	(0.1)	(0.5)	(2.0)
Finance and Insurance	513.8	516.3	526.1	538.2	541.1	(2.1)	0.5	1.9	2.3	1.4
Business and Professional Svs.	1,037.2	1,052.9	1,077.7	1,098.4	1,119.9	(0.8)	1.5	2.4	1.9	3.3
Education and Health Care	1,388.7	1,415.4	1,436.7	1,463.1	1,487.0	1.9	1.9	1.5	1.8	1.7
Leisure, Hospitality, and Other Svs.	953.8	971.5	981.7	991.7	997.8	0.6	1.9	1.0	1.0	2.9
Other **	104.5	97.9	98.1	104.7	90.7	7.1	(6.3)	0.1	6.8	(7.8)
Statewide	6,801.0	6,856.3	6,926.3	7,007.9	7,032.6	(0.7)	0.8	1.0	1.2	1.6

* Levels for 2007 are based on the first two quarters of the year; 2007 growth rates are relative to the same period in 2006.
** Includes agriculture, utilities, and unclassified firms.

TABLE 6
NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

	Employment in Thousands					Percent Change				
REGION	**2003**	**2004**	**2005**	**2006**	**2007***	**2003**	**2004**	**2005**	**2006**	**2007***
New York City	2,877.4	2,896.5	2,947.8	3,007.7	3,064.8	(1.0)	0.7	1.8	2.0	2.9
Long Island	995.1	1008.6	1014.8	1026.6	1024.9	0.6	1.4	0.6	1.2	1.3
Hudson Valley	704.2	716.0	721.9	726.7	726.5	0.5	1.7	0.8	0.7	1.4
Capital District	377.4	381.8	385.3	387.6	382.5	1.3	1.2	0.9	0.6	0.1
Mohawk Valley	131.3	131.6	132.1	132.4	130.6	(2.9)	0.3	0.3	0.3	0.4
North Country	105.5	105.8	106.7	108.3	106.5	(0.3)	0.3	0.9	1.5	0.7
Central New York	281.0	283.0	284.5	283.7	282.8	(0.2)	0.7	0.5	(0.3)	0.7
Southern Tier	232.9	233.4	234.3	236.9	235.7	(1.9)	0.2	0.4	1.1	0.7
Western New York	511.1	514.5	513.4	512.8	507.9	(0.8)	0.7	(0.2)	(0.1)	(0.1)
Finger Lakes	451.8	454.0	457.3	456.3	453.0	(0.6)	0.5	0.7	(0.2)	0.5
Unclassified	133.4	131.2	128.1	128.9	117.5	(10.8)	(1.7)	(2.3)	0.6	(5.8)

* Levels for 2007 are based on the first two quarters of the year; 2007 growth rates are relative to the same period in 2006.

TABLE 7
REGIONAL EMPLOYMENT SHARES BY INDUSTRY
Percent

REGION	**Mining/ Manuf.**	**Constr. & Real Estate**	**Trade, Trans. & Wareh.**	**Info.**	**Finance and Insurance**	**Prof. & Bus. Svs.**	**Educ. & Health Care**	**Leisure, Hosp. & Other Svs.**	**Other**
New York City	3.4	7.8	17.4	5.1	11.0	18.3	22.0	13.9	1.1
Long Island	8.2	8.3	25.0	2.7	5.8	15.2	19.4	14.0	1.3
Hudson Valley	8.2	9.1	23.6	3.0	4.7	13.0	21.8	14.8	1.8
Capital District	8.5	6.9	22.7	2.9	5.8	14.9	21.3	15.7	1.3
Mohawk Valley	15.0	4.9	24.8	2.7	6.2	8.0	23.5	13.7	1.0
North Country	13.3	7.0	26.1	1.9	2.6	7.0	22.4	17.3	2.5
Central New York	13.5	6.4	23.7	2.1	5.1	12.9	19.3	14.9	2.1
Southern Tier	19.2	4.9	20.2	2.0	3.9	9.6	24.6	14.1	1.5
Western New York	15.6	5.8	22.2	1.9	5.6	13.8	18.5	15.5	1.1
Finger Lakes	18.4	5.8	19.9	2.4	3.4	13.5	21.0	13.7	1.9
Statewide	8.0	7.5	20.8	3.7	7.7	15.8	20.9	14.2	1.4

Note: Shares are based on the period from 2006Q3 through 2007Q2; rows add to 100 percent.

TABLE 8

REGIONAL EMPLOYMENT TRENDS: 2003-2007

Region	Employment (000's)					Percent Change				
	Manufacturing and Mining									
	2003	2004	2005	2006	2007*	2003	2004	2005	2006	2007*
New York City	126.2	119.9	113.5	105.4	101.4	(8.8)	(5.0)	(5.3)	(7.1)	(4.7)
Long Island	87.3	87.2	86.3	85.1	83.8	(4.3)	(0.1)	(1.0)	(1.4)	(1.6)
Hudson Valley	64.5	62.7	61.6	60.6	59.8	(4.1)	(2.7)	(1.8)	(1.7)	(1.6)
Capital District	33.0	33.2	33.3	33.1	32.7	(5.1)	0.6	0.5	(0.7)	(1.0)
Mohawk Valley	21.5	21.4	20.7	20.2	19.6	(5.6)	(0.3)	(3.2)	(2.3)	(3.3)
North Country	16.2	15.2	14.6	14.6	14.1	(2.0)	(6.3)	(3.5)	(0.1)	(2.9)
Central New York	41.2	39.4	39.2	38.7	38.3	(7.3)	(4.2)	(0.7)	(1.1)	(1.1)
Southern Tier	44.0	44.2	44.0	45.2	45.3	(6.3)	0.5	(0.4)	2.5	1.6
Western New York	88.3	85.8	82.8	81.1	79.4	(4.7)	(2.8)	(3.5)	(2.1)	(2.7)
Finger Lakes	91.3	87.9	86.5	85.1	82.8	(5.3)	(3.7)	(1.6)	(1.6)	(2.6)
Unclassified	1.1	1.3	1.1	1.2	1.4	(47.7)	19.7	(15.9)	5.1	26.4
Statewide	614.5	598.2	583.7	570.3	558.5	(6.0)	(2.6)	(2.4)	(2.3)	(2.2)
	Construction and Real Estate									
New York City	221.6	221.9	225.6	231.0	238.1	(0.6)	0.1	1.7	2.4	5.0
Long Island	78.8	81.4	82.0	85.2	84.1	(0.4)	3.4	0.7	3.9	2.3
Hudson Valley	61.0	61.8	63.6	65.4	65.2	2.6	1.2	2.9	2.9	3.6
Capital District	25.7	26.4	26.6	27.0	25.7	2.9	2.9	0.7	1.6	(0.7)
Mohawk Valley	6.3	6.4	6.4	6.4	6.1	1.1	1.0	0.1	0.0	4.4
North Country	6.7	6.9	7.0	7.5	7.0	(4.9)	3.4	0.6	6.9	2.7
Central New York	17.6	17.6	17.6	18.2	17.3	1.8	0.2	0.1	3.4	0.9
Southern Tier	11.3	11.3	11.5	11.7	10.9	(1.0)	0.3	1.6	1.9	(0.2)
Western New York	28.9	30.0	29.6	29.9	27.8	(2.1)	3.9	(1.5)	1.1	(1.9)
Finger Lakes	25.9	26.5	26.7	26.0	25.3	(1.1)	2.3	0.6	(2.5)	2.7
Unclassified	11.4	11.3	10.2	10.9	9.4	(7.9)	(0.8)	(9.9)	6.5	(8.7)
Statewide	495.3	501.6	506.7	519.3	517.0	(0.3)	1.3	1.0	2.5	3.0
	Trade, Transportation, and Warehousing									
New York City	499.6	507.7	514.0	524.1	533.5	(0.7)	1.6	1.2	1.9	2.9
Long Island	255.5	257.0	257.1	256.3	257.7	1.1	0.6	0.0	(0.3)	1.8
Hudson Valley	166.1	169.1	171.3	171.8	171.5	(0.6)	1.8	1.3	0.3	1.0
Capital District	87.5	88.2	89.0	88.7	86.5	2.3	0.8	0.9	(0.3)	(1.1)
Mohawk Valley	31.3	31.4	32.3	32.7	32.6	(0.1)	0.4	2.8	1.2	1.2
North Country	26.0	27.2	27.7	28.1	28.1	(0.6)	4.4	1.8	1.6	2.2
Central New York	67.1	67.7	68.4	67.4	66.6	(0.9)	0.9	1.0	(1.4)	(0.3)
Southern Tier	47.4	47.6	47.9	47.7	47.6	(1.5)	0.3	0.6	(0.3)	0.9
Western New York	113.0	112.9	114.2	113.4	113.2	(1.6)	(0.1)	1.2	(0.7)	1.0
Finger Lakes	89.6	90.1	91.2	90.6	90.7	(1.4)	0.6	1.1	(0.6)	1.3
Unclassified	34.7	35.3	34.6	34.9	31.5	(6.1)	1.9	(2.1)	0.7	(7.3)
Statewide	1,417.8	1,434.2	1,447.6	1,455.5	1,459.4	(0.5)	1.2	0.9	0.5	1.5
	Information									
New York City	152.7	149.7	151.0	152.9	154.4	(7.2)	(2.0)	0.9	1.3	1.5
Long Island	28.1	27.5	28.0	28.4	27.0	(9.4)	(2.3)	1.8	1.6	(4.1)
Hudson Valley	24.9	23.5	22.7	22.0	21.3	(1.6)	(5.4)	(3.6)	(3.0)	(4.0)
Capital District	13.1	12.0	12.1	11.8	11.0	1.1	(7.9)	0.4	(2.8)	(7.3)
Mohawk Valley	4.6	4.5	4.3	3.9	3.5	(10.0)	(2.7)	(4.0)	(9.9)	(12.2)
North Country	2.1	2.0	1.9	2.1	2.0	0.4	(3.1)	(5.1)	5.8	(1.3)
Central New York	7.2	7.3	6.6	6.2	5.9	0.4	0.4	(8.4)	(6.3)	(5.6)
Southern Tier	5.0	4.9	4.8	4.7	4.6	(10.1)	(2.4)	(1.7)	(1.8)	(3.2)
Western New York	10.9	10.8	10.4	10.0	9.4	(5.1)	(0.9)	(3.2)	(4.2)	(7.4)
Finger Lakes	13.5	12.4	11.8	11.3	10.7	(3.3)	(8.0)	(5.1)	(4.2)	(7.0)
Unclassified	13.3	13.6	14.3	13.4	11.2	(17.6)	2.1	5.6	(6.7)	(16.1)
Statewide	275.4	268.2	268.0	266.7	261.1	(6.8)	(2.6)	(0.1)	(0.5)	(2.0)

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REGIONAL EMPLOYMENT TRENDS: 2003-2007 (*cont'd*)

Region	Employment (000's)					Percent Change				
	Finance and Insurance									
	2003	2004	2005	2006	2007*	2003	2004	2005	2006	2007*
New York City	311.8	313.0	321.8	331.7	337.1	(4.1)	0.4	2.8	3.1	3.0
Long Island	63.6	63.8	62.0	59.8	60.5	1.2	0.4	(2.8)	(3.5)	1.0
Hudson Valley	31.4	32.4	34.1	34.8	34.6	0.3	3.4	5.3	2.0	(0.5)
Capital District	21.5	21.9	22.2	22.7	22.5	0.9	2.0	1.3	2.3	(0.7)
Mohawk Valley	7.6	7.9	8.0	8.2	8.3	(1.9)	4.3	1.6	2.2	1.3
North Country	2.7	2.7	2.8	2.9	2.7	(1.7)	1.0	2.0	3.9	(7.3)
Central New York	13.8	13.7	14.0	14.4	14.6	(0.9)	(0.6)	2.2	2.8	1.4
Southern Tier	9.5	9.5	9.5	9.5	9.3	1.2	0.1	0.1	(0.5)	(1.8)
Western New York	28.1	28.8	28.7	29.3	28.0	1.3	2.2	(0.2)	2.2	(4.6)
Finger Lakes	15.2	15.5	15.3	15.8	15.7	4.9	1.7	(1.1)	3.0	(0.6)
Unclassified	8.6	7.1	7.7	9.2	7.9	6.0	(17.1)	7.1	19.9	(12.8)
Statewide	513.8	516.3	526.1	538.2	541.1	(2.1)	0.5	1.9	2.3	1.4
	Business and Professional Services									
New York City	515.4	519.4	533.0	545.7	565.1	(1.3)	0.8	2.6	2.4	4.9
Long Island	145.0	148.8	152.7	156.6	155.6	(0.2)	2.6	2.7	2.5	0.7
Hudson Valley	89.5	93.9	94.4	94.8	94.8	1.3	4.9	0.5	0.4	1.2
Capital District	52.6	53.9	55.5	57.2	57.5	1.1	2.6	2.9	3.1	1.5
Mohawk Valley	11.5	11.1	10.6	10.7	10.5	(1.3)	(3.6)	(4.7)	1.4	(1.4)
North Country	6.8	6.2	7.0	7.5	7.8	0.3	(8.6)	13.3	6.7	4.0
Central New York	34.3	35.3	35.9	36.0	36.8	9.3	2.7	1.8	0.4	3.4
Southern Tier	21.6	21.3	21.7	22.6	22.9	(8.4)	(1.3)	1.9	4.2	1.7
Western New York	64.9	66.5	68.1	70.0	70.4	2.2	2.5	2.3	2.9	1.9
Finger Lakes	56.7	58.1	60.0	60.9	61.7	1.3	2.3	3.4	1.4	2.5
Unclassified	38.9	38.4	38.9	36.3	36.9	(12.9)	(1.3)	1.3	(6.6)	4.8
Statewide	1,037.2	1,052.9	1,077.7	1,098.4	1,119.9	(0.8)	1.5	2.4	1.9	3.3
	Education, Health Care, and Social Assistance									
New York City	626.8	636.5	649.2	664.4	676.1	1.7	1.6	2.0	2.3	1.6
Long Island	185.1	188.3	191.6	197.5	202.1	3.3	1.8	1.7	3.1	3.1
Hudson Valley	149.3	152.4	154.7	157.2	160.8	1.8	2.1	1.5	1.6	2.5
Capital District	79.6	81.2	81.4	81.5	83.0	2.2	2.0	0.2	0.1	2.2
Mohawk Valley	28.9	29.2	30.0	30.7	31.4	3.4	1.0	2.5	2.3	3.9
North Country	23.0	24.2	24.4	24.4	24.2	2.7	5.6	0.6	0.1	(0.5)
Central New York	50.7	52.6	53.8	54.3	55.2	0.8	3.8	2.3	1.0	1.9
Southern Tier	57.3	57.8	58.0	58.4	58.8	2.8	0.9	0.4	0.6	0.4
Western New York	91.6	94.5	94.9	94.4	94.9	1.9	3.2	0.4	(0.5)	0.5
Finger Lakes	89.5	92.8	94.4	95.4	96.7	2.3	3.6	1.8	1.1	1.3
Unclassified	7.0	5.8	4.3	4.9	3.9	(18.5)	(16.8)	(25.1)	12.7	(17.2)
Statewide	1,388.7	1,415.4	1,436.7	1,463.1	1,487.0	1.9	1.9	1.5	1.8	1.7
	Leisure, Hospitality, and Other Services									
New York City	387.8	396.5	407.1	416.0	428.2	1.3	2.2	2.7	2.2	4.5
Long Island	137.4	141.5	141.7	143.3	141.8	2.3	3.0	0.1	1.2	2.0
Hudson Valley	104.8	107.5	106.7	106.6	106.3	1.7	2.6	(0.7)	(0.1)	3.5
Capital District	59.4	59.8	60.1	60.5	59.2	2.1	0.8	0.4	0.7	0.9
Mohawk Valley	18.1	18.4	18.4	18.2	17.4	(13.4)	1.3	0.1	(1.0)	(0.0)
North Country	19.4	18.7	18.6	18.6	18.1	(1.6)	(3.7)	(0.4)	(0.2)	2.6
Central New York	42.2	42.8	42.7	42.2	42.2	1.0	1.5	(0.3)	(1.2)	1.2
Southern Tier	32.8	33.0	33.2	33.4	32.9	0.9	0.9	0.3	0.6	1.1
Western New York	79.0	79.1	78.8	78.8	79.3	(0.1)	0.1	(0.4)	(0.0)	1.9
Finger Lakes	61.2	61.8	62.5	62.3	61.6	1.9	0.9	1.2	(0.3)	1.4
Unclassified	11.7	12.3	12.0	11.9	10.7	(26.6)	5.1	(2.4)	(0.5)	(5.5)
Statewide	953.8	971.5	981.7	991.7	997.8	0.6	1.9	1.0	1.0	2.9

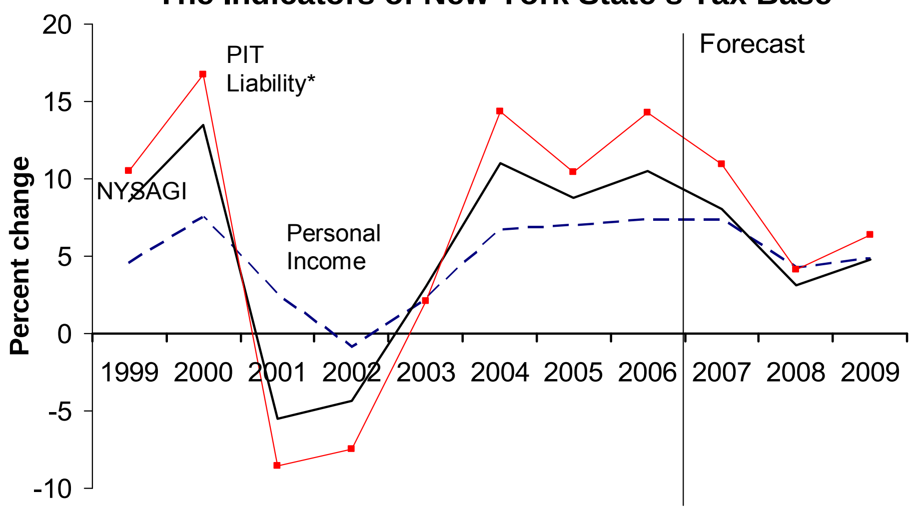
* Levels for 2007 are based on the first two quarters of the year; 2007 growth rates are relative to the same period in 2006.
Source: NYS Department of Labor.

NEW YORK STATE ADJUSTED GROSS INCOME

In light of the fact that personal income tax receipts account for almost 60 percent of the State's total tax receipts, detailed knowledge of the composition of the State's personal income tax base and its determinants is critical to accurately projecting receipts. New York State adjusted gross income (NYSAGI) is the measure of income from which taxpayers' Personal income tax liability is computed in conformity with New York State tax laws. At the aggregate level, the components of NYSAGI vary with the State's and federal economic indicators. The Budget Division's personal income tax liability forecasts will thus depend on the linkages between NYSAGI and the projected fate of both the State economy and the US economy.[18] NYSAGI exhibited strong growth of 8.7 percent in 2005, the last year for which detailed taxpayer data are available (see Figure 51). Preliminary data for 2006 suggest even stronger growth of 10.5 percent in NYSAGI for that year, before the cooling of the national and State economies are estimated to have dampened NYSAGI growth to 8.0 percent for 2007 and even further to 3.2 percent for 2008 (see Table 9).

Figure 51

The Indicators of New York State's Tax Base



*Personal income tax (PIT) liability is computed based on 2002 tax law.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

The Major Components of NYSAGI

The Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2005 tax year, made available by the New York State Department of Taxation and Finance. For 2006, preliminary processing data based on the entire population of tax returns are used to construct estimates for all of the income components.

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[18] Box 9 on page 153 discusses in detail the relationship between three important indicators of the size of the State's personal income tax base, personal income tax liability, NYSAGI, and state personal income.

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from Quarterly Census Employment and Wages (QCEW) data, they tend to follow a similar trend. Therefore, projected growth rates for taxable wages from 2007 onward are based on the history and forecast for total State wages derived from the Budget Division New York macroeconomic forecast, which is based on QCEW data. For a discussion of the Budget Division forecast for State wages, see "Outlook for Income" in the preceding "The New York State Economy" section.[19]

TABLE 9
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2002	2003	2004	2005	2006*	2007	2008	2009
	Actual				Estimated			
NYSAGI								
Level ($ Billions)	459.9	473.8	526.0	571.9	631.7	682.3	703.8	737.7
Change ($ Billions)	(21.1)	13.9	52.2	46.0	59.8	50.6	21.5	33.9
% Change	(4.4)	3.0	11.0	8.7	10.5	8.0	3.2	4.8
Wages								
Level ($ Billions)	368.7	373.3	397.4	417.0	447.4	481.4	497.4	520.2
Change ($ Billions)	(7.4)	4.6	24.1	19.6	30.4	34.0	15.9	22.9
% Change	(2.0)	1.2	6.5	4.9	7.3	7.6	3.3	4.6
Capital Gains								
Level ($ Billions)	23.3	31.2	53.8	66.7	83.2	94.7	96.4	101.8
Change ($ Billions)	(8.6)	7.8	22.6	12.9	16.5	11.5	1.7	5.4
% Change	(27.0)	33.6	72.5	24.0	24.8	13.8	1.8	5.6
Partnership/S Corporation								
Level ($ Billions)	39.1	41.1	45.9	53.8	59.6	64.0	67.2	71.7
Change ($ Billions)	1.2	2.0	4.8	7.9	5.8	4.5	3.2	4.4
% Change	5.4	3.0	5.2	9.6	3.2	6.3	5.1	4.9

Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2006 estimates are based on processing data.

Positive Capital Gains Realizations

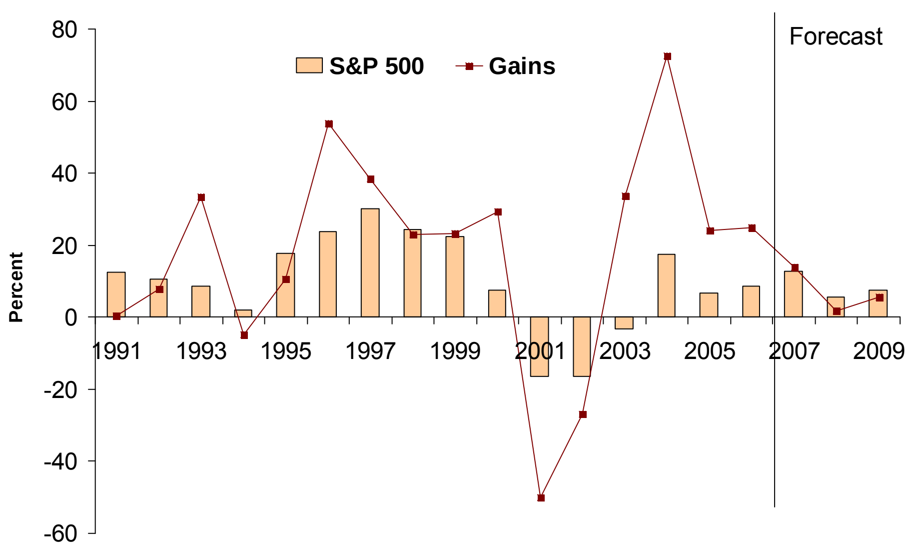
The volatility in capital gains realizations has accounted for a large share of the fluctuation in total NYSAGI in recent years. Positive capital gains income dropped from $64.0 billion in 2000 to $23.3 billion in 2002, but is estimated to have rebounded to $83.2 billion by 2006 (see Figure 52). While income from capital gains realizations accounted for 5.1 percent of NYSAGI in 2002, processing data suggests that for 2006 this

[19] For additional information about the estimation procedures for the major income components, see *New York State Economic, Revenue and Spending Methodologies, October 31, 2007*, pp. 53-63, < http://www.budget.state.ny.us/pubs/supporting/EconomicRevenueandSpendingMethodologies.pdf>.

share increased to 13.2 percent. The Budget Division's forecasting model has attempted to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[20]

Federal and state taxes on capital gains income constitute a cost associated with the buying and selling of capital assets and, therefore, can greatly affect realization behavior. For example, the Tax Reform Act of 1986 raised the capital gains tax rate from 20 percent to 28 percent, effective January 1, 1987. Because the tax increase was anticipated by taxpayers when the law was enacted in 1986, taxpayers increased realizations by 90.7 percent that year to take advantage of the lower rate, and reduced realizations by 54.6 percent in the following year. Similarly, the lowering of the capital gains tax rate from 20 percent to 15 percent with the passage of the Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA) of 2003 in June of that year contributed to the strong rebound in capital gains realizations in 2003 and 2004. Since JGTRRA was implemented retroactively, no anticipatory realization behavior on the part of taxpayers was observed.

Figure 52
Growth in Capital Gains Realizations and S&P 500



Note: Forecast period for the S&P 500 starts in 2008.
Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

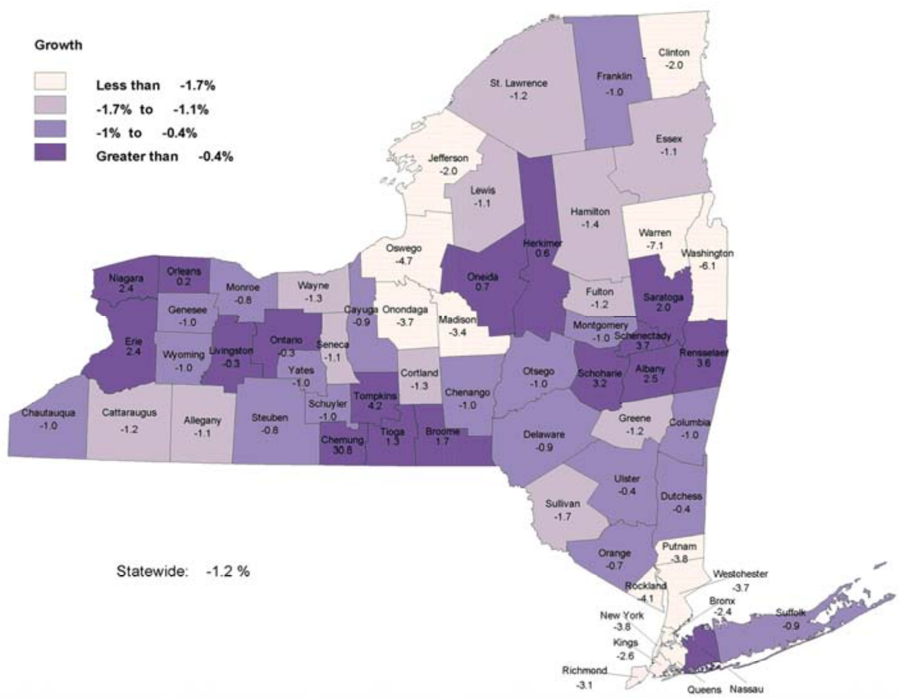
Fluctuations in equity market prices strongly influence capital gains realizations which tend to be even more volatile than the equity markets that drive them as seen in Figure 52. Mirroring the fluctuation in the S&P 500, capital gains realizations experienced strong growth between 1995 and 2000, followed by drastic declines in 2001 and 2002 and a remarkable recovery thereafter.

[20] For a discussion of the Budget Division's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pp. 172-183.

Gains from real estate transactions are taxable as capital gains, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to $500,000 for married couples filing jointly.[21] Real estate related gains are estimated to represent a large component of capital gains realizations. Although no direct evidence of this assertion exists for New York, its validity is supported by evidence from national studies and from other states. Historical data for California show that in 2005, 20.7 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 8.3 percent in 1996, to a high of 32.4 percent in 1990.[22] A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.[23]

State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. Very strong growth in cash collections related to real estate transactions of 52.6 percent in 2004 and 28.5 percent in 2005 imply that real estate activity is likely to have contributed considerably to the similarly strong growth in capital gains realizations during those years. More recently the growth in RETT collections has slowed, indicating weaker growth in real estate transactions for 2006 and 2007, and consequently, a shrinking contribution by the real estate sector to capital gains realizations.

Figure 53
Growth in Median Sales Price of Existing Single-Family Homes Between 2007Q2 and 2007Q3



Source: Moody's Economy.com

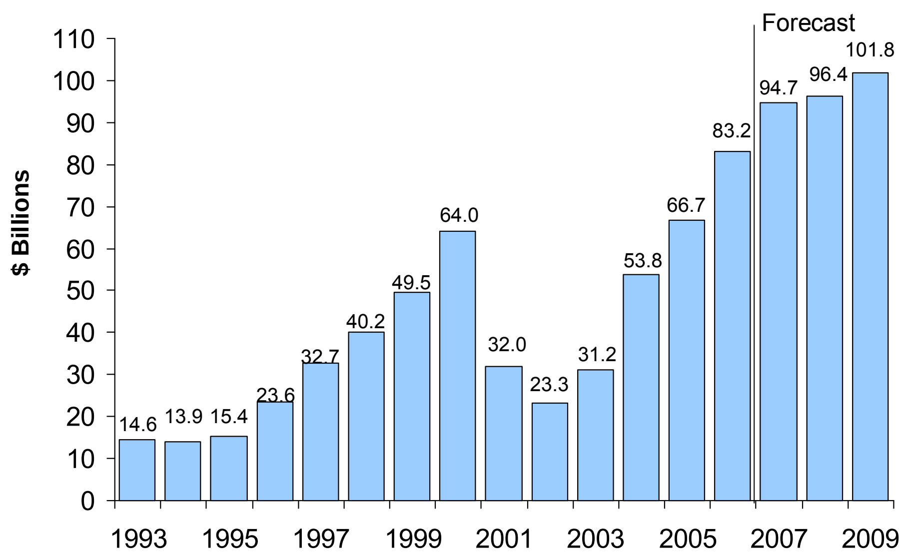
[21] Taxpayers can claim this exclusion if they have lived in their home for a total of two years in a 5-year period ending on the date they sold or exchanged their home, and if they have not sold or exchanged another home in the 2-year period ending on the date they sold or exchanged their home.
[22] Unpublished Study, Economics and Statistical Research Bureau, California Franchise Tax Board.
[23] L. E. Burman and P. R. Ricoy, "Capital Gains and the People Who Realize Them," *National Tax Journal* 50(3), September 1997, pp. 427-451.

The expectation that real estate will make a smaller contribution to capital gains going forward is supported by other State real estate market indicators as well. Figure 53 shows the growth between the second and the third quarters of 2007 in the median prices of existing homes sold, by county for New York State. Though some counties including the Capital Region experienced moderate growth, all the counties in New York City as well as most of the Hudson Valley experienced declines in median home values. Median home prices tend to be quite high in the New York City area and therefore, New York City sales are more likely to generate taxable capital gains by surpassing the exemption threshold than in areas where both prices and growth have been lower. Thus, the Budget Division estimates that real estate transactions made a smaller contribution to capital gains realizations growth for 2006 and 2007 than for the prior two years.[24]

The strong performances of the financial and real estate markets contributed to the strong growth in capital gains realizations between 2004 and 2006. By 2005, capital gains realizations had surpassed their 2000 high of $64.0 billion despite the steep declines in 2001 and 2002 (see Figure 54). By 2006, estimated capital gains realizations exceeded the 2000 high by $19.2 billion. Cooling State and national economies, slowing real estate and financial markets, and weakening profitability in the financial sector lead the Budget Division to forecast slower growth of 13.8 percent for 2007, and weak growth rates of 1.8 percent for 2008 and 5.6 percent for 2009.

Figure 54

Capital Gains Realizations



Source: NYS Department of Taxation and Finance; DOB staff estimates.

[24] The last few years have seen a large increase in investments undertaken by private equity firms that have dried up recently as a consequence of the credit crunch following the subprime mortgage debacle. Private equity firms own securities in companies that are not listed on a public stock exchange and generally receive a return on their investment through a sale or merger of the company, a recapitalization, or by selling shares back to the public through an initial public offering. The return to private equity investments is often not realized for at least three years, but the rate of return is generally quite high relative to the return to publicly held stocks to compensate for the higher degree of risk. Though related to the performance of equity markets and real estate markets, capital gains from private equity funds exhibit their own dynamics. The Budget Division is currently investigating capital gains forecast models that would include forecasts of private equity fund performances.

The downside risks to the forecast for capital gains realizations are large. The same factors that contributed to strong growth in realizations from 2003 to 2006 can also lead to more pronounced declines in realizations than is envisioned in the Budget Division's forecast. Tight credit markets in combination with falling financial sector profits could reduce real estate market activity by more than anticipated. To date, real estate transfer tax collections have continued to grow, though at a slowing rate, as residential real estate in Manhattan continues to buck the national trend of falling home prices and as commercial real estate transactions keep growing.[25] Though a small decline in real estate transactions is currently projected for 2008, the fallout of the subprime mortgage market and an ailing financial sector can easily result in a more pronounced downturn in capital gains from real estate transactions than projected, particularly in downstate New York.

Financial market volatility also introduces an element of uncertainty to capital gains realizations. The second half of 2007 was marked by considerable volatility in the equity markets, a trend that is expected to continue due to heightened uncertainty surrounding the subprime mortgage debacle and its repercussions through the economy. The Budget Division's forecast of slow but positive growth in equity market prices may prove to be overly optimistic if weakening economic conditions lead investors to lose confidence in equity investments.

Rent, Royalty, Partnership, and S Corporation Gains

Positive rent, royalty, estate, trust, partnership and S corporation income accounted for 9.4 percent of NYSAGI in 2006, up from 5.5 percent in 1990 and 7.6 percent in 2000. The largest contributor to this component is partnership income, much of which originates within the finance and real estate industries and is therefore linked to the performances of both the economy and financial markets. A second large contributor to this component is income from S corporation ownership. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation. Over the years, the number of S corporations has increased dramatically, as rules governing which businesses can form S corporations have become less stringent. Tax incentives for forming S corporations as opposed to C corporations arise from avoiding double taxation of earnings at the corporate level and the individual level.

While New York proprietors' income (as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income) grew at an average annual rate of 7.0 percent between 1980 and 2006, taxable partnership and S corporation income grew at a significantly faster rate of 12.5 percent. Some of this growth is due to past tax law changes and to an easing of the Federal and State requirements for forming S corporations. Strong growth from 2004 to 2006 coincides with the exceptional performance of the real estate market, a robust performance of the US economy, and recovering financial markets.

Based on the slowdown in economic growth, the Budget Division estimates slower growth in positive partnership and S corporation income of 7.5 percent for 2007. Even slower growth of 5.1 percent is projected for 2008 followed by growth of 6.6 percent for 2009.

[25] The decline in existing single-family home prices that appears in Figure 53 for New York County is misleading in that it reflects an extremely small piece of the Manhattan real estate market.

The Budget Division considers the risks to the model forecast to be on the downside, partly because the real estate market is not captured in the forecast model despite a high concentration of real estate partnerships in New York State. Though downward adjustments were made to the model forecasts for 2007 and 2008 to account for real estate market risk, those adjustments may not have been large enough. The Budget Division also views a decline in the profitability of hedge funds as a source of downside risk.

Dividend Income

Taxable dividend income is expected to rise with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle as measured by growth in real U.S. GDP, long-term interest rates as represented by the 10-year Treasury yield, the performance of equity markets, and with dividend payouts by Standard and Poor 500 firms. State dividend income has ranged from a decline of 19.3 percent in 2001 to an increase of 26.6 percent in 2004, proving much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income, or dividend payouts by Standard and Poor 500 firms. While State taxable dividend income grew at an average annual rate of 6.8 percent with a standard deviation of 11.1 percentage points between 1976 and 2006, US dividend income grew an average 10.5 percent annually with a standard deviation of 6.4 percentage points over the same period, and dividend payouts by Standard and Poor 500 firms at a rate of 6.4 percent with a standard deviation of 5.1 percentage points.

Processing data show that dividend income grew a very strong 18.2 percent in 2006, following the 26.6 percent growth in 2004 and 22.5 percent growth in 2005. The strong growth in 2004 reflects a number of one-time dividend payouts, most notably the $32 billion dividend distribution by Microsoft. The strong growth from 2004 to 2006 can also be attributed to strong economic growth and a lower tax rate for dividend income starting in the second half of 2003. The Budget Division predicts 8.9 percent growth in 2007, followed by 4.8 percent for 2008 and 6.8 percent for 2009 as economic growth is expected to slow.

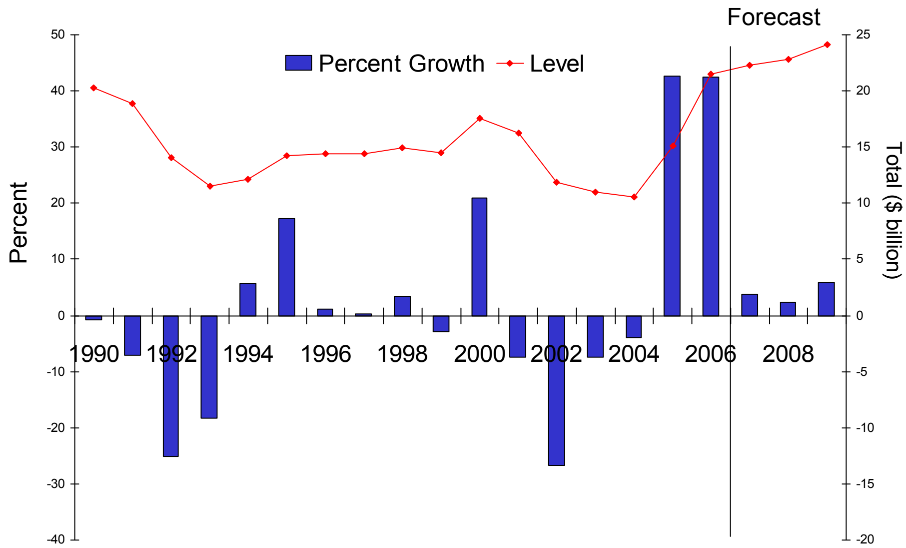
Slower economic growth, high equity market volatility, and slower growth in U.S. corporate profits, particularly within the financial sector, create considerable downside risk to the model forecast for dividend income. The Budget Division projects relatively low growth going forward, but an actual decline in dividend income is possible if a sufficient number of credit-constrained firms curtail their dividend payouts.

Interest Income

For a given amount of assets, an increase in interest rates will increase interest income. In addition, the overall trend in taxable interest income for New York is found to closely track that of U.S. interest income, another component of the NIPA definition of U.S. personal income. However, taxable interest income for New York is much more volatile than the latter measure. For the period from 1978 to 2006, the average growth rate for U.S. interest income was 7.2 percent, with a standard deviation of 8.5 percentage points. In contrast, New York’s interest income over the same period averaged 6.3 percent growth, with a standard deviation of over 17.0 percentage points. The additional volatility in the New York series could be related to the behavioral response of State taxpayers to past changes in the tax law.

Figure 55

Interest income



Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

Taxable interest income increased in 2005 by 42.7 percent, and preliminary information shows it to have grown by 42.5 percent in 2006. U.S. interest income for the same two years experienced an increase of 13.8 percent in 2005 and 8.0 percent in 2006. These above-average growth rates represent a rebound from four years of interest income declines from 2001 to 2004 due to the sharp decline in interest rates engineered by the Federal Reserve as the national economy was slipping into recession. By 2006, the level of interest income had surpassed its pre-recession high in 2000. With the rebound accomplished and with the return of the central bank to an expansionary monetary policy stance as of September 2007, much lower growth of 3.7 percent is estimated for last year, followed by 2.4 percent growth for 2008 and 5.8 percent growth for 2009. Should the Federal Reserve Board lower interest rates by more than anticipated, these estimates may prove to be overly optimistic.

Small Business and Farm Income

Small business and farm income combines income reported as a result of operating a business, practicing a profession as a sole proprietor, or operating a farm. Such income is expected to vary with the overall strength of the national and State economies. The inclusion in the model of State proprietors' income, a component of the NIPA definition of New York personal income, which is forecast within DOB/N.Y., insures consistency between the Budget Division's New York forecast and the forecast of this component of NYSAGI. Real U.S. GDP captures the impact of the national business cycle, which might not be captured by the NIPA definition of State proprietors' income.

Small business and farm income grew at an annual rate of 10.0 percent from 1978 to 1990. However, since 1991, this component of income has only grown at an annual average rate of 4.9 percent. Proprietors' income, as defined under NIPA, grew similarly for the same periods, at annual average rates of 10.1 percent and 5.3 percent, respectively. For

2005, business and farm income showed no growth, while processing data for 2006 suggests an increase of 4.4 percent in business and farm income. Given the weakening US and New York economies, the Budget Division estimates slow growth of 2.8 percent in 2007, followed by 4.0 percent growth for 2008 and 4.6 percent growth for 2009.

Pension Income

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income grew 9.6 percent in 2005, followed by growth of 3.2 percent for 2006, based on preliminary data. The Budget Division estimates 6.3 percent growth for 2007, followed by growth of 5.1 percent in 2008 and 4.9 percent in 2009.

Pension income is linked to long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. While the average annual growth rate between 1978 and 1990 was 12.8 percent, it fell to 7.1 percent between 1991 and 2006. This coincides with a decline in the 10-year Treasury rate from 10.2 percent in the former period to 5.7 percent in the latter.

Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 51, NYSAGI exhibits more extreme volatility than other indicators of the State's tax base, such as State personal income, while personal income tax liability is more volatile still. Box 9 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities. The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State's highest-income taxpayers. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for 39.8 percent of adjusted gross income in 2005 and 41.1 percent in 2006, they accounted for fully 73.6 percent and 75.5 percent of capital gains realizations in those years, respectively (see Figure 56). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of personal income tax liability.

Out-year estimation of the income distribution is fraught with uncertainty since the share of income earned among the wealthiest taxpayers can fluctuate dramatically with such factors as the business cycle, financial markets, and changes in Federal and State tax treatment. As incomes rise, some taxpayers move into higher income tax brackets, increasing the effective tax rate and the amount of liability generated from a given amount of adjusted gross income. The opposite occurs as incomes fall. This impact is exacerbated in New York by provisions in State laws that recapture the benefits of portions of income being taxed at lower rates for high income taxpayers.

BOX 9
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

A major focus of the Budget Division's forecasting effort is an accurate projection of personal income tax receipts. This requires estimates of income tax liability, which depends on taxpayer income. New York State tax law determines the components of income to be taxed and the corresponding tax rates.

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of these three concepts — personal income tax liability, NYSAGI, and State personal income — is presented in Figure 51. For example in 2005, personal income experienced solid growth of 7.1 percent, while NYSAGI grew a stronger 8.7 percent and personal income tax liability an even stronger 10.4 percent, holding tax rates constant at their 2002 values.

Economists use the concept of elasticity to measure the sensitivity of one economic indicator to another. Thus, elasticity is defined as the percentage change in one economic indicator when another changes by one percent. Since tax revenues tend to vary with the business cycle, we are often interested in the elasticity of the tax base with respect to a broad measure of economic conditions, such as GDP. For example, if GDP increases one percent and personal income responds to that improvement in economic conditions by growing two percent, the elasticity would be two. The more sensitive a particular tax base measure is to a change in GDP, the higher the elasticity.

Typically, the elasticity of NYSAGI tends to be higher than that of personal income because NYSAGI measures the taxable components of income, which include realized capital gains and losses. Gains and losses earned on changes in asset prices are not included in the NIPA concept of personal income since they do not represent additions or subtractions to the value of current production.[3] Unlike the primary drivers of personal income — employment and wages, which have relatively stable bases — income from capital gains realizations can rise and fall dramatically. When asset market conditions are depressed, taxpayers can refrain from selling, which can result in dramatic declines in taxable capital gains, such as the 27.0 percent decline that in 2002 (see Table 9 above). Likewise, taxpayers can respond to upturns in market conditions by accelerating trading activity, similarly resulting in dramatic growth, such as the 72.5 percent growth in taxable capital gains income experienced in 2004, and 24.0 percent in 2005. In addition to behavioral responses to changes in market conditions, NYSAGI fluctuations can result from statutory changes and taxpayers' strategic responses to such changes.

Personal income tax liability is even more elastic than NYSAGI, primarily because of the progressivity of the State tax system. The volatile components of taxable income, such as bonuses and capital gains realizations, tend to be concentrated among the State's high-income taxpayers, who are also taxed at the highest marginal tax rate. Growth in those components usually increases the average effective tax rate and contributes to the higher elasticity of personal income tax liability. It is evident from Table 9 that the volatility of positive capital gains is much greater than that of wages, positive partnership/S corporation income, and total NYSAGI. In 2004, taxable wages grew 6.5 percent, NYSAGI 11.0 percent, and capital gains realizations as much as 72.5 percent. Indeed, the $22.6 billion increase in capital gains realizations constituted 43.3 percent of the $52.2 billion increase in NYSAGI. For 2005, NYSAGI growth of 8.7 percent was accompanied by 24.0 percent growth in capital gains and 9.6 percent growth in the other large component, partnership/S corporation income.

The fact that the most volatile components of income can and have accounted for a large portion of the change in NYSAGI poses significant risks to the Division of the Budget's personal income tax forecast.[4] Therefore, the Budget Division has consistently maintained that a cautious approach to projecting these components is warranted.

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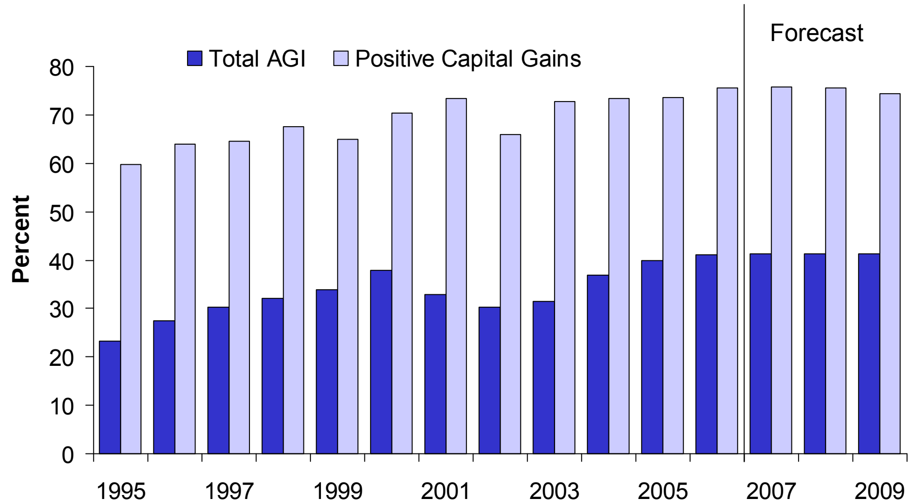
[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."
[2] For a detailed explanation of how the Budget Division constructs State personal income, see Box 6 on page 117.
[3] However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.
[4] For a detailed explanation of the Budget Division's use of fan charts to compute prediction intervals around forecasts, see *New York State Economic, Revenue and Spending Methodologies*, October 31, 2007, pp. 59-63, < http://www.budget.state.ny.us/pubs/supporting/EconomicRevenueandSpendingMethodologies.pdf>.

Figure 56
Income Shares of the Top One Percent Taxpayers
AGI and Capital Gains Realizations

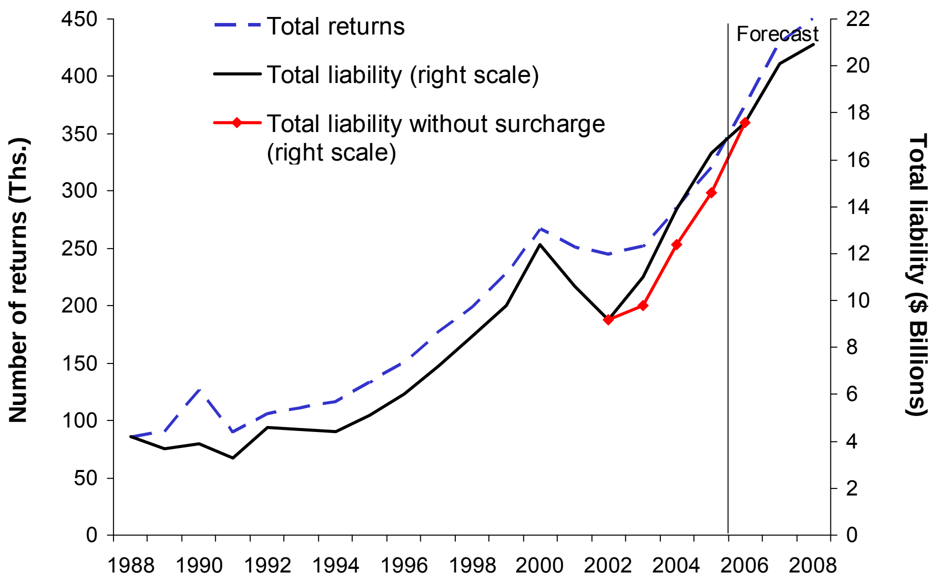


Note: For nonresident taxpayers, shares are based on total income.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The average effective tax rate fell from a high of 4.81 percent in 2000 to a low of 4.51 percent in 2002 without any significant changes in tax law. Fiscal pressures resulting from the State's 2001-2003 recession prompted the legislature to enact a surcharge for high-income taxpayers for the 2003, 2004, and 2005 tax years, pushing the effective tax rate up to 4.98 percent by 2005, the second full year of the State recovery. The Budget Division estimates that after adjusting for changes in State tax law, and thus due to income growth alone, the effective tax rate in 2005 would have increased to 4.68 percent instead. Similarly, the estimated effective tax rate for 2006 of 4.72 percent is significantly below what it would have been had the surcharge not expired as scheduled on January 1 of that year.

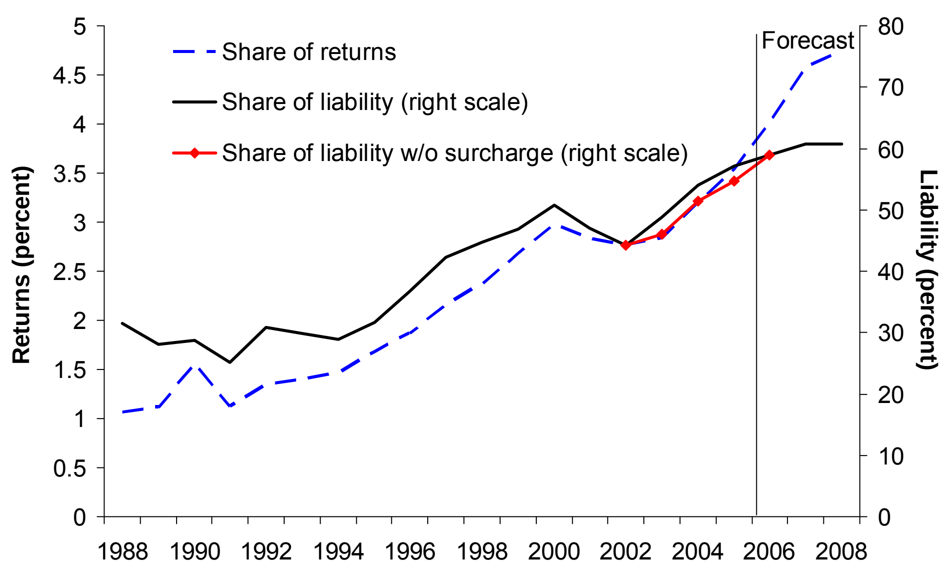
The share of total personal income tax liability accounted for by high-income taxpayers — those reporting NYSAGI of $200,000 or more — grew considerably between 1995 and 2006 (see Figure 57). The 10.5 percent average annual growth rate in high-income returns between 1995 and 2006 far outpaced the 1.4 percent overall growth in returns. In 2006, high-income taxpayers represented a mere 4.0 percent of all taxpayers but accounted for 58.9 percent of personal income tax liability (see Figure 58), and 44.9 percent of NYSAGI. The increasing concentration of NYSAGI among high-income taxpayers increases the elasticity of total liability with respect to changes in the highest marginal tax rate.

Figure 57
New York State High-Income Tax Returns



Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 58
High-Income Taxpayers as Percent of Total Returns and Liability



Source: NYS Department of Taxation and Finance; DOB staff estimates.

Table 10 indicates that trends in both wage and nonwage income are responsible for the increasing concentration of liability since the mid-1990s. The share of nonwage income accruing to the top 25 percent of taxpayers grew 11.2 percentage points between 1995 and 2005, while the wage share grew 4.1 percentage points. Much of the growth in nonwage income during the 1990s was in capital gains realizations and partnership/S corporation income, which tend to accrue primarily to high-income filers. Although wage income is more evenly distributed across taxpayers than nonwage income, the gains in wages earned since 1995 have gone disproportionately to the top filers.

TABLE 10
THE CONCENTRATION OF STATE INCOME AND LIABILITY
1995 & 2005

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
			1995		
Total ($ millions)	7,965,039	$343,383	$253,551	$89,832	$16,011
Share: Top 1%	–	18.5	12.1	36.4	26.4
Share: Top 5%	–	33.5	26.5	53.0	45.6
Share: Top 10%	–	44.4	38.4	61.3	57.6
Share: Top 25%	–	66.2	62.8	75.6	79.2
			2005		
Total ($ millions)	9,063,735	$619,853	$416,988	$202,864	$28,489
Share: Top 1%	–	28.6	17.4	51.7	42.1
Share: Top 5%	–	44.1	32.7	67.6	61.5
Share: Top 10%	–	54.3	44.3	74.8	72.0
Share: Top 25%	–	73.4	66.9	86.8	88.2

Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 59 and Figure 60 display the actual composition of NYSAGI for 2003, the last year of the State's recession, and the projected composition for 2008, both for all taxpayers and for high-income taxpayers, defined as those reporting NYSAGI of $200,000 or more. The figures show a substantial shift in income from wages to net capital gains realizations over the period.[26] Net capital gains income is projected to increase from 5.9 percent to 13.2 percent of NYSAGI for all taxpayers over the period, and from 15.9 percent to 25.2 percent of NYSAGI for high-income taxpayers. The wage share is projected to decrease from 77.5 percent to 69.6 percent for all taxpayers, and from 55.9 percent to 50.0 percent for high-income taxpayers. High-income taxpayers have a much higher concentration of capital gains income and partnership and S corporation income, and a much smaller concentration of wage income.

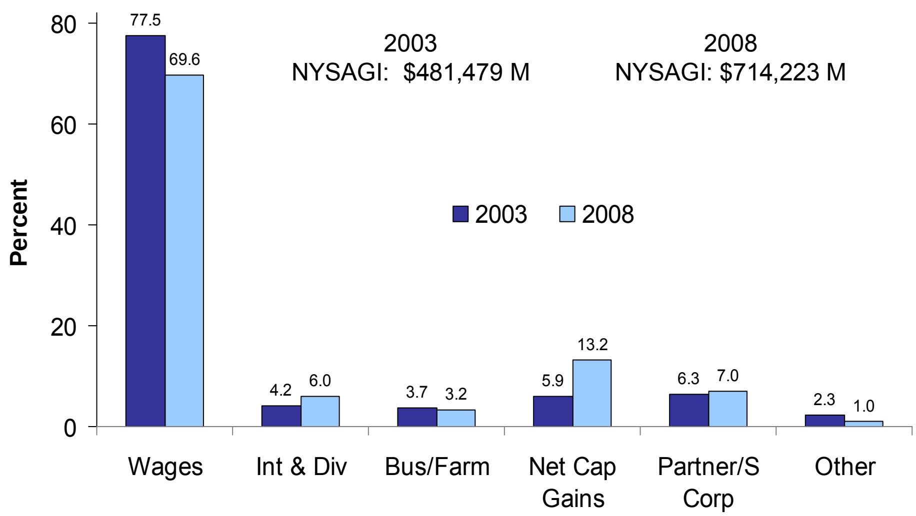
Summary

In summary, given the uncertainty surrounding such volatile components as capital gains realizations and bonuses, and the small number of taxpayers who account for the majority of the income from these realizations, and the volatility particularly in the financial sector there exists significant risk to the Division of the Budget's personal income tax forecast. Some of this risk stems from the connection between revenues and the weakening real estate market. Further risk is caused by the link between revenues and the

[26] Net capital gains and partnership/S corporation income in these figures are net of the corresponding aggregate losses.

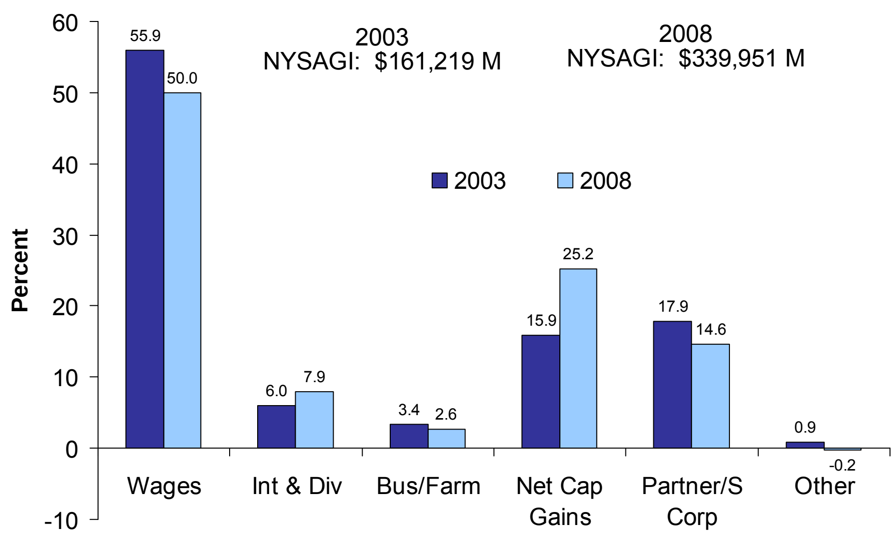
stock market, which is particularly difficult to forecast, as are financial sector bonuses, another volatile component of income. Should GDP growth for 2008 be even weaker than projected, small business and farm income and partnership and S corporation income could be lower than expected. Statistical evidence suggests that a one percentage point reduction in GDP growth translates into a decline in NYSAGI of about $1 billion and a decline in personal income tax liability of about $50 million.

Figure 59
Composition of NYSAGI for All Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 60
Composition of NYSAGI for High-Income Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 11
SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2006 (actual[1])	2007 (estimate)	2008 (forecast)	2009 (forecast)	2010 (forecast)	2011 (forecast)	1976-2006 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	6.1	4.8	3.8	5.0	5.1	5.1	7.0
Gross Domestic Product	2.9	2.2	2.2	2.9	3.0	3.1	3.2
Consumption	3.1	2.8	1.9	2.8	3.0	3.1	3.4
Residential Fixed Investment	(4.6)	(16.6)	(14.6)	0.1	3.2	3.3	4.1
Nonresidential Fixed Investment	6.6	4.8	6.5	5.2	5.1	5.2	5.1
Change in Inventories (dollars)	40.3	8.3	10.8	31.2	31.7	31.8	28.6
Exports	8.4	8.0	8.2	7.6	7.6	7.8	6.0
Imports	5.9	2.1	3.9	6.3	6.6	6.6	7.3
Government Spending	1.8	2.1	2.3	1.9	2.1	2.1	2.2
Corporate Profits[4]	13.2	3.7	3.1	5.5	7.2	8.4	8.6
Personal Income	6.6	6.2	5.3	6.0	6.0	5.8	7.1
Wages	6.2	5.8	4.8	5.7	5.6	5.3	6.7
Nonagricultural Employment	1.9	1.3	1.0	1.2	1.3	1.3	1.9
Unemployment Rate (percent)	4.6	4.6	5.0	5.0	5.0	5.0	6.2
S&P 500 Stock Price Index	8.6	12.8	5.7	7.5	8.0	8.2	9.9
Federal Funds Rate	5.0	5.0	4.0	4.3	4.4	4.5	6.6
10-year Treasury Yield	4.8	4.6	4.3	4.5	4.8	5.0	7.7
Consumer Price Index	3.2	2.9	2.7	2.2	2.3	2.3	4.4
New York State Indicators							
Personal Income[5]	7.4	7.4	4.3	4.8	5.1	5.2	6.4
Wages and Salaries[5]							
Total	7.6	7.6	3.3	4.6	4.6	4.7	6.1
Without Bonus[6]	5.7	5.1	4.1	4.0	4.0	3.9	5.7
Bonus[6]	20.1	21.8	(0.8)	7.7	7.6	8.6	10.6
Wage Per Employee	6.6	6.5	2.7	4.0	3.9	4.1	5.3
Property Income	12.1	10.4	5.7	4.2	4.4	4.3	7.2
Proprietors' Income	4.1	4.4	5.6	5.6	6.5	7.1	8.3
Transfer Income	6.3	6.6	4.9	5.9	6.3	6.0	6.6
Nonfarm Employment[5]							
Total	0.9	1.1	0.6	0.6	0.7	0.6	0.7
Private	1.2	1.2	0.7	0.7	0.7	0.8	0.8
Unemployment Rate (percent)	4.5	4.4	4.9	5.0	5.0	5.0	6.6
Composite CPI of New York[6]	3.6	2.8	2.7	2.5	2.6	2.6	4.4
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	24.8	13.8	1.8	5.6	12.5	(11.4)	17.7
Partnership/ S Corporation Gains	10.8	7.5	5.1	6.6	8.1	8.4	12.5
Business and Farm Income	4.4	2.8	4.0	4.6	4.8	5.1	6.9
Interest Income	42.5	3.7	2.4	5.8	5.8	5.3	5.3
Dividends	18.2	8.9	4.8	6.8	5.8	5.8	6.5
Total NYSAGI	10.5	8.0	3.2	4.8	5.9	2.6	6.1

[1] For NYSAGI variables, 2006 is an estimate.
[2] For the NYSAGI variables, averages are calculated using data through 2005. Partnership and S corporation gains data start in 1978, NYSAGI data in 1980.
[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.
[4] Includes inventory valuation and capital consumption adjustments.
[5] Nonagricultural employment, wage, and personal income numbers are based on CEW data.
[6] Series created by the Division of the Budget.
Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 12
SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2006-07 (actual)	2007-08 (estimate)	2008-09 (forecast)	2009-10 (forecast)	2010-11 (forecast)	2011-12 (forecast)	1976-77 - 2006-07 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	5.6	4.7	4.0	5.1	5.1	5.1	6.9
Gross Domestic Product	2.4	2.5	2.2	3.0	3.0	3.1	3.1
Consumption	3.1	2.5	2.2	2.9	3.0	3.1	3.4
Residential Fixed Investment	(9.8)	(16.8)	(11.3)	1.9	3.2	3.4	3.7
Nonresidential Fixed Investment	5.3	6.2	5.8	5.2	5.2	5.2	5.1
Change in Inventories (dollars)	30.7	8.6	17.8	32.2	31.5	31.8	28.4
Exports	7.9	8.7	7.7	7.7	7.6	7.8	6.0
Imports	5.0	1.9	4.9	6.5	6.7	6.6	7.3
Government Spending	1.6	2.6	2.0	2.0	2.1	2.0	2.1
Corporate Profits[2]	11.0	4.6	2.8	6.0	7.7	8.2	8.3
Personal Income	6.4	5.8	5.5	6.0	6.0	5.7	7.0
Wages	5.9	5.3	5.2	5.7	5.5	5.2	6.7
Nonagricultural Employment	1.7	1.2	1.0	1.3	1.3	1.4	1.9
Unemployment Rate (percent)	4.6	4.7	5.0	5.0	5.0	5.0	6.2
S&P 500 Stock Price Index	9.5	11.7	5.9	7.6	8.1	8.1	9.8
Federal Funds Rate	5.2	4.7	4.0	4.4	4.5	4.5	6.6
10-year Treasury Yield	4.8	4.5	4.3	4.6	4.8	5.0	7.7
Consumer Price Index	2.9	3.1	2.4	2.2	2.3	2.4	4.4
New York State Indicators							
Personal Income[3]	7.2	5.6	4.6	4.9	5.2	5.1	6.4
Wages and Salaries[3]							
Total	7.4	4.2	4.4	4.6	4.8	4.7	6.0
Without Bonus[4]	5.5	4.7	4.1	4.0	4.0	4.0	5.6
Bonus[4]	17.7	1.9	6.2	7.4	8.6	8.3	12.1
Wage Per Employee	6.2	3.4	3.8	3.9	4.1	4.1	5.3
Property Income	11.2	10.0	4.4	4.4	4.4	4.4	7.0
Proprietors' Income	3.5	4.9	5.5	5.8	6.7	7.1	8.4
Transfer Income	6.8	5.8	5.1	6.2	6.2	5.9	6.7
Nonfarm Employment[3]							
Total	1.1	0.9	0.6	0.6	0.7	0.6	0.7
Private	1.3	1.0	0.6	0.7	0.7	0.8	0.8
Unemployment Rate (percent)	4.4	4.5	5.0	4.9	5.0	5.0	6.7
Composite CPI of New York[4]	3.4	3.0	2.5	2.5	2.6	2.6	4.4

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.

[2] Includes inventory valuation and capital consumption adjustments.

[3] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[4] Series created by the Division of the Budget.

Source: Moody's Economy.com; NYS Department of Labor; DOB staff estimates.

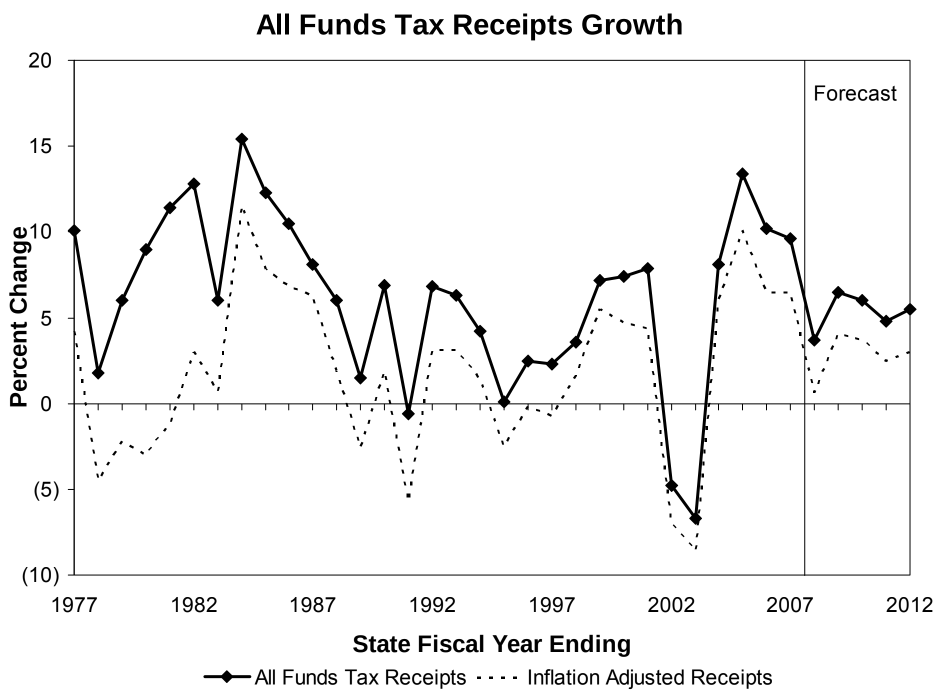
RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

All Funds tax receipts are subject to significant volatility. The main factors impacting growth include:

- changes in tax policy;
- changes in underlying economic conditions including the rate of inflation;
- changes in the structure of the economy that have an impact on the tax base (the shift from manufacturing to services, Internet purchases of taxable items);
- changes in the performance of key industries, especially the financial service sector;
- changes in the demographic make-up and income distribution of taxpayers; and
- unexpected shocks to the economy and taxpayer behavior.

OVERVIEW



Historically, growth in All Funds tax receipts has been very volatile, reflecting both underlying economic conditions and significant changes in tax policy. This variability is evident in the charts accompanying this section that detail changes in tax receipts over more than three decades. The Division of the Budget website (www.budget.state.ny.us) provides more detailed historical data by tax type covering the period from 1974-75 to the present. In addition, the *Economic Revenue and Spending Methodology*, produced by the Division and found on the same website, includes detailed collections of graphs for the most significant tax revenue sources.

During the mid 1970s and early 1980s, tax revenue growth rates were relatively high, reflecting the inflationary environment of the times. Tax revenue growth in the mid-to-late 1980s was fueled by a bull market on Wall Street and large increases in real estate values. Tax growth dipped in the late 1980s, partly as a result of the implementation of a multi-year personal income tax reduction program. The relatively small annual average growth in receipts during the 1990s was largely due to three factors: the severe economic downturn experienced in New York during the early 1990s, reduced inflation rates, and the significant tax reductions enacted over the 1995-2000 period. The decline in tax receipts for fiscal years 2001-02 and 2002-03 was directly related to the adverse effects of the national economic recession, the decline in stock market values, and the disproportionate impact of the World Trade Center disaster on the New York economy. The decrease in receipts also reflected the continued impact of previously enacted tax reductions. The back-to-back decline in tax receipts was the most severe observed over this historical period, including the fiscally turbulent 1970s.

Tax receipts have increased significantly over the past five fiscal years. In fact, it is estimated that tax receipts have increased by 48.2 percent since fiscal year 2002-03. The increases in receipts exceeded expectations most years over this period as important segments of the economy grew at unexpectedly rapid rates (see the Assessment of Forecast section in this volume). The recovery of the financial services industry and the growth in the number and value of real estate market transactions fueled much of the economic improvement. In addition, the relative weakness in the dollar compared to foreign currencies had a positive impact on the tourism industry, especially in New York City.

The positive economic and revenue trends continued through the first half of fiscal year 2007-08. However, the impact of the collapse of the sub-prime mortgage market in the late summer of 2007 and the associated economic fallout has led to a slowdown in the economy of the State; this is expected to reduce year-over-year tax receipt growth in fiscal year 2008-09.

In recent years, the rapidly accelerating real estate market boosted receipts significantly beyond what normal economic growth in isolation would support. This had a noticeable impact on real estate transfer and personal income tax collections prior to the 2007-08 fiscal year. The commercial real estate market downstate remains strong and supported continued growth in the income and corporate bases. However, the situation in the residential housing market has deteriorated, given the sub-prime related issues discussed in detail in the Economic Overview section of this publication. The receipt estimates are based on the assumption that the residential housing market will continue to decline, but will stabilize by the end of 2008 or early 2009. The commercial market is expected to remain stable. As a result, real estate transfer tax collections are expected to remain relatively flat over the next several years, after growing by nearly 130 percent over the past five fiscal years. In addition, income tax liability growth will slow as capital gains and business related income associated with real estate appreciation are negatively affected by the housing slump. Further, sales tax growth has slowed as consumers have retrenched at the start of 2008, with the economy down.

Receipts growth during 2007-08 has been supported by revenue actions taken last year, including corporate loophole-closing initiatives. This Budget contains no new tax increases, but continues to close unintended loopholes and provide reforms to the tax code that promote a level tax playing field and should supplement revenues over the financial plan horizon.

SUMMARY OF REVENUE HISTORY

The table below reports average growth, the standard deviation in growth (a measure of dispersion around the average) and the average share of total tax receipts for the major tax sources. The table reports these data for three ten-year periods beginning with fiscal year 1976-77.

ALL FUNDS SUMMARY OF HISTORICAL RECEIPTS TRENDS
Growth and Share in Percents

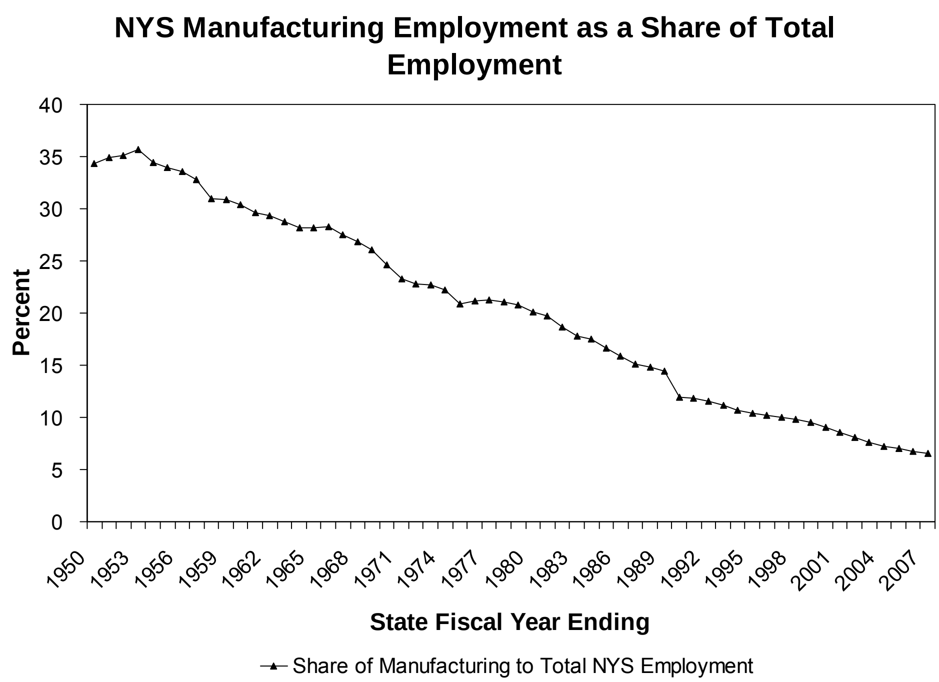
	AVERAGE GROWTH 1977-2007 6.3			STANDARD DEVIATION 1977-2007 5.1			AVERAGE SHARE		
	1977-1984	1985-1994	1995-2007	1977-1984	1985-1994	1995-2007	1977-1984	1985-1994	1995-2007
Total Taxes	9.4	5.0	5.1	4.2	3.6	6.0	100.0	100.0	100.0
Personal Income Tax	11.5	5.0	6.6	6.6	5.1	8.4	48.7	51.5	55.7
Sales Tax	7.8	5.0	4.0	2.6	4.5	4.8	22.5	20.6	21.1
Other User Taxes & Fees	5.5	4.1	1.9	12.8	7.8	9.9	8.4	6.7	5.2
Business Taxes	8.3	6.6	3.4	9.1	10.8	10.8	17.6	16.9	14.7
Other Taxes	13.7	3.6	6.0	26.2	15.8	11.3	2.9	4.3	3.3

This table summarizes the most important characteristics of the State revenue structure over the past three decades.

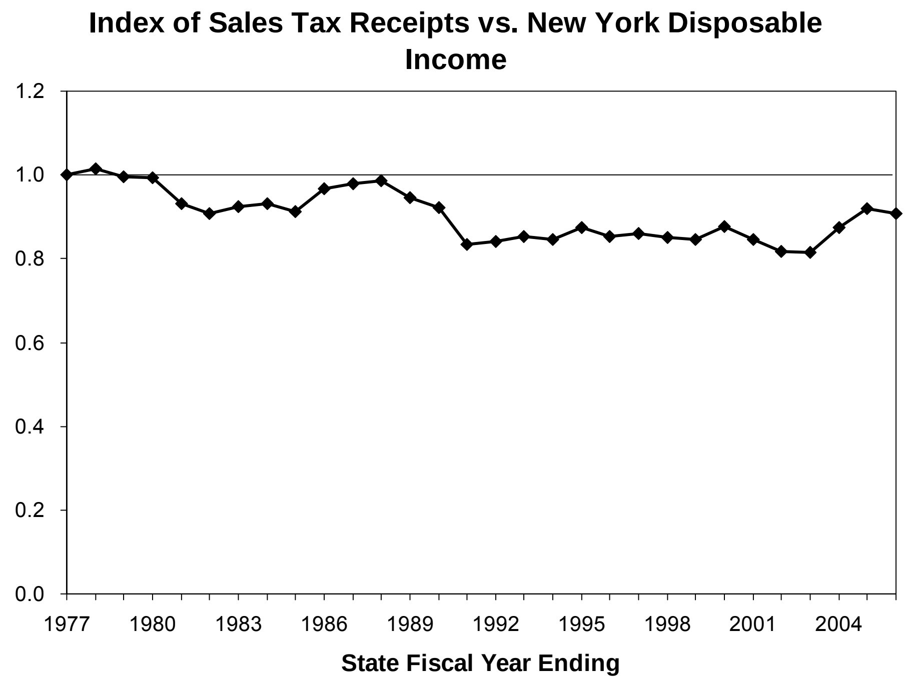
- Average growth in total tax receipts declined from the 1970s and early 1980s, reflecting lower inflation and an overall fiscal policy favoring tax reduction.
- The personal income tax is consistently the fastest growing receipt source despite major reductions in rates and the base over this period.
- The average income tax share of total receipts has been steadily increasing, another manifestation of higher average growth in this source over the past thirty years.
- The sales tax share of total receipts has remained relatively constant over three decades.
- The business tax share has declined, reflecting prior tax reduction actions and a shift toward the income tax base resulting from businesses shifting to S corporation and limited liability corporation status. More recently, the business share has stabilized, reflecting rapid profit growth and increased audit and compliance collections.
- The other user taxes share has declined, reflecting tax reductions, elimination of certain taxes and the fact that these taxes are relatively insensitive to inflationary changes in the economy.
- Overall, tax volatility has increased for the 1995 through 2007 period, reflecting several factors including: rapid growth in the economy in the 1990s, significant tax law changes, the depressing impact of September 11th and the subsequent strong economic recovery.
- The standard deviation in receipts growth (dispersion around the average) is larger than average growth for the 1997 through 2007 period. This increase in variation helps to explain the difficulty in projecting receipts over this period.

THE ECONOMY, REVENUE AND BASE GROWTH

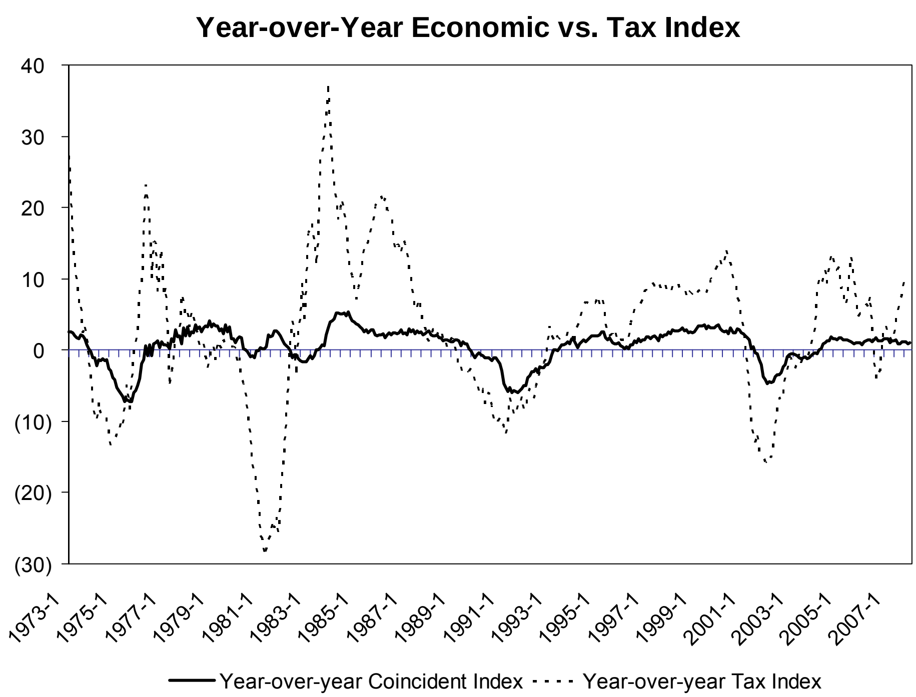
The main driver of revenue growth is the economy. The tax bases for the two most important tax sources, the personal income tax and the sales tax, are tied directly to economic activity in the form of taxpayer incomes and expenditures on taxable items. The following summary table shows that economic growth and tax revenue growth have been closely linked over the past three decades. However, tax receipt growth is much more volatile. The increased volatility is related to tax policy shifts and to changes in taxpayer behavior, as well as in the structure of the economy. As the structure of the economy changes, the New York Tax Law often does not change in tandem, and this can lead to changes in the relationship between the economy and tax receipts. For example, the manufacturing sector of the New York economy (and for the nation as a whole) has been declining relative to other sectors. The accompanying chart shows the share of employment in the manufacturing sector to be falling almost continuously since the 1950s (the discontinuity in 1991 is caused by a change in manufacturing definitions. New York Tax Law was designed when manufacturing was a more dominant sector of the economy. Since this underlying tax structure survives but the economy has changed, there is a growing disconnect between growth in the economy and growth in tax receipts.



Looking at sales tax collections relative to income, the ratio is shrinking somewhat. This suggests that, at least in part, more income is being spent on non-taxable goods and services. Since the share of services in consumer budgets has been increasing and services are only selectively taxed under the sales tax, this ratio should be expected to fall, holding other factors constant. This is the result of a tax system designed around the production and consumption of tangible goods. In addition, as more taxable products are purchased over the Internet by out-of-State vendors who do not collect sales tax, the ratio of receipts to disposable income should be expected to decline.



The Division of the Budget (DOB) has developed two indices to aid in our analysis of revenue trends; one measures the current state of the New York economy and is constructed from several underlying economic series (see Economic Backdrop section of this volume); the second index captures the underlying condition of the revenue base and is composed of the major economically sensitive tax sources (adjusted for law changes). As the accompanying figure illustrates, there is a clear positive relationship between the economic and revenue series. However, it is also clear that the revenue series variation is much larger than that of the economic series. What seems clear is that revenues shrink more rapidly during recessions than what the economic index alone would suggest. Conversely, the revenue index grows more rapidly in expansions. Consistent with the discussion above, it also appears to be the case that the underlying relationship between the economy and tax revenue has been changing over time. For example, over the most recent economic expansion, receipts growth as measured by the DOB index has been growing much faster than the economic index prior to the current fiscal year. Over the past several quarters, receipts growth has become extremely volatile with the index actually turning negative and then rebounding This suggests that factors not normally captured by an economic index, such as taxable capital gains realizations, have played a prominent role in the current run-up in receipts. This distorts the measured relationship between the series and, therefore, ability to predict receipts using normal measures of economic activity.

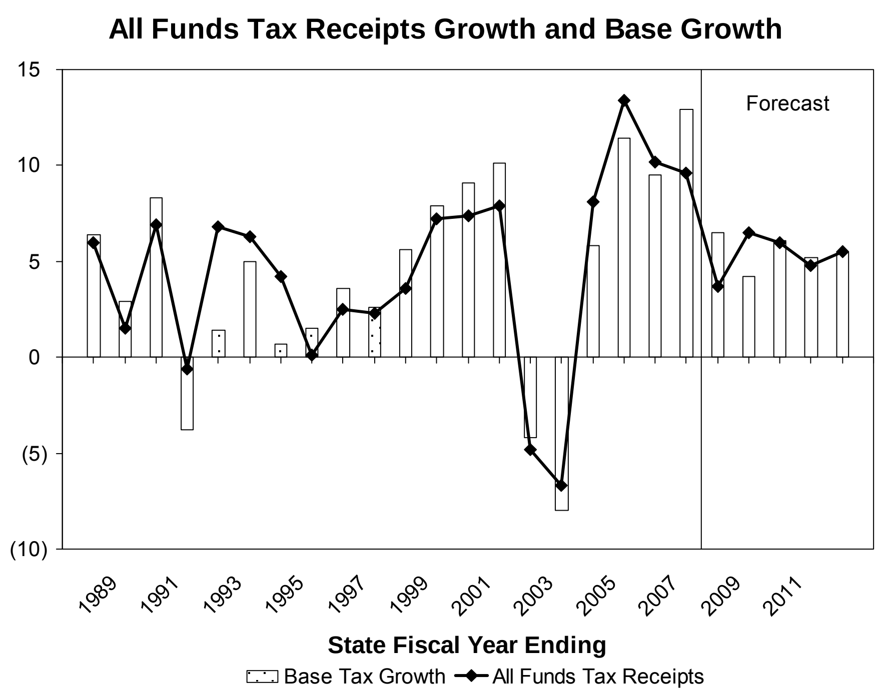

Year-over-Year Economic vs. Tax Index
40
30
20
10
0
(10)
(20)
(30)
1973-1
1975-1
1977-1
1979-1
1981-1
1983-1
1985-1
1987-1
1989-1
1991-1
1993-1
1995-1
1997-1
1999-1
2001-1
2003-1
2005-1
2007-1
Year-over-year Coincident Index
Year-over-year Tax Index

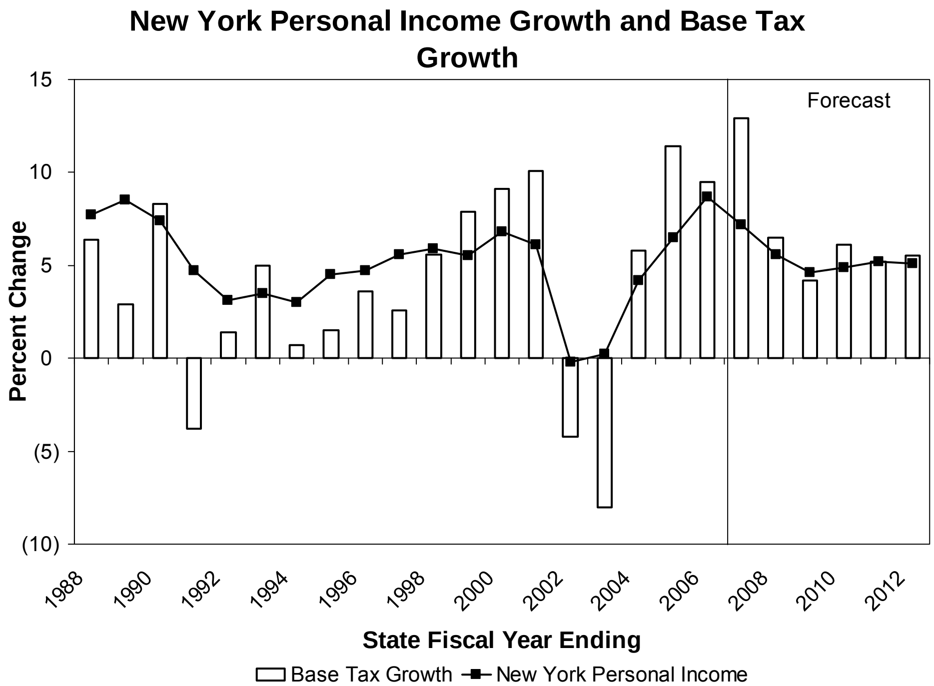
Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.2	6.4	2.2
1988-89	1.6	2.9	(1.8)
1989-90	6.8	8.3	2.7
1990-91	(0.8)	(3.8)	(7.7)
1991-92	7.2	1.4	(1.6)
1992-93	6.1	5.0	1.9
1993-94	4.3	0.7	(1.9)
1994-95	0.1	1.5	(1.2)
1995-96	2.6	3.6	0.6
1996-97	2.0	2.6	0.2
1997-98	3.7	5.6	4.0
1998-99	7.2	7.9	5.5
1999-00	7.5	9.1	5.6
2000-01	7.9	10.1	7.1
2001-02	(4.9)	(4.2)	(5.7)
2002-03	(6.7)	(8.0)	(10.1)
2003-04	8.2	5.8	3.0
2004-05	13.4	11.4	7.8
2005-06	10.2	9.5	5.7
2006-07	9.6	12.9	10.0
2007-08	3.7	6.5	3.8
2008-09	6.5	4.2	1.7
2009-10	6.0	6.1	3.5
2010-11	4.8	5.2	2.6
2011-12	5.5	5.5	2.9
	Actual Change	**Base Change**	**Adjusted Base Change**
Historical Average (87-88 to 06-07)	**4.6**	**4.4**	**1.3**
Standard Deviation (87-88 to 06-07)	**5.0**	**5.5**	**5.2**
Forecast Average (06-07 to 11-12)	**6.0**	**6.7**	**4.1**
Forecast Average (07-08 to 11-12)	**5.3**	**5.5**	**2.9**
Recessions	**1.5**	**(0.6)**	**(3.3)**
Expansions	**4.5**	**5.3**	**2.1**

As the above table reports, over the past two decades, tax receipts growth has averaged 4.6 percent. However, the volatility around average growth has been significant, with receipt changes ranging from a positive 13.4 percent in fiscal year 2004-05 to a negative 6.7 percent in fiscal year 2002-03. Much of this volatility was the result of law changes that can distort year-to-year growth comparisons. Base growth, adjusting for statutory and administrative changes, has averaged 4.4 percent over the period from fiscal year 1987-88 to fiscal year 2006-07. Even after adjusting for the impact of law changes, base growth has been quite volatile. The standard deviation around average base growth was 4.9 percent over the period from 1986-87. This volatility reflects significant shocks to the economy experienced over this period as well as changes in taxpayer behavior and changes in the performance of certain industries critical to revenue growth. It is projected that base growth will average 5.5 percent over the 2007-08 to 2011-12 forecast period. Given the current period of significant economic uncertainty and the expected slowdown in economic growth, it is expected that revenue growth will slow over the remainder of 2007-08 and into fiscal year 2008-09.

Despite these factors disturbing the tax-to-economy relationship, there remains a relatively strong relationship between growth in the economy and tax receipts adjusted for law changes. However, as reported above, there is significant volatility in the relationship; even after correcting for law changes, unusual factors and changes in taxpayer behavior act to disturb this relationship over time. The receipts base has grown with the economy, but at a slower overall pace, over the past three decades. The slower growth reflects, in large part, the policy choices to lower the tax burden facing New Yorkers over this period. Inflation-adjusted All Funds receipts grew by 66 percent over the past 30 years, while inflation -adjusted personal income increased by 82 percent. The slightly slower growth rate in receipts reflects the predominant policy choice over this period, which has been to reduce State tax burdens. The standard deviation in inflation-adjusted personal income is less than half that of total tax receipts. Again, this reflects the greater volatility in the inflation-adjusted tax receipts base over the past 30 years.





As already stated, All Funds receipts can be adjusted for the estimated value of tax policy and administrative changes to obtain an approximate base receipts series. Growth in base receipts is higher than for actual receipts in most years reported, reflecting the impact of tax reductions in lowering actual receipts growth. The impact of the Wall Street boom on receipts growth in the late 1990s and into 2000-01 is much more evident in base growth. This is as expected, given the fact that tax reductions enacted over the 1995-2000 period reduced actual revenue growth substantially. However, this trend reversed itself when taxes were temporarily increased in 2003 and caused actual growth in receipts to exceed base growth. It is expected that over the 2007-08 to 2011-12 period, base growth will exceed actual receipts growth significantly in 2007-08 but only marginally over the remainder of the period. The loophole closers and reforms proposed with this Budget and those enacted in 2007-08 add receipts to the revenue base.

Critically, it is clear from the graph of personal income and base tax receipts growth that the Division of the Budget Financial Plan forecast of base receipts closely matches the economic forecast. Past experience suggests (as indicated on the chart) that this is a loose-fitting relationship, but appears to hold, on average, over time. It is to be expected that in any forecast year there will be a relatively large error in the forecast, but that over the whole forecast period, the error will average out. Of course, this presumes the DOB economic forecast is accurate. This volume includes a separate section that details the forecast performance over the past several Budget cycles.

ALL FUNDS TAX RECEIPTS GROWTH (percent)	Personal Income Tax	Sales Tax	Other User	Business Tax	Other Taxes	TOTAL	NY Personal Income Growth*	NY CPI
Nominal								
Total Growth (76-77 to 06-07)	663.9	384.1	162.1	351.0	449.9	483.2	539.6	251.1
Historical Average (76-77 to 06-07)	7.5	5.4	3.7	5.8	7.5	6.3	6.4	4.4
Standard Deviation (76-77 to 06-07)	7.2	4.4	10.0	10.2	18.0	5.1	2.8	2.9
Adjusted for Inflation								
Total Growth (76-77 to 06-07)	117.6	37.9	(25.4)	28.5	56.6	66.1	82.2	
Historical Average (76-77 to 06-07)	3.0	1.1	(0.6)	1.5	3.1	1.9	2.0	
Standard Deviation (76-77 to 06-07)	6.5	4.7	10.1	9.8	17.9	4.8	2.2	

* Reported for calendar years. Period range for historic average and standard deviation is 1977 through 2006.

IMPACT OF INFLATION

When receipts are adjusted for inflation, the impact of economic contractions and the corrosive impact of inflation on real growth in receipts become much more apparent. This is illustrated clearly in the first graph in this section. There were significant consecutive declines in real receipts growth during the mid to late 1970s, as New York suffered through the mid-1970s recession and the oil shocks of 1973 and 1980. The 1970s and early 1980s were characterized by significant inflation, including periods of double digit annual price increases. In addition, the State began a multi-year program to reduce the State's relative tax burden. The inflationary environment changed dramatically in the 1980s and the associated impact on receipts growth became more muted. The negative real growth rates in the late 1980s and early 1990s reflect the large 1987 personal income tax cut and the 1990 economic recession. The declines in the rate of growth in the mid-1990s are due to slow economic growth in 1994 and 1995 and the continuation of the multi-year tax reduction program started in 1995.

The real declines in receipts for 2001-02 and 2002-03 were the most significant of the period and, again, reflect the impact of the national recession, the sudden deflation in stock values, the adverse impact of September 11th, and the impact of previously enacted tax cuts. In fact, the 2001 recession had a far larger negative impact on tax receipts than any recession over the past 30 years. The graphs in this section show that, adjusting for tax policy changes and inflation, the decline in fiscal year 2001-02 and 2002-03 receipts was much more severe than for the other economic downturns of the previous three decades.

Inflation-adjusted growth in actual receipts rebounded significantly beginning in fiscal year 2003-04 and is anticipated to remain positive in the current fiscal year (0.6 percent), again reflecting slowing growth in real economic conditions. Base growth adjusted for inflation increased by 10.0 percent in 2006-07, and is expected to increase by 3.8 percent in the current fiscal year.

It is expected that growth in inflation-adjusted base tax receipts will increase by 1.7 percent for fiscal year 2008-09 (versus the historical average of 1.3 percent). Inflation-adjusted growth from 2007-08 through 2010-11 remains in the range of 1.7 percent to 3.8 percent reflecting economic growth over the period.

IMPACT OF POLICY AND ECONOMICS ON TAX SHARES

ALL FUNDS TAX RECEIPTS SHARES (percent)					
State Fiscal Year Ending	Personal Income Tax	Sales Tax	Other User Taxes & Fees	Business Taxes	Other Taxes
1993	50.4	19.7	6.6	19.6	3.6
1998	50.9	21.1	6.0	18.3	3.7
2003	57.2	22.2	5.1	12.6	3.0
2004	57.5	23.1	4.7	11.7	3.0
2005	57.8	22.7	4.2	11.9	3.4
2006	57.5	20.9	5.0	13.2	3.4
2007	58.9	18.3	4.6	14.7	3.6
2008*	60.0	18.4	4.4	13.8	3.3
2009*	59.8	17.7	4.2	15.0	3.3
2010*	60.7	16.9	3.5	15.6	3.4
2011*	61.7	16.7	3.4	14.9	3.3
2012*	62.3	16.5	3.3	14.7	3.3

***Forecast**

The table and charts (more detailed tax data are available in the *Data Appendix* available at www.budget.state.ny.us) in this section illustrate both the shift in tax shares over time among the major tax sources and the growth in receipts for the primary tax sources that make up the revenue pie. Three additional charts for the income, sales, and corporate franchise taxes provide timeline indicators for major tax law changes, economic downturns, the recent stock market boom, the 2001-02 downturn, and subsequent economic rebound, all of which are major factors that affected these particular tax sources over the past 30 years. The charts also adjust for the impact of inflation, making comparisons of the high inflation environment in the 1970s with the current period of low inflation possible.

The share of total tax collections attributable to a tax source is related to: economic activity, tax policy shifts, changes in taxpayer behavior, and structural changes in the economy. For example, the temporary personal income tax and sales tax increases adopted in 2003, holding other factors constant, increased receipts for these tax sources beyond what could be expected from economic growth alone and the tax shares for these sources could be expected to increase. As the temporary tax changes were phased out in 2005 and 2006, the impact on tax shares was reversed, holding other factors constant. Changes in share due to law change can be spread over multiple years because it often takes taxpayers time to adjust to law changes. As a result, the 2004-05 impact of the income tax increase appears much stronger than in 2003-04 as taxpayers became more aware of their increased liability and, consequently, increased their cash payments; it is expected that the phase-out of the tax surcharges continued to have a cash impact (though less significant) in fiscal year 2007-08 as taxpayers continue to adjust ongoing payments to the phase-out of the surcharges.

As the tax share table clearly shows, the expectation is that the income tax share will continue to increase over the forecast period, reaching an estimated 62.3 percent share by fiscal year 2011-12. The business tax share is also expected to increase, reflecting both growth in base and the impact of enacted and proposed law changes. These increases in share come at the expense of sales and user taxes. The shift to business taxes from user taxes is driven in large part from the proposal to consolidate sales and motor fuel taxes into the petroleum business tax.

Other policy changes, when interacting with economic change, can have more long-term impacts on tax shares. For example, part of the increase in the personal income tax share and decline in the corporate tax share in recent years can be traced to the movement of business income from the corporate to the individual income tax base. This movement was facilitated by State and Federal actions allowing for the formation of limited liability companies (LLCs) and S corporations. These entities have many characteristics of a business, but the flow of income to members (or shareholders) is taxed under the personal income tax. Over the past decade, the number of LLCs in New York has increased from zero in 1993 to about 250,000 in 2005. In addition, the growth in S corporations, which are companies with a small number of shareholders, has also been dramatic. New York first allowed S corporation status in 1981, but the number of S corporations grew dramatically in the 1990s (from over 193,615 in 1990 to about 350,000 in 2005). The combination of changing taxpayer behavior (filing status), aided by changes in policy facilitating the change in behavior, has resulted in significant changes in tax shares. In this case, the business share of total taxes shrinks and the personal income tax share increases.

In other instances, changes in the economic environment can be so large as to conceal the impact of large tax policy shifts. For example, despite the significant income tax reductions of the late 1990s, income tax receipts growth remained relatively high. This was partially the consequence of the rapid income growth associated with the large increases in financial service incomes and the rapid appreciation in equity prices. This shifted the income tax share upward despite the large reductions in income tax rates. The large declines in financial service incomes in 2002 and 2003 reduced the income tax share. The most recent multi-year rebound on Wall Street, along with the housing price boom, helped return the income tax share to historic highs by 2006-07 and this share increase was boosted by temporary income tax surcharge. However, the sub-prime mortgage investment exposure of financial sector firms is expected to have an adverse impact on bonus payouts in 2007-08 and corporate and bank tax collections in the current year and 2008-09. These negative impacts may offset the impact of corporate loophole-closing changes and other provisions expected to increase business tax receipts.

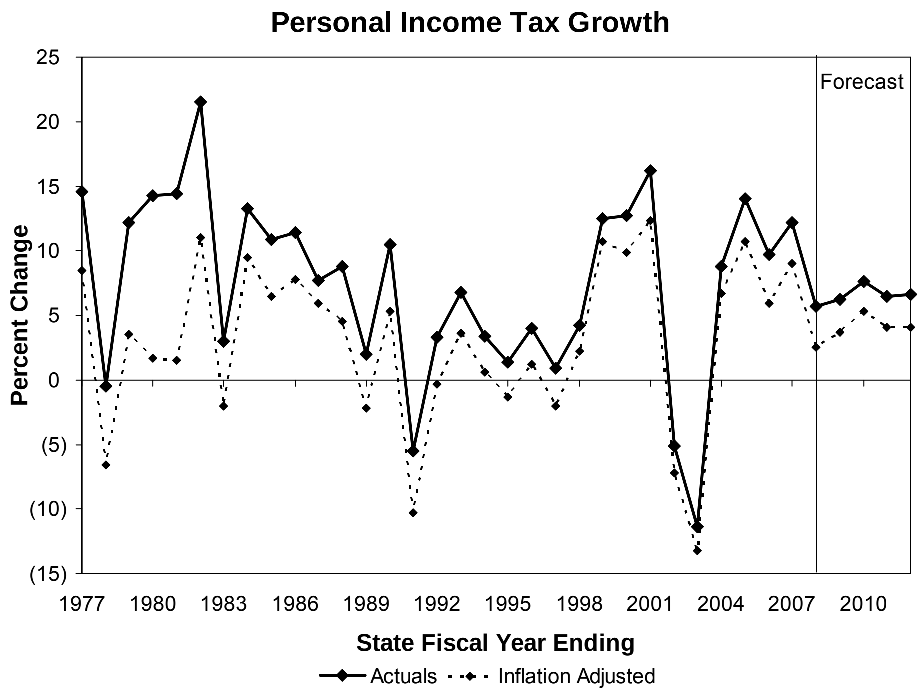
In other cases, unpredictable shocks to the revenue base can produce changes in tax shares. The surge in corporate audit collections in recent years far exceeded expectations. This has led to an unexpected increase in the business tax share of total tax receipts. The business share is expected to remain relatively constant and even increase slightly. However, the large write-downs by banks and financial service companies associated with the sub-prime lending issue could reduce the business share in coming years.

It is also often the case that economic and policy changes reinforce or magnify the impact of each change taken in isolation. This is especially true when there are unanticipated changes in economic conditions. Current events confirm this point. It now appears that the combination of renewed and partially unexpected economic activity, especially in the real estate and financial services sectors, drove up tax payments by increasing the impact of the temporary income tax rate increases imposed in 2003 significantly beyond what was originally anticipated. This served to increase the share of receipts from the income tax. The table earlier in this volume shows the significant impact these surcharges had on the receipts base. As the surcharge was fully phased out as of January 1, 2006, the impact on the income tax share should have been reversed in 2006-07 and beyond, holding other factors such as economic conditions constant. These interactions are almost always unanticipated. Currently, economic conditions suggest that business taxes will grow more slowly than anticipated, largely due to unfolding events in credit markets. This situation lowers the revenue yield associated with corporate tax loophole closers enacted last year. Should the economic situation deteriorate even more dramatically, the business tax actions may not generate additional resources for several fiscal years.

In addition, structural and demographic changes in the underlying economy can significantly impact the share of a receipt source. For example, the long-term decline in smoking per capita for health-related reasons has had an important negative impact on cigarette tax collections. The cigarette tax discussion in this volume provides a good description of this case. Another more rapidly developing change in the economy impacting receipt shares is the shift to Internet purchases of commodities subject to the sales tax. In many cases, these sales are beyond the reach of the State's efforts to collect tax. Holding other factors constant, the increase in Internet purchases of taxable goods from Internet retailers with no New York nexus reduces sales tax collected and the sales tax share. These and other changes in consumer tastes or in technology can have important impacts on tax receipts and the share of total tax received from a particular source.

Competitive pressures with other taxing jurisdictions also have had a long-term impact on the tax structure in New York. A half century ago, New York was a dominant economy in the United States with more population, employment, and income than any other state. The gradual erosion of that dominant position, along with continued competitive pressures on a global scale, has led New York policy makers, primarily in the last three decades, to change the State tax structure by lowering tax rates, providing special incentives to promote certain industries, establishing tax preferred regions, providing incentives to clean and develop contaminated sites, and taking other actions to promote competitiveness with other states. As is reported in the section on comparative tax burdens contained in this volume, competition among states has tended over the long run to lead to more equality in tax burdens across states.

PERSONAL INCOME TAX

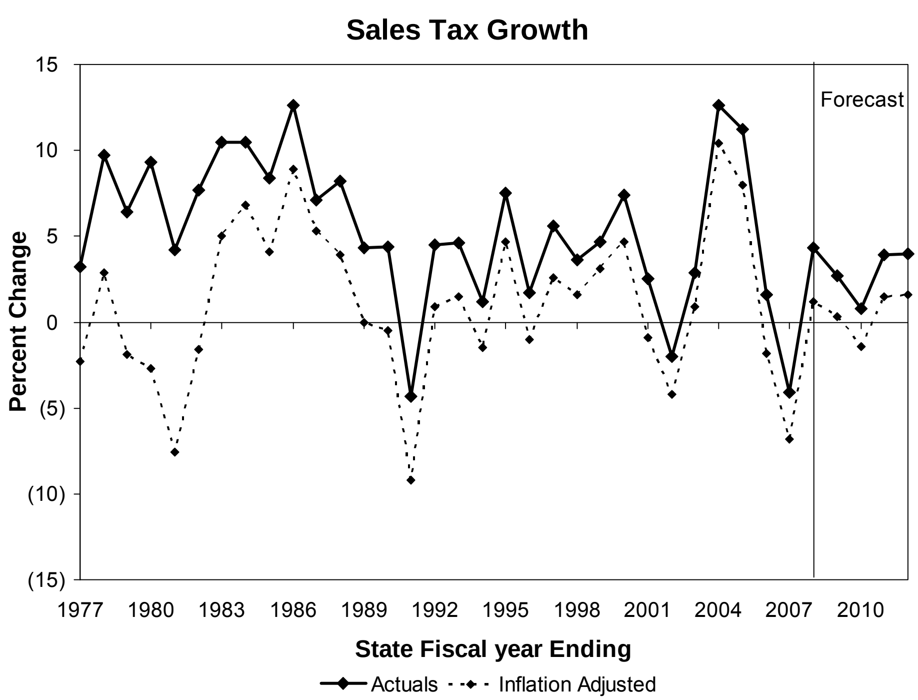


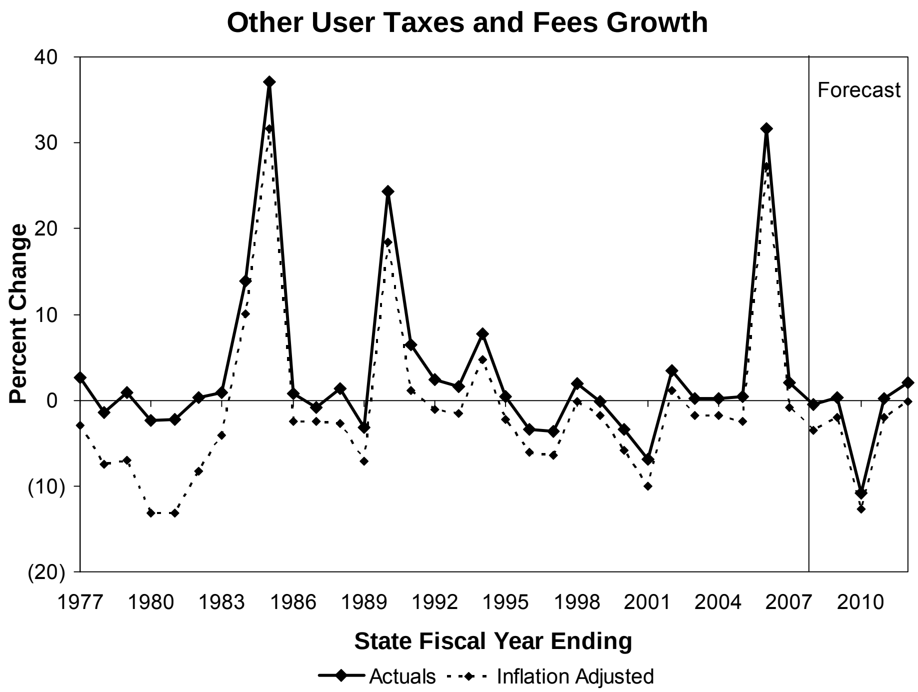
Personal income tax collections are strongly affected by both the economic cycle and changes in tax rates, as can be seen in the accompanying charts. During periods of economic growth, collections from the income tax tend to increase more rapidly than the overall economy. The income tax is more sensitive to inflation than most of the tax base since nominal increases in incomes tend to move taxpayers into higher tax brackets over time. During recessionary periods, income tax collections continue to increase but at a lower rate, with the exception of 2001-02 and 2002-03, when the September 11th attacks led to a more concentrated and lengthy economic impact in New York that resulted in actual declines in receipts and the income tax share of total tax. Holding economic factors constant, changes in rates have an obvious effect. During the tax cut programs of 1987-1989 and 1995-1997 receipts growth slowed. The tax cuts of 1995-1997 were partially offset by strong wage growth, particularly in financial sector bonuses, and, as a consequence, tax collections growth remained positive. When rates were increased with the temporary surcharge in 2003, receipts surged for fiscal years 2004-05 through 2005-06, sending the income tax share back up by reinforcing underlying income growth. The income tax share remained high in 2006-07 (58.9 percent), reflecting another strong year for financial sector firms and continued strong income growth, especially downstate.

The share of total tax receipts derived from the personal income tax has increased to historically high percentages in recent years, reaching 60 percent for the first time in 2000-01. In recent years, growth in employment and rapid increases in the income of high-income individuals drove the income tax share upward, while the shares of most other tax sources have declined (See Economic Backdrop section). This upward shift in share was partially reversed in 2001-02 and 2002-03 as the income earned by high-income individuals, in the form of bonuses, stock options, and taxable capital gains, declined significantly, due to a depressed economy and ailing equity markets. As a result, the income tax share of All Funds tax receipts fell to 57.2 percent in fiscal year 2002-03. The share began to rebound in 2003-04, reflecting a marked recovery in these areas of economic activity and the impact of the temporary income tax surcharge. This share increase continued in 2004-05 and 2005-06 as the full impact of the surcharge materialized and income growth continued. The share continued to increase in 2006-07, rising to 58.9 percent of All Funds tax receipts.

The estimated personal income tax share is expected to continue to increase over the Financial Plan planning horizon. This is despite an expected slowdown in income tax growth associated with slowing economic conditions in 2008. Over the out years of the Financial Plan (2009 to 2011), growth in wages and other personal income components is projected to continue at close to historically average rates. Estimated capital gains growth is expected to remain positive through 2007, but slow significantly, consistent with the slowdown in the residential real estate market in 2008. On balance, personal income tax growth is expected to average 6.5 percent over the 2007-08 to 2011-12 period. With overall receipts expected to grow at a 5.3 percent average over the forecast period, the income tax share is expected to rise to a 62.3 percent share of total receipts through fiscal year 2011-12.

USER TAXES AND FEES

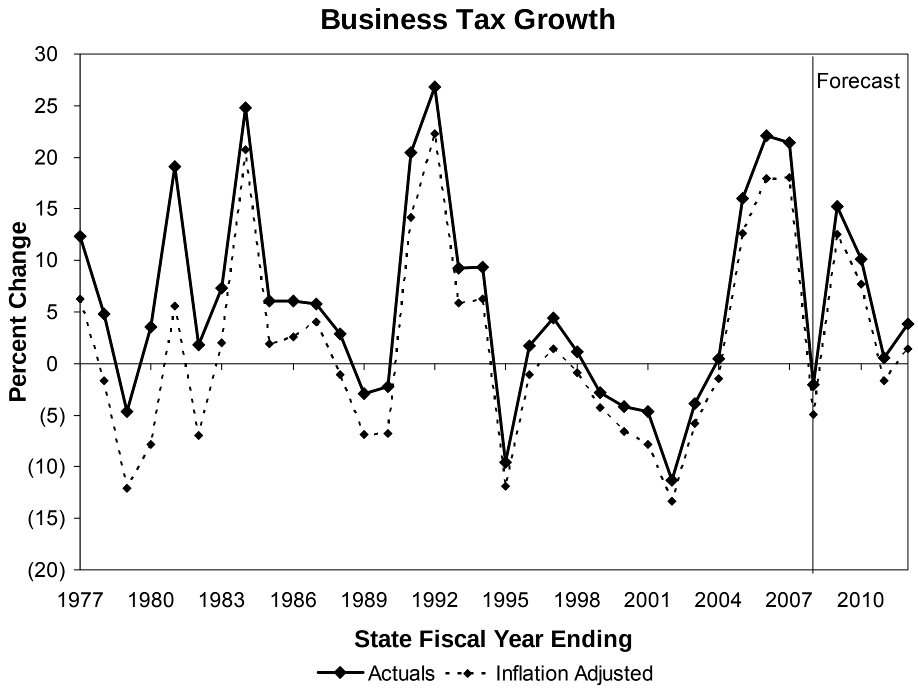




Overall, user taxes and fees have declined as a share of total taxes since the early 1970s, reflecting, in part, that such taxes tend to be less sensitive to changes in the income of State residents than does the personal income tax. In addition, user taxes, such as the taxes on cigarettes, motor fuel and alcoholic beverages, are taxed at rates fixed in statute per quantity of the product consumed. These taxes are not very sensitive to overall price changes. As a result, during periods of economic expansion, they tend to grow more slowly than other tax sources that include price increases in their base and they tend to decline less rapidly during economic downturns. As a result, changes to the share of total taxes represented by user taxes are often a product of volatility in other more economically sensitive taxes. The sales tax share increased in 2003-04 and 2004-05, reflecting revenue actions temporarily increasing the rate and eliminating the exemption on clothing. The percentage share of the sales tax to total receipts remained roughly constant in 2006-07. The share of user taxes is expected to fall to around 19.7 percent of total receipts by 2011-12. The large drop in user share is largely attributable to a proposal moving sales tax on motor fuel and motor fuel excise taxes into the petroleum business tax.

In general for this category, periods with low- or negative-growth rates coincide with recessionary periods (1980-82, 1990-92, 2001-02) or with a major policy shift such as the first year of the exemption on clothes and shoes. Higher growth rates are associated with periods of recovery or sustained economic growth. Sales tax growth averaged 5.4 percent over the 1976-77 to 2006-07 period. For the 2008-09 Budget planning horizon, average growth of 0.7 percent is assumed. Base growth over the forecast period is associated with a continued economic expansion, primarily increases in the employment and income base.

BUSINESS TAXES



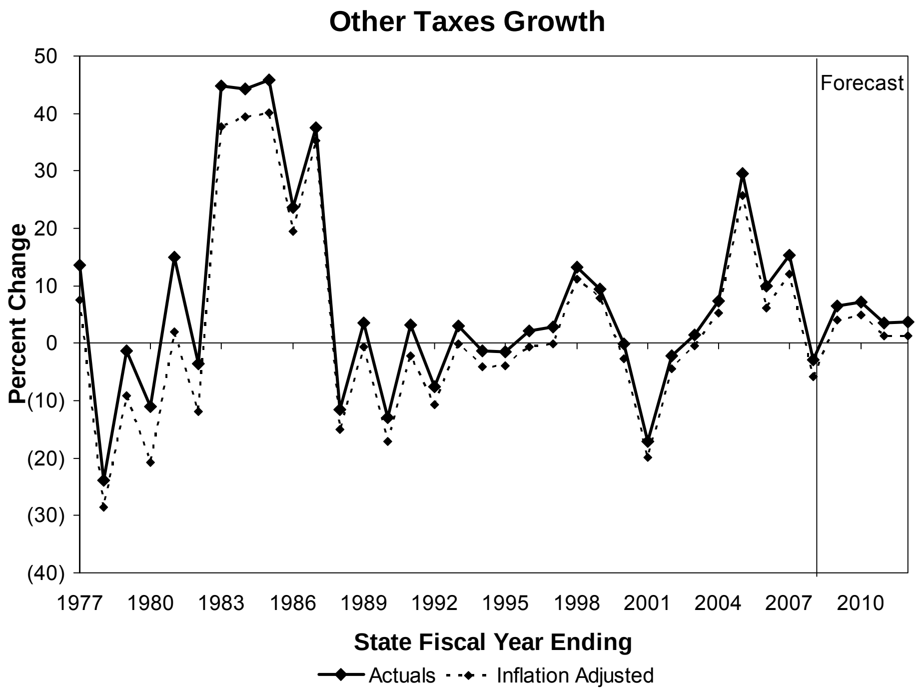
The business tax share of total taxes is very volatile, as a result of the significant variability of taxable business profits and reported tax liability, but has declined in recent years partially due to reductions in tax rates and the base subject to tax. The volatility inherent in business taxes means that the business share of total taxes fluctuates in an unpredictable manner.

The overall volatility of business tax collections is largely the result of intricacies of the Tax Law and timing issues associated with tax payments made by business taxpayers and, more recently, reflects the impact of significant tax reductions. Although collections tend to decline during periods of recession, some of the most significant periods of quarterly growth occurred during the recession from 1990 to 1992. The growth during this period is largely explained by the imposition of a 15 percent business tax surcharge between 1990 and 1993. Additionally, collections display significant volatility during periods of consistent economic growth. Collections displayed almost no growth during the Wall Street boom of the late 1990s, which may be explained by aggressive tax planning by corporations. In addition, a significant fraction of new businesses are being formed as LLCs or S corporations, and the income from these companies is primarily taxed under the personal income tax as discussed above. The graph and associated website tables also reveal that the impact of tax cuts and tax increases tends to have a lagged effect on collections growth. Business tax growth averaged 5.8 percent for the past 30 years.

Business tax collections have surged over the last four fiscal years, reflecting at least in part the growth in corporate profitability over this period after the working off of prior-period losses. More importantly, corporations have made unusually large payments on prior-year activity (audit and compliance) in the past four fiscal years. The unexpected surge in receipts may also be due to changes in Federal corporate tax policy that encouraged the recognition of income to take advantage of preferential tax treatment.

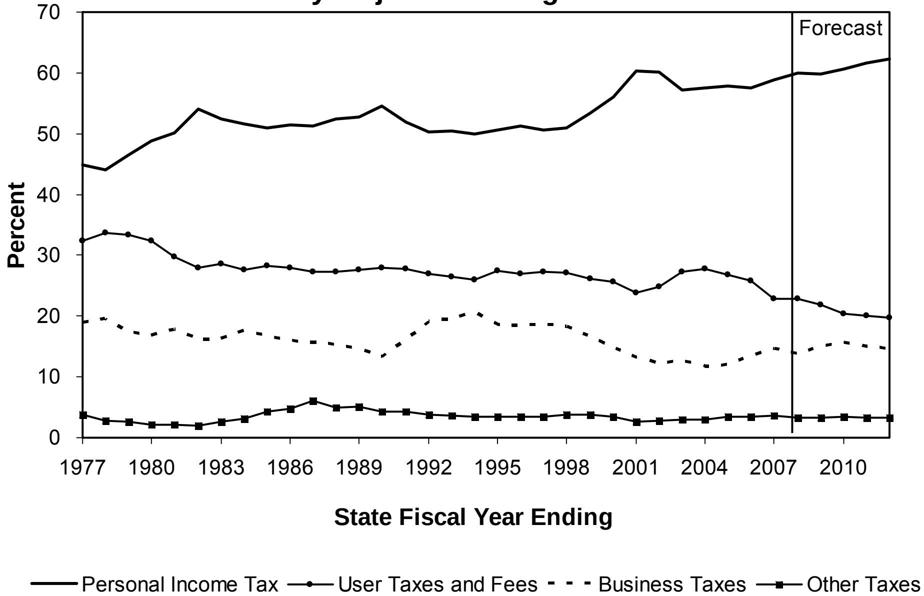
Recent growth increased the business tax share to more than 15 percent of total tax receipts in 2006-07. The 2008-09 Budget assumes average growth of 5.5 percent through 2011-12. The business tax share increases largely because of the proposed shift of the sales tax on motor fuel and motor fuel excise taxes into the petroleum business tax.

OTHER TAXES



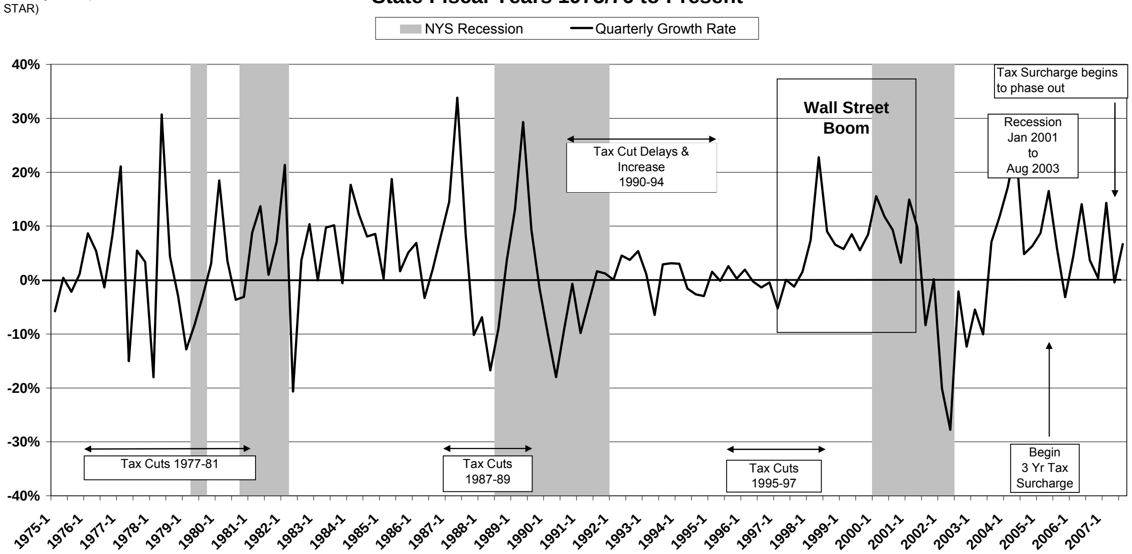
The share of other taxes has been dominated by the repeal of the real property gains tax and the gift tax, and the reductions in the pari-mutuel tax and the estate tax. Average growth of 3.6 percent is expected for this tax category over the 2007-08 to 2011-12 period. Very large growth in estate tax and the real estate transfer tax receipts in fiscal year 2005-06 and 2006-07 reflected the rapid escalation in real estate values in recent years Estate tax collections are expected to fall from 2006-07 levels given the absence to date of any large estates in 2007-08. It is expected that real estate transfer tax receipts will shrink modestly, reflecting the current slowdown in the real estate market. Estate tax collections return to a more normal level, consistent with expectation of a more normal (average) number of large closed estates per fiscal year. The other tax share is expected to remain relatively constant over the forecast period.

Share of All Funds Tax Receipts by Major Tax Categories

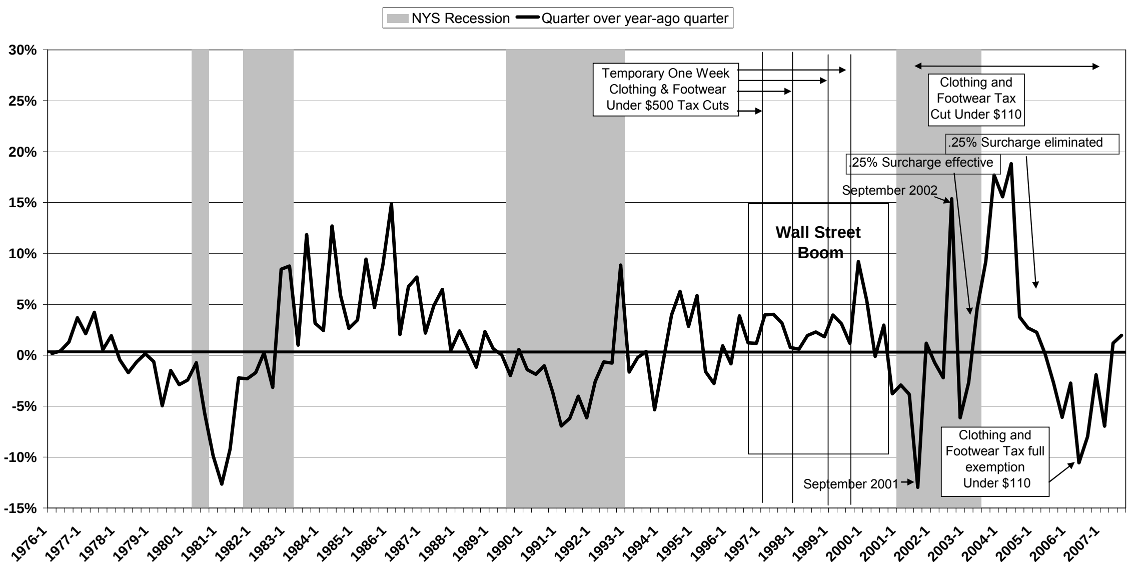


*Net Collections represent personal income tax from withholding, estimated payments, final returns and deliquencies minus refunds and state/cityoffsets (before Refund Reserve and STAR)

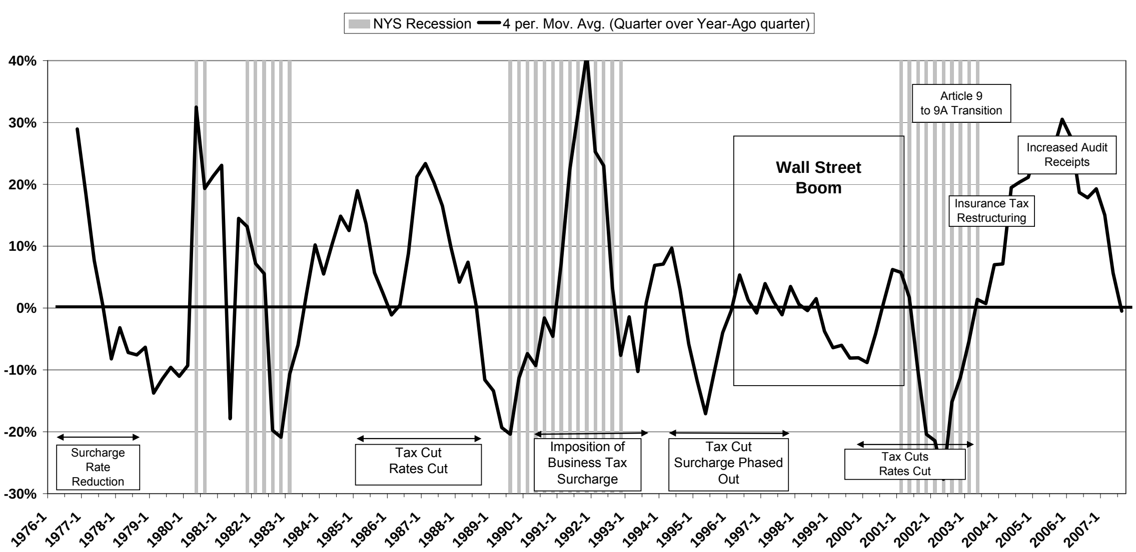
Personal Income Tax Growth* Adjusted for Inflation State Fiscal Years 1975/76 to Present



Sales Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present



Corporate Franchise, Insurance and Bank Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present



COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

An important consideration in tax policy decisions in New York State, and by extension in setting Budget priorities, is the position of the State in terms of state and local tax rates and bases relative to other states.

The data presented here suggest there is pressure on states to remain competitive with respect to tax policy. This is evidenced by the gradual clustering over time of states around the national average tax-to-income ratio. However, there is also a strong tendency for a state tax position to be highly persistent over time; this means movements towards the average have been slow. The persistence most probably reflects a combination of localized spending pressures and priorities and different state and regional attitudes towards tax policy.

An emphasis on tax reduction over the past twenty-five years has modestly reduced the disparity between New York State tax rates and burdens and those of the rest of the nation. However, local taxes in New York State remain very high relative to other states.

The issue of lowering high local taxes in New York State is a priority of the Governor and this Budget continues the effort to reduce the burden of the property tax.

- The school aid provided in 2007-08 Budget benefited many school districts that often suffer the twin problems of poor schools and high property taxes.
- Provisions to reduce local tax burdens associated with Medicaid are continued.
- Governor Spitzer will appoint a bipartisan Commission with Moreland Act investigatory powers to examine school district property taxes and develop a property tax cap proposal.
- New middle class STAR benefits provided in the 2007-08 Budget are continued.

Several important points on comparative tax structures can be seen by examining the accompanying tables and figures.

TOTAL STATE AND LOCAL TAXES

- Overall, state and local tax structures are broadly similar in both the taxes imposed and the rates applied. Average rates measured by the tax-to-income ratios are also roughly equivalent across states, especially when aggregating both state and local taxes together.
- The variability across states within each category of tax (e.g., income, sales, or property taxes examined in isolation) is greater than the dispersion for taxes when examined in the aggregate (all state and local taxes added together). For example, a fairly large number of states have excluded the personal income tax from their fiscal policy mix; a smaller subset has excluded corporate taxes, and a few impose no appreciable sales tax.
- In general, it appears that the spread of state and local tax burdens across states has been narrowing over time. This may reflect both competitive pressures to keep taxes in line with other states, and the more widespread use of income taxes nationwide.
- The national average state and local tax-to-income ratio has remained remarkably stable over time and significantly below that of New York.

- The tax-to-income ratio for New York exceeded the national average by $4.96 per $100 of personal income, or 47.1 percent in 1977. By 2005, the gap remains $3.40, or 31.9 percent above the national average.

State Taxes

- New York is an average tax state when looking only at state taxes.
- New York taxes per $100 of personal income actually declined from $6.75 in 1977 to $6.35 in 2005.
- The New York ranking in terms of state taxes went from 10th highest in 1977, to 30th highest in 2005.
- New York's tax burden as measured by the ratio of state taxes to income was $0.40 below the national average in 2005.
- The dispersion of state tax burdens has narrowed more noticeably than has the dispersion of local tax burdens implying that competitive pressures are more intense at the state level.
- New York's status as a higher-than-average state and local combined tax burden state is due to higher-than-average local tax burdens.

Local Taxes

- The proposals in this Budget will continue the STAR program for middle class taxpayers and explore an efficient property tax cap in order to curb local tax growth.
- At least a portion of the significant local tax burden in New York is due to the large portion of sales tax retained by localities in New York. This contrasts sharply with other states and reflects, at least in part, the need at the local level in New York for receipts to pay for the local share of Medicaid. The large local Medicaid share in New York was addressed as part of the local Medicaid relief program enacted with the 2005-06 Budget. The cost of the Medicaid program is gradually being shifted to the State and should act to reduce taxing pressures at the local level over time.
- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2005, $1.38 of New York's local burden of $7.71 per $100 of state personal income was due to the New York City personal and corporate income taxes. This accounted for nearly 18 percent of the total local burden.
- Higher than average property taxes as a share of income (46.4 percent above the 2005 national average) in New York are tied, for the most part, to rapidly escalating school property taxes over the past few years.

Property Taxes in New York State

- Significant disparities exist within New York with respect to the property tax burden.
- Property tax burdens as a percent of median home value are felt most heavily in Upstate counties due to relative weakness in home value appreciation and other demographic factors. In fact, nine of the ten highest property tax counties in the nation (and 18 of the top 30) in 2005 were in Upstate New York as measured by

property taxes paid on the median-valued home in that county.[1] This issue is directly addressed by increased school aid amounts for fiscally strapped lower wealth districts, many of which are located Upstate, as well as by increased STAR benefits for middle class taxpayers most adversely impacted by high tax burdens.

- Long Island and the other suburban counties (Westchester, Rockland, Putnam, Orange, Sullivan, Dutchess and Ulster) experienced high property taxes as a percent of each county's respective median household income in 2005. Using this metric, 4 of the 10 highest property tax counties in the nation (and 6 of the top 25) in 2005 were clustered Downstate. At least in part, this is a housing supply issue that characterizes Downstate and that disproportionately affects the elderly and middle class. This Budget will address this issue by significantly increasing STAR benefits for many of these households by 2010-11.
- Noticeably, the five counties of New York City did not have relatively high residential property tax burdens in 2005 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

TABLE AND FIGURE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates were those in effect in 2007. The income and corporate tax rates reported exclude local rates. This exclusion is important since New York is one of only a handful of states where significant local personal income and corporate taxes are imposed, as in New York City.

Tables 2 and 3 report state taxes collected by source divided by state personal income first for 1977 and then for 2005. The New York rank in terms of state taxes went from 10th highest to 30th highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2005. In 2005, New York had the second highest local tax burden using this measure, the first time since 1997 that the State did not have the highest overall burden. New York has fallen from $4.12 to $3.80 above the local tax average, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The remaining above-average local tax burden is caused by relatively high property taxes, the large sales tax burden at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City. Actions taken with this Budget are specifically designed to lower the local property tax burden.

[1] Source: U.S. Census Bureau; Tax Foundation calculations.

Tables 6a and 6b report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2005, the latest year complete state and local tax information is available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax-to-income ratio over the 1977-2005 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for the greater part of the last ten recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2005 period. While the average state and local tax-to-income ratio has remained relatively constant nationwide over the twenty-eight year period, it has declined in New York.

The bottom of each table reports the average for each tax category, as well as the standard deviation and the Coefficient of Variation (CV). Additionally, the difference between the national average and the New York values is reported. The box plots that accompany this section (Figures 3, 5, 6, 7 and 8) show the dispersion of the 50 states around the median value (middle-ranked state, not the average state) of the tax-to-income ratio for that category. The shaded area in each box represents the 50 percent of states most closely clustered to the middle-ranked state (25 states). The hash marks or "whiskers" represent the 10^{th} and the 90^{th} (furthest from zero) percentiles of states. Dots just outside of the hash marks represent the remaining, outlying states. The vertical axis reports the ratio range.

While the standard deviation provides a sense of how the data are dispersed around the average value for all states, the CV allows comparisons of spread for data with different averages and is defined simply as the standard deviation divided by the average and is reported as a percentage. It essentially provides a normalized, unit-free measure of dispersion.

Figure 9 is a scatter plot which attempts to show the relationship between the state and local tax burden in 1977 with the change in burdens over the full period (1977-2005). Alaska is excluded because the gain and loss of oil revenues distort the results for Alaska and the nation as a whole. The fitted regression line has a negative slope, implying that states with a high tax burden in 1977 were most likely to see a decline in burden. The opposite was likely for states with low state and local tax burdens on income in 1977. This supports the convergence in the ratio shown in the box plot. The decreasing dispersion of state and local tax burdens shown in that figure was the result of high burden states decreasing towards the national average and low burden states increasing towards the mean.

Table 9 reports U.S. Census Bureau data on county-level property tax collections on owner-occupied housing across the U.S., as compiled and calculated by the Tax Foundation, for the 38 New York State counties that appeared in the Tax Foundation report[2]. The source report covered the 775 counties in 2005 that had populations of at least 65,000. Table 9 is sorted by county, in descending order of median property taxes paid on

[2] *Property Taxes Surged with Housing Boom. Will Localities Respond to Dip with Higher Rates?* Tax Foundation, October 2006.

homes in that county as a percentage of the same county's median home value. Median values report the data point for which half of the data set values are higher and half lower. They differ from mean values (the sum of all observations divided by the number of observations) in that outlying values, such as particularly expensive homes, do not skew the computation. The rankings reported indicate the relative ordering of the counties with respect to the 775 U.S. counties covered, and are not relative solely to the counties of New York State.

The Tax-to-Income Percentage

The tax-to-personal-income percentage offers one simple and commonly used way of comparing states with respect to relative tax burdens. It must be noted that the real effort of tax burden analysis should be to determine who actually faces the economic consequences of a tax, not who is legally required to pay the tax. All simple measures of tax burden across states are inadequate from this perspective. In general, any single indicator of burden will necessarily be limited in value. The following additional issues should be taken into consideration when relying on this measure:

Tax Exportation

In using taxes per dollar of personal income as a measure of tax burden it must be noted that for many states a significant portion of the tax base is "exported" or paid by out-of-state taxpayers.

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State, the actual burden on New Jersey residents will appear to be a burden on New York residents.

Another example of tax exportation can be seen in states with a large tourism economy. These states will realize increases in their sales tax collections and other excise taxes that may overstate the tax burden actually paid by their citizens.

Finally, methods used to apportion corporate taxable income are neither consistent across states, nor are they necessarily representative of actual activity. For example, some states use a three-factor allocation formula that takes into account the percentage of a taxpayer's property, payroll and receipts amounts in the state compared to those amounts everywhere. Other states use different formulas. These differences in allocation formulas could result in either tax importation or exportation, again distorting this measure as a method of comparison of true tax burden imposed on each state's residents.

Overall, it would seem likely that New York State is a net exporter of tax burdens relative to other states. This serves to bias the tax-to-income percentage for New York upward — making burdens in New York appear too high using this measure.

Income Adjustments

Given two states with identical marginal tax rate structures, differences in the incomes of individuals could yield different tax-to-income percentage results. For example, if New York State and Alabama had identical progressive income brackets built into their respective tax codes, the higher average personal incomes of New York State residents would tend to lead to higher taxes per income due to the nature of the income tax.

Particularly important is the distinction between the National Income and Product Account (NIPA) measure of personal income as defined by the Bureau of Economic Analysis (BEA), and taxable personal income as defined by each state's respective tax code. For example, the NIPA personal income measure does not include capital gains (by the definition of personal income). However, capital gains are a component of New York Adjusted Gross Income (NYAGI) that contributes significantly to personal income tax receipts in New York State. States with high income individuals, like New York, would be more likely to have the tax-to-income percentage distorted upward. In the gains example, the percentage of personal income used in Table 2 will be influenced because the numerator will include taxes on capital gains income that is not included in the denominator, effectively overstating the tax burden relative to other states since New York has a disproportionate share of taxpayers with large capital gains incomes.

Federal Offsets

The Federal tax structure allows for the deductibility of certain state and local taxes. As a result, residents of states with relatively higher state income, property and corporate tax burdens, such as New York State, receive a larger deduction, thereby offsetting a portion of the individual's total tax burden. Again, this is not reflected in the tax-to-income percentage reported here. So again, it would appear this biases the measure in a way that makes New York look like a relatively higher tax state than is actually the case.

With all three issues, the tax-to-income percentage calculation biases the tax burden in New York upward.

Figure 1 - Comparison of 2005 State Tax Burdens

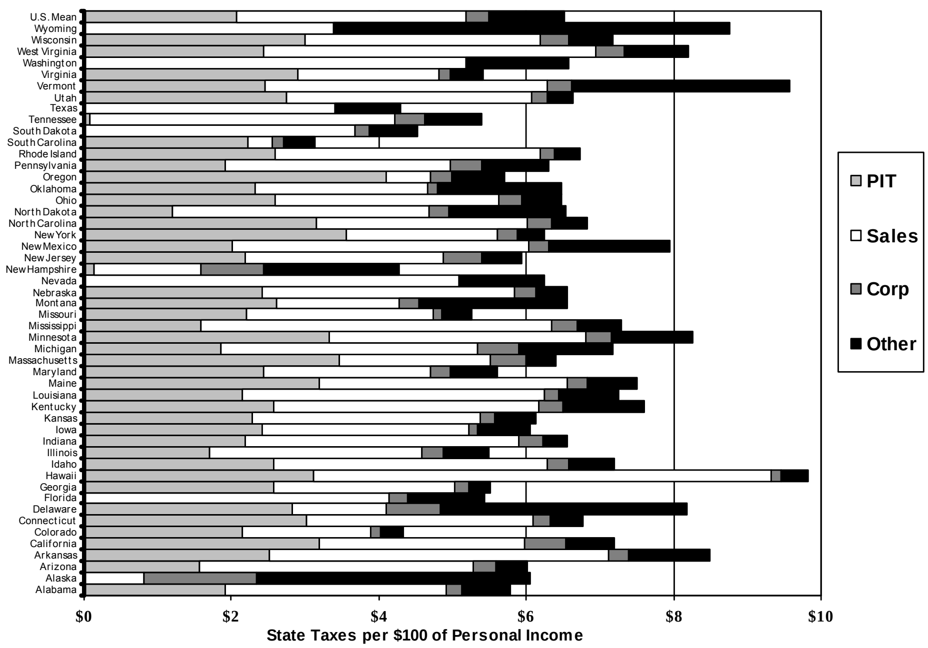


Figure 2 - Comparison of 2005 Local Tax Burdens

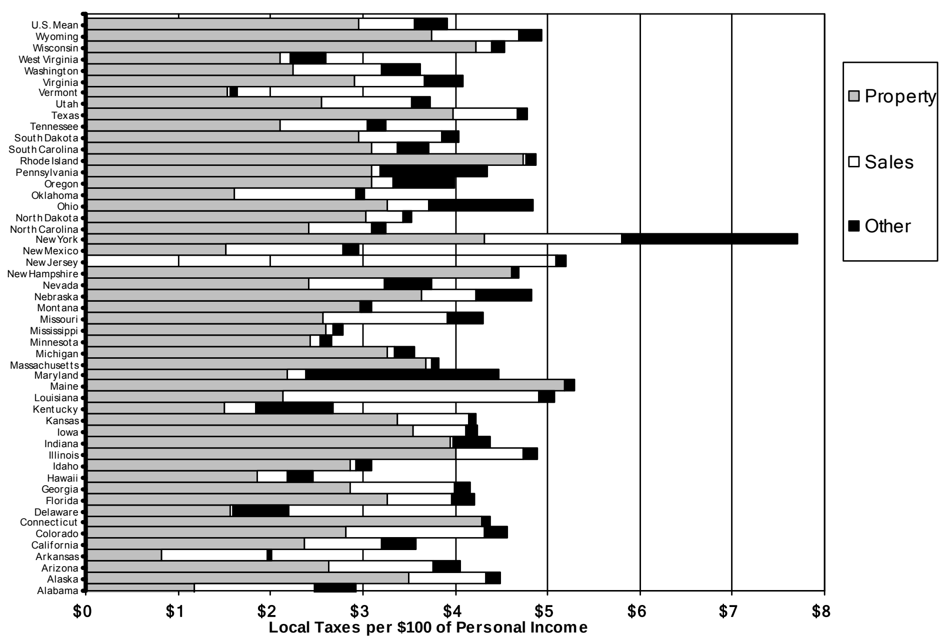


Table 1 Comparison of 2007 State Top Rates

State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Rate[1]
Alabama	5	$6,000	6.5	4	8
Alaska	0	Flat Rate	9.4	0	1.25
Arizona	5.04	$300,000	6.97	5.6	7.8
Arkansas	7	$28,500	6.5	6	8
California	9.3	$86,936	8.84	6.25	7.95
Colorado	4.63	Flat Rate	4.63	2.9	6.2
Connecticut	5	$20,000	7.5	6	6
Delaware	5.95	$60,000	8.7	0	0
Florida	0	Flat Rate	5.5	6	6.7
Georgia	6	$10,000	6	4	6.95
Hawaii	8.25	$96,000	6.4	4	4.4
Idaho	7.8	$47,928	7.6	6	6.05
Illinois	3	Flat Rate	7.3	6.25	7.6
Indiana	3.4	Flat Rate	8.5	6	6
Iowa	8.98	$57,106	12	5	6.6
Kansas	6.45	$60,000	4	5.3	7
Kentucky	6	$75,000	7	6	6
Louisiana	6	$50,000	8	5.5	8.7
Maine	8.5	$36,500	8.93	5	5
Maryland	4.75	$3,000	7	5	5
Massachusetts	5.3	Flat Rate	9.5	5	5
Michigan	3.9	Flat Rate	1.9	6	6
Minnesota	7.85	$115,510	9.8	6.5	6.65
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.23	6.95
Montana	6.9	$13,900	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	6.35
Nevada	0	Flat Rate	0	6.5	7.5
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$500,000	9	7	7
New Mexico	5.3	$32,000	7.6	5	6.6
New York[2]	**6.85**	**$20,000**	**7.1**	**4**	**8.25**
North Carolina	8.25	$200,000	6.9	4.25	6.8
North Dakota	5.54	$326,480	7	5	5.4
Ohio	6.555	$200,000	8.5	5.5	6.7
Oklahoma	5.65	$20,000	6	4.5	8.15
Oregon	9	$13,900	6.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.25
Rhode Island	25% of federal tax rates		9	7	7
South Carolina	7	$12,850	5	5	5.8
South Dakota	0	Flat Rate	0	4	5.25
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.35
Texas	0	Flat Rate	0	6.25	7.95
Utah	6.98	$11,000	5	4.75	6.45
Vermont	9.5	$326,450	8.5	6	6.05
Virginia	5.75	$17,000	6	4	5
Washington	0	Flat Rate	0	6.5	8.35
West Virginia	6.5	$60,000	8.75	6	6
Wisconsin	6.75	$183,211	7.9	5	5.4
Wyoming	0	Flat Rate	0	4	5.25
Mean Values	**5.42**		**6.56**	**4.85**	**5.99**
Standard Deviation	**2.74**		**2.77**	**1.87**	**2.2**
Coefficient of Variation	**50.60**		**42.15**	**38.56**	**36.73**

[1] **Source:** Sales Tax Clearinghouse. Reflects average combined state and local rates for state.
[2] New York State top corporate rate on qualifying manufactuers and emerging technology taxpayers is 6.5 percent

Table 2 - 1977 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Corporate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	6.41	26	1.10	34	17.2	3.25	21	50.7	0.35	38	5.4	1.71	16	26.7
Alaska	15.69	1	4.27	1	27.2	0.68	50	4.4	0.73	9	4.6	10.01	1	63.8
Arizona	7.21	11	1.19	29	16.4	3.66	17	50.7	0.32	40	4.5	2.05	10	28.4
Arkansas	6.43	25	1.31	26	20.4	3.81	11	59.2	0.54	18	8.4	0.78	41	12.1
California	6.57	23	1.89	15	28.8	2.49	38	37.9	0.86	4	13.0	1.34	22	20.4
Colorado	5.30	43	1.67	19	31.5	1.59	46	30.1	0.40	29	7.5	1.64	18	31.0
Connecticut	5.43	41	0.22	41	4.1	3.92	9	72.3	0.75	6	13.9	0.53	46	9.8
Delaware	8.32	3	3.37	2	40.5	1.46	47	17.6	0.62	12	7.4	2.87	5	34.5
Florida	5.28	44	0.00	45	0.0	3.49	19	66.2	0.31	41	5.9	1.47	20	27.9
Georgia	5.90	33	1.53	22	26.0	2.96	28	50.1	0.53	22	9.0	0.88	33	14.9
Hawaii	8.96	2	2.65	7	29.6	5.59	1	62.3	0.36	36	4.0	0.36	50	4.1
Idaho	6.44	24	1.97	13	30.6	3.05	26	47.5	0.54	19	8.4	0.87	35	13.5
Illinois	5.57	39	1.48	23	26.6	2.50	36	44.9	0.40	30	7.2	1.19	26	21.3
Indiana	5.59	38	1.15	30	20.5	3.69	15	66.1	0.22	44	4.0	0.52	47	9.3
Iowa	6.11	31	2.12	12	34.6	2.70	33	44.1	0.43	27	7.1	0.87	36	14.2
Kansas	5.74	34	1.24	28	21.6	2.92	30	50.9	0.73	10	12.7	0.85	37	14.8
Kentucky	7.19	12	0.95	36	13.3	3.75	12	52.2	0.60	14	8.4	1.88	14	26.2
Louisiana	7.00	16	0.54	38	7.8	1.97	40	28.2	0.39	32	5.5	4.09	2	58.5
Maine	6.92	19	1.11	33	16.0	4.37	6	63.2	0.52	23	7.5	0.92	32	13.3
Maryland	6.20	29	1.25	27	20.1	2.68	34	43.3	0.34	39	5.4	1.93	13	31.2
Massachusetts	6.70	20	2.72	6	40.6	2.68	35	40.1	0.91	2	13.5	0.39	49	5.8
Michigan	6.65	21	1.75	17	26.4	2.93	29	44.1	1.08	1	16.3	0.88	34	13.3
Minnesota	8.29	4	3.19	4	38.5	3.21	22	38.7	0.86	5	10.4	1.03	29	12.4
Mississippi	7.53	9	1.02	35	13.6	5.36	3	71.2	0.36	37	4.7	0.79	39	10.5
Missouri	4.72	47	0.90	37	19.0	1.95	41	41.3	0.31	42	6.6	1.56	19	33.1
Montana	6.12	30	2.19	11	35.8	1.63	45	26.6	0.49	26	8.0	1.81	15	29.6
Nebraska	5.67	37	1.58	20	27.8	2.92	31	51.6	0.39	33	6.8	0.78	42	13.7
Nevada	5.69	36	0.00	46	0.0	3.68	16	64.8	0.00	47	0.0	2.00	11	35.2
New Hampshire	3.34	50	0.12	42	3.5	1.90	42	56.9	0.54	20	16.3	0.78	43	23.3
New Jersey	5.01	46	1.14	32	22.9	2.02	39	40.4	0.54	21	10.7	1.30	24	26.0
New Mexico	8.04	5	0.36	40	4.5	4.85	4	60.3	0.40	31	4.9	2.44	8	30.3
New York	**7.39**	**10**	**2.20**	**10**	**29.7**	**1.22**	**48**	**16.5**	**0.89**	**3**	**12.1**	**3.09**	**4**	**41.7**
North Carolina	6.97	17	2.28	9	32.8	2.89	32	41.5	0.60	15	8.6	1.19	27	17.1
North Dakota	7.12	14	1.32	25	18.6	3.94	8	55.4	0.52	24	7.4	1.33	23	18.7
Ohio	4.42	49	0.08	43	1.7	2.50	37	56.6	0.39	34	8.8	1.45	21	32.8
Oklahoma	6.04	32	1.15	31	19.0	1.80	44	29.7	0.37	35	6.2	2.72	6	45.0
Oregon	5.30	42	3.06	5	57.7	0.75	49	14.2	0.50	25	9.4	0.99	30	18.7
Pennsylvania	6.29	28	0.47	39	7.5	3.12	23	49.6	0.75	7	11.9	1.95	12	31.0
Rhode Island	6.58	22	1.56	21	23.7	3.82	10	58.1	0.61	13	9.3	0.59	45	9.0
South Carolina	7.01	15	1.71	18	24.5	4.19	7	59.8	0.63	11	9.0	0.47	48	6.8
South Dakota	4.58	48	0.00	47	0.0	3.74	13	81.6	0.06	46	1.3	0.79	40	17.1
Tennessee	5.71	35	0.08	44	1.5	3.34	20	58.5	0.58	16	10.2	1.71	17	29.9
Texas	5.18	45	0.00	48	0.0	3.01	27	58.2	0.00	48	0.0	2.17	9	41.8
Utah	6.36	27	1.89	16	29.8	3.12	24	49.1	0.30	43	4.7	1.04	28	16.4
Vermont	7.59	8	2.32	8	30.6	3.73	14	49.1	0.56	17	7.4	0.98	31	12.9
Virginia	5.48	40	1.91	14	34.8	1.86	43	33.9	0.42	28	7.8	1.29	25	23.6
Washington	7.13	13	0.00	49	0.0	4.65	5	65.3	0.00	49	0.0	2.48	7	34.7
West Virginia	7.86	7	1.43	24	18.2	5.58	2	71.0	0.20	45	2.6	0.65	44	8.2
Wisconsin	8.01	6	3.35	3	41.9	3.08	25	38.5	0.74	8	9.2	0.84	38	10.5
Wyoming	6.95	18	0.00	50	0.0	3.61	18	52.0	0.00	50	0.0	3.34	3	48.0
Mean	**6.56**		**1.42**		**20.7**	**3.07**		**48.3**	**0.48**		**7.5**	**1.59**		**23.5**
Standard Deviation	**1.71**		**1.02**			**1.12**			**0.24**			**1.45**		
Coefficient of Variation	**26.08**		**72.06**			**36.56**			**50.75**			**91.14**		
NYS Diff. from Mean	**0.83**		**0.78**		**9.0**	**(1.85)**		**(31.8)**	**0.41**		**4.6**	**1.50**		**18.2**

Source: Moody's Economy.com, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 3 - 2005 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Corporate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	5.86	38	1.91	36	32.5	3.00	31	51.1	0.23	33	4.2	0.64	28	11.5
Alaska	7.65	11	0.00	44	0.0	0.82	48	10.7	1.52	1	25.3	3.71	2	61.8
Arizona	6.09	35	1.57	40	25.9	3.70	14	60.9	0.32	17	5.5	0.42	40	7.2
Arkansas	8.76	5	2.51	20	28.6	4.62	5	52.8	0.26	28	3.3	1.10	14	14.0
California	7.30	14	3.19	6	43.7	2.79	35	38.3	0.55	5	8.1	0.67	24	9.8
Colorado	4.35	48	2.14	32	49.3	1.74	44	40.0	0.14	42	3.4	0.30	49	7.1
Connecticut	6.94	19	3.01	9	43.4	3.07	28	44.3	0.24	32	3.7	0.44	37	6.7
Delaware	8.30	7	2.83	12	34.1	1.27	47	15.3	0.73	3	9.2	3.35	3	41.8
Florida	5.50	44	0.00	45	0.0	4.13	8	75.2	0.26	29	4.7	1.04	16	18.6
Georgia	5.52	43	2.58	17	46.7	2.45	38	44.4	0.19	37	3.4	0.29	50	5.3
Hawaii	10.00	2	3.12	8	31.2	6.20	1	62.0	0.14	43	1.5	0.37	44	3.9
Idaho	7.26	15	2.57	18	35.5	3.71	13	51.2	0.28	23	3.9	0.62	29	8.8
Illinois	5.69	40	1.71	38	30.1	2.88	32	50.6	0.29	21	5.4	0.62	30	11.6
Indiana	6.64	24	2.18	31	32.8	3.72	12	56.0	0.34	13	5.4	0.32	48	5.0
Iowa	6.16	34	2.42	24	39.2	2.82	34	45.7	0.10	46	1.7	0.72	22	12.6
Kansas	6.24	33	2.28	27	36.6	3.10	27	49.6	0.20	35	3.2	0.56	33	9.1
Kentucky	7.68	10	2.57	19	33.4	3.59	16	46.8	0.34	14	4.5	1.11	13	14.8
Louisiana	7.73	9	2.14	33	27.7	4.11	9	53.1	0.19	38	3.1	0.81	20	12.8
Maine	7.56	12	3.20	5	42.3	3.35	24	44.4	0.28	24	3.9	0.67	25	9.2
Maryland	5.81	39	2.44	23	41.9	2.27	40	39.1	0.26	30	4.6	0.65	26	11.6
Massachusetts	6.42	29	3.45	3	53.8	2.06	41	32.1	0.48	7	7.7	0.41	42	6.6
Michigan	7.12	17	1.85	37	26.0	3.49	18	49.0	0.57	4	8.1	1.26	11	18.1
Minnesota	8.34	6	3.33	4	39.9	3.49	20	41.8	0.35	12	4.3	1.09	15	13.6
Mississippi	7.34	13	1.59	39	21.6	4.76	4	64.9	0.34	15	4.8	0.60	32	8.4
Missouri	5.25	46	2.21	29	42.1	2.53	37	48.2	0.13	45	2.5	0.40	43	7.7
Montana	6.87	21	2.61	14	38.0	1.67	45	24.3	0.26	31	4.2	2.01	5	31.7
Nebraska	6.58	26	2.41	25	36.7	3.42	21	52.0	0.30	19	4.6	0.43	39	6.6
Nevada	6.28	32	0.00	46	0.0	5.09	3	81.1	0.00	47	0.0	1.16	12	19.4
New Hampshire	4.13	50	0.14	42	3.3	1.44	46	34.9	0.86	2	20.3	1.83	6	43.3
New Jersey	6.08	36	2.18	30	35.9	2.70	36	44.4	0.52	6	9.0	0.54	34	9.3
New Mexico	8.28	8	2.01	34	24.3	4.02	10	48.5	0.28	25	3.5	1.64	8	20.4
New York	**6.35**	**30**	**3.56**	**2**	**56.0**	**2.04**	**42**	**32.2**	**0.28**	**26**	**4.5**	**0.36**	**45**	**5.8**
North Carolina	6.98	18	3.16	7	45.2	2.85	33	40.9	0.33	16	5.0	0.49	36	7.2
North Dakota	6.90	20	1.19	41	17.2	3.49	19	50.6	0.27	27	4.1	1.59	9	24.3
Ohio	6.57	27	2.58	16	39.3	3.05	30	46.4	0.30	20	4.7	0.54	35	8.6
Oklahoma	6.44	28	2.32	26	36.0	2.35	39	36.4	0.14	44	2.1	1.67	7	25.4
Oregon	5.69	41	4.10	1	72.0	0.61	49	10.7	0.29	22	5.2	0.70	23	12.5
Pennsylvania	6.31	31	1.92	35	30.4	3.06	29	48.5	0.41	8	6.6	0.92	17	15.1
Rhode Island	6.85	22	2.60	15	38.0	3.59	17	52.4	0.19	39	2.9	0.36	46	5.6
South Carolina	6.06	37	2.23	28	36.8	0.32	50	5.2	0.17	40	2.9	0.42	41	7.0
South Dakota	4.50	47	0.00	47	0.0	3.67	15	81.4	0.20	36	4.4	0.65	27	14.1
Tennessee	5.42	45	0.08	43	1.6	4.14	7	76.4	0.40	9	7.3	0.77	21	14.2
Texas	4.31	49	0.00	48	0.0	3.40	22	78.8	0.00	48	0.0	0.89	18	19.9
Utah	6.68	23	2.75	13	41.1	3.32	25	49.7	0.23	34	3.5	0.34	47	5.2
Vermont	11.04	1	2.46	21	22.3	3.83	11	34.7	0.32	18	3.5	2.97	4	33.2
Virginia	5.54	42	2.91	11	52.5	1.91	43	34.4	0.16	41	3.0	0.44	38	8.3
Washington	6.60	25	0.00	49	0.0	5.18	2	78.5	0.00	49	0.0	1.39	10	21.8
West Virginia	8.97	4	2.44	22	27.2	4.49	6	50.1	0.39	10	4.8	0.87	19	10.8
Wisconsin	7.23	16	3.00	10	41.6	3.18	26	44.0	0.39	11	5.4	0.61	31	8.6
Wyoming	9.20	3	0.00	50	0.0	3.39	23	36.9	0.00	50	0.0	5.37	1	61.9
Mean	**6.75**		**2.07**		**30.7**	**3.12**		**46.8**	**0.31**		**4.9**	**1.02**		**15.6**
Standard Deviation	**1.38**		**1.09**			**1.16**			**0.24**			**0.97**		
Coefficient of Variation	**20.41**		**52.91**			**37.25**			**77.66**			**94.62**		
NYS Diff. from Mean	**(0.40)**		**1.49**		**25.3**	**(1.07)**		**(14.6)**	**(0.03)**		**(0.4)**	**(0.66)**		**(9.8)**

Source: Moody's Economy.com, DOB Staff Estimates

Table 4 - 1977 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Total	Sales	Rank	Total	Other	Rank	Total
Alabama	2.16	47	0.87	50	40.6	0.90	4	41.6	0.39	9	17.9
Alaska	3.26	36	2.57	36	78.6	0.65	13	20.0	0.04	45	1.4
Arizona	4.75	14	3.88	18	81.8	0.76	9	16.0	0.11	30	2.3
Arkansas	2.03	48	1.85	44	90.9	0.12	29	6.1	0.06	41	3.0
California	5.89	4	5.02	8	85.2	0.65	14	11.0	0.22	16	3.8
Colorado	5.29	8	4.01	15	75.9	1.11	3	21.0	0.16	21	3.1
Connecticut	4.82	13	4.77	10	99.1	0.00	44	0.0	0.04	46	0.9
Delaware	1.96	49	1.67	46	85.0	0.00	42	0.2	0.29	12	14.7
Florida	3.29	35	2.78	31	84.4	0.40	20	12.1	0.12	28	3.5
Georgia	3.66	30	2.97	28	81.3	0.56	16	15.2	0.13	26	3.5
Hawaii	2.44	42	1.95	43	80.1	0.23	24	9.4	0.26	15	10.5
Idaho	3.13	38	3.04	26	97.3	0.02	37	0.8	0.06	40	2.0
Illinois	4.53	15	3.71	20	81.9	0.66	12	14.5	0.16	20	3.6
Indiana	3.34	34	3.22	24	96.6	0.01	41	0.2	0.11	29	3.3
Iowa	4.13	20	4.00	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.27	19	4.02	14	94.1	0.16	27	3.8	0.09	34	2.1
Kentucky	2.39	43	1.60	47	66.9	0.11	31	4.7	0.68	5	28.5
Louisiana	3.17	37	1.54	49	48.5	1.49	2	47.1	0.14	24	4.4
Maine	3.67	29	3.64	21	99.3	0.00	45	0.0	0.03	50	0.7
Maryland	4.50	16	2.93	29	65.1	0.20	26	4.4	1.37	1	30.4
Massachusetts	6.52	2	6.48	1	99.4	0.00	46	0.0	0.04	49	0.6
Michigan	4.31	18	3.95	17	91.6	0.04	35	1.0	0.32	11	7.4
Minnesota	3.74	27	3.59	22	96.0	0.07	33	2.0	0.08	36	2.1
Mississippi	2.29	45	2.17	38	94.5	0.08	32	3.7	0.04	48	1.8
Missouri	3.93	23	2.75	33	69.8	0.80	7	20.2	0.39	8	10.0
Montana	5.28	9	5.08	7	96.1	0.00	47	0.0	0.21	17	3.9
Nebraska	5.62	5	5.24	5	93.3	0.25	22	4.4	0.13	25	2.3
Nevada	4.09	21	2.76	32	67.5	0.76	8	18.7	0.57	6	13.9
New Hampshire	5.45	6	5.35	4	98.1	0.00	48	0.0	0.11	32	1.9
New Jersey	6.10	3	5.50	3	90.2	0.52	17	8.5	0.08	35	1.3
New Mexico	1.95	50	1.59	48	81.7	0.21	25	11.0	0.14	23	7.4
New York	**8.09**	**1**	**5.53**	**2**	**68.4**	**1.51**	**1**	**18.7**	**1.04**	**3**	**12.9**
North Carolina	2.60	41	2.14	41	82.4	0.40	19	15.5	0.05	42	2.0
North Dakota	3.58	31	3.45	23	96.5	0.02	38	0.6	0.11	31	3.0
Ohio	3.97	22	3.03	27	76.3	0.14	28	3.5	0.81	4	20.3
Oklahoma	2.91	40	2.04	42	70.0	0.82	6	28.3	0.05	43	1.8
Oregon	5.05	12	4.65	12	92.3	0.11	30	2.3	0.28	13	5.5
Pennsylvania	3.92	24	2.59	35	66.2	0.03	36	0.9	1.29	2	32.9
Rhode Island	4.46	17	4.42	13	99.1	0.00	49	0.0	0.04	47	0.9
South Carolina	2.31	44	2.15	40	93.2	0.00	43	0.1	0.15	22	6.7
South Dakota	5.33	7	4.82	9	90.6	0.24	23	4. 6	0.26	14	4.9
Tennessee	3.34	33	2.27	37	68.0	0.88	5	26.3	0.19	18	5.8
Texas	3.74	28	3.21	25	85.8	0.46	18	12.2	0.07	37	2.0
Utah	3.55	32	2.91	30	81.8	0.56	15	15.7	0.09	33	2.6
Vermont	5.26	10	5.19	6	98.7	0.00	50	0.0	0.07	39	1.3
Virginia	3.78	26	2.60	34	69.0	0.75	10	19.9	0.42	7	11.1
Washington	3.08	39	2.15	39	70.0	0.74	11	24.2	0.18	19	5.9
West Virginia	2.20	46	1.80	45	81.8	0.06	34	2.8	0.34	10	15.3
Wisconsin	3.88	25	3.83	19	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.10	11	4.69	11	92.0	0.34	21	6.6	0.07	38	1.4
Mean	**3.96**		**3.36**		**84.8**	**0.36**		**9.0**	**0.24**		**6.2**
Standard Deviation	**1.31**		**1.3**			**0.40**			**0.30**		
CV	**33.18**		**38.66**			**111.00**			**123.72**		
NYS Diff. from Mean	**4.12**		**2.17**		**(16.4)**	**1.15**		**9.7**	**0.80**		**6.7**

Source: Moody's Economy.com, DOB Staff estimates.
Note: "Other" includes NYC imposed taxes and other categories.

Table 5 - 2005 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.92	42	1.17	49	40.1	1.31	5	44.8	0.44	10	15.2
Alaska	4.48	14	3.50	15	78.1	0.83	17	18.5	0.15	32	3.4
Arizona	4.05	25	2.63	30	65.0	1.13	9	27.9	0.29	18	6.3
Arkansas	2.01	49	0.82	50	40.9	1.15	8	57.3	0.04	50	2.1
California	3.57	33	2.37	37	66.3	0.84	16	23.5	0.36	16	9.3
Colorado	4.57	12	2.81	29	61.5	1.50	2	32.8	0.26	20	4.2
Connecticut	4.38	17	4.29	6	98.0	0.00	48	0.0	0.09	46	1.8
Delaware	2.20	48	1.56	45	70.9	0.03	44	1.4	0.61	7	24.8
Florida	4.21	22	3.26	18	77.4	0.70	22	16.6	0.25	21	4.5
Georgia	4.16	23	2.87	27	69.0	1.12	10	26.9	0.17	28	3.2
Hawaii	2.46	47	1.85	43	75.3	0.33	30	13.4	0.28	19	11.1
Idaho	3.09	39	2.86	28	92.6	0.06	40	1.9	0.17	30	4.5
Illinois	4.90	6	4.01	8	81.9	0.72	21	14.7	0.17	31	3.6
Indiana	4.38	16	3.94	10	89.9	0.04	42	0.9	0.40	13	8.5
Iowa	4.24	20	3.54	14	83.6	0.57	26	13.5	0.13	36	2.8
Kansas	4.22	21	3.37	16	79.9	0.77	19	18.3	0.08	48	1.7
Kentucky	2.68	44	1.50	48	56.0	0.34	29	12.7	0.84	5	33.7
Louisiana	5.07	4	2.13	40	42.0	2.77	1	54.6	0.17	27	3.4
Maine	5.29	2	5.19	1	98.2	0.00	49	0.0	0.10	42	2.6
Maryland	4.47	15	2.18	39	48.7	0.21	33	4.7	2.08	1	40.7
Massachusetts	3.83	28	3.69	12	96.4	0.05	41	1.3	0.09	45	2.3
Michigan	3.56	34	3.26	19	91.5	0.08	38	2.2	0.22	23	6.6
Minnesota	2.66	45	2.43	34	91.2	0.10	36	3.8	0.13	35	4.0
Mississippi	2.78	43	2.60	31	93.5	0.08	39	2.9	0.10	40	3.7
Missouri	4.30	19	2.57	32	59.7	1.34	4	31.1	0.39	14	8.7
Montana	3.10	38	2.97	24	95.8	0.02	45	0.6	0.11	38	3.6
Nebraska	4.83	9	3.64	13	75.3	0.59	25	12.2	0.60	8	11.9
Nevada	3.74	29	2.41	36	64.5	0.82	18	21.9	0.51	9	14.5
New Hampshire	4.69	11	4.61	4	98.3	0.00	50	0.0	0.08	47	1.8
New Jersey	5.21	3	5.09	2	97.8	0.02	46	0.4	0.10	43	1.7
New Mexico	2.96	41	1.52	47	51.4	1.27	7	42.9	0.17	29	4.7
New York	**7.71**	**1**	**4.32**	**5**	**56.0**	**1.49**	**3**	**19.3**	**1.90**	**2**	**22.2**
North Carolina	3.25	36	2.42	35	74.5	0.68	24	20.9	0.15	33	5.0
North Dakota	3.53	35	3.04	23	86.1	0.40	28	11.3	0.09	44	2.0
Ohio	4.85	8	3.27	17	67.5	0.44	27	9.1	1.14	4	23.6
Oklahoma	3.02	40	1.61	44	53.3	1.31	6	43.4	0.10	41	2.5
Oregon	4.00	27	3.09	20	77.3	0.24	32	6.0	0.67	6	15.1
Pennsylvania	4.34	18	3.09	21	71.1	0.10	37	2.3	1.15	3	26.1
Rhode Island	4.87	7	4.74	3	97.3	0.02	47	0.4	0.11	37	1.5
South Carolina	3.71	31	3.09	22	83.2	0.29	31	7.8	0.33	17	8.1
South Dakota	4.03	26	2.96	25	73.4	0.89	15	22.1	0.18	26	4.5
Tennessee	3.24	37	2.11	41	65.1	0.94	13	29.0	0.19	25	6.2
Texas	4.78	10	3.98	9	83.3	0.69	23	14.4	0.11	39	2.3
Utah	3.73	30	2.55	33	68.4	0.98	11	26.3	0.20	24	5.2
Vermont	1.63	50	1.53	46	93.7	0.04	43	2.4	0.06	49	2.3
Virginia	4.09	24	2.91	26	71.2	0.75	20	18.4	0.43	11	9.8
Washington	3.62	32	2.24	38	61.9	0.97	12	26.8	0.41	12	7.3
West Virginia	2.61	46	2.10	42	80.6	0.12	35	4.6	0.39	15	15.2
Wisconsin	4.53	13	4.22	7	93.1	0.17	34	3.7	0.14	34	2.2
Wyoming	4.93	5	3.75	11	76.1	0.94	14	19.1	0.24	22	4.9
Mean	**3.91**		**2.95**		**75.3**	**0.61**		**15.8**	**0.35**		**8.3**
Std. Dev.	**1.03**		**1.01**			**0.56**			**0.42**		
CV	**26.44**		**34.07**			**92.59**			**118.45**		
NYS Diff.	**3.80**		**1.37**		**(19.2)**	**0.89**		**3.5**	**1.55**		**13.9**

Source: Moody's Economy.com, DOB Staff estimates.

Note: "Other" includes NYC imposed taxes and all other categories.

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local
Alabama	6.41	2.16	8.56
Alaska	15.69	3.26	18.96
Arizona	7.21	4.75	11.97
Arkansas	6.43	2.03	8.47
California	6.57	5.89	12.46
Colorado	5.30	5.29	10.58
Connecticut	5.43	4.82	10.24
Delaware	8.32	1.96	10.28
Florida	5.28	3.29	8.57
Georgia	5.90	3.66	9.56
Hawaii	8.96	2.44	11.40
Idaho	6.44	3.13	9.56
Illinois	5.57	4.53	10.10
Indiana	5.59	3.34	8.92
Iowa	6.11	4.13	10.24
Kansas	5.74	4.27	10.01
Kentucky	7.19	2.39	9.58
Louisiana	7.00	3.17	10.17
Maine	6.92	3.67	10.59
Maryland	6.20	4.50	10.70
Massachusetts	6.70	6.52	13.23
Michigan	6.65	4.31	10.96
Minnesota	8.29	3.74	12.03
Mississippi	7.53	2.29	9.82
Missouri	4.72	3.93	8.66
Montana	6.12	5.28	11.41
Nebraska	5.67	5.62	11.29
Nevada	5.69	4.09	9.78
New Hampshire	3.34	5.45	8.79
New Jersey	5.01	6.10	11.10
New Mexico	8.04	1.95	10.00
New York	**7.39**	**8.09**	**15.48**
North Carolina	6.97	2.60	9.57
North Dakota	7.12	3.58	10.70
Ohio	4.42	3.97	8.40
Oklahoma	6.04	2.91	8.95
Oregon	5.30	5.05	10.34
Pennsylvania	6.29	3.92	10.21
Rhode Island	6.58	4.46	11.04
South Carolina	7.01	2.31	9.31
South Dakota	4.58	5.33	9.91
Tennessee	5.71	3.34	9.05
Texas	5.18	3.74	8.92
Utah	6.36	3.55	9.91
Vermont	7.59	5.26	12.85
Virginia	5.48	3.78	9.26
Washington	7.13	3.08	10.21
West Virginia	7.86	2.20	10.06
Wisconsin	8.01	3.88	11.89
Wyoming	6.95	5.10	12.05
Mean Values	**6.42**	**3.87**	**10.29**
Standard Deviation	**1.13**	**0.98**	**1.05**
Coefficient of Variation	**17.61**	**25.29**	**10.24**
NYS Diff. from Avg.	**(0.21)**	**3.67**	**3.46**

Sources: Moody's Economy.com, DOB Staff Estimates

Table 6b - State/Local Split of 2005 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local
Alabama	5.86	2.92	8.78
Alaska	7.65	4.48	12.13
Arizona	6.09	4.05	10.13
Arkansas	8.76	2.01	10.76
California	7.30	3.57	10.88
Colorado	4.35	4.57	8.92
Connecticut	6.94	4.38	11.32
Delaware	8.30	2.20	10.50
Florida	5.50	4.21	9.71
Georgia	5.52	4.16	9.68
Hawaii	10.00	2.46	12.46
Idaho	7.26	3.09	10.35
Illinois	5.69	4.90	10.59
Indiana	6.64	4.38	11.03
Iowa	6.16	4.24	10.40
Kansas	6.24	4.22	10.45
Kentucky	7.68	2.68	10.36
Louisiana	7.73	5.07	12.80
Maine	7.56	5.29	12.85
Maryland	5.81	4.47	10.28
Massachusetts	6.42	3.83	10.25
Michigan	7.12	3.56	10.68
Minnesota	8.34	2.66	11.00
Mississippi	7.34	2.78	10.12
Missouri	5.25	4.30	9.55
Montana	6.87	3.10	9.97
Nebraska	6.58	4.83	11.41
Nevada	6.28	3.74	10.02
New Hampshire	4.13	4.69	8.82
New Jersey	6.08	5.21	11.29
New Mexico	8.28	2.96	11.24
New York	**6.35**	**7.71**	**14.06**
North Carolina	6.98	3.25	10.23
North Dakota	6.90	3.53	10.43
Ohio	6.57	4.85	11.42
Oklahoma	6.44	3.02	9.46
Oregon	5.69	4.00	9.69
Pennsylvania	6.31	4.34	10.66
Rhode Island	6.85	4.87	11.72
South Carolina	6.06	3.71	9.77
South Dakota	4.50	4.03	8.53
Tennessee	5.42	3.24	8.66
Texas	4.31	4.78	9.09
Utah	6.68	3.73	10.41
Vermont	11.04	1.63	12.67
Virginia	5.54	4.09	9.63
Washington	6.60	3.62	10.22
West Virginia	8.97	2.61	11.57
Wisconsin	7.23	4.53	11.76
Wyoming	9.20	4.93	14.13
Mean Values	**6.75**	**3.91**	**10.66**
Standard Deviation	**1.38**	**1.03**	**1.26**
Coefficient of Variation	**20.41**	**26.44**	**11.80**
NYS Diff. from Avg.	**(0.40)**	**3.80**	**3.40**

Sources: Moody's Economy.com, DOB Staff Estimates

Table 7 - 2005 Ratios of Tax Collections to Personal Income by Category

State	State PIT	Local PIT	State Corporate	Local Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.91	0.08	0.30	0.00	3.00	1.31	1.17	1.02	8.78
Alaska	0.00	0.00	2.42	0.00	0.82	0.83	3.50	4.56	12.13
Arizona	1.57	0.00	0.39	0.00	3.70	1.13	2.63	0.71	10.13
Arkansas	2.51	0.00	0.37	0.00	4.62	1.15	0.82	1.30	10.76
California	3.19	0.00	0.64	0.00	2.79	0.84	2.37	1.04	10.88
Colorado	2.14	0.00	0.18	0.00	1.74	1.50	2.81	0.55	8.92
Connecticut	3.01	0.00	0.34	0.00	3.07	0.00	4.29	0.60	11.32
Delaware	2.83	0.16	0.80	0.00	1.27	0.03	1.56	3.85	10.50
Florida	0.00	0.00	0.29	0.00	4.13	0.70	3.26	1.32	9.71
Georgia	2.58	0.00	0.25	0.00	2.45	1.12	2.87	0.41	9.68
Hawaii	3.12	0.00	0.28	0.00	6.20	0.33	1.85	0.68	12.46
Idaho	2.57	0.00	0.35	0.00	3.71	0.06	2.86	0.79	10.35
Illinois	1.71	0.00	0.47	0.00	2.88	0.72	4.01	0.80	10.59
Indiana	2.18	0.31	0.43	0.00	3.72	0.04	3.94	0.42	11.03
Iowa	2.42	0.06	0.20	0.00	2.82	0.57	3.54	0.79	10.40
Kansas	2.28	0.00	0.28	0.00	3.10	0.77	3.37	0.66	10.45
Kentucky	2.57	0.64	0.40	0.00	3.59	0.34	1.50	1.32	10.36
Louisiana	2.14	0.00	0.32	0.00	4.11	2.77	2.13	1.34	12.80
Maine	3.20	0.00	0.33	0.00	3.35	0.00	5.19	0.77	12.85
Maryland	2.44	1.50	0.35	0.00	2.27	0.21	2.18	1.33	10.28
Massachusetts	3.45	0.00	0.48	0.00	2.06	0.05	3.69	0.52	10.25
Michigan	1.85	0.14	0.58	0.00	3.49	0.08	3.26	1.29	10.68
Minnesota	3.33	0.00	0.49	0.00	3.49	0.10	2.43	1.17	11.00
Mississippi	1.59	0.00	0.38	0.00	4.76	0.08	2.60	0.71	10.12
Missouri	2.21	0.17	0.12	0.00	2.53	1.34	2.57	0.62	9.55
Montana	2.61	0.00	0.36	0.00	1.67	0.02	2.97	2.34	9.97
Nebraska	2.41	0.00	0.34	0.00	3.42	0.59	3.64	1.00	11.41
Nevada	0.00	0.00	0.00	0.00	5.09	0.82	2.41	1.70	10.02
New Hampshire	0.14	0.00	0.97	0.00	1.44	0.00	4.61	1.66	8.82
New Jersey	2.18	0.00	0.59	0.00	2.70	0.02	5.09	0.71	11.29
New Mexico	2.01	0.00	0.45	0.00	4.02	1.27	1.52	1.97	11.24
New York	**3.56**	**0.85**	**0.35**	**0.53**	**2.04**	**1.49**	**4.32**	**0.91**	**14.06**
North Carolina	3.16	0.00	0.48	0.00	2.85	0.68	2.42	0.64	10.23
North Dakota	1.19	0.00	0.37	0.00	3.49	0.40	3.04	1.94	10.43
Ohio	2.58	1.00	0.36	0.00	3.05	0.44	3.27	0.71	11.42
Oklahoma	2.32	0.00	0.16	0.00	2.35	1.31	1.61	1.72	9.46
Oregon	4.10	0.11	0.32	0.00	0.61	0.24	3.09	1.22	9.69
Pennsylvania	1.92	0.74	0.39	0.00	3.06	0.10	3.09	1.36	10.66
Rhode Island	2.60	0.00	0.30	0.00	3.59	0.02	4.74	0.48	11.72
South Carolina	2.23	0.00	0.20	0.00	0.32	0.29	3.09	3.64	9.77
South Dakota	0.00	0.00	0.20	0.00	3.67	0.89	2.96	0.82	8.53
Tennessee	0.08	0.00	0.44	0.00	4.14	0.94	2.11	0.95	8.66
Texas	0.00	0.00	0.00	0.00	3.40	0.69	3.98	1.02	9.09
Utah	2.75	0.00	0.27	0.00	3.32	0.98	2.55	0.54	10.41
Vermont	2.46	0.00	0.34	0.00	3.83	0.04	1.53	4.47	12.67
Virginia	2.91	0.00	0.21	0.00	1.91	0.75	2.91	0.94	9.63
Washington	0.00	0.00	0.00	0.00	5.18	0.97	2.24	1.83	10.22
West Virginia	2.44	0.00	0.97	0.00	4.49	0.12	2.10	1.45	11.57
Wisconsin	3.00	0.00	0.43	0.00	3.18	0.17	4.22	0.76	11.76
Wyoming	0.00	0.00	0.00	0.00	3.39	0.94	3.75	6.05	14.13
Mean Values	**2.07**	**0.12**	**0.40**	**0.01**	**3.12**	**0.61**	**2.95**	**1.39**	**10.66**
Standard Deviation	**1.09**	**0.30**	**0.35**	**0.07**	**1.16**	**0.56**	**1.01**	**1.16**	**1.26**
Coefficient of Variation	**52.91**	**259.19**	**88.16**	**700.00**	**37.25**	**92.59**	**34.07**	**83.69**	**11.80**
NYS Diff. from Avg.	**1.49**	**0.74**	**(0.05)**	**0.52**	**(1.07)**	**0.89**	**1.37**	**(0.48)**	**3.40**

Sources: Moody's Economy.com, DOB Staff Estimates

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2005					
Year	**Mean**	**NYS**	**Standard Deviation**	**Coefficient of Variation**	**NY difference from mean**
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
77-85 avg.	**6.51**	**6.73**			**0.22**
1986	6.61	7.10	2.02	30.52	0.49
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
1995	6.88	6.84	1.44	20.91	(0.04)
86-95 avg.	**6.65**	**6.85**			**0.20**
1996	6.74	6.46	1.33	19.80	(0.28)
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
2004	6.42	6.21	1.14	17.79	(0.21)
2005	6.75	6.35	1.38	20.41	(0.40)
96-05 avg.	**6.63**	**6.30**			**(0.32)**

Sources: Moody's Economy.com, DOB Staff Estimates

Table 8b - State/Local Tax Burdens as a Pct. of Personal Inc., 1977 - 2005

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	10.52	15.48	1.82	17.34	4.96
1978	10.21	14.68	1.48	14.51	4.47
1979	10.11	13.95	1.80	17.79	3.84
1980	9.94	13.56	2.81	28.29	3.62
1981	9.86	13.21	4.07	41.30	3.35
1982	10.07	13.33	3.74	37.15	3.26
1983	9.95	13.22	2.79	28.03	3.27
1984	10.05	13.43	2.58	25.63	3.39
1985	10.19	13.82	2.37	23.28	3.63
77-85 avg.	**10.10**	**13.85**			**3.75**
1986	10.23	14.09	2.41	23.52	3.86
1987	10.28	14.47	1.65	16.04	4.19
1988	10.38	14.10	1.62	15.63	3.72
1989	10.28	13.67	1.47	14.34	3.39
1990	10.31	13.86	1.49	14.49	3.55
1991	10.43	13.87	1.65	15.81	3.44
1992	10.40	14.11	1.40	13.42	3.71
1993	10.70	14.53	1.72	16.08	3.82
1994	10.63	14.71	1.18	11.07	4.08
1995	10.79	14.22	1.41	13.03	3.43
86-95 avg.	**10.47**	**14.17**			**3.70**
1996	10.55	13.72	1.20	11.34	3.17
1997	10.63	13.55	1.21	11.35	2.92
1998	10.48	13.26	1.12	10.66	2.78
1999	10.45	13.26	1.01	9.68	2.80
2000	10.36	13.10	1.05	10.10	2.74
2001	10.24	13.12	0.97	9.48	2.88
2002	10.12	13.13	0.95	9.42	3.02
2003	10.18	13.45	0.99	9.76	3.27
2004	10.29	13.75	1.05	10.24	3.46
2005	10.66	14.06	1.26	11.80	3.40
96-05 avg.	**10.40**	**13.44**			**3.04**

Sources: Moody's Economy.com, DOB Staff Estimates

Figure 3 – Distribution of Tax Burden Across States by Tax Type

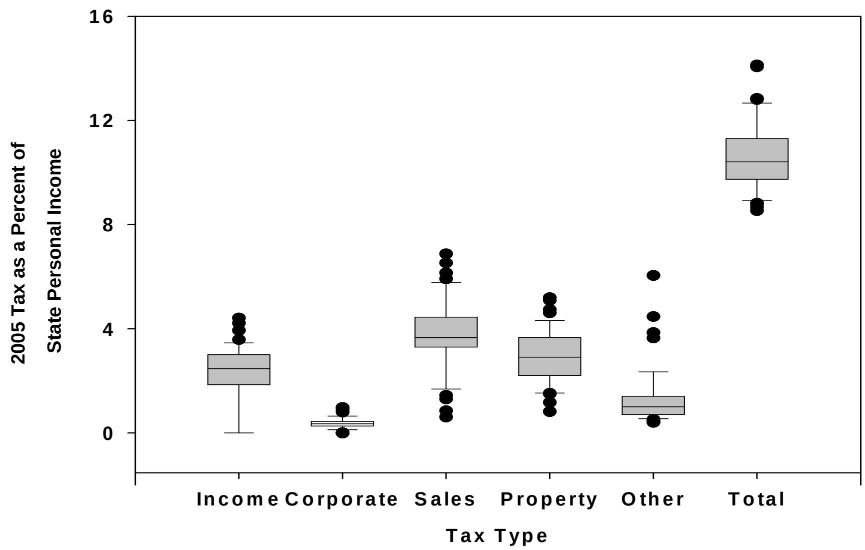


Figure 4 - NYS Difference From U.S. Mean State/Local Tax Burden

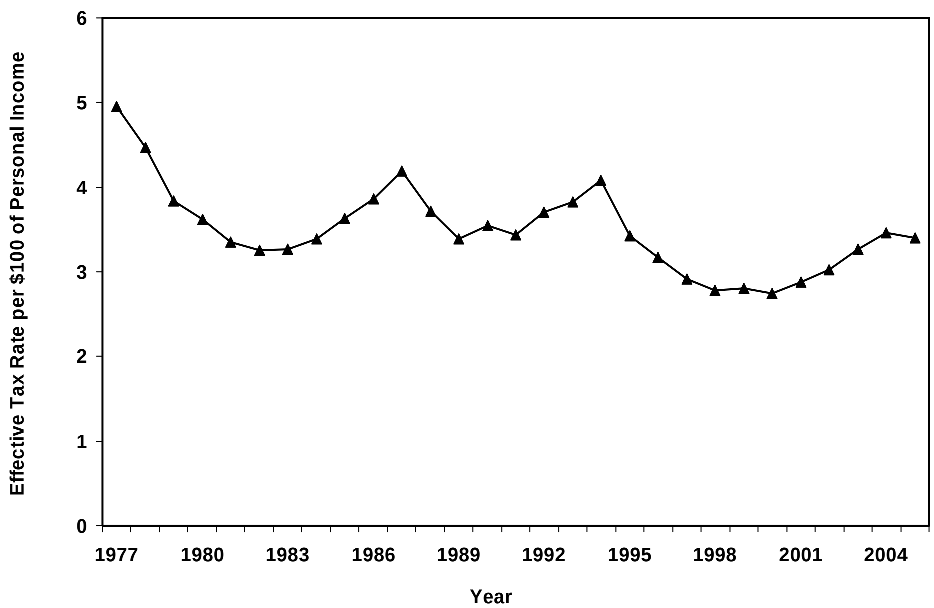


Figure 5 – Changes in Dispersion of State/Local Tax Burdens (Alaska Not Included)

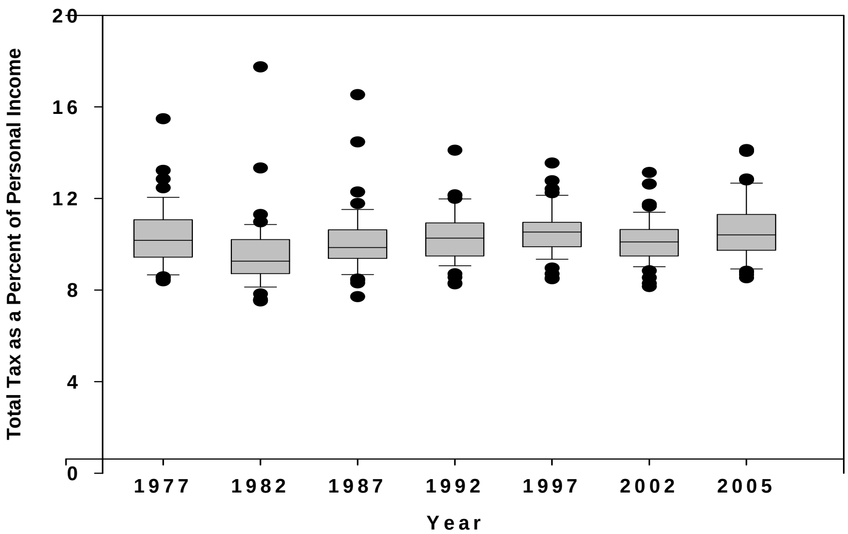


Figure 6 - Changes in Dispersion of State Tax Burdens Over Time (Alaska not Included)

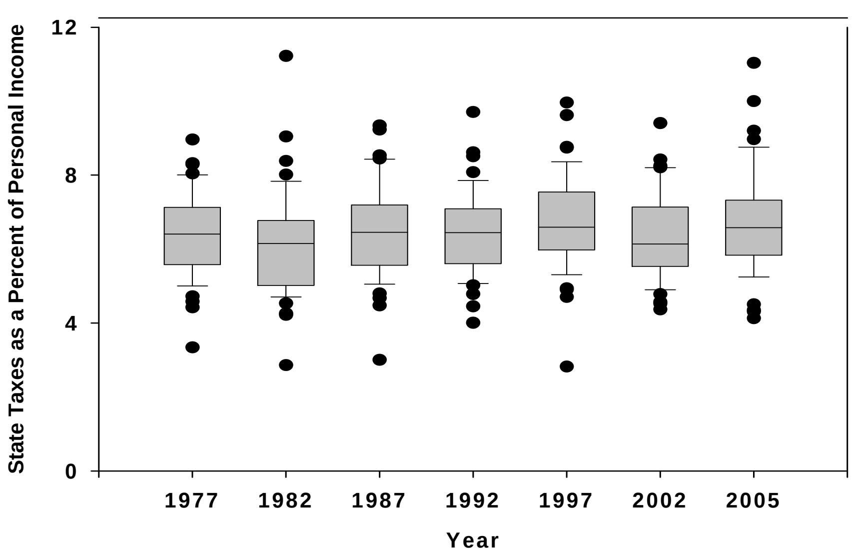


Figure 7 - Changes in Dispersion of Local Tax Burdens Over Time

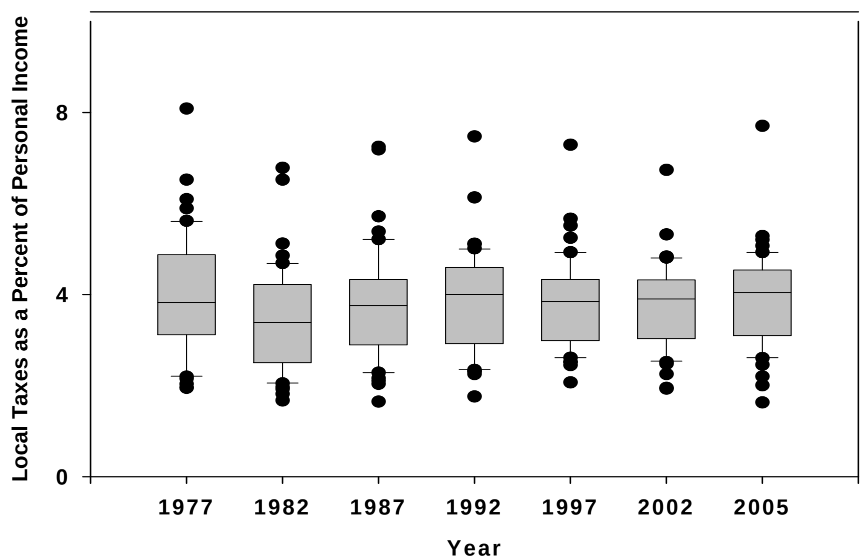


Figure 8 - Changes in Dispersion of Local Property Tax Burdens Over Time

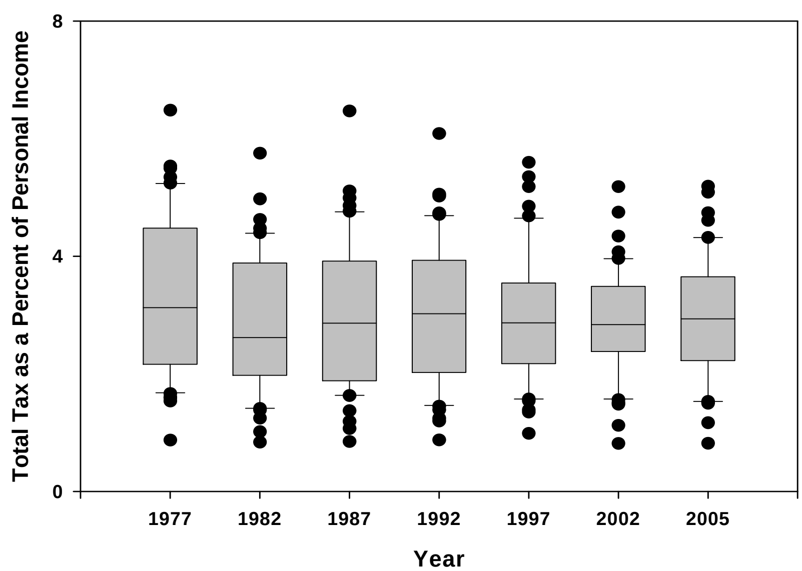


Figure 9 - 1977 State/Local Burden per $100 Personal Income vs. Percent Change in Burden, 1977 to 2005 - Without Alaska

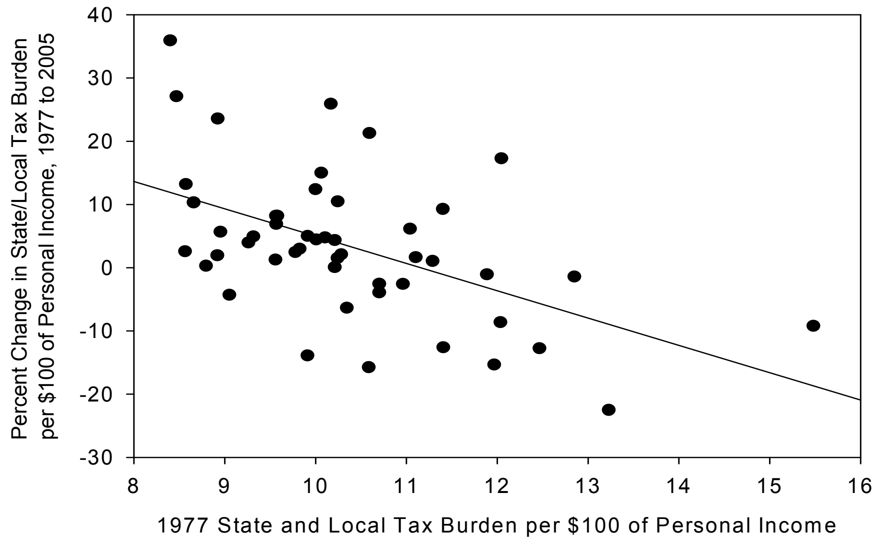


Table 9 - 2005 Property Taxes on Owner-Occupied Housing, by County

County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Niagara County	$2,576	137	$91,600	2.8	1	$53,527	4.8	64
Monroe County	$3,266	75	$119,500	2.7	2	$60,032	5.4	42
Onondaga County	$2,747	118	$104,100	2.6	3	$60,500	4.5	86
Wayne County	$2,579	135	$98,700	2.6	4	$58,494	4.4	93
Chautauqua County	$1,948	240	$75,000	2.6	5	$44,882	4.3	102
Erie County	$2,616	129	$102,600	2.5	7	$55,547	4.7	70
Schenectady County	$3,251	79	$128,900	2.5	8	$56,555	5.7	32
Cayuga County	$2,122	213	$87,000	2.4	9	$50,010	4.2	112
Chemung County	$1,902	250	$78,600	2.4	10	$48,270	3.9	143
Oswego County	$1,832	265	$76,900	2.4	13	$49,142	3.7	171
Oneida County	$1,963	235	$82,700	2.4	14	$50,103	3.9	145
Broome County	$1,944	241	$84,100	2.3	18	$47,624	4.1	131
Steuben County	$1,620	342	$70,200	2.3	19	$47,457	3.4	216
Madison County	$2,010	226	$87,900	2.3	23	$51,989	3.9	150
Ontario County	$2,597	131	$114,100	2.3	24	$58,817	4.4	91
Cattaraugus County	$1,574	351	$70,600	2.2	26	$42,873	3.7	179
Tompkins County	$3,088	89	$138,800	2.2	27	$67,549	4.6	82
Rensselaer County	$2,823	109	$133,300	2.1	32	$59,611	4.7	68
Sullivan County	$3,187	84	$157,300	2	41	$56,082	5.7	37
St. Lawrence County	$1,313	438	$68,000	1.9	56	$44,205	3	306
Jefferson County	$1,674	324	$88,400	1.9	65	$52,135	3.2	255
Clinton County	$1,704	309	$98,900	1.7	102	$54,214	3.1	268
Albany County	$2,760	116	$160,200	1.7	103	$69,273	4	137
Orange County	$4,707	21	$292,200	1.6	131	$78,903	6	25
Putnam County	$6,335	9	$403,900	1.6	141	$86,694	7.3	7
Nassau County	$7,025	2	$469,100	1.5	161	$89,320	7.9	3
Suffolk County	$6,131	12	$412,300	1.5	167	$83,915	7.3	8
Ulster County	$3,281	74	$222,200	1.5	169	$63,669	5.2	48
Warren County	$2,035	223	$143,300	1.4	183	$59,547	3.4	215
Saratoga County	$2,538	145	$180,300	1.4	187	$66,840	3.8	156
Rockland County	$6,527	6	$472,200	1.4	192	$96,030	6.8	11
Westchester County	$7,337	1	$541,700	1.4	203	$101,581	7.2	9
Dutchess County	$3,809	41	$306,900	1.2	241	$73,187	5.2	46
Bronx County	$1,923	246	$330,500	0.6	614	$61,778	3.1	275
Queens County	$2,318	176	$420,200	0.6	632	$64,837	3.6	191
Richmond County	$2,379	168	$434,000	0.5	634	$77,872	3.1	287
New York County	$3,499	62	$717,900	0.5	677	$124,694	2.8	341
Kings County	$2,255	189	$471,200	0.5	682	$62,477	3.6	187

Source: U.S. Census Bureau; Tax Foundation calculations.

ASSESSMENT OF
FORECAST PERFORMANCE

ASSESSMENT OF FORECAST PERFORMANCE

SUMMARY

The forecast of tax receipts is a critical part of preparing the Financial Plan. The availability of receipts sets an important constraint on the ability of the State to finance spending priorities. However, all forecasts are subject to error. In an area as complex as receipt forecasting, this error can be substantial. The size of the forecast errors can be mitigated by the proper application of forecast tools, but it cannot be eliminated.

The summary table below reviews the forecast performance using several measures and over three time horizons. The period reviewed covers the later half of the 1990s, the period covering 2000-01 to 2006-07 and finally an overall error rate for the entire period. All comparisons are of Enacted Budget estimates to Comptroller's actuals for a fiscal year. Enacted Budget estimates reflect law changes actually put into place for a year and any revenue consensus reached with the Legislative Fiscal Committee staff.

The All Funds tax forecast over the past twelve years (SFY 1995-96 to 2006-07) has ranged from quite accurate (less than 2 percent error) to considerably less precise (more than 6 percent error). The average absolute error over the period is 3.5 percent while the root mean square error is 4.0 percent. Given the volatility in receipts growth over this period, errors of this magnitude do not appear overly large. During economic expansions, the tax receipt estimates understated actual results. Receipts were significantly overestimated during the 2001-02 economic contraction. For the 2005-06 and 2006-07 fiscal years there has been a relatively small percentage underestimate of total tax receipts.

Summary Measures of Forecast Performance

	1995-96 to 1999-2000 Percent Error		2001-02 to 2006-07 Percent Error		1995-96 to 2006-07 Percent Error
			Total Taxes		
Mean Error	2.5	Mean Error	1.3	Mean Error	1.8
Mean Absolute Error	2.5	Mean Absolute Error	4.2	Mean Absolute Error	3.5
Root Mean Square Error	2.8	Root Mean Square Error	4.6	Root Mean Square Error	4.0
			Personal Income Tax		
Mean Error	2.7	Mean Error	0.6	Mean Error	1.5
Mean Absolute Error	2.7	Mean Absolute Error	4.4	Mean Absolute Error	3.9
Root Mean Square Error	2.9	Root Mean Square Error	5.3	Root Mean Square Error	4.5
			User Taxes		
Mean Error	1.1	Mean Error	0.6	Mean Error	0.8
Mean Absolute Error	1.4	Mean Absolute Error	1.4	Mean Absolute Error	1.4
Root Mean Square Error	1.7	Root Mean Square Error	2.0	Root Mean Square Error	1.9
			Business Taxes		
Mean Error	2.7	Mean Error	3.5	Mean Error	3.2
Mean Absolute Error	3.3	Mean Absolute Error	8.7	Mean Absolute Error	6.5
Root Mean Square Error	4.4	Root Mean Square Error	10.6	Root Mean Square Error	8.8
			Other Taxes		
Mean Error	9.7	Mean Error	15.0	Mean Error	12.8
Mean Absolute Error	10.1	Mean Absolute Error	15.0	Mean Absolute Error	12.9
Root Mean Square Error	11.1	Root Mean Square Error	18.5	Root Mean Square Error	15.8

Forecast error is measured here by: 1) mean error (average over the period with positive and negative errors netting); 2) absolute mean error (average over the period with no netting of positive and negative errors) and 3) root mean square error (calculated by first squaring the error, then taking the square root of the arithmetic average of the squared error which shows the size of the errors without regard to sign but it gives greater weight to larger errors).

There are numerous factors that will affect a receipt forecast. Many of them are interrelated and in some cases opposing trends impact the growth path of various taxes simultaneously. This chapter does not attempt to precisely measure the impact of one factor or another on a particular tax or in a particular year but to provide an overview of the major reasons for significant forecast errors. Further, this section will not repeat the description of the tax estimating methodologies and forecast explanations that are described in greater detail in the various chapters of this volume and on the Division website. It should be noted that these methodologies have changed significantly over this period and are continually revised as new information becomes available and new methods prove more successful.

Estimation errors in general can derive from many sources including:

- Data and statistical limitations (revisions);
- Model specification;
- Economic forecast error (national, regional, state);

- Timing issues (including return filing schedules and tax credit carryovers);
- National and international political events or natural disasters;
- Changes in the policy environment;
- Changes in assumptions (refund payments, etc);
- The evaluation of changes in the Tax Law; and
- Taxpayer behavior.

While this assessment will try to describe some of the reasons that the actual revenue total diverged from the Enacted Budget projection, no attempt is made to explain variations in other, non-tax, elements of revenue such as:

- Miscellaneous receipts (including fees and assessments);
- Federal aid; and
- Tuition, patient income and other agency revenues.

SOURCES OF ERROR IN ESTIMATES

Each year as part of the Executive Budget, the Division publishes a national and State economic forecast. This forecast is the foundation for most of the tax estimates. The economic forecast becomes an input to tax receipt models that are used to link economic changes to changes in the receipts base. Models are simplified versions of reality and as such are subject to error. An error in the forecast model for the economy can lead to an error in projecting tax receipts. Errors in the tax receipt models, independent of the economy, can often amplify the errors in predicting receipts.

Tax collections in New York are dependent on a host of specific factors that are difficult to accurately predict, including national and State economic conditions. Among the more specific factors that can impact New York receipt estimates are:

All Taxes

- National economic activity, especially employment and personal income growth;
- State economic activity, especially employment and income growth;
- Interest rates and inflation;
- One-time actions (that either spin up or delay collections and impact cash flow);
- Court decisions concerning the proper applicability of tax;
- Unanticipated shocks to the economy or tax structure (such as those associated with the September 11th attack);
- State or Federal tax policy actions;
- Tax structures including tax rates and base subject to tax;
- Efficiency of tax collection systems;
- Enforcement efforts, audit activities and voluntary compliance;
- Errors in the estimation of significant tax policy actions;
- Timing of payments (shifting collections from one fiscal year to another);
- Tax Amnesty programs (1994, 1996 and 2003 covering personal income tax, corporate franchise tax, sales tax, estate and gift tax and other minor taxes);
- Timing of Budget enactment; and
- Statutorily mandated accounting changes.

Income Tax

- Large year to year variations in income of wealthy taxpayers, especially the non-wage components of income;
- Financial market activities including equity price changes and bonus payments; and
- Housing activity and prices.

Sales and User Taxes

- Consumption of taxable goods and services;
- Changes in personal income and employment;
- Changes in consumer preferences for goods such as cigarettes and alcoholic beverages; and
- Energy prices and production.

Business Taxes

- Corporate Profits of firms with a significant New York presence;
- Significant variation in audit and compliance receipts; and
- The long lag between economic activity and final determination of corporate tax liability.

EVALUATION OF RISK

A critical factor in budget presentation is identifying risks to the Financial Plan. Knowledge about the current tax trends as well as the factors (economic, legal, regional) that can alter receipts is vital to decision makers. The most important risks are noted both in the DOB economic forecast and in the individual tax stories. All forecast errors impose costs that policy makers seek to control in managing the Budget. However, it is not necessarily true that the cost of all forecast errors is the same. From the perspective of the Division, the harm to the State of underestimating tax receipts is relatively mild compared to the damage caused by significantly overestimating results. A significant unanticipated shortfall in tax receipts could result in mid-year spending cuts (or the need to issue deficit financing notes) leading to disruptions in government services provided by the State and its localities. The conservative evaluation of forecast error is the approach followed by most revenue forecasters at all levels of government and is recommended by outside monitors, such as the credit rating agencies and the Citizens Budget Commission.

Over the course of the fiscal year when new information reveals the need to adjust the budget forecast, receipts estimates are revised. However, the Budget Division follows a cautious path in revising forecasts because monthly or quarterly variations in tax collection results can be large and fiscal prudence dictates a relatively cautious approach to revisions within a fiscal year. Of course, a substantial shortfall in expected receipts requires action to control expenditures, thereby requiring timely re-estimates in this case.

REVIEW OF THE ECONOMIC FORECAST

The ability to accurately forecast tax receipts is closely related to the level of volatility in the economy. The review of the State's economic activity is presented in the Economic

Overview of the Executive Budget. Generally, economic forecast errors are positively related to tax receipts forecast errors but the tax estimating errors are typically more pronounced because multiple factors beyond economic conditions may impact the estimate. The forecast errors tend to follow the State's business cycle, with underestimates occurring during growth periods and overestimates at the beginning of downturns.

As one would expect, there is a positive relationship between errors in the economic forecast and our revenue forecast. For example, a review of the personal income tax withholding forecast from 2001 to 2006 showed a close relationship, in both error direction and size, to the DOB State wage growth forecast error. Sales tax forecast errors also followed errors in the wage growth forecast from 2001 to 2004 in terms of direction. The pattern, however, did not hold true during the last two years where wage growth was underestimated and sales tax receipts were overestimated. While the accuracy of our economic wage forecasts can explain a portion of tax forecast errors, the correlation is far from perfect. Many additional factors influence the revenue forecast. The most prominent is the impact of policy changes that are often difficult to forecast adequately.

CONSENSUS FORECASTING

In an attempt to overcome late budgets, a statutory consensus economic and revenue forecasting process was created in 1996. While the discussions are valuable, they are neither joint forecasts nor a formal adoption of the State economic forecast.

The consensus forecast is used as a basis for setting a target for receipts on which the Legislative and Executive branches can agree. Reaching the revenue target facilitates the setting of budget priorities based upon a common assessment of available revenues. The newly enacted Budget reform legislation improves the consensus process by moving up the date for consensus to be reached to March 5 and requiring the State Comptroller to determine a revenue constraint in the absence of agreement between the Executive and Legislative fiscal staff.

A major factor in the accuracy of tax receipts estimates can be the timeframe in which the budget is adopted. Over the last ten years, State budgets have been passed as early as the beginning of the fiscal year and as late as August. Uncertainties concerning projected receipts can be a factor which impacts the timing of the adopted Budget.

This assessment of forecast performance used in this review is based on the DOB's Enacted Budget Report to eliminate differences caused by either the rejection of Executive proposals or legislative action which was not anticipated. It also reflects, for the most part, an agreed-to consensus with the Legislature on available resources. The tax forecasts are updated with the economic outlook at the time the Budget passed and reflect legislation and economic assumptions at the time of enactment. Many times this is well into the Budget year so all errors are not for the same time periods.

TAX SOURCE REVIEW

While every effort is made to accurately estimate each State tax source, forecast errors in the largest tax sources have the greatest impact on budgetmaking. Even relatively small percentage differences between the personal income tax estimates in the Enacted Budget and actual collections can account for hundreds of millions of dollars, while relatively large percentage errors in smaller taxes will not sway the State's overall fiscal outlook.

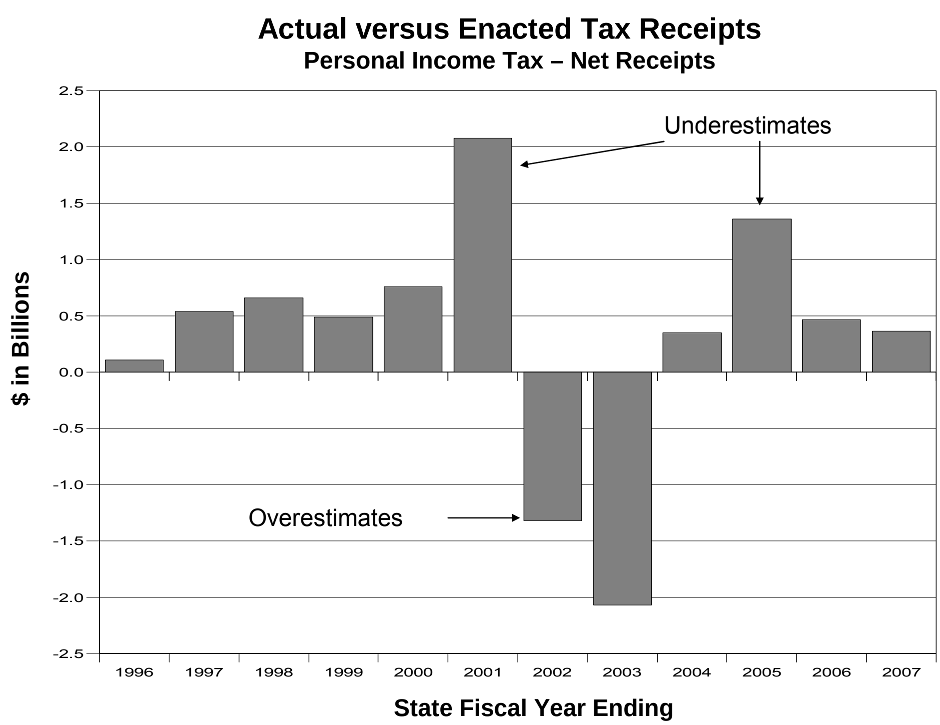
Taxpayer behavior and general economic trends can move in opposite directions, especially in the short run. Unpredictable situations, such as the September 11th attack or some other disruption where the outlook for a large sector of the economy and taxpayer behavior quickly changes direction, pose major risks. Another critical factor in forecasting receipts is accounting for the impact of Federal and State tax policy actions on New York receipts. Since Federal budget actions are typically concluded in the fall (well after State budget enactment), unanticipated changes can alter previously made State forecasts.

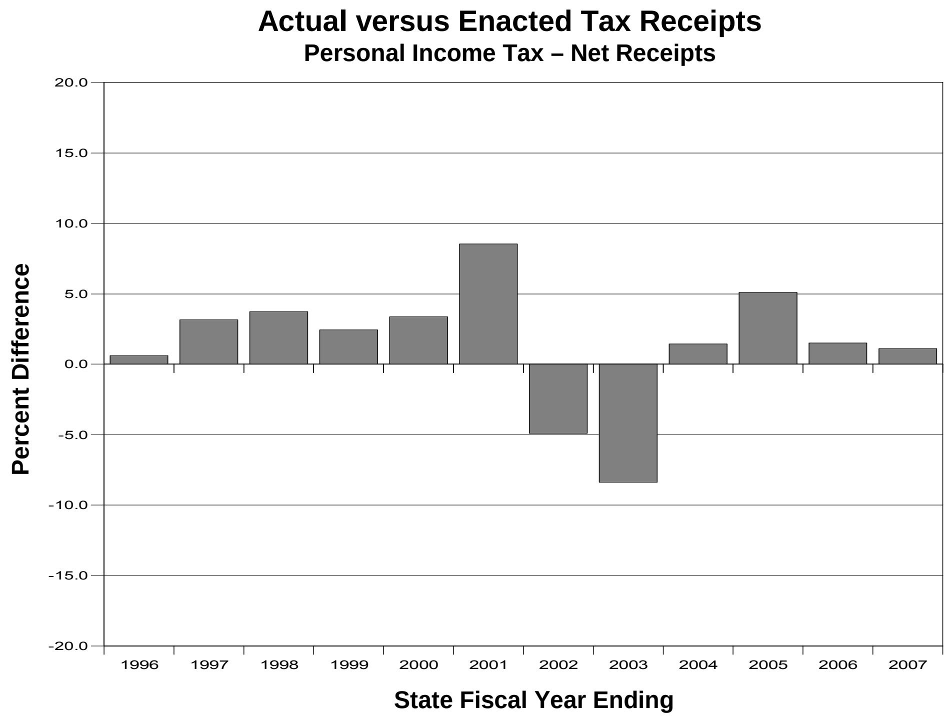
Personal Income Tax

A major difficulty in forecasting the personal income tax is predicting bonus payments and non-wage income components such as capital gains. This income is concentrated among the wealthiest taxpayers and is extremely volatile.

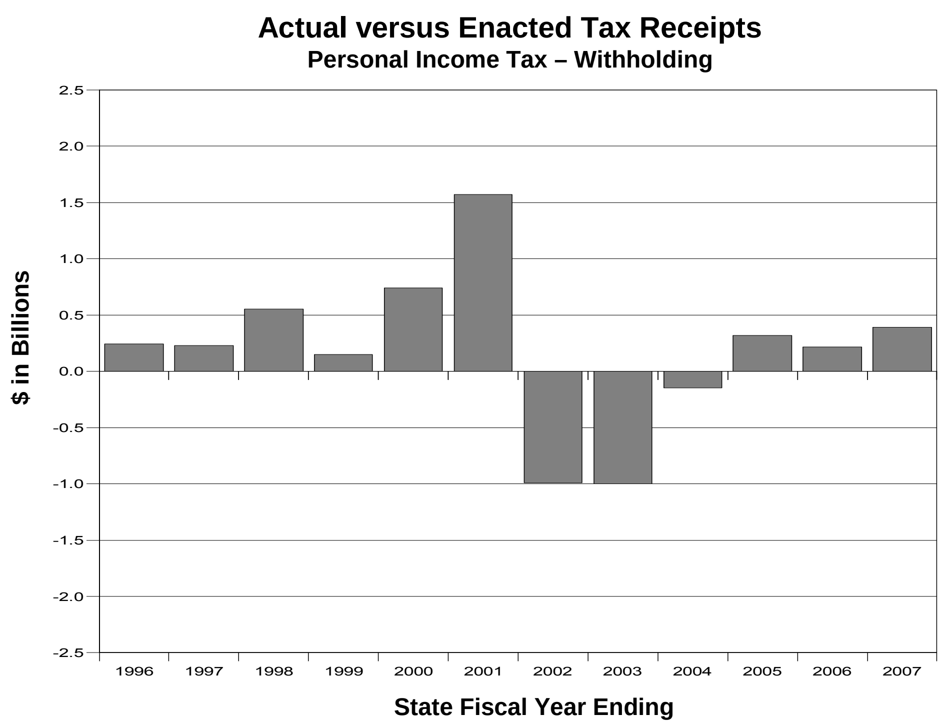
The following charts show the forecast accuracy of both the relatively stable withholding component of the income tax and volatile estimated tax payments. Growth in withholding is generally consistent with wages. The range of variation for withholding estimates was an 8.1 percent underestimate in 2000-01 to a 4.8 percent overestimate in 2002-03. The average absolute error over the twelve year period is 2.8 percent.

Conversely, the range of forecasting variation for the estimated tax payments was a 14.4 percent underestimate in 2005-06 (a 13.5 percent underestimate in 2004-05) and a 15.6 percent overestimate in 2002-03. The average absolute error during the period was 8.0 percent.

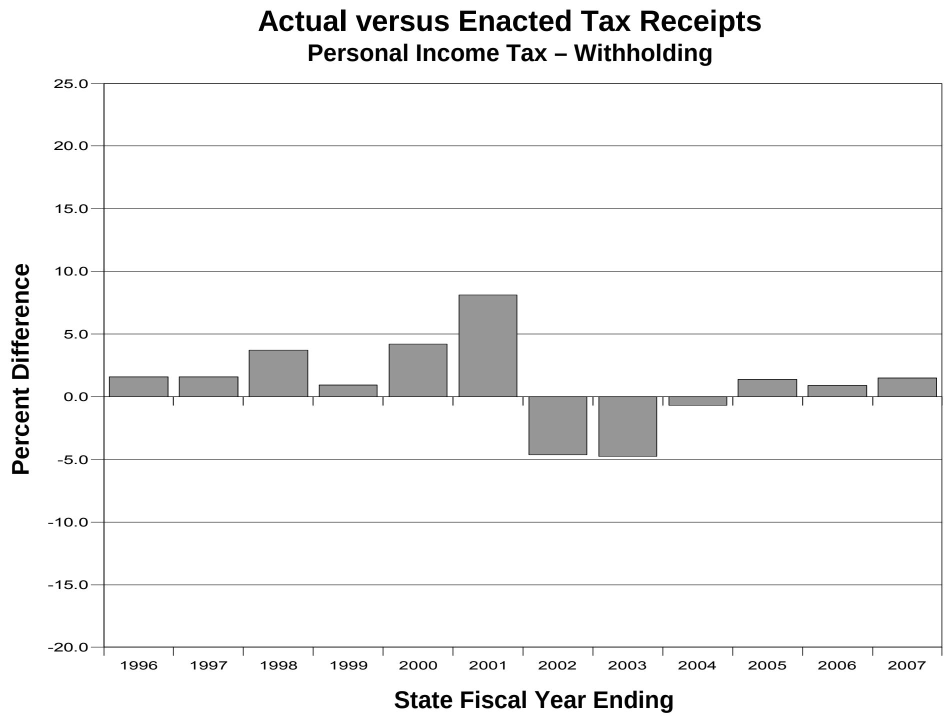


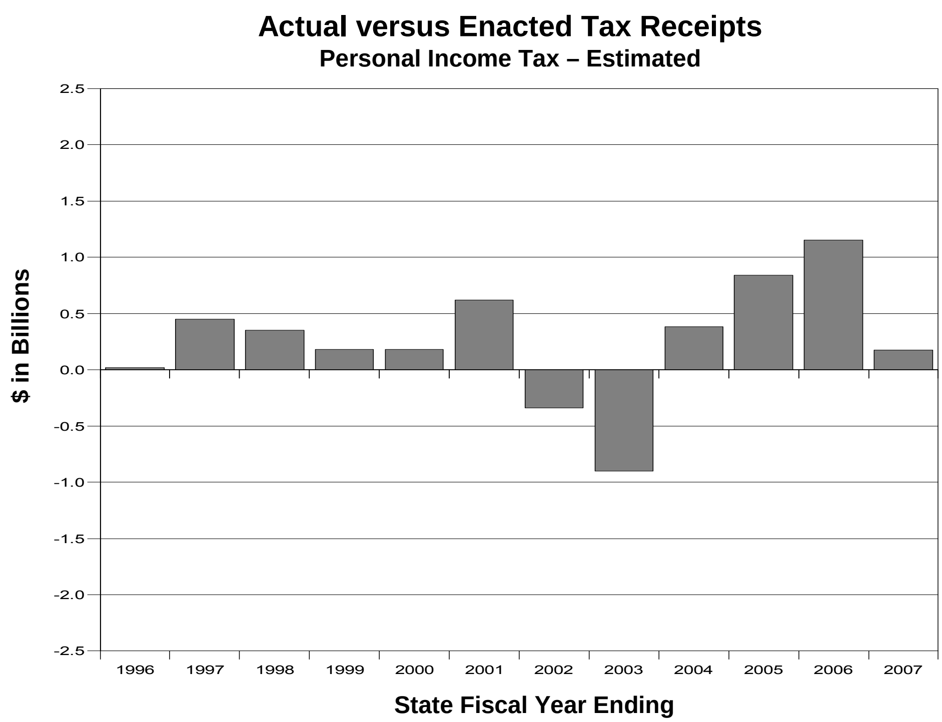


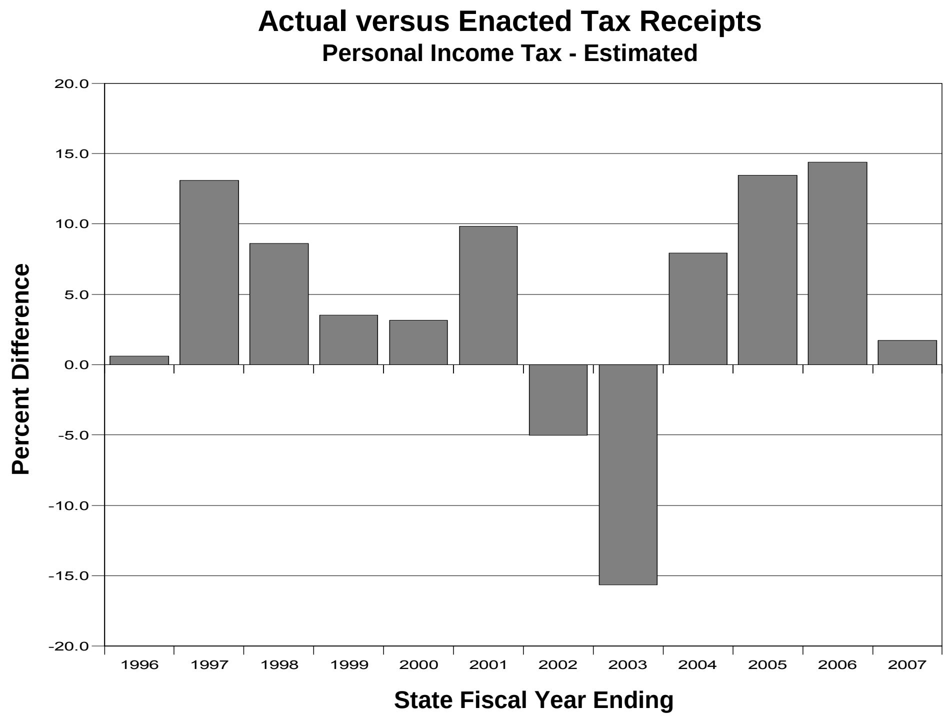
Actual versus Enacted Tax Receipts
Personal Income Tax – Net Receipts
Percent Difference
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending



Actual versus Enacted Tax Receipts
Personal Income Tax – Withholding
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Personal Income Tax – Withholding
Percent Difference
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Personal Income Tax – Estimated
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending



Due to the size of these two components, even small percentage errors in forecasting can have a significant impact on the Financial Plan. Withholding taxes accounted for more than $24.8 billion (about 68 percent of the gross personal income tax total) in 2005-06 and estimated taxes accounted for more than $9.2 billion (about 25 percent of the gross total). Further, the estimated tax is also a growing share of overall income taxes. In 2006-07, it provided 30 percent of the net total (gross collections minus refunds) compared to 19 percent in 1995-96.

The forecasting error rate for net personal income tax collections as measured in one fiscal year can be influenced by taxpayer behavior. The early or late filing of returns can be seen in terms of the amount of refunds paid or final payments collected. Unusual audit activities (including amnesty programs) which result in assessments can also alter the collection pattern. However, the size of the withholding and estimated tax collections error rates dominates this category. The average personal income tax absolute error rate over the twelve year period is 3.9 percent. Historically, the income tax forecasts tend to underestimate receipts, except during the downturns associated with economic recessions and the September 11th attack. This is a typical pattern in the arena of economic and receipt forecasting of underestimating growth during an expansion and over-forecasting results during a recession.

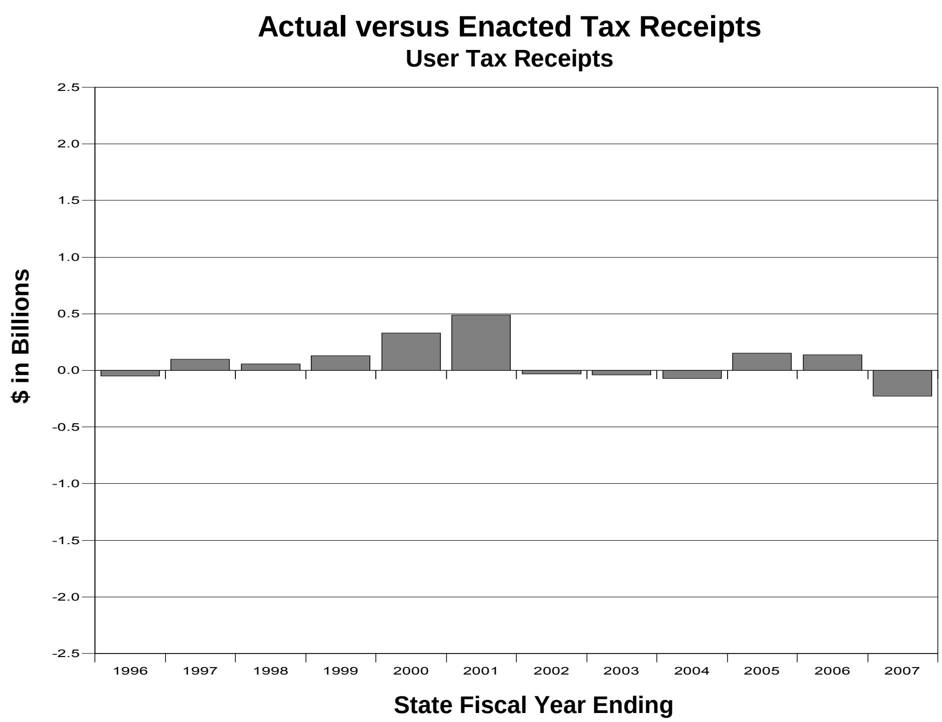
Consumption and User Taxes

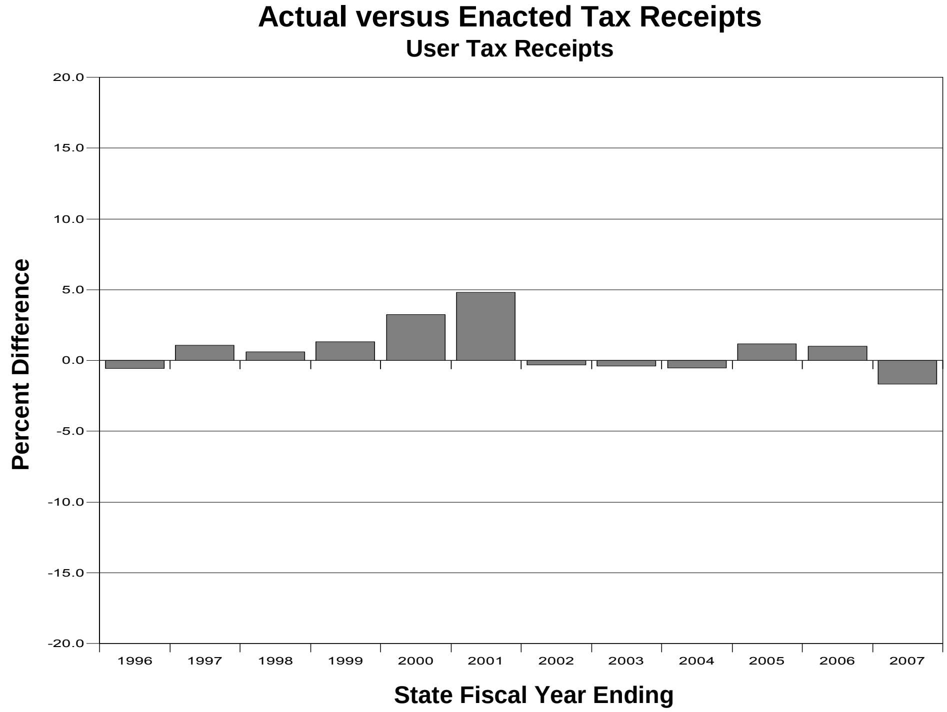
Some of the factors which affect the sales tax forecast are growth in: employment; disposable income; consumption of durable and non-durable goods; consumption of services (taxable); trade employment; business purchases; housing sales; auto sales and consumer confidence. This tax source is fairly stable.

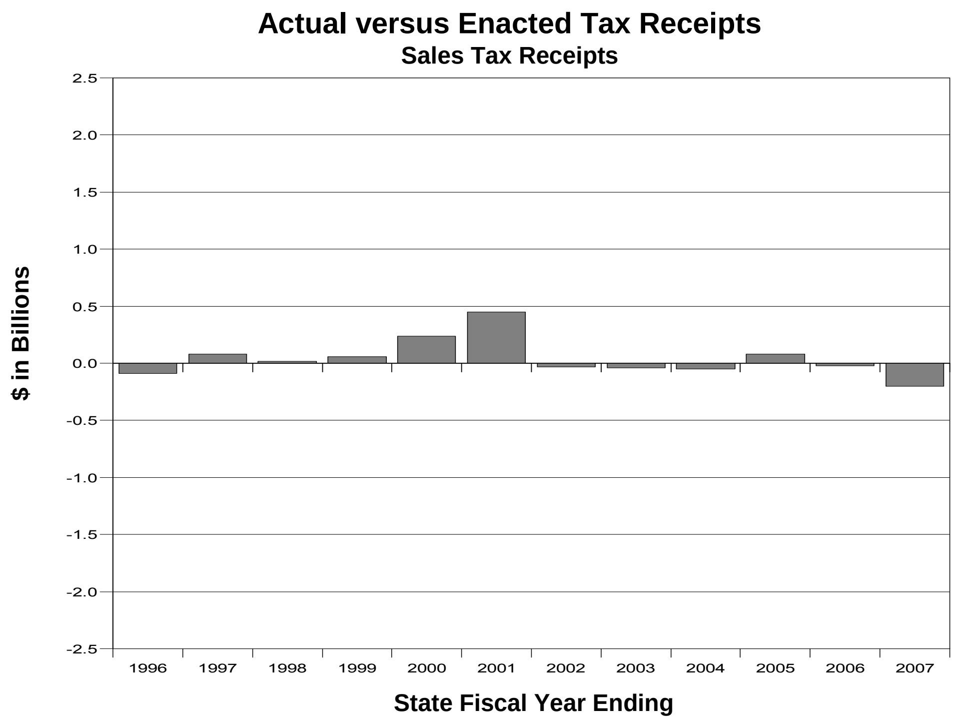
This category of taxes also covers motor fuel taxes, alcoholic beverage taxes and fees as well as cigarette and tobacco taxes. Among the main determinants of tax growth are demand for the product (gallons, liters, packs), price (relative to competitors), consumption patterns and overall economic activity. This group of taxes also has major enforcement issues which must be considered.

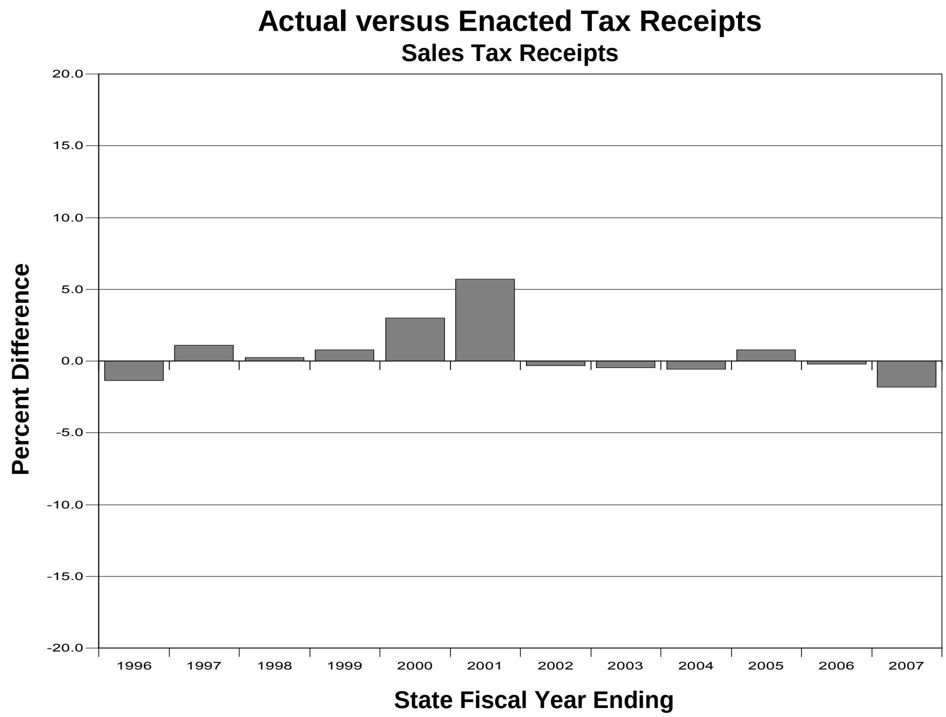
These sales and consumption taxes are broad based but forecasting can be complicated by new permanent exemptions, occasional temporary exemptions or rate changes. The forecast error of the consumption taxes ranged from overestimates of 1.7 percent in SFY 2006-07 to an underestimate of nearly 5 percent in 2000-01. Typically, the errors have been under 2 percent.

For additional information on the specific forecast history, please refer to the sales tax discussion.




Actual versus Enacted Tax Receipts
User Tax Receipts
Percent Difference
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Sales Tax Receipts
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending



Business Taxes

The major forecasting problem facing an analyst projecting the collection of business taxes is that many factors influencing collections are industry specific leading to many idiosyncratic shocks to the base. Tax collections can be affected by issues which do not necessarily follow broad economic trends (such as insurance underwriting profits, bank mergers, or utility industry restructuring). The various tax forecasts are further complicated by alternative methods of calculating tax liability, use of special deductions, various (and changing) allocation formulas, special tax rates, phase-in schedules for law changes and numerous tax credits (including carry-forward credits). The State's corporate tax bases can also be affected by changes in Federal law, the starting point for calculating New York tax liability.

Further, there can be a significant time lag between economic activity and tax collections. Payments can be irregular and can be significantly impacted by large tax settlements, refunds or audit collections. Collections in one year are the sum of adjustments from a number of previous years as well as from the current tax year activity.

In examining the overall error for business taxes, it should be noted that there are offsetting errors in many years. This effect is more prevalent in this category than in any other. As a result, the business tax dollar error and percent error charts show less overall error than the individual components would otherwise suggest.

The main economic determinant used in estimating the corporate franchise tax is corporate profits based upon the definition used by the U.S. Bureau of Economic Analysis. It is difficult to match this concept of profits to taxable income since the two differ significantly and the profit reflects a mix of industries. In addition to the risk of inaccurate forecasts of corporate profits, the tax forecast is complicated by numerous out-of-model adjustments for law changes and trends in receipts not adequately captured in the econometric specifications. Further, the ability of corporations to time tax payments for either their own financial reporting or other business purposes or to maximize Federal tax benefits can impact State payments. The forecast error in this area ranged from a 32 percent underestimate in 2005-06 to a 24.3 percent overestimation in 2001-02. The 2005-06 underestimate is attributed to significant growth in audit and compliance receipts, including higher than expected collections from the Voluntary Compliance Initiative (VCI). Corporate franchise tax collections in 2006-07 exceeded the Enacted Budget forecast by 31 percent due, in part, to large audit and settlement payments.

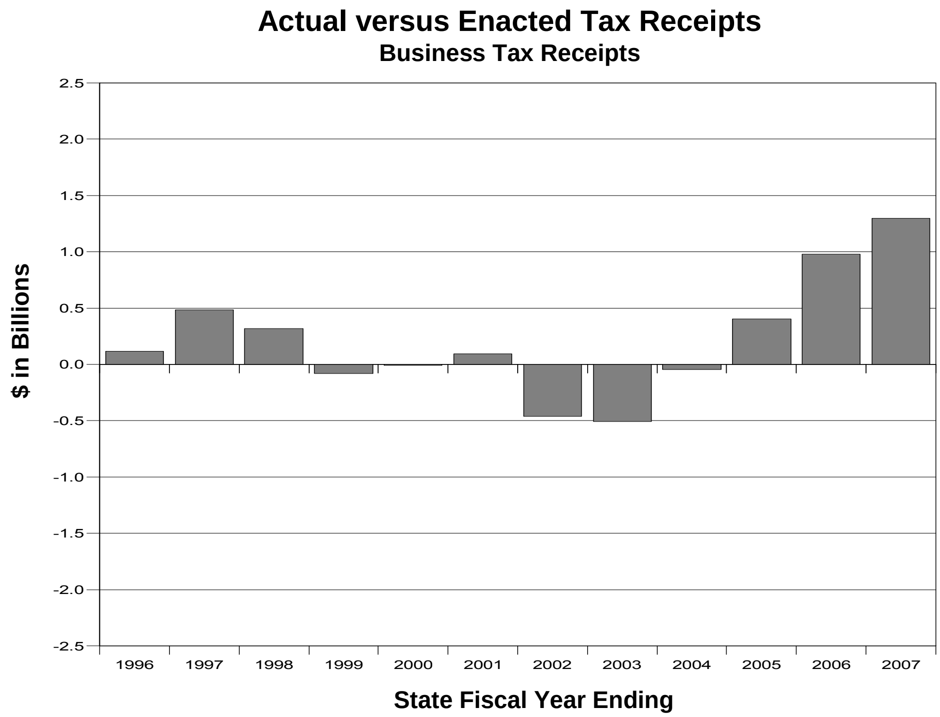
For additional information on the specific forecast history, please refer to the corporate franchise tax discussion.

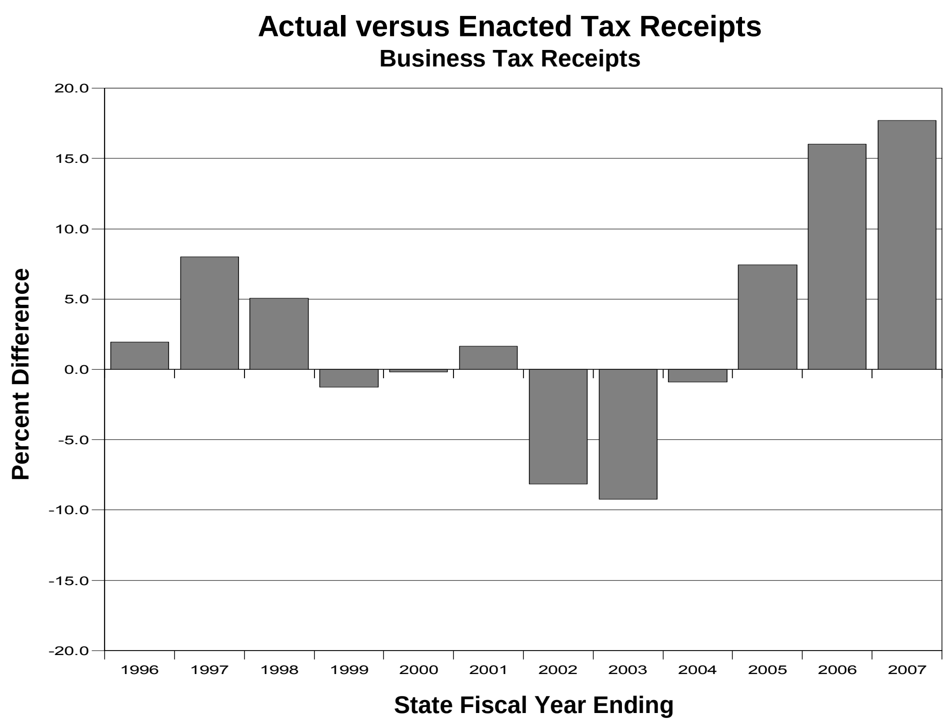
Utility taxes are imposed on telecommunications, transportation and the energy sectors. Major changes in the Tax Law (2000) have shifted much of the receipts to the corporate franchise tax discussed above. In addition, utility tax rates were significantly reduced over a number of years. Forecasts of telecommunications sales as well as the demand for electricity and natural gas drive the collections estimate. Prices of energy are also part of the forecast. The forecast for this tax has ranged from a 12.9 percent underestimate in 2001-02 to a 16.1 percent overestimate the following year.

The insurance tax, which covers the life, health and property lines, considers trends in the underwriting markets as well as long term interest rates. Estimates for this tax range from a 28.0 percent underestimate in 1995-96 to a 10.2 percent overestimate in 1999-2000.

Bank tax receipts, while erratic, are related to changes in net interest rate margins. The spread between the ten-year Treasury rate and the effective Federal Funds rate is used as a proxy for profits. Consolidations in the banking industry complicate forecasting. The bank tax has a wide range of forecast error, from 32.7 percent overestimation in 2003-04 to an underestimate of 48.6 percent in 2004-05. Bank tax receipts were underestimated by approximately 26 percent in 2006-07. This was largely due to the impact of unanticipated positive results in audit payments.

For additional information on the specific forecast history, please refer to the bank tax discussion.





Other Taxes

The major taxes in this category are the estate and gift tax and the real estate transfer tax. While the gift tax was repealed in 2000, collections do continue on estate settlements which included gifts made prior to the repeal. These taxes can be highly variable and can be influenced by relatively few large taxpayers or economic activity in certain regions.

The estate and gift tax forecasting variations can be almost completely explained by changes in the relatively small number of extremely high-valued estates. This relationship has been much more pronounced recently as taxes on many small estates have been eliminated due to an increase in the exemption level to $1 million (unified credit). Federal tax law and State law changes can affect the timing of payments. Estate planning techniques can also impact collections.

The variation in the estate and gift tax estimates from the Enacted Budget to the actual amount ranged from a 29.2 percent underestimate in 1996-97 to a 6.2 percent overestimate in 2002-03. The underestimates appear to relate to the number and size of super-large estates (tax payments of $25 million or more) and extra-large estates (tax payments of $4 million to $25 million). The growth in the equities market during this period fueled much of the growth in these estates but it is only loosely correlated with tax liability. Estate tax collections in the last three years have been underestimated by between 14 and 23 percent.

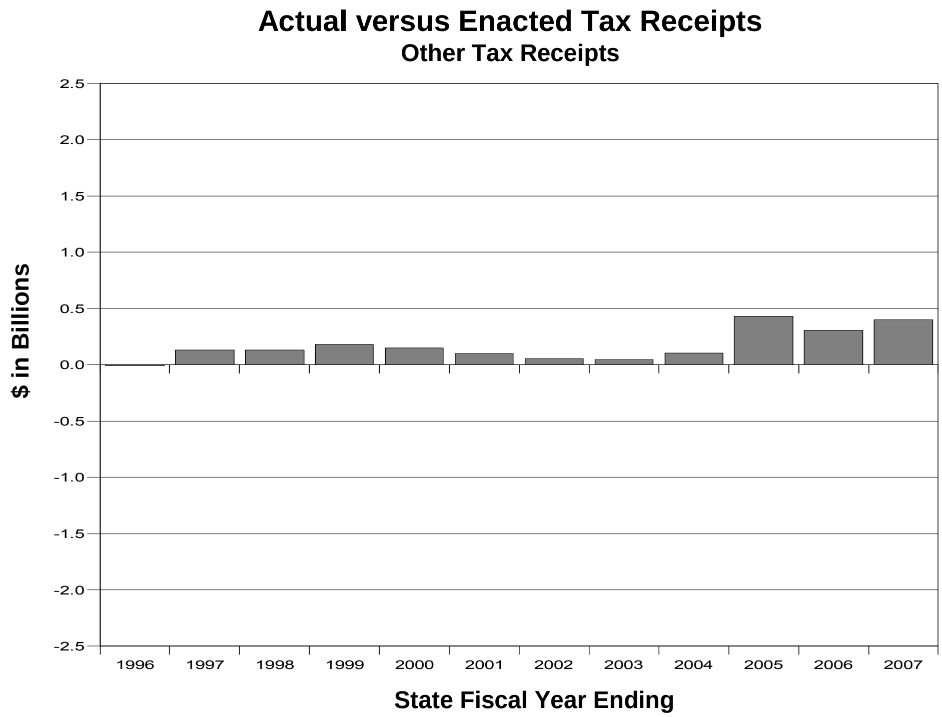
The high degree of risk associated with this tax is clearly seen in the final collection total for 2004-05. Extraordinarily high collections received in January and February 2005 turned a predicted 12 percent year-over-year decline in receipts into a 22.8 percent increase.

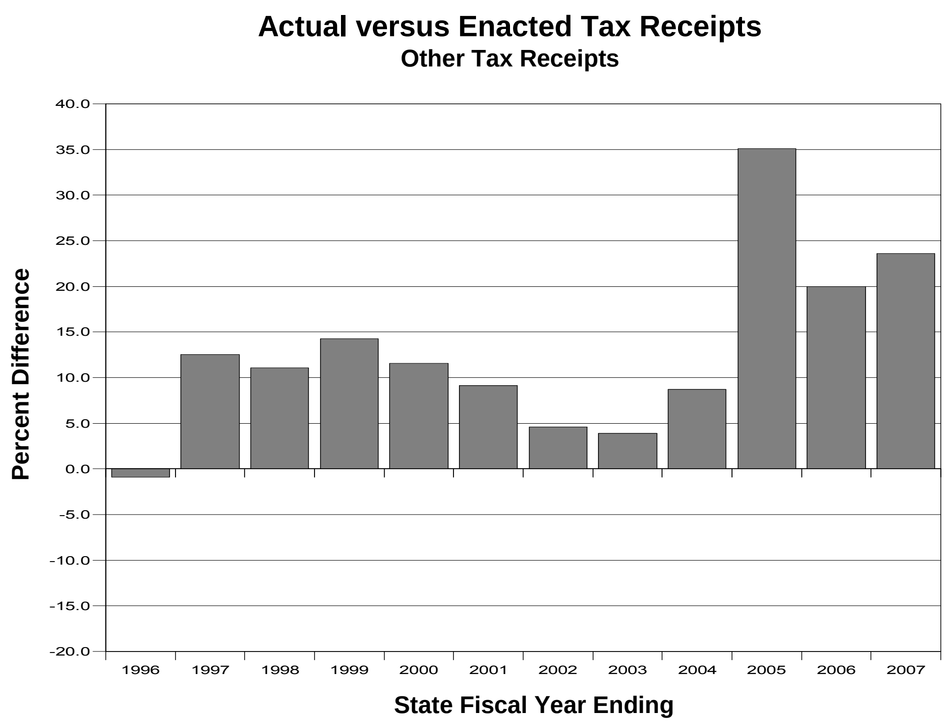
For additional information on the specific forecast history, please refer to the estate tax discussion.

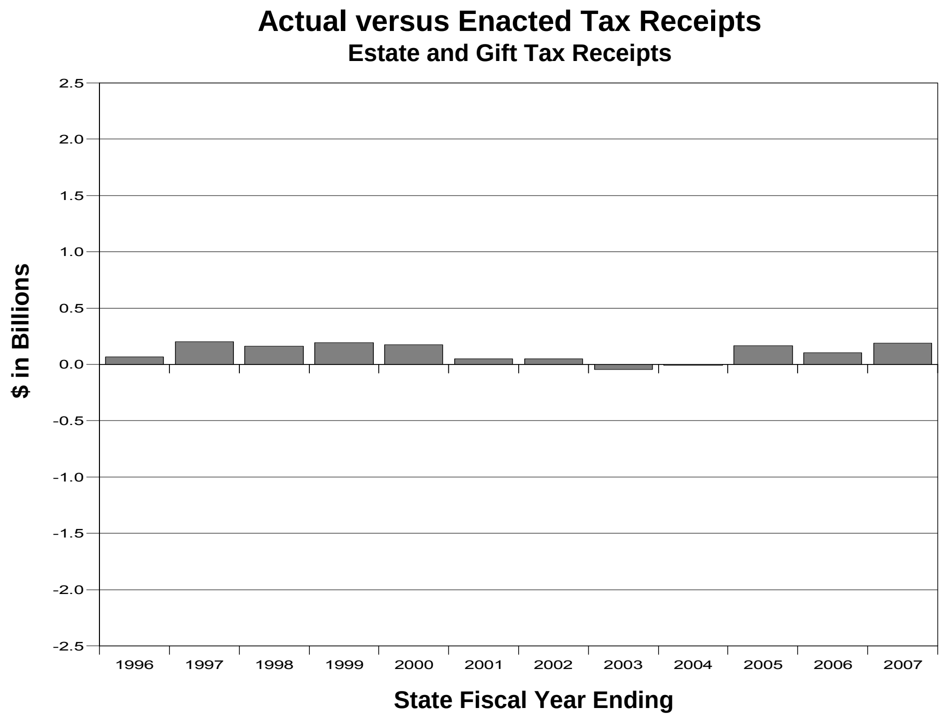
The real estate transfer tax is another highly variable source. Collections are closely related to mortgage rate changes, housing starts, average housing prices (especially downstate), large commercial transactions Manhattan vacancy rates and nonresidential construction. This tax includes a special rate for high-value residential property, with the share of total collections from this segment growing at a rapid rate in recent years. Total receipts from this tax source have increased from less than $200 million in 1995-96 to more than $1.02 billion in 2006-07.

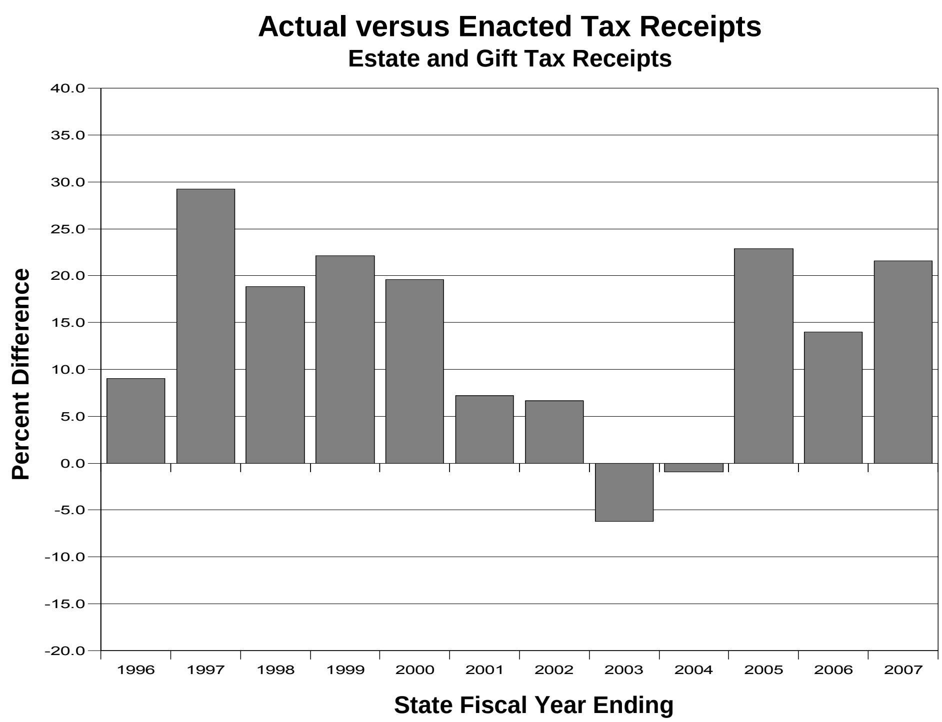
The percentage variation between the Enacted Budget forecast and actual transfer tax collections has had a wide range over the years and the dollar amounts have been between $20 million and $269 million. The past three years of extraordinary receipts growth tracks the increase in housing prices, especially in the downstate area. The value and volume of downstate commercial transactions has also created a substantial growth. The sales of extremely large parcels and the risk that current market strength may not continue unabated have made this source more vulnerable to miscalculation than most other taxes. Given the volatility in this area, extreme caution is prudent and this tends to lead to a more conservative forecasting approach for these taxes.

For additional information on the specific forecast history, please refer to the real estate transfer tax discussion.


Actual versus Enacted Tax Receipts
Other Tax Receipts
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Other Tax Receipts
Percent Difference
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Estate and Gift Tax Receipts
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Estate and Gift Tax Receipts
Percent Difference
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
1996
1997
1998
1999
2000
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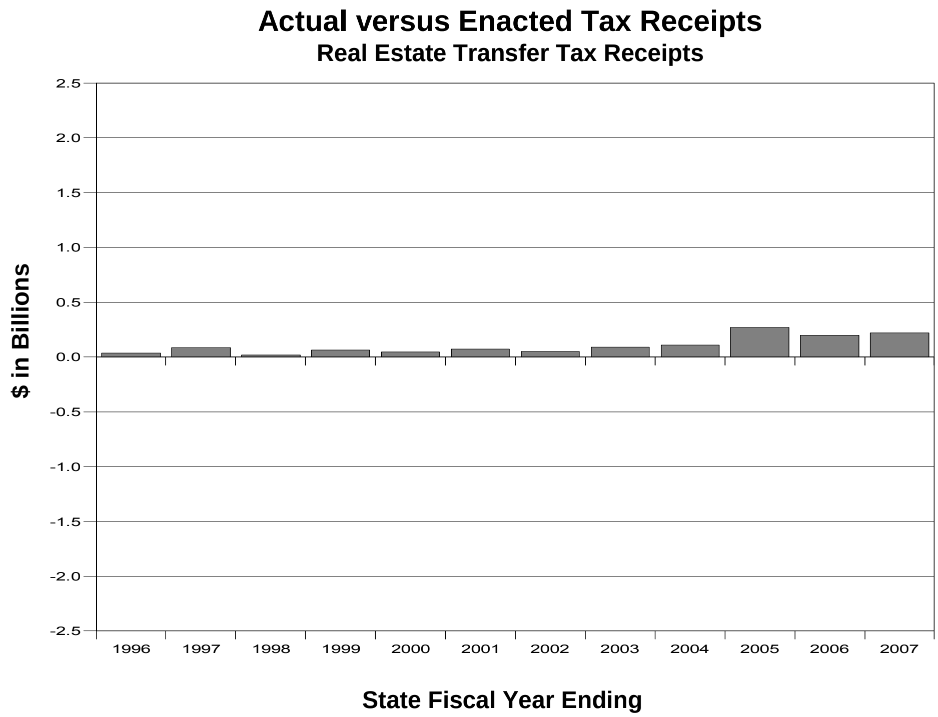
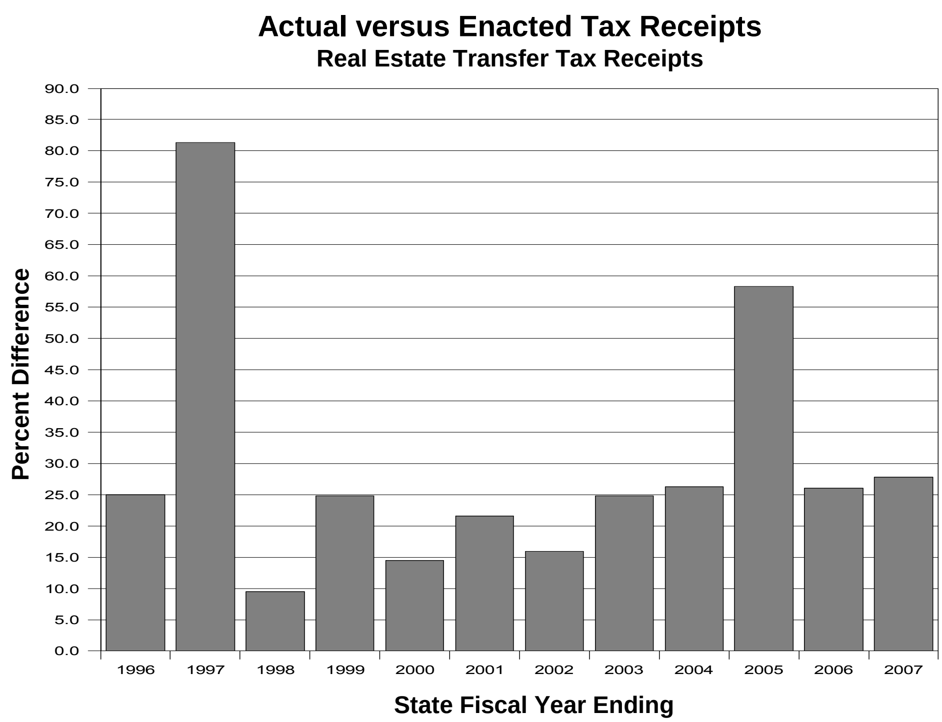
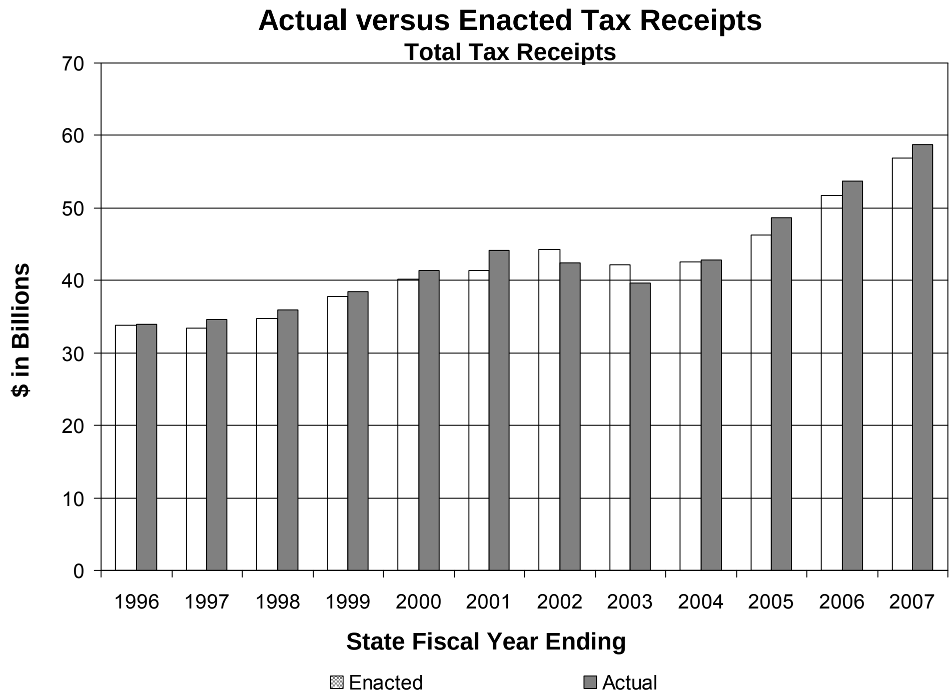
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending

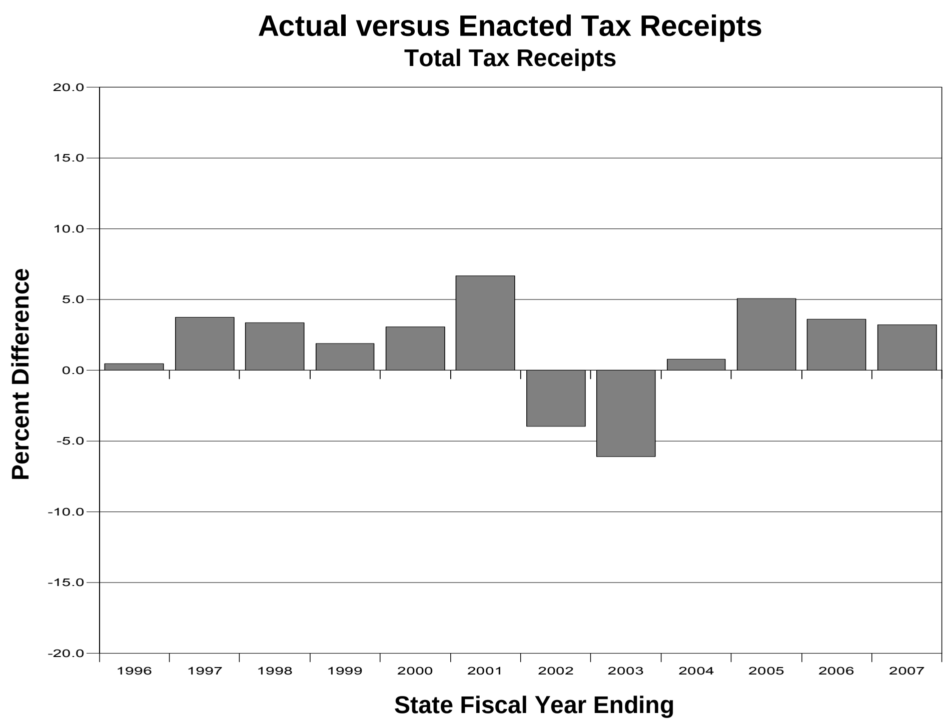




While lottery proceeds are not considered a tax source, they are forecast for budget purposes. The main factors affecting lottery receipts are game promotion, prize payouts and gaming opportunities (number of terminals, drawings, VLT venues). Economic conditions seem to have little explanatory powers in predicting lottery receipts. The variation in lottery receipts forecasts is modest over the twelve year period with five overestimates ranging from 1 percent to 5.7 percent and seven underestimates of 4 percent or less.

Review of Forecast Results





While there are various techniques for measuring errors, there is no generally accepted standard for judging receipt forecasts. Clearly, smaller errors are preferred to large misses. However, consistent with standards used by outside fiscal monitors, it is preferable to underestimate receipts as this provides a cushion against unplanned events.

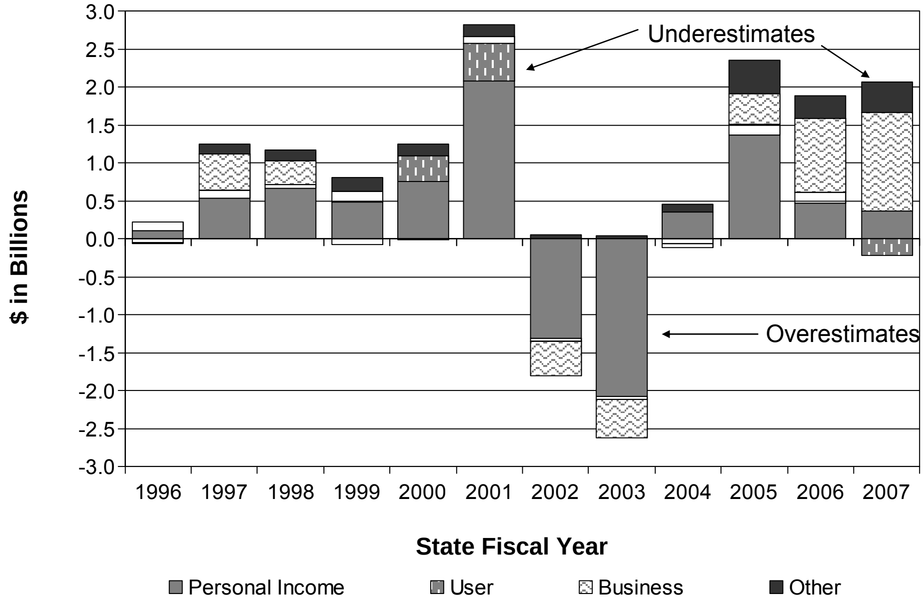
Using this standard, the Enacted Budget tax forecasts can generally be described as:

1. Good for net personal income tax, with an error range of an 8.4 percent overestimate in 2002-03 to an 8.5 percent underestimate in 2000-01. Results are generally in the range of a 3-5 percent, absent extraordinary circumstances (such as the September 11th attack). The average absolute error over the twelve year period was 3.9 percent. The root mean square error was 4.5 percent.
2. Consistently good on sales and excise type taxes with a variation range of 0.6 percent overestimate in 1995-96 to 4.8 percent underestimate in 2000-01. The average absolute error over the twelve year period was an under estimate of 1.4 percent. The root mean square error was 1.9 percent.
3. Modestly good on business taxes overall, with a range from a 9.2 percent overestimate in 2002-03 to a 17.7 percent underestimate in 2006-07 but with wider variation in the forecast accuracy of the individual taxes. The overall average absolute error rate over the twelve year period was 6.5 percent. However, the error rate in four of the last five years has been over 8 percent. The root mean square error rate was8.5 percent over the entire period with a 10.6 percent rate over the last seven years. These large errors are in a tax area that experiences large year-to-year variation.
4. Generally large variation for the major “other taxes” (real estate transfer, estate taxes), with a range from .9 percent overestimate to a 35.1 percent underestimate (errors were greater than 5 percent in nine of twelve years and greater than 10 percent in seven of twelve years). The average error over the period was 12.9 percent. The error measured on the root mean square basis reached nearly 16 percent. These taxes regularly represent a relatively small (dollar) but very uncertain component in the State’s Financial Plan and are consistently estimated in a conservative fashion.

One method of evaluating overall forecast error is in terms of how each tax source contributes to overall net error. The following chart shows the share of net total error by year over the twelve year period. As expected, errors in the personal income tax, the largest source, contribute the greatest dollar share to the total error. The personal income tax share of the overall error is generally in the range of 60 to 80 percent.

Corporate tax errors typically contribute the next largest share of the total variance. This, however, was the largest source of error in 2005-06 and 2006-07. User taxes occasionally accounted for a significant share but only in years when the total net error was small (1995-96, 1998-99 and 2003-04). Other taxes, due to their relatively small size, contributed significantly to the total error five times (1998-99, 2003-04, 2004-2005, 2005-06 and 2006-07).

Actual versus Enacted Tax Receipts
Total Net Error By Tax Type
By Fiscal Year



Conclusion

Overall, the tax forecasts have been both reasonable and consistent with errors made by economists and other fiscal forecasters. The average absolute error is about 3.5 percent (4.0 percent on a root mean square basis which usually gives a better indication of accuracy, according to a 2004 CBO report). Forecasts have been cautious, especially when the State economy moved from weakness to strength and during economic expansions, resulting in underestimates in most years. The pattern of the tax forecasting errors generally parallels economic forecasting errors (employment, wages).

Due to its size and importance to the Financial Plan, personal income tax forecast errors are the most significant. Large percentage forecast errors have most often occurred in tax sources which are associated with high value transactions (capital gains, estate settlements, property transfers). Extra caution is required to avoid overestimation of these taxes. However, even large percent errors in "minor" tax sources are not as critical as small errors in the major sources.

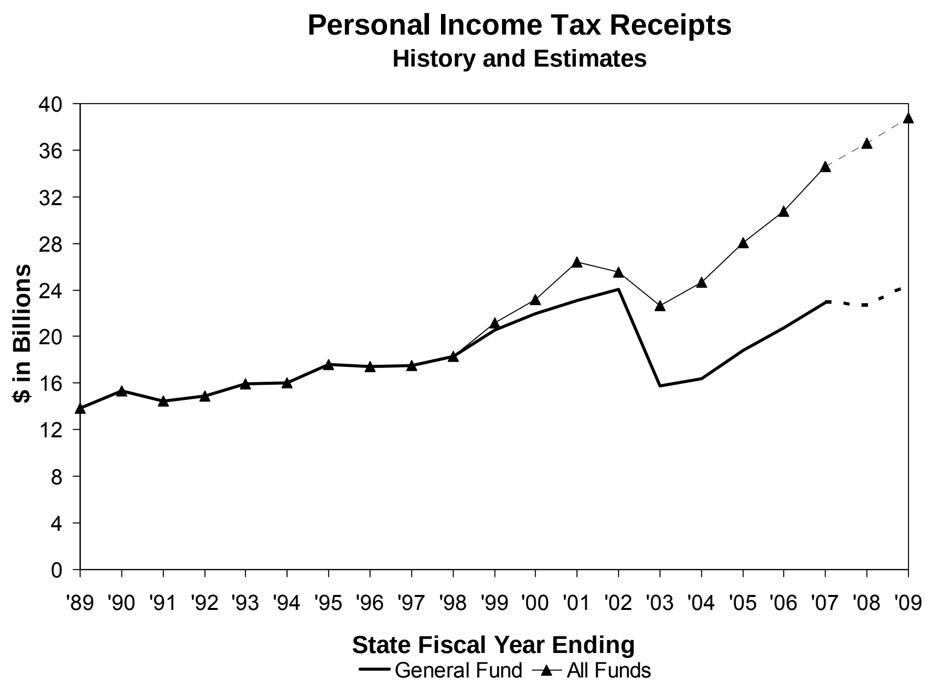
The impact of the September 11th attack on the State's tax receipts was highly unpredictable. While the forecast in 2002-03 took the impact of the attack into consideration, there was still an overestimation of the major tax sources. An expected quick recovery did not occur and instead the State remained in recession. The pattern of forecast error in the post-9/11 environment has been characterized by a return to modestly conservative forecast assumptions. Much of the forecast error in the past two years can be attributed to an underestimate of business tax receipts. The business tax errors, in turn, are largely due to unanticipated audit recoveries over the past two fiscal years.

TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	22,939.5	22,734.6	(204.9)	(0.9)	24,391.1	1,656.5	7.3
Other Funds	11,640.5	13,816.5	2,176.0	18.7	14,413.9	597.4	4.3
All Funds	34,580.0	36,551.0	1,971.0	5.7	38,805.0	2,254.0	6.2

Note: Totals may differ due to rounding.



PERSONAL INCOME TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
1998-99	22,789	2,795	19,994	582	0	20,576
1999-2000	25,041	3,041	22,000	1,195	0	23,195
2000-01	26,744	3,629	23,115	3,077	250	26,442
2001-02	27,529	3,515	24,014	1,310	250	25,574
2002-03	20,037	4,296	15,741	2,664	4,243	22,648
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
2005-06	26,431	5,731	20,700	3,213	6,900	30,813
2006-07	28,450	5,510	22,940	3,994	7,646	34,580
Estimated						
2007-08	29,307	6,572	22,735	4,679	9,138	36,551
2008-09						
Current Law	31,111	7,232	23,879	5,067	9,649	38,594
Proposed Law	31,447	7,056	24,391	4,713	9,701	38,805

[1] School Tax Relief Fund.
[2] Debt Reduction Reserve Fund and Revenue Bond Tax Fund.

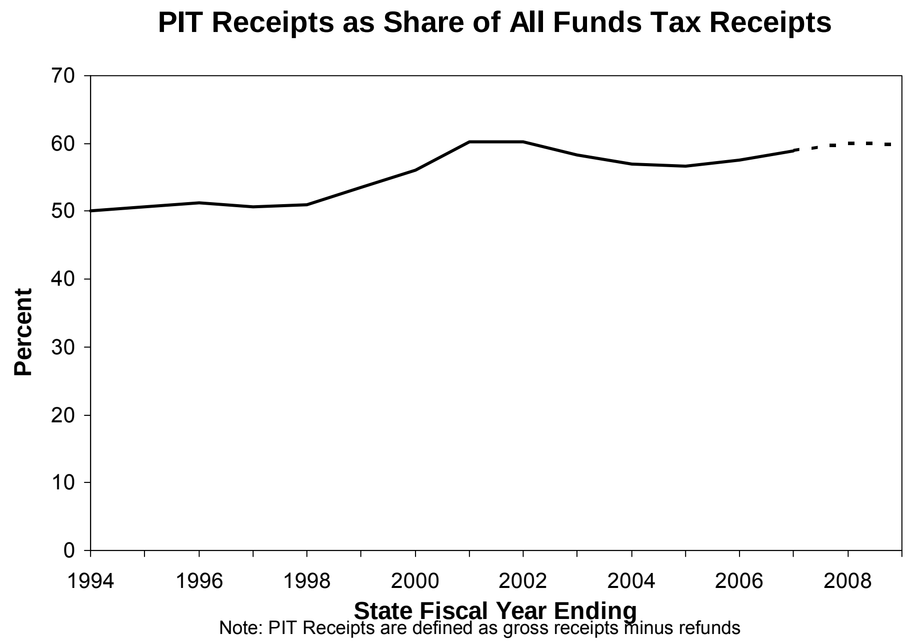
PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Create a tax credit for purchases of clean heating fuel ("bioheat") used for residential purposes.
- Increase the Empire State film production credit.
- Extend the Handicapped (Disabled)-Accessible Taxicabs and Livery Service Vehicles Credit for two years through 12/31/2010.
- Increase the aggregate amount of low income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million.
- Restructure and reform the fees and minimum taxes imposed on limited liability companies, other partnerships, and corporations.
- Amend the definition of “presence in New York” for determining the residency of taxpayers who are usually outside the country by requiring that their spouses and children only be present in New York versus present at the taxpayers’ permanent place of abode (PPA) in New York.
- Require inclusion of the gain from the sale of partnership interests as New York-source income to non-resident taxpayers to the extent that these gains are from sales of real property located in New York**.**
- Require taxpayers to pay the fees charged by the Federal government and other states for offsetting refunds for New York State income tax debts owed by those taxpayers.
- Delay scheduled increases in Basic Middle Class STAR Rebates and New York City personal income tax credit by one year, increase the "floor" in STAR exemption amounts from 5 percent to 10 percent, authorize the Tax Department to offset tax and other debts against STAR rebates, and restrict the New York City STAR credit to taxpayers with income under $250,000.
- Ensure that taxpayers are remitting the taxes they owe through a comprehensive tax enforcement and voluntary compliance program.
- Reform the Brownfields Tax Credit program.
- Make tax shelter reporting requirements permanent.

DESCRIPTION

The personal income tax is by far New York State’s largest source of tax receipts. It is estimated that the personal income tax will account for approximately 60 percent of All Funds tax receipts in 2007-08 and 2008-09.



Tax Base

The State's personal income tax structure adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications, such as: (1) the inclusion of investment income from debt instruments issued by other states and municipalities and the exclusion of income on certain Federal obligations; (2) the exclusion of pension income received by Federal, New York State and local government employees, private pension and annuity income up to $20,000 ($40,000 for married couples filing jointly), and any Social Security income and refunds otherwise included in Federal adjusted gross income; and (3) the subtraction of State and local income taxes from Federal itemized deductions.

Since 1991, the Federal limit on itemized deductions for taxpayers with Federal adjusted gross income (AGI) above a certain threshold has been applied to itemized deductions under the State personal income tax. This threshold amount, set at $100,000 ($50,000 for married couples filing separately) in 1991, is indexed for inflation. For 2008, the threshold is $159,950 (79,975 for married couples filing separately). Allowable itemized deductions, except for medical expenses, casualty and theft losses, and interest payments, are reduced by the lower of either 3 percent of Federal adjusted gross income in excess of the threshold amount or 80 percent of allowable itemized deductions, and further reduced by up to 50 percent for upper-income taxpayers.

The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided that the limitation on itemized deductions will be phased out over four years beginning in 2006. The limitation will be eliminated for 2010 and thereafter. New York law automatically adopts this phaseout.

Tax Rates and Structure

As shown in the table below, for the 1989 through 1994 tax years, the tax was imposed at rates ranging from 4 percent to 7.875 percent on the taxable income of individuals, estates and trusts. In 1991, a supplemental tax was applied to taxpayers with $100,000 or more of AGI to recapture the benefit of the marginal tax rates in the lower brackets. In 1995, personal income tax rates were gradually reduced over three years. These reductions reduced the top tax rates from 7.875 to its current rate of 6.85 percent, increased the income thresholds applicable to various tax brackets, and increased the standard deduction. In tax years 2003, 2004, and 2005, a temporary personal income tax surcharge added two new brackets applicable to taxpayers with AGI over $150,000 and AGI over $500,000, and increased the top rate to 7.7 percent. In 2006, the top rate returned to 6.85 percent, reflecting the sunset of the temporary surcharge, and the standard deduction for married taxpayers filing jointly increased from $14,600 to $15,000.

TABLE 1
PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS

	1989-1994	1995	1996	1997-2000	2001	2002	2003-2005	2006 And After
Top Rate (percent)	7.875	7.59375	7.125	6.85	6.85	6.85	7.70	6.85
Thresholds								
Married Filing Jointly	26,000	25,000	26,000	40,000	40,000	40,000	500,000	40,000
Single	13,000	12,500	13,000	20,000	20,000	20,000	500,000	20,000
Head of Household	17,000	19,000	17,000	30,000	30,000	30,000	500,000	30,000
Standard Deduction								
Married Filing Jointly	9,500	10,800	12,350	13,000	13,400	14,200	14,600	15,000
Single	6,000	6,600	7,400	7,500	7,500	7,500	7,500	7,500
Head of Household	7,000	8,150	10,000	10,500	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

TABLE 2
TAX SCHEDULES FOR 2008 LIABILITY YEAR*
(dollars)

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over
0 to 16,000	0 +4.00	0	0 to 8,000	0 +4.00	0	0 to 11,000	0 +4.00	0
16,000 to 22,000	640 +4.50	16,000	8,000 to 11,000	320 +4.50	8,000	11,000 to 15,000	440 +4.50	11,000
22,000 to 26,000	910 +5.25	22,000	11,000 to 13,000	455 +5.25	11,000	15,000 to 17,000	620 +5.25	15,000
26,000 to 40,000	1,120 +5.90	26,000	13,000 to 20,000	560 +5.90	13,000	17,000 to 30,000	725 +5.90	17,000
40,000 and over	1,946 +6.85	40,000	20,000 and over	973 +6.85	20,000	30,000 and over	1,492 +6.85	30,000

*Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above $100,000.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The personal income tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust State tax liability. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Credits

Current law authorizes a wide variety of credits against personal income tax liability. The major credits are:

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC is offset by the amount of the household credit. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, 27.5 percent in 2002, and 30 percent in 2003 and thereafter. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.
Household Credit	Permitted for single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000, and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. Federal legislation enacted in 2001 and effective in 2003 increased maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. It was phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter. For 2004, and thereafter the minimum credit is the lesser of tuition paid or $200 and the maximum credit is $400 (4 percent of expenses up to $10,000).
Real Property Tax Circuit Breaker Credit	Based on a more inclusive definition of income than that used generally in the income tax. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.
Agricultural Property Tax Credit	Permitted for allowable school district property taxes paid by an eligible farmer on qualified agricultural property.
Empire State Child Credit	Effective in 2006, this refundable credit for children ages 4-16 equals the greater of $100 times the number of children qualifying for the Federal credit or 33 percent of the Federal credit.
Long Term Care Insurance Credit	A non-refundable credit equal to 10 percent of a taxpayer's long-term care insurance premium became effective in 2002. The credit amount was increased to 20 percent in 2004. Unused amounts may be carried forward to future tax years.
NYC STAR Credit	A refundable credit is allowed to all New York City residents as part of the State's STAR program. For 2007, the amounts of STAR credit against NYC income tax are $145 for singles and $290 for married couples.

In addition, credits are allowed for investment in production facilities, for investment in economic development zones, and for personal income taxes paid to other states. The Economic Development Zone Program for Qualified Empire Zone Enterprise (QEZEs) is discussed in more detail in the "Corporate Franchise Tax" section.

Significant Legislation

The significant statutory changes made to the State personal income tax since 1987 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1987		
Tax Reform and Reduction	In response to Federal tax reform, the State reduced the top rate from 9 percent on earned income and 13 percent on unearned income to 7 percent on all income and increased standard deduction amounts. The reductions were implemented over a five-year period.	1987 and after
Legislation Enacted in 1990-1994		
Tax Reduction Program	Annually delayed the final two years of the 1987 legislation that would have reduced to the top rate from 7.875 percent to 7.593575 percent and then to 6.85 percent.	1990-1994
Legislation Enacted in 1991		
Rate Recapture	Enacted the "supplemental tax" to recapture the value of marginal tax rates below the top rate.	1991 and after
Legislation Enacted in 1993		
Limited Liability Companies	Authorized the formation of LLCs and imposed a fee.	1994 and after
Legislation Enacted in 1994		
Earned Income Tax Credit	Enacted a new State credit equal to a percentage of the Federal credit. The rates were set at 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent in 1997 and thereafter.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
College Choice Tuition Savings Program	Authorized taxpayers to deduct from Federal AGI (FAGI) up to $5,000 ($10,000 for married couples filing jointly) of contributions made to family tuition accounts.	1998 and after
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began the deposit of a portion of personal income tax receipts into the STAR fund.	1998-99 school year
Alternative Fuels Vehicle Credit	Created a credit for vehicles powered by electricity and alternative fuels; clean fuel refueling property; and qualified hybrid vehicles.	Extended in 2004

Subject	Description	Effective Date
Legislation Enacted in 1999		
Earned Income Tax Credit	Increased the EITC to 22.5 percent of the Federal credit in 2000 and 25 percent of the Federal credit for subsequent tax years.	2000 and after
Legislation Enacted in 2000		
Earned Income Tax Credit	Increased the EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000.	2000 and after
Long-Term Care Insurance Credit	Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium.	2002 and after
Marriage Penalty	Reduced the marriage penalty by increasing the standard deduction for taxpayers who are married filing jointly from $13,000 to $14,600 in three stages.	2001 and after
College Tuition Deduction/Credit	Authorized tax payers to deduct from FAGI up to $10,000 for attendance at a qualified higher education institution.	2001 and after
Petroleum Tank Credit	Created a two-year personal income tax credit of up to $500 for homeowners who remove and/or replace a residential fuel oil storage tank.	2001 and 2002
Legislation Enacted in 2003		
LLC Fees	Temporarily increased fees for 2003 and 2004.	2003 to 2004
Three-Year Personal Income Tax Surcharge	Created two new tax brackets applicable to taxpayers with incomes over $150,000 and over $500,000.	2003 to 2005
Legislation Enacted in 2004		
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who directly paid any assessment.	2005 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Legislation Enacted in 2006		
STAR	Created a new STAR rebate paid in 2006 and increased NYC STAR credit amounts and indexed the enhanced STAR benefit for the 2006-07 school year. In the event that the enacted State budget does not appropriate moneys to pay STAR rebates authorized in 2006, a refundable personal income tax credit to lower school property taxes takes effect.	2006 and after
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of $100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after
Marriage Penalty	Increased the married filing joint standard deduction from $14,600 to $15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013
Legislation Enacted in 2007		
Extend Tax Shelter Reporting	Temporarily authorized the Department of Taxation and Finance to continue reporting of Federal and New York reportable transactions.	July 1, 2007 thru June 30, 2009
Loophole Closers	Required certain Federal S corporations to become New York S corporations if they form New York C corporations to avoid tax and granted the Tax Department authority to disregard personal service or S corporations formed primarily to avoid tax.	2007 and after

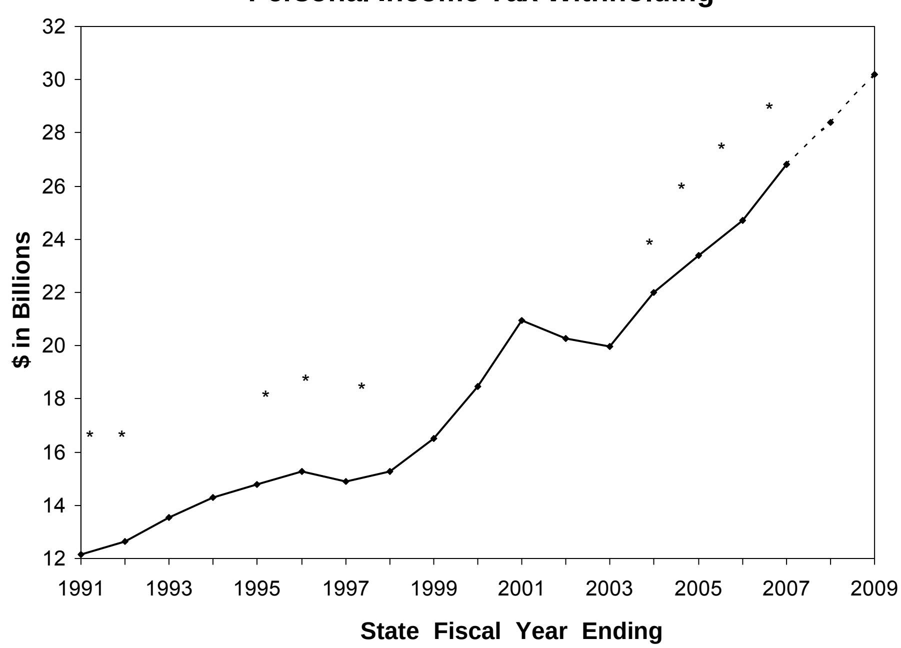
Subject	Description	Effective Date
STAR	Created a new "middle class rebate" program, increased enhanced rebate amounts and New York City STAR credits.	2007 and after

Withholding Changes

Various changes in tax rates, deductions and exemptions have been reflected in withholding tables as follows:

Effective Date	Feature	Changes
10/1/91	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $90,000 to account for the Federal limitation on itemized deductions and for the State tax table benefit recapture.
7/1/92	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $150,000 to account for the State tax table benefit recapture.
7/1/95	Deduction Allowance Rate Schedule	Increased to $5,650 for single individuals, $6,150 for married couples. Lowered the maximum rate to 7.59 percent and reduced the number of tax brackets.
4/1/96	Deduction Allowance Rate Schedule	Increased to $6,300 for single individuals, $6,800 for married couples. Lowered the maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance Rate Schedule	Increased to $6,975 for single individuals, $7,475 for married couples. Lowered the maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.

Personal Income Tax Withholding



The above graph shows the history of withholding collections beginning in 1990-91. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

A limited liability company (LLC) can be formed in New York by one or more persons by filing its articles of organization with the Secretary of State and paying an annual filing fee. The fee is reflected in the "returns" component of the personal income tax.

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. For 2007, the fee was $50 per member, the minimum fee was $325 and the maximum was $10,000 per LLC. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated and projected fees for 2007-08 and 2008-09. Fee amounts were temporarily increased for 2003 through 2006, which explains the higher collections for 2003-04 through 2006-07.

The 2008-09 Executive Budget proposal would restructure the flow-through entity level LLC fees such that the existing LLC fees and corporate franchise tax minimum taxes are replaced with a new fee/minimum tax applicable to all partnerships and C/S corporations based on New York source income.

Limited Liability Company Fees (thousands of dollars)

SFY	Amount
1995-96	764
1996-97	3,925
1997-98	7,677
1998-99	12,305
1999-2000	16,680
2000-01	21,267
2001-02	24,869
2002-03	26,517
2003-04	71,419
2004-05	64,104
2005-06	70,755
2006-07	78,036
2007-08 Estimated	40,000
2008-09 Projected	40,000

Administration

Timing of the Payment of Refunds

The payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) has been managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. From fiscal years 2000-01 through 2004-05, refunds of $960 million were paid during January through March. However, since then, the "cap" has increased so that taxpayers receive their refund sooner. The amount of refunds paid during this three-month period was increased to $1,512 million in fiscal year 2005-06 and to $1,500 million for 2006-07 and 2007-08. The estimate of refunds paid during this three-month period in fiscal year 2008-09 is projected to increase to $1,750 million.

School Tax Relief Fund

Legislation enacted in 1998 created the School Tax Relief (STAR) program and the STAR Fund. The program provides residential homeowners with State-funded tax exemptions, rebates and personal income tax credits against school property taxes. In addition to school property tax exemptions, New York City residents with relatively low homeownership rates are provided State-funded STAR credits and rate reductions against the New York City personal income tax. To reimburse school districts and New York City for the costs of the program, a portion of State personal income tax receipts are deposited to the STAR Fund. Pursuant to statute, payments are currently made to school districts in October, November and December and to New York City in September, December and June.

Revenue Bond Tax Fund

Legislation enacted in 2001 authorized the issuance of State Personal Income Tax Revenue Bonds and provided a source of payment for the debt service on those Bonds by earmarking a portion of personal income tax receipts to the newly created Revenue Bond Tax Fund (RBTF). Effective May 2002, such legislation directs the State Comptroller to deposit an amount equal to 25 percent of estimated monthly State personal income tax receipts (after payment of refunds and STAR deposits). Effective April 1, 2007, deposits to the RBTF are calculated before the deposit of income tax receipts to the STAR Fund. Although this decreases General Fund personal income tax receipts, RBTF deposits in excess of debt service requirements are transferred back to the General Fund.

Taxpayer Characteristics

Personal income tax liability and New York State adjusted gross income (NYSAGI), the income base that determines personal income tax liability, differ noticably among taxpayer groups. Table 3 examines the changes in NYSAGI and liability over a seven-year span from 1998 to 2005 with a breakdown by taxpayer characteristics. Both NYSAGI and liability showed considerable growth over these seven years with liability growth of 50.0 percent and NYSAGI growth of 38.8 percent. The State and national economies were vigorous in both years with 1998 still enjoying the long expansion that would end with a recession in 2001, and 2005 enjoying the second full year of the State's current expansion. There was a noticeable change in tax regime between the two years — the final phase of a multiyear tax cut had gone into effect in 1997, while 2005 was the third and final year under the tax surcharges enacted in 2003 that created two brackets and two new tax rates for filers with incomes over $150,000.

While the relatively small share of returns filed by nonresidents increased slightly over this period from 8.8 percent to 10.0 percent, their somewhat larger share of liability experienced an increase from 14.6 percent to 16.6 percent. Growth in nonresident liability of 70.3 percent from 1998 to 2005 far exceeded resident liability growth of 46.6 percent. While resident wages and salaries rose 32.7 percent, nonresidents experienced stronger wage growth of 47.6 percent. The difference is even more pronounced for nonwage income, including dividends, interest and especially capital gains income. Resident nonwage income growth of 46.9 percent fell short of the 90.7 percent growth for nonresident nonwage income.

TABLE 3
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY BY VARIOUS TAXPAYER CHARACTERISTICS, 1998 AND 2005
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	1998					2005				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,391,193	417,994	309,614	108,381	18,986	9,063,735	580,223	416,988	163,234	28,489
percent change						8.0	38.8	34.7	50.6	50.0
Residents	7,652,861	368,512	269,403	99,109	16,213	8,156,057	503,177	357,623	145,554	23,766
percent share	91.2	88.2	87.0	91.4	85.4	90.0	86.7	85.8	89.2	83.4
percent change						6.6	36.5	32.7	46.9	46.6
Nonresidents	738,331	49,482	40,210	9,272	2,773	907,678	77,046	59,366	17,680	4,723
percent share	8.8	11.8	13.0	8.6	14.6	10.0	13.3	14.2	10.8	16.6
percent change						22.9	55.7	47.6	90.7	70.3
Married filing jointly	3,190,932	269,510	193,369	76,141	13,251	3,265,368	373,017	256,589	116,428	20,118
percent share	38.0	64.5	62.5	70.3	69.8	36.0	64.3	61.5	71.3	70.6
percent change						2.3	38.4	32.7	52.9	51.8
Head of Household	1,275,224	34,109	30,498	3,611	742	1,473,844	48,631	43,014	5,617	878
percent share	15.2	8.2	9.9	3.3	3.9	16.3	8.4	10.3	3.4	3.1
percent change						15.6	42.6	41.0	55.6	18.4
Single Filers	3,925,037	114,375	85,746	28,629	4,993	4,324,523	158,575	117,385	41,190	7,492
percent share	46.8	27.4	27.7	26.4	26.3	47.7	27.3	28.2	25.2	26.3
percent change						10.2	38.6	36.9	43.9	50.1
Itemized Deduction	1,609,482	201,932	133,817	68,114	10,698	2,328,174	336,977	217,544	119,433	18,913
percent share	19.2	48.3	43.2	62.8	56.3	25.7	58.1	52.2	73.2	66.4
percent change						44.7	66.9	62.6	75.3	76.8
Standard Deduction	6,781,407	216,042	175,779	40,263	8,287	6,733,032	243,116	199,353	43,763	9,567
percent share	80.8	51.7	56.8	37.1	43.6	74.3	41.9	47.8	26.8	33.6
percent change						-0.7	12.5	13.4	8.7	15.4

Note: NYSAGI in this table is different from that in other tables due to different treatment of negative NYSAGI.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

With respect to filing status, an interesting development is the slow decline in the share of returns from taxpayers filing as “married filing jointly.” These taxpayers increased by only 2.3 percent from 1998 to 2005, leading to a decline in the share of taxpayers claiming this status from 38.0 percent to 36.0 percent. Meanwhile, returns filed as “head of household” increased 15.6 percent over the period, and filers claiming single status increased 10.2 percent. Married filing jointly taxpayers account for the bulk of nonwage income, with a share of 70.3 percent in 1998, rising to 71.3 percent in 2005, while single filers account for 26.4 percent in 1998, falling to 25.2 percent in 2005. Married taxpayers account for about seventy percent of the liability in both years despite the decline in the share of married taxpayers, while single filers’ share is 26.3 percent in both years.

Taxpayers who itemized their deductions made up 19.2 percent of taxpayers in 1998, rising to 25.7 percent by 2005, largely reflecting the influence of the economic boom of the 1990s on incomes, and increases in local property taxes and other itemized deduction amounts. In 1998, standard deduction returns accounted for 80.8 percent of all returns and 43.6 percent of liability, while the remaining 19.2 percent itemized returns accounted for 56.3 percent of liability. By 2005, itemizers made up 66.4 percent of liability while standard deduction takers’ share of liability had fallen to 33.6 percent.

Recent Liability History

New York State adjusted gross income, NYSAGI, is the income base that determines personal income tax liability. Table 4 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop — New York State Adjusted Gross Income section). Strong growth in the State economy accompanied by strong equity and real estate markets following the 2001-2003 recession resulted in above-average growth in NYSAGI of 11.0 percent in 2004, 8.7 percent in 2005, and an estimated 10.5 percent in 2006.

TABLE 4
DISTRIBUTION OF THE MAJOR COMPONENTS OF NEW YORK ADJUSTED GROSS INCOME (NYSAGI)
(millions of dollars)

Component of Income	2001	2002	2003	2004	2005	2006*	2007	2008	2009
	Actual					Estimate			
NYSAGI									
Amount	481,001	459,919	473,778	525,964	571,916	631,683	682,325	703,847	737,698
Percent Change	(5.5)	(4.4)	3.0	11.0	8.7	10.5	8.0	3.2	4.8
Wages									
Amount	376,158	368,720	373,313	397,431	416,988	447,393	481,433	497,381	520,241
Percent Change	2.2	(2.0)	1.2	6.5	4.9	7.3	7.6	3.3	4.6
Share of NYSAGI	78.2	80.2	78.8	75.6	72.9	70.8	70.6	70.7	70.5
Net Capital Gains									
Amount	29,450	20,398	28,455	51,196	64,411	81,071	92,632	94,229	99,589
Percent Change	(52.7)	(30.7)	39.5	79.9	25.8	25.9	14.3	1.7	5.7
Share of NYSAGI	6.1	4.4	6.0	9.7	11.3	12.8	13.6	13.4	13.5
Interest and Dividends									
Amount	26,506	20,465	20,417	22,485	29,673	38,733	41,058	42,500	45,152
Percent Change	(12.5)	(22.8)	(0.2)	10.1	32.0	30.5	6.0	3.5	6.2
Share of NYSAGI	5.5	4.4	4.3	4.3	5.2	6.1	6.0	6.0	6.1
Taxable Pension									
Amount	23,165	24,406	25,127	26,432	28,974	29,887	31,781	33,391	35,023
Percent Change	4.7	5.4	3.0	5.2	9.6	3.2	6.3	5.1	4.9
Share of NYSAGI	4.8	5.3	5.3	5.0	5.1	4.7	4.7	4.7	4.7
Net Business and Partnership Income									
Amount	45,191	46,763	48,157	53,686	60,718	65,901	69,432	73,065	77,216
Percent Change	2.7	3.5	3.0	11.5	13.1	8.5	5.4	5.2	5.7
Share of NYSAGI	9.4	10.2	10.2	10.2	10.6	10.4	10.2	10.4	10.5
All Other Incomes/ Adjustments /1									
Amount	(19,470)	(20,833)	(21,690)	(25,266)	(28,849)	(31,302)	(34,010)	(36,719)	(39,522)
Percent Change	8.4	7.0	4.1	16.5	14.2	8.5	8.7	8.0	7.6

* Estimates for 2006 are based on processing data.
/1 includes alimony received, unemployment income, IRA income, and other incomes. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The recent years of strong NYSAGI growth starting in 2003 were characterized by a growing share of capital gains related income at the expense of wage income. Based on very strong growth in capital gains net of losses between 2002 and 2006, the share of net capital gains income increased from 4.4 percent of NYSAGI to an estimated 12.8 percent and is estimated to have increased further to 13.6 percent in 2007. During the same interval, the share of wage income fell from 80.2 percent in 2002 to an estimated 70.8 percent in 2006. The shares of other components of NYSAGI are more stable or have shown consistent long-run growth patterns.

Changes in the timing of year-end bonus payments also affect the NYSAGI growth rate. It is estimated that bonuses in the financial and insurance sector represent more than half of the total bonuses paid out each year. Beginning in 1994-95, the pattern of these bonus payments has shifted from approximately 40 percent paid at the end of the calendar year, and 60 percent paid early in the following year, to 30 percent and 70 percent, respectively.

As already noted, New York State is now in the fifth year of an economic expansion. The State's recovery from the 2001-2003 recession is reflected in the State's tax liability. Based on the approximately 9.1 million returns reflected in the annual study file of personal income tax returns prepared by the New York State Department of Taxation and Finance, total liability was about $28.5 billion in 2005, up from $25.8 billion in 2004. Additional personal income tax liability worth approximately $1.3 billion in 2005 was received from fiduciary returns, late-filed returns and other transactions not included in the annual study file.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
1996 - 2009
(millions of dollars)

	NYSAGI		Liability		Effective
	Amount	Growth Rate	Amount	Growth Rate	Tax Rate (percent)
1996	344,569	8.4	16,319	1.9	4.74
1997	379,179	10.0	16,950	3.9	4.47
1998	413,128	9.0	18,986	12.0	4.60
1999	448,531	8.6	20,977	10.5	4.68
2000	508,934	13.5	24,494	16.8	4.81
2001	481,001	(5.5)	22,406	(8.5)	4.66
2002	459,919	(4.4)	20,729	(7.5)	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006**	631,672	10.4	29,813	4.7	4.72
2007**	682,707	8.1	33,159	11.2	4.86
2008**	703,764	3.1	34,466	3.9	4.90
2009**	736,366	4.6	36,710	6.5	4.99

* Liability divided by AGI.
** Estimate/Forecast
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Also, as indicated in Table 5, given $572 billion in NYSAGI in 2005, the average effective tax rate was 4.98 percent (based on study file liability), up from 4.51 percent in 2002. Between 2002 and 2005, NYSAGI grew 24.4 percent, while liability grew 37.4 percent. The greater increase in liability can largely be attributed to three years of strong growth in net capital gains income which grew 185.9 percent over the three years. Capital gains income tends to occur mainly for taxpayers in the highest tax bracket.

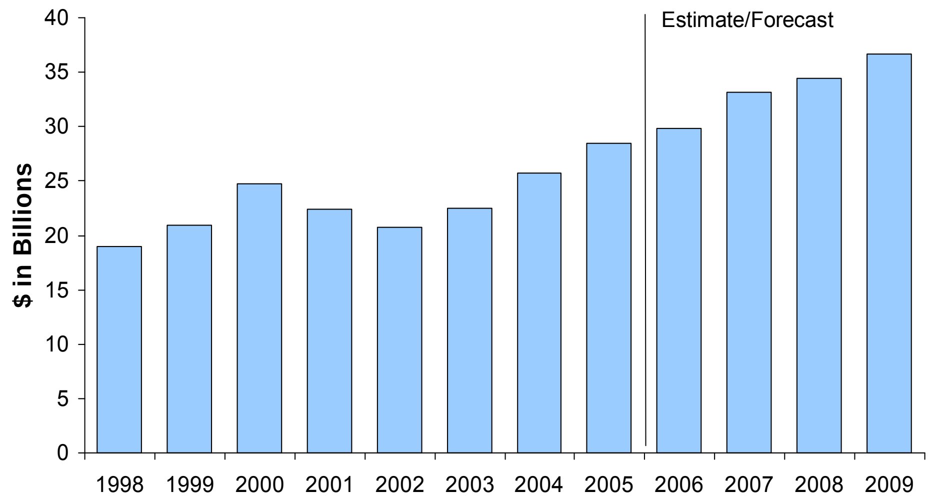
Dividend and interest income also experienced substantial increases between 2002 and 2005. More broadly distributed wages and salaries experienced much more modest growth of 13.1 percent over the same three years. However, bonus payments, the part of wages accounted for by taxpayers in the highest income tax bracket grew a much stronger 29.9 percent between 2002 and 2005. The impact of strong growth in income components that affect high-income taxpayers on tax liability was amplified by two new, temporary tax rates of over seven percent that were imposed on high-income taxpayers in 2005 by legislation passed in 2003.

Thanks to several changes in the State tax regime for the 2006 tax year, the expected growth in personal income tax liability of 4.7 percent fell well short of the predicted 10.5 percent growth in NYSAGI, producing a lower average effective tax rate of 4.72 percent. The temporary surcharge enacted by the Legislature in May 2003 expired at the end of 2005. While the higher of the two temporary rates remained at 7.7 percent for all three years, the lower rate declined in steps: from 7.5 percent in 2003, to 7.375 percent in 2004, to 7.25 percent in 2005. In addition, the standard deduction for married filers was increased for the 2006 tax year — to $15,000 (from $14,600) for joint filers and to $7,500 (from $6,500) for those filing separately. Also, the Empire State Child Credit for eligible children aged 4-16 became effective for the 2006 tax year. Besides these State Tax Law changes, a change at the Federal level will also impact New York State tax liability. For the 2006 tax year, the Federal limitation on itemized deductions was reduced by one-third. This reduction in the limitation allowed high-income taxpayers to reduce their liability by claiming a greater value of itemized deductions.

Liability Forecast Summary: 2007-2009

The Division of the Budget predicts NYSAGI growth to moderate to 8.0 percent growth in 2007, before weakening considerably to 3.2 percent growth in 2008, and 4.8 percent in 2009, in line with an ailing housing market, a cooling State economy, and much lower predicted financial sector profitability. Liability growth under current law is expected to follow the same pattern, coming in at 11.2 percent for 2007, with 3.9 percent and 6.5 percent projected for 2008 and 2009, respectively. These growth rates imply projected liability of $33.2 billion for 2007, $34.5 billion for 2008, and $36.7 billion for 2009.

Total Liability 1998- 2009



Source: New York State Department of Taxation and Finance; DOB staff estimates.

The combined impact of the tax regime changes listed above for 2006 is a reduction in liability by $753 million from the level that would be attained if the only change for the 2006 tax year were the return to the 2002 rates and brackets. For the 2007 tax year, liability is projected to be $747 million lower due to the 2006 changes, and for the 2008 and 2009 tax years, liability is projected to be $836 million and $841 million lower respectively in the absence of the 2006 State and federal law changes.

Risks to the Liability Forecast

Liability estimates are subject to significant risks from both unanticipated shifts in economic conditions and changes in taxpayer behavior. For example, slower than expected economic growth would put downward pressure on tax liability, holding other factors constant. The stock market and the entire financial services industry may do much better or much worse than envisioned, with consequent positive or negative impacts on State tax liability. As discussed in "New York State Adjusted Gross Income" under the "Economic Backdrop" section, income sources that are most closely tied to the fate of the financial sector, capital gains and bonus payments, always exhibit a high degree of volatility and are difficult to forecast with precision. These most volatile components of NYSAGI fall most heavily on the wealthiest taxpayers who, in turn, contribute the lion share of liability. As seen in Table 6, the State's taxpayers with NYSAGI exceeding $1 million only represented 0.4 percent of all tax returns while contributing 23.7 percent of NYSAGI and 33.5 percent of liability.

TABLE 6
PERCENT DISTRIBUTION OF RETURNS, LIABILITY AND AGI BY INCOME GROUPS

Income Group	2005 (Actual) Returns	2005 (Actual) Liability	2005 (Actual) AGI	2008 (Forecast) Returns	2008 (Forecast) Liability	2008 (Forecast) AGI
0 - $50,000	69.1	6.4	20.2	65.8	4.2	16.6
$50,000 - $100,000	19.3	18.3	21.3	20.3	16.6	19.2
$100,000 - $200,000	8.1	18.2	16.9	9.1	18.5	16.6
$200,000 - $1,000,000	3.1	23.7	17.9	4.2	25.3	20.1
$1,000,000 and above	0.4	33.5	23.7	0.6	35.5	27.5

Source: NYS Department of Taxation and Finance; DOB Staff estimates.

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top one percent of taxpayers to fall from 39 percent in 2000 to 32.2 percent in 2002 (see Table 7). Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. This means changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionate effects on State tax revenues.

TABLE 7
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH THE TOP ONE PERCENT OF NYS TAXPAYERS

	1995-2002, 2006 Tax Law			2003-2005 Surcharges		
Year	Liability, top 1 Percent (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1 (Percent)	Liability, top 1 Percent (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1 (Percent)
1996	4,935	16,319	30.2	--	--	--
1997	5,705	16,950	33.7	--	--	--
1998	6,654	18,986	35.0	--	--	--
1999	7,462	20,977	35.6	--	--	--
2000	9,644	24,494	39.0	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,729	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36.0
2004	8,487	24,218	35.0	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006*	11,576	29,813	38.8	--	--	--
2007*	12,867	33,159	38.8	--	--	--
2008*	13,213	34,466	38.3	--	--	--
2009*	13,869	36,710	37.8	--	--	--

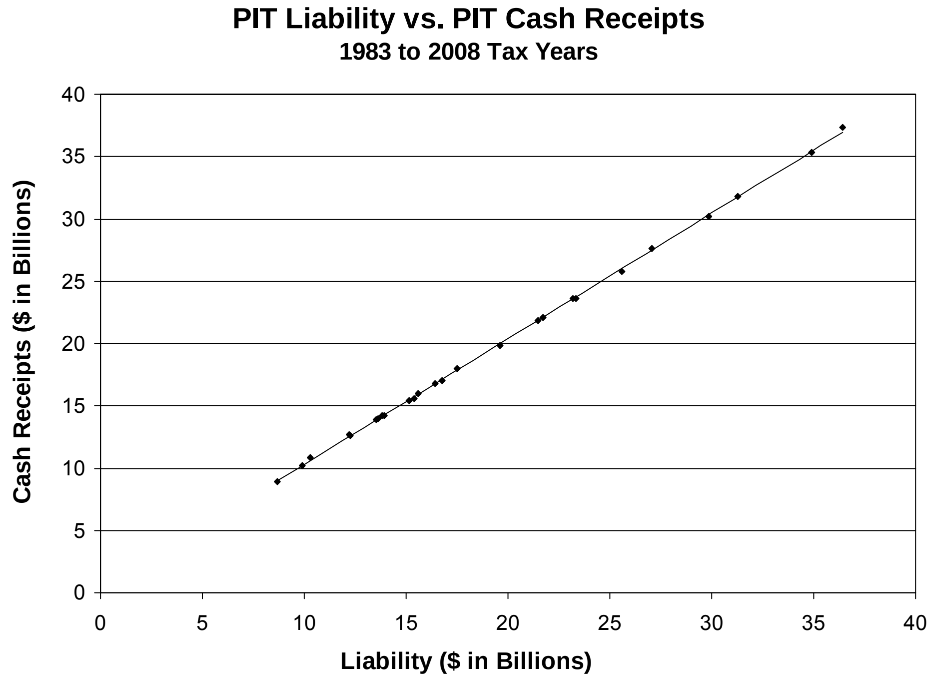
* Estimated

Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

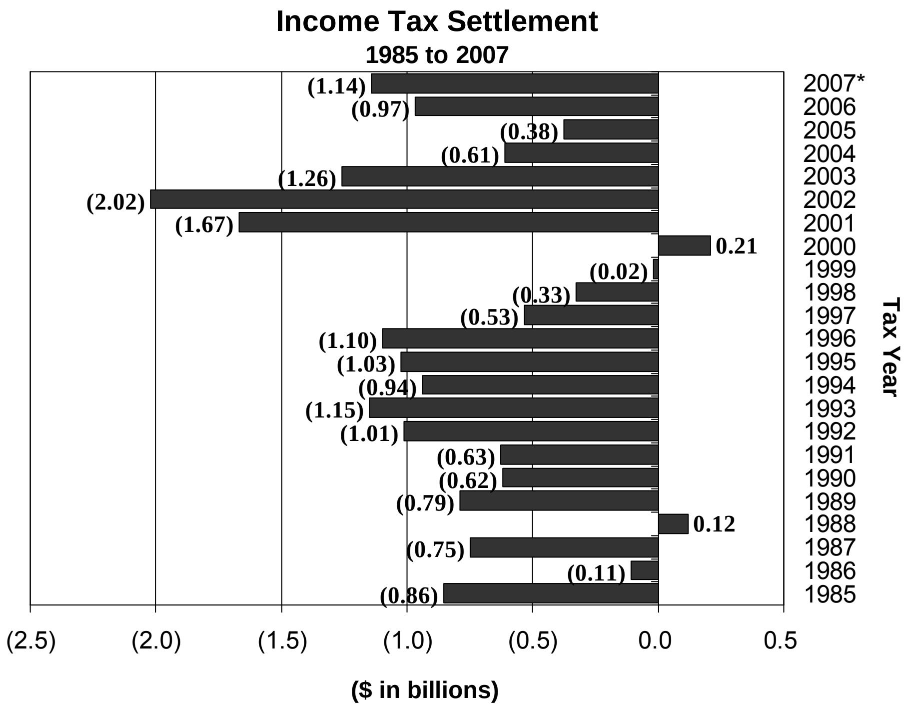
TAX LIABILITY AND CASH PAYMENTS

Although significant risks necessarily remain in any estimates of income tax liability, estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments — withholding tax and quarterly estimated tax payments — tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2007 tax year will be received before the end of the 2007-08 State fiscal year. Settlement payments — those payments received when taxpayers file final returns for a tax year — tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2007 tax year will be received largely in the 2008-09 fiscal year.

As is evident in the graph below showing net settlement payments for the 1985 through 2007 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns and extension requests). There have been some important exceptions to this pattern — most notably during times of tax reform (in 1986 and 1988), in times of rapid economic growth, and during periods with large increases in non-wage income.



* Estimate
Note: The settlement comprises extension payments plus final return payments minus refunds and the State-city offset.

Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern, accompanying the strongly growing economy, resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with final returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State was negative by about $600 million for the 2004 tax year, and only $380 million for tax year 2005. However, the 2006 estimated settlement is a negative $967 million, due mainly to refund claims for the new child credit. The settlement for 2007 is expected to be slightly larger than as 2006.

For a more detailed discussion of the methods and models used to develop estimates and projections for the personal income tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

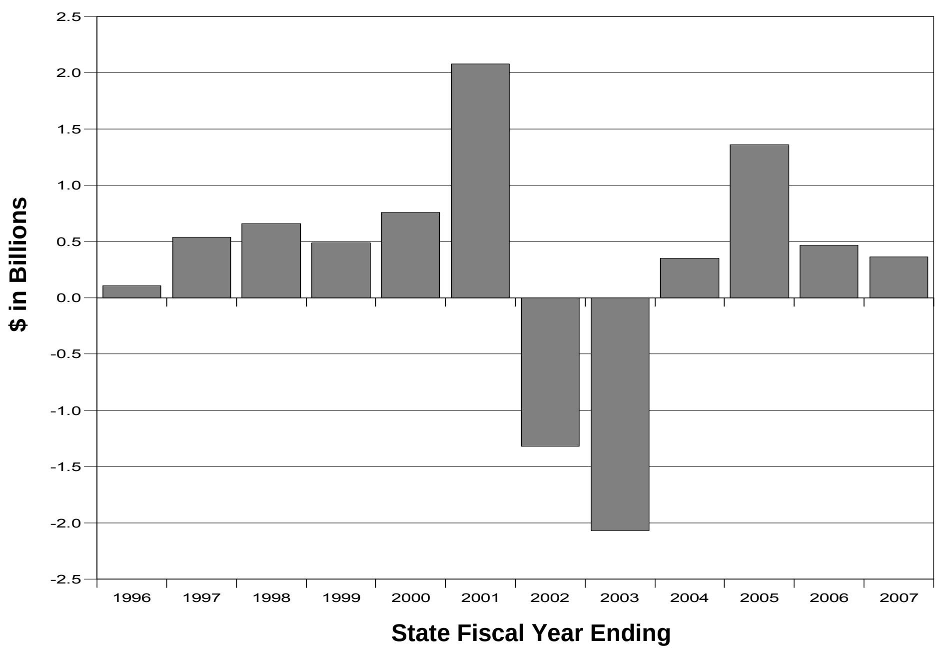
Review of Forecast

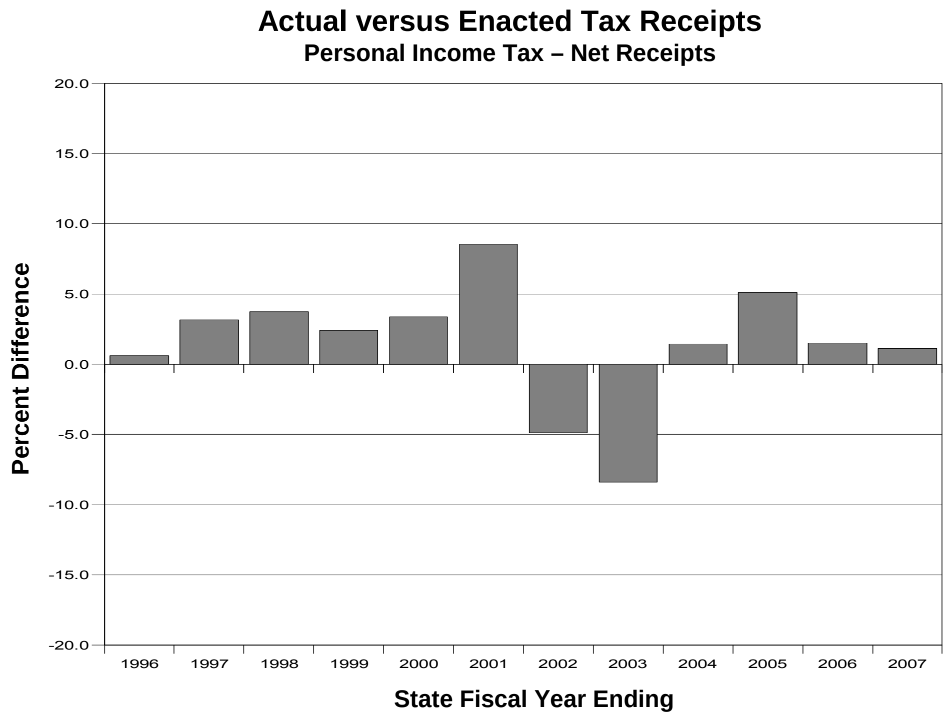
Because of its magnitude, the personal income tax forecast takes on a special significance. The tax has proved to be more difficult to forecast than stable sources, such as the sales tax but has been more accurately forecast (in percentage terms) than more volatile sources like the corporate franchise, bank or real estate transfer tax. In recent years receipts have been underestimated, the main exception over the past 10 years is the period of the September 11 terrorist attacks and related recession.

Overall, there is typically some structural base uncertainty because a significant portion of the tax base relates to capital gains, a somewhat volatile and voluntary source of income. Relatedly, because taxpayers pay tax on both a pay-as-you-go basis during the fiscal year, and as part of the settlement of their tax return filings in the subsequent fiscal year, there is usually some uncertainty as to how much liability will be paid as cash receipts between the current and subsequent fiscal years.

The following charts show both the dollar and percent error in the personal income tax Enacted Budget net receipts forecasts versus actual results since fiscal year 1996. Clearly the largest variations occurred right before the 9-11 attacks and immediately thereafter. In particular, in fiscal year 2001, extraordinary growth in financial and real estate market transactions during the late 1990s into 2000 resulted in an underestimate of over $2 billion, or about 9 percent. The subsequent recession and 9-11 aftershocks resulted in similarly sizable overestimates in the next two years. However, for other years the percentage difference between Enacted Budget estimates and actual final results has averaged only about 3 percent, and closer to 1 percent in the past two fiscal years.

Actual versus Enacted Tax Receipts
Personal Income Tax – Net Receipts





RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are $24,855 million, an increase of $1,342 million, or approximately 6 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to total $36,551 million, an increase of $1,971 million, or 5.7 percent above last year.

Compared with the same period a year ago, withholding collections increased 7.8 percent through the first nine months of the fiscal year. The current forecast assumes that estimated payments on 2007 liability will be 13.2 percent higher than comparable payments on 2006 liability. The increase in withholding reflects continued moderate growth in underlying wages over the first half of the fiscal year that is expected to slow during the bonus payout season. The growth in estimated tax appears to reflect continued strength in commercial real estate market and large taxable distributions made by equity mutual funds.

Table 8 shows the components of the personal income tax from 2004-05 through 2008-09.

Table 8
FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2004-05 (Actual)	2005-06 (Actual)	2006-07 (Actual)	2007-08 (Projected)	2008-09 (Projected)
Receipts					
Withholding	23,375	24,761	26,802	28,401	30,176
Estimated Payments	7,062	9,158	10,355	11,697	12,527
Current Year	5,526	6,684	7,572	8,572	9,152
Prior Year*	1,536	2,474	2,783	3,125	3,375
Final Returns	1,629	1,849	2,102	2,116	2,211
Current Year	171	199	194	145	180
Prior Year*	1,458	1,650	1,907	1,971	2,031
Delinquent Collections	702	776	831	909	947
Gross Receipts	32,768	36,544	40,090	43,123	45,861
Refunds					
Prior Year*	3,107	3,481	3,231	4,248	4,412
Previous Years	243	272	257	315	290
Current Year*	960	1,512	1,500	1500	1,750
State-City Offset*	357	466	522	509	604
Total Refunds	4,668	5,731	5,510	6,572	7,056
Net Receipts	28,100	30,813	34,580	36,551	38,805

* These components, collectively, are known as the “settlement” on the prior year’s tax liability.

The primary risk to the estimate of 2007-08 receipts results from the timing of bonus payments paid by financial services companies. A large portion of financial sector bonuses are typically paid in the first quarter of the calendar year. Consequently, complete information about such payments is not available when Budget estimates are constructed. However, the forecast assumes a modest reduction in bonus payouts during the January-March timeframe resulting in flat year-over-year growth in withholding.

Total refunds are expected to increase by $1,062 million (19.3 percent) from 2006-07. This is mainly due to the Empire State Child Credit, enacted and effective in 2006 and worth nearly $650 million.

2008-09 Projections

All Funds receipts are projected to be $38,805 million, an increase of $2,254 million, or 6.2 percent above 2007-08.

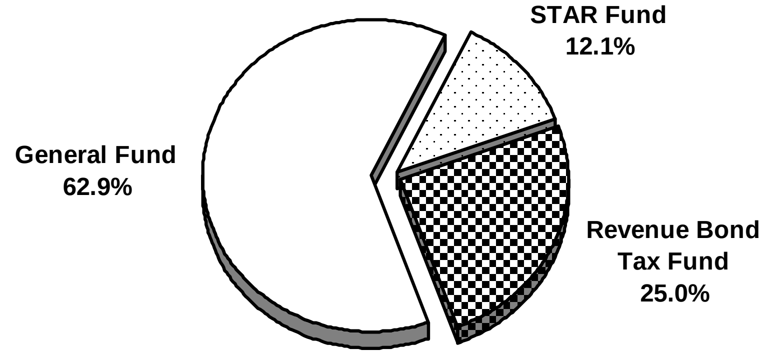
Withholding receipts continue to reflect modest but slowing growth in wages and are projected to rise by 6.2 percent. The other major component of collections, estimated payments on 2008 income, is projected to increase by 7.1 percent. This is consistent with a projected slowdown in the growth of non-wage income.

Extension and final payments related to 2007 returns are expected to increase by $310 million (6.1 percent) from 2006 returns consistent with liability projections.

Total refunds for 2008-09 are projected to increase by $484 million (7.4 percent). This growth reflects both a $250 million increase from increasing the refund cap from $1,500 million to $1,750 million, and a $176 million decrease due to proposed legislation.

General Fund

Fund Shares of Net Receipts
2008-09



Under proposed law, General Fund net personal income tax receipts are estimated at $22,735 million in 2007-08 and are projected at $24,391 million in 2008-09, a 7.3 percent increase from 2007-08.

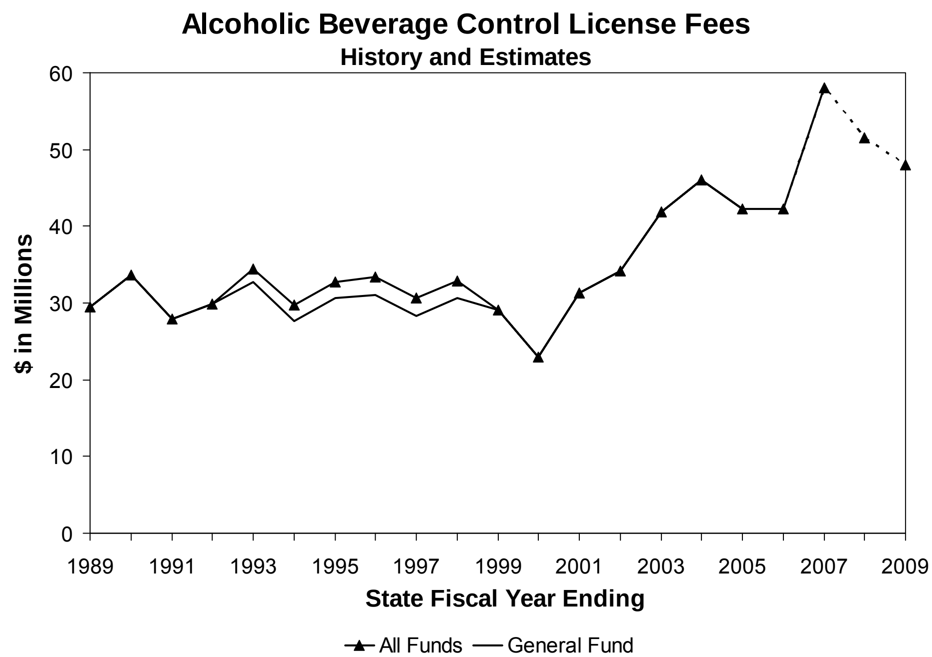
Other Funds

In 2007-08 and 2008-09, respectively, dedicated personal income tax receipts of $4,679 million and $4,713 million will be deposited into the School Tax Relief Fund. The 2008-09 amount reflects proposed legislation that would reduce STAR by delaying the second phase of the middle class rebate program, increasing the exemption floor from 5 percent to 10 percent, limiting the New York City STAR credit to high income taxpayers and offsetting debts against rebates.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES (millions of dollars)	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	58.2	51.5	(6.7)	(11.5)	48.0	(3.5)	(6.8)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	58.2	51.5	(6.7)	(11.5)	48.0	(3.5)	(6.8)

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE CONTROL LICENSE FEES BY FUND (thousands of dollars)	Gross General Fund	Refunds	General Fund	Special Revenue Funds	All Funds Receipts
1998-99	32,282	3,190	29,092	0	29,092
1999-2000	25,566	2,615	22,951	0	22,951
2000-01	33,140	1,787	31,353	0	31,353
2001-02	35,495	1,251	34,244	0	34,244
2002-03	43,124	1,183	41,941	0	41,941
2003-04	47,187	1,796	45,391	0	45,391
2004-05	44,543	2,179	42,364	0	42,364
2005-06	44,934	2,608	42,326	0	42,326
2006-07	60,700	2,500	58,200	0	58,200
Estimated					
2007-08	54,000	2,500	51,500	0	51,500
2008-09	50,500	2,500	48,000	0	48,000

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Fee Base and Rate

New York State distillers, brewers, wholesalers, retailers, and others who sell alcoholic beverages are required by law to be licensed by the State Liquor Authority. License fees vary depending on the type and location of the establishment or premises operated, as well as the class of beverage for which the license is issued.

Administration

Fees are paid directly to the State Liquor Authority on or before the expiration date of the current one-, two-, or three-year license, or with the application for a new license.

NUMBER OF LICENSES BY CATEGORY
(calendar year)

		Bars and Restaurants						
	Liquor Stores	Beer, Wine and Liquor	Beer and Wine	Beer Only	Subtotal	Grocery Stores	Wholesale	Total
1998	2,596	19,853	3,712	1,950	25,515	19,417	1,142	48,670
1999	2,560	20,325	3,640	1,883	25,848	19,202	1,031	48,587
2000	2,491	20,694	3,748	1,877	26,319	19,167	1,201	49,178
2001	2,482	20,545	3,991	1,942	26,478	18,994	1,181	49,135
2002	2,494	21,192	4,256	2,066	27,514	19,051	1,202	50,261
2003	2,501	19,666	4,470	1,977	26,113	18,726	1,233	48,573
2004	2,525	19,772	4,606	1,984	26,362	18,496	1,254	48,637
2005	2,558	19,686	4,825	1,984	26,495	18,270	1,294	48,617
2006	2,628	19,497	4,929	1,964	26,390	18,878	1,640	49,536
2007	2,654	19,801	5,030	2,260	27,091	18,291	1,371	49,407

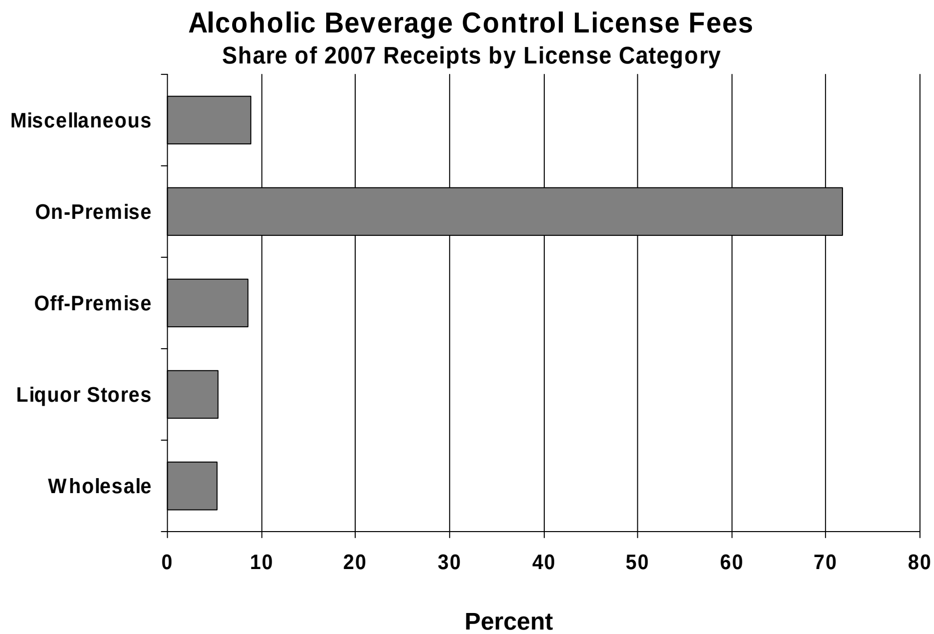
Significant Legislation

The significant statutory changes for this revenue source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1997		
License Renewal	Changed the required purchase of a triennial license to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost.	December 1, 1998
Legislation Enacted in 2002		
Fee Increases	Increased license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Open Sundays	Allowed liquor stores to have an option of closing a day other than Sunday.	May 15, 2003
Legislation Enacted in 2004		
Seven Day Sales	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Direct Shipments	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2007		
Auction Licenses	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007

FEE LIABILITY

The most significant source of revenue is the licensing of over 27,000 bars and restaurants that offer on-premise consumption. The majority of State-licensed bars and restaurants (about 19,800 in 2007) are authorized to sell beer, wine, and liquor. Approximately 5,000 licensees are permitted to sell only beer and wine. The remaining 2,360 licensees in 2007 sold only beer. In addition, there were about 18,300 grocery stores licensed to sell beer for off-premise consumption and about 1,400 alcoholic beverage wholesalers. Finally, the miscellaneous licenses (not shown above), which account for roughly 7.8 percent of revenue, are made up of specialty and seasonal licenses (for example: veterans' clubs and seasonal tour boats).



TAX LIABILITY

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage control license fees, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are $36.5 million, a decrease of $8.9 million, or 19.7 percent below the comparable period in the prior fiscal year. This decrease is attributed to a one-time deposit of internet receipts during 2006-07.

All Funds receipts for 2007-08 are estimated to be $51.5 million, a decrease of $6.7 million, or 11.5 percent below last year.

2008-09 Projections

All Funds receipts are projected to be $48 million, a decrease of $3.5 million, or 6.8 percent below 2007-08. This decrease is attributed to the normal license renewal cycle.

General Fund

Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund.

Other Funds

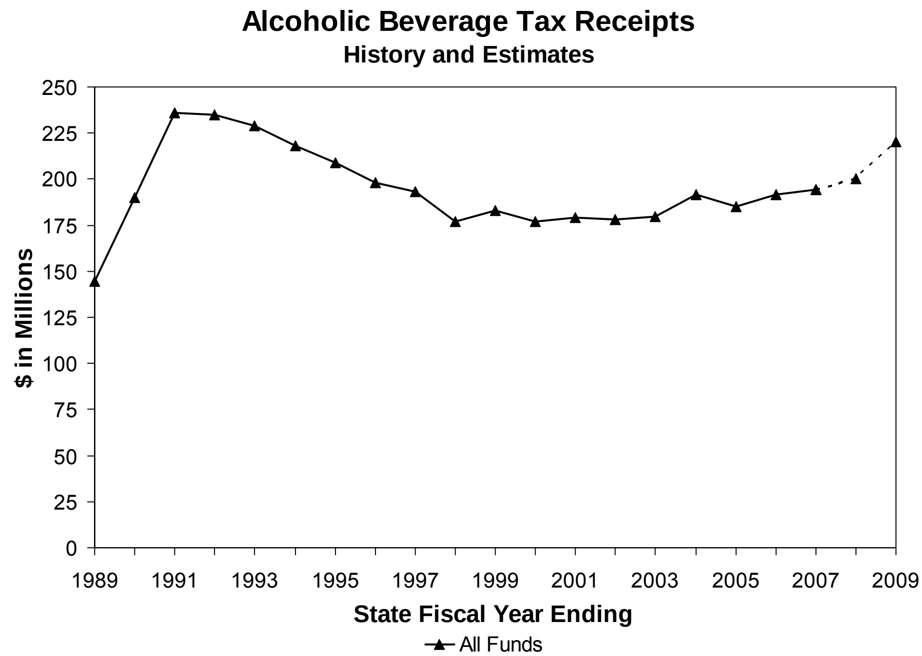
From 1992-93 through 1997-98, a portion of license fee receipts was deposited in the Alcoholic Beverage Control Enhancement Account. Revenues deposited into the account were used to support efforts to improve compliance with licensing regulations and expedite license processing. Beginning in 1998-99, this special revenue fund was eliminated, and since that time all licensing fees have been deposited in the General Fund.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES
(millions of dollars)

	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	194.3	200.2	5.9	3.0	219.6	19.4	9.7
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	194.3	200.2	5.9	3.0	219.6	19.4	9.7

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND
(thousands of dollars)

	Gross General Fund	Refunds	General Fund	All Funds Receipts
1998-99	183,087	316	182,771	182,771
1999-2000	177,093	55	177,038	177,038
2000-01	179,407	67	179,340	179,340
2001-02	178,146	1	178,145	178,145
2002-03	180,686	931	179,755	179,755
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
2005-06	191,696	22	191,674	191,674
2006-07	194,400	100	194,300	194,300
Estimated				
2007-08	200,300	100	200,200	200,200
2008-09				
Current Law	204,700	100	204,600	204,600
Proposed Law	219,700	100	219,600	219,600

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- make permanent current enforcement provisions;
- extend the seven day sales law; and
- change the rate of tax on certain products.

DESCRIPTION

Tax Base and Rate

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages.

STATE TAX RATES (dollars per unit of measure)		
Liquor over 24 percent alcohol	1.70	per liter
All other liquor with more than 2 percent alcohol	0.67	per liter
Liquor with not more than 2 percent alcohol	0.01	per liter
Natural sparkling wine	0.05	per liter
Artificially carbonated sparkling wine	0.05	per liter
Still wine	0.05	per liter
Beer with 0.5 percent or more alcohol	0.11	per gallon
Cider with more than 3.2 percent alcohol	0.01	per liter

Administration

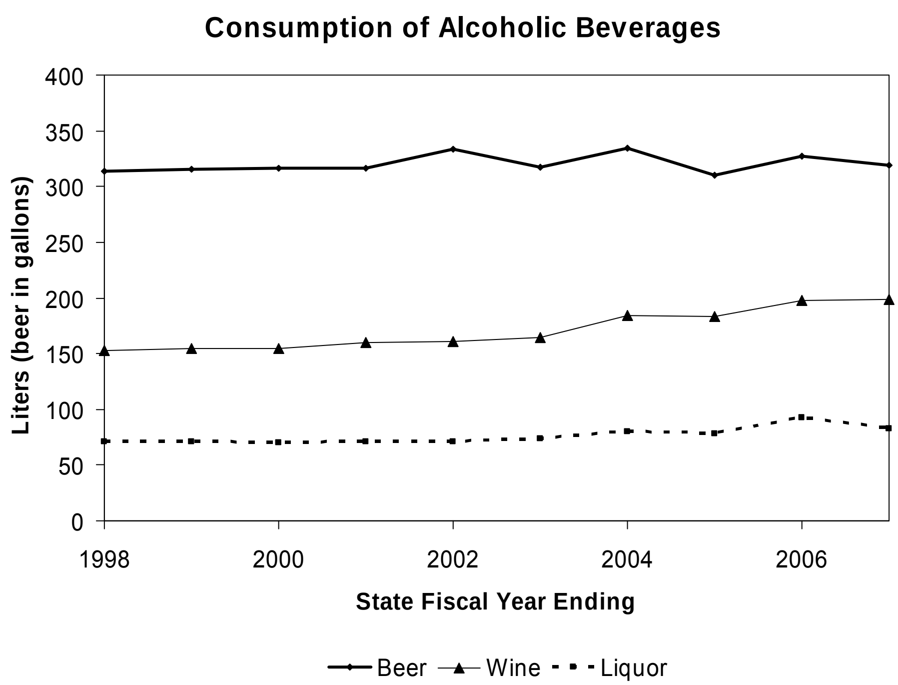
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Significant Legislation

The significant statutory changes to this tax source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 5.5 cents to 11 cents per gallon; liquor with at least 24 percent alcohol from $1.08 to $1.40 per liter; liquor with between 2 and 24 percent alcohol from 26.4 cents to 55 cents per liter; wine from 3.2 cents to 5 cents per liter; and cider with at least 3.2 percent alcohol from 0.4 cents to 1 cent per liter.	May 1, 1989
Legislation Enacted in 1991		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 11 cents to 21 cents per gallon; liquor with at least 24 percent alcohol from $1.40 to $1.70 per liter; and liquor with between 2 and 24 percent alcohol from 55 cents to 66.8 cents per liter.	June 1, 1991
Legislation Enacted in 1995		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 21 cents to 16 cents per gallon.	January 1, 1996
Legislation Enacted in 1998		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 16 cents to 13.5 cents per gallon.	January 1, 1999

Subject	Description	Effective Date
Legislation Enacted in 1999		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 13.5 cents to 12.5 cents per gallon.	April 1, 2001
Exemption	Increased the small brewers' tax exemption from the first 100,000 barrels of domestically brewed beer to 200,000 barrels.	April 1, 2001
Legislation Enacted in 2000		
Exemption	Accelerated the small brewers exemption increase by moving the effective date from April 1, 2001, to January 1, 2000.	January 1, 2000
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 12.5 cents to 11 cents per gallon.	September 1, 2003
Legislation Enacted in 2007		
Auction Licenses	Authorizes the sale of privately held liquors to persons licensed by the State Liquor Authority to conduct auctions.	October 15, 2007



TAX LIABILITY

Overall, per capita consumption of taxed beverages and receipts has remained fairly constant in recent years with declines in one beverage class being offset with increases in others, due to shifts in consumer preferences. For example, wine and liquor consumption in recent years has increased relative to beer consumption. In addition, the movement of alcoholic beverage demand towards less expensive beverages with lower alcohol content is attributed, in part, to the impact of rising relative prices on beverages with higher alcohol content. Furthermore, the New York State tax on liquor is relatively high in comparison to both other forms of alcohol and to other states.

Other States

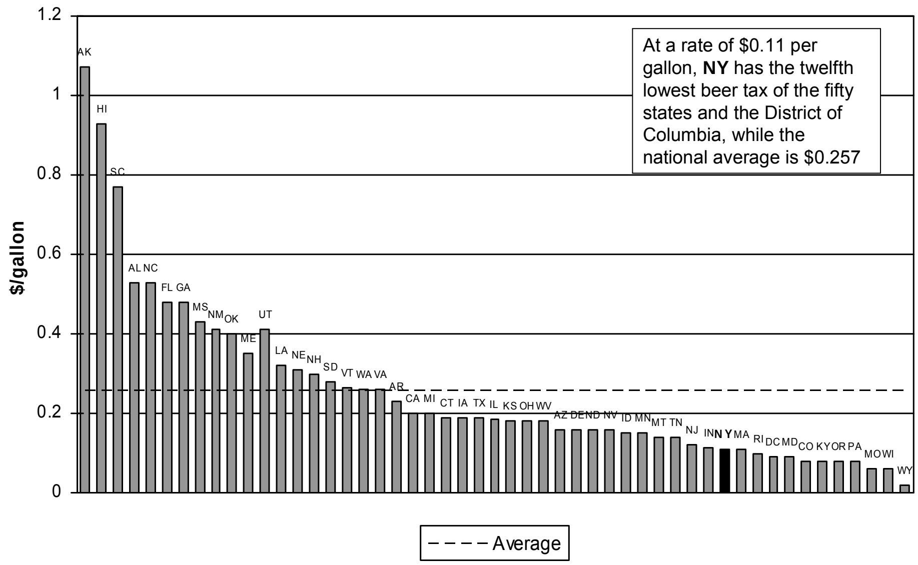
Compared with the alcohol tax rates in the other states in the nation, New York State has:

- The twelfth lowest beer tax in the nation;
- The second lowest wine tax in the nation (of those participating states*); and
- The third highest liquor tax in the nation (of those participating states**).

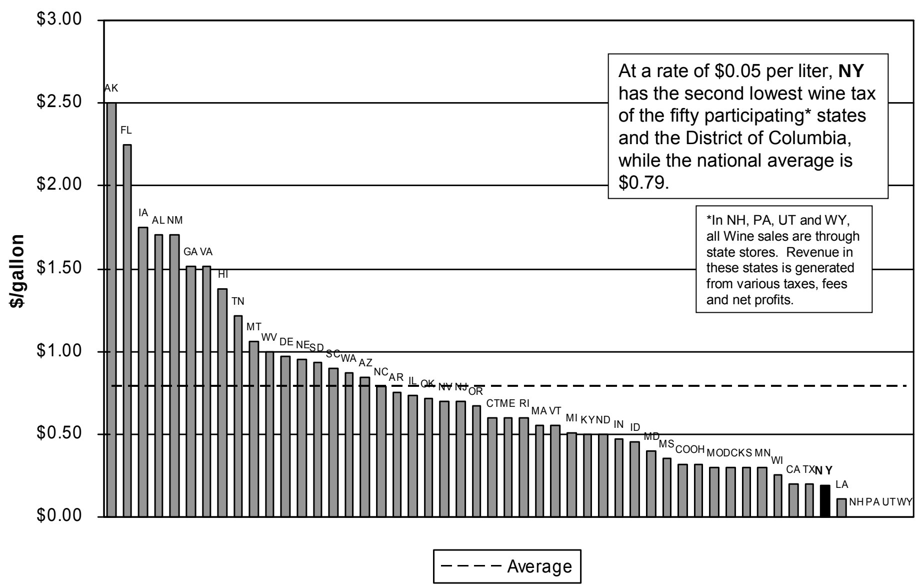
* In NH, PA, UT and WY, all wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.

** In 18 states, the government directly controls the sale of distilled spirits. Revenue in these states is generated from various taxes, fees and net profits.

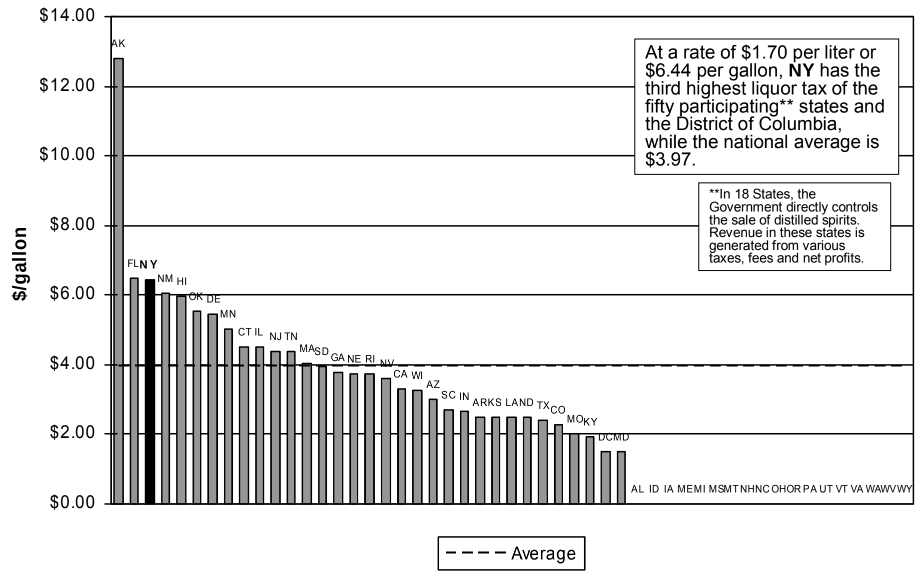
Beer Tax Rates by State
January 1, 2007



Wine Tax Rates by State
January 2007



Liquor Tax Rates by State
January 2007



The State continues to suffer tax avoidance and evasion due to the bootlegging of liquor from other states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions (see table below). Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Legislation enacted in 2002 extended these provisions to October 31, 2007 and has since been extended until October 31, 2009.

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage taxes, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within one year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within one year	Class E felony
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within one year	Class E felony
Custody, possession or control of liquor without registration or tax payments		Class B misdemeanor
Custody, possession or control of liquor without registration or tax payments	Exceeds 360 liters	Class E felony
Import liquor without registration	More than 90 liters	Seize transportation vehicles and liquor.
Distribute or hold liquor for sale without paying alcoholic beverage taxes	More than 90 liters	Seize transportation vehicles and liquor.
Failure by a distributor to pay the tax		10 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100 but shall not exceed 30 percent in aggregate.
Failure by any other person to pay the tax		50 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

RECEIPTS: ESTIMATES AND PROJECTIONS

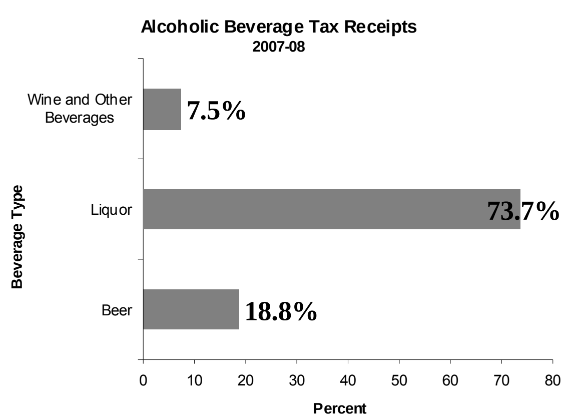
All Funds

2007-08 Estimates

All Funds collections to date are $159.1 million, an increase of $9 million, or 6 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $200 million, an increase of $6 million, or 3 percent above last year.

The bulk of estimated receipts, $149 million, are derived from the tax on liquor. Beer will generate an estimated $38 million and wine and other taxed beverages an estimated $13 million.



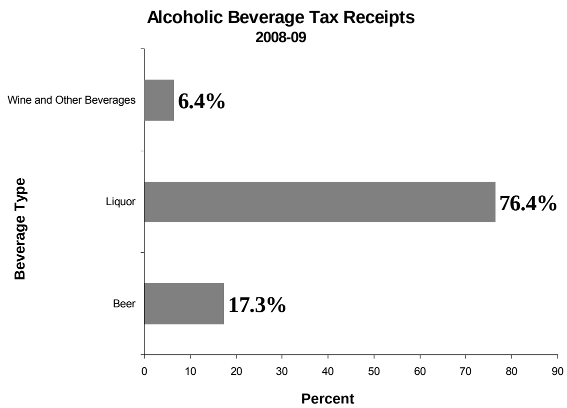
COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS (millions of dollars)							
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 Estimated	2008-09 Projected
Beer	39	39	34	36	37	38	38
Liquor	132	143	141	145	147	149	168
Wine and Other	9	10	10	11	12	13	14
Total	180	191	185	192	196	200	220

2008-09 Projections

All Funds receipts are projected to be $220 million, an increase of $19 million, or 10 percent above 2007-08.

Based on recent trends, the consumption of beer, wine and liquor are expected to grow modestly in 2008-09.

Of the total projected alcoholic beverage tax receipts, $168 million is derived from liquor, $38 million from beer, and $14 million from wine and other specialty beverages.



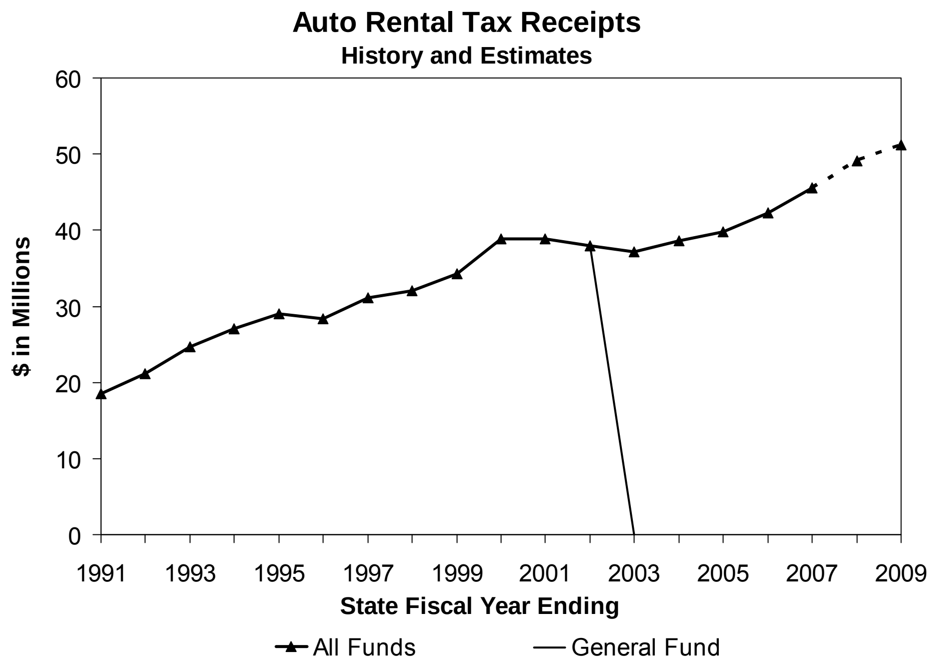
General Fund

Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	45.5	49.1	3.6	7.9	51.2	2.1	4.3
All Funds	45.5	49.1	3.6	7.9	51.2	2.1	4.3

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND (thousands of dollars)			
	General Fund	Capital Projects Funds[1]	All Funds Receipts
1998-99	34,241	0	34,241
1999-2000	38,843	0	38,843
2000-01	38,916	0	38,916
2001-02	37,914	0	37,914
2002-03	0	37,191	37,191
2003-04	0	38,593	38,593
2004-05	0	39,824	39,824
2005-06	0	42,303	42,303
2006-07	0	45,500	45,500
Estimated			
2007-08	0	49,100	49,100
2008-09	0	51,200	51,200

[1] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Since June 1, 1990, the State has imposed a five percent tax on charges for the rental or use in New York State of a passenger car with a gross vehicle weight of 9,000 pounds or less.

The auto rental tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more.

Administration

The auto rental tax is remitted quarterly by the vendor on the vendor's sales tax return to the Department of Taxation and Finance.

TAX LIABILITY

Receipts from the auto rental tax are influenced by the overall health of the economy, particularly consumer and business spending on travel. Unusual events that affect travel have had a significant influence on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the auto rental tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are estimated to be 39.2 million, a decrease of $0.8 million, or 2.0 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $49.1 million, an increase of $3.6 million, or 7.9 percent above last year.

2008-09 Projections

All Funds receipts are projected to be $51.2 million, an increase of $2.1 million, or 4.3 percent above 2007-08. The estimate assumes a return to an historical average rate of growth for this tax.

General Fund

Since April 1, 2002, no auto rental tax receipts have been deposited in the General Fund.

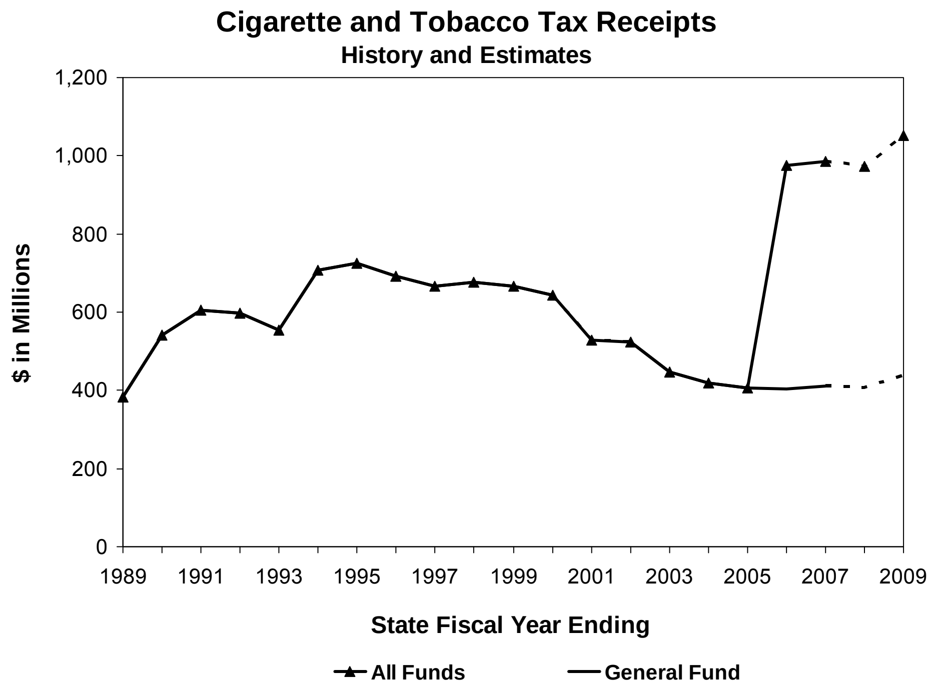
Other Funds

Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	410.7	407.2	(3.5)	(0.9)	437.3	30.1	7.4
Other Funds	574.0	565.4	(8.6)	(1.5)	614.4	49.0	8.7
All Funds	984.7	972.6	(12.1)	(1.2)	1,051.7	79.1	8.1

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
1998-99	672	5	667	0	667
1999-2000	648	5	643	0	643
2000-01	532	4	528	0	528
2001-02	530	7	523	0	532
2002-03	454	8	446	0	446
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
2005-06	406	2	404	571	974
2006-07	412	1	411	574	985
Estimated					
2007-08	409	2	407	565	973
2008-09					
Current Law	438	2	436	612	1,048
Proposed Law	439	2	437	614	1,052

*Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Heath Care Reform Act of 2000. After March 2005, that portion is deposited in the HCRA Resources Pool which is a Special Revenue Fund within the State's Fund structure.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- classify little cigars as cigarettes for the purposes of taxation; and
- enhance compliance and enforcement of the tobacco products and cigarette taxes.

DESCRIPTION

Tax Base and Rate

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is $1.50 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The Federal tax rate was increased from 24 cents to 34 cents per pack on January 1, 2000, and again to 39 cents per pack on January 1, 2002. Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack and effective April 3, 2002, by 39 cents to $1.50 per pack. New York City also levies a separate cigarette excise tax of $1.50 per pack.

STATE, FEDERAL AND NEW YORK CITY CIGARETTE EXCISE TAX RATES PER PACK OF 20 CIGARETTES (since 1950)

State		Federal		New York City	
	Rate (cents)		Rate (cents)		Rate (cents)
July 1, 1939	2	Before November 1, 1951	7	Before May 1, 1959	1
January 1, 1948	3	November 1, 1951	8	May 1, 1959	2
April 1, 1959	5	January 1, 1983	16	June 1, 1963	4
April 1, 1965	10	January 1, 1991	20	January 1, 1976	8
June 1, 1968	12	January 1, 1993	24	July 2, 2002	150
February 1, 1972	15	January 1, 2000	34		
April 1, 1983	21	January 1, 2002	39		
May 1, 1989	33				
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				

The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco, at a rate of 37 percent of their wholesale price. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Retail establishments that sell cigarettes are required to purchase licenses. Vending machine owners are required to purchase stickers from the Department of Taxation and Finance.

The following table provides a comparison of state and maximum local cigarette tax rates.

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of January 1, 2008

Rank (Low to High)	State Rate	Maximum Local Rate	Maximum State and Local Rate
South Carolina	7.0		7.0
Missouri	17.0	7.0	24.0
Mississippi	18.0		18.0
Kentucky	30.0		30.0
Virginia	30.0	75.0	105.0
Florida	33.9		33.9
North Carolina	35.0		35.0
Louisiana	36.0		36.0
Georgia	37.0		37.0
Alabama	42.5	6.0	48.5
North Dakota	44.0		44.0
West Virginia	55.0		55.0
Idaho	57.0		57.0
Arkansas	59.0		59.0
Wyoming	60.0		60.0
Tennessee	62.0	1.0	63.0
Nebraska	64.0		64.0
Utah	69.5		69.5
Kansas	79.0		79.0
Nevada	80.0		80.0
Colorado	84.0		84.0
California	87.0		87.0
New Mexico	91.0		91.0
Illinois	98.0	268.0	366.0
Indiana	99.5		99.5
District of Columbia	100.0		100.0
Oklahoma	103.0		103.0
New Hampshire	108.0		108.0
National Average	**111.2**		**111.2**
Delaware	115.0		115.0
Oregon	118.0		118.0
Ohio	125.0	34.5	159.5
Pennsylvania	135.0		135.0
Iowa	136.0		136.0
Texas	141.0		141.0
Minnesota	149.3		149.3
New York	**150.0**	**150.0**	**300.0**
Massachusetts	151.0		151.0
South Dakota	153.0		153.0
Montana	170.0		170.0
Wisconsin	177.0		77.0
Vermont	179.0		179.0
Hawaii	180.0		180.0
Alaska	200.0	132.4	332.4
Arizona	200.0		200.0
Connecticut	200.0		200.0
Maine	200.0		200.0
Maryland	200.0		100.0
Michigan	200.0		200.0
Washington	202.5		202.5
Rhode Island	246.0		246.0
New Jersey	257.5		257.5

Source: Campaign for Tobacco-Free Kids

Administration

State-registered stamping agents who are mostly wholesalers purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers. The excise tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to the Department of Taxation and Finance. An individual may bring two cartons into the State without being subject to the excise tax.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. Legislation enacted in 1996, substantially increased penalties for retailers and wholesalers who sell unstamped or illegally stamped packages of cigarettes. Further legislation enacted in 2002 increased the number of enforcement agents.

The positive effects of the 1996 enforcement legislation were realized later that year, with an increase in the number of new retailer license applications. This increase, as well as an enhanced State enforcement presence, may have led to less severe declines in taxable cigarette consumption than otherwise would have occurred.

In 2000, comprehensive legislation was enacted at combating cigarette bootlegging and reducing youth and adult smoking by banning Internet sales and the delivery by common carrier of cigarettes to individual consumers in New York. This law does not apply to the U.S. Postal Service. After a lawsuit by Brown and Williamson Tobacco, this legislation was ruled unconstitutional by the U.S. District Court of the Southern District of New York and enjoined from going into effect. The State’s appeal was heard in June 2002 and the law became effective in March 2003 when the U.S. Circuit Court of Appeals ruled for the State. Appeals in this case have been exhausted. In April 2003, trucking associations from New York, New Jersey and Connecticut filed a separate suit to have the statute declared unconstitutional. The case was decided in favor of the State by the U.S. District Court of the Southern District of New York in December 2004.

In 2005, legislation was enacted requiring the collection of tax on cigarettes sold on Native-American reservations to non-Native-Americans. In January 2007, a preliminary injunction was issued in the State Supreme Court enjoining the enforcement of these statutes until certain actions, including the issuance of enabling regulations and the distribution of Indian tax exempt coupons, are taken. Further litigation may be brought upon the implementation of the statutes.

Significant Legislation

The significant statutory changes to cigarette and tobacco taxes since 1939 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1939		
Cigarettes – Imposition	Imposed a “temporary” tax on the sale of cigarettes at the rate of $0.02 per pack.	July 1, 1939
Legislation Enacted in 1947		
Cigarettes – Permanent	Made the $0.02 per pack tax on cigarettes permanent.	March 8, 1947
Cigarettes – Additional Tax	Imposed an additional $0.01 per pack tax (0.5 cents per 10 cigarettes) to finance the “war bonus account.”	January 1, 1948
Legislation Enacted in 1949		
Cigarettes – Use Tax	Enacted a cigarette use tax.	May 1, 1949
Legislation Enacted in 1959		
Cigarettes – Increase	Increased the cigarette tax to $0.05 per pack from $0.03.	April 1, 1959
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1959
Legislation Enacted in 1961		
Tobacco – Repeal	Repealed the tobacco products tax.	July 1, 1961
Legislation Enacted in 1985		
Cigarettes - CMSA	Enacted the Cigarette Marketing Standards Act (CMSA) as Article 20-A of the Tax Law.	November 1, 1985
Legislation Enacted in 1989		
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1989
Legislation Enacted in 1993		
Tobacco – Rate Increase	Increased the tobacco products tax to 20 percent of the wholesale price from 15 percent.	June 1, 1993
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation Enacted in 1999		
Cigarette Tax Increase	Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act (HCRA) of 2000.	March 1, 2000
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted In 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted In 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006

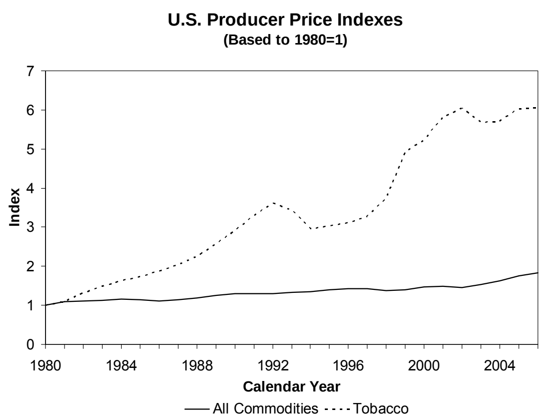
TAX LIABILITY

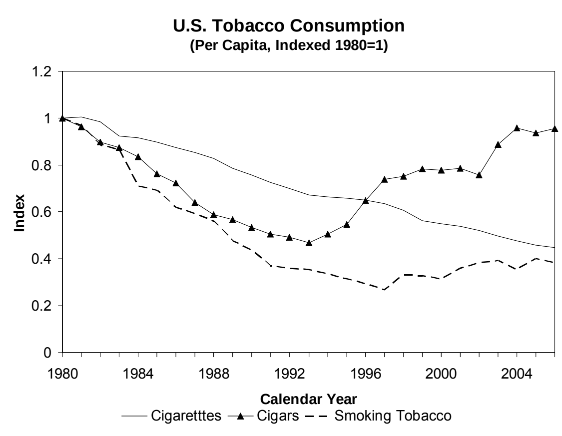
Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

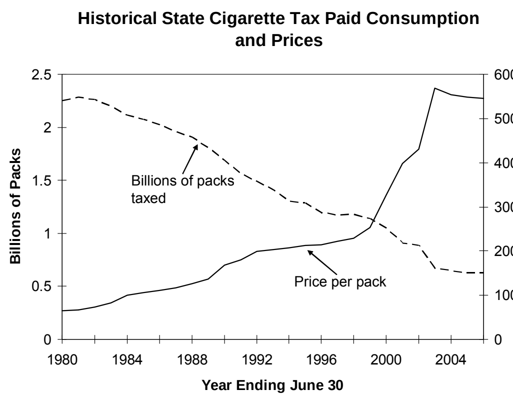
CIGARETTE SALES, PRICES AND STATE AND FEDERAL TAX AS A PERCENT OF RETAIL PRICE									
	1970	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2006**
Tax-Paid Sales (millions of packs)	2,180.9	2,243.7	2,251.6	2,075.9	1,689.9	1,285.4	1,048.7	624.4	623.8
Average Retail Price (cents per pack)	40.7	51.5	64.4	106.2	167.4	212.1	326.8	548.5	545.7
State and Federal Tax as a Percent of Retail Price	49.1	44.7	35.7	34.8	29.2	37.7	24.5	34.5	34.6
Source: Orzechowski and Walker									

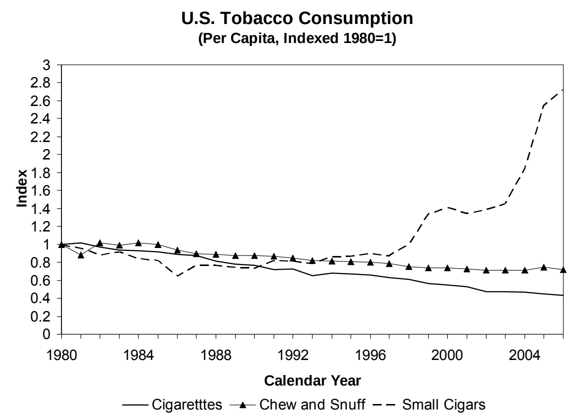
Taxable cigarette consumption in New York has declined by more than 70 percent since 1980, due to the factors noted in the previous paragraph. The following graphs summarize the most important trends, which are the inverse relationship between cigarette prices and consumption, the large magnitude of wholesale cigarette price increases relative to other goods, and consumer substitution of other tobacco products for cigarettes.

For a more detailed discussion of the methods and models used to develop estimates and projections for the cigarette and tobacco taxes, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.









TOBACCO MSA PAYMENTS

Under the Tobacco Master Settlement Agreement (MSA) reached between states and manufacturers in 1998, manufacturers are required to make payments to New York. The amounts of these payments are subject to various adjustments. The adjustment for the volume of packs shipped is based on national shipments, and changes in New York consumption will have only a minor import. In 2003 and 2004, New York State issued $4.2 billion in tobacco bonds and used these payments to pay debt service.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

Total collections (including HCRA) to date are $771.5 million, an increase of $0.6 million from the comparable period in the prior fiscal year. Total receipts for 2007-08 are estimated to be $972.6 million, a decrease of $12.1 million, or 1.2 percent below last year. Over the past few years, the secular decline in taxable consumption has slowed.

2008-09 Projections

All Funds receipts are projected to be $1,051.7 million, an increase of $79.1 million, or 8.1 percent above 2007-08. Implementation of statutes requiring the collection of tax on sales by Native American retailers to non-native Americans and enforcement of these regulations is anticipated to result in an increase in receipts by $93 million in 2008-09.

The long-term factors reducing cigarette consumption will continue to exert negative pressure on receipts. Since cigarette prices are high in New York relative to the national average, there remains an added incentive for smokers to avoid paying the tax by purchasing retail cigarettes in surrounding states, bootlegged cigarettes, or cigarettes sold through mail order on the Internet.

Health Care Reform Act (HCRA)

Legislation passed in 2002 established the percentage distribution of cigarette tax receipts as shown in the following table.

CIGARETTE TAX DISTRIBUTION (percent)	
April 1, 2002, to April 30, 2002	
General Fund	56.30
HCRA	43.70
May 1, 2002, to March 31, 2003	
General Fund	35.45
HCRA	64.55
Beginning April 1, 2003	
General Fund	38.78
HCRA	61.22

Currently, 61.22 percent of the proceeds from the State cigarette tax of $1.50 are deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000.

Prior to 2005-06, HCRA was not included within the State's fund structure. Beginning in 2005-06, the Tobacco Control and Insurance Initiatives Pool is included in All Funds collections as a Special Revenue Fund.

Based on the percentage distribution of cigarette tax, the pool will receive an estimated $565.4 million in 2007-08 and is projected to be $614.4 million in 2008-09 from State cigarette tax receipts. Collections to date are $447.1 million, $2.6 million or 0.6 percent below receipts for the first 9 months of 2006-07. Receipts were strong during the first few months of 2007-08 and during the summer months. However, receipts have gradually slowed in the latter half of the year, and are expected to continue to fall below last years levels.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 per pack in July 2002, the City provides the State with 46 percent of the revenue generated through its tax. All of this revenue is deposited into the Tobacco Control and Insurance Initiatives Pool. New York State share of the City's cigarette tax is projected to be $102 million in 2007-08 and $100 million in 2008-09.

General Fund

General Fund cigarette and tobacco tax receipts for 2007-08 are estimated at $407.2 million, a decrease of $3.5 million, or 0.9 percent, from 2006-07. To date, General Fund cigarette and tobacco tax receipts are an estimated $324.4 million, an increase of $3.2 million, or 1 percent above the comparable period in the prior fiscal year. Receipts from the tobacco products tax have increased by $4.8 million year-to-date, and are projected to be $46 million for the year. This increase is due to continuation of consumption trends, and shifts by cigarette smokers to other tobacco products, including roll-your-own tobacco, as a result of continued price increases for cigarettes. Collections in 2007-08 were also helped by larger than average audit and compliance payments. However, receipts are expected to slow in the last quarter of 2007-08.

For 2008-09, General Fund cigarette tax receipts are projected at $389.3 million, an increase of $31.1 million, as a result of increased enforcement actions. The tax on tobacco products is expected to total $45 million, a decrease of $1 million from 2007-08, due to the loss of the unusually high audit and compliance payments received in 2007-08. Sales of retail licenses and vending machine stickers are projected to yield $3 million.

CIGARETTE AND TOBACCO TAX RECEIPTS
(millions of dollars)

	General Fund				HCRA	General
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	Fund Plus HCRA
1998-99	644	19	3	667	0	667
1999-2000	620	20	3	643	28	672
2000-01	504	21	4	528	495	1,024
2001-02	499	22	2	523	481	1,005
2002-03	404	38	5	446	675	1,121
2003-04	376	40	3	419	593	1,013
2004-05	363	40	3	406	573	979
2005-06	361	39	3	404	571	974
2006-07	364	44	3	411	574	985
2007-08**	358	46	3	407	565	973
2008-09**	389	45	3	437	614	1,052

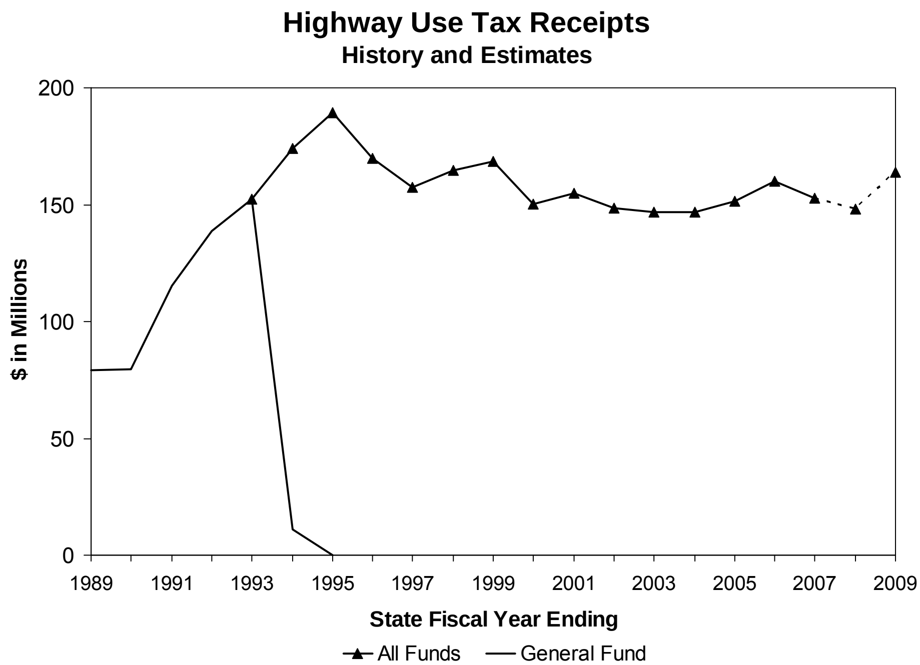
Note: Components may not add to total due to rounding.

* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.

** Estimated

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	152.7	147.5	(5.2)	(3.4)	161.6	14.1	9.6
Note: Totals may differ due to rounding.							



HIGHWAY USE TAX BY FUND (millions of dollars)					
	Gross Capital Projects Funds[1]	Refunds	Capital Projects Funds[1]	Special Revenue Funds[2]	All Funds Receipts
1998-99	172	3	169		169
1999-2000	152	2	150		150
2000-01	157	2	155		155
2001-02	150	2	148		148
2002-03	149	2	147		147
2003-04	149	2	147		147
2004-05	153	2	151		151
2005-06	162	2	160		160
2006-07	155	2	153		153
Estimated					
2007-08	150	2	148		148
2008-09					
Current Law	156	2	154		154
Proposed Law	163	2	159	3	162

[1] Dedicated Highway and Bridge Trust Fund.
[2] Dedicated Mass Transportation Trust Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would combine the current petroleum business carrier tax into the fuel use tax.

DESCRIPTION

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources: the truck mileage tax, fuel use tax and registration fees.

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the supplemental tax was reduced by an additional 20 percent of the remaining tax.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles Gross Weight of Vehicle	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles		**Unloaded Weight of Tractor**	
Unloaded Weight of Truck		4,001 to 5,500	6.0
18,001 to 20,000	6.0	5,501 to 7,000	10.0
20,001 to 22,000	7.0	(increased gradually to)	
(increased gradually to)		10,001 to 12,000	25.0
28,001 to 30,000	10.0	12,001 and over	33.0
30,001 and over	add 5/10 of a mill per ton and fraction thereof		
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 5/10 of a mill per ton and fraction thereof		

Fuel Use Tax

The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) having three or more axles, regardless of weight; or (3) used in combination when the gross vehicle weight exceeds 26,000 pounds. In contrast to the sales tax and motor fuel tax, which are imposed upon the amount of fuel purchased within the State, the fuel use tax is imposed on fuel purchased outside but used within New York. This tax is based on the number of miles traveled on the public highways of the State.

Currently, the aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The 2008-09 Budget proposal would move the carrier tax from the petroleum business tax to the highway use tax. The carrier tax is the petroleum business tax equivalent to the fuel use tax and is imposed on fuel purchased by motor carriers outside the State but consumed in the State.

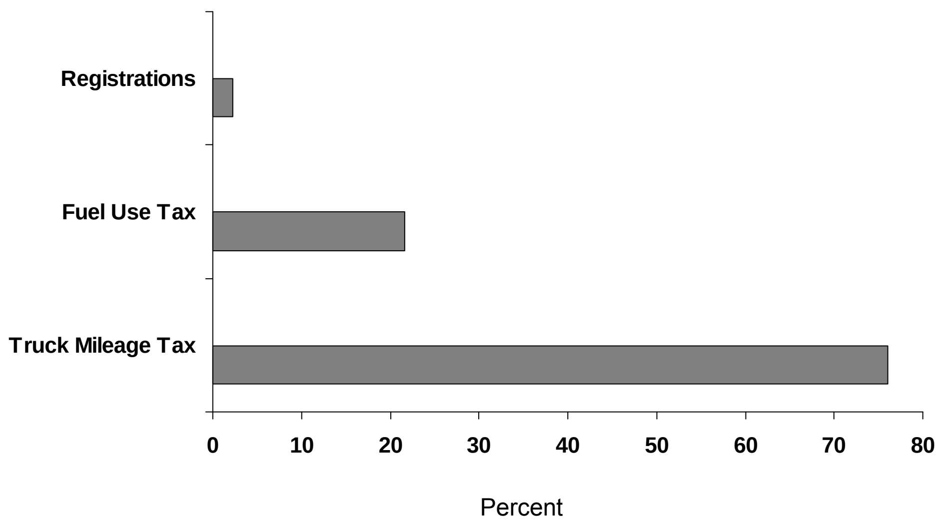
The motor fuel tax component is $0.08 per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate. The petroleum business carrier tax rates are the same as the petroleum business tax rates on fuel (please see section titled Petroleum Business Taxes). A credit or refund is allowed for motor fuel tax, petroleum business tax or sales tax paid on fuels purchased in New York but not used within the State.

Highway Use Registration

Prior to July 1, 2007, commercial carriers liable for the truck mileage tax would purchase a highway use permit/sticker for each qualifying vehicle. Permits were issued triennially at an initial cost of $15 with subsequent renewals of $4.

On August 10, 2005, a Federal law was enacted that restricted the ability of States to require motor carriers to display a permit sticker. On July 1, 2007, New York State replaced the permit system with a registration system to adhere to this Federal transportation law. The registration system is based on the license plate number of each vehicle. The fee structure and renewal cycle has not changed. The Commissioner of Taxation and Finance could deny registration if the carrier has not paid monies due from any other tax. There is now a civil penalty for any person who fails to obtain a certificate of registration when it is required. Special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State not to exceed 72 hours.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2007-08



Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

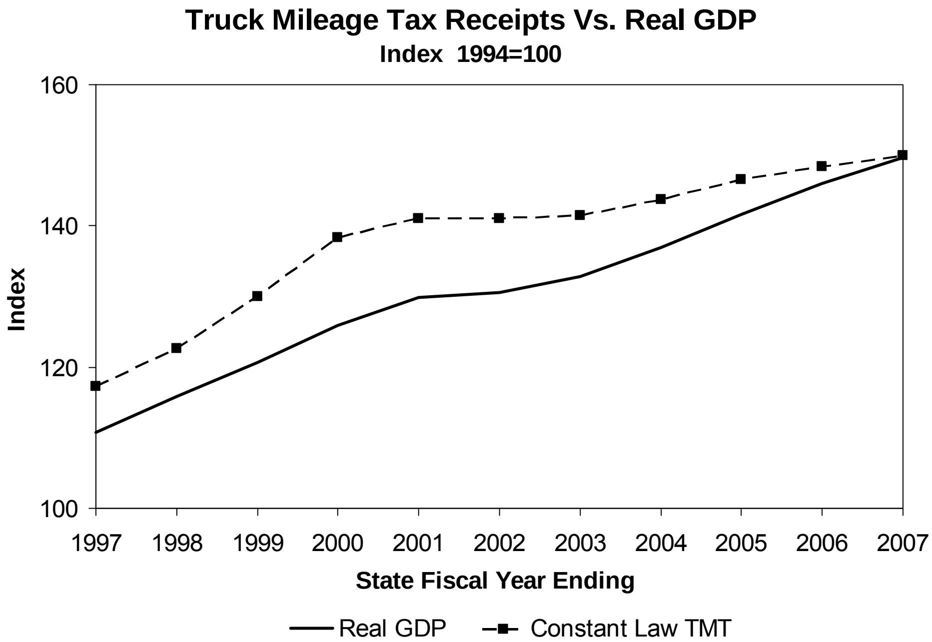
The significant statutory changes to this tax source since 1951 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1951		
Truck Mileage Tax	Imposed a truck mileage tax based on weight and miles driven in New York (Mileage on State Thruway was exempted).	1951 and after
Legislation Enacted in 1960		
Tax Calculation	Created an optional method introduced for determining tax, based on unloaded weight and mileage.	1960 and after
Legislation Enacted in 1968		
Fuel Use Tax	Added the fuel use tax (rate equaled the motor fuel excise tax rates) and applied to fuel purchased out of State but used in New York State.	1968 and 1970
Legislation Enacted in 1977		
Sales Tax Component	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
FUT Rate Change	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1982		
Fuel Carrier Permit	Every automotive fuel carrier must have a special Automotive Fuel Carrier permit and distinctively colored sticker for each motor vehicle, required to be registered under the Highway Use Tax Law.	September 1, 1982

Subject	Description	Effective Date
Legislation Enacted in 1987		
Trip Permit	Established a 72-hour "trip permit."	October 1, 1987
Legislation Enacted in 1990		
Thruway Miles and Supplemental Tax	Applied the truck mileage tax to Thruway miles. Imposed a supplemental tax equal to the base mileage tax.	July 1, 1990
Legislation Enacted in 1993		
Trust Fund	Earmarked receipts to the Dedicated Highway and Bridge Trust Fund.	April 1, 1993
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles that had been taxed in New York were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006
Legislation Enacted in 2007		
HUT - Permit	Replaced the permit system with a registration system in order to comply with Federal law.	July 1, 2007

TAX LIABILITY

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national and State economic conditions.



For a more detailed discussion of the methods and models used to develop estimates and projections for the highway use tax, please see *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are estimated to be $114.2 million, a decrease of $4.6 million, or 3.9 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $147.5 million, a decrease of $5.2 million, or 3.4 percent below last year.

Net truck mileage tax receipts are estimated at $112.4 million, fuel use tax receipts at $32.1 million and registration fees at $3.0 million.

2008-09 Projections

All Funds receipts are projected to be $161.6 million, an increase of $14.1 million, or 9.6 percent above 2007-08.

Since 2008-09 is a triennial renewal year, truck registration fees are projected to increase by $4.4 million from the prior year. The truck mileage tax is projected to increase by 1.5 percent and fuel use tax is projected to increase by 0.3 percent. Due to the carrier tax being moved from the petroleum business tax to the highway use tax in December 2008, receipts will be adjusted by $7.6 million.

General Fund

Since 1994-95, no highway use tax receipts have been deposited in the General Fund.

Other Funds

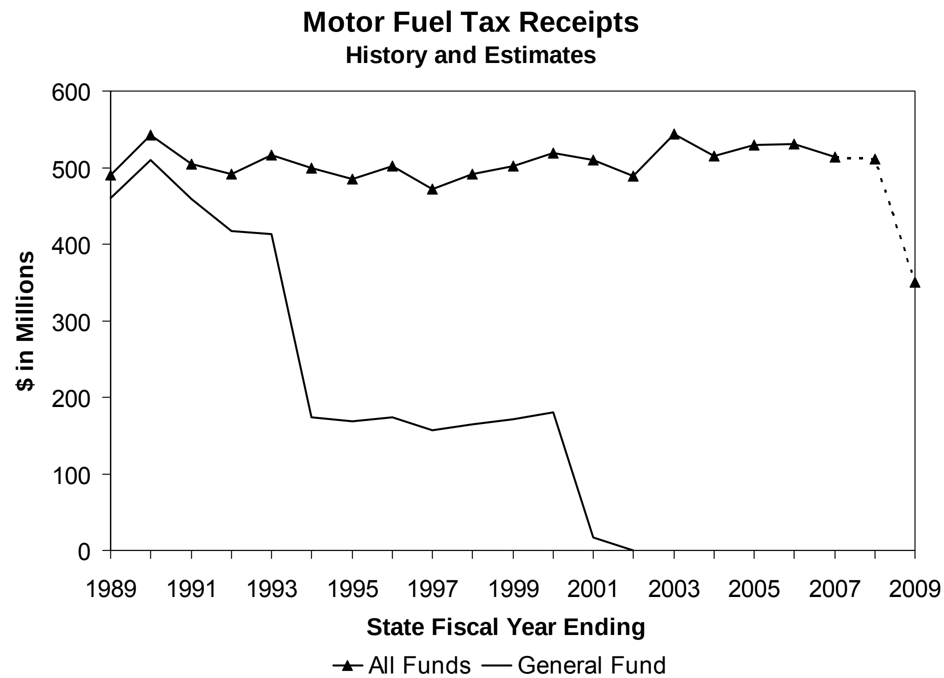
Currently, all highway use tax receipts are directed to the Dedicated Highway and Bridge Trust Fund. If the 2008-09 Budget proposal is enacted, the fund distribution will be adjusted to hold harmless the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund from the movement of the carrier tax.

MOTOR FUEL TAX

MOTOR FUEL TAX
(millions of dollars)

	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	513.4	511.3	(2.1)	(0.4)	350.8	(160.5)	(31.4)
All Funds	513.4	511.3	(2.1)	(0.4)	350.8	(160.5)	(31.4)

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND
(millions of dollars)

	Gross All Funds Receipts	General Fund	Special Revenue Funds[1]	Capital Projects Funds[2]	Debt Service Funds[3]	All Funds Refunds	All Funds Receipts
1998-99	512	171	0	221	110	10	502
1999-2000	534	180	0	225	114	15	519
2000-01	524	17	58	323	112	14	510
2001-02	502	0	62	320	107	13	489
2002-03	560	0	69	356	119	16	544
2003-04	528	0	105	411	0	12	516
2004-05	542	0	110	420	0	12	530
2005-06	546	0	111	420	0	15	531
2006-07	526	0	107	406	0	13	513
Estimated							
2007-08	529	0	106	405	0	18	511
2008-09							
Current Law	523		109	414			523
Proposed Law	364	0	74	277	0	13	351

[1] Dedicated Mass Transportation Trust Fund.
[2] Dedicated Highway and Bridge Trust Fund.
[3] Emergency Highway Reconditioning and Preservation Fund and Emergency Highway Construction and Reconstruction Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would repeal the motor fuel tax on December 1, 2008. Please see the petroleum business taxes story for more detail.

DESCRIPTION

Tax Base

Motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Tax Rate

A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

Ranking of State Taxes Per Gallon (January 1, 2008) [1]

State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
1. CONNECTICUT**	25.0	42.0
2. WASHINGTON	34.0	36.0
3. MICHIGAN *	19.0	35.2
4. CALIFORNIA *	18.0	35.0
5. ILLINOIS *	19.0	34.3
6. INDIANA *	18.0	34.2
7. WISCONSIN	30.9	32.9
8. **NEW YORK ***	8.0	32.7
9. W. VIRGINIA	20.5	31.5
10. PENNSYLVANIA	12.0	31.2
11. RHODE ISLAND	30.0	31.0
12. N. CAROLINA	26.6	29.9
13. OHIO	28.0	28.0
14. MONTANA	27.0	27.8
15. MAINE	27.6	27.6
16. HAWAII *	16.0	27.5
17. NEBRASKA	27.0	27.0
18. IDAHO	25.0	26.0
19. KANSAS	24.0	25.0
20. UTAH	24.5	24.5
21. NEVADA	24.0	24.0
22. OREGON	24.0	24.0
23. S. DAKOTA	22.0	24.0
24. MARYLAND	23.5	23.5
25. DELAWARE	23.0	23.0
26. N. DAKOTA	23.0	23.0
27. COLORADO	22.0	22.0
28. ARKANSAS	21.5	21.7
29. TENNESSEE	20.0	21.4
30. MASSACHUSETTS	21.0	21.0
31. IOWA	19.7	20.7
32. DIST. OF COLUMBIA	20.0	20.0
33. LOUISIANA	20.0	20.0
34. MINNESOTA	20.0	20.0
35. TEXAS	20.0	20.0
36. VERMONT	*19.0*	20.0
37. GEORGIA *	7.5	20.0
38. KENTUCKY	18.3	19.7
39. NEW HAMPSHIRE	18.0	19.5
40. ARIZONA	18.0	19.0
41. NEW MEXICO	17.0	18.9
42. MISSISSIPPI	18.0	18.4
43. ALABAMA	16.0	18.0
44. MISSOURI	17.0	17.6
45. VIRGINIA	17.5	17.5
46. OKLAHOMA	16.0	17.0
47. S. CAROLINA	16.0	16.8
48. FLORIDA	15.0	15.3
49. NEW JERSEY	10.5	14.5
50. WYOMING	13.0	14.0
51. ALASKA	8.0	8.0

NOTES:
(1) Includes applicable State sales tax (local taxes not included)
(2) Assumes a pump price of $3
* State sales tax applies on sales of gasoline in these states
** Includes petroleum gross receipts tax --7% of wholesale gasoline price
Source: OTPA compilation from various sources including CCH Tax Guides & FTA

Administration

Although the motor fuel tax is imposed on the ultimate consumer of the fuel, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among “dummy” corporations masked by erroneous record keeping and reporting.

Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than $200 may remit quarterly. Chapter 55 of the Laws of 1992 requires accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month’s tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

- kerosene and crude oil;
- fuel not used in motor vehicles. “Motor vehicle” is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- fuel used in tanks of vehicles entering New York State;
- sales to state, local and Federal governments, the United Nations and qualifying Native American nations; and
- certain hospitals that qualify as exempt organizations under section 1116(a)(4) of the Tax Law.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits for tax paid are available for fuel used by:

- omnibus carriers or taxicabs;
- nonpublic school vehicle operators, exclusively for education-related purposes; and
- volunteer ambulance services.

Significant Legislation

The significant statutory changes to this tax source since 1985 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1985		
First Import	Motor fuel is taxed on a "first import" system.	June 1, 1985
Legislation Enacted in 1988		
First Sale	Diesel motor fuel is taxed on a "first sale" system.	September 1, 1988
Legislation Enacted in 1995		
Diesel Rate	Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon.	January 1, 1996
Aviation Fuel	Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.	September 1, 1995
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternate Fuel	Exempted or partially exempted motor fuel tax on alternative fuels, including E85 and B20.	September 1, 2006

TAX LIABILITY

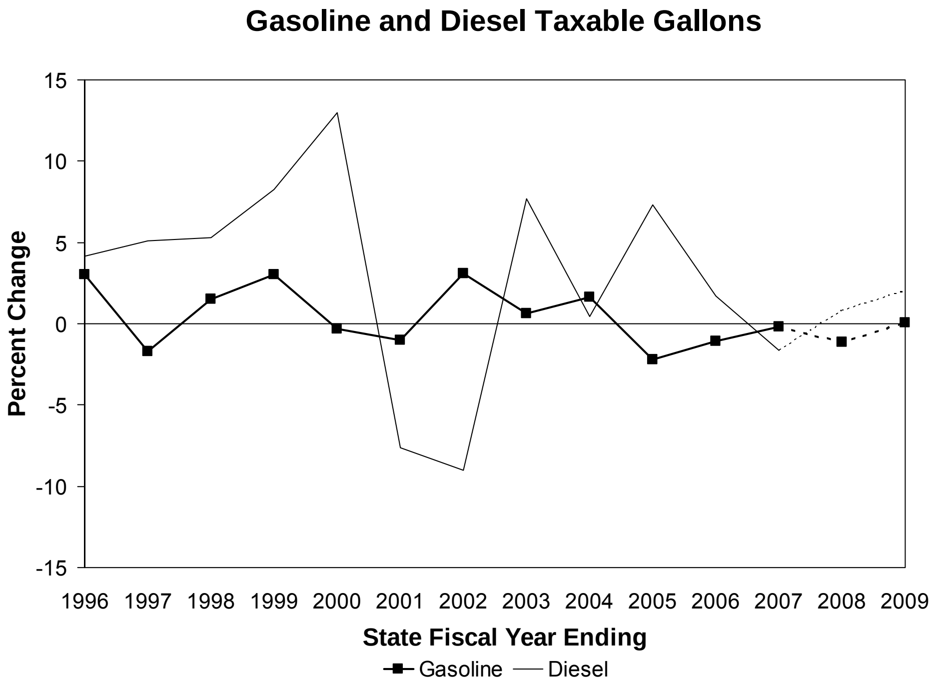
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor fuel tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

Taxable Gallonage History

Diesel fuel consumption is more susceptible to economic events, while gasoline consumption is driven more heavily by fuel prices. Due to the higher fuel prices and a slowing of the economy, diesel fuel gallonage increased slightly in 2006-07.

Taxable gasoline gallonage declined slightly in 2000-01 due in part to price increases, and increased in 2001-02 due to price declines. In 2002-03 and 2003-04, gasoline gallonage increased at a slower growth rate due to economic recovery offset by high gasoline prices. In 2004-05 and 2005-06, gasoline gallonage declined 2.2 and 1.1 percent, respectively, due to a sharp increase in gasoline prices. Gasoline gallonage decreased slightly for 2006-07.



RECEIPTS: ESTIMATES AND PROJECTIONS

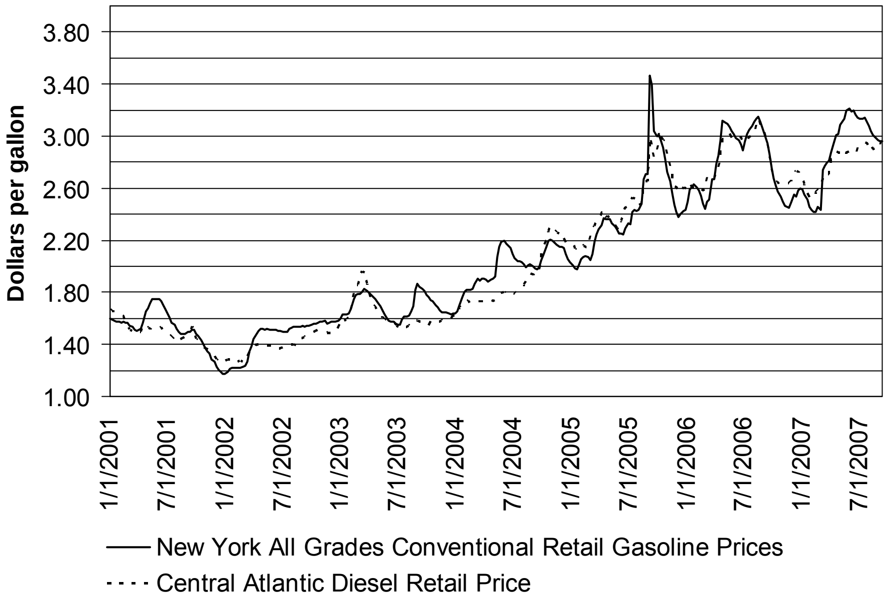
All Funds

2007-08 Estimates

All Funds collections to date are estimated to be $394.3 million, an increase of $1.5 million, or 0.4 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $511.3 million, a decrease of $2.1 million, or 0.4 percent below last year. The decline is related to reduced gasoline consumption due to higher fuel prices. The following chart shows a history of weekly price changes.

Gasoline and Diesel Weekly Prices



Source: U.S. Department of Energy, Energy Information Administration (EIA)

2008-09 Projections

All Funds receipts are projected to be $350.8 million, a decrease of $160.5 million, or 31.4 percent below 2007-08. However, based on the Budget proposal, $172.7 million will be shifted from the motor fuel tax to the petroleum business tax. Without this proposal included, tax revenues are projected to be roughly $12 million higher than in 2007-08.

This increase is related in large part to the implementation of the statute governing the collection of this tax on sales to non-Native Americans on New York reservations. Enforcement of these provisions is expected to increase receipts in 2008-09 by $11.3 million. The fiscal impact from the tax exemption for alternative fuel purchases is projected to be minimal.

If the Budget proposal is enacted, the motor fuel tax will be repealed on December 1, 2008. Please see the Petroleum Business Taxes story for further detail.

Growth in taxable gasoline and diesel gallonage are projected to be modest, consistent with improved economic conditions, but tempered by estimated increases in fuel prices. A discussion related to energy prices can be seen in the Economic Forecast section of this volume.

Gasoline and Diesel Gallonage				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2004-05	5,669.30	(2.22)	904.30	7.32
2005-06	5,606.70	(1.10)	919.90	1.72
2006-07	5,597.20	(0.17)	907.20	(1.63)
2007-08 (Est.)	5,533.30	(1.14)	914.80	0.84
2008-09 (Est.)	5,535.50	0.04	944.20	2.00

General Fund

Motor fuel tax receipts are no longer deposited in the General Fund.

Other Funds

Since 2000, motor fuel tax receipts have been distributed by law to four funds: the Dedicated Highway and Bridge Trust Fund (DHBTF), the Dedicated Mass Transportation Trust Fund (DMTTF), the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund. Currently, all motor fuel receipts are deposited into the DHBTF and DMTTF. The fund distribution since 1993 is shown in the following table.

MOTOR FUEL TAX FUND DISTRIBUTION
(percent)

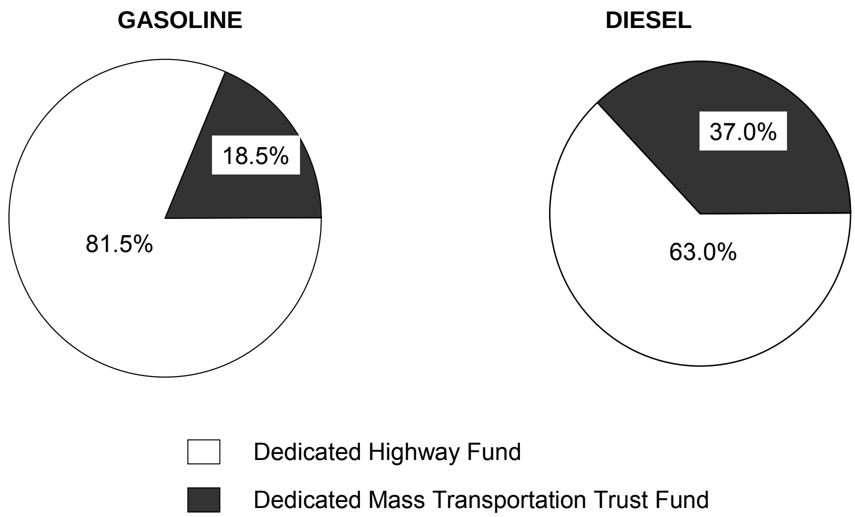
Effective Date	General Fund	DHBTF[1]	EHF[2]	DMTTF[3]
Prior to April 1, 1993				
Gasoline	78.1	0.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2000				
Gasoline	28.1	50.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2001				
Gasoline	0.0	67.7	21.9	10.4
Diesel	28.1	31.5	21.9	18.5
Prior to April 1, 2003				
Gasoline	0.0	67.7	21.9	10.4
Diesel	0.0	49.2	21.9	28.9
April 1, 2003 and After				
Gasoline	0.0	81.5	0.0	18.5
Diesel	0.0	63.0	0.0	37.0

[1] Dedicated Highway and Bridge Trust Fund.
[2] Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.
[3] Dedicated Mass Transportation Trust Fund.

Motor fuel tax receipts in 2007-08 are estimated to be $404.7 million for DHBTF and $106.6 million for DMTTF. Motor fuel tax receipts in 2008-09 are projected to be $277.1 million for DHBTF and $73.7 million for the DMTTF. The decrease in Dedicated Funds is due to the shift of motor fuel tax revenue to the petroleum business tax. These funds will be held harmless.

Motor Fuel Tax Distributions by Fund

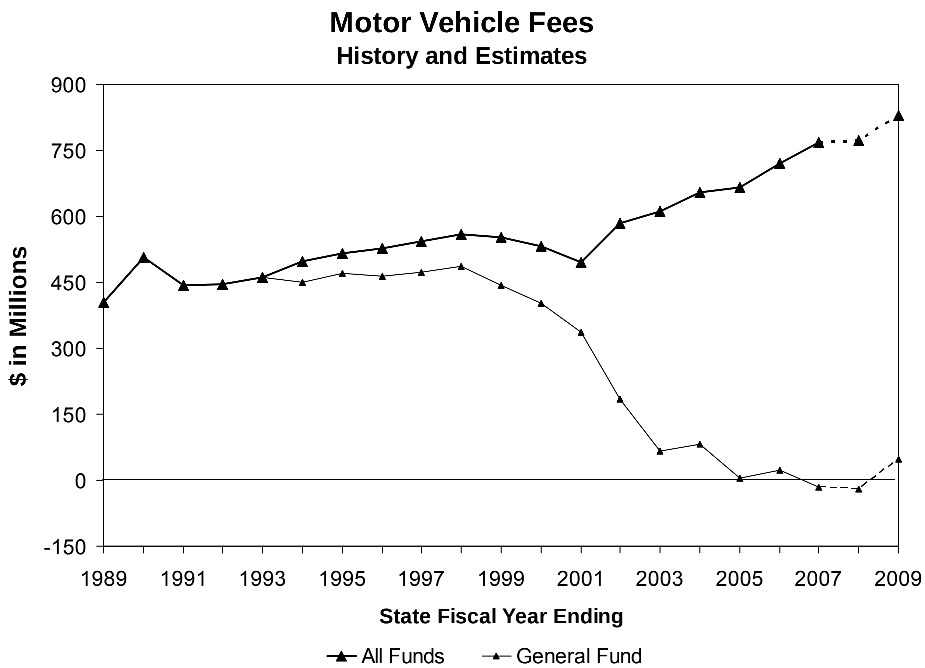
State Fiscal Years 2007-08 and 2008-09



MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	(16.5)	(21.0)	(4.5)	27.3	47.4	68.4	
Other Funds	785.7	792.8	7.1	0.9	782.5	(10.3)	(1.3)
All Fnds	769.2	771.8	2.6	0.3	829.9	58.1	7.5

Note: Totals may differ due to rounding.



MOTOR VEHICLE FEES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds[1]	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts
1998-99	438	14	424	0	0	0	108	0	108	532
1999-2000	419	18	401	0	0	0	130	0	130	531
2000-01	356	19	337	0	0	0	157	0	157	494
2001-02	208	23	185	28	0	28	371	0	371	584
2002-03	92	25	67	76	0	76	470	0	470	613
2003-04	100	18	82	105	0	105	468	0	468	655
2004-05	33	29	4	138	0	138	525	0	525	666
2005-06	24	0	24	206	5	201	571	15	495	720
2006-07	(17)	0	(17)	234	5	229	572	15	557	770
Estimated										
2007-08	(21)	0	(21)	236	5	231	577	15	562	772
2008-09										
Current Law	0	0	0	232	5	228	565	15	550	778
Proposed Law	47	0	47	235	5	230	568	15	553	830

[1]Dedicated Mass Transportation Trust Fund
[2]Dedicated Highway and Bridge Trust Fund

PROPOSED LEGISLATION

The 2008-09 Budget includes a proposal to offer a "Western Hemisphere Travel Initiative" (WHTI) compliant driver's license to New York residents.

DESCRIPTION

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. In 2006, almost 10.5 million vehicles were registered in New York State, 923,000 of them being commercial vehicles. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. New York State Vehicle and Traffic Law requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years, and in 2006 New York State had over 11 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are another component of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration for vehicles weighing less than 18,000 pounds is biennial. The main registration fees are as follows:

MAIN REGISTRATION FEES

Type of Vehicle	Weight of Vehicle	Annual Fee (dollars)
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3,500 lbs.	0.645
	Plus: for each 100 lbs or major fraction thereof above 3,500 lbs.	0.97
Passenger vehicle – minimum fee		10.35
Passenger vehicle – maximum fee		56.06
Passenger vehicle propelled by electricity		12.94
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	2.88
Tractors (registered separately from semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.21
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	4.31
Semi-trailers – pre-1989 model year		23.00 per year
Semi-trailers – model year 1989 or later		69.00 for period of 5.5 years to 6.5 years
Bus – seating capacity 15 to 20 passengers		59.80

The main licensing fees are listed below:

MAIN LICENSING FEES	
Type of License	Fee (dollars)
Initial application	10.00
Learner's permit	2.50 – for each six months
Learner's permit – commercial driver's license	7.50 – for each six months
License renewal	2.50 – for each six months
License renewal – commercial driver's license	7.50 – for each six months
License renewal – chauffeur's driver's license	5.00 – for each six months

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. The county clerks were historically compensated with a fixed portion of each fee, but, since 1997, they have received a percentage of gross receipts. County Clerks currently receive 12.7 percent of gross receipts. This totaled $31.9 million in 2006-07.

COUNTY CLERKS' RETENTION SCHEDULE	
Type of Retention	Period
Fixed portion of each fee.	Until December 31, 1996
8.1 percent of gross receipts.	From January 1, 1997
9.3 percent of gross receipts.	From July 1, 1998
12.7 percent of gross receipts.	From April 1, 1999

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices, provided reciprocity is granted; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. The revenue lost from these exemptions is minimal.

Significant Legislation

The recent significant statutory changes to motor vehicle fees are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weighing less than 18,000 pounds.	June 16, 1989
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmarked both to Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 1997		
Photo image fee	Photo image fee raised to $3.00.	April 1, 1997
Legislation Enacted in 1998		
Registration fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998

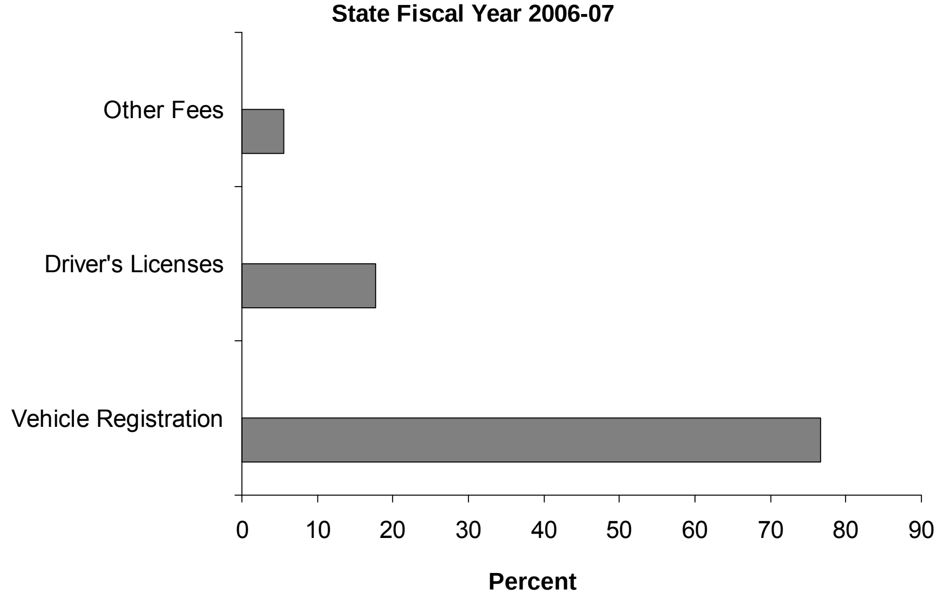
Subject	Description	Effective Date
Administrative Changes in 2000		
License plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Photo image fee raised to $5.00.	February 1, 2003
Legislation Enacted in 2005		
Title Fees	Title fees raised from $10 to $20 and $30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Dealer/transporter registration fees raised 50 percent.	October 1, 2005
Temporary Registration	Dealer issued temporary registration fees raised from $2 to $5.	October 1, 2005
Salvaged Vehicle Inspection	Salvaged vehicle inspection fees raised from $100 to $150.	October 1, 2005

Fee Liability

The two main sources of motor vehicle fees are motor vehicle registrations and driver licensing.

Other fees relating to the operation of motor vehicles in the State yield relatively minor amounts of revenue. The chart below shows the shares of receipts from vehicle registrations, licenses, and other fees.

Motor Vehicle Fees Receipts by Source
State Fiscal Year 2006-07



Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees fluctuate little as a result of economic conditions. In general, collections change when fee or renewal schedules change.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor vehicle fees, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

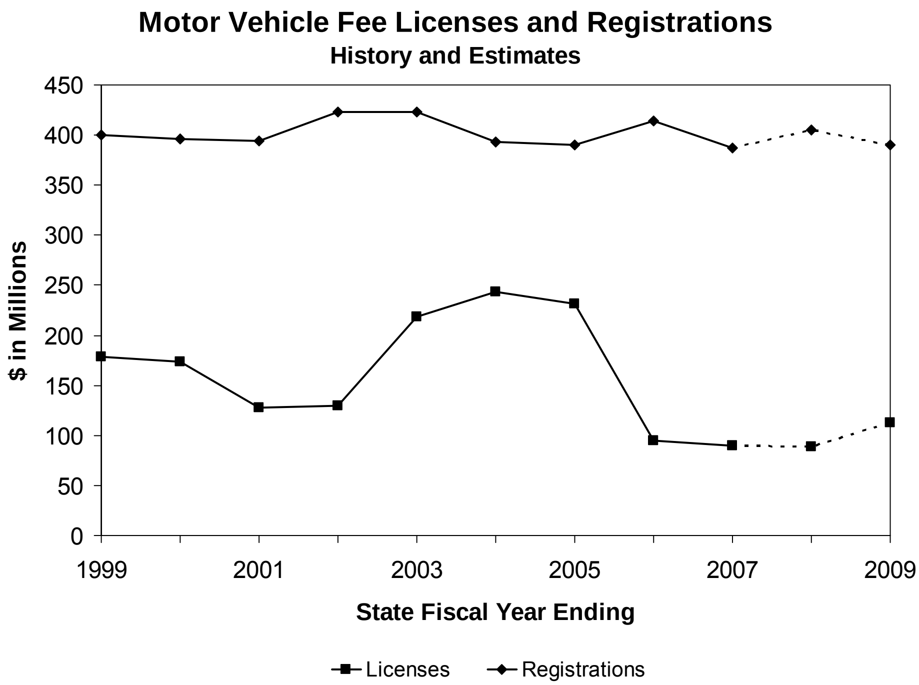
All Funds

2007-08 Estimates

All Funds collections to date are estimated to be $593.5 million, a decrease of $32 million, or 5.1 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $771.8 million, an increase of $2.6 million, or 0.3 percent above last year. The estimate for net receipts from registrations is $404.7 million, and the estimate for net receipts from licenses and other fees is $367.1 million.

This reflects the assumption that registrations remain relatively flat year to year. However, license renewals follow an eight-year renewal pattern illustrated in the graph below.

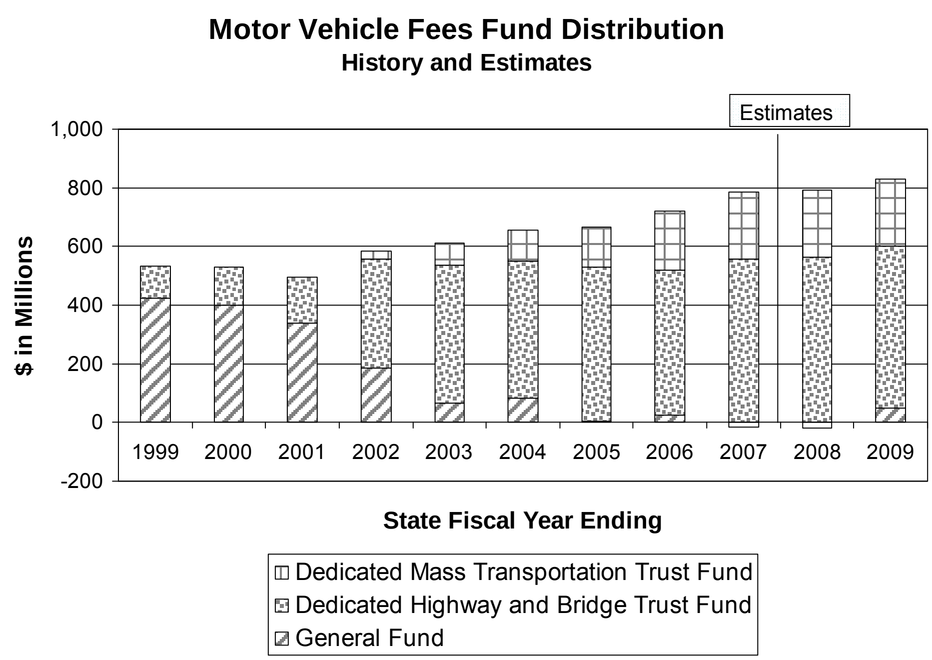


2008-09 Projections

All Funds receipts are projected to be $829.9 million, an increase of $58.1 million, or 7.5 percent above 2007-08. This increase largely reflects the 2008-09 Budget proposal to allow New York State residents to obtain a WHTI-compliant driver's license. WHTI requires all citizens of the United States, Canada, Mexico and Bermuda to have a passport or other "accepted" document that establishes identity and nationality to enter or re-enter the United States from within the Western Hemisphere. These new document requirements are the result of recommendations made by the 9/11 Commission and passed into law in the Intelligence Reform and Terrorism Prevention Act of 2004. This proposal is projected to increase revenues by $52.5 million in 2008-09.

General Fund

Effective in 2006 and every year thereafter, of the amount of otherwise non-dedicated motor vehicle fees, $169,354,000 shall be deposited in the Dedicated Funds. If there is a shortfall, revenues from the General Fund cover the gap in funding and any surplus monies remain in the General Fund. In 2006-07, the General Fund covered a shortfall of $16.5 million. In 2007-08, it is estimated that $21 million in General Fund revenues will be transferred to the Dedicated Funds to cover the shortfall. In 2008-09, it is projected that the General Fund will retain $47.4 million since receipts will exceed the cap. The following charts show the estimated fund distribution from all sources of motor vehicle fees.



Other Funds

Since April 1, 1993, a percentage of registration fees have been earmarked to the Dedicated Highway and Bridge Trust Fund. The percentage dedicated to the fund has been adjusted several times.

Pursuant to Chapter 63, Laws of 2000, in 2001-02 an additional 23.5 percent of registration fees were earmarked to (1) the Dedicated Highway and Bridge Trust Fund and (2) the Dedicated Mass Transportation Trust Fund. Of this additional dedication, 63.0 percent is allocated to highways and 37.0 percent to mass transportation.

Also pursuant to Chapter 63, Laws of 2000, beginning in 2002-03, an additional 31 percent of registration fees are earmarked to the same funds and in the same proportion as stated above. Thus, the total percentage of additional registration fees dedicated pursuant to Chapter 63, Laws of 2000, amounts to 54.5 percent. Since previous legislation had already earmarked 45.5 percent, all registration fees are earmarked to the two trust funds.

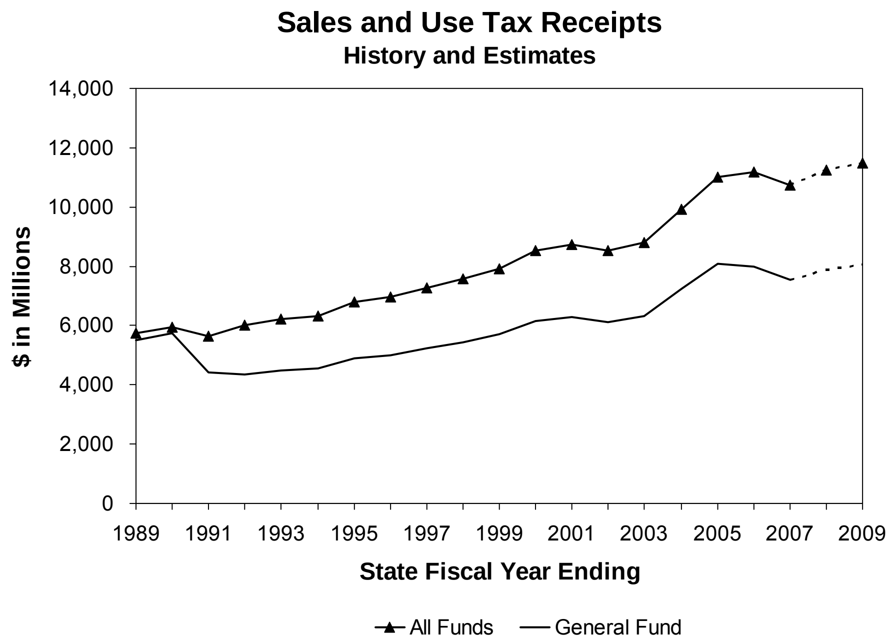
In State fiscal year 2007-08, the Dedicated Highway and Bridge Trust Fund will receive an estimated $561.7 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $188.8 million. Various dedicated funds will receive small portions of the remaining $42.3 million.

In State fiscal year 2008-09, the Dedicated Highway and Bridge Trust Fund will receive a projected $552.7 million and the Dedicated Mass Transportation Trust Fund will receive a projected $187.5 million. Various dedicated funds will receive small portions of the remaining $42.3 million.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	7,538.9	7,865.3	326.4	4.3	8,079.5	214.2	2.7
Other Funds	3,199.6	3,333.2	133.6	4.2	3,425.0	91.8	2.8
All Funds	10,738.5	11,198.5	460.0	4.3	11,504.5	306.0	2.7

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
1998-99	5,729	32	5,697	321	1,894	7,912
1999-2000	6,182	41	6,141	345	2,046	8,532
2000-01	6,311	39	6,272	368	2,092	8,732
2001-02	6,174	43	6,131	365	2,044	8,540
2002-03	6,390	62	6,328	362	2,106	8,796
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
2005-06	8,048	70	7,978	603	2,615	11,196
2006-07	7,594	55	7,539	688	2,512	10,739
Estimated						
2007-08	7,935	70	7,865	718	2,615	11,199
2008-09						
Current Law	8,181	70	8,111	742	2,703	11,556
Proposed Law	8,150	70	8,080	742	2,683	11,505

[1] Mass Transportation Operating Assistance Fund and The Public Safety and Security Account.
[2] Local Government Assistance Tax Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- merge the State sales tax on motor fuel and diesel motor fuel into the petroleum business tax;
- initiate a voluntary disclosure and compliance program;
- create an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect sales and use tax;
- institute a registration program that would be applicable to new registrations and re-registrations of vendors;
- repeal the private label credit card law;
- require non-profit organizations to collect sales tax on certain sales, leases and rentals;
- prohibit certain tax avoidance schemes; and
- require a tax stamp on all illegal drugs.

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- tangible personal property (unless specifically exempt);
- certain gas, electricity, refrigeration and steam and telephone service;
- selected services;
- food and beverages sold by restaurants, taverns and caterers;
- hotel occupancy; and
- certain admission charges and dues.

Examples of taxable services include installing or maintaining tangible personal property and protective and detective services.

Tax Rate

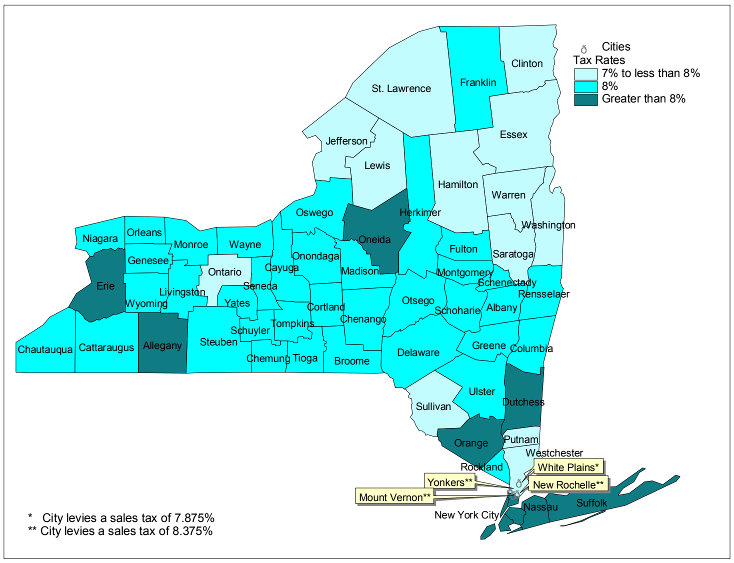
The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent rate in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties and the 22 cities (including New York City) that impose the general sales tax, 52 counties and 4 cities received legislative authority to temporarily impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 90 percent of the

State's population resides in an area where the tax rate equals or exceeds 8 percent. An additional 0.375 percent sales and use tax is imposed in the 12-county Metropolitan Commuter Transportation District (MCTD). The entire proceeds from the MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund (MTOAF).

Sales Tax Rates by County
Effective December 1, 2007



Administration

There are nearly 590,000 persons selling taxable property or services who are required to register with the Department of Taxation and Finance as sales tax vendors. A Budget proposal would require all existing and new vendors to register as a sales tax vendor. This would allow the Department of Taxation and Finance to update taxpayer information, delete obsolete registrations and collect past-due taxes from sales tax vendors. The fee to register would be $50.

Vendors generally are required to remit the tax quarterly. However, vendors who collect more than $300,000 of tax in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in March.

Vendors collecting more than $500,000 annually in State and local tax are required to remit the tax by electronic funds transfer (EFT). Collections for the first 22 days of the month must be remitted electronically or by certified check within three business days thereafter. Legislation enacted in 1992 started the EFT program, originally with the threshold for mandatory participation at $5 million in annual tax liability. Legislation in 1994, 1995, and 2002 reduced the threshold to $4 million, $1 million and to the current $500,000 threshold, respectively. Nearly 63 percent of the tax is remitted by vendors that participate in the EFT programs.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Prior to 2006, the tax was prepaid at a per gallon rate based on regional prices. Currently, the pre-payment is fixed at 14 cents for upstate and 14¾ cents in the MCTD region. Legislation enacted in 1995 required prepayment of the sales tax on cigarettes. The tax is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps.

SALES TAX VENDORS AND TAXABLE SALES

Filing Status	Number of Active Vendors*	Percent of Total Vendors	Taxable Sales and Purchases**	Percent of Total Sales
Monthly EFT	5,119	0.9	$149,524,291,010	62.7
Monthly Non-EFT	33,356	5.6	$52,333,714,741	21.9
Quarterly	271,654	46.0	$35,712,097,848	15.0
Annual	280,503	47.5	$954,700,035	0.4
Total	590,632	100.0	$238,524,803,634	100.0

* Vendors identified for quarter ending February 28, 2007.
** Selling period March 1, 2003 through February 28, 2005.
Source: New York State Department of Taxation and Finance.

Sales tax vendors are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. Effective September 1, 2006, the vendor allowance has been increased to 5 percent of tax liability, up to a maximum of $175 per quarter for returns filed on time. This cap increased to $200 on March 1, 2007.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $16.9 million from this program for calendar year 2006.

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding. Additionally, items including food, medicines, medical supplies, residential energy, and clothing and shoes costing less than $110 have been excluded from the sales tax base to reduce the regressivity of the tax and promote economic competitiveness.[1]

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also beyond the current scope of the sales tax. For further details, please see the Tax Expenditure Report.

[1] A tax on goods or services is defined to be regressive if lower-income persons pay a relatively greater share of their income on the taxed good or service than higher-income persons.

Significant Legislation

The significant statutory changes to this tax source since its inception are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1965		
Reimpose	Imposed a 2 percent sales and use tax on retail sales or use of tangible personal property.	August 1, 1965
Legislation Enacted in 1970		
Rate Increase	Increased the sales tax rate to 3 percent.	April 1, 1969
Legislation Enacted in 1971		
Rate Increase	Increased the sales tax rate to 4 percent.	June 1, 1971
Legislation Enacted in 1975		
March Prepayment	Imposed a March prepayment under the sales tax.	1975 and after
Legislation Enacted in 1977		
Fuel Use Tax	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Provided phasing in exemption for residential energy use. It was fully exempted on October 1, 1980.	January 1, 1979
Fuel Use Tax	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed MTA sales tax at 0.25 percent.	1981 and after
Legislation Enacted in 1985		
Gasoline Tax Payment	Required sales tax on gasoline pre-paid upon importation of fuel into the State. (The same requirement applied to diesel fuel in 1988.)	June 1, 1985
MTA	The Mass Transportation and Operating Assistance Fund (MTOAF) was created. The rate was one-quarter of one percent.	September 1, 1985
Legislation Enacted in 1989		
Base Broadening	Broadened the sales tax base to impose tax on parking, protective and detective services, building maintenance, interior design services, auto leasing, and 900 numbers.	1989 and after
Legislation Enacted in 1990		
Cable Television	Exempted cable television service from the tax.	September 1, 1990
LGAC	Created the Local Government Assistance Corporation (LGAC). One-fourth of State four-cent sales tax collections were earmarked to the LGAC.	1990 and after
Legislation Enacted in 1991		
March prepayment	Ended March prepayment.	1993 and after
Legislation Enacted in 1992		
EFTs	Established Electric funds transfer (EFT) for large vendors.	1992 and after
Alternative Fuel Vehicles	The additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles is exempt from tax. Expired February 29, 2005.	September 1, 1992
Legislation Enacted in 1993		
Information and Entertainment	Tax imposed on information and entertainment services (5%)	1993 and after
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1,1994

Subject	Description	Effective Date
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1, 1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997 September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected, capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students that are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998
Alternate Fuel Vehicle Refueling Equipment	Receipts from the sale and installation of alternative fuel vehicle refueling equipment is exempt from tax. Expired February 29, 2005.	March 1, 1998

Subject	Description	Effective Date
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999; January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001
Farm Production	Expanded the farm production exemption to include fencing and certain building materials. Converted the refund for tax paid on motor vehicles to an exemption.	March 1, 2001
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001
Legislation Enacted in 2000		
Farm Production	Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations.	September 1, 2000
Internet Data Centers	Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property.	September 1, 2000
Vending Machines	Exempted food and drink sold through a vending machine that costs 75 cents or less.	September 1, 2000
Telecommunications Equipment and Communications Services	Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology.	September 1, 2000
Radio and Television Broadcasting	Exempted machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks.	September 1, 2000
Pollution Abatement	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out over three years the sales tax on the separately purchased transmission of electricity and gas.	September 1, 2000
Empire Zones	Exempted property and services used or consumed by qualified businesses within Empire Zones.	March 1, 2001
Purchase of Gas or Electricity from Outside of New York	Imposed a compensating use tax on purchases of gas or electricity from vendors located outside of New York.	June 1, 2000
Legislation Enacted in 2001		
Empire Zones	Added eight new Empire Zones, for a total of 66 zones throughout the State. Four of the eight new Empire Zones became effective immediately.	October 29, 2001
Legislation Enacted in 2002		
Temporary Exemption in Liberty Zone	Temporarily exempted most tangible personal property priced under $500 sold in the Liberty and Resurgence Zones in New York City for the periods of June 9-11, July 9-11 and August 20-22, 2002.	June 1, 2002
EFT Threshold Change	Lowered the Electronic Fund Transfer threshold from $1 million to $500,000.	September 1, 2002

Subject	Description	Effective Date
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than $300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold. If the 2006-07 Executive Budget included tax cut proposals, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local "Medicaid amount", and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Direct Shipment of Wine	Provided for certain limited direct interstate shipments of wine.	August 11, 2005
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under $110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from $150 to $175. The cap increased to $200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006

Subject	Description	Effective Date
Motor Fuel Cap	Limits the amount of sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax have the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax. The localities also have options to cap the tax amount at $2 or $3 per gallon under the cents-per-gallon method. Effective December 1, 2007, only 8 counties and 2 cities are imposing the $2 cap on motor fuel and diesel motor fuel.	June 1, 2006
Alternative Fuels	A full exemption for E85, CNG and Hydrogen and a partial exemption for B20 from September 1, 2006 through September 1, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabaret.	December 1, 2006
Credit Card	Allowed refund of sales tax paid on certain credit card accounts.	January 1, 2007

TAX LIABILITY

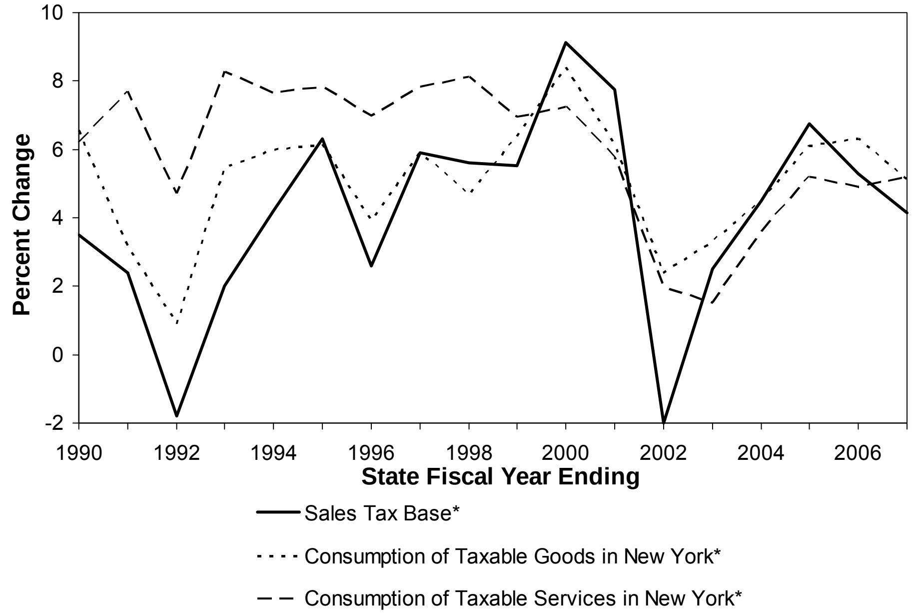
The sales and compensating use tax, which accounted for about 18.3 percent of 2006-07 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in consumer prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax. For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 1999-2000 TO 2008-09
Percent Change

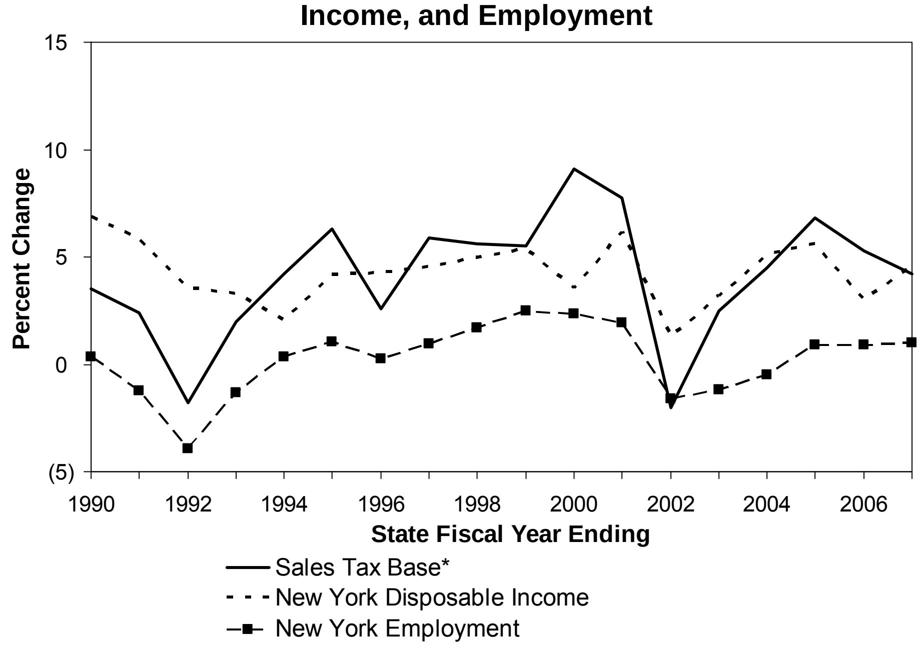
	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Estimated 2007-08	Projected 2008-09
Consumption of Taxable Goods in NY	8.7	6.1	2.5	3.5	4.5	6.1	6.3	5.1	4.1	3.0
Consumption of Taxable Services in NY	7.2	5.8	2.0	2.0	3.6	5.2	4.9	5.2	5.1	4.2
NY Employment	2.3	1.9	(1.6)	(1.2)	(0.5)	0.9	0.9	1.1	0.9	0.6
NY Disposable Income	3.6	6.2	1.3	3.2	5.1	5.6	3.0	4.6	5.0	4.8
NY Nominal Value of New Auto and Light Truck Sales	13.0	(5.3)	8.2	4.2	2.9	(1.7)	0.4	2.5	3.1	(0.8)
Sales Tax Base	9.1	7.8	(2.0)	2.5	4.5	6.8	5.3	4.2	3.9	3.0

Historical Growth in State Sales Tax Base and Taxable Consumption



*Based on Division of Budget estimate

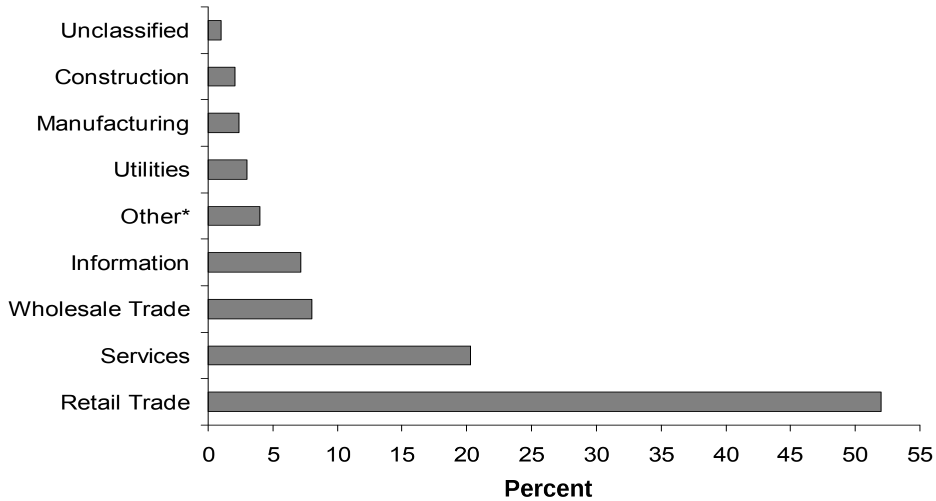
Historical Growth in State Sales Tax Base, Income, and Employment



*Based on Division of Budget estimate

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see Tax Expenditure Report), over 52 percent of total taxable sales and purchases subject to the sales and use tax are accounted for by the retail trade industry. This includes, for example, automobile dealers and general merchandise stores. The service industry, including accommodations and food services, and administrative services, at 20.3 percent of the statewide total, accounts for the next largest share of taxable sales and purchases.

Industry Shares of Taxable Sales and Purchases
March 2004 to February 2005



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions remains an ongoing concern.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are estimated to be $8,603.7 million, an increase of $375.4 million, or 4.6 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $11,198.5 million, an increase of $460 million, or 4.3 percent above last year.

Disposable income is expected to grow 5.0 percent and employment to grow 0.9 percent in 2007-08. Taken together, these factors help to explain a projected growth in the sales tax base of 3.5 percent. The September 1, 2006 increase in the vendor credit allowance will cost the State $54 million. The alternative fuels exemption had a nominal effect on sales tax receipts. The cap on motor fuel and diesel motor fuel, which was imposed in 2006, will cost the State nearly $200 million in 2007-08.

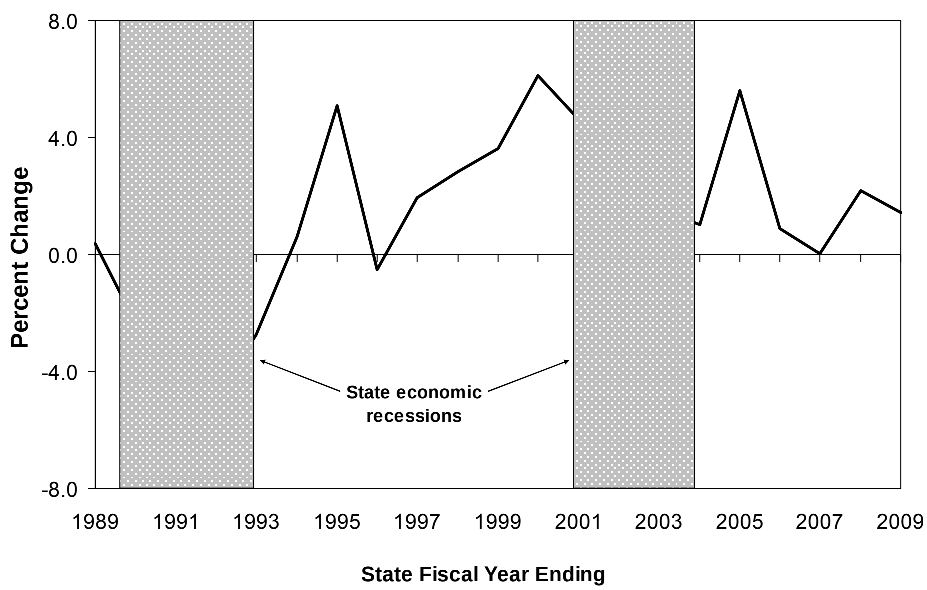
2008-09 Projections

All Funds receipts are projected to be $11,504.5 million, an increase of $306 million, or 2.7 percent above 2007-08.

The base of the tax also includes tax collections associated with sales to non-Native Americans on New York reservations. These sales are expected to increase revenues by $21.8 million. The proposed tax law changes would decrease revenues by $51.7 million. This decrease mainly reflects the merging of the sales tax on motor fuel and diesel motor fuel into the petroleum business tax offset by requiring certain out-of-State businesses to register as sales tax vendors and an expected increase in collections associated with the proposed voluntary compliance program.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods impact the level of taxable sales.

Real Sales Tax Constant Law Growth
1988-89 to 2008-09



General Fund

Direct deposits to the General Fund for 2007-08 are estimated to be $7,865.3 million, an increase of $326.4 million, or 4.3 percent above 2006-07 receipts. General Fund receipts in 2008-09 are projected to be $8,079.5 million, a 2.7 percent increase from 2007-08.

Other Funds

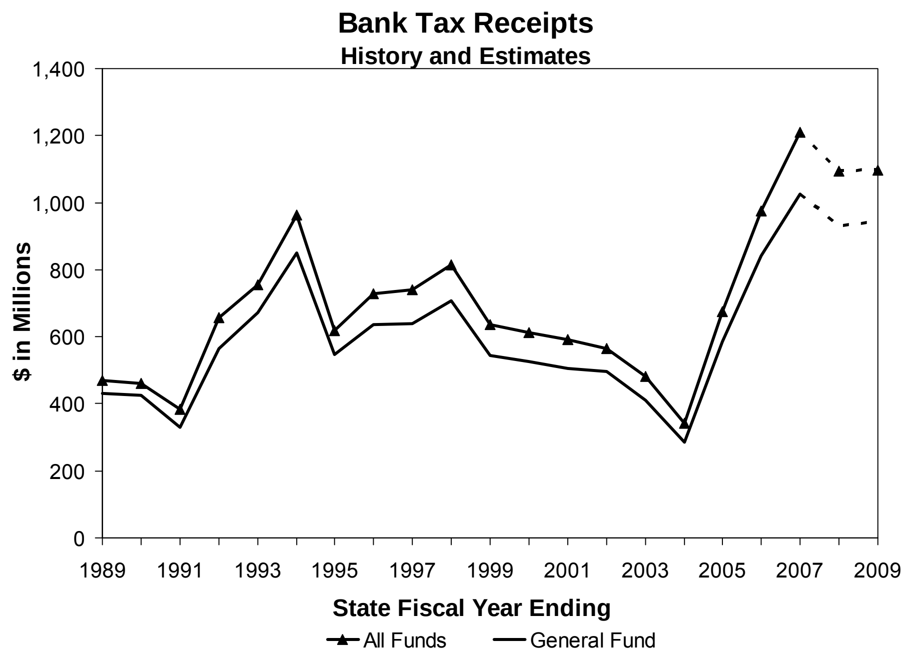
The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF were $2,511.5 million in 2006-07 and are estimated at $2,614.9 million in 2007-08, and $2,683.2 million in 2008-09. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund. Of the deposits to LGATF, $2,305.4 million and $2,314.7 million are scheduled to be transferred back to the General Fund in 2007-08 and 2008-09, respectively.

The Mass Transportation Operating Assistance Fund (MTOAF) was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF, which received $688.1 million in sales and use tax receipts in 2006-07, will receive an estimated $718.3 million in 2007-08 and $741.8 million in 2008-09.

BANK TAX

BANK TAX (millions of dollars)	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	1,024.0	931.0	(93.0)	(9.1)	942.0	11.0	1.2
Other Funds	185.8	163.0	(22.8)	(12.3)	154.0	(9.0)	(5.5)
All Funds	1,209.8	1,094.0	(115.8)	(9.6)	1,096.0	2.0	0.2

Note: Totals may differ due to rounding.



BANK TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1998-99	624	80	544	102	11	91	635
1999-2000	598	72	526	94	9	85	611
2000-01	598	92	506	97	11	86	591
2001-02	565	69	496	80	10	70	566
2002-03	523	114	409	84	12	72	481
2003-04	428	142	286	71	15	56	342
2004-05	662	75	587	100	11	89	676
2005-06	941	99	842	150	17	133	975
2006-07	1,098	74	1,024	193	7	186	1,210
Estimated							
2007-08	1,009	78	931	175	12	163	1,094
2008-09							
Current Law	901	80	821	149	10	139	960
Proposed Law	1,022	80	942	164	10	154	1,096

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- make substantive corrections to Chapter 60 of the Laws of 2007 which addressed the REIT and RIC loophole;
- change the first quarterly payment of estimated tax for certain bank taxpayers from 25 percent to 30 percent of the prior year's liability;
- extend the MTA surcharge for four additional years;
- classify credit card companies doing a specified level of business in the State as taxpayers under the Article 32 bank tax; and
- ensure taxpayers are remitting the taxes they owe through a comprehensive tax enforcement and voluntary compliance program.

DESCRIPTION

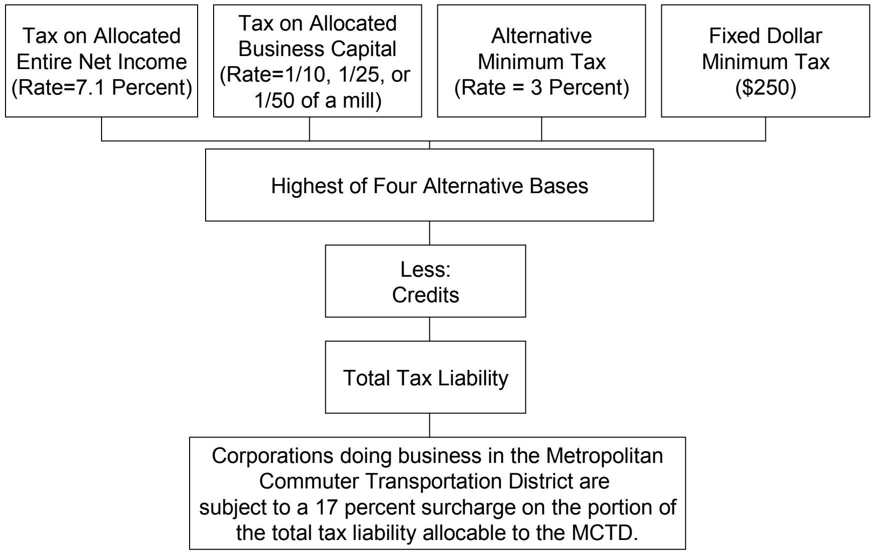
Tax Base and Rate

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. Banking corporations are classified as commercial banks, savings banks, savings and loan associations, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.
- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.
- A fixed dollar minimum tax of $250.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also subject to a 17 percent surcharge on the portion of the total tax liability allocated in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Bank Tax Article 32 – Current Law



Administration

Banks that reasonably expect their tax liability to exceed $1,000 for the current year are required to make quarterly tax payments of equal installments on an estimated basis in March, June, September, and December. A final payment is made in March.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982

Subject	Description	Effective Date
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools to enhance tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limiting the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Legislation Enacted in 1997		
Net Operating Loss	Allowed banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Allowed bank taxpayers that are brokers/dealers in securities to claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction — ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Legislation Enacted in 2001		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunset for tax years beginning on or after January 1, 2003.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various
Legislation Enacted in 2003		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2003. Sunset for tax years beginning on or after January 1, 2005.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003

Subject	Description	Effective Date
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax Extension	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factor.	These provisions will be phased in over a three-year period starting in tax year 2006, and be fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the personal income tax surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - effective date reflects first instance of non-imposition)
Bank Tax Extension	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
REIT/RIC Loophole Closer	Closed a loophole and conformed to Federal rules by eliminating, over a five-year period, the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC. Banks with taxable assets of $8 billion or less were excluded from these provisions.	January 1, 2007

Subject	Description	Effective Date
Taxation of Certain Banking Corporations	Established conditions under which certain corporations that elected to be taxable under Article 9-A of the Tax Law, or are required to be taxed under Article 9-A pursuant to the Gramm-Leach-Bliley transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions include: ceasing to be a taxpayer under Article 9-A; becoming subject to the $800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets. Meeting any one of these conditions results in the corporation becoming taxable as a bank under Article 32. The legislation also provides that an investment subsidiary of a bank or bank holding company is included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax Extension	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal *Gramm-Leach-Bliley Act.* These provisions were amended so that bank taxpayers no longer meeting the definition of doing a banking business will be moved to taxation under the corporation franchise tax.	January 1, 2008
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and assets for certain banking corporations.	January 1, 2007
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007

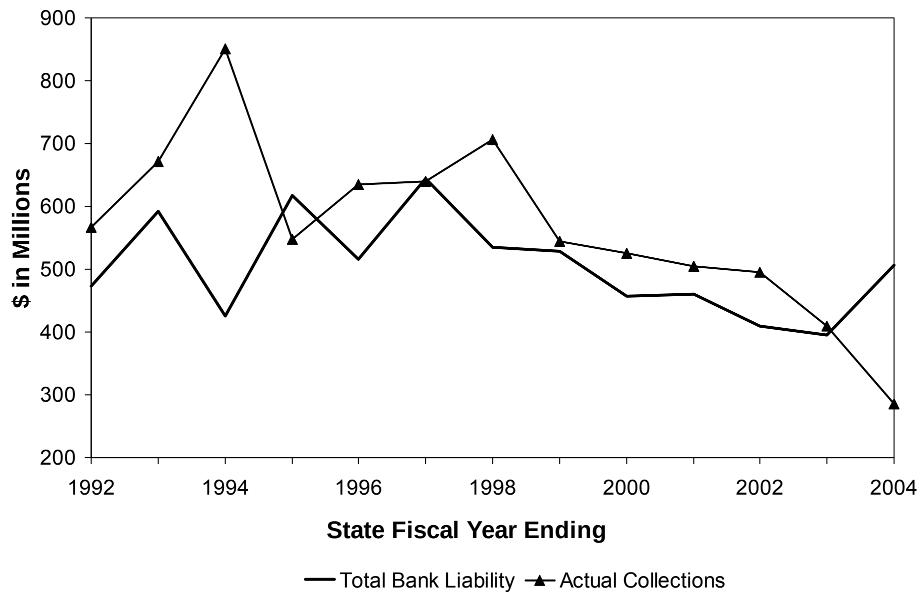
TAX LIABILITY

The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2004 tax year. The annual study of bank tax returns indicates that 769 taxpayers filed tax returns as banking corporations for 2004, a 3.4 percent increase from the previous year.

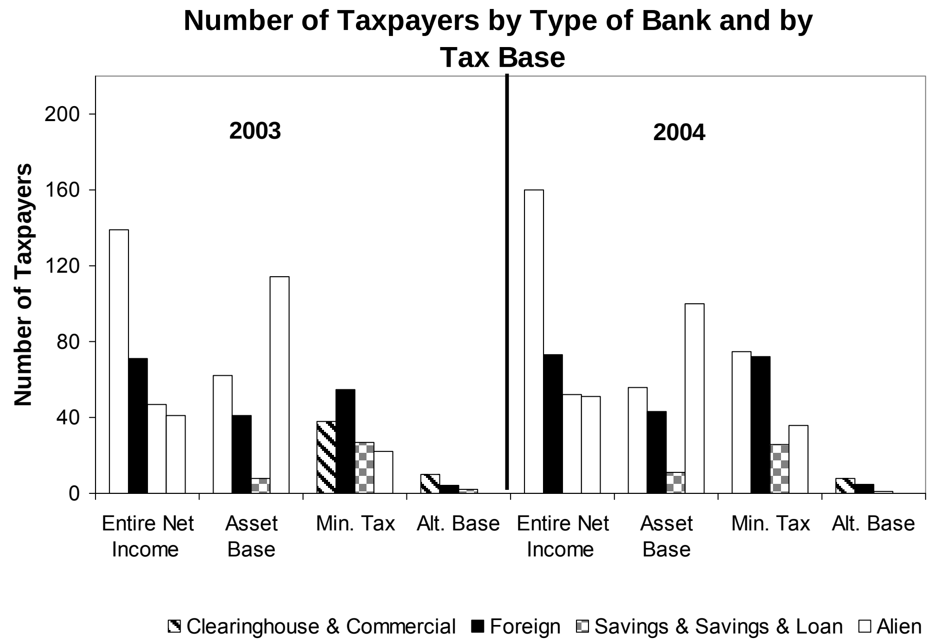
The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. Collections include a mandatory first installment payment that is paid in March and is based on 25 percent of the prior year's liability. In addition, banks are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns many months after the end of their tax year.

The accompanying graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The graph illustrates the significant volatility in the underlying relationship between payments and liability, which is further compounded by the potential difference between a taxpayer's tax year and the State fiscal year.

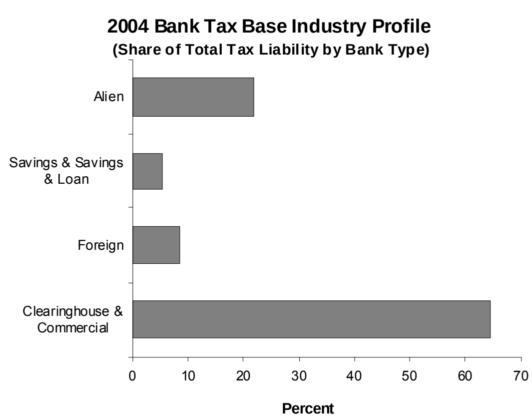
Total Bank Liability and Collections
General Fund (1992-2004)

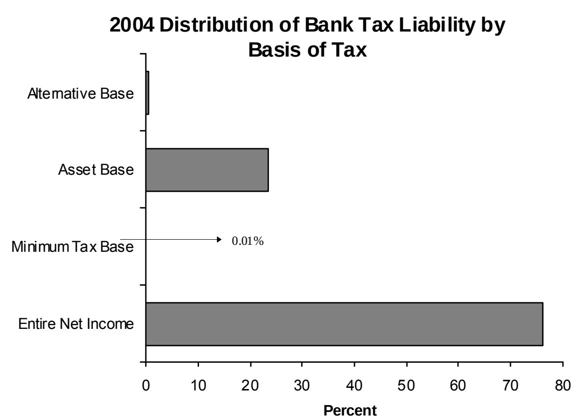


Between 2003 and 2004 (2004 representing the latest year for which complete tax liability data are available), total General Fund tax liability increased by roughly 28 percent, from $396 million to $507 million. The number of taxpayers increased by 3.4 percent, with the majority of the increase occurring in clearinghouse and commercial banks (20 percent) and foreign banks (13 percent). The following graph illustrates that, consistent with the overall increase in the number of taxpayers, from 2003 to 2004 the number of commercial banks paying under the entire net income tax base increased by 15.1 percent.



The following charts show that clearinghouse and commercial banking institutions accounted for 64.6 percent of total tax liability in 2004, and alien banking institutions accounted for 21.9 percent of total liability, while foreign banking institutions and savings banks and savings and loan institutions together accounted for the remaining 13.5 percent of total liability. Additionally, payments under the ENI base comprised over 76 percent of total tax liability.





For a more detailed discussion of the methods and models used to develop estimates and projections for the bank tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

Review of Forecast

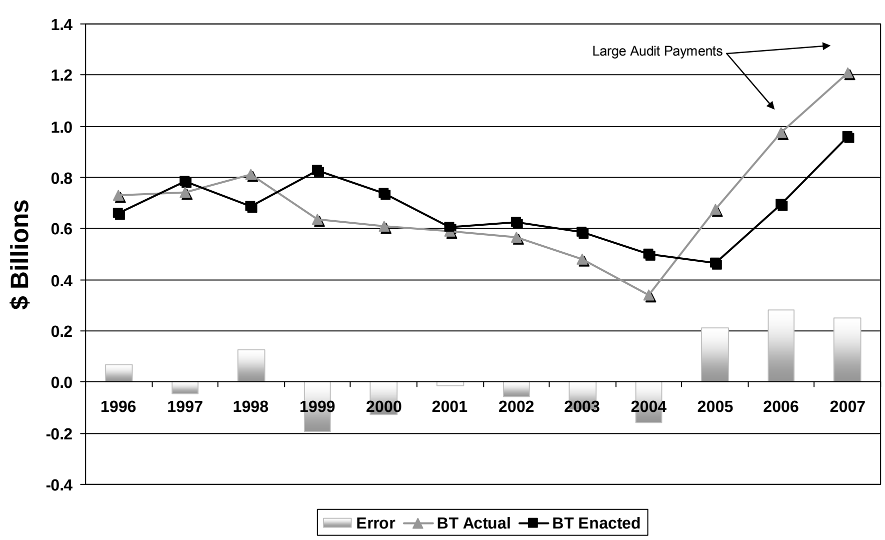
The volatility of bank tax receipts is a significant source of risk to the Financial Plan. From 1995-96 to 2006-07, the standard deviation (dispersion around the average growth) of the growth rate in bank tax receipts was 36 percent while growth averaged 9.1 percent.

This volatility is further illustrated by the fact that bank tax receipts grew as rapidly as 98 percent (2005), and declined as much as 29 percent (2004). The error, measured as the percentage difference between actual receipts versus estimated receipts as of the Enacted Budget each year, ranged from a negative 46 percent to a positive 31 percent. In dollar terms, the errors ranged from an overestimation of $193 million to an underestimation of $282 million.

This tax source is particularly sensitive to economic changes, and to specific events that impact the banking industry. Moreover, specific non-New York State macroeconomic indicators, such as the average yield rates, tend to influence the direction of yearly collection receipts. Finally, as audit collections represent a significant portion of the tax base, their volatility has had a significant effect on the bank tax prediction error. As evident from the graph below, there was a historical tendency to overestimate bank receipts through 2003-04 due to the inherent aforementioned macroeconomic risks associated with the banking sector. During this time, a major explanatory variable in the bank tax model was overall performance as represented by the business sector. After an analysis concluded that bank tax receipts growth was more correlated with average yield curves than the overall health of the economy, the forecasting model was adapted to reflect this relationship. There has been a directional shift towards underestimating receipts since this model change. However, audit settlements, which are difficult to predict, represent the primary source of this underestimation. For example, in 2005-06, record audit settlements of nearly $330 million at least partially explained the forecasting error of $282 million. In 2006-07, audit settlements of $251 million were a significant contributor to the error of nearly $249 million. Thus, adjustments made to the baseline forecast for audit and compliance receipts have in recent years been the primary source of forecast error.

For more information on the estimation methodology for the corporation franchise tax, please consult the *2008-09 Economic, Revenue, and Spending Methodologies* at http://www.budget.state.ny.us.

All Funds Bank Tax Receipts
Actual vs. Enacted Budget Forecast



RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX (millions of dollars)	Actual 2006-07	Estimated 2007-08	Change	Percent Change	Projected 2008-09	Change	Percent Change
General Fund							
Non-Audit Receipts	773	830	58	7.4	712	(118)	(14.2)
Audit Receipts	251	101	(150)	(59.8)	109	8	7.9
Executive Budget Initiatives	0	0	0	--	121	121	--
Total	**1,024**	**931**	**(93)**	**(9.1)**	**942**	**11**	**1.2**
Other Funds							
Non-Audit Receipts	138	148	10	7.2	121	(27)	(18.2)
Audit Receipts	48	15	(33)	(68.6)	18	3	20.0
Executive Budget Initiatives	0	0	0	--	15	15	--
Total	**186**	**163**	**(23)**	**(12.3)**	**154**	**(9)**	**(5.5)**
All Funds							
Non-Audit Receipts	911	978	67	7.4	833	(145)	(14.8)
Audit Receipts	299	116	(183)	(61.2)	127	11	9.5
Executive Budget Initiatives	0	0	0	--	136	136	--
Total	**1,210**	**1,094**	**(116)**	**(9.6)**	**1,096**	**2**	**0.2**

All Funds

2007-08 Estimates

All Funds preliminary collections through December were approximately $799 million, an increase of $21 million, or nearly 3 percent above the comparable period in the prior fiscal year. The year-to-date growth is primarily attributable to an increase in non-audit receipts over the prior year of $168 million, or over 36 percent, offset by a significant decline in audit receipts of 68 percent. (See the “Audits and Compliance” section for a more detailed discussion of audit receipts).

All Funds receipts for 2007-08 are estimated to be $1,094 million, a decrease of $116 million, or 9.6 percent below last year. The apparent stability of All Funds receipts is the result of large, opposing changes in both audit and non-audit receipts. While non-audit receipts are estimated to rise by $67 million (7.4 percent), audit receipts are estimated to decline by $183 million (61.2 percent). This large decline in audit receipts reflects the return to historical trends after two successful years of collections resulting from the Department of Taxation and Finance’s voluntary compliance initiative (VCI), which ended on March 1, 2006, and other large settlements on prior year liability.

2008-09 Projections

All Funds receipts are projected to increase marginally by 0.2 percent, or $2 million, to $1,096 million. The marginal 2008-09 increase is primarily driven by proposed legislation that would increase receipts by $136 million, with $25 million of the increase coming from enhanced audit and compliance efforts. These legislative proposals offset an overall negative outlook for bank tax receipts driven by downward trends of major macroeconomic variables, including the sub-prime mortgage write-downs that have negatively affected the balance sheets of many banking corporations. This is reflected in the anticipated $145 million (14.8 percent) decline in non-audit receipts, slightly offset by an $11 million (9.5 percent) rise in projected audit receipts.

General Fund

General Fund collections for 2007-08 reflect year-to-date trends and are estimated to decline by $93 million to $931 million resulting from a $58 million increase (7.4 percent) in non-audit receipts, more than offset by a $150 million (60 percent) decrease in audit receipts.

General Fund collections for 2008-09 are projected to marginally increase by $11 million, or 1.2 percent, to $942 million. This reflects projected increases in audit receipts and Executive Budget initiatives offsetting the projected decline in non-audit receipts driven by a weak macroeconomic outlook.

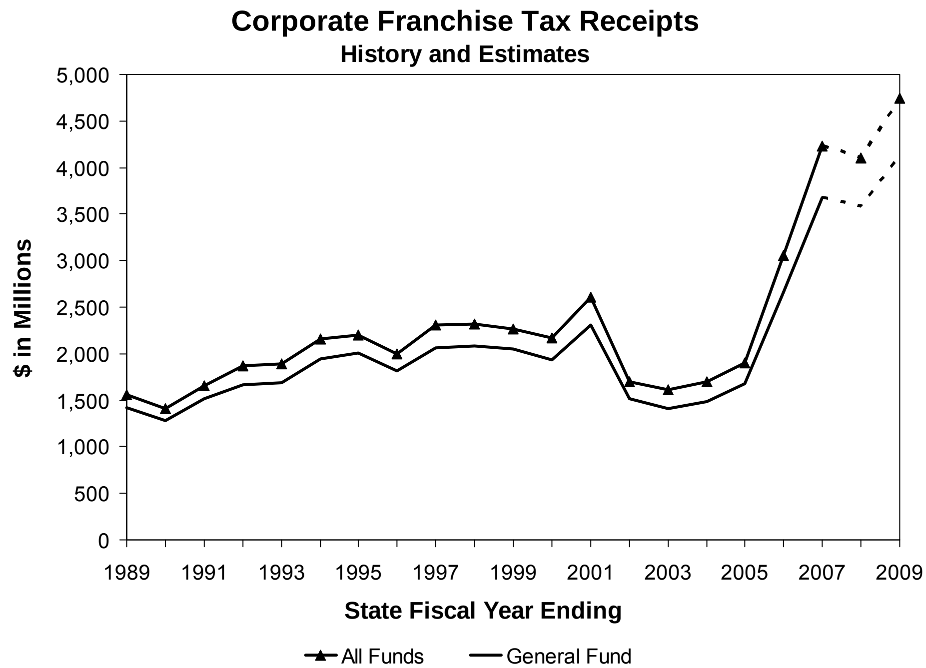
Other Funds

Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF bank tax receipts for 2007-08 reflect year-to-date trends and are estimated at $163 million, including $15 million in audit receipts. Surcharge receipts for 2008-09 of $154 million reflect the trends described above, and include $18 million in audit receipts.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	3,676.5	3,575.0	(101.5)	(2.8)	4,138.0	563.0	15.7
Other Funds	551.1	531.0	(20.1)	(3.6)	607.0	76.0	14.3
All Funds	4,227.6	4,106.0	(121.6)	(2.9)	4,745.0	639.0	15.6

Note: Totals may differ due to rounding.



CORPORATION FRANCHISE TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1998-99	2,479	429	2,050	243	30	213	2,263
1999-2000	2,422	483	1,939	272	43	229	2,168
2000-01	2,817	482	2,335	316	21	295	2,630
2001-02	2,012	497	1,515	236	48	188	1,703
2002-03	1,940	533	1,407	247	42	205	1,612
2003-04	2,005	523	1,482	266	48	218	1,700
2004-05	2,285	427	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
2006-07	4,010	333	3,677	576	25	551	4,228
Estimated							
2007-08	4,100	525	3,575	573	42	531	4,106
2008-09							
Current Law	4,391	557	3,834	620	45	575	4,409
Proposed Law	4,695	557	4,138	652	45	607	4,745

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- reform the capital base by eliminating the limitation on the amount of tax calculated under the base, and reducing the rate to provide relief to small businesses;
- reform the fixed dollar minimum base by moving to a New York State gross receipts base and providing relief to small businesses;
- refocus State environmental clean-up efforts by providing meaningful caps to redevelopment credits available under the Brownfields Program;
- conform to the practices of 18 other states that have decoupled from Federal law and require taxpayers to add back income from qualified production activities for New York tax purposes;
- continue to deter the use of tax shelters to avoid tax by making permanent the authority provided to the Department of Taxation and Finance in 2005 to require the reporting and disclosure of Federal and New York reportable and listed transactions;
- make substantive amendments to the provisions of Chapter 62 of the Laws of 2007, which intended to close a loophole that utilized a closely-held real estate investment trust (REIT) or regulated investment company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC;
- reclassify for-profit health maintenance organizations, currently taxable under Article 9-A, as insurance companies that will be taxable under the Article 33 insurance franchise tax;
- change the mandatory first installment of tax due from 25 percent to 30 percent of taxpayer’s previous year’s liability;
- extend the MTA surcharge for four additional years;
- extend the Handicapped-Accessible Taxicabs and Livery Service Vehicles Credit for two additional years;
- expand the Empire State Film Production Credit by increasing the percentage of qualifying costs eligible for the credit from 10 to 15 percent, making all production costs eligible and by increasing the annual aggregate credit amount from $60 million to $75 million over a three-year period starting in 2008;
- increase the aggregate amount of low-income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million; and
- create a tax credit for purchases of clean heating fuel (“bioheat”) used for residential purposes.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of $290,000 or less, certain manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications.
- A capital base, imposed at a rate of 0.178 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $1 million. Legislation submitted with this Budget would remove this limitation for most taxpayers, and reduce the rate to 0.15 percent.
- A fixed dollar minimum tax, which is based on a taxpayer's payroll as shown in the following schedule. Payroll amounts include the salaries of general executive officers.

Gross Payroll	**$250,000 or less**	**$250,001 – $500,000**	**$500,001 – $1,000,000**	**$1,000,001 – $6,250,000**	**$6,250,001 or more**
Fixed Dollar Minimum Tax	$100	$225	$325	$425	$1,500

Taxpayers that have a gross payroll, total receipts, and average value of gross assets which are each $1,000 or less are subject to an $800 tax.

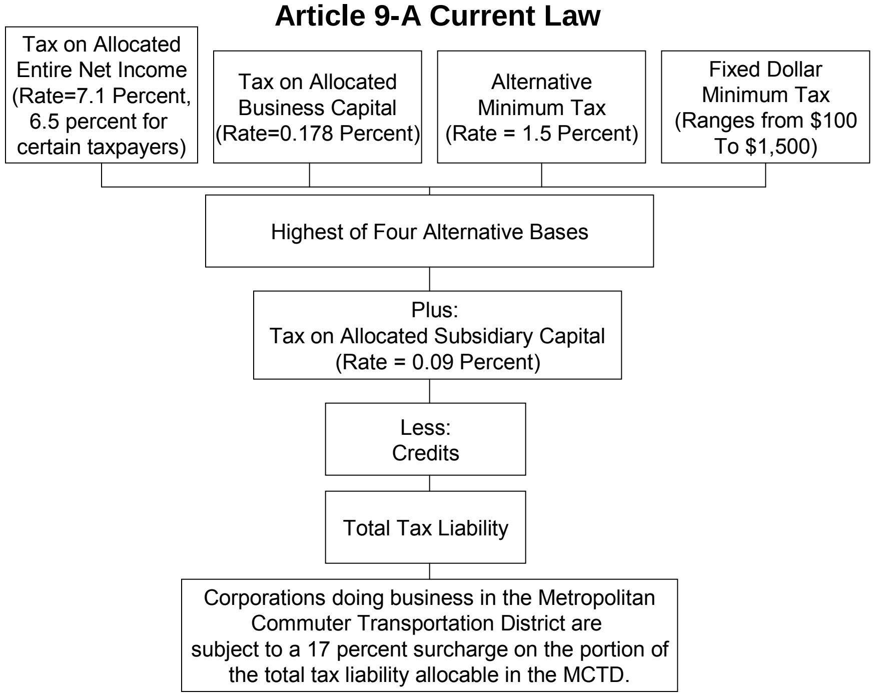
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are subject to the fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997 through June 30, 1998, and allocable in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current year are required to make quarterly tax payments of equal installments on an estimated basis in March, June, September, and December. A final payment is made in March. Legislation submitted with this budget would require the first installment of tax for most taxpayers to be 30 percent of their prior year's liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982

Subject	Description	Effective Date
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools to enhance tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Changed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limiting the usefulness of the Investment Tax Credit.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5.0 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3.0 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	October 1, 1998
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three-year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3.0 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001
Legislation Enacted in 2000		
Energy Reform and Reduction	Changed taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) into Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003

Subject	Description	Effective Date
Rate Reduction – Small Businesses	Reduced tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit sunsets on August 20, 2008.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	Phased in over a three-year period starting in tax year 2006, and fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ investment tax credits and EZ employment incentive credits. Also authorized such a taxpayer to select its program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service. These provisions are scheduled to expire on December 31, 2007.	January 1, 2006

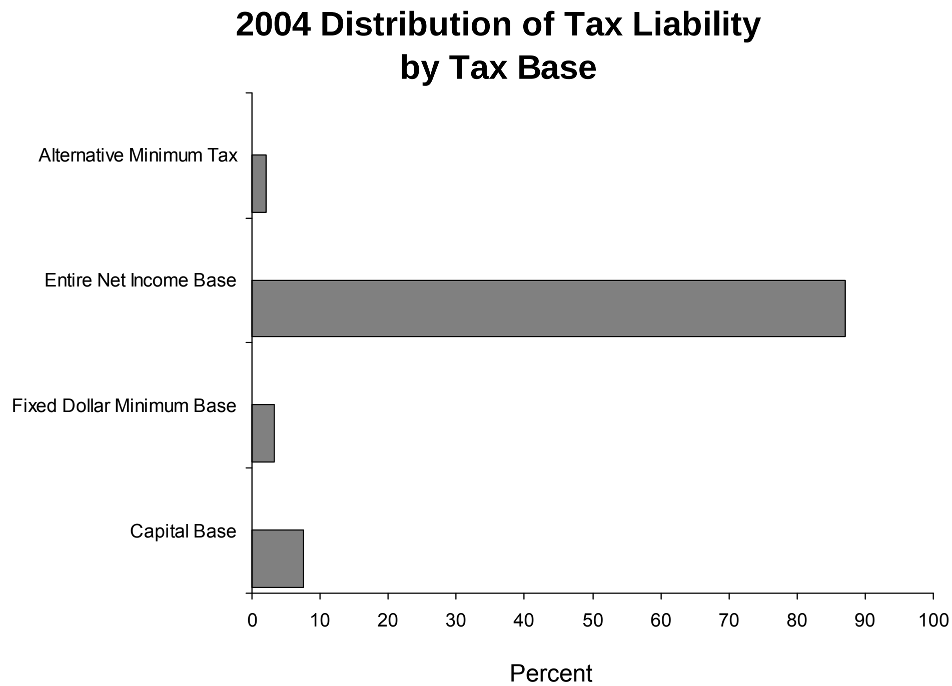
Subject	Description	Effective Date
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and changed the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are qualifying substantial inter-corporate transactions between them.	January 1, 2007
REITS/RICS Loophole Closer	Required the combination of a REIT or RIC held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid is not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007

TAX LIABILITY

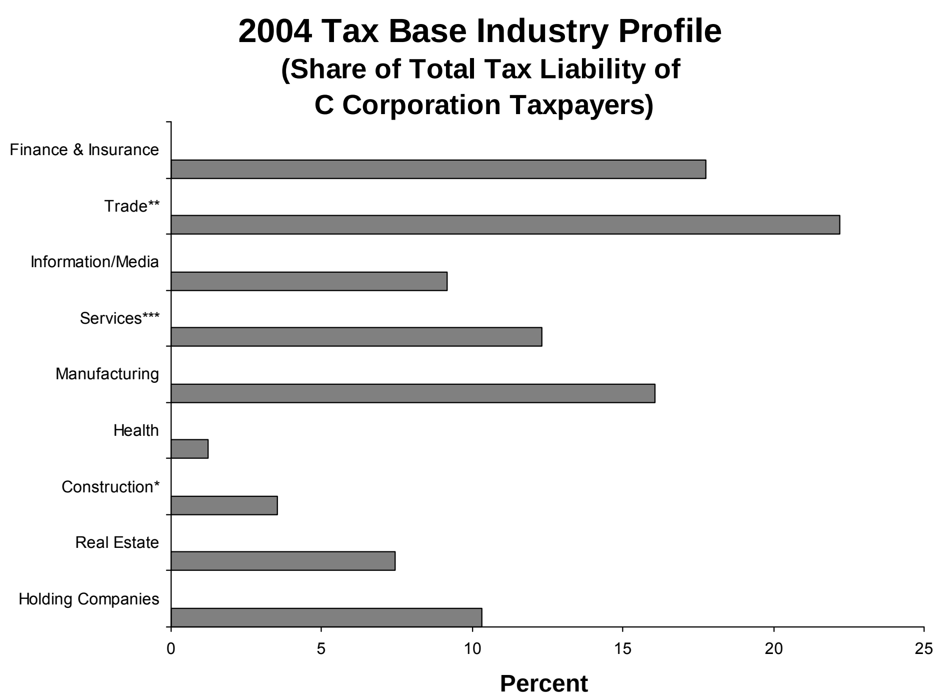
The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent data available on Article 9-A liability for corporations filing under Article 9-A. The most current liability information is for the 2004 tax year.

Although the study file does not include information on fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The *2003 New York State Corporate Tax Statistical Report*, the most recent data available, indicates that 252,516 taxpayers filed as C corporations, while 335,122 taxpayers filed as S corporations. The number of C corporations decreased by 1.4 percent from the prior year, while the number of S corporations increased by 5.8 percent. From 1990 to 2003, the number of S corporations increased by roughly 73 percent while the number of C corporations grew by approximately 5 percent.

As noted above, C corporations pay under the highest of four alternative bases. In 2004, roughly 87 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 7.5 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has begun to diminish due to Tax Law changes that have reduced the AMT rate.

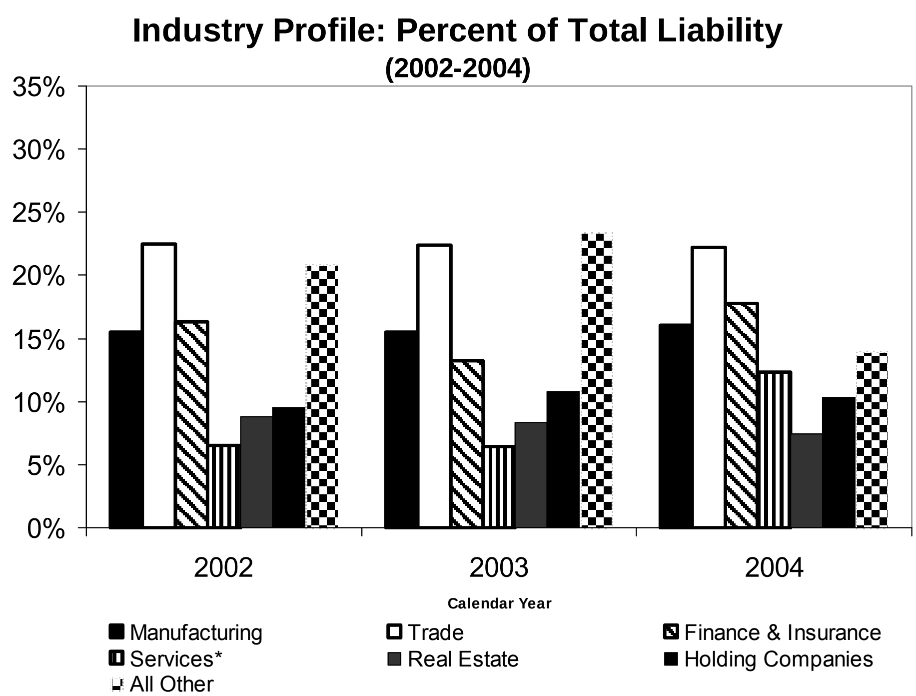


The next chart shows the distribution of tax liability by major industry sector. The 2004 study file indicates that 17.8 percent of total C corporation liability was paid by the finance and insurance sector and 16.1 percent by the manufacturing sector. The share of total C corporation liability attributable to the services sector has been fairly constant in recent years.



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Wholesale trade, retail trade and Transportation and warehousing. (NAICS Sectors 42, 44, 45, 48 and 49)
*** Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 54, 56, 71, 72, and 81)

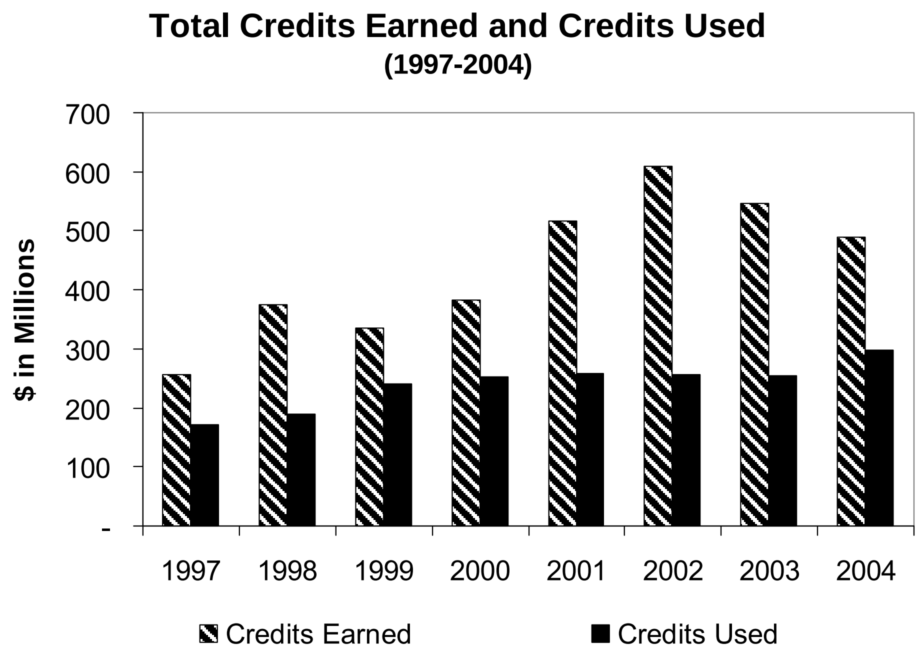
The following chart illustrates the fluctuation in the percentage of liability paid by the industry groups of the State's tax base. These industry groups accounted for the vast majority of total tax liability from 2002 to 2004. Liability for the finance and insurance sector was 16.3 percent in 2002, 13.2 percent in 2003 and 17.8 percent in 2004. In comparison, the manufacturing industry's share of total liability has remained relatively constant for this same three-year period at roughly 16 percent. The services sector represented only 6.5 percent of total 2002 liability, but 12.3 percent of 2004 liability. To place this base composition change in context, total liability increased by 48.1 percent over the same period, while services sector liability grew by nearly 180 percent. The growing share of services sector liability was dominated by the liability growth of nearly $100 million, experienced by the professional, scientific and technical services sub-sector. The healthcare industry's share of total liability declined from 8.7 percent in 2002 to 1.2 percent in 2004, a decrease of roughly $75 million. The trade industries (wholesalers, retailers, transportation and warehousing), real estate and holding companies were a large and fairly stable component of the tax base over this time period. Together they represented approximately 40 percent of total liability in each year.



* These services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

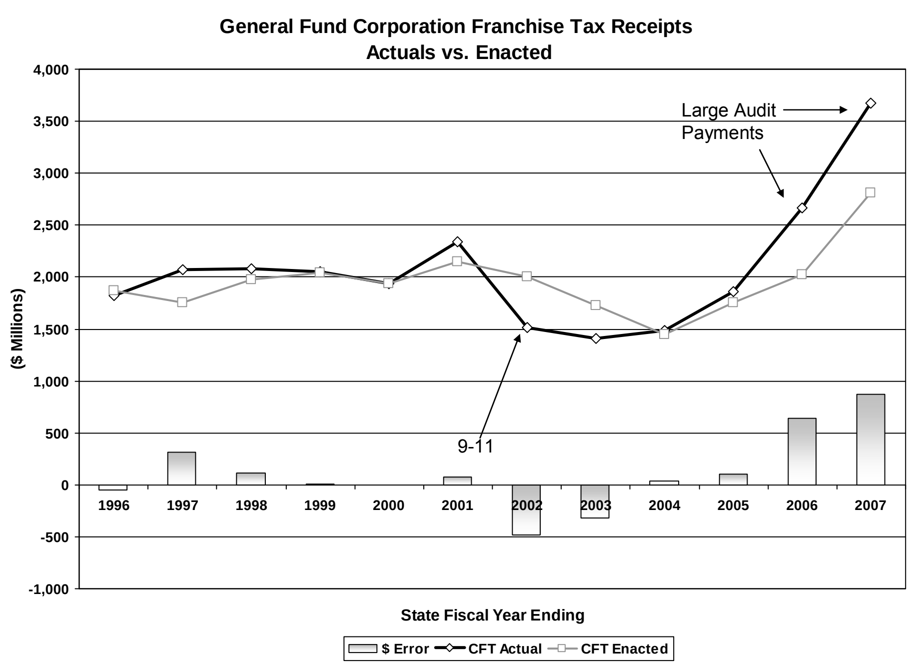
Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), the Empire Zone credits, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final tax liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially Empire Zones and Brownfields credits, will significantly increase the total amount of credits used. This Budget proposes to target State resources dedicated to environmental remediation by increasing the percentage of credit awarded for remediation costs and focusing development efforts by re-designing the redevelopment credit under the Brownfields Credit Program.

Review of Forecast



The volatility of corporation franchise tax receipts is a significant source of risk to the Financial Plan. From 1995-96 to 2006-07 the standard deviation (dispersion around the average growth) of the rate of growth in franchise tax receipts was 21.4 percent while growth averaged 8.9 percent. The percent error, measured as the percentage difference between actual receipts and estimated receipts as of the Enacted Budget of each year, ranged from a negative 32 percent to a positive 24.1 percent. In dollar terms, the errors ranged from an overestimation of $485 million to an underestimation of $870 million.

This tax source is particularly sensitive to changes in the economic environment and to specific events that impact a particular industry. In addition, audit recoveries represent a significant portion of the tax base. Economic shocks such as the events of September 11, 2001, and large audit settlements have therefore contributed to large estimating errors in the estimates. The forecast errors for fiscal years ending in 2002 and 2003 were the largest in percentage terms at negative 32.0 percent and negative 22.7 percent, respectively. Although the 2002 error can be explained by the inability to foresee the events of September 11, 2001, the error in 2003 demonstrates the inability of the econometric model to fully incorporate the effects of such shocks, even in their aftermath. In dollar terms the largest forecast errors were for fiscal years ending in 2006 and 2007, and were principally due to large, unexpected audit settlements. In these instances, adjustments made to the baseline forecast for audit and compliance receipts, and not the baseline estimates suggested by the econometric model itself, were the primary source of the forecasting error.

While shocks of this type by definition are unpredictable, a review of our forecast results demonstrates that our attempts to manage downside risks during cyclical downturns have been relatively ineffective. Awareness of this pattern, and of the inability of our econometric models to quickly and fully incorporate downward trends, provides the backdrop against which risks to the Financial Plan are weighed.

For more information on the estimation methodology for the corporation franchise tax, please consult the *2008-09 Economic, Revenue, and Spending Methodologies* at http://www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX (millions of dollars)	Actual 2006-07	Estimated 2007-08	Change	Percent Change	Projected 2008-09	Change	Percent Change
General Fund							
Non-Audit Receipts	2,699	2,695	(4)	(0.1)	3,019	324	12.0
Audit Receipts	978	880	(98)	(10.0)	815	(65)	(7.4)
Executive Budget Initiatives	0	0	0	--	304	304	--
Total	**3,677**	**3,575**	**(102)**	**(2.8)**	**4,138**	**563**	**15.7**
Other Funds							
Non-Audit Receipts	391	391	0	0.0	446	55	14.1
Audit Receipts	160	140	(20)	(12.5)	129	(11)	(7.9)
Executive Budget Initiatives	0	0	0	--	32	32	--
Total	**551**	**531**	**(20)**	**(3.6)**	**607**	**76**	**14.3**
All Funds							
Non-Audit Receipts	3,090	3,086	(4)	(0.1)	3,465	379	12.3
Audit Receipts	1,138	1,020	(118)	(10.4)	944	(76)	(7.5)
Executive Budget Initiatives	0	0	0	--	336	336	--
Total	**4,228**	**4,106**	**(122)**	**(2.9)**	**4,745**	**639**	**15.6**

All Funds

2007-08 Estimates

All Funds collections to date are $2,553 million, a decrease of $502 million, or 16.4 percent below the comparable period in the prior fiscal year. Importantly, audit receipts to-date are $530 million, a decline of $478 million, or 47.4 percent compared to the previous fiscal year. Voluntary (non-audit) receipts through December are $2,023 million, a modest decrease of roughly $38 million, or 1.8 percent, due in part to refunds through December 2007 totaling $518 million, which is $304 million, or 142 percent greater than refunds paid through December in the prior fiscal year. All Funds receipts for 2007-08 are estimated to be $4,106 million, a decrease of $122 million, or 2.9 percent below last year.

The modest year-over-year decline in 2007-08 All Funds corporate tax receipts reflects several developments, with both contributors to and detractors from the overall estimated decline. Growth of 5.4 percent in corporate profits and the impact of the closing of several loopholes in the 2007-08 Enacted Budget are expected to result in growth of roughly $330 million, or more than 14 percent, in payments on current calendar year liabilities. This growth is expected to be largely offset by an increase in refunds of almost $210 million, or 60 percent over the previous fiscal year, primarily the result of overpayments on prior year liabilities. Audit and compliance receipts are also expected to decline by nearly $120 million, or approximately 10 percent. The remaining decline is attributable to an increased amount of adjustments made to prior tax years, which taxpayers elected to carry forward as payments credited against current liability as opposed to requesting cash refunds.

All Funds audit and compliance receipts are expected to total $1,020 million, a 10.4 percent decline from the historic high of $1,138 million in 2006-07. A large portion of this year's amount is attributable to the continuation of the settlement of outstanding issues principally related to the tax treatment of certain financial services transactions, which was a significant contributor to last year's record amount. (See the "Audits and Compliance" section for a more detailed discussion).

2008-09 Projections

All Funds receipts are projected to increase by 15.7 percent, from $4,106 million in 2007-08 to $4,745 million in 2008-09.

Voluntarily remitted (non-audit) receipts for 2008-09 reflect a slowdown, but continuation in the growth of corporate profits, which are estimated to grow 4 percent in 2008 compared to nearly 20 percent in 2006 and more than 5 percent in 2007. Refund activity is projected to grow modestly from 2007-08 amounts. Administrative actions with respect to Empire Zones are expected to reduce credits claimed and thus increase net cash receipts by $50 million. In addition, the impact of proposed tax actions will contribute an estimated $254 million to underlying voluntary receipts.

Audit and compliance receipts are projected to decrease by 2 percent from $1,020 million to $999 million, with receipts remaining higher than pre-2006-07 levels due to enhanced audit resources and initiatives already provided for in the 2007-08 Budget, as well as $50 million in projected audit receipts attributable to additional resources proposed with this Budget.

General Fund

Based on collections to date, General Fund net collections for 2007-08 are estimated to be $3,575 million, a decrease of nearly $102 million, or 2.8 percent below the prior year. Audit collections are expected to total $880 million, while refunds are estimated to offset receipts by approximately $525 million.

General Fund receipts for 2008-09 are expected to increase by 15.7 percent from 2007-08 to $4,138 million. Audit collections, including Budget initiatives, are expected to total $865 million, while refunds are projected to offset receipts by approximately $557 million. Additional receipts of $304 million are expected from tax actions.

Other Funds

Under current law, corporations doing business in the MCTD are subject to a 17 percent surcharge on the portion of the total tax liability allocable to the region.

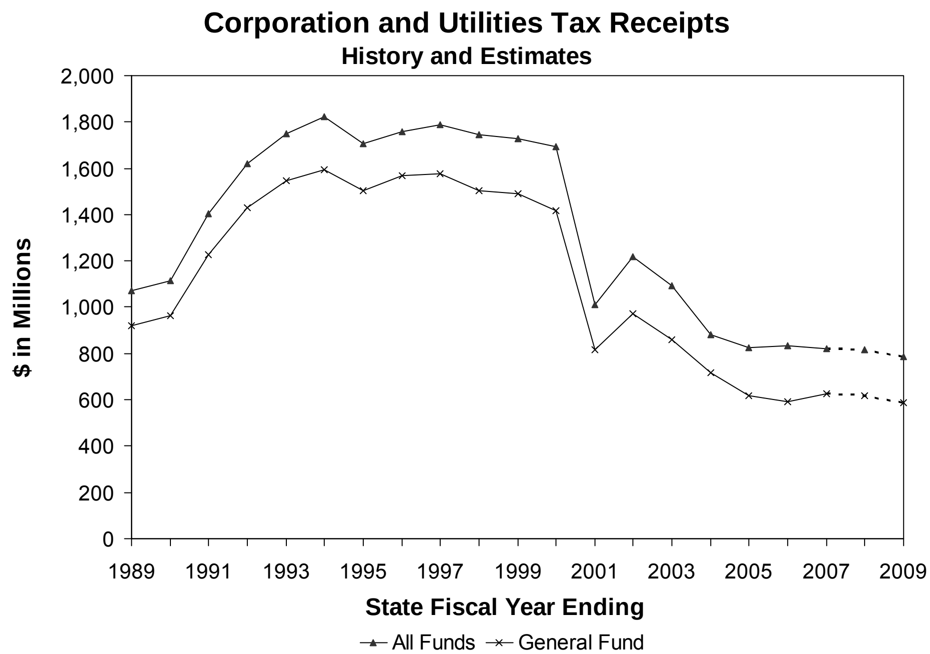
Based on collections to date, the Article 9-A MTOAF contribution for 2007-08 is estimated to fall 3.6 percent relative to the prior year, to $531 million. The voluntarily remitted portion of this base is estimated to grow roughly in line with non-audit General Fund receipts. However, surcharge audit and compliance collections are expected to decline at a greater rate than General Fund audit and compliance receipts decline due to of the reduction in receipts attributable to the settlement of issues related to certain financial services transactions. Since taxpayers remitting these settlement payments are heavily concentrated in the MCTD, the decline in overall audit receipts from these sources from the prior fiscal year causes the greater percentage decline in MTA surcharge receipts than in General Fund receipts.

Collections for 2008-09 are expected to increase by more than 14 percent to $607 million. Voluntary remittances should follow a roughly similar growth trend as in the General Fund. However, MTOAF audit and compliance receipts are projected to decline more so than in the General Fund due again to a decline in receipts stemming from the settlement of the financial services transactions issue detailed above.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	625.6	618.0	(7.6)	(1.2)	589.0	(29.0)	(4.7)
Other Funds	194.7	198.0	3.3	1.7	198.0	0.0	0.0
All Funds	820.3	816.0	(4.3)	(0.5)	787.0	(29.0)	(3.6)

Note: Totals may differ due to rounding.



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Project Funds	Refunds	Capital Projects Funds[2]	All Funds Receipts
1998-99	1,509	20	1,489	242	2	240	0	0	0	1,729
1999-2000	1,450	32	1,418	276	2	274	0	0	0	1,692
2000-01	847	30	817	193	1	192	0	0	0	1,009
2001-02	999	27	972	247	1	246	0	0	0	1,218
2002-03	909	49	860	232	1	231	0	0	0	1,091
2003-04	732	17	715	170	3	167	0	0	0	882
2004-05	655	38	617	195	1	194	16	0	16	827
2005-06	608	17	591	229	6	223	19	1	18	832
2006-07	639	13	626	182	4	178	18	1	17	820
Estimated										
2007-08	632	14	618	185	4	181	18	1	17	816
2008-09										
Current Law	637	14	623	185	4	181	18	1	17	821
Proposed Law	603	14	589	185	4	181	18	1	17	787

[1] Receipts from the MTA business tax surcharge and a portion of receipts from the taxes imposed by sections 183 and 184 of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF).

[2] A portion of receipts from taxes imposed by sections 183 and 184 of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTF).

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- modify corporation and utilities tax minimum taxes and fees, as part of a comprehensive package designed to reform minimum taxes and fees on businesses;
- change the first quarterly payment of estimated tax for certain payers of corporation and utilities taxes from 25 percent to 30 percent of the prior year's liability;
- extend the MTA surcharge for four additional years; and
- extend the current Power for Jobs program by one year.

DESCRIPTION

Tax Base and Rate

Article 9 of the Tax Law imposes taxes and fees on a number of specialized industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. Historically, Article 9 receipts have come primarily from the public utility, telecommunications, and transportation industries. However, statutory and regulatory changes enacted in 2000 have reduced the percentage share of General Fund corporation and utilities tax receipts attributable to utilities from 56.5 percent in 1999-2000 to 19.5 percent in 2006-07. In recent years, the telecommunications industry has become the primary source of collections, accounting for more than 76 percent of 2006-07 General Fund corporation and utilities tax receipts.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of $1/20^{th}$ of one percent of the total amount of the par value (the nominal or face value of a security) of the stock that the corporation is authorized to issue. The tax rate for stocks with "no-par" value is five cents per share. The tax also applies to any subsequent changes in the share of stocks, including changes to the number of par value and "no-par" value stocks or newly authorized stock. The minimum tax imposed by section 180 is $10.

Section 181 imposes a license fee on foreign (out-of-State) corporations for the privilege of exercising a corporate franchise or conducting business in a corporate or organized capacity in New York State. The fee is assessed at a rate equivalent to the organization tax imposed by section 180 and attributable to the amount of capital stock employed in the State. Foreign corporations are also subject to an annual maintenance fee of $300. Foreign corporations may claim a credit for the fee paid against the tax due under Article 9, the corporate franchise tax or the bank tax.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunications, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;
- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of $75.

Section 184 levies an additional franchise tax of 0.375 percent on the gross receipts of transportation and transmission companies. As of July 1, 2000, gross receipts from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax. Railroad and trucking companies that elected to remain subject to Article 9 taxes (rather than to become subject to the corporate franchise tax imposed under Article 9-A) pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives. The tax is imposed at the highest of the following three alternatives:

- 1.0 mills per dollar of the net value of capital stock allocated to New York State;
- 0.25 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of $10.

Effective January 1, 2000, the section 186 franchise tax imposed on public utilities and waterworks, gas, electric, steam heating, lighting and power companies was repealed, and these taxpayers became subject to the corporate franchise tax imposed under Article 9-A of the Tax Law.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services. As shown in the following tables, between January 1, 2000 and January 1, 2005 the gross receipts tax imposed on:

- charges for transmission/distribution services to residential customers was gradually reduced from 3.25 percent to its current rate of 2 percent;
- charges for transmission/distribution services to nonresidential customers was gradually eliminated; and
- the sale of the energy commodity was gradually eliminated, declining from 3.25 percent to zero.

TAX RATES CONTAINED IN SECTION 186-a OF THE TAX LAW

Effective Date	Type	Rate (percentage)
Prior to January 1, 2000	Commodity	3.25
	Transmission/Distribution	3.25
January 1, 2000	Commodity	2.10
	Transmission/Distribution	2.50
January 1, 2001	Commodity	2.00
	Transmission/Distribution	2.45
January 1, 2002	Commodity	1.90
	Transmission/Distribution	2.40
January 1, 2003	Commodity	0.85
	Transmission/Distribution	2.25
January 1, 2004	Commodity	0.40
	Transmission/Distribution	2.125
January 1, 2005	Commodity	0.00
	Transmission/Distribution	2.00

PHASE-IN SCHEDULE FOR EXCLUSION OF TRANSMISSION AND DISTRIBUTION FOR NONRESIDENTIAL CUSTOMERS	
Effective Date	**Percent Excluded**
Calendar Year 2000	0
Calendar Year 2001	0
Calendar Year 2002	25
Calendar Year 2003	50
Calendar Year 2004	75
Calendar Year 2005	100

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services. The tax was reduced to 3.25 percent from 3.5 percent on October 1, 1998, and reduced again to 2.5 percent on January 1, 2000.

Section 189, effective August 1, 1991, imposed a tax on the importation of natural gas for consumption. As shown in the following table, the tax was gradually eliminated, effective January 1, 2005.

TAX RATES CONTAINED IN SECTION 189	
Effective Date	**Rate (percentage)**
Prior to January 1, 2000	4.25
January 1, 2000	2.10
January 1, 2001	2.00
January 1, 2002	1.90
January 1, 2003	0.85
January 1, 2004	0.40
January 1, 2005	0.00

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to sections 182, 182-a, 184, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis in March, June, September and December. A final payment is made in March.

As shown in the following table, the Tax Law has been amended from time-to-time to provide various formulas for the deposit and disposition of receipts from the taxes imposed by sections 183 and 184 of the Tax Law to the Mass Transportation Operating Assistance Fund (MTOAF) and more recently the Dedicated Highway and Bridge Trust Fund (DHBTF).

SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS SINCE 1982 (percentage)			
Effective Date	General Fund	MMTOAA	DHBTF
July 1, 1982	60.0	40.0	0.0
April 1, 1996	52.0	48.0	0.0
January 1, 1997	50.5	49.5	0.0
January 1, 1998	46.0	54.0	0.0
January 1, 2000	36.0	64.0	0.0
January 1, 2001	20.0	80.0	0.0
April 1, 2004	0.0	80.0	20.0

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the MTOAF.

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 1990 are summarized below.

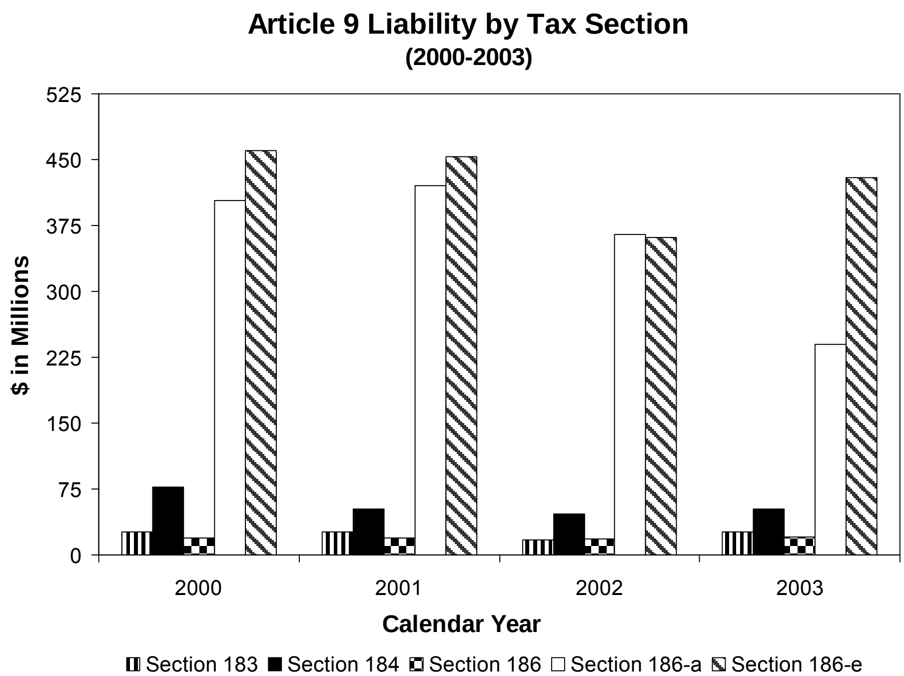
Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Tax Surcharge	Imposed a temporary 15 percent surcharge on taxpayers liable for tax under sections 183, 184, 186 and 186-a of the Article 9 corporation and utilities tax. The surcharge was phased out over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate and inter-LATAs services were exempted.	January 1, 1995
	Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services.	
	Replaced the property factor with a new allocation mechanism. Under the “Goldberg” allocation method, receipts are allocated to New York if the call originates or terminates in this State and is charged to a service address in this State, regardless of where the charges for such services are billed or ultimately paid.	
	Shifted the access deduction from inter-exchange carriers and local carriers who are ultimate sellers to initial sellers.	
Section 184	Exempted 30 percent of intra-LATA toll receipts.	January 1, 1996
Legislation Enacted in 1996		
Trucking and Railroad Companies	Allowed these companies the option of being taxed under the general corporate franchise tax (Article 9-A).	January 1, 1997
	Reduced the tax rate on section 184 for these companies from 0.75 percent to 0.6 percent.	
Legislation Enacted in 1997		
Power for Jobs Program	Created a tax credit against section 186-a to compensate utilities for revenue losses associated with participation in the program. The program makes low-cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation. The credit is allowed to the utility providing low-cost power to retail customers selected by the Power Allocation Board.	1997
Rate Reductions	Reduced the section 184 tax rate from 0.75 percent to 0.375 percent.	January 1, 1998
	Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998, and to 2.5 percent on January 1, 2000.	

Subject	Description	Effective Date
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. Section 186-a and section 189 taxes are phased out over a five-year period. Elimination of the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; elimination of the tax for all other business customers over a five-year period. For residential consumers, the commodity tax is eliminated and the transmission/distribution rate of the 186-a tax is reduced from 2.5 percent to 2.0 percent.	January 1, 2000
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low-cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
Estimated Payments	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006.	January 1, 2003
Legislation Enacted in 2003		
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Sections 183 and 184	Allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF).	April 1, 2004
Legislation Enacted in 2004		
Power for Jobs Program	Modified the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.	March 1, 2004
Legislation Enacted in 2005		
Power for Jobs Program Extension	Extended the Power for Jobs program through 2006.	April 1, 2005
Legislation Enacted in 2006		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 2007.	April 1, 2006
Legislation Enacted in 2007		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 2008.	April 1, 2007

TAX LIABILITY

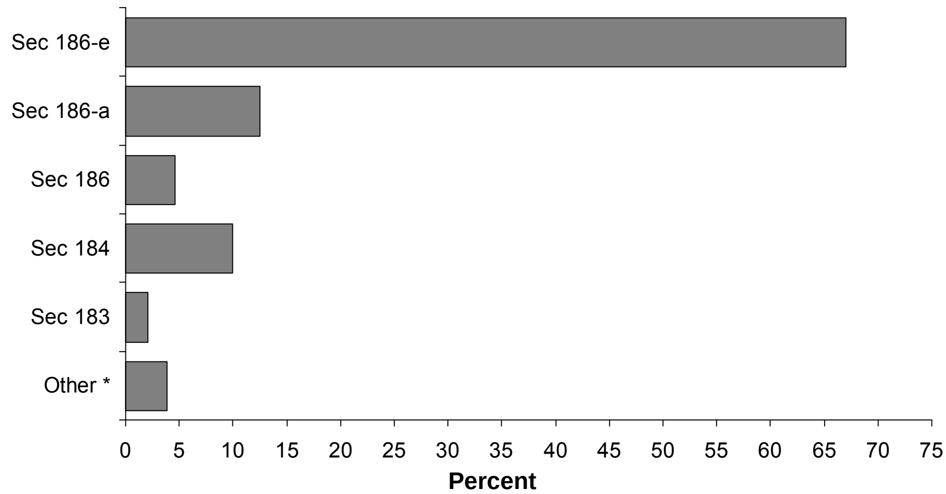
The *2003 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented almost 23 percent of total New York State corporate tax liability in 2003.

The chart below shows Article 9 liability by tax section as shown in the *2003 New York State Corporate Tax Statistical Report*. Total tax liability for Article 9 was $985 million in 2000, $970 million in 2001, $808 million in 2002 and $770 million in 2003. The declines in liability over this period are attributable to the repeal of the section 186 franchise tax imposed on water, gas, electric and power companies on January 1, 2000, and phased-in reductions in the tax rates imposed under section 186-a on commodities and transmission and distribution that began in tax year 2000.



The bar graph below depicts the share of total 2006-07 Article 9 All Funds and General Fund collections attributable to each section of Article 9 of the Tax Law. The All Funds graph reflects collections attributable to each section of the Tax Law before the distribution of section 183 and 184 collections to MTOAF and DHBTF.

2006-07 All Funds Percent Distribution by Section



* Other includes sections 180, 181, and 185

The table below reflects the tax collections attributable to each section of Article 9 of the Tax Law for 2006-07, 2007-08 and 2008-09. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES TAXES BY TAX LAW SECTION
(millions of dollars)

Section of Law	Type of Companies	2006-07 Actual	2007-08 Estimated	2008-09 Projected
180	Organization tax on New York (domestic) corporations	1	1	0
181	License and maintenance fees on out-of-State (foreign) corporations	26	27	4
183	Franchise tax on transportation and transmission companies	15	17	17
184	Additional franchise tax on transportation and transmission companies	71	68	68
185	Franchise tax on agricultural cooperatives	0	0	0
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	33	28	28
186a & e	Gross receipts tax on public utilities and excise tax on telecommunications	565	562	557
Various	MTA Surcharge	109	113	113
	All Funds Total	820	816	787
	Less Other Funds			
	MTA Surcharge	109	113	113
	MTOAF	68	68	68
	DHBTF	17	17	17
	General Fund	626	618	589

[1] Tax was repealed January 1, 2000, at which time such companies generally became taxable under the corporation franchise tax.

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporation and utilities taxes, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAXES (millions of dollars)	Actual 2006-07	Estimated 2007-08	Change	Percent Change	Projected 2008-09	Change	Percent Change
General Fund							
Non-Audit Receipts	587	606	19	3.2	611	5	0.8
Audit Receipts	39	12	(27)	(69.2)	12	0	0.0
Executive Budget Initiatives	0	0	0	--	(34)	(34)	--
Total	**626**	**618**	**(8)**	**(1.3)**	**589**	**(29)**	**(4.7)**
Other Funds							
Non-Audit Receipts	181	190	9	5.0	190	0	0.0
Audit Receipts	13	8	(5)	(38.5)	8	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**194**	**198**	**4**	**2.1**	**198**	**0**	**0.0**
All Funds							
Non-Audit Receipts	768	796	28	3.6	801	5	0.6
Audit Receipts	52	20	(32)	(61.5)	20	0	0.0
Executive Budget Initiatives	0	0	0	--	(34)	(34)	--
Total	**820**	**816**	**(4)**	**(0.5)**	**787**	**(29)**	**(3.6)**

All Funds

2007-08 Estimates

All Funds collections to date are $566 million, a decrease of $17 million, or approximately 3 percent below the comparable period in the prior fiscal year. This year-to-date change is primarily attributable to increased collections from utility companies, primarily electric utilities, and increased non-audit receipts from telecommunications companies, more than offset by decreased audit receipts from this same sector and decreased receipts from transportation and transmission companies. (See the "Audits and Compliance" section for a more detailed discussion of audit receipts.) Collections under section 186a from utilities regulated by the Public Service Commission increased by $5 million, or 7.2 percent, from 2006-07 collections. For telecommunications companies, audit collections decreased by more than $22 million, or 81 percent, while non-audit collections increased by $7 million, or 2.4 percent, leading to an overall decrease of $15 million, or 4.6 percent below 2006-07 collections through December.

All Funds receipts for 2007-08 are estimated to be $816 million, a decrease of $4 million, or 0.5 percent below last year. This decrease reflects continuation of the year-to-date weakness in collections from telecommunication companies and collections from utilities that are expected to grow for the rest of the year, but with a growth rate that is expected to moderate and will only partially offset the decreased collections from telecommunications companies. Overall, non-audit receipts are expected to increase by $28 million, or 3.6 percent, from 2006-07, while audit collections are expected to fall by $32 million or 62 percent.

2008-09 Projections

All Funds receipts are projected to be $787 million, a decrease of $29 million, or 3.6 percent below 2007-08. Contrary to experience before the current fiscal year, under current law, a modest increase would be expected in collections from PSC-regulated utilities, while no changes would be expected in collections from other industries. Annual audit receipts are expected to be $20 million, unchanged from 2007-08, as they continue at historical levels after the extraordinary levels of 2005-06 and 2006-07. Under current law, non-audit collections would be expected to increase by $5 million or 0.6 percent, largely reflecting moderate growth in payments from utilities. Initiatives proposed with this Budget will cause an estimated All Funds receipts reduction of $34 million, resulting in projected 2008-09 All Funds receipts of $787 million, a $29 million decrease from 2007-08.

General Fund

General Fund collections for 2007-08 are estimated to be $618 million, a decrease of $8 million, or 1.3 percent below 2006-07. The decrease is largely attributable to modest growth in non-audit receipts, more than offset by a decrease in audit receipts as audit receipts return to historical levels.

For 2008-09, General Fund collections are projected to be $589 million, a decrease of $29 million from 2007-08. The 2008-09 estimate reflects a net decrease from the proposed legislation and audit collections and refunds that remain at the 2007-08 levels.

Other Funds

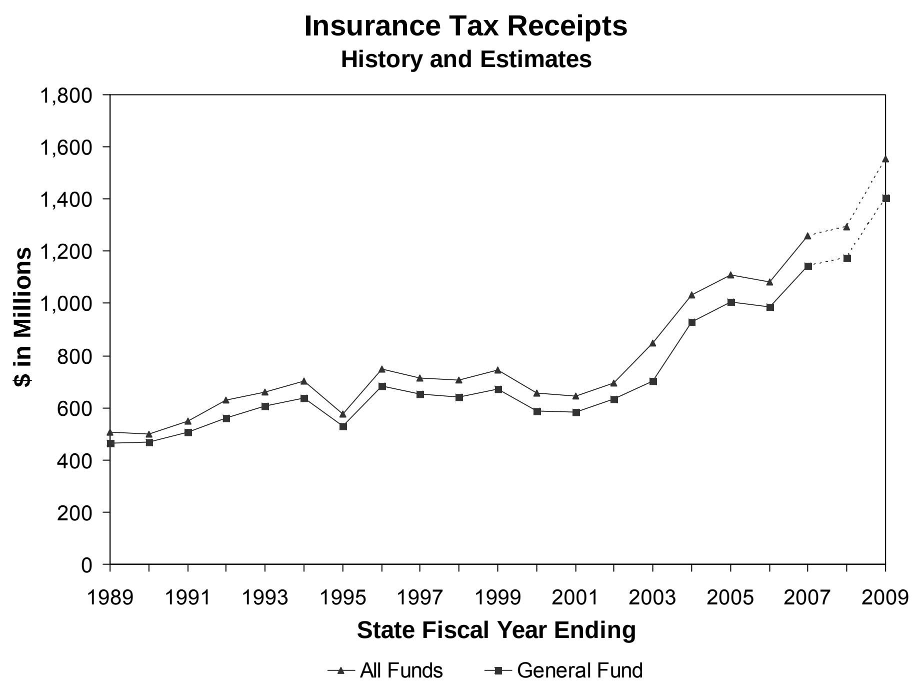
As previously discussed, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited in the MTOAF will total an estimated $68 million for 2007-08. The remaining portion of sections 183 and 184 collections, or $17 million, is earmarked for the DHBTF. In 2008-09, receipts deposited into the MTOAF and the DHBTF are projected at $68 million and $17 million, respectively.

The MCTD business tax surcharge will result in deposits of an estimated $113 million for 2007-08 and $113 million for 2008-09 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	1,141.6	1,176.0	34.4	3.0	1,405.0	229.0	19.5
Other Funds	116.2	116.0	(0.2)	(0.2)	150.0	34.0	29.3
All Funds	1,257.8	1,292.0	34.2	2.7	1,555.0	263.0	20.4

Note: Totals may differ due to rounding.



INSURANCE TAXES BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1998-99	718	45	673	76	6	70	743
1999-2000	634	45	589	79	10	69	658
2000-01	648	64	584	70	10	60	644
2001-02	667	34	633	69	6	63	696
2002-03	763	59	704	82	10	72	776
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	119	18	101	1,108
2005-06	1,022	35	987	103	7	96	1,083
2006-07	1,176	34	1,142	122	6	116	1,258
Estimated							
2007-08	1,209	33	1,176	122	6	116	1,292
2008-09							
Current Law	1,192	31	1,161	121	6	115	1,276
Proposed Law	1,436	31	1,405	156	6	150	1,555

[1] Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- eliminate the comparative advantage afforded to for-profit HMOs over insurance companies by reclassifying them as Article 33 taxpayers, subjecting them to a premiums-based tax;
- change the first quarterly payment of estimated tax for certain insurance taxpayers from 25 percent to 30 percent of the prior year's liability; and
- extend the MTA surcharge for four additional years.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS

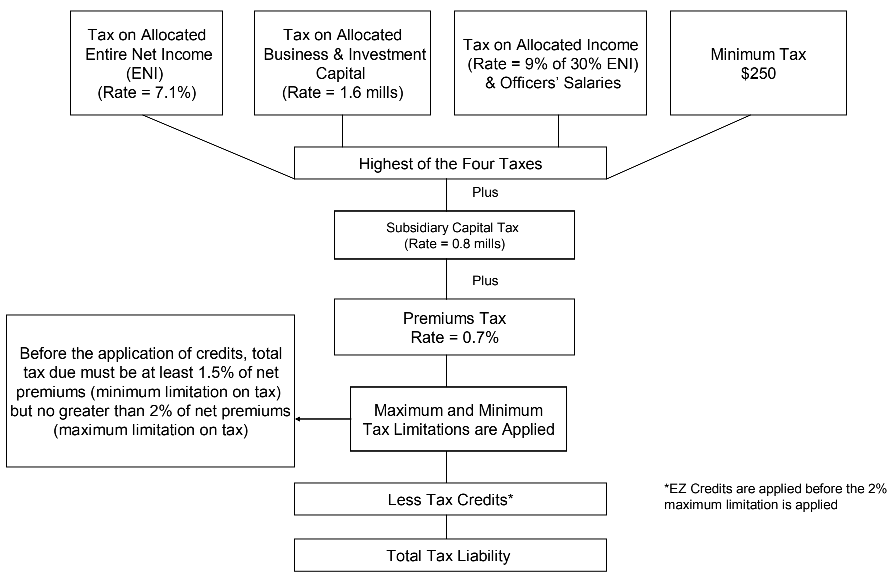
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2.0 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or limitation (1.5 percent of net premiums) but no greater than the maximum limitation (2.0 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the limitation may not reduce their liability with tax credits to a level below the limitation. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to reduce their tax liability below the limitation.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department).

The Insurance Law imposes a premiums tax on a licensed excess line insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

Administration

Non-life insurance companies make quarterly tax payments on an estimated basis in equal installments in March, June, September, and December. The first quarterly estimated tax payment from life insurance companies is required to be 40 percent (rather than 25 percent) of prior year liabilities.

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the certified capital companies (CAPCOs) credit, the investment tax credit (ITC), the long-term care insurance credit, and Empire Zones credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts and certain health insurance contracts for insureds aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. Health maintenance organizations (HMOs) are examples of such exempt entities; however, such entities may be subject to tax under other articles of the Tax Law. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent surcharge on insurance tax liability otherwise due. Subsequent legislation eliminated the surcharge over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Tax Liability	Reduced the limitation on tax liability for life insurers from 2.6 percent to 2.0 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies (CAPCOs)	Changed credit to equal 100 percent of amount invested in CAPCOs for taxable years beginning after 1998. The rate was changed to equal 10 percent per year for ten years. The statewide cap was set at $100 million.	January 1, 1999
Captive Insurance Companies	Allowed the formation of captive insurance companies that are subject to a special premiums tax with a top rate of 0.4 percent or $5,000 in lieu of the premiums and income-based tax.	January 1, 1998
Legislation Enacted in 1999		
CAPCOs	Established CAPCO Program Two. Increased Statewide cap from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
Entire Net Income (ENI) Tax Rate	Reduced ENI tax rate over a three-year period: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduced the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2.0 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000

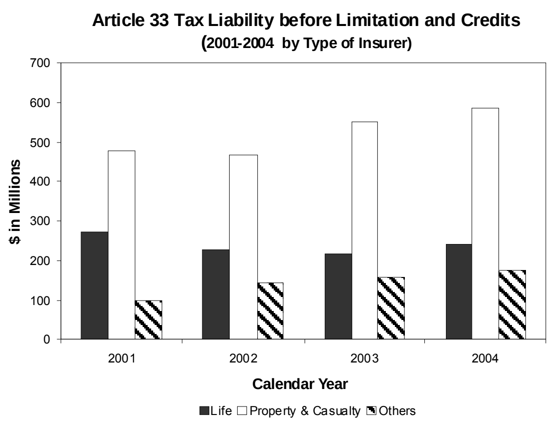
Subject	Description	Effective Date
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003.
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual "tax-free" zones for certain businesses. The enhanced benefits of this program include a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payments	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies under Article 33. Life insurance companies, which currently pay a first quarterly payment of 40 percent, are not affected. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and health insurance taxpayers covering life and accident/health premiums are taxed on the four tax bases and are subject to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident and health premiums are subject to tax of 1.75 percent of premiums. • All other non-life insurers are subject to tax of 2.0 percent of premiums.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required modifications to Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fourth Certified Capital Company (CAPCO) Credit	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
Fifth Certified Capital Company (CAPCO) Program	Established CAPCO Program Five. Provided an additional allocation of $60 million made available over a ten-year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premium of the insurance company that is in excess of 95 percent of total premiums.	January 1, 2006

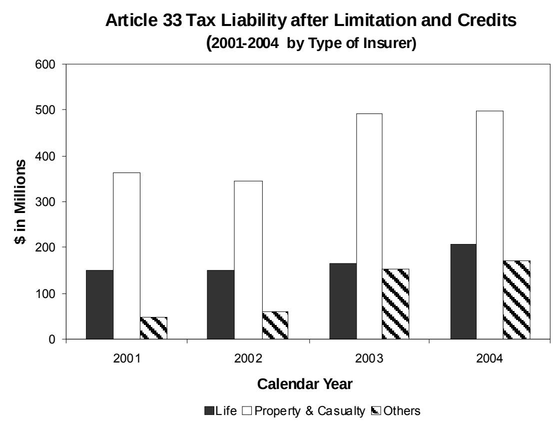
Subject	Description	Effective Date
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007

TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2004 tax year, the most recent year for which such data are available. The 2004 Study File indicates that the property and casualty sector is the largest sector, accounting for 56.7 percent of total tax liability. Life insurers are the second largest, with 23.7 percent of total liability, with the 19.6 percent balance attributable to other insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2001 through 2004 before and after the application of the limitation of tax due as determined by taxable premiums and credits.





Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the five largest lines of business under the property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. In 2006, these lines accounted for more than 81 percent of total premiums. The table below reports actual property and casualty premiums and growth from 2000 through 2006 for New York State.

PROPERTY AND CASUALTY INSURANCE PREMIUMS
NEW YORK CALENDAR YEAR
(millions of dollars/percent)

Lines of Insurance	2000	2001	2002	2003	2004	2005	2006
Automobile	9,664	10,773	11,898	12,721	12,875	12,344	12,039
percent change	*0.73*	*11.48*	*10.44*	*6.92*	*1.21*	*(4.12)*	*(2.47)*
Workers' Compensation	3,154	3,282	3,412	3,403	1,928	3,759	4,133
percent change	*15.74*	*4.06*	*3.95*	*(0.26)*	*(43.34)*	*94.97*	*9.95*
Commercial Multi-Peril	2,085	2,352	2,688	2,779	2,897	2,958	3,074
percent change	*4.15*	*12.78*	*14.30*	*3.39*	*4.25*	*2.11*	*3.92*
General Liability	2,148	2,455	3,478	3,741	4,018	3,997	4,387
percent change	*17.70*	*14.31*	*41.65*	*7.56*	*7.40*	*(0.52)*	*9.76*
Homeowners' Multi-Peril	2,326	2,469	2,661	2,901	3,183	3,427	3,615
percent change	*4.30*	*6.14*	*7.82*	*8.98*	*9.41*	*7.97*	*5.49*
Other	3,720	4,476	5,432	5,785	5,841	5,886	6,426
percent change	*2.34*	*20.33*	*21.35*	*6.50*	*0.97*	*0.77*	*9.17*
TOTAL P/C PREMIUMS	23,098	25,808	29,570	31,330	30,733	32,371	33,674
percent change	*4.94*	*11.73*	*14.58*	*5.95*	*(1.91)*	*5.33*	*4.03*

Source: New York State Insurance Department

Total premiums for property and casualty companies overall grew by 4 percent in 2006. Premium growth in 2007 is expected to slow to 1.5 percent, less than half 2006 growth. Auto insurance prices are estimated to fall by about $4 per policy. Even though growth slowed, profitability is expected to rise due to a decrease in catastrophic payments in 2006. Thus, underwriting profits are expected to remain unchanged in 2007.

The Federal Gramm-Leach-Bliley Act of 1999, which permits insurance companies, banks and brokerages to form consolidated companies offering a full range of financial services, has broken down the barriers that once separated the various sectors of the financial services industry. Banks and brokerage houses now sell more annuities than life insurance agents do.

For a more detailed discussion of the methods and models used to develop estimates and projections for insurance taxes, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAX RECEIPTS (millions of dollars)							
	Actual 2006-07	Estimated 2007-08	Change	Percent Change	Projected 2008-09	Change	Percent Change
General Fund							
Non-Audit Receipts	1,094	1,141	47	4.3	1,126	(15)	(1.3)
Audit Receipts	48	35	(13)	(26.8)	35	0	0.0
Executive Budget Initiatives	0	0	0	--	244	244	--
Total	**1,142**	**1,176**	**34**	**3.0**	**1,405**	**229**	**19.5**
Other Funds							
Non-Audit Receipts	108	110	2	1.7	109	(1)	(0.9)
Audit Receipts	8	6	(2)	(25.0)	6	0	0.0
Executive Budget Initiatives	0	0	0	--	35	35	--
Total	**116**	**116**	**0**	0.0	**150**	**34**	**29.3**
All Funds							
Non-Audit Receipts	1,202	1,251	49	4.1	1,235	(16)	(1.3)
Audit Receipts	56	41	(15)	(26.5)	41	0	0.0
Executive Budget Initiatives	0	0	0	--	279	279	--
Total	**1,258**	**1,292**	**34**	**2.7**	**1,555**	**263**	**20.4**

All Funds

2007-08 Estimates

All Funds preliminary collections through December of nearly $845 million are approximately $7 million above the comparable period in the prior fiscal year. The year-to-date estimates are consistent with both prior year experience and forecast cash flow.

All Funds receipts for 2007-08 are estimated at $1,292 million, an increase of $34 million, or 2.7 percent above last year. The modest increase is attributable to a 4.1 percent ($49 million) increase in non-audit receipts, partially offset by a fall in audit receipts of 26.5 percent ($15 million).

2008-09 Projections

All Funds receipts are projected to be $1,555 million, an increase of $263 million, or 20.4 percent above 2007-08. The increase is primarily due to the Executive Budget initiatives that will reclassify HMOs as Article 33 insurance taxpayers, generating an additional $269 million. A further $10 million is anticipated from modifying pre-payment requirements to 30 percent. The projection for a modest decline in non-audit receipts is also consistent with industry projections that expect a small industry slowdown in 2008.

General Fund

General Fund collections for 2007-08 are estimated to be $1,176 million, an increase of $34 million, or 3 percent above 2006-07. The increase is attributable to a $47 million (4.3 percent) increase in non-audit receipts, offset by a $13 million (26.8 percent) decrease in audit receipts.

General Fund collections for 2008-09 are projected to be $1,405 million, an increase of $229 million, or 19.5 percent above 2007-08. The increase reflects the impact of $244 million in Executive Budget initiatives described above, partially offset by a $15 million decline in non-audit receipts from the prior year.

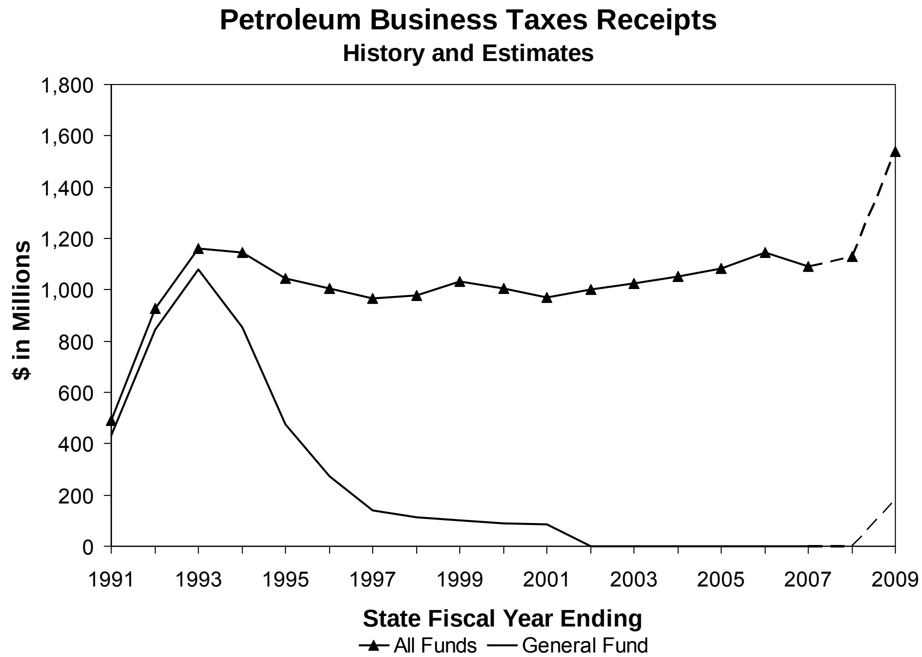
Other Funds

Insurance tax receipts from the MTA surcharge that are deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF insurance tax receipts for 2007-08 reflect year-to-date trends and are estimated at $116 million (including $6 million in audit receipts). Surcharge receipts for 2008-09 of $150 million reflect the trends described above, and include $35 million from aforementioned Executive Budget proposals.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	180.4	0.0	0.0
Other Funds	1,090.3	1,129.3	39.0	3.6	1,357.4	228.1	20.2
All Funds	1,090.3	1,129.3	39.0	3.6	1,537.8	408.5	36.2

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts
1998-99	103	1	102	423	5	418	519	6	513	1033
1999-2000	90	1	89	415	5	410	512	6	506	1005
2000-01	88	2	86	405	9	396	501	12	489	971
2001-02	0	0	0	459	10	449	566	12	554	1003
2002-03	1	0	1	462	8	454	578	10	568	1023
2003-04	0	0	0	478	6	472	587	7	580	1052
2004-05	0	0	0	492	6	486	607	8	599	1085
2005-06	0	0	0	523	9	514	642	10	632	1146
2006-07	0	0	0	493	7	486	613	9	604	1090
Estimated										
2007-08	0	0	0	514	10	504	642	17	625	1129
2008-09										
Current Law	0	0	0	533	6	527	662	9	653	1180
Proposed Law	0	0	180	565	6	559	808	9	799	1538

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed in this Budget would repeal the motor fuel tax rate and the State sales tax on motor fuel and diesel motor fuel and combine these current rates into the petroleum business tax rate. In addition, the Commissioner of the Department of Taxation and Finance is authorized to work with other government agencies to use current technology in order to reduce bootlegging of fuel.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate. Under the Budget proposal, there will no longer be two components.

Under tax rate indexing, annual adjustments are made on January 1 of each year to the base and supplemental tax rates to reflect the change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. Under the Budget proposal, there will be an exception for 2008-09 in which the index will be adjusted on December 1, 2008 instead of January 1, 2009. Tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general, that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the percentage change in the index.

Based on changes in the petroleum PPI, the PBT rate index for 2006 increased by 5 percent on January 1, 2007, and decreased by 1.2 percent on January 1, 2008. The petroleum PPI is projected to increase by 24.7 percent through August 2008, triggering a projected PBT rate index increase of 5.0 percent on December 1, 2008.

PETROLEUM BUSINESS TAX RATES FOR 2007 - 2009
(cents per gallon)

	2007			2008			2009*		
Petroleum Products	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**
Automotive fuel									
Gasoline and other non diesel	10.00	6.60	**16.60**	9.90	6.50	**16.40**	10.30	6.80	**17.10**
Diesel	10.00	4.85	**14.85**	9.90	4.75	**14.65**	10.30	5.05	**15.35**
Aviation gasoline	10.00	6.60	**16.60**	9.90	6.50	**16.40**	10.30	6.80	**17.10**
Net rate after credit	6.60	0.00	**6.60**	6.50	0.00	**6.50**	6.80	0.00	**6.80**
Kero-jet fuel	6.60	0.00	**6.60**	6.50	0.00	**6.50**	6.80	0.00	**6.80**
Non-automotive diesel fuels	9.00	6.60	**15.60**	8.90	6.50	**15.40**	9.30	6.80	**16.10**
Commercial gallonage after credit	9.00	0.00	**9.00**	8.90	0.00	**8.90**	9.30	0.00	**9.30**
Nonresidential heating after credit	4.90	0.00	**4.90**	4.80	0.00	**4.80**	5.00	0.00	**5.00**
Residual petroleum products	6.90	6.60	**13.50**	6.80	6.50	**13.30**	7.10	6.80	**13.90**
Commercial gallonage after credit	6.90	0.00	**6.90**	6.80	0.00	**6.80**	7.10	0.00	**7.10**
Nonresidential heating after credit	3.70	0.00	**3.70**	3.70	0.00	**3.70**	3.80	0.00	**3.80**
Railroad diesel fuel	10.00	4.85	**14.85**	9.90	4.75	**14.65**	10.30	5.05	**15.35**
Net rate after exemption/refund	8.70	0.00	**8.70**	8.60	0.00	**8.60**	9.00	0.00	**9.00**

** Projected — A projected petroleum producer price index increase of 24.7 percent through August 2008 will result in an increase of 5.0 percent in the PBT index. Under proposed law, there will no longer be a base and supplemental tax rate. Under proposed law, in 2009, the rate on gasoline is projected to be 34 cents and 32.85 cents for diesel.*

FUEL PRICE AND PETROLEUM BUSINESS TAX RATE
(percent change)

Year	Petroleum PPI	PBT Rate Index
1999	(18.60)	(5.00)
2000	(7.85)	(5.00)
2001	55.84	5.00
2002	13.08	5.00
2003	(19.51)	(5.00)
2004	27.01	5.00
2005	12.94	5.00
2006	35.10	5.00
2007	36.01	5.00
2008	(1.20)	(1.20)
2009*	24.70	5.00

* Estimated

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel taxes (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax). Under proposed law, the carrier tax would be merged into the fuel use tax and the motor fuel tax would be repealed.

Under 1992 legislation, businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

Tax Expenditures

Specifically exempted from Article 13-A taxes are fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel. Under proposed law, buses, snowmobiles and tax-exempt hospitals will also be exempt from tax. For further expenditure items related to the PBT, see the *New York State Tax Expenditure Report*.

Significant Legislation

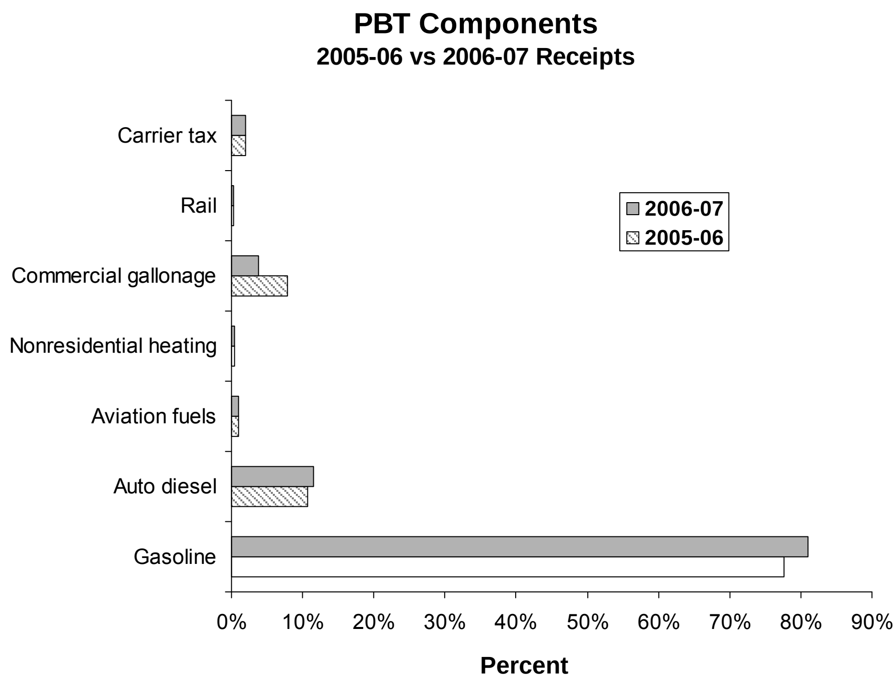
The significant statutory changes to this tax source since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Replace gross receipts tax	Converted the tax from a gross receipts basis to a cents-per-gallon basis. The tax no longer applied to kerosene, bunker fuel or liquid petroleum gasoline.	September 1, 1990
Business Tax Surcharge	Imposed a business surcharge at a rate of 15 percent for two years and ten percent for one year.	June 1, 1990
Lubricating Oil Tax	Imposed a tax of 10 cents per quart on lubricating oil.	September 1, 1990
Legislation Enacted in 1992		
Tax Liability	Required businesses with yearly motor fuel and petroleum business tax liability of more than $5 million to remit, using electronic funds transfer, their tax liability for the first 22 days of the month, within three business days after that date. Taxpayers can choose to make either a minimum payment of three fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.	December 1, 1992
Legislation Enacted in 1993		
Fund Distribution	The majority of PBT receipts were primarily directed to the General Fund in years past. Since 2001, none of these receipts was directed to this Fund. The majority of funds are directed to the Dedicated Funds Pool, which is split between the Dedicated Mass Transportation Fund (37 percent) and the Dedicated Highway Bridge Trust Fund (63 percent). A smaller portion is directed to the Mass Transportation Operating Assistance Fund.	1993 and after
Legislation Enacted in 1994		
Indexing	Enacted tax rate indexing.	January 1, 1996
Business Tax Surcharge	The business tax surcharge was slowly phased-out and eliminated on June 1, 1997.	January 1, 1994

Subject	Description	Effective Date
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995
Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax and reduced the base rate by 1.33 cents per gallon.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel.	January 1, 1998
	Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel.	April 1, 1999
Utilities	Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Heating	Reduced by 20 percent the petroleum business tax rates on commercial gallons for space heating.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft over flight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20.	September 1, 2006

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



For a more detailed discussion of the methods and models used to develop estimates and projections for the petroleum business taxes, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are $873.7 million, an increase of $69.8 million, or 8.7 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $1,129.3 million, an increase of $39 million, or 3.6 percent above last year.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are estimated to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax).

Gasoline and diesel receipts are projected to increase by $23 million and $6 million, respectively. Gasoline gallonage is estimated to decrease slightly while diesel gallonage increases slightly. The receipts increase is generated primarily by the 5 percent increase in the PBT rate index effective January 1, 2007, offset by a 1.2 percent decrease in January 2008. The fiscal impact from the exemption of alternative fuels is projected to reduce receipts by $1.5 million.

2008-09 Projections

Under current law, All Funds receipts are projected to be $1,179.7 million, an increase of $50.4 million, or 4.5 percent above 2007-08. This includes the enforcement provisions that require collection of tax on sales to non-Native Americans on New York reservations. This is expected to increase revenues by $24 million.

Under proposed law, All Fund receipts are projected to be $1,537.8 million, an increase of $408.5 million, or 36.2 percent above 2007-08. This includes the proposal to increase the PBT rate to offset the repeal of the State sales tax on motor fuel and diesel motor fuel and the repeal of the motor fuel tax. In addition, the proposal to reduce bootlegging of fuel is expected to increase revenues.

General Fund

Legislation enacted in 2000 provided that all remaining PBT receipts deposited in the General Fund be deposited in the Dedicated Funds Pool, effective April 1, 2001. As a result, no PBT receipts will be deposited in the General Fund in 2007-08. Under proposed law, effective December 1, 2008, the General Fund will receive 23.89 percent of petroleum business tax receipts, or $180.4 million in 2008-09. This offsets the decrease in sales tax revenue due to the repeal of the sales tax on motor fuel and diesel motor fuel.

Other Funds

In past years, revenues from the PBT have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOAF). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOAF received 27.3 percent or a guaranteed amount. The 1990 statute converted the tax from a gross receipts tax to a cents-per-gallon tax, expanded the tax yield, and limited the MTOAF share to slightly more than 17.7 percent of the nonsurcharge revenues — the dollar equivalent of its share prior to the expansion. Carrier tax receipts were deposited in the General Fund until April 1, 2001.

Separate 1991 transportation legislation provided that effective April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax, were to be split between the Dedicated Mass Transportation Trust Fund (DMTTF) and the Dedicated Highway and Bridge Trust Fund (DHBTF). Numerous pieces of legislation were enacted in subsequent years that reduced General Fund deposits and increased the amount deposited in the dedicated transportation funds.

Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, were redistributed to the DHBTF and the DMTTF.

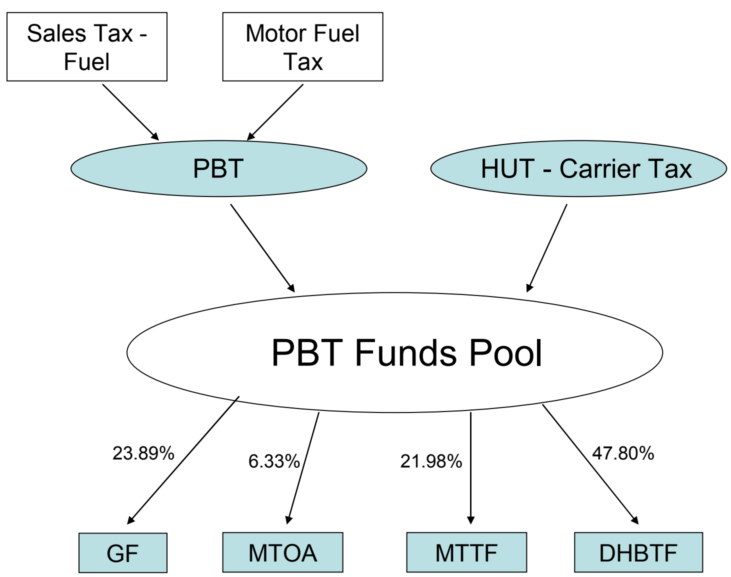
Statutory changes to the allocation of the PBT base tax by fund type are reported in the following table.

PBT BASE TAX FUND DISTRIBUTION (percent)

Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	0.0
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 1, 1998	12.4	19.5	68.1
April 1, 1999	10.7	19.5	69.8
April 1, 2001	0.0	19.7	80.3

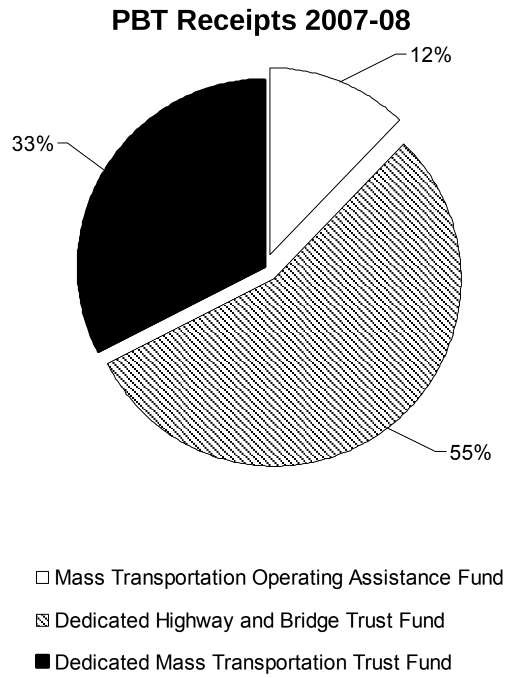
[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.
[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

PROPOSED PBT BASE TAX FUND DISTRIBUTION (Effective December 1, 2008)



Petroleum business tax receipts in 2007-08 are estimated to be $136.9 million for MTOAF, $625.1 million for the DHBTF, and $367.3 million for the DMTTF.

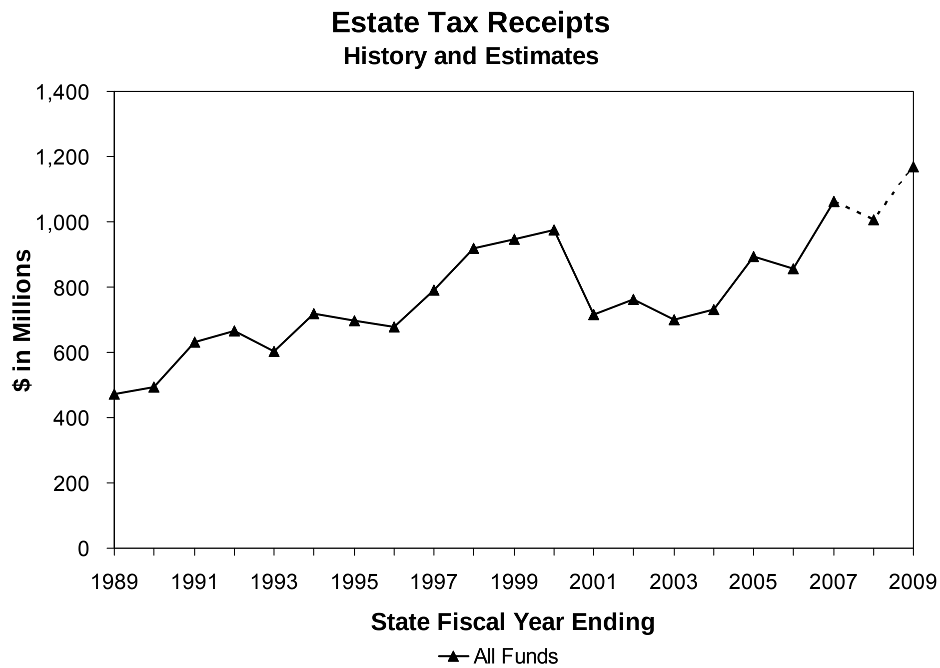
Under proposed law, petroleum business taxes in 2008-09 are projected to provide MTOAF receipts of $142.7 million, DHBTF receipts of $798.8 million, and DMTTF receipts of $415.9 million.


PBT Receipts 2007-08
12%
33%
55%
Mass Transportation Operating Assistance Fund
Dedicated Highway and Bridge Trust Fund
Dedicated Mass Transportation Trust Fund

ESTATE TAX

ESTATE TAX (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	1,063.3	1,006.0	(57.3)	(5.4)	1,170.0	164.0	16.3
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,063.3	1,006.0	(57.3)	(5.4)	1,170.0	164.0	16.3

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
1998-99	993	47	946	946
1999-2000	1,029	54	975	975
2000-01	777	60	717	717
2001-02	791	30	761	761
2002-03	736	35	701	701
2003-04	760	28	732	732
2004-05	936	41	895	895
2005-06	892	37	855	855
2006-07	1,122	59	1,063	1,063
Estimated				
2007-08	1,044	38	1,006	1,006
2008-09	1,210	40	1,170	1,170

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code as amended through July 22, 1998, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes to New York to arrive at the New York State estate tax.

New York's estate tax is calculated by using the Unified Rate Table and the table for computing the maximum New York State credit for state death taxes as they were in effect on July 22, 1998. The New York estate tax is equal to the amount of the credit for state death taxes which can not exceed the amount of the Federal tax based on the July 22, 1998, rates and the current State unified credit. The computation of maximum New York State credit for state death taxes is a graduated schedule with rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, to 16 percent on adjusted taxable estates for New York State of $10,040,000 or more.

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by estate representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22, 1998, there is only one New York specific tax expenditure, the Qualified Family Owned Business Interest Deduction which has been eliminated from the Federal estate tax but is still allowed in New York.

Significant Legislation

The significant statutory changes since 1925 to the estate tax are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1925		
Estate Tax	Imposed an estate tax.	April 2, 1925
Legislation Enacted in 1963		
Estate Tax - Conformity	Adopted applicable Federal rules for determining gross estate and allowable deductions.	April 1, 1963
Legislation Enacted in 1971		
Estate and Gift - Gift Imposition	Imposed a gift tax as Article 26-A of the Tax Law.	January 1, 1972
Legislation Enacted in 1982		
Estate and Gift - Unification	Unified the estate tax and the gift tax rates and credit.	January 1, 1983
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	June 7, 1995

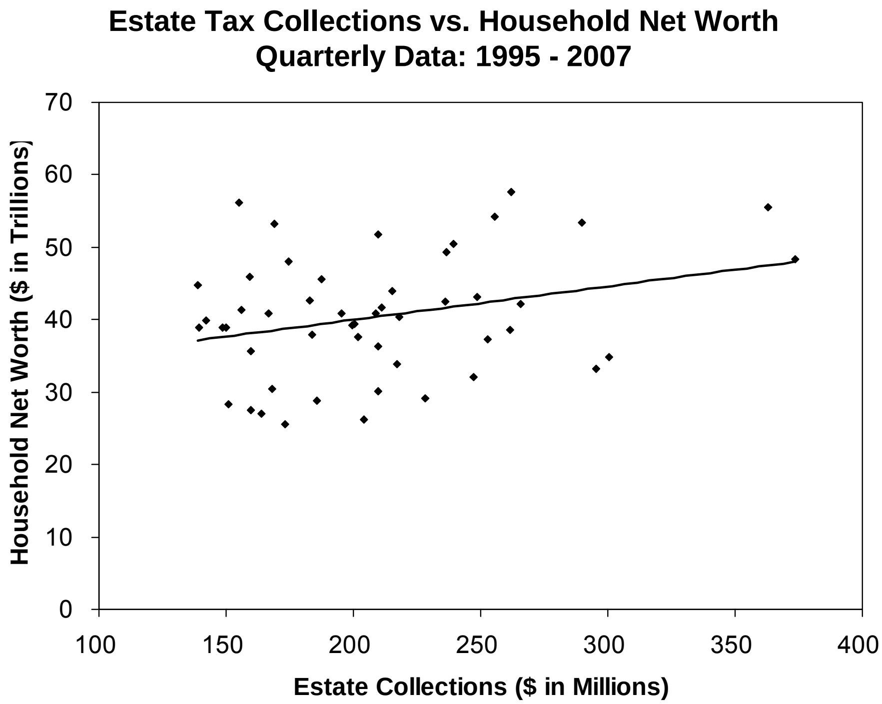
Subject	Description	Effective Date
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced interest on deferred payments of estate tax, where estate consists largely of a closely-held business, from 4 percent to 2 percent.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for the unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Repealed family-owned business exclusion and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date of the return disclosing the cause of action if filed.	July 13, 1999

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: 1) tax law changes, 2) annual variations in the relatively small number of large estates, and 3) the value of the equity market, given the large component of corporate stock in large taxable estates. Recent tax law changes have reduced estate tax collections across the board and thousands of the smallest estates have been effectively exempt from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the more random nature of collections from large estates.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

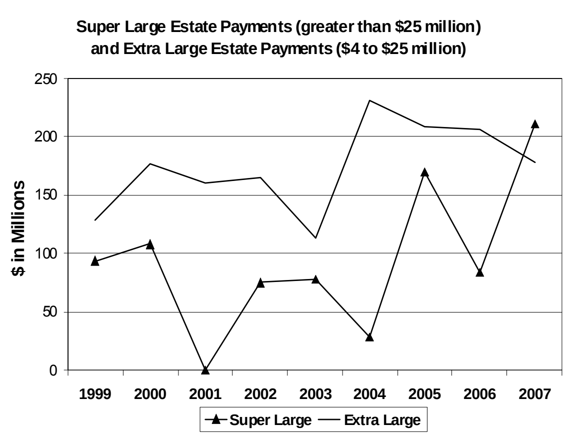
For a more detailed discussion of the methods and models used to develop estimates and projections for estate tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.



REVIEW OF FORECAST

Estate tax collections have, at times, varied significantly from the Enacted Budget estimates. The following graph shows the history of the estimates compared to the final results. The most telling factor in explaining the variance is the number and size of payments from very large estates (payments in excess of $25 million). This very small group of large estates can swing the total estate tax collections significantly from year to year.

On average, it is expected that 2.5 estate payments of this size will be made each fiscal year. In SFY 2000-01 there were none while in 2006-07 there were four. Since this category is described as "payments over $25 million", the size of the payment can be as important as the number.



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are $773.3 million, a decrease of $135.2 million, or 14.9 percent below the comparable period in the prior fiscal year.

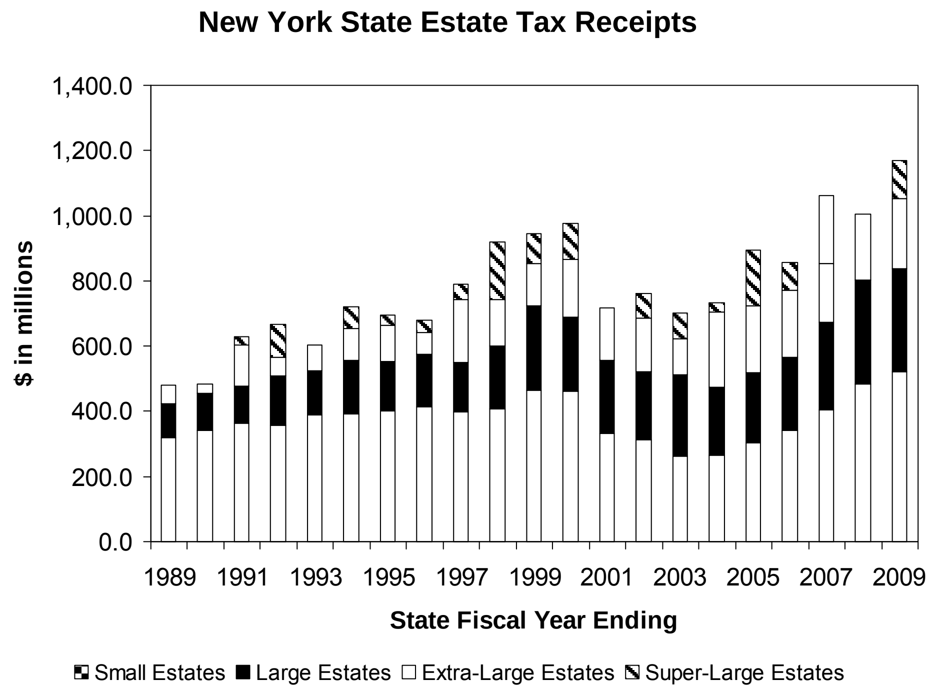
CARTS collections through nine months of 2007-08 are $22.2 million, a decrease of $32.2 million from the same period of 2006-07. Year-to-date refunds for 2007-08 are $30 million, or 19.9 percent below the same period of 2006-07.

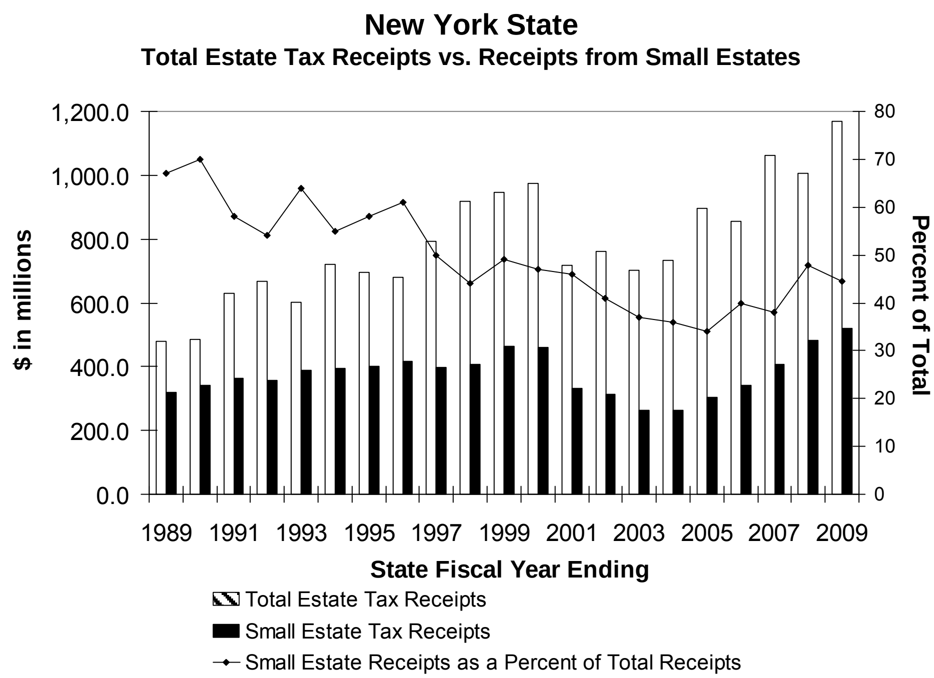
All Funds receipts for 2007-08 are estimated to be $1,006 million, a decrease of $57.3 million, or 5.4 percent below last year.

Small estate (less than $0.5 million in payments) year-to-date collections are $357.7 million, an increase of $38.5 million, or 12.8 percent from the comparable period in 2006-07. Small estate receipts for 2007-08 are estimated at $482.0 million, an increase of $76.0 million, or 18.7 percent above 2006-07. Receipts from small estates were below average during the last quarter of 2006-07. Small estates receipts have grown as increases in net worth have increased the number of estates with a value in excess of the unified credit.

Large estates (less than $4 million in payments) are estimated to increase to $322.0 million, reflecting a 22.9 percent increase in receipts during the first nine months of 2007-08 from collections during the first nine months of 2006-07.

Receipts from extra-large estates (payments between $4 million and $25 million) are estimated to increase from 2006-07 levels to $202.0 million. The number of extra-large payments received during the nine months of 2007-08 declined by 2 payments from the same period of 2007-08; however, the average payment increased slightly. In addition, no extra-large payments were received during the last quarter of 2006-07. No super-large payments (payments greater than $25 million) have been received year-to-date in 2007-08.





2008-09 Projections

All Funds receipts are projected to be $1,170 million, an increase of $164 million, or 16.3 percent above 2007-08. The estimate includes CARTS collections of $30 million and refunds of $40 million.

Super-large estate payments are projected to be $118 million in 2008-09. The payments from extra-large estates are expected to increase to $214 million. The projections for the super-large and extra-large estates are based upon a distributional analysis, which suggests the number of estates in these categories will return to average levels in 2008-09.

Large estate payments are estimated remain relatively flat in 2008-09, decreasing by $5.0 million, to $317 million. Trend growth in large estate payments is expected to continue. However, the growth is offset by the loss of above trend payments received in the second quarter of 2007-08.

Small estate payments are projected to increase by $39 million, or 8.1 percent. The estimate for small estates is based on expected changes in the stock market and the average value of a single family home in New York. Trend growth in small and large estates is projected to continue due to increases in asset values and increases in the number of small estate tax payments. However, the rate of growth is expected to be less than in 2007-08 due to slower stock market growth and weakness in the housing markets.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

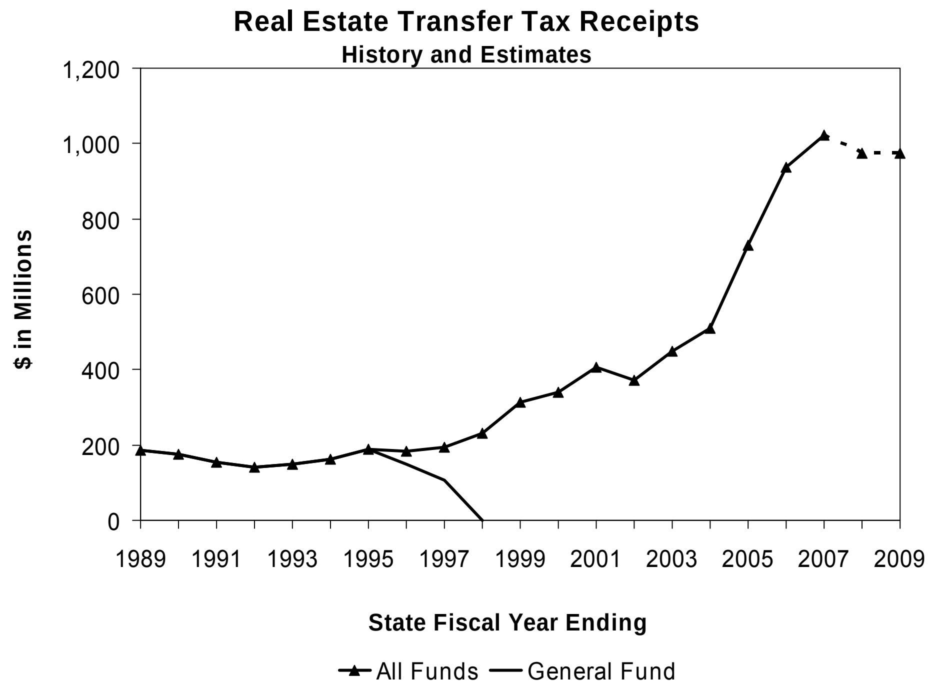
	Super-Large[1] and Extra-Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
1997-98	23	317.4	160	195.5	406.4	919.3
1998-99	19	221.8	215	259.5	465.1	946.4
1999-2000	24	285.0	192	229.6	460.6	975.2
2000-01	22	160.0	179	224.7	332.4	717.1
2001-02	21	240.1	167	208.8	312.5	761.4
2002-03	16	190.5	200	247.6	262.8	700.9
2003-04	26	259.1	169	209.1	264.1	732.3
2004-05	25	377.9	191	212.9	304.5	895.3
2005-06	25	289.7	173	223.1	342.1	854.9
2006-07	28	389.5	217	267.8	406.0	1,063.3
Estimated						
2007-08	26	202.0	267	322.0	482.0	1,006.0
2008-09	26	332.0	255	317.0	521.0	1,170.0

[1] Payment of at least $25.0 million.
[2] Payment of at least $4.0 million, but less than $25.0 million.
[3] Payment of at least $0.5 million, but less than $4.0 million.
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,022.0	1,006.0	(16.0)	(1.6)	975.2	(30.8)	(3.1)
All Funds	1,022.0	1,006.0	(16.0)	(1.6)	975.2	(30.8)	(3.1)

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND (millions of dollars)					
	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Debt Service Funds[2]	All Funds Receipts
1998-99	112	200	0	200	312
1999-2000	112	229	1	228	340
2000-01	112	293	0	293	405
2001-02	112	259	0	259	371
2002-03	112	336	0	336	448
2003-04	112	398	1	397	509
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
2006-07	147	875	1	874	1,022
Estimated					
2007-08	212	795	1	794	1,006
2008-09	237	739	1	738	975

[1] Enviornmental Protection Fund.

[2] Clean Water/Clean Air Bond Debt Sevice Fund.

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this budget.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is $1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance ("central office" collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, due to the unpredictable payment behavior of some large counties, it is not useful for predicting monthly cash flows.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one-, two-, or three-family house or individual residential condominium unit.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

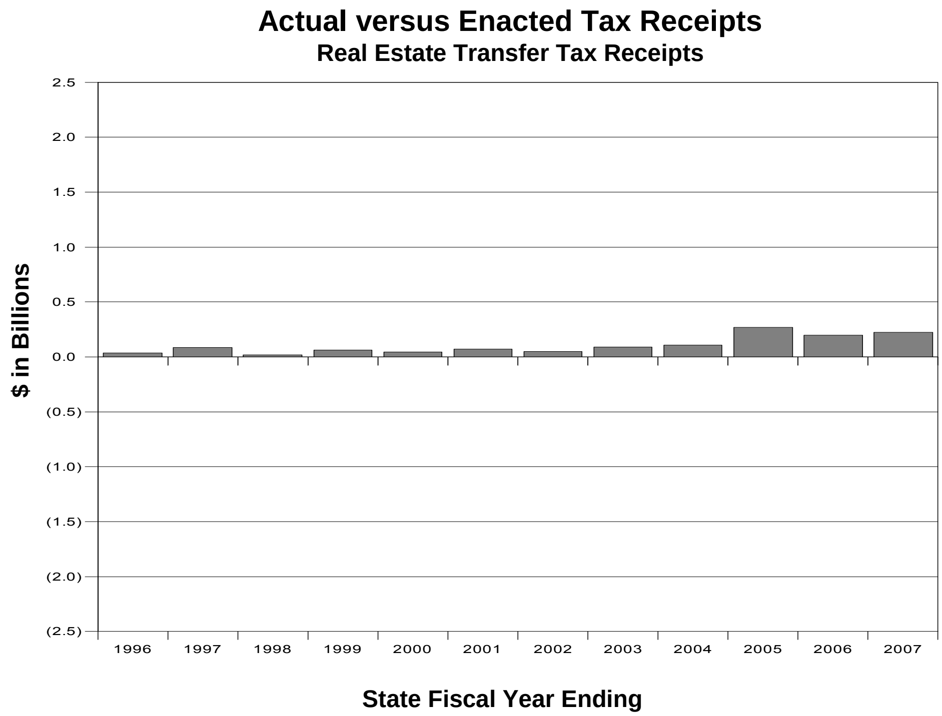
For a more detailed discussion of the methods and models used to develop estimates and projections for the Real Estate Transfer Tax, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

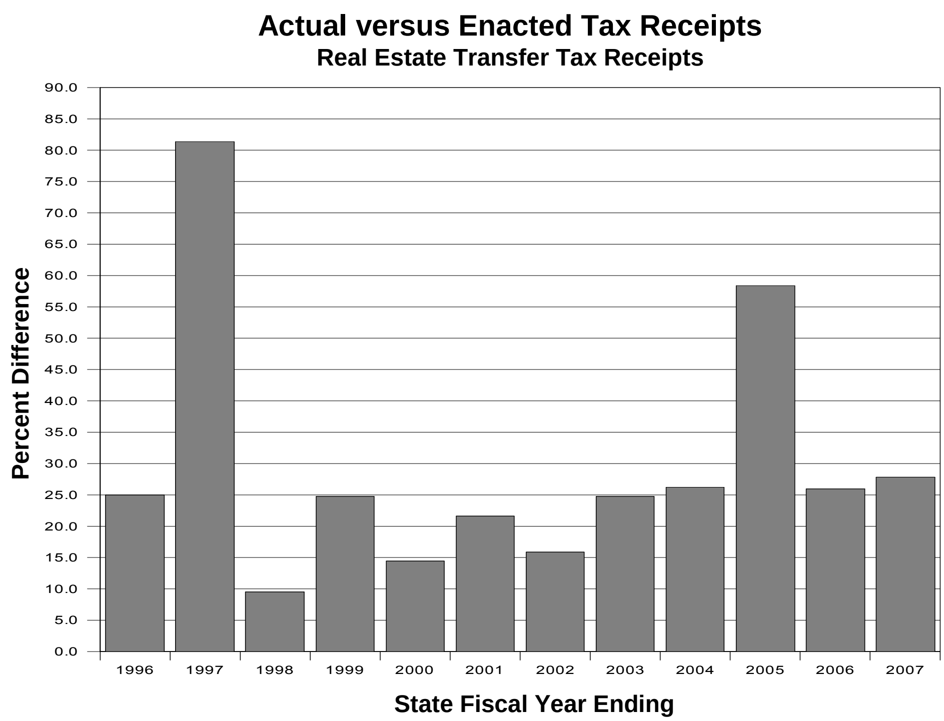
Review of Forecast

The real estate transfer tax has recently been a highly variable source. Receipts are related to mortgage rate changes, housing starts, average housing prices (especially downstate), Manhattan vacancy rates and nonresidential construction. This tax includes a special rate for high-value residential property and the share of total receipts from this segment has grown at a rapid rate in recent years. The total receipts from this tax source have increased from less than $200 million in 1995-96 to more than $1.02 billion in 2006-07.

The percentage variation between the Enacted Budget forecast and actual transfer tax receipts has had a wide range over the years. Similarly, the variation in the dollar amounts have been between $20 million and $269 million.

The following charts show both the dollar and percent error in the real estate transfer tax. Recent experience of the past three years of extraordinary growth tracks the increase in housing prices, especially in the downstate area. The value and volume of downstate commercial transactions has also created substantial growth. The variability in the number of sales of extremely large parcels and the risk that current market strength may not continue unabated have made this source more vulnerable to future miscalculation than many other taxes. Given the volatility in this area, extreme caution is prudent and this tends to lead to a more conservative forecasting approach.


Actual versus Enacted Tax Receipts
Real Estate Transfer Tax Receipts
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
(0.5)
(1.0)
(1.5)
(2.0)
(2.5)
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Real Estate Transfer Tax Receipts
Percent Difference
90.0
85.0
80.0
75.0
70.0
65.0
60.0
55.0
50.0
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Fiscal Year Ending

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds receipts to date are $800.5 million, an increase of $32 million, or 4.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $1.006 billion, a decrease of $16 million, or 1.6 percent below the prior fiscal year.

The growth in receipts since 2002 has closely followed the acceleration in housing values as well as the large number of commercial property sales, especially in New York City. While the growth in the residential market has slowed in many areas of the State, the New York City commercial sales continue to be positive. The rapid escalation of rents in prime Manhattan locations shows that strong demand continues.

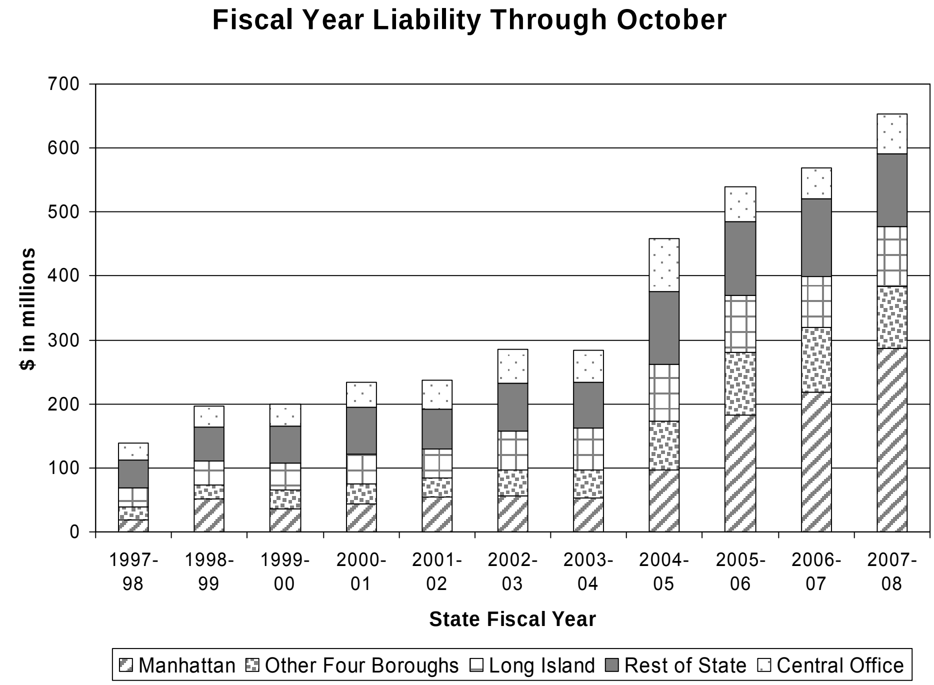
New York City residential RETT collections, as reported by New York City Office of Management and Budget, have shown little growth recently, while the value of the transactions has declined slightly. In New York City, commercial RETT collections are not growing as fast as in recent years. A number of extraordinarily large parcels closed in 2006. The volatility of the financial markets could result in a declining or slow growth in the financial sector employment levels that could have a negative impact on the office space demand.

The mansion tax continues to play an increasingly important role in the receipt growth that has characterized recent fiscal years. As residential home prices have increased, especially downstate, so too has the proportion of homes priced in excess of $1 million. In State fiscal year 1998-99, the mansion tax accounted for 11.3 percent of all real estate transfer tax receipts. By State Fiscal Year 2004-05, this share had increased to 26 percent. In 2006-07 the mansion tax generated 24.3 percent of total RETT collections.

In 2002-03 there were approximately 5,200 mansion tax conveyances. In both 2005-06 and 2006-07 there were approximately 11,400. The amount of tax collected more than doubled from $100 million in 2002-03 to about $248 million in 2006-07. However, there was virtually no growth between 2005-06 and 2006-07. In 2007-08, the mansion tax collections, through October, were $179 million.

The following table compares tax liability by location through October of 2005-06, 2006-07 and 2007-08. The percent change compares 2007-08 to 2006-07.

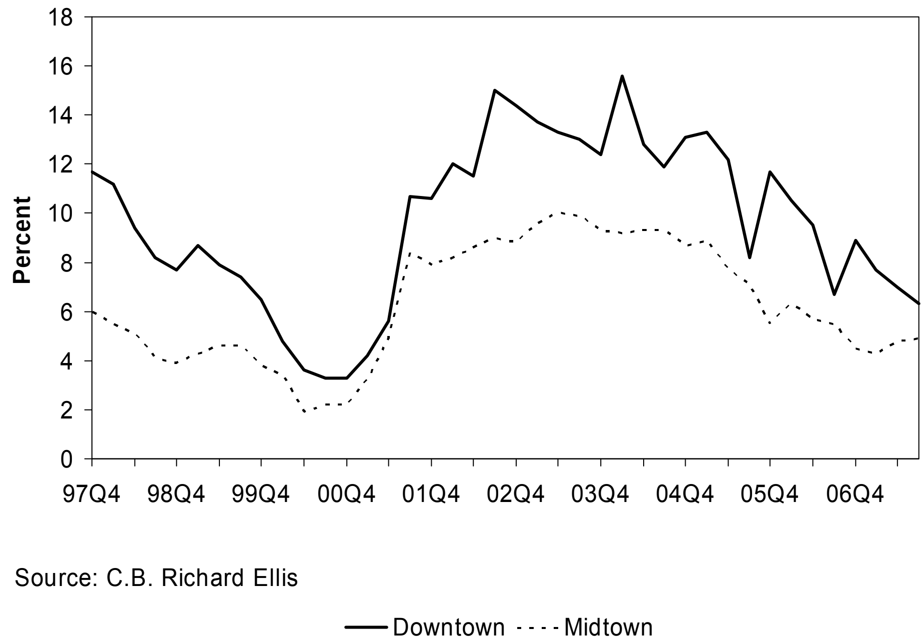
FISCAL YEAR LIABILITY THROUGH OCTOBER (millions of dollars)				
Region	2005-06 Liability	2006-07 Liability	2007-08 Liability	Percent Change
Manhattan	181.7	217.7	286.1	31.4
Other Four Boroughs	99.1	101.4	97.2	-4.1
Long Island	88.2	80.4	93.7	16.5
Rest of State	116.3	120.9	113.5	-6.1
Central Office	53.7	49.4	62.5	26.3



Over the past four years, much of the strength in the transfer tax receipts has come in the increased volume and value of downstate commercial real estate sales. It is estimated that approximately one third of 2006-07 receipts were a result of commercial real estate sales. Anecdotal evidence suggests that foreign investors have sought and purchased many commercial properties in New York City. The weak U.S. dollar has stimulated the foreign sales activity.

Currently, the Manhattan commercial market remains strong. Vacancy rates are marginally lower than they were at this time last year. Downtown, the vacancy rate was 6.3 percent during the third quarter of 2007 versus 10 percent during the same period last year. The midtown rate fell from 5.5 percent to 4.9 percent during the same period.

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

2008-09 Projections

All Funds receipts for 2008-09 are estimated to be $975 million, a decrease of $31 million, or 3.1 percent below the prior fiscal year. Due to the volatile nature and current dependence on the commercial market and due to the projected drop in New York housing starts, this receipts estimate contains a high degree of risk.

The recent boom in the housing market, which was spurred by record-low mortgage rates and easy credit terms, has slowed and in some areas reversed during the current fiscal year. The weakness in the residential market showed in both declines in housing starts as well as falling or flat average sales prices of existing homes. Problems in the sub-prime mortgage market, as evidenced by increased delinquencies and bankruptcy filings, are expected to continue.

Nationally, new home sales have fallen significantly from the 2005 peak. Existing home sales have also lagged. New York has followed a similar pattern for existing home sales. New home sales in Northeast followed a similar pattern. The supply of new homes has grown to a point that prices and construction activity is expected to slow considerably. In New York, regional markets have been mixed with sales prices showing less volatility than other parts of the county.

In the New York City area, the Federal Reserve Board reports that housing markets remain mixed, with Manhattan co-op and condo markets showing continued resilience but single family housing being increasingly soft. A slowdown in the financial services sector profitability could not only impact commercial transactions but could also reduce the demand and prices in the condo and co-op markets.

New York City Office of Management and Budget reports that it expects that the number of extremely high value commercial sales which have occurred in the last few years will fall back to historical levels. Strong demand for Manhattan office space has driven up rent prices and pushed down vacancy rates. While many market reports still have a positive outlook for the Manhattan real estate market, the full economic impact on important employers in the City's financial services sector of the sub-prime mortgage market problems and possible credit standards tightening, has yet to be seen. Corporate profits, employment growth and the size of the bonus pool may impact demand for office space as well high-end residential units

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2007-08 or 2008-09. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund. In 2007-08 and 2008-09, it is expected that $667 million and $615 million, respectively, will be transferred to the General Fund.

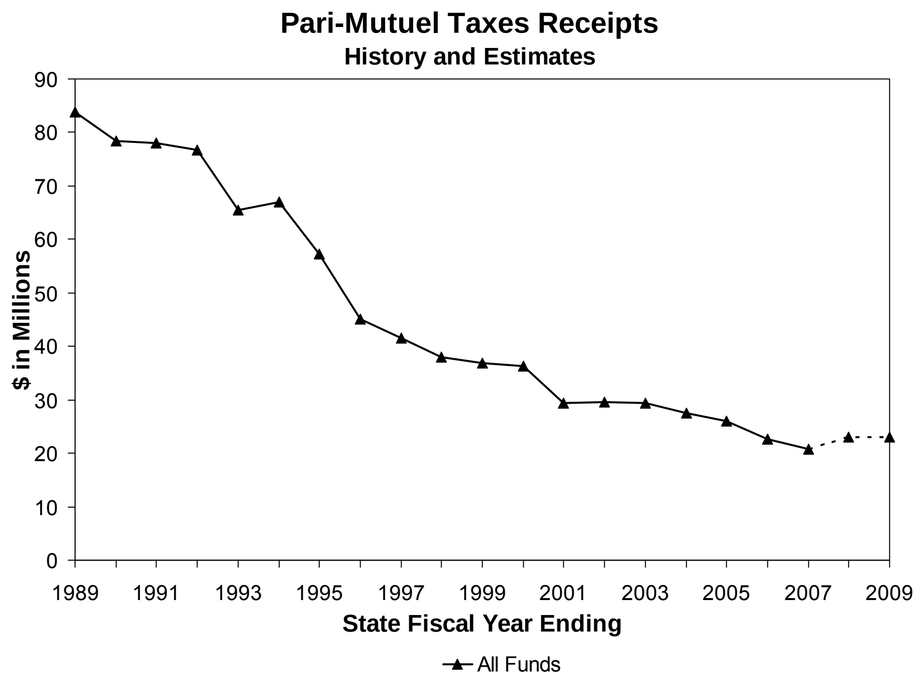
Other Funds

During 2007-08, the statutory amount of real estate transfer tax receipts to be deposited in the Environmental Protection Fund is $212 million. During 2008-09, the statutory amount of real estate transfer tax receipts to be deposited in the Environmental Protection Fund will be $237 million. The remainder of real estate transfer tax receipts, estimated at $794 million in 2007-08 and $738 million in 2008-09, is to be deposited in the Clean Water/Clean Air Bond Debt Service Fund.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	20.8	23.0	2.2	10.6	23.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds
	Flat	Harness	OTB	Receipts
1998-99	18,643	923	17,355	36,921
1999-2000	17,218	795	18,356	36,369
2000-01	14,152	750	14,444	29,346
2001-02	10,525	852	18,269	29,646
2002-03	10,559	803	18,094	29,456
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
2005-06	5,736	258	16,673	22,667
2006-07	7,152	450	13,208	20,810
Estimated				
2007-08	8,200	700	14,100	23,000
2008-09	8,200	700	14,100	23,000

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

DESCRIPTION

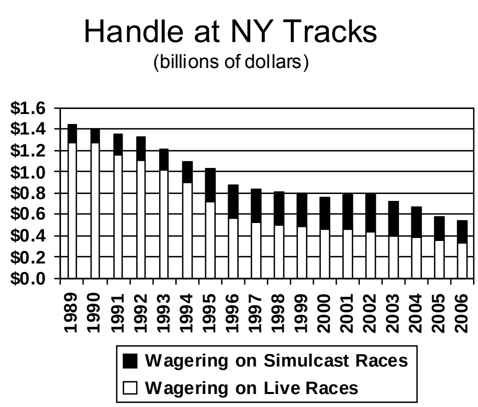
Tax Base and Rate

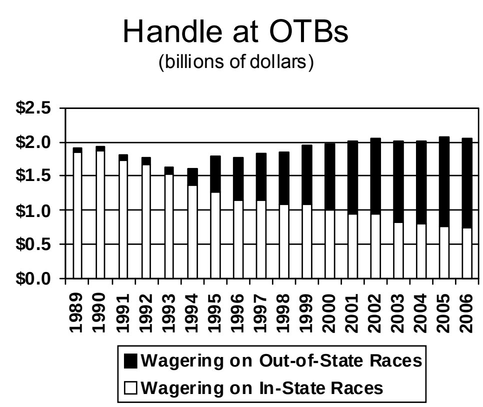
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-Track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-Track Betting Corporation). The average effective pari-mutuel tax rate was 0.85 percent of the handle in 2006.

In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 75 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

To promote growth of the industry, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, redirected the State franchise fee on nonprofit racing associations to repay loans from the New York State Thoroughbred Capital Investment Fund, and reduced tax rates on NYRA bets. In 2001, the State authorized the operation of video lottery terminals, at authorized racetracks, and directed a portion of VLT receipts to be used for purse enhancements and for the breeders funds.





Administration

The New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. The racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

The significant statutory changes to this tax source since 1940 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1940		
Imposed Pari-Mutuel Tax	Authorized pari-mutuel betting and imposed a pari-mutuel tax.	March 31, 1940
Legislation Enacted in 1973		
Off-Track Betting	Authorized off-track betting and the creation of regional off-track betting corporations.	July 1, 1973
Legislation Enacted in 1984		
Simulcasting	Authorized the simulcasting of horse racing.	July 1, 1984
Legislation Enacted in 1994		
Expanded Betting	Authorized widespread in-home simulcasting experiments, simulcasts of flat racing bridging the time gap between the end of New York flat racing and the beginning of harness racing, and tripled the number of out-of-State harness track simulcasts.	July 6, 1994
Breakage	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Tax Rates	Lowered rate on regular bets (involving one horse) at NYRA from 5 percent to 4 percent and reduced the tax on NYRA wagers at OTBs: from 1.1 percent to 0.5 percent on regular and multiple (involving two horses) bets, and from 3.1 percent to 1.5 percent on exotic (involving three or more) bets.	June 1, 1995
Takeout	Increased the takeout on NYRA wagers involving two horses (multiple bet) from 17 percent to 20 percent, while lowering the takeout on NYRA wagers involving one horse (regular bet) from 17 percent to 15 percent.	June 1, 1995
Legislation Enacted in 1997		
Franchise Fee	Redirected the payment of NYRA franchise fee to repay debts owed to the New York State Thoroughbred Racing Capital Improvement Fund.	January 1, 1998
Legislation Enacted in 1998		
Tax Rates	Established the rate on all simulcast races at 1.5 percent for the initial race of the day and at 1.0 percent for later races, if NYRA is running. If NYRA is not racing, the rate on these races are 1.0 percent and 0.5 percent, respectively.	January 1, 1998
	Extended authorizations for lower tax rates for on-track and off-track bets on NYRA through June 30, 2002.	
Legislation Enacted in 1999		
Tax Rates	Cut the rate on all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the rate on all NYRA bets to 1.6 percent.	April 1, 2001

Subject	Description	Effective Date
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager, provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting, and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007, simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commences video lottery gaming on April 1, 2003.	January 28, 2002
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs are in operation at the Aqueduct raceway on or before March 1, 2004. If NYRA is not able to initiate VLT operation by that date, then the NYRA franchise will expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.50 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 are lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund is increased by 0.2 percentage points.	April 1, 2006

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

For a more detailed discussion of the methods and models used to develop estimates and projections for the pari-mutuel taxes, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are $18.4 million, an increase of $2.0 million, or 12.1 percent above the comparable period in the prior fiscal year. All Funds receipts for 2007-08 are estimated to be $23 million, an increase of $2.2 million, or 10.6 percent above last year.

Year-to-date receipts from off-track betting have increased by $0.7 million or 6.9 percent from the comparable period in 2006-07. Receipts from OTBs are estimated at $14.1 million for 2007-08, an increase of $0.9 million or 6.8 percent over the prior fiscal year. The increase in receipts reflects the expiration of the one-year tax rate reduction on thoroughbred wagering enacted for 2006-07.

Year-to-date collections from thoroughbred on-track handle, including simulcasts, is $7 million, an increase of $1.1 million or 17.8 percent from the same period last year. The financial difficulties experienced by NYRA resulted in missed tax payments in 2006-07. NYRA has made all of its tax payments to date in 2007-08.

Receipts of pari-mutuel taxes from on-track harness wagering are estimated to be $700,000 in 2007-08, up $250,000, or 55.6 percent from 2006-07. The increase in receipts reflects the full-year of operations at Yonkers Raceway, Vernon Downs, and Tioga Downs, which reopened during 2006.

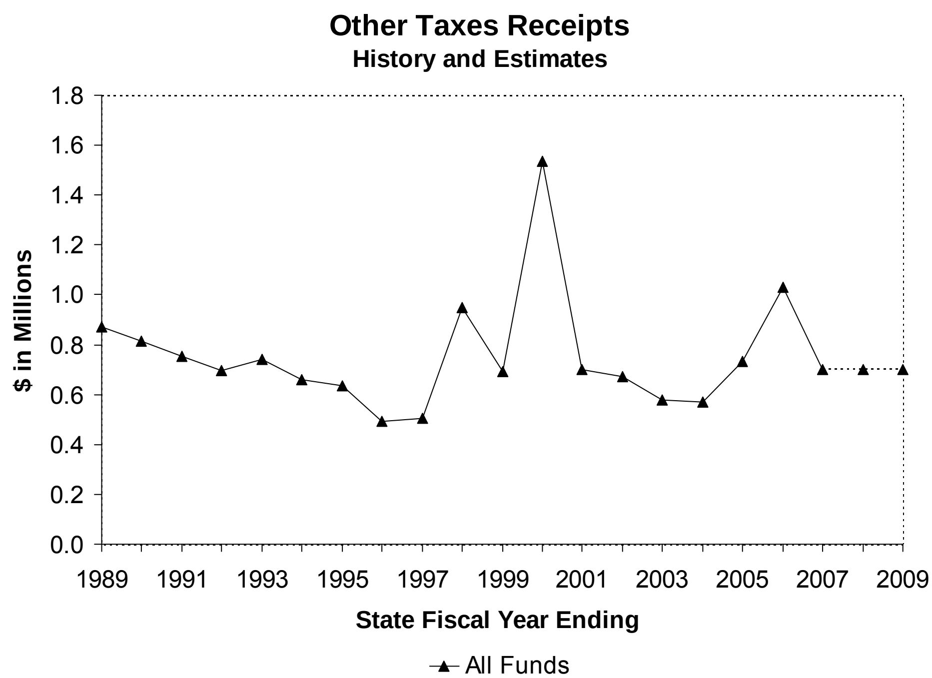
2008-09 Projections

Pari-Mutuel tax receipts are projected to remain consistent with receipts from 2007-08. However, the pari-mutuel rate structure may be affected by an agreement on the awarding of a new franchise to operate Belmont Park, Aqueduct and Saratoga Racetracks. The current estimates assume the extension of the current rate structure as part of any agreement. Should any agreement include a change in the rate structure, the estimates will need to be revised.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.7	0.7	0.0	0.0	0.7	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	0.7	0.7	0.0	0.0	0.7	0.0	0.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds
	Admissions	Exhibitions	Receipts
1998-99	294	400	694
1999-2000	299	1,238	1,537
2000-01	289	412	701
2001-02	285	388	673
2002-03	319	259	578
2003-04	344	226	570
2004-05	379	352	731
2005-06	474	556	1,030
2006-07	364	307	671
Estimated			
2007-08	375	325	700
2008-09	375	325	700

PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this Budget.

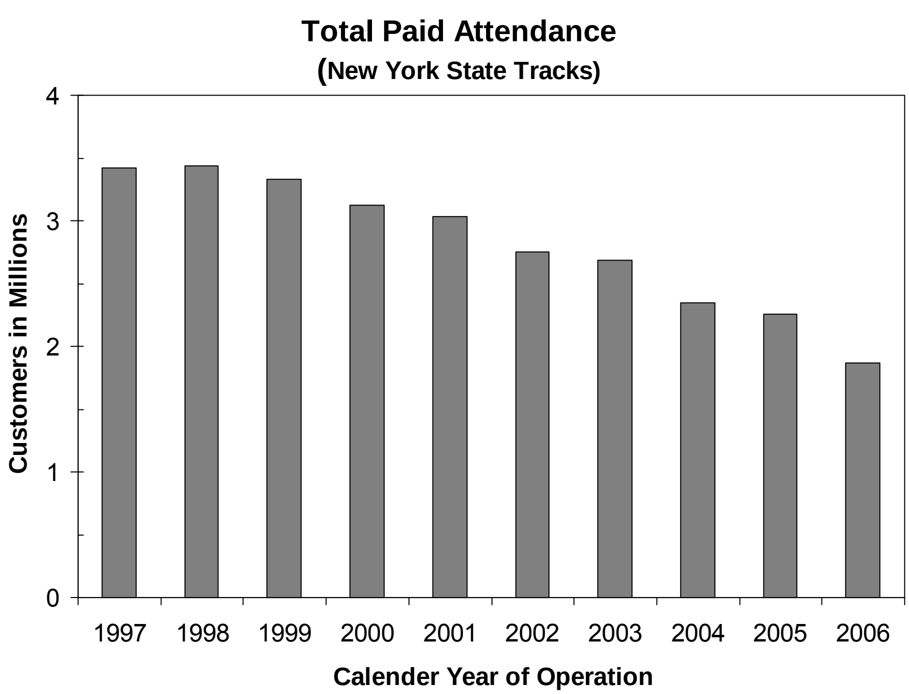
DESCRIPTION

Tax Base and Rate

Racing Admissions Tax — A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks (see charts below) and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax — A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A heavyweight championship fight, which is an event of high spectator interest, can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.



Administration

The New York State Racing and Wagering Board administers the collection of the racing admissions tax. It also has general jurisdiction over all horseracing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in racing activities in New York.

The Department of Taxation and Finance is responsible for collecting the receipts of the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a $100,000 cap per exhibition.

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of gambling or non-gambling entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition at other types of entertainment venues.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

All Funds collections to date are $627,500, a decrease of $1,300, or 0.2 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2007-08 are estimated to be $700,000, consistent with receipts of $671,800 in 2007-08.

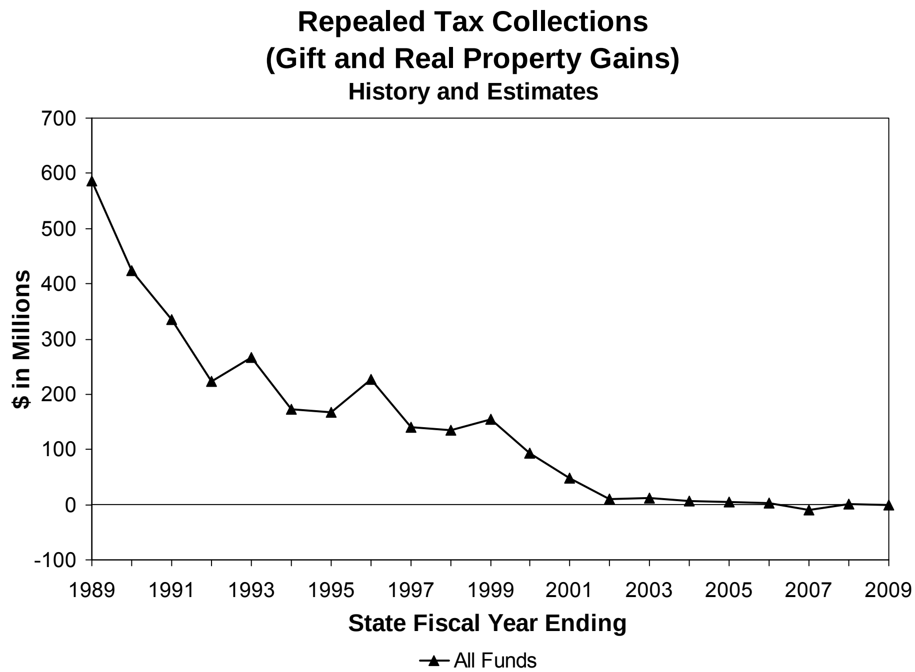
2008-09 Projections

All Funds receipts are projected to remain at $700,000, the same total as for 2007-08. The number of boxing and wrestling exhibitions in New York State is expected to remain at historic levels. Paid attendance at race tracks is expected to remain at a level consistent with 2007-08 levels.

REPEALED TAXES

REPEALED TAXES (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	(9.9)	1.1	11.0	111.1	0.0	(1.1)	(100.0)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Totals may differ due to rounding.



REPEALED TAXES BY FUND (thousands of dollars)				
	Gross General Funds	Refunds	General Fund	All Funds Receipts
1998-99	184,301	11,309	154,033	154,033
1999-2000	109,442	15,107	94,327	94,327
2000-01	53,183	5,548	47,628	47,628
2001-02	11,120	1,120	10,000	10,000
2002-03	12,623	732	11,891	11,891
2003-04	7,676	275	7,401	7,401
2004-05	5,000	1,200	3,800	3,800
2005-06	2,937	1	2,936	2,936
2006-07	2,279	12,176	(9,896)	(9,896)
Estimated				
2007-08	1,400	300	1,100	1,100
2008-09	0	0	0	0

GIFT TAX

Until it was repealed on January 1, 2000, New York imposed a gift tax as a complement to the transfer tax on estates to equalize the tax burden on lifetime transfers. Like the estate tax, the base of this levy was derived from the Federal tax base, with exclusions for transfers of property located outside the State. The tax was imposed on a lifetime basis. Taxable gifts made during a taxpayer's lifetime, after allowable exclusions, were taxed in aggregate as one gift.

2007-08 Receipts and 2008-09 Projections

All Funds collections to date are $834,000 with refunds of $289,000. All Funds net gift tax receipts to date are $545,000.

Given results to date, All Funds receipts for 2007-08 are estimated to be $600,000. No receipts are expected for 2008-09 or for any subsequent fiscal year.

REAL PROPERTY GAINS TAX

The real property gains tax, enacted in 1983, was repealed on July 13, 1996. All property transferred after June 15, 1996, is exempt from the provisions of the real property gains tax. This tax was levied at a rate of 10 percent of the gain from sales of New York commercial property of $1 million or greater, including anything of value arising from land ownership, such as air rights or zoning credits. Remaining collections stem primarily from assessments on prior year tax liability and from deferred installment payments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal.

2007-08 Receipts and 2008-09 Projections

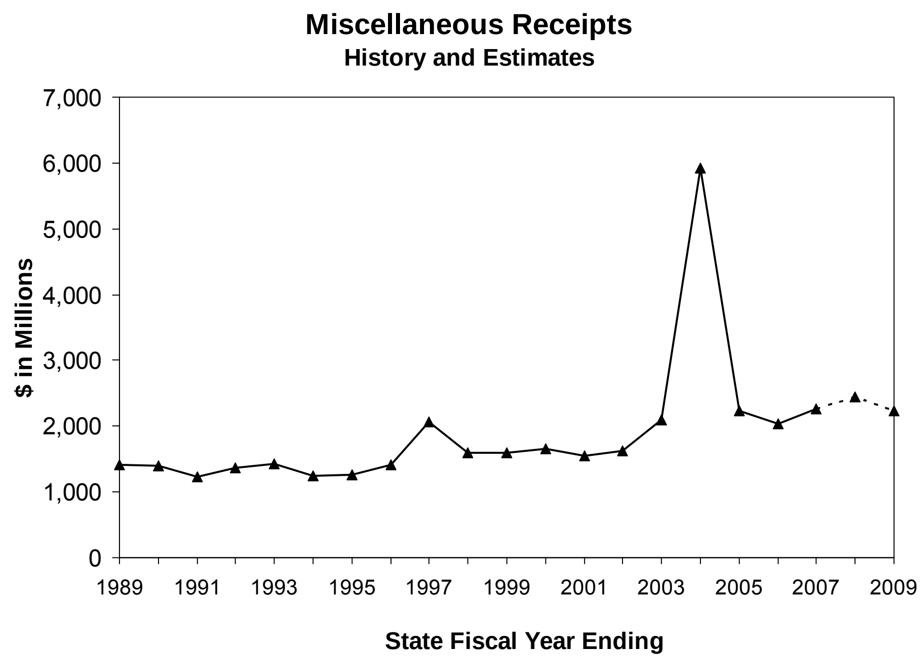
To date, All Funds collections are $500,000 with no refunds paid. As a result, net real property gains tax collections for 2007-08 are estimated to be $500,000.

No receipts are expected for 2008-09 or for any subsequent fiscal year.

MISCELLANEOUS RECEIPTS GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	2,267.5	2,443.7	176.2	7.8	2,238.3	(205.4)	(8.4)

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	2004-05	2005-06	2006-07	2007-08 Estimated	2008-09 Projected
Licenses, Fees, Etc.	563.2	577.1	698.7	637.5	537.9
Abandoned Property	568.6	547.4	708.2	684.0	650.0
Reimbursements	152.0	227.8	164.8	199.8	172.4
Investment Income	12.0	97.9	190.7	200.0	200.0
Other Transactions	930.0	578.2	505.1	722.4	678.0
Total	2,225.8	2,028.4	2,267.5	2,443.7	2,238.3

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Increase maximum Food Safety Penalties from $300 to $1,000 for the first violation and from $600 to $2,000 for each subsequent violation;
- Increase maximum fines and penalties for various Insurance Law violations;

- Create a vendor service fee to capture a portion of the benefit of centralized contracting and low prices leveraged through State aggregate purchases. The fee would be 0.005 percent of invoice value; and
- Receive a transfer from the Power Authority of the State of New York relating to the Power for Jobs Program.

DESCRIPTION

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, the reported receipts may be significantly impacted by various nonrecurring transactions.

SIGNIFICANT LEGISLATION

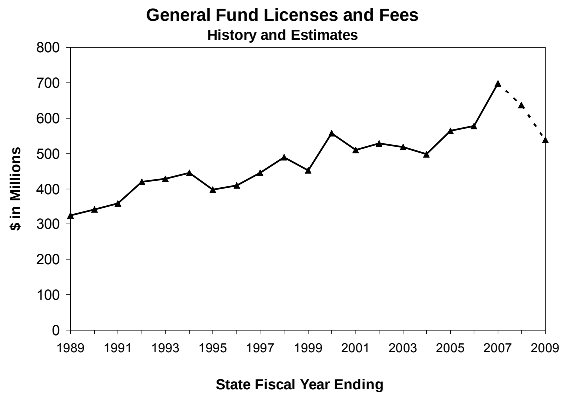
The significant statutory changes since 1994 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1994
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1994
Legislation Enacted in 1995		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1995
Love Canal Claims	Provided for the deposit into the General Fund of moneys received from settlement of Love Canal claims.	April 1, 1995
Power Authority of NY	Provided for the one-time payment to the General Fund of $15.9 million in lieu of annual payments.	April 1, 1995
Legislation Enacted in 1996		
Assessments	Extended for one year the current assessments on health facility providers and imposed new assessments.	April 1, 1996
Power Authority, MMIA, Workers Compensation	Provided for the deposit into the General Fund of moneys from these entities, respectively: $50 million, $481 million, and $97 million.	April 1, 1996
Fees and Fines	Moved into the General Fund receipts previously deposited into various special revenue accounts.	August 31, 1996
Legislation Enacted in 1997		
Assessments	Provided for the collection of assessments for prior years from certain health facilities.	January 1, 1995
	Initiated a phase-out of the assessments on private health facility providers.	April 1, 1997
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1997
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1, 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000

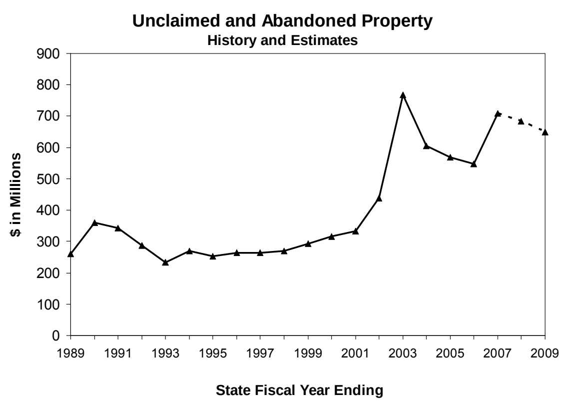
Subject	Description	Effective Date
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003
Uncashed Checks	Reduced dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharges	Increased parking ticket surcharges to provide relief to the General Fund and Big 6 cities from $5 to $15.	November 12, 2003
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of $100 and $250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of $30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of $2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from $50 to $50-$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from $5 to $10.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of $300 for the first food inspection violation.	January 1, 2005
Agent License Fee	Increased insurance agent license fee from $20 to $40.	April 1, 2005
Service of Process Fee	Increased service of process fee from $20 to $40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from $100 to $500.	April 1, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department's work processes, and raising fine levels to encourage industry compliance.	April 1, 2006

Subject	Description	Effective Date
Point Insurance Reduction	Allowed drivers to reduce points on their license via internet defensive driving courses for a fee of $8 for students and $7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the $15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of $10.	April 1, 2006

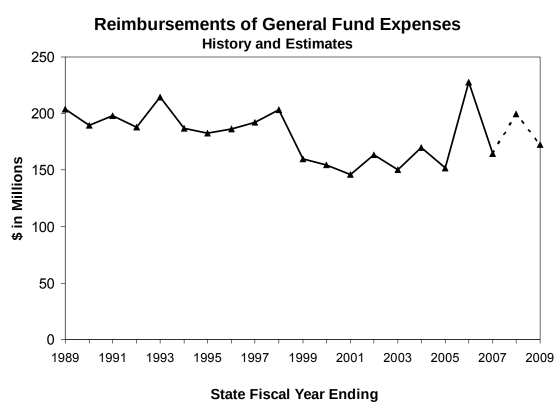
Components of Miscellaneous Receipts



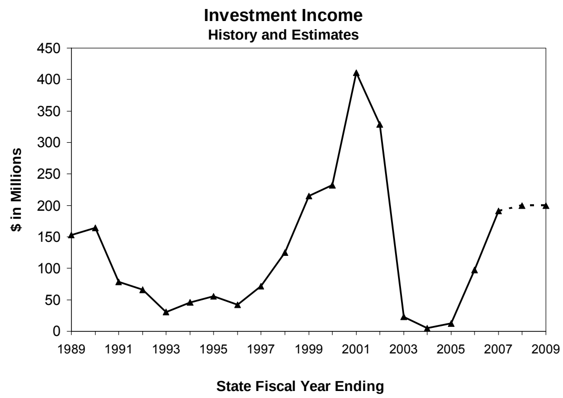
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2008-09, these revenues are expected to decrease as a result of business and licensing fund shifts and establishment of the Youth Facility Per Diem Account in special revenue funds. The Revenue Actions section of this volume provides more detail on this category.



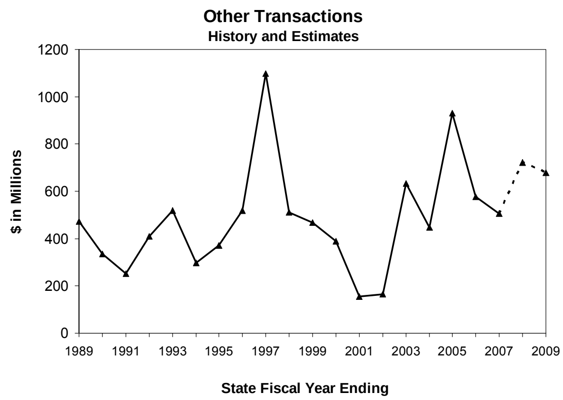
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue is expected to remain relatively constant in the forecast period.



Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant, and are expected to remain so over the forecast period. In 2006, a portion of General Fund Federal Grants was reclassified to this category of General Fund Miscellaneous Receipts. For more information on this reclassification, please see the Federal Grants section of this volume.



The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increase in 2000-01 followed by the severe drop in 2002-03 was a result of the impact of economic growth and subsequent recession on States finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain flat as General Fund account balances are expected to drop slightly and interest rates are expected to rise slowly.



Other transactions, excluding tobacco securitization proceeds (which are not included in the accompanying graph), are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York including: bond issuance charges; a supplemental wireless surcharge; and SONYMA.

2006-07 RECEIPTS

In State fiscal year 2006-07, miscellaneous receipts totaled $2,268 million. Major revenue sources included: $708 million in unclaimed and abandoned property; $699 million in fees, licenses, fines, royalties, and rents; $180 million in medical provider assessments; $165 million in reimbursements; $122 million from the State of New York Mortgage Agency; $102 million in additional bond issuance charges; and $62 million from the supplemental wireless surcharge. In addition, the receipts included $191 million in interest earnings on short-term investments and bank accounts, an amount that is net of certain expenses incurred in providing banking services to various State agencies; and $39 million from the Zurich Insurance Settlement.

2007-08 ESTIMATES

Miscellaneous receipts are estimated at $2,444 million for fiscal year 2007-08. Miscellaneous receipts are estimated to increase $176 million from the prior year mainly due to the Power for Jobs program payment, increased indirect costs, an ESDC property sale and Monroe County's Medicaid sales tax intercept payments, offset by lower collections from fines and penalties, abandoned property, bond issuance charges and SONYMA. In addition, Youth Facility Per Diem Account revenue has been reclassified from GF to SRO. The estimate includes: $684 million in unclaimed and abandoned property; $638 million in fees, licenses, fines, royalties, and rents; $205 million from the

Power for Jobs program; $200 million in reimbursements; $200 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); $176 million in medical provider assessments; $101 million from the State of New York Mortgage Agency; $70 million in additional bond issuance charges; $70 million from the supplemental wireless surcharge; $41 million from the Driver's Responsibility program; $39 million from Monroe County's Medicaid sales tax intercept payments; and $20 million from Hartford Financial Services settlement.

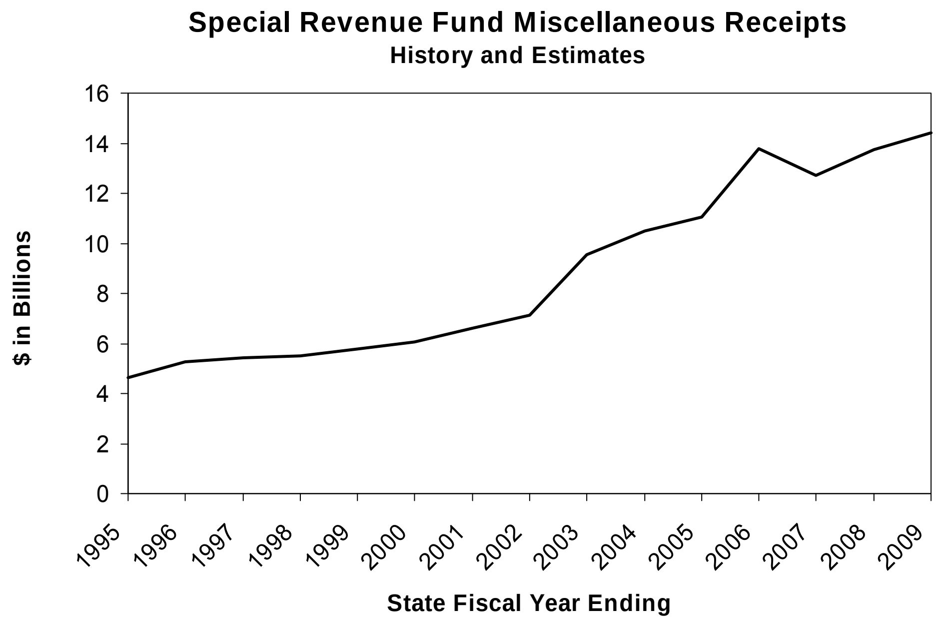
2008-09 PROJECTIONS

Miscellaneous receipts are projected at $2,238 million in fiscal year 2008-09, a decrease of $206 million from 2007-08. This decline is primarily due to the loss of one-time revenues, the large decline in Power for Jobs revenue, and reduced receipts from abandoned property and indirect costs. The 2008-09 projection includes: $650 million in unclaimed and abandoned property; $538 million in fees, licenses, fines, royalties, and rents; $200 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); $172 million in reimbursements; $162 million in medical provider assessments; $159 million from Monroe County's Medicaid sales tax intercept payments; $100 million from the State of New York Mortgage Agency; $73 million from the supplemental wireless surcharge; $63 million in additional bond issuance charges; $41 million from the Driver's Responsibility program; $23 million from Hurricane Katrina revenue; $20 million from the Power for Jobs program; and $37 million from all other General Fund miscellaneous revenue.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
State Fund	12,502.0	13,596.0	(1,003.0)	(7.4)	14,259.0	574.0	4.6
Federal Funds	213.0	145.0	(12.0)	(7.0)	150.0	(12.0)	(7.5)
All Funds	12,715.0	13,741.0	(1,015.0)	(7.4)	14,409.0	562.0	4.4

Note: Totals may differ due to rounding.



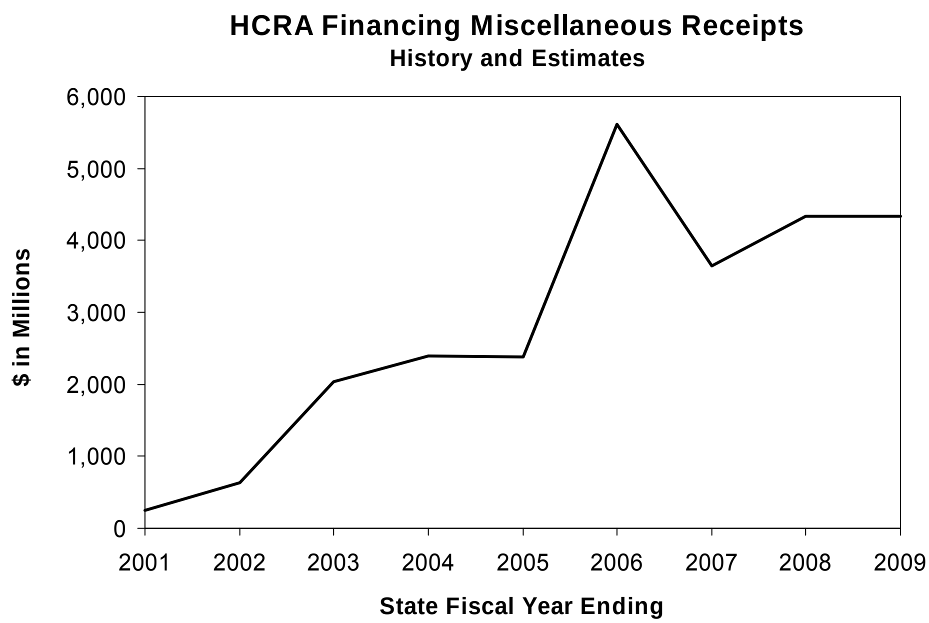
Miscellaneous receipts deposited to special revenue funds represent approximately 25 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery receipts for education, health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for 2004-05 through projected 2008-09.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)					
				Estimated	
	2004-05	2005-06	2006-07	2007-08	2008-09
HCRA [1]	2,374	5,608	3,642	4,331	4,331
State University Income	2,459	2,439	2,759	2,773	2,839
Lottery	2,226	2,364	2,544	2,800	3,141
Medicaid	1,219	447	736	490	485
Industry Assessments	493	497	501	537	561
All Other	2,344	2,411	2,533	2,810	3,052
Total	11,115	13,766	12,715	13,741	14,409

[1] The increase from 2004-05 to 2005-06 results in part from the inclusion of all HCRA funded programs on-budget in 2005-06.

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, a "covered lives" assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State's Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program (EPIC), Child Health Plus (CHP), Healthy New York, Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The 2005-06 Enacted Budget created a new HCRA Resources Fund that includes all HCRA financed programs including those that were previously excluded from the State's Financial Plan.



Components of Miscellaneous Receipts

HCRA Financing
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	2007-08	**2008-09**
Conversion Proceeds	999	834
Surcharges	2,042	2,091
Covered Lives Assesment	850	990
Hospital Assesment (1 percent)	271	288
All Other	169	128
Total Miscellaneous Receipts	**4,331**	**4,331**

Miscellaneous receipts are projected to total $4.3 billion, to remain constant with the current year. A decrease in revenue from conversion proceeds is expected to be offset by increases in revenue from surcharges and the covered lives assessment.

MEDICAID

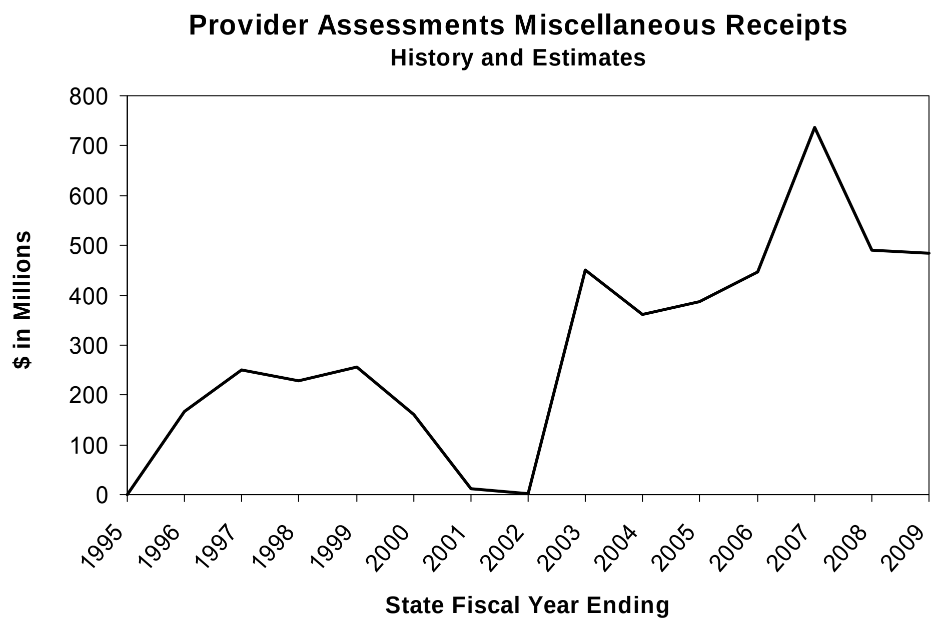
In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above), the Provider Assessments Fund and the Indigent Care account. These resources are discussed in more detail below.

Medicaid
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	2007-08	**2008-09**
Provider Assessments	490	485
Indigent Care	0	0
Total Miscellaneous Receipts	**490**	**485**

Provider Assessments

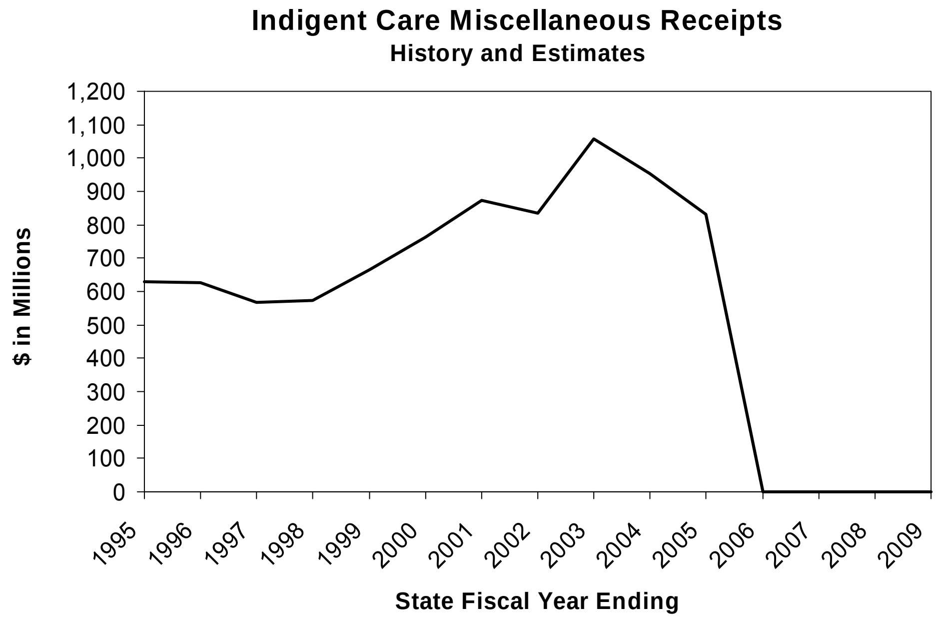
Prior nursing home assessments were eliminated as of April 1, 2000. A new Provider Assessments Fund was established with the 2002-03 Enacted Budget and is currently supported by a partially-reimbursable 5.5 percent assessment as of January 1, 2008, on nursing home revenues and a 0.35 percent assessment on hospital revenue.



Assessment receipts are projected to total $485 million, a decrease of $5 million from the previous year. This is due primarily to a re-estimate of nursing home assessments.

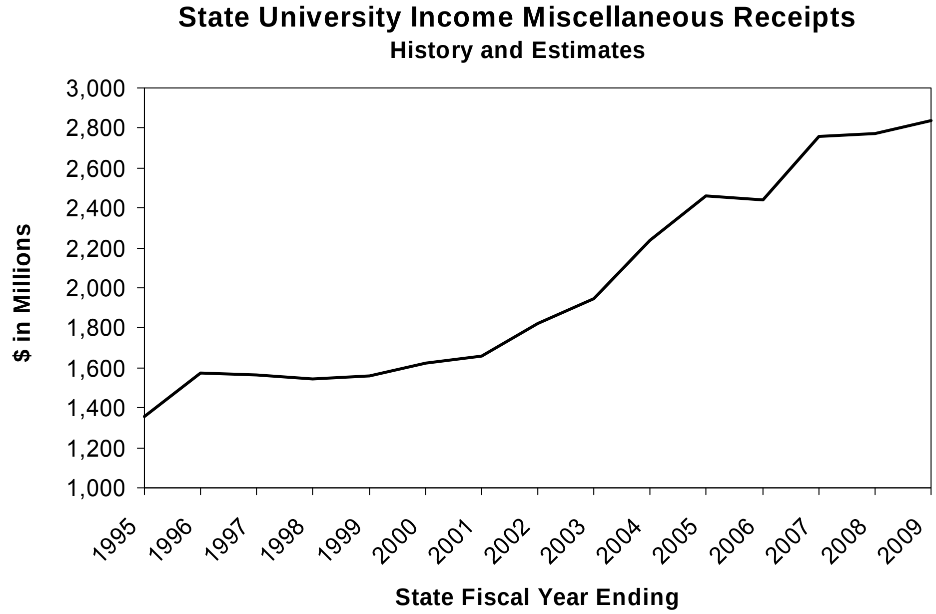
Indigent Care

The Indigent Care Fund allows the State to claim Federal reimbursement for payments to hospitals that provide care for the medically indigent. The State makes payments in the first instance from a bad debt and charity care pool funded with non-Federal Medicaid dollars, and money from various payers including insurance companies and hospitals. This fund has been included in the new HCRA Resources Fund beginning in 2005-06 and thus excluded from this Medicaid section.



STATE UNIVERSITY INCOME

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users; includes students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.



Components of Miscellaneous Receipts

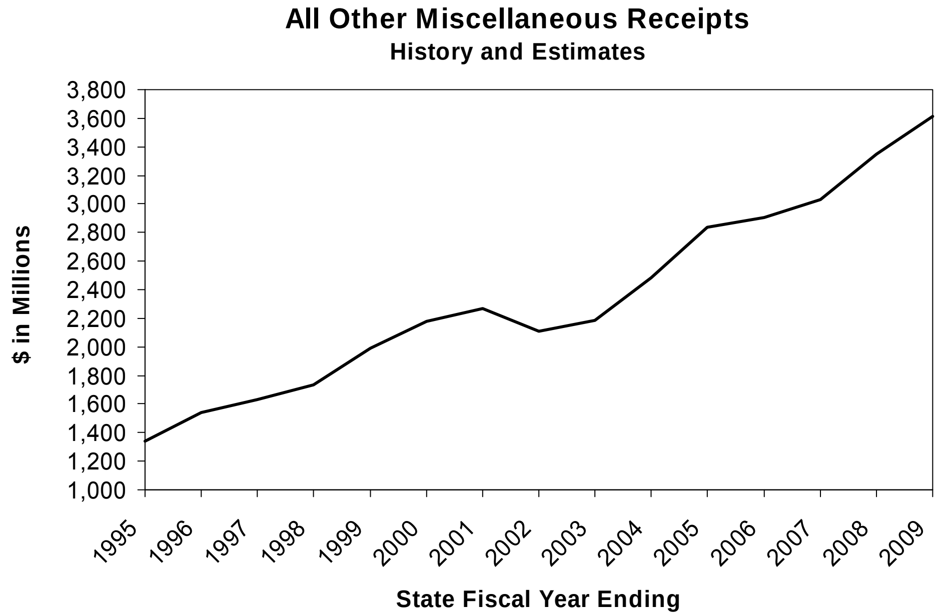
State University Income Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2007-08	2008-09
Tuition	1,161	1,163
Patient Revenues	1,124	1,150
User Fees / All Other	488	526
Total Miscellaneous Receipts	**2,773**	**2,839**

Miscellaneous receipts are projected to total $2.8 billion and increase of $66 million over the current year. This increase is driven primarily by projected growth in patient revenues ($26 million) and in user fees and all other miscellaneous receipts ($38 million).

LOTTERY

Receipts from the sale of lottery tickets and proceeds from Video Lottery Terminals (VLT) at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The Lottery is discussed in detail in a separate section.

INDUSTRY ASSESSMENTS/ALL OTHER



Components of All Other Miscellaneous Receipts

All Other Components of Miscellaneous Receipts (millions of dollars)	Estimated	
	2007-08	2008-09
Health	451	486
Environmental Conservation	205	226
Tribal State Compact	157	130
State Police	137	186
HESC	110	103
Education	126	132
CUNY	120	120
Motor Vehicles	76	76
Interest on Lawyer Account	17	70
All Other	1,948	2,084
Total Miscellaneous Receipts	**3,347**	**3,613**

The remaining revenues in this category include fees, licenses, and assessments collected by State agencies, primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessment include the Banking Department, the Insurance Department, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

State Police miscellaneous revenue sources include seized assets, a portion of the State's monthly surcharge on cellular telephone bills, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans

Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

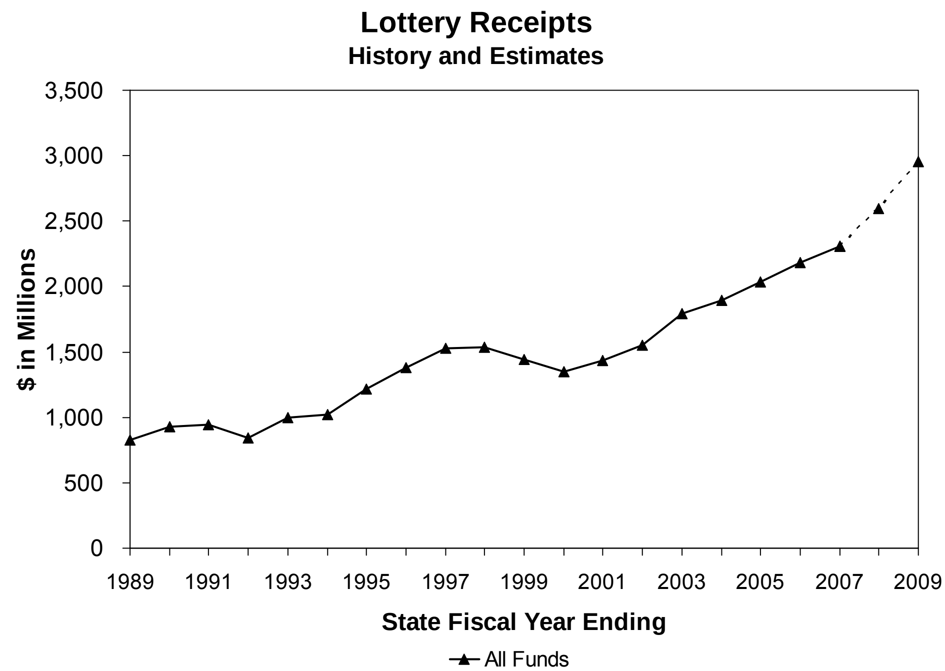
Motor Vehicles fees include, assessments against insurers, surcharges on traffic violations and suspended licenses and vehicle registration fees.

Interest on Lawyer Account miscellaneous revenue comes from the transfer of interest from certain escrow accounts held by attorneys for their clients.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	2,309.2	2,592.0	282.8	12.2	2,953.0	361.0	13.9
All Funds	2,309.2	2,592.0	282.8	12.2	2,953.0	361.0	13.9

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT (millions of dollars)												
	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Other*	VLTs	Admin. Surplus**	Total Receipts
1998-99	283.2	249.2	157.0	338.3	17.0	128.9	123.5		0.0		145.4	1,442.4
1999-00	272.7	246.7	159.6	293.8	15.1	114.8	82.2		45.7		119.1	1,349.8
2000-01	282.7	247.4	164.5	250.2	14.5	135.0	126.7		54.5		159.8	1,435.5
2001-02	377.1	256.8	182.4	254.8	13.2	152.2	121.9		0.0		193.2	1,551.5
2002-03	465.7	263.4	202.0	175.7	11.9	133.5	118.6	129.0	7.2		281.9	1,789.0
2003-04	529.0	268.6	210.3	163.4	12.1	128.9	127.1	166.6	6.1	12.6	272.3	1,897.1
2004-05	550.0	275.9	217.7	137.5	11.8	121.3	118.0	156.3	4.9	141.2	296.0	2,030.7
2005-06	594.9	286.6	229.2	113.7	11.4	116.9	114.7	194.4	14.0	161.7	341.8	2,179.3
2006-07	664.2	296.8	243.6	95.9	11.1	114.1	110.8	160.6	15.9	269.7	326.5	2,309.2
Estimated												
2007-08	680.0	299.0	248.0	95.0	11.0	109.0	109.0	152.0	12.0	475.0	402.0	2,592.0
2008-09												
Current Law	709.0	312.0	262.0	89.0	11.0	110.0	18.0	150.0	17.0	764.0	354.0	2,796.0
Proposed Law	709.0	312.0	262.0	89.0	11.0	110.0	136.0	150.0	17.0	764.0	393.0	2,953.0

** Other includes: Instant Win, Lucky Day (1996-97 and 1997-98), Local Lotto (1999-2000), Millennium Millions (1999-2000 and 2000-01), King Kong (2005-06), and the Raffle to Riches games (2006-07 and 2007-08).*

*** Any unused portion of Lottery's 15 percent administrative allowance is used for aid to education.*

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- make permanent the authorization to operate Quick Draw. The Quick Draw game authorization expires on May 31, 2008;
- eliminate restrictions on the QuickDraw game related to the hours of operation, food sales, and the size of establishments; and
- authorize video lottery gaming at Belmont Park.

DESCRIPTION

In 1966, New York State voters approved a referendum authorizing a State lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a lotto-type game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery.

The Lottery Division, as an independent agency within the Department of Taxation and Finance, manages the operation and sales of the State's Lottery games. The Lottery Division is authorized to operate five types of games:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 60 games are currently being offered for sale with prices ranging from $1 to $20);
- Lotto games, which are pari-mutuel, pick-your-own-numbers games offering large top prizes with drawings conducted 11 times weekly: seven 5-of-39 draws (Take 5), two 6-of-59 draws (Lotto 59) and two multi-jurisdictional drawings (Mega Millions). For the Lotto 59 game and the Mega Millions game, the value of any top prize not won is added to the top prize in the subsequent drawing;
- Daily numbers games, which are fixed-odds games with daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4), and Instant Win, an add-on game to Daily Numbers and Win 4;
- Keno-like games, which are pari-mutuel pick-your-own numbers games offering prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and
- Video lottery games, which are lottery games played on video gaming devices. Video Lottery Terminals (VLTs) are currently authorized only at selected thoroughbred and harness tracks.
- The Division of the Lottery periodically offers short-run promotional lottery games. In the 1999-2000 and 2000-01 the Lottery Division operated the Millennium Millions game. In 2005-06, the Lottery offered a King Kong promotional game in conjunction with the release of the King Kong movie. The Raffle to Riches game was held in 2006-07 and again in 2007-08. Lottery expects to offer promotional games in 2008-09.

The table below shows the distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)

	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Lotto - Millennium Millions	40	45	15
Instant Win	40	45	15
Mega Millions	50	35	15
Take 5	50	35	15
Quick Draw	60	25	15
Numbers	50	35	15
Win 4	50	35	15
Pick 10	50	35	15
Instant	65	20	15
Three Instant Games at 75%	75	10	15

FREQUENCY OF LOTTERY DRAWINGS

Game	Date of Inception	Frequency of Drawings
Lotto	1967	Saturday and Wednesday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes daily from 10 a.m. to 3 p.m. and 4 p.m. to midnight
Mega Millions	2002	Tuesday and Friday at 11:00 PM

The following table shows the current distributions of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions.

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES* (Percent)

Racetracks in Westchester and Queens Counties

Net Machine Income	Revenues for Education	Lottery Administration Fee	Operator Commission	Promotions
Less than $50 million	54	10	32	4
Over $50 million to $100 million	57	10	29	4
Over $100 million to $150 million	57	10	29	4
Over $150 million	60	10	26	4

Other Racetracks

Net Machine Income	Revenues for Education	Lottery Administration Fee	Operator Commission	Promotions
Less than $50 million	50	10	32	8
Over $50 million to $100 million	53	10	29	8
Over $100 million to $150 million	56	10	29	5
Over $150 million	59	10	26	5

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments.

Administration

The Lottery Division develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

Sales agents are notified electronically by the Lottery Division's operations vendor by Monday of each week of the amount due the State from sales during the previous week. The agent has until Tuesday to deposit sufficient funds in specified joint bank accounts at which time the operations vendor sweeps the receipts and transfers them to the Lottery Division by Wednesday morning. For VLTs, deposits are required within two days of sales, and payments are wired into the Lottery Division accounts daily.

Significant Legislation

The significant lottery legislation enacted since 1967 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1967		
Authorization	Authorized a State Lottery to be operated by the Lottery Commission. The lottery may not have more than 12 draws in a fiscal year, and may not have a prize payout of more than 30 percent, with a minimum of 55 percent of revenue for education.	April 18, 1967
Legislation Enacted in 1968		
Number of Drawings	Increased the number of allowable drawings to not more than one regular drawing per week, and authorized special or bonus drawings.	March 12, 1968
Legislation Enacted in 1970		
Number of Drawings	Eliminated the restriction on the number of drawings allowed.	April 22, 1970
Prize Payout	Increased the prize payout to not more than 40 percent and lowered the minimum revenue for education to 45 percent.	April 22, 1970
Legislation Enacted in 1973		
Operation	Transferred the operation of the State Lottery to the New York State Racing and Wagering Board.	July 1, 1973
Legislation Enacted in 1976		
Operation	Established the New York State Division of the Lottery, which replaced the Racing and Wagering Board as the operator of the State Lottery.	March 31, 1976
Legislation Enacted in 1980		
Prize Payout	Authorized prize payouts of up to 50 percent for daily numbers games and a minimum of 35 percent of revenue to education.	April 1, 1980
Legislation Enacted in 1988		
Prize Payout	Authorized a 50 percent prize payout for Instant games, "Daily Numbers Games" and "Win 4" with a minimum of 35 percent of revenue to education. Authorizes a 40 percent prize payout for "Win 10" and other State-operated lottery games.	July 19, 1998
Legislation Enacted in 1991		
Prize Payout	Increased the prize payout for instant games from 50 percent to 55 percent and lowered the minimum amount of revenue for education to 30 percent. Increased the prize payout for "Pick 10" from 40 percent to 50 percent and lowered the minimum amount of revenue for education to 35 percent.	June 12, 1991

Subject	Description	Effective Date
Legislation Enacted in 1994		
Limit on Draws per Day	The drawings for Pick 10, Take 5, and Lotto games are to be offered no more than once daily.	April 1, 1994
Unclaimed Prize Money	The use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division is limited to 16 weeks per year.	April 1, 1994
Annual Plan	The Division is required to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year.	April 1, 1994
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 percent prize payout.	
	Drawings for the game can be held no more than 13 hours each day, of which only eight hours can be consecutive.	
	If there is no license for the sale of alcohol, then the premises have to be a minimum of 2,500 square feet.	
	If there is a license to sell alcohol, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout.	April 1, 1999
	Reduced the percent dedicated to education from 30 percent to 20 percent.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi-jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Terminals	Allowed the Lottery Division to license the operation of video lottery machines at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Terminals	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retains 10 percent for administration, 29 percent is paid to the racetracks as a commission, and 61 percent is dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three is 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds receive 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Terminals	Provides a graduated vendor's fee that allows participating tracks to receive 32 percent of the first $50 million of revenue after prizes, 29 percent of the next $100 million, and 26 percent of net revenue over $150 million. In addition, a marketing allowance of 8 percent of the first $100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program is extended until December 31, 2017.	April 12, 2005

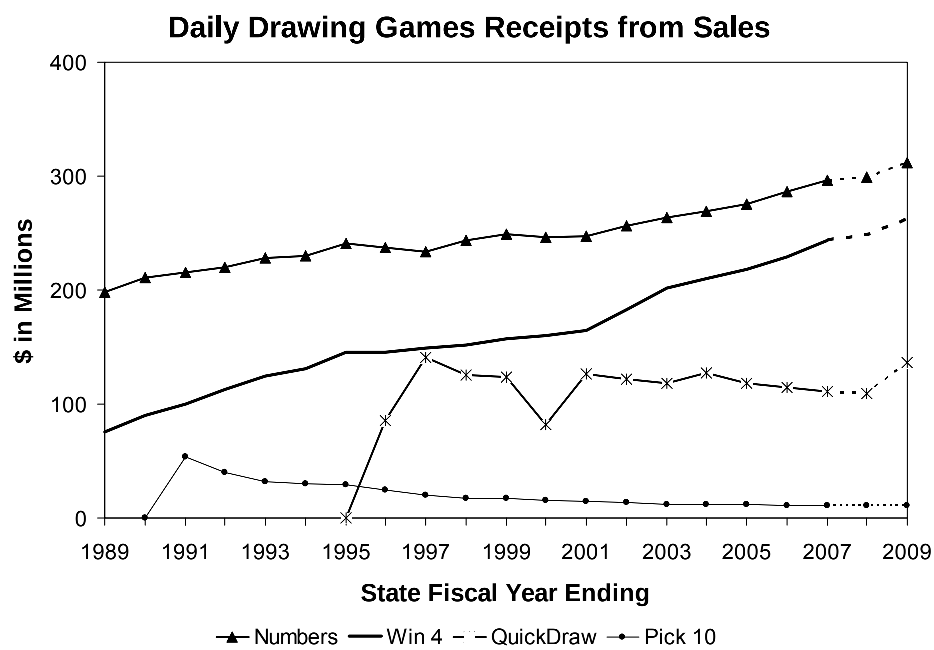
Subject	Description	Effective Date
Legislation Enacted in 2006		
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006
Legislation Enacted in 2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007

LOTTERY DEMAND

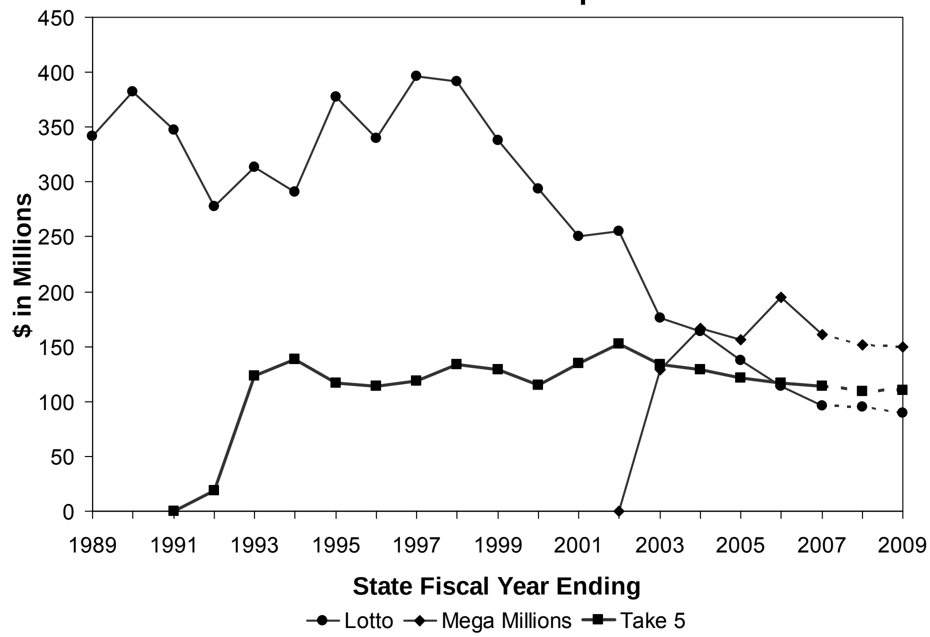
Factors that affect the demand for Lottery games include: the size of jackpots, the price of the lottery tickets, the amount spent on advertising and marketing, the prize payout percentage, the development of new games that generate increased sales, the potential customers' attitude towards Lottery games and competition from other gambling venues.

For a more detailed discussion of the methods and models used to develop estimates and projections, please see the *Economic, Revenue and Spending Methodology* at www.budget.state.ny.us.

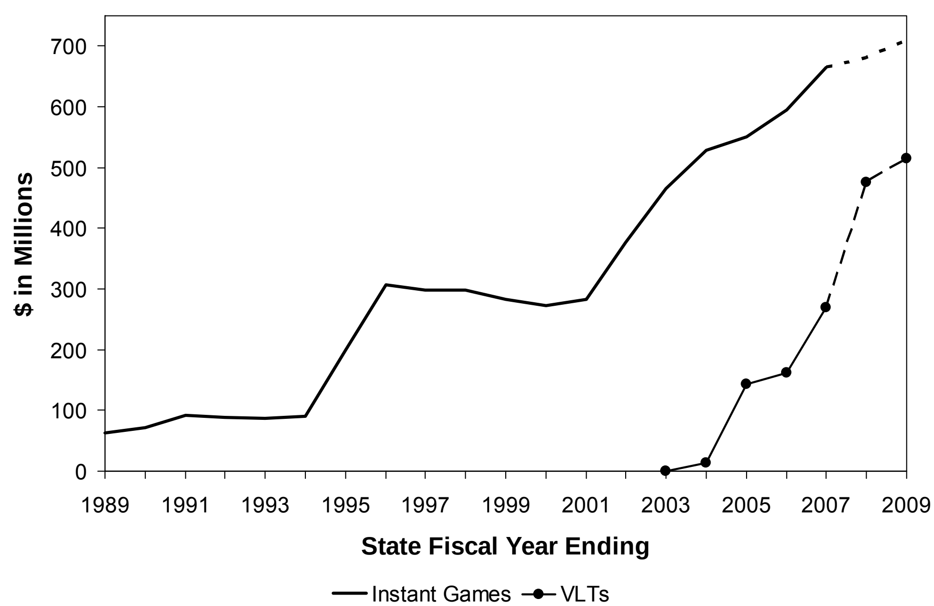
The following graphs show the receipts history of the various games since 1989.



Pari-Mutuel Prize Game Receipts from Sales



Instant Game & VLT Receipts from Sales



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2007-08 Estimates

Receipts for education from sales of Lottery games for 2007-08 are estimated to be $2.59 billion, an increase of $283 million, or 12.2 percent above last year. Unspent administrative allowances and miscellaneous income account for $402 million of receipts. The administrative surplus in 2007-08 includes an additional $40 million as a result of the transfer of an accumulated fund balance from the administrative account. Net receipts for education also include $475 million from the operation of video lottery terminals. A game-by-game profile follows.

Receipts from Instant Games sales are expected to have only modest growth from 2006-07. Sales of 75 percent games declined during 2007-08. However, the decline in receipts in the 75 percent games was offset by increased receipts from growth in 65 percent games. The majority of the growth in Instant Game receipts over the past few years had been from games with a 75 percent prize payout.

Lotto receipts from sales are expected to decline slightly from $96 million in 2006-07 to $95 million, a drop of 0.9 percent. Over the past several years, declines in Lotto have been attributed to competition from the larger jackpots offered in the Mega Millions game and the associated decline in customer interest in small jackpot sizes. In addition, modifications to the roll-up schedule during 2006-07 have resulted in lower jackpot offerings. However, sales in 2007-08 were helped by the jackpot roll-up to $65 million in June.

Mega Millions receipts from sales in 2007-08 is estimated to be $152 million, a decrease of $8.6 million from 2006-07. Mega Millions sales have generally matched last year's sales. However, 2006-07 sales were boosted by the record $390 million jackpot in March of 2007. To date, there have been four roll-ups in excess of $100 million, including a roll-up to $325 million in August.

STATES PARTICIPATING IN MEGA MILLIONS	
California	New Jersey
Georgia	New York
Illinois	Ohio
Maryland	Texas
Massachusetts	Virginia
Michigan	Washington

Receipts from Take 5 sales are estimated to decline by 4.5 percent in 2007-08 to $109 million. Take 5 sales have been negatively impacted by competition from other games and a maturing game life cycle.

The rate of growth in Numbers and Win 4 fell in 2007-08 from 3.6 percent and 6.3 percent respectively in 2006-07 to a projected increase of 0.7 percent in Numbers and 1.8 percent growth in Win 4.

Receipts from Instant Win sales are estimated at $4 million in 2007-08. Instant Win game sales reflect the modest demand for a game which offers Numbers and Win 4 players the opportunity to win prizes up to $500 for an additional $1 wager.

Quick Draw is estimated to generate $109 million in receipts from sales, a decline of $1.8 million. Although Quick Draw sales continue to decline, the rate of decline has slowed to a projected drop of only 1.6 percent in 2007-08.

VLT machines are operating at Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from VLT sales are estimated at $475 million for 2007-08. Receipts from VLTs benefited from the full year of operations at Yonkers Raceway, Tioga Downs, and Vernon Downs.

2008-09 Projections

Under current law, receipts for education from the Lottery in 2008-09 are projected to be $2.80 billion, an increase of $204 million, or 7.9 percent above 2007-08.

Under proposed law, receipts for education from Lottery games are projected to increase from the prior fiscal year by $361 million, or 13.9 percent, to $2.95 billion. Unspent administrative allowances and miscellaneous income are estimated at $393 million. Receipts from VLTs are projected at $764 million, including $250 million in revenue from the anticipated sale of development rights at Belmont Park.

The Lottery Division plans to implement an initiative in 2008-09 to increase the number of Lottery vendors. This initiative is anticipated to increase sales of all traditional Lottery games, excluding QuickDraw, by 1.9 percent above the base estimate for 2008-09.

Instant games receipts from sales are projected to increase by $29 million, or 4.3 percent. Following declines in the sale of 75 percent prize payout games in 2007-08, sales of these games are expected to once again grow in 2008-09. Sales of 65 percent prize payout game are expected to continue to grow in 2008-09.

Lotto game receipts from sales are projected to decline by $6 million. This decline represents the loss of sales that were realized in 2007-08 from the unusual roll-up of the Lotto jackpot to $65 million.

Net receipts from Mega Millions sales are projected to decrease by $2 million, to $150 million. Collection experience shows a direct correlation between the size of the jackpots and the amount of revenue received.

Receipts from Take 5 sales are projected to grow by $1 million in 2008-09 to $110 million. The historical decline in Take 5 is expected to be offset by the addition of an "E-Z Match" add-on feature to Take 5 and a shift of advertising to this game.

Growth in Daily Numbers and Win 4 receipts from sales are projected to increase in 2008-09 from its lackluster growth in the prior fiscal year. In addition, the Lottery Division plans an advertising campaign to renew interest in these games. Revenue from sales attributable to the Numbers game is projected to increase by 4.3 percent in 2008-09, to $312 million. Win 4 receipts from sales are projected to grow by $14 million, an increase of 5.6 percent.

Receipts from sales of the Quick Draw game would decline by $91 million or 83.5 percent if the game was allowed to sunset on May 31, 2008. If the authorization to operate Quick Draw is extended and restrictions on the operation of the game are removed, as proposed in this Budget, receipts from sales would be projected at $136 million, a $27 million increase from last year. In addition to the anticipated $28 million in receipts from sales due to the removal of the QuickDraw restrictions, the Lottery Division plans to add a progressive jackpot feature to stimulate QuickDraw sales.

The Lottery Division is planning to offer promotional raffle games in 2008-09. These games are projected to generate $14 million in receipts from sales.

The VLT program is projected to generate $514 million for education in 2008-09, an increase of $39 million. This increase largely represents improved performance at Yonkers Raceway, as the facility's market continues to mature, as well as the availability of additional administrative surplus from the operation of the VLT program. An additional $250 million in receipts is anticipated from the sale of development rights at Belmont Park.

MISCELLANEOUS RECEIPTS CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
State Funds	4,097	5,403	1,306	31.9	6,149	746	13.8
Federal Funds	1,738	1,859	121	7.0	2,010	151	8.1
All Funds	5,835	7,262	1,427	24.5	8,159	897	12.4

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)	2004-05	2005-06	2006-07	2007-08	2008-09
Authority Bond Proceeds					
Transportation	1,072	721	1,073	1,129	1,056
Public Protection	183	179	346	249	320
Health and Social Welfare	30	82	73	124	150
Education	592	656	1,823	1,988	2,036
Mental Hygiene	188	256	256	309	496
Economic Development/ Government Oversight	369	465	141	1,035	1,211
General Government	56	38	51	80	81
Other	100	173	149	209	458
State Park Fees	20	30	23	26	26
Environmental Revenues	24	33	39	51	77
All Other	149	98	123	203	238
Total	2,783	2,731	4,097	5,403	6,149
Accounting Adjustment	(1,024)	(1,017)	(1,850)	(2,192)	(2,170)
Financial Plan Total	1,759	1,714	2,247	3,211	3,979

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as "Off-Budget Spending", is not reflected in the Comptroller's accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

Regarding capital projects spending activity in the Capital Program and Financing Plan, State Funds receipts are utilized to finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) are used to finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) are utilized to finance Federal Pay-As-You-Go spending.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State

Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements. Reimbursements from authority bond proceeds will account for approximately 95 percent of all miscellaneous receipts flowing into Capital Projects Funds in 2007-08 and in 2008-09.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $26 million in 2007-08 and $26 million in 2008-09, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. Other environmental revenues from settlements with individuals and other parties who are liable for damage caused to State environmental properties are deposited in the Natural Resource Damages Fund. These environmental revenues are projected to increase from $51 million in 2007-08 to $77 million in 2008-09. The Executive Budget contains a proposal to expand the Bottle Bill to include all non-carbonated beverages and redirect all unclaimed deposits to the State to support spending in the Environmental Protection Fund (EPF). These modifications will begin as of January 1, 2009 and will provide approximately $25 million in additional receipts to the EPF in SFY 2008-09, which will be used for critical environmental projects such as land stewardship, farmland protection and enhanced recycling and pollution prevention efforts. These unclaimed deposits are expected to total $100 million annually.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	0
Other Funds	848	671	(177)	(20.9)	684	9	1.3
All Funds	848	671	(177)	(20.9)	684	9	1.3

Note: Totals may differ due to rounding.

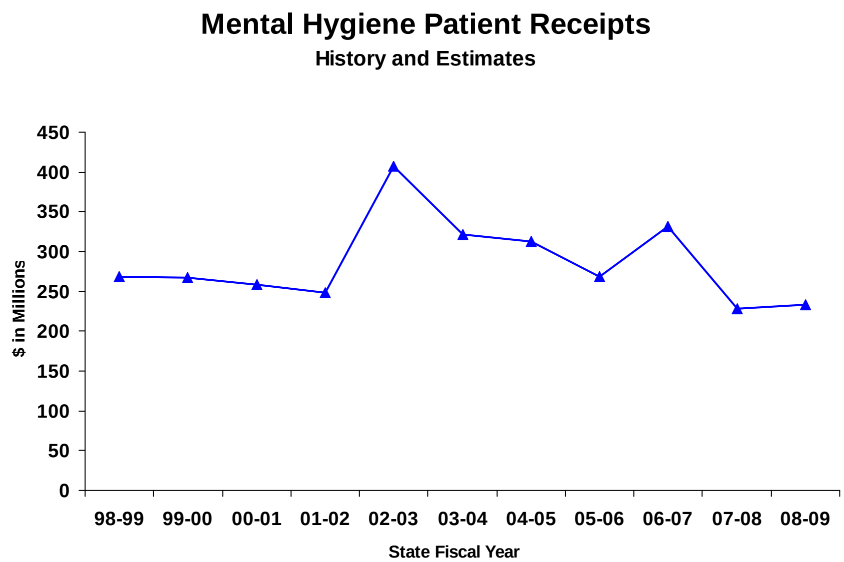
	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	0	0	0	0	0	0	0	0	0	0	0
Other Funds	630	611	860	614	807	810	768	746	848	671	684
All Funds	630	611	860	614	807	810	768	746	848	671	684

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)					
	2004-05	2005-06	2006-07	2007-08	2008-09
Mental Hygiene Patient Receipts	313	268	332	228	233
SUNY Dormitory Fees	319	344	373	326	335
Health Patient Receipts	112	114	121	98	98
All Other	24	20	22	19	19
Total	768	746	848	671	684

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income, and other revenues. These revenues are first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 15 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

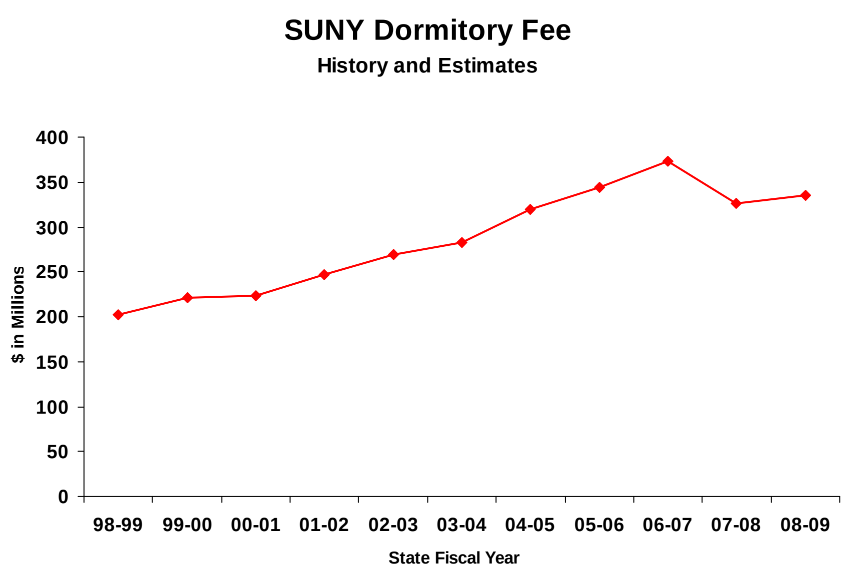
MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.



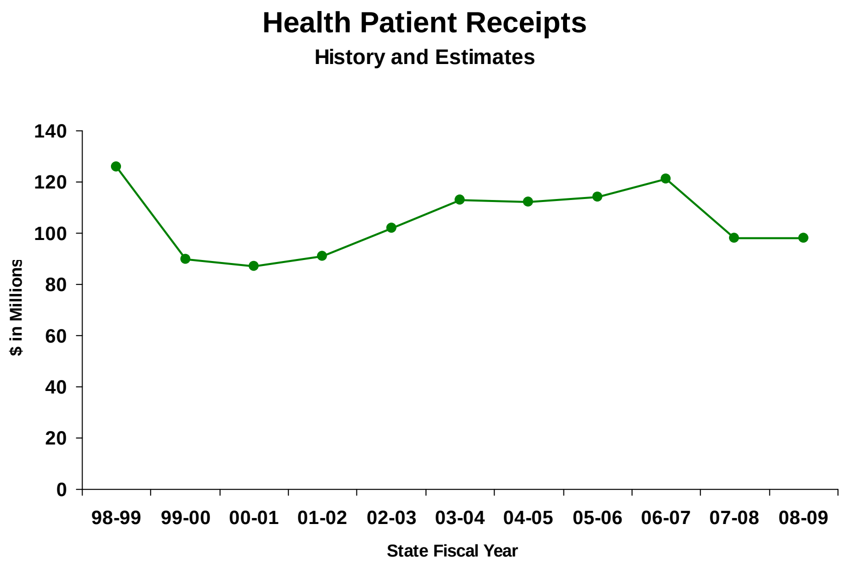
DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY in the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase payment agreement.



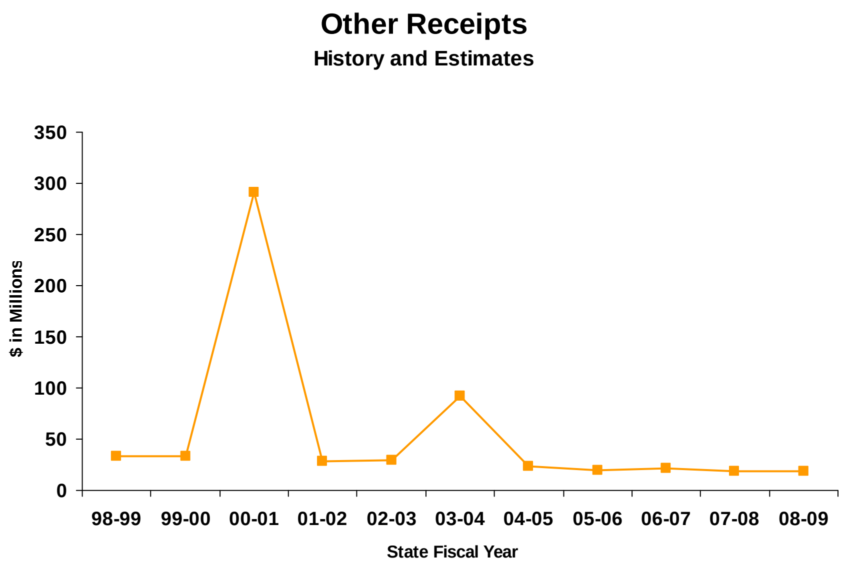
HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.



ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation and payments from local housing agencies to finance the debt service costs on general obligation bonds. All other receipts include $53 million in 2003-04 that were deposited to the Debt Reduction Reserve Fund and used to retire high cost debt.



2009-10 PROJECTIONS

Debt Service miscellaneous receipts are projected at $687 million in fiscal year 2009-10, an increase of $3 million from 2008-09. The projection primarily reflects a $3 million increase for SUNY Dormitory Income Fund. All other miscellaneous receipts remain roughly the same.

FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant must be used pursuant to Federal laws and regulations. Additionally, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $35.8 billion in 2007-08 and $36.9 billion in 2008-09. These revenues represent approximately 30 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue and the Capital Projects fund types.

GENERAL FUND

In 2006-07, Federal grants were reclassified to the Refunds and Reimbursements category of Miscellaneous Receipts, while Medicare Part D payments were classified as Federal grants. This results in expected baseline Federal grants collections of approximately $55 million in 2007-08. In addition, the one time Federal reimbursement of $16 million for emergency costs related to Federal implementation delays of the new Medicare Part D program, which the State incurred during 2005-06 and was not reimbursed during 2006-07. Total 2007-08 General Fund receipts are expected to be $71 million.

The Executive is exploring the feasibility of converting the current NYSHIP prescription drug coverage for retirees to a contracted Medicare Part D plan. Such a change would have no negative impact on the benefits provided to retirees. A conversion could potentially reduce the State's General Fund spending and decrease its GASB 45 liability by about $3 billion. Currently, the State receives a Federal subsidy for the Medicare Part D coverage it provides to retirees. With a conversion to a contracted Plan, the State's current subsidy would be reduced by $13.7 million in 2008-09 and by $55 million thereafter. The reduced Federal subsidy, in effect, would be counter-balanced by the reduced General Fund spending.

SPECIAL REVENUE FUNDS

Federal grants account for approximately three-quarters of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients. Receipts for State-operated facilities represent 12 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 88 percent.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

FEDERAL GRANTS
(millions of dollars)

	General Fund	Special Revenue Funds: Medicaid	Special Revenue Funds: Welfare	Special Revenue Funds: All Other	Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
	Actual							
1998-99	0	13,552	1,488	6,382	21,422	1,219	0	22,641
1999-2000	0	14,432	1,017	6,735	22,184	1,381	0	23,565
2000-01	0	15,203	1,450	7,620	24,273	1,509	0	25,782
2001-02	0	16,324	1,975	8,399	26,698	1,423	0	28,121
2002-03	0	19,021	2,307	10,356	31,684	1,567	0	33,251
2003-04	645	20,943	1,788	12,390	35,121	1,548	0	37,314
2004-05	0	22,083	1,998	10,411	34,492	1,721	0	36,213
2005-06	0	21,979	2,500	8,884	33,363	1,766	0	35,129
2006-07	151	22,649	2,243	8,798	33,690	1,738	0	35,579
	Estimated							
2007-08	71	22,266	2,300	9,345	33,911	1,859	0	35,841
2008-09	41	22,859	2,334	9,639	34,832	2,010	0	36,883

DEDICATED FUND TAX RECEIPTS

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various Special Revenue, Debt Service and Capital Projects Funds. The tables below identify each dedicated fund by Fund type, the source and amount of dedicated tax receipts deposited in 2006-07 and estimated to be deposited in 2007-08 to 2010-11. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS

DEDICATED FUND TAX RECEIPTS (millions of dollars)	2006-07 Actual	2007-08 Estimated	2008-09 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	3,994	4,679	4,713
Dedicated Mass Transportation Trust Fund	649	663	678
Petroleum business tax	355	367	416
Motor fuel tax	108	107	74
Motor vehicle fees	186	189	188
Mass Trans. Operating Assistance Fund	1,850	1,846	1,977
Corporate Surcharges			
Corporation franchise tax	551	531	607
Corporation and utilities tax	109	113	113
Insurance tax	116	116	150
Bank tax	186	163	154
Other			
Sales and use tax	688	718	742
Petroleum business tax	132	137	143
Corporation and utilities — sections 183 & 184	68	68	68
HCRA Resources Fund			
Cigarette Tax	574	565	614
Other Special Revenue Funds			
Motor Vehicle Fees	43	42	42
Total Tax Receipts: Special Revenue Funds-Other	7,110	7,795	8,024
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	7,647	9,138	9,701
Clean Water/Clean Air Fund			
Real estate transfer tax	875	794	738
Local Government Assistance Tax Fund			
Sales and use tax	2,512	2,615	2,683
Total Tax Receipts: Debt Service Funds	11,034	12,547	13,122
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,782	1,806	1,859
Petroleum business taxes	604	625	799
Motor fuel tax	406	405	277
Motor vehicle fees	557	562	553
Highway use tax	153	148	162
Transmission tax	17	17	17
Auto rental tax	45	49	51
Environmental Protection Fund			
Real estate transfer tax	147	212	237
Total Tax Receipts: Capital Projects Funds	1,929	2,018	2,096
Total Tax Receipts: Other Funds	**20,073**	**22,360**	**23,242**

DEDICATED FUND TAX RECEIPTS (millions of dollars)	2009-10 Recommended	2010-11 Recommended	2011-12 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	5,423	5,950	6,236
Dedicated Mass Transportation Trust Fund	692	692	698
Petroleum business tax	503	506	509
Motor fuel tax	-	-	-
Motor vehicle fees	189	186	189
Mass Trans. Operating Assistance Fund	2,033	2,065	2,146
Corporate Surcharges			
Corporation franchise tax	626	625	659
Corporation and utilities tax	113	114	115
Insurance tax	159	163	167
Bank tax	148	149	159
Other			
Sales and use tax	769	798	829
Petroleum business tax	150	148	149
Corporation and utilities — sections 183 & 184	68	68	68
HCRA Resources Fund			
Cigarette Tax	607	599	598
Other Special Revenue Funds			
Motor Vehicle Fees	42	42	42
Total Tax Receipts: Special Revenue Funds-Other	8,797	9,348	9,720
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	10,440	11,122	11,850
Clean Water/Clean Air Fund			
Real estate transfer tax	713	713	713
Local Government Assistance Tax Fund			
Sales and use tax	2,703	2,807	2,921
Total Tax Receipts: Debt Service Funds	13,856	14,642	15,484
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,912	1,909	1,935
Petroleum business taxes	1,101	1,106	1,110
Motor fuel tax	-	-	-
Motor vehicle fees	563	550	562
Highway use tax	178	181	188
Transmission tax	17	17	17
Auto rental tax	53	55	58
Environmental Protection Fund			
Real estate transfer tax	287	287	287
Total Tax Receipts: Capital Projects Funds	2,199	2,196	2,222
Total Tax Receipts: Other Funds	**24,852**	**26,186**	**27,426**

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund is established by Section 97-rrr of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the Real Property Tax Law.

Dedicated Mass Transportation Trust Fund ("DMTTF" Fund-073)

The Dedicated Mass Transportation Trust Fund is established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State's motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects. This Budget proposes to combine the motor fuel tax into the petroleum business tax.

Mass Transportation Operating Assistance Fund ("MTOAF" Fund-313)

The Mass Transportation Operating Assistance Fund is established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a 17 percent surcharge levied on the portion of the State general business corporation tax, bank tax, the corporations and utilities tax, and the insurance tax allocated to the Metropolitan Transportation Commuter District (MTCD), a .375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established. This Budget proposes to combine the motor fuel tax into the petroleum business tax.

- Public Transportation Systems Operating Assistance Account (PTSOAA - Fund 313-01)
- Metropolitan Mass Transportation Operating Assistance Account (MMTOAA - Fund 313-02)

The PTSOAA receives:

- As recommended in the Executive Budget, effective April 1, 2007, the PTSOAA will receive 27 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law.
- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

The MMTOAA receives:

- As recommended in the Executive Budget, effective April 1, 2007, MMTOAA will receive 53 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law.
- All tax receipts from the 17 percent surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, the insurance taxes, and the bank tax and that conduct business in the Metropolitan Commuter Transportation District ("MCTD").
- Tax receipts from the one-quarter of one percent sales and use tax imposed in the MCTD.
- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund is established by section 92-dd of the State Finance Law and receives slightly more than 61 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

State Lottery Fund (Fund-160)

The State Lottery Fund is established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Division of the Lottery, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND
(millions of dollars)

	2006-07 Actual	2007-08 Estimated	2008-09 Recommended	2009-10 Recommended	2010-11 Recommended	2011-12 Recommended
Lottery	2,040	2,117	2,189	2,350	2,424	2,532
VLTs	270	475	764	644	887	1,116
Total Lottery	2,309	2,592	2,953	2,994	3,311	3,648

Other Special Revenue Funds

In 2006, certain motor vehicle fees were reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another; they still remain dedicated to the same funds.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund ("RBTF" Fund 311-02)

The Revenue Bond Tax Fund is established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund is established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund is established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund is established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, and ferry lines. Payments from the Fund are also pledge to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

Environmental Protection Fund ("EPF" Fund-078)

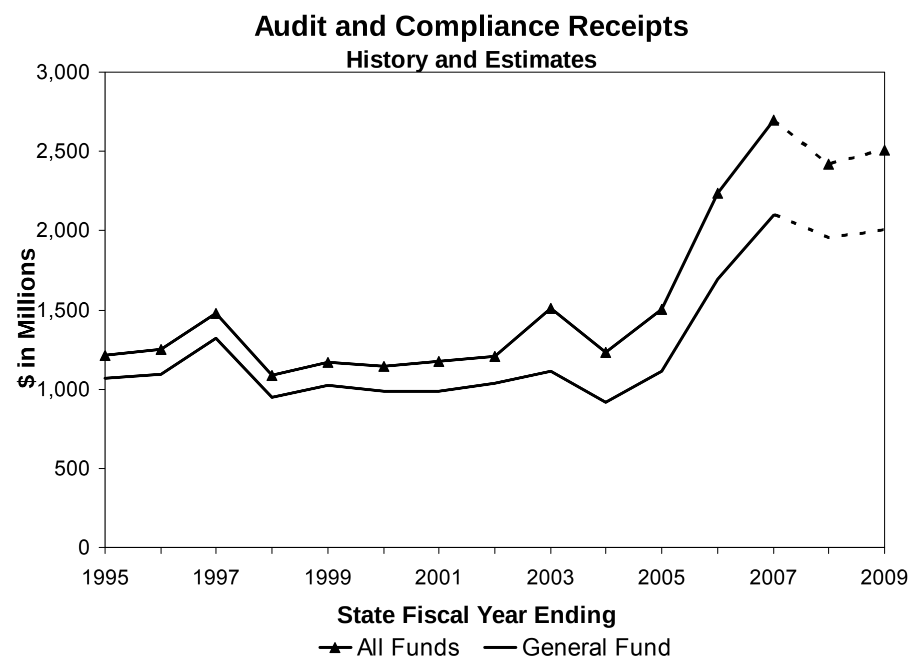
The Environmental Protection Fund is established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $147 million. Legislation enacted with the 2007-08 Budget increased the annual EPF dedication from $237 million to $287 million beginning in 2009-10. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

AUDIT AND COMPLIANCE (millions of dollars)							
	2006-07 Actual	2007-08 Estimated	Change	Percent Change	2008-09 Projected	Change	Percent Change
General Fund	2,098	1,941	(157)	(7.5)	2,004	63	3.2
Other Funds	602	481	(121)	(20.1)	504	23	4.8
All Funds	2,700	2,422	(278)	(10.3)	2,508	86	3.6

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- provide the Department of Taxation and Finance with new tools to fight tax fraud and increase taxpayer compliance by providing incentives for delinquent taxpayers to come forward and by providing the necessary enforcement tools to enable the Department to reduce tax evasion; and
- make tax shelter reporting requirements permanent.

DESCRIPTION

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance's Office of Tax Enforcement (OTE) is composed of the Audit Division, the Division of Collections and Civil Enforcement ("Collections") and the Criminal Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTE activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. The receipts from enforcement activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid. In certain instances, taxpayers may also be subject to penalties and interest.

GROWTH IN RECENT ENFORCEMENT COLLECTIONS

TABLE 1
Growth All Funds Audit and Compliance Collections
(in millions)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
1993-94	1,130		
1994-95	1,211	81	7.2
1995-96	1,247	36	3.0
1996-97	1,480	233	18.7
1997-98	1,085	(395)	(26.7)
1998-99	1,169	84	7.7
1999-00	1,141	(28)	(2.4)
2000-01	1,174	33	2.9
2001-02	1,209	35	3.0
2002-03	1,510	301	24.9
2003-04	1,232	(278)	(18.4)
2004-05	1,503	271	22.0
2005-06	2,237	734	48.8
2006-07	2,700	463	20.7
Estimated			
2007-08	2,422	(278)	(10.3)
2008-09	2,508	86	3.6

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes, will reach $2.4 billion in 2007-08 and $2.5 billion in 2008-09. This source of receipts has grown dramatically in recent years, having more than doubled since 2001-02. This growth can be attributed to a combination of policy actions adopted over the past few years and improved performance of the Department of Taxation and Finance in identifying and concluding productive audits. Growth in these collections for 2006-07 was a robust 21 percent, following growth of 49 percent in 2005-06 and 22 percent in 2004-05. Prior to 2002-03, enforcement receipts were relatively stable in the range of $1.1 billion to $1.2 billion annually.

TABLE 2
ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE
(in millions)

	2004-05	2005-06	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**630**	**701**	**71**	**11.3**
User Taxes and Fees	**331**	**350**	**19**	**5.8**
Business Taxes	**504**	**1,144**	**640**	**126.8**
Corporation and Utilities Taxes	43	101	58	132.8
Corporate Franchise Tax	397	653	256	64.5
Bank Tax	24	330	306	1,271.3
Insurance Tax	32	33	1	1.7
Petroleum Business Tax	7	27	20	273.5
Other Taxes	**38**	**41**	**4**	**10.0**
Total	**1,503**	**2,237**	**734**	**48.8**

Historic Growth in 2005-06 Audit Receipts

The historic growth in 2005-06 audit receipts of $734 million (49 percent) over the prior year was attributable to growth in audit collections from business taxes of 127 percent or $640 million. The balance of the increase was attributable to the audit receipts from the personal income tax (an increase of 11.3 percent or $71 million), user taxes and fees (5.8 percent or $19 million) and other taxes (an increase of 10 percent or $4 million).

Bank tax audit receipts, which increased from just $24 million in 2004-05 to almost $330 million, accounted for more than one-half of the $640 million increase in business tax audit collections. The increase was largely attributable to the Voluntary Compliance Initiative (VCI) that was enacted in 2005 and provided the temporary authority for the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable transactions and gave taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such transactions. The VCI initiative resulted in the collection of approximately $200 million in bank tax audit receipts in 2005-06. The authority for the Department of Taxation and Finance to require the reporting of such transactions currently expires on July 1, 2009. The Executive Budget includes legislation that will make permanent the Department of Taxation and Finance's authorization to require such reporting. This legislation is expected to ensure that revenue derived from the VCI Program moves into the voluntary base.

Audit receipts from the corporate franchise tax accounted for $256 million of the $640 million increase and were the result of significant collections received in April and May 2005, when several audits involving back years were closed following a favorable Tax Tribunal decision. The balance of the 2005-06 increase in business tax collections from the prior year was attributable to audit collections from the telecommunications industry collected under the corporation and utilities taxes (a 133 percent increase or $58 million), and the petroleum business tax (a 274 percent increase or $20 million).

Growth in 2006-07 Receipts Continued to be Robust

TABLE 3
ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE
(in millions)

	2005-06	2006-07	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**701**	**732**	**31**	**4.4**
User Taxes and Fees	**350**	**352**	**1**	**0.4**
Business Taxes	**1,144**	**1,546**	**402**	**35.2**
Corporation and Utilities Taxes	101	52	(49)	(48.8)
Corporate Franchise Tax	653	1,133	480	73.5
Bank Tax	330	299	(31)	(9.3)
Insurance Tax	33	56	23	70.9
Petroleum Business Tax	27	6	(21)	(78.9)
Other Taxes	**41**	**70**	**29**	**69.5**
Total	**2,237**	**2,700**	**463**	**20.7**

Audit receipts for 2006-07 increased from $2,237 million in 2005-06 to $2,700 million. The continued robust growth in 2006-07 audit receipts of $463 million (20 percent) over 2005-06 was again primarily attributable to growth in audit collections from business taxes of 35 percent or $402 million. The balance of the increase was attributable to the audit receipts from the personal income tax (an increase of 4.4 percent or $31 million), other taxes (an increase of nearly 70 percent or $29 million) and user taxes and fees (0.4 percent or $1 million). The significant increase in audit receipts from other taxes was due to the receipt of $24 million in estate tax audits in November 2006.

Corporate franchise tax audit receipts increased from $653 million in 2005-06 to $1,133 million, a jump of $480 million. The increase was attributable to the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers. Insurance tax audit receipts increased by $23 million or 71 percent over the prior year. These increases in audit collections from business taxes were offset by declines in receipts from corporation and utilities taxes from $101 million to $52 million (49 percent); the bank tax from $330 million to $299 million (9 percent) and the petroleum business tax from $27 million to $6 million (79 percent). Although these were sharp declines from prior-year results, receipts continued to exceed average collections over the ten-year period beginning in 1993-94 of $29 million for the corporation and utilities taxes and $66 million for the bank tax.

Estimated Receipts for 2007-08

TABLE 4 ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE (in millions)				
	2006-07	2007-08	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**732**	**809**	**77**	**10.5**
User Taxes and Fees	**352**	**374**	**22**	**6.4**
Business Taxes	**1,546**	**1,203**	**(343)**	**(22.2)**
Corporation and Utilities Taxes	52	20	(32)	(61.3)
Corporate Franchise Tax	1,133	1,020	(113)	(10.0)
Bank Tax	299	116	(183)	(61.2)
Insurance Tax	56	41	(15)	(27.3)
Petroleum Business Tax	6	6	0	0.6
Other Taxes	**70**	**36**	**(34)**	**(49.0)**
Total	**2,700**	**2,422**	**(278)**	**(10.3)**

Audit receipts for 2007-08 are estimated to decrease from $2,700 million in 2006-07 to $2,422 million. Although receipts are expected to decline from the prior year's historically high levels that included collections for audits that spanned far more than the normal three years, they remain significantly above average All Funds collections over the ten-year period beginning in 1993-94 of $1,235 million. Estimated audit receipts for 2007-08 benefit from additional receipts attributable to resources provided with the 2007-08 Budget for the Department of Taxation and Finance. The decline in estimated 2007-08 audit receipts of $278 million (10 percent) from 2006-07 is the result of a moderation in audit collections from business taxes from last year's historic levels, which are estimated to decline by 22 percent or $343 million. The bulk of the $343 million decrease in audit receipts from business taxes in 2007-08 is due to decreases in receipts from the corporate franchise tax of $113 million, bank tax of $183 million, insurance tax of $15 million and corporation and utilities taxes of $32 million. The balance of the decrease is attributable to reduced audit receipts from other taxes ($34 million, or 49 percent), offset by increases in audit receipts from personal income taxes ($77 million, or 10.5 percent) and user taxes and fees ($22 million, or 6.4 percent).

Projected Receipts for 2008-09

TABLE 5 ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE (in millions)				
	2007-08	2008-09	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**809**	**847**	**38**	**4.7**
User Taxes and Fees	**374**	**409**	**35**	**9.3**
Business Taxes	**1,203**	**1,217**	**14**	**1.2**
Corporation and Utilities Taxes	20	20	0	0.0
Corporate Franchise Tax	1,020	999	(21)	(2.1)
Bank Tax	116	152	36	31.0
Insurance Tax	41	41	0	0.0
Petroleum Business Tax	6	5	(1)	(12.3)
Other Taxes	**36**	**35**	**(1)**	**(2.0)**
Total	**2,422**	**2,508**	**86**	**3.6**

Audit receipts for 2008-09 are projected to increase from $2,422 million in 2007-08 to $2,508 million. Overall, audit receipts are projected to remain significantly above average All Funds collections over the ten-year period beginning in 1993-94 of $1,235 million. Projected audit receipts for 2008-09 include an expectation of additional receipts and additional targeted resources for the Department of Taxation and Finance. Without legislation, which is expected to increase receipts nearly $80 million, and additional resources provided with this Budget, the base would be expected to decline by over $100 million due to the loss of multiple-year financial service audits. To fill that gap, resources are targeted to improve compliance on withholding and refund payouts and enforcement in fraud cases. The modest increase in projected 2008-09 audit receipts of $86 million (3.6 percent) results from a small increase, of 1.2 percent or $14 million, in audit collections from business taxes from the previous year's high levels, with the bulk of the $14 million increase due to an increase in bank tax receipts of $11 million. The balance of the $86 million increase is attributable to additional audit receipts from personal income taxes ($38 million, or 4.7 percent) and user taxes and fees ($35 million, or 9.3 percent), offset by a minimal decrease in audit receipts from other taxes.

Trends in All Funds Audit and Tax Receipts

Table 6 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 4 percent of total All Funds tax receipts. In 2006-07, audit and compliance receipts were 4.6 percent of All Funds tax receipts, but in 2007-08 and 2008-09 audit and compliance receipts are expected to again be no more than 4 percent of total All Funds tax receipts.

TABLE 6
All Funds Audit and Compliance Collections
As A Percent of All Funds Tax Receipts
(in millions)

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1993-94	1,130	33,026	3.4
1994-95	1,211	33,050	3.7
1995-96	1,247	33,927	3.7
1996-97	1,480	34,620	4.3
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
2005-06	2,237	53,578	4.2
2006-07	2,700	58,740	4.6
Estimated			
2007-08	2,422	60,927	4.0
2008-09	2,508	64,912	3.9

As is shown in the Table 7 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 percent to 41 percent over the ten-year period beginning in 1993-94. However, the business share of total taxes ranged from 12 percent to 21 percent over that same period. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes deviated, and is projected to continue to deviate from these historical trends and account for 51 percent, 57 percent, 50 percent and 49 percent, respectively, of total 2005-06, 2006-07, 2007-08 and 2008-09 audit receipts.

Table 7

	Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax
1993-94	30	5	22	43	21	11	18	50
1994-95	29	6	25	40	19	11	20	50
1995-96	37	7	19	37	18	11	20	51
1996-97	41	5	20	34	19	10	20	51
1997-98	39	6	20	35	18	11	20	51
1998-99	40	5	19	36	17	10	20	53
1999-00	34	6	20	40	15	10	20	55
2000-01	31	4	22	43	13	8	19	60
2001-02	32	5	20	43	12	8	19	61
2002-03	31	4	20	45	13	8	22	57
2003-04	27	4	23	46	12	8	23	57
2004-05	34	3	21	42	12	8	23	57
2005-06	51	3	15	31	12	8	21	59
2006-07	57	3	13	27	15	3	23	59
2007-08(e)	50	1	15	33	14	3	23	60
2008-09(e)	49	1	16	34	15	3	22	60

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this ten-year period, the percent shares of audit and compliance receipts and total tax receipts attributable to the user taxes and fees category were more consistent with one another, with the audit and compliance percentage ranging from 19 percent to 25 percent and the tax receipts percentage ranging from 18 percent to 23 percent. As a result of the large historical and projected increase in business tax audit receipts during the 2005-06 through 2008-09 period, the share of user taxes and fees and personal income tax audit receipts deviate from these historical trends, but their respective shares of total tax receipts remains consistent with history.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty - 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-State taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

Tax Amnesty - 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996, and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under "sin" taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State's 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty - 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Beginning April 1, 2003, the interest rate computation applied to all liabilities increased by two percent for all taxpayers.

Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Extension of Bank Tax Provisions

Legislation has extended on multiple occasions certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. These include major reform amendments made in 1985 to the bank taxes imposed by New York State and New York City. At that time, all taxpayers were made subject to new asset and alternative entire net income (ENI) tax bases. The method of allocation of income changed from separate accounting to three-factor formula apportionment. Also added were several new modifications to income, including new deductions for income from subsidiary capital; all these changes were temporary. Two years later, New York decoupled from changes made by the Federal Tax Reform Act of 1986 with regard to the Federal and State bad debt deductions. These amendments were also temporary.

The primary motivation for these temporary statutory changes was the joint recognition by the industry, the Department of Taxation and Finance, and the New York City Department of Finance that the then-current structure was deficient. The pre-1985 law was based upon separate accounting by branch. This antiquated system led to uncertainty for taxpayers, difficulties with administration for both the industry and the State and City, and large audit assessments. Simplified administration and certainty of results were important goals of the new structure. The amendments were made temporary to provide an opportunity for adjustments if difficulties were encountered with the new law. Since enactment in 1985, the provisions have been extended without significant alterations.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July 2009. Legislation submitted with the Executive Budget will make these reporting requirements permanent.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add back those deductions to their taxable income.