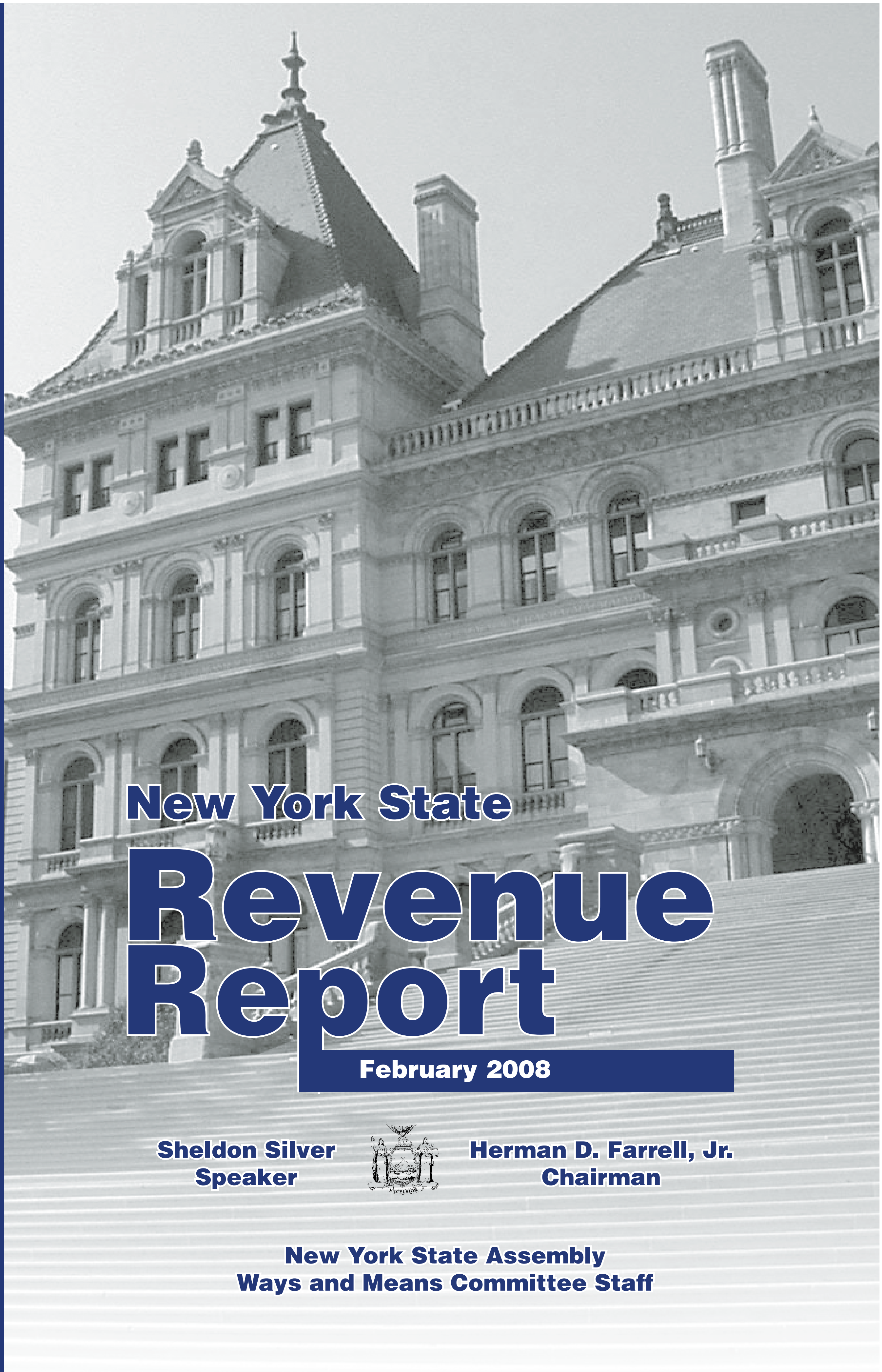

New York State Revenue Report

February 2008

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee Staff

February 25, 2008

Dear Colleagues:

I am pleased to provide you with the NYS Assembly Ways and Means Committee *Revenue Report* for State Fiscal Year (SFY) 2007-08 and 2008-09. This report is part of our commitment to presenting clear and accurate information to the public. It provides an overview of the national and State economies, as well as an analysis of the Committee staff revenue forecast for SFY 2007-08 and 2008-09.

The Committee staff projects that total All Funds receipts will reach $116.9 billion in SFY 2007-08, which represents an increase of $4.5 billion, or 4.0 percent, over SFY 2006-07. The Committee staff estimate is $52 million higher than the Executive's estimate for SFY 2007-08.

The Committee staff projects that All Funds tax receipts will total $122.3 billion in SFY 2008-09, an increase of $5.4 billion, or 4.6 percent, over SFY 2007-08. The Committee staff forecast is $667 million lower than the Executive's forecast for SFY 2008-09. This difference is largely attributable to differences in economic projections and how this translates into receipts.

The Committee staff projections are reviewed by an independent panel of professional economists drawn from major financial corporations, prestigious universities, and private forecasters from across the State. Assembly Speaker Sheldon Silver and I would like to express our appreciation to all of the members of our Board of Economic Advisors. Their dedication and expert judgment have been invaluable in helping the Ways and Means Committee staff refine and improve this forecast. They have served to make the work of the staff the best in the State. Of course, they are not responsible for either the numbers or any of the views expressed in this document.

I wish to acknowledge the fine work done by the talented Ways and Means Committee staff. Their forecasts are integral to the budget process. The Speaker and I look forward to working with each of you to achieve a fair budget for all New Yorkers.

Sincerely

Herman D. Farrell, Jr.
Chairman

NEW YORK STATE REVENUE REPORT

FISCAL YEAR 2006-07 AND 2007-08

February 2008

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Speaker
New York State Assembly

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Receipts Overview

Growth in Revenues Trending Downward

Over the past few years double digit growth in State revenues have far surpassed budget expectations. However, estimates for receipts on a State Fund basis in State Fiscal Year (SFY) 2007-08 are now falling below expectations, growing by $4.0 billion, or 5.2 percent, over SFY 2006-07. The Committee staff estimates that State Fund receipts, which consist of State taxes and miscellaneous receipts, will total $80.8 billion in SFY 2007-08, $1.6 billion lower than the Enacted Plan. Much of the revision in expected receipts is due to a slowdown in national and State economic activity.

The broadest measure of State receipts is the All Governmental Funds classification which includes all revenues generated by the State and Federal government. The Ways and Means Committee now projects All Fund receipts in SFY 2007-08 will total $116.9 billion, falling $2.5 billion short of the Executive's Enacted Plan estimate made in spring of 2007. This estimate is $4.5 billion above total receipts in SFY 2006-07, representing growth of 4.0 percent.

Table 1

All Governmental Fund Receipts
SFY 2007-08 and SFY 2008-09
(Dollar Amounts in Millions)

	2006-07	2007-08	Growth	2008-09	Growth
Personal Income Tax	34,580	36,510	5.6%	38,059	4.2%
User Taxes and Fees	13,456	13,928	3.5%	14,228	2.2%
Business Taxes	8,606	8,382	-2.6%	9,453	12.8%
Other	2,097	2,081	-0.8%	2,109	1.3%
Total Taxes	**58,739**	**60,901**	**3.7%**	**63,849**	**4.8%**
Miscellaneous Receipts	18,078	20,195	11.7%	21,641	7.2%
State Funds Receipts	**76,817**	**81,096**	**5.6%**	**85,490**	**5.4%**
Federal Grants	35,579	35,841	0.7%	36,883	2.9%
All Governmental Funds	**112,396**	**116,937**	**4.0%**	**122,373**	**4.6%**

Over the last several fiscal years tax revenues have grown by more than 10 percent annually. As will be detailed in the following chapters, the Committee staff now estimates tax receipts to grow by 3.5 percent in SFY 2007-08, falling $1.1 billion below the Executive's Enacted Plan estimates. Miscellaneous receipts continue to be stable with base growth of 11.0 percent, though this estimate is $335 million below the Enacted Plan estimate.

The Committee staff estimates that All Governmental Funds receipts will total $122.3 billion in SFY 2008-09, which is $5.4 billion, or 5.4 percent above the current fiscal year. The Committee staff estimates include over $2 billion in revenue enhancements proposed in the Executive Budget proposals. Absent these fee and revenue proposals, growth in receipts would be just 3.0 percent.

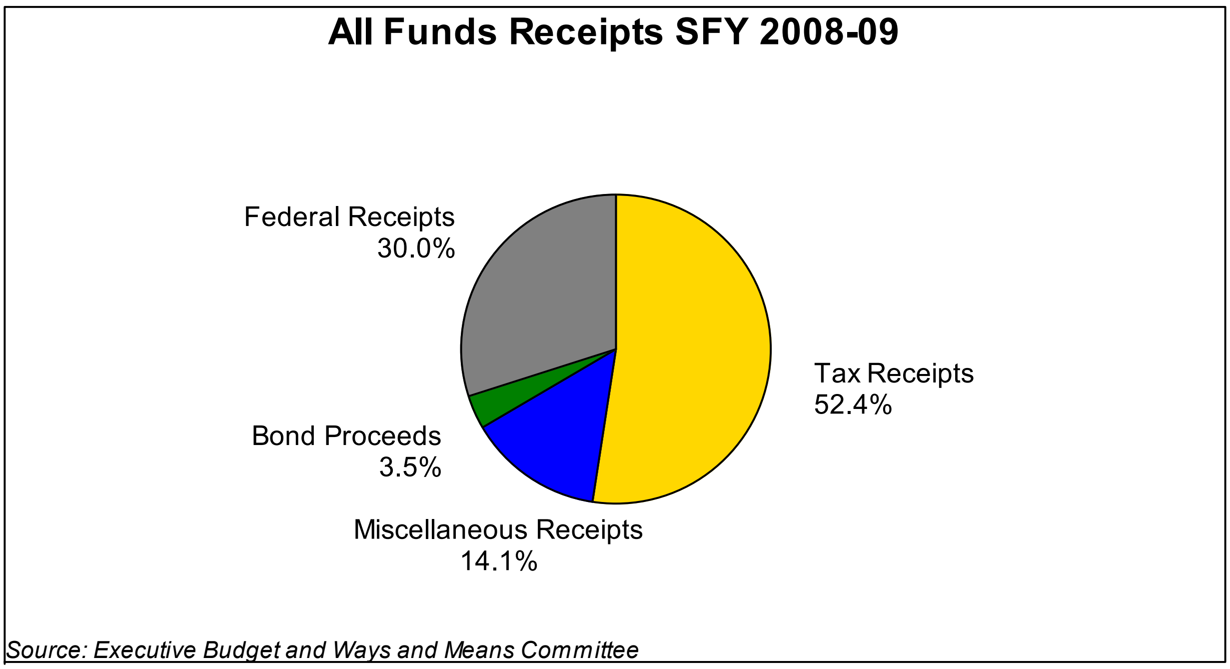


Figure 1

Figure 1 shows the importance of the tax collections to the budget as it makes up just over half of All Funds receipts.

Two Year Revenue Estimate Below Those of the Executive

The Committee staff All Funds forecast for SFY 2008-09 is $667 million below the Executive forecast. This estimate is offset by a higher estimate for the current fiscal year of $52 million. This would reduce available budgetary resources by $615 million. (See detailed forecast tables on pg. 33).

The lower estimate is predominantly a reflection of the Committee staff analysis that the country is in the midst of a national recession.

Almost all of the difference in tax revenues is in the personal and corporate income taxes reflecting lower projections for wages and corporate profits.

Downward Trend in Tax Revenues Require Additional Revenue Support

The State's tax system is in large part reliant on growth in state income. When business activity declines growth in personal and corporate income decelerates. This is particularly true in New York, where marginal increases in the economy and tax system are driven largely by the volatile economic activity of the financial services sector.

With the Committee staff predicting a recession, growth in wages, corporate profits, capital gains and other non wage income is likely to be exceedingly sluggish. This will have a dampening effect on tax revenues, which is reflected in the Committee's revenue forecasts that follow. As can be seen in Figure 2, tax revenues during past recessions have dropped precipitously.

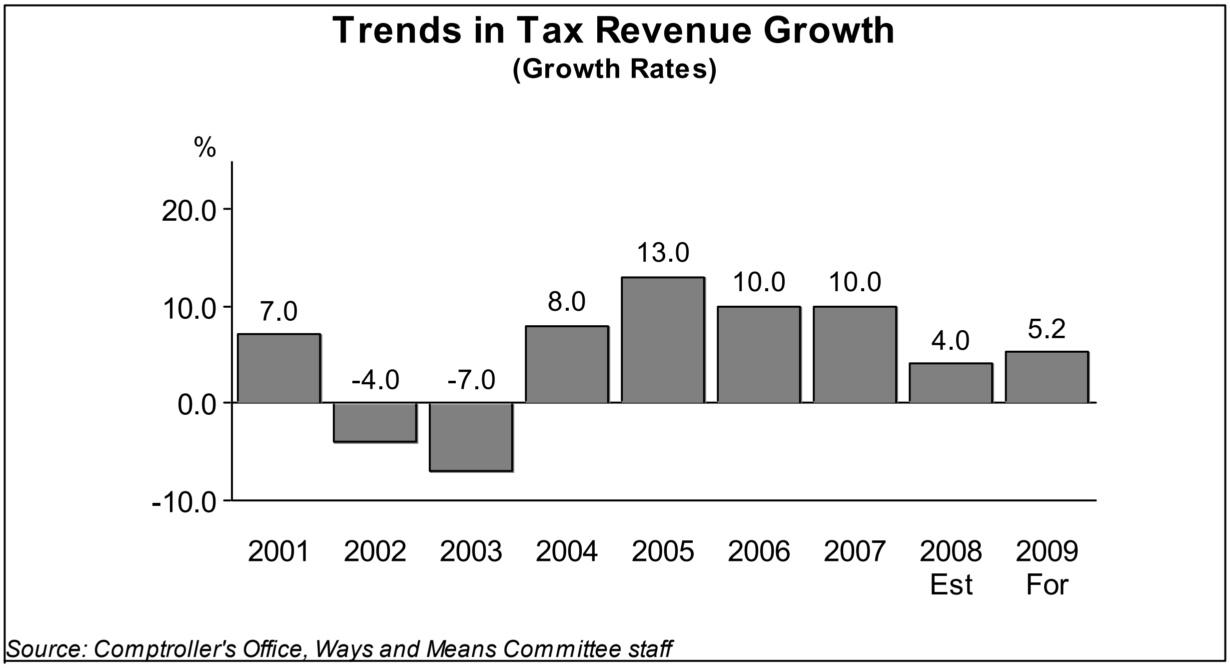


Figure 2

During economic downturns pressure is put on State spending requiring the revenue system to be more productive. In order to sustain a balanced budget during a slow economy with weak revenue growth the State budget is managed with non-recurring receipts, temporary revenue enhancements, and gap closing budget cuts. However, this dependence on a hands-on approach to budget balancing can result in additional instability in the revenue.

In total the Executive Budget contains almost $3 billion in revenue support of which $1.3 billion will be one time resources as listed below.

Table 2

General Fund Non-recurring Resources (Millions of Dollars)	
	SFY 2008-09
Belmont Development Rights	$250
Bonding Capital Projects Originally Planned as cash	$110
Sweep Excess EPF Fund Balances to General Fund	$105
Transfer SONYMA Excess Balances to the General Fund	$100
Additional 5 percent Tax Prepayment	$95
Recovery of Early Intervention Overpayments to NYC	$60
Bond Eligible Software Costs	$63
Abandoned Property	$50
Mental Hygiene: Federal PIA revenues/Cash Management	$66
Student Loan Default Fee	$27
Interest Savings for Pension Bill Prepayment	$24
Sweep Motor Vehicle Fund Balances to General Fund	$16
All Other	$34
Use of Reserves to Finance Labor Settlements	$337
Total One-Time Resources	**$1,337**

Rainy Day Funds Support Current Operations

The New York tax system has limited budget stabilizers. The revenue system is prone to big swings at business cycle turning points thus relying on the build up of General Fund reserves for its counter-cyclical measures. The level of non-tax revenues are typically not sufficient to offset any downward risk in the fiscal plan.

During periods of positive economic growth, growth in revenues typically exceeded expectations, resulting in a large build up of reserves. As can be seen in Figure 3, during the latter part of the 1990s surplus revenue led to reserves of almost $6 billion. However after September 11 and the 2001 recession, negative revenue growth brought reserves down to $1 billion. These reserves are then used to offset recurring operating deficits in years when revenue growth is below the historical trend.

After the use of $337 million in revenues to meet SFY 2008-09 expenses, revenues will total $2.2 billion.

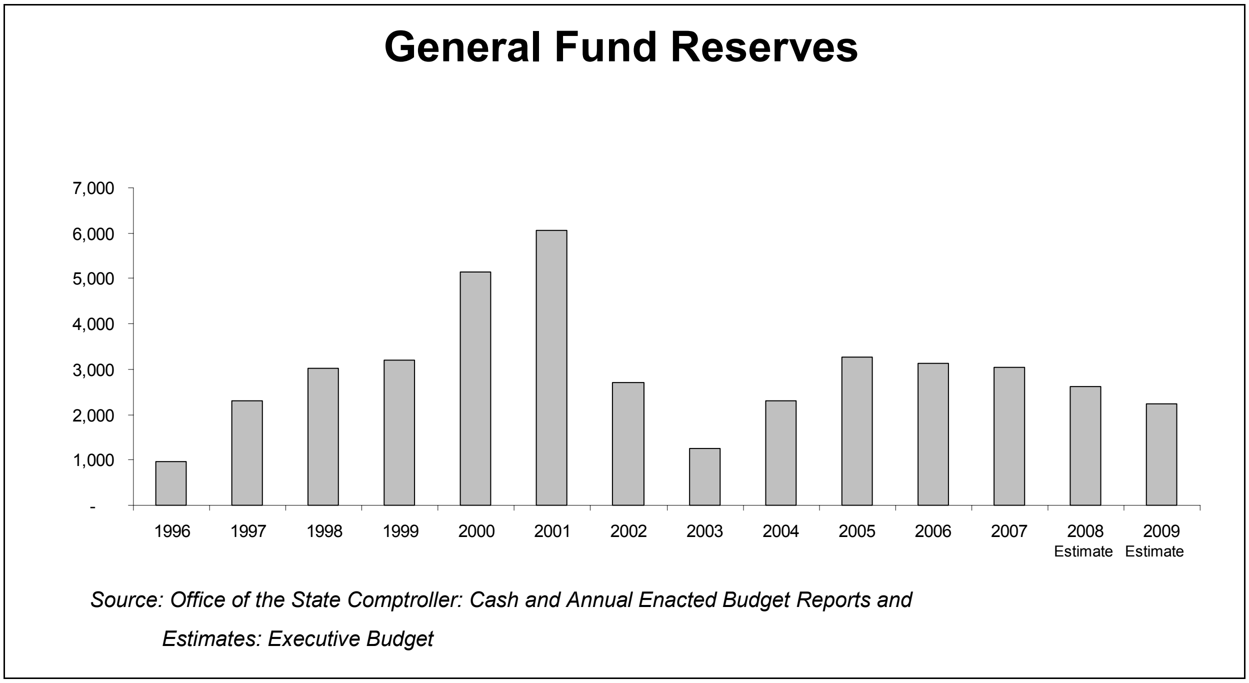


Figure 3

Federal Funds Remain a Stable Source of Revenue

Federal grants consist of reimbursements from the Federal government for services performed by the State in accordance with Federal laws and regulations. The State is required to follow specific cash management practices regarding the timing of withdrawal for each grant award.

As can be seen in figure 4, federal receipts have increased about $17 billion or 85 percent over the last 11 years. Increases in Federal receipts are mostly related to reimbursements in Medicaid, aid to public schools and emergency management and security services. Federal receipts for Medicaid have almost doubled to reimburse for services to disabled, elderly, adults and children.

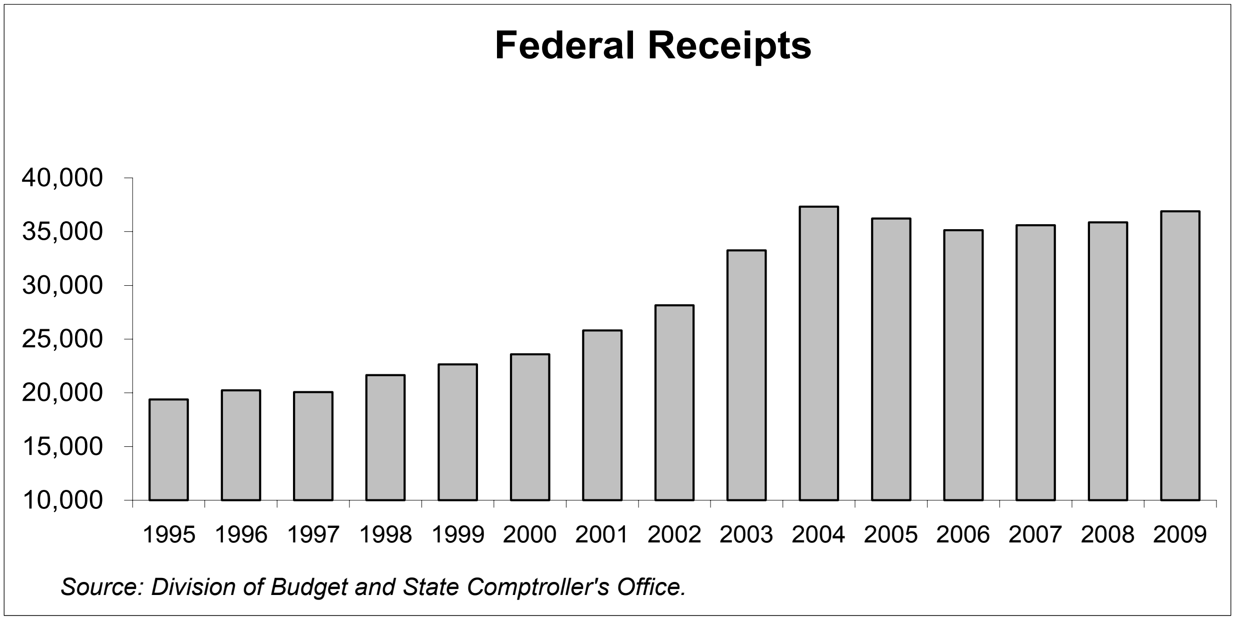
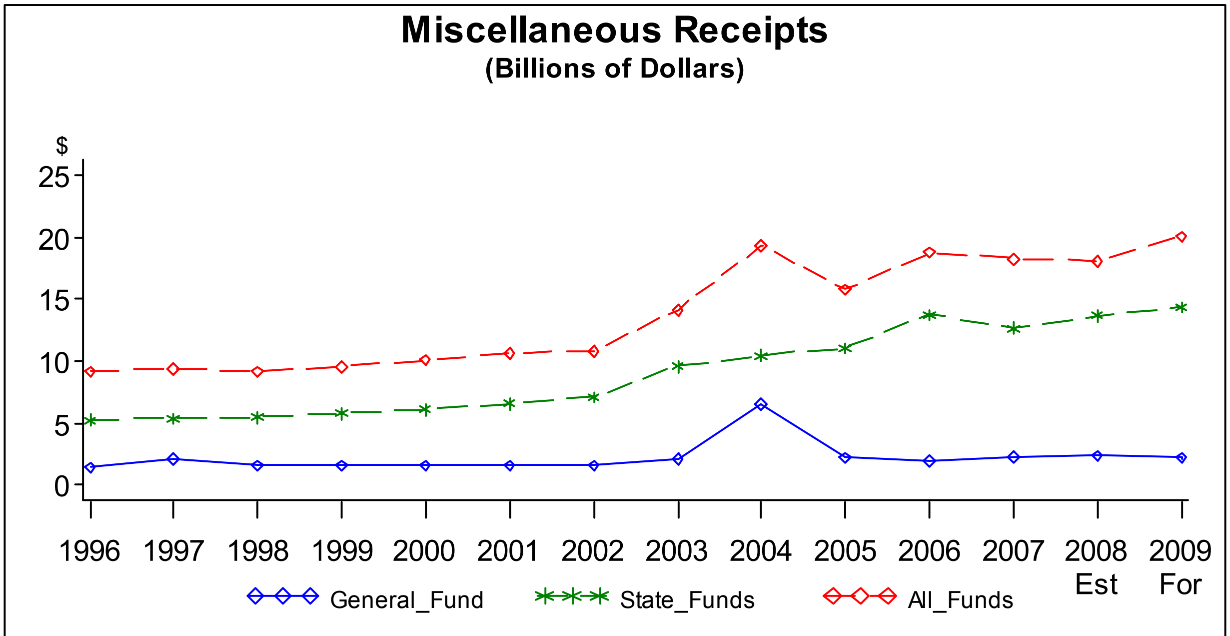


Figure 4

In SFY 2002-03 Federal receipts experienced an increase of over 18 percent or $5 billion in education, Medicaid, public welfare and emergency management and security services. The spending increase attributable to the emergency management and security service reimbursements is related to the World Trade Center activities.

In SFY 2003-04, Federal receipts spiked due to aid to public schools for education and Medicaid. Since then Medicaid and education receipts have grown relatively slowly while Federal receipts have declined in public welfare and emergency management and security services.



Source: Comptroller's Office, Ways and Means Committee staff

Figure 5

Miscellaneous receipts account for $21.2 billion or 14 percent of All Funds receipts in SFY 2008-09. Miscellaneous receipts consist of money derived from abandoned property, investment income, licenses, SUNY tuition, HCRA financing, lottery receipts and various fees.

General Fund Miscellaneous Receipts have remained flat over the past 12 years except in SFY 2003-04. Receipts in that year included a deposit of tobacco bond proceeds to fund the shortfall in the General Fund from the prior year.

Miscellaneous receipts in the Special Revenue Fund have more than doubled since 1996. This is attributable to increased dedicated receipts for health care, the deposit of health care insurance conversion proceeds and new Lottery games.

Economic Basis for Revenue Forecast

U.S. Economic Growth Has Stalled

Current economic conditions seem to have deteriorated to a point that it no longer matters whether the national economy is in recession or near a recession, baseline State revenues are forecast to grow significantly less than they did last year. Of more concern to budget makers the fundamental uncertainty regarding the full extent of the spillover from the recent credit-market turmoil to consumers, businesses and financial institutions, remains. Consistently high energy prices, a weakening dollar, a marked slowdown in employment gains, and ever-present geopolitical uncertainties combine to form significant downside risks to the forecast.

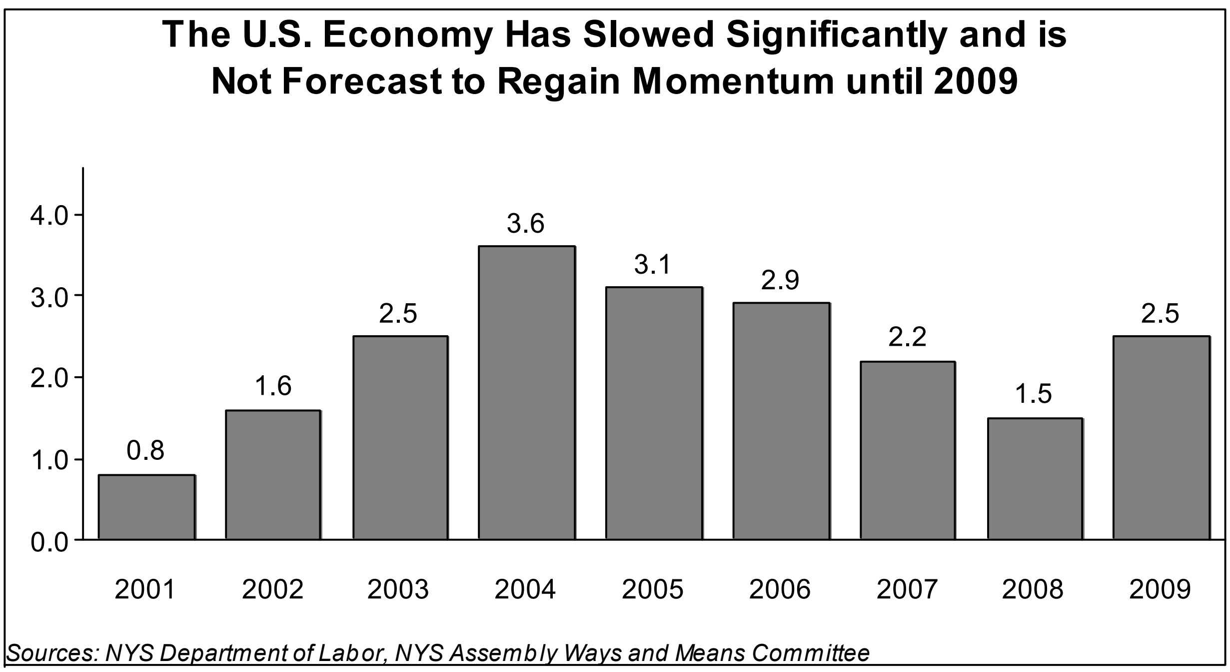


Figure 6

Growth in residential construction contributed significantly to growth in real Gross Domestic Product (GDP). In addition, housing price appreciation has been a major contributor to wealth generation and consumer spending over the past few years. Increasing home prices through early 2006 allowed homeowners to tap into the equity in their homes to finance major purchases. The combination of increased prices and home sales as well as the advent of new, yet, risky financing instruments helped fuel a run-up in real estate transactions and corporate profits in the financial services industry.

The Committee staff estimates that GDP, the broadest measure of the health of the national economy, grew by 2.2 percent in 2007, down from 2.9 percent in 2006. The Ways and Means Committee staff projects that the national economy, as measured by GDP, will grow even slower, 1.5 percent, in 2008.

The deterioration of the U.S. economy in 2007 is briefly documented below starting with the collapse of the subprime housing market. The ripple effects of the housing decline and ensuing turmoil in the financial markets continues to negatively affect the health of the national economy and is of particular concern for the State economy.

Subprime Mortgage Collapse Causes Turmoil in Financial Markets

Since May 2000, when the federal funds rate target had reached 6.5 percent, the Federal Reserve engineered 13 consecutive rate declines to 1.0 percent through June 2003. Effective June 2004 the Federal Reserve reversed course and started raising rates with the target rate reaching 5.25 percent as of June 2006, as the Federal Reserve attempted to restrict the accommodative monetary policy stance of the previous years.

As interest rates fell to historical lows in 2002 and 2003, the extensive availability of credit led to a credit/lending boom-bust scenario that played out in the housing and financial markets. A combination of easy and low-cost credit and new financial instruments led to an almost 80 percent increase in housing prices during 2000 to 2006. This unprecedented increase in housing prices was sustained by the “Ponzi”-type expectations that prices will continue to grow, thus, rendering more equity for the current owners.

As the housing market was expanding prior to 2005, higher-risk subprime mortgages with adjustable rates (ARMs) and “teaser” low initial interest rates accounted for an ever-increasing share of mortgage originations. The share of subprime mortgages to total originations increased from nine percent in 1996 to 20 percent in 2006.

However, as housing price increases reversed course in 2005 and 2006 – with the level of affordability in decline – and consumers realized that their ability to escape the adjustable rate structures and higher interest rates in the future by expecting ever-increasing housing equity and a quick sale evaporated, the housing market started to experience strains.

Currently, about 21 percent of subprime ARMs are ninety days or more delinquent, and foreclosure rates are forecast to rise sharply unless immediate action is taken by governmental and lending institutions to stem some of them. Also, while only 6.8 percent of outstanding housing loans are subprime ARMs, they account for 43 percent of all foreclosures in process.

The subprime mortgage market turmoil quickly spread to the overall financial system with major financial institutions posting huge losses, further increasing investors' unease, aversion to risk-taking and prolonging the banking system's current aversion to lending to consumers and businesses. In this section we provide a brief description of the links between the housing mortgage industry and the overall financial system.

Mortgage originators and lenders utilized the concept of securitization and passed the rights to the mortgage payments – together, of course, with the associated risk exposure – to third-party investors through mortgage backed securities. Progressively these mortgage securities were combined with other types of loans in a variety of structured credit products or collateralized debt obligations (CDOs). These investment products were then packaged with various bank liquidity guarantees, and then divided into "slices" of variable seniority and credit quality.

Banking institutions were involved by providing liquidity guarantees, advising on transactions, and underwriting loans. Therefore, they were exposed in a variety of ways to the value of the asset-backed securities, and as those values declined banks were exposed to scrutiny and uncertainty regarding their future.

As the banking and investment banking firms have seen their capital ratios decline following large write-offs on assets valuation, they have sought new infusions of capital from outside partners while at the same time restricting their lending, thus, threatening the sustainability of the current economic expansion.

The troubles with subprime loan foreclosures poses particular problems for financial institutions who have invested in mortgage-backed securities. As the securitization of subprime mortgages became more difficult to value, financial institutions had to take large write-downs which some estimate at $120 billion.[1] It is unclear as to whether this level of write-downs will result in net losses for these companies at year end, but could eliminate the gain in profits experienced in the first half of 2007.

The Response by Monetary Authorities

The Federal Reserve is the institution responsible for implementing monetary policy in the U.S. Since the late 1970s this policy has been executed through adjustments to key interest rates accomplished by the buying and selling of U.S. Treasury bonds at the so-called "open market window" of the Federal Reserve Bank in New York.

Consistent with its legislative mandate the Federal Reserve has acted to maintain liquidity in the monetary system as well as economic growth:

- On August 9, 2007 the Federal Reserve intervened to inject $24 billion in temporary reserves into the banking system by accepting larger-than-usual amounts of collateral in the form of mortgage back securities;
- On August 17, 2007 it reduced the discount rate by 50 basis points. (The rate at which banks can borrow directly from the Federal Reserve);
- On September 18, 2007 it reduced the federal funds rate by 50 basis points to 4.75 percent, and then further reduced it to 4.25 percent in two 25 basis point increments in the October and December Federal Reserve governors meetings. (The federal funds rate is the overnight rate at which banks borrow money from each other and has been the primary tool of monetary policy since the 1980s);
- In December, the Federal Reserve introduced a new mechanism of injecting liquidity through the Term Auction Facility (TAF). At that time it auctioned $40 billion of short-term financing with two additional auctions scheduled for January 2008;
- In coordination with the European Central Bank and the Swiss National Bank the Federal Reserve arranged for currency swaps to allow foreign central banks to provide loans in dollars to non-U.S. institutions in lieu of the funding via the international interbank system (or Libor[2]);

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[1] Reported losses: Merrill Lynch $22.4 billion, Citigroup $19.9 billion, UBS $16.4 billion, Morgan Stanley $9.4 billion, HSBC $7.5 billion, and Bank of America $5.68 billion. As reported in Wall Street Journal, January 31, 2008.

[2] Libor refers to London Interbank Offer Rate.

- By the end of January 2008 the Federal funds rate target was reduced to 3.0 percent following a 75 basis point and a 50 basis point cut.

The above together with further reductions in interest rates are anticipated to stabilize financial institutions and provide additional confidence in the ability of the markets to weather the recent credit constraints and losses related to the sub prime crisis. The Committee staff forecast is premised on the assumption that the Federal Reserve will reduce its target rate to 2.0 percent by mid 2008 with increases not expected until 2009.

Troubles in Financial Services Dampen Regional Economic Growth

The most significant industry for New York's economy and revenue base is the financial services industry. Wall Street's substantial ability to generate wealth fuels the New York City economy. The last few years have witnessed remarkable strength in the equities market as well as in the mergers and acquisitions market that also supports fees for the securities industry.

Underlying the importance of the securities industry for New York's personal income tax base, since 2001, New York has experienced steady increases in its share of the national securities industry's workforce. As of September 2007, New York accounted for 25.2 percent of national securities industry jobs, still well below its 1992 share of 32.4 percent.

The S&P 500 increased by 12.8 percent in 2007 and is forecast to decline by 5.2 percent in 2008. As explained in other sections of this report, the financial market's strength (weakness) is translated into stronger (weaker) receipts growth for the personal income tax, sales tax, and estate tax.

Corporate Earnings Disappear

With labor markets still tight by historical standards, slower productivity growth and healthy hourly compensation growth, corporate earnings growth has shown clear signs of a slowdown. In 2006, U.S. corporate profits (before tax) grew by 14.3 percent to $1.8 trillion, the fourth consecutive year of double-digit growth rate. Profits growth is forecast to have slowed to 3.4 percent in 2007 followed by 4.2 percent decline in 2008. Corporate profits are forecast to rebound in 2009 growing at 7.1 percent.

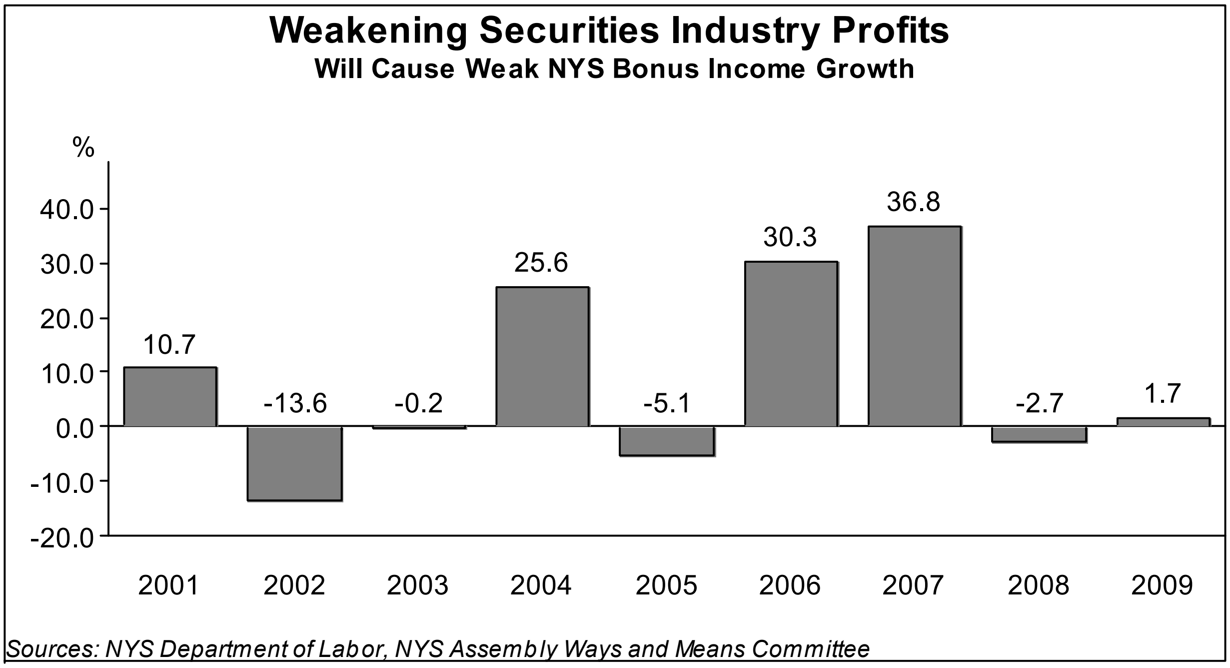

Figure 7

Economic Conditions Lead to Weakening Labor Markets

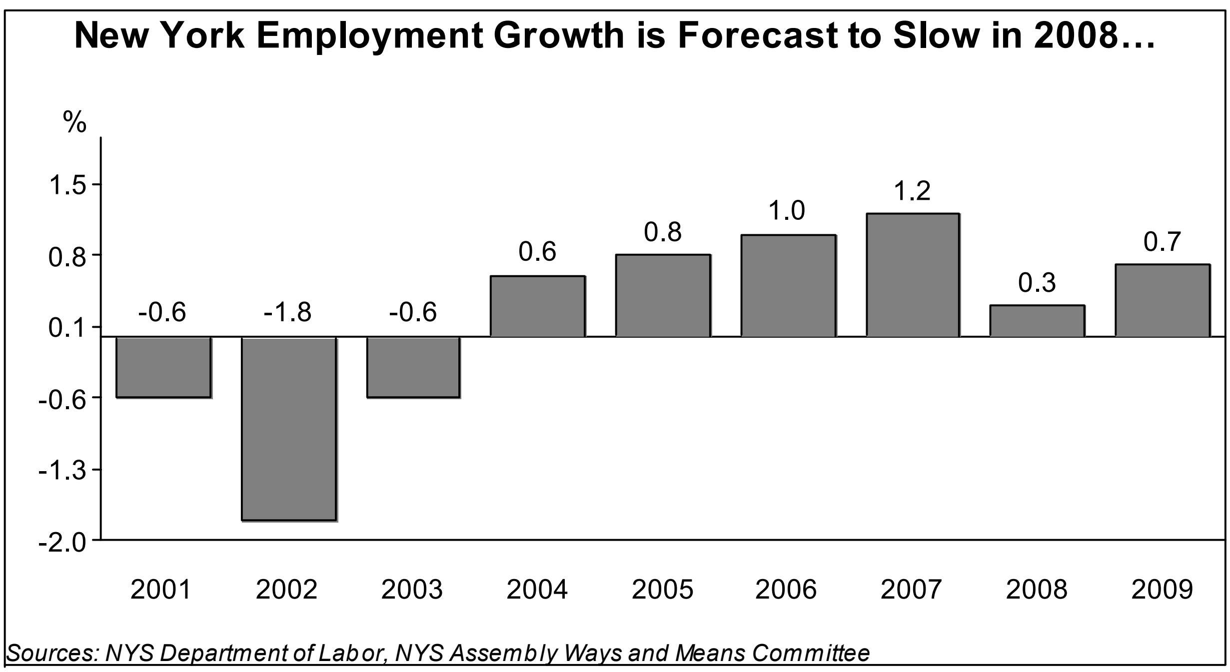

Figure 8

Employment is a comprehensive, reliable and timely measure of the state's economy.

In 2007, New York employment is projected to have grown by 1.2 percent followed by 0.3 percent growth in 2008. The slowdown in employment growth is attributed to a slowdown in construction employment, a decline in financial services employment as well as continuing losses in the manufacturing sector. As employment growth slows so does overall personal income growth with adverse effects on State tax receipts.

Under Performing Financial Markets Lead to Lower Wages

As documented in other sections of this report, New York State tax receipts critically depend on wages and salaries compensation. Wages and salaries in New York are estimated to have grown by 8.4 percent in 2007 and are forecasted to increase at a significantly lower pace of 2.8 percent in 2008.

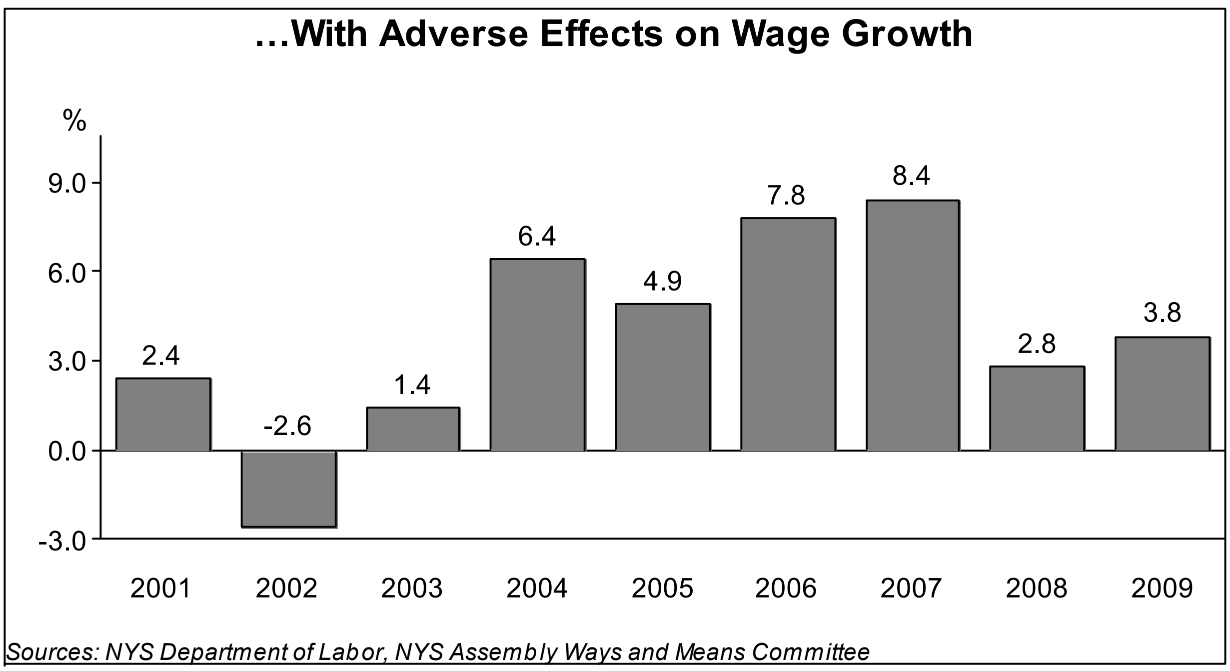

Figure 9

Wages and salaries have two distinct components, the base wage and the variable or bonus component. Variable wages consist of bonuses that from year to year could be quite volatile as they primarily depend on the performance of the financial services industry. Base wages are more stable with growth coming from increased employment and, therefore, salaries. In 2008 base wages are forecasted to increase by 3.7 percent and variable wages are expected to decline by 2.7 percent compared to 4.9 percent and 36.8 percent growth in 2007, respectively.

Variable compensation, which includes bonuses, stock options and other forms of compensation, is expected to have increased by 6.3 percent in the fourth quarter of 2007 and decline by 2.7 percent in the first quarter of 2008, compared to 22.2 percent and 39.9 percent growth during the respective quarters a year ago. Coupled with base wage growth of 4.7 percent, growth in total wages is expected to be 5.0 percent for the SFY 2007-08 followed by 2.8 percent growth in SFY 2008-09.

During SFY 2008-09 the State is forecast to experience negative growth in variable compensation in three out of four quarters, as the finance and insurance sector's variable compensation is forecast to decline by 5.4 percent in SFY 2008-09, with the securities industry experiencing declines of 7.5 percent and 4.3 percent during the last two quarters of the fiscal year, respectively.

A recovery in variable compensation is not expected until the second quarter of 2009 with double-digit growth forecast for SFY 2009-10.

Capital Gains Expected to be Sharply Lower

The level of capital gains activity is a critical component in determining the state's personal income tax liability. Growth in capital gains is important because, as discussed more fully later in the report, payments from high income individuals that realize a significant amount of capital gains account for the lion's share of the increases in the estimated payments component of personal income tax collections.

Capital gains represent the increase in the value of an asset over time. Such gains usually occur from increases in the value of stocks, bonds or real estate. When taxpayers sell their assets and "realize" the gain it becomes a taxable event. Investor behavior is influenced by many things such as tax law changes and market expectations. Consequently, it is difficult to predict when investors will realize their gain. Despite the recent volatility in the equity markets all of the broad market indices year-to-date point to healthy growth over 2006 and point to still robust capital gains for 2007 and 2008, albeit at lower rates of growth. The Committee staff projects net capital gains will grow by 12.4 percent in 2007 reaching a high of $81.3 billion, followed by negative 12.1 percent growth in 2008.

Dollar Depreciation Boosts the New York City Economy

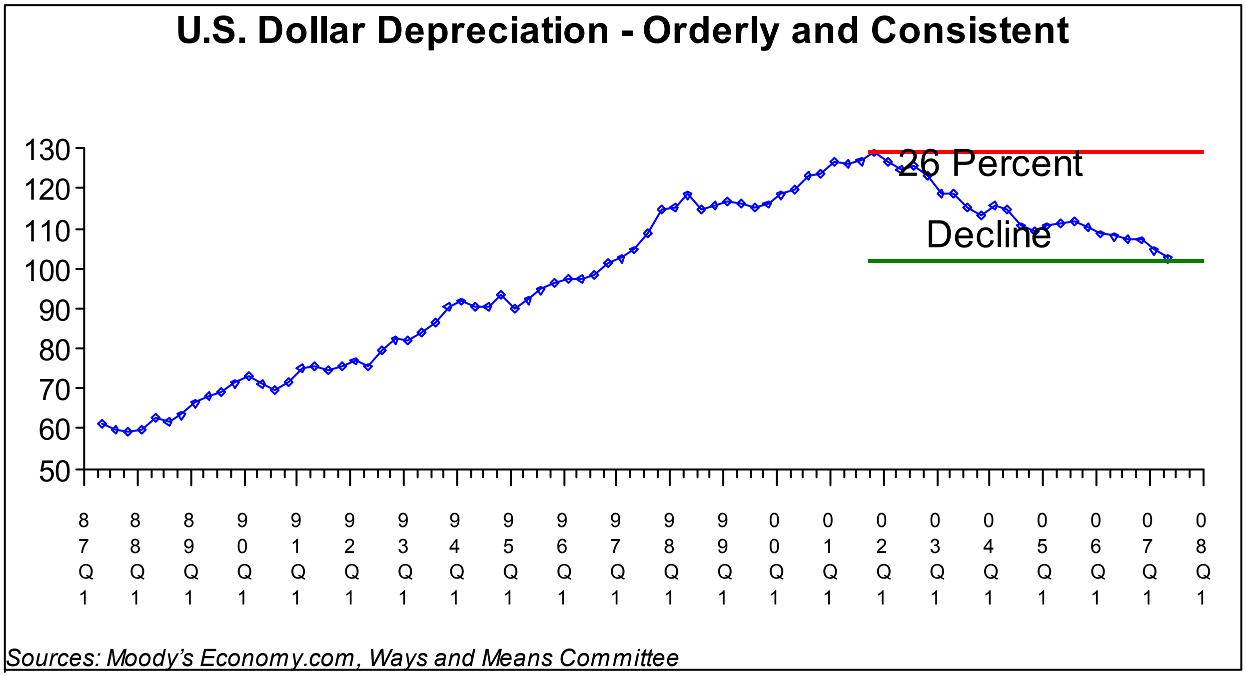

Figure 10

Since 2002 and through December 2007 the broad, nominal, trade-weighted value of the U.S. dollar depreciated by almost 26 percent, the largest nominal decline since the 12.4 percent decline during the period 1988Q2 over 1985Q2. While the dollar's depreciation was expected, based on the exceptional strength of the U.S. economy following the 2001 recession, as well as welcome for exporters and for contributing to the shrinking of the trade deficit, fears have been raised that a weak dollar contributes to inflation, therefore making monetary policy choices more complicated.

In addition, the weakening of the dollar contributes to strong inbound tourism and robust gains in lodging demand in major city destinations in the U.S. (see section below focusing on New York City).

Changes in the value of the dollar are reflected in the price of imports relative to foreign production costs. The extent to which this pass-through is full or partial, in addition to the time horizon of such an effect, is critical as it has important implications for inflationary pressures and overall economic risks. For example, to the extent that the dollar depreciation pass-through via import prices is full and immediate, inflation will accelerate, further restraining the ability of the Federal Reserve to lower interest rates in its attempt to reinvigorate the economy.

However, and as explained in the Economic Report of the New York State Assembly, while this analysis outlines a positive scenario and provides hope for a "soft landing" of the U.S. dollar, the forecast risks remain, overall, on the downside with a precipitous decline of the dollar potentially threatening the domestic and international financial markets where the U.S. dollar is still dominating as the reserve currency of choice.

New York City Tourism Leads to Strong Hotel Demand

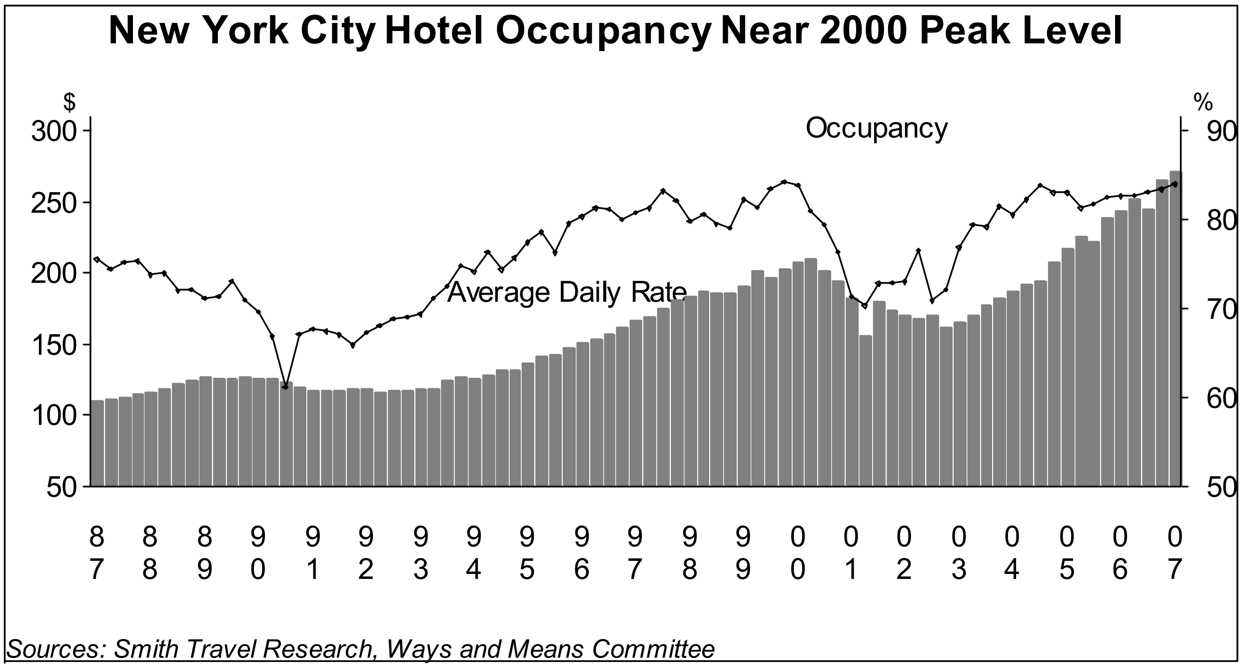

Figure 11

According to Smith Travel Research, New York City occupancy averaged 83.0 percent during the first nine months of 2007, the highest occupancy level since the same period in 2000. During the first nine months of 2007, the average daily room rate (ADR) averaged $249.04 or 11 percent growth over 2006, as monthly ADR growth experienced double-digit growth rates in every month since April 2005, with the exception of December 2006 and January 2007.[3] In addition, following consecutive

[3] Average Daily Room rates are calculated across chain and price segments reflecting the combined revenues and room demand for luxury, upper upscale, upscale, midscale with and midscale without food and beverage, and economy segments.

declines in hotel inventory from May 2005 through July 2006, room supply has increased steadily with new conversions into hotels as well as new construction.[4]

Based on comparative city data across the top 25 lodging destinations in the U.S. through November 2007, New York City experienced the second highest year-to-date through November ADR growth rate at 13.3 percent, behind San Francisco.

The fortunes of the New York City hotel industry are closely tied with the overall tourism industry trends with the latter also tied to overseas arrivals to the U.S. Having reached a low of 1.49 million per month as of January 2004, overseas arrivals to the U.S. have recovered to 1.93 million as of August 2007, still below the 2.16 million record-high set in July 2000. (Overseas visitors to the U.S. make up 7.8 percent of U.S. lodging demand.) [5]

Based on data from the Port Authority of New York and New Jersey, in October 2007, 8.9 million passengers flew into and out of NYC airports, a 4.4 percent increase from October 2006 levels. In addition, preliminary figures from NYC & Company estimate 46 million people visited New York City in 2007, a five percent increase over 2006.

These trends are also reflected in stronger sales tax collections for NYC. For example, and as noted in other sections of the Revenue Report, local sales tax collections in NYC increased 7.3 percent in the April through December period over the prior year, compared to 3.5 percent growth for the rest of the State.

The favorable tourism trends, and therefore, the spectacular hotel results are partly attributed to the depreciation of the dollar and the implicit increases in visitors' purchasing power. Independent research has estimated that a 10 percent depreciation in the dollar/euro real exchange rate leads to a 0.1 percent increase in lodging demand in the U.S. with the bulk of those increases realizing in key entry destination cities such as New York City and Los Angeles.[6] In other terms, during the time period third quarter 2006 to third quarter 2007, U.S. hotel occupancy was 0.5 percentage points higher due to the respective dollar depreciation.

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[4] The definition of New York City includes the five boroughs.

[5] "Profile of Overseas Travelers to the U.S. – Inbound", Office of Travel and Tourism Industries, and "2007 U.S. Lodging Industry Briefing", PricewaterhouseCoopers LLP.

[6] "2007 U.S. Lodging Industry Briefing", PricewaterhouseCoopers LLP.

New York's Exports Remain Strong

The depreciation of the dollar has also helped U.S. exports as foreign purchasing power increases when the value of the dollar declines. With a 6.3 percent share of total exports, New York is the third largest exporter among states following California and Texas. New York State's export growth has been strong since 2004 with growth averaging 13.6 percent through 2006.[7]

According to data from the Port Authority of New York and New Jersey area exports grew by 20.8 percent during the period January to September 2007 compared to the same period in 2006. Over the same period imports grew by 5.6 percent.

In addition, with foreign GDP growth expected to remain robust through 2009, according to analysts' consensus, exports will continue to support U.S. and New York State exports-oriented industries.

As New York's tax base relies heavily on the personal income tax, with an average share of 56 percent during the period 1995 to 2006, employment, income and therefore tax receipts from exports-oriented industries are critical for the State's fiscal health.

Assessing Forecast Risk

Anecdotally, the forecast risk for tax revenues is not balanced. Economic news and reports predicting a recession outweigh those calling for a soft landing. Given the historical responsiveness to receipts in a downturn, the forecast risk seems to lean toward actual receipts being lower than estimated.

However, strong monetary and fiscal policies have been implemented and are anticipated to bring robust gains to the economy in the second half of the year. These policy measures were designed to increase the amount of money available to both businesses and consumers. These additional funds combined with improving balance sheets could lead to less risk aversion by financial institutions inducing a stronger and faster economic recovery.

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[7] Office of Trade and Industry Information (OTII), International Trade Administration, U.S. Department of Commerce.

Table 3

Key Economic Forecast Variables (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
US Variables				
Real GDP	2.9	2.2	1.5	2.5
Personal Income	6.6	6.2	3.8	4.9
Wages and Salaries	6.2	5.8	3.5	4.5
Corporate Profits (before tax)	14.3	3.4	(4.2)	7.1
Employment	1.8	1.1	0.3	0.9
S&P 500 Stock Price	8.6	12.8	(5.2)	6.2
Treasury Bill Rate (3 month)*	4.7	4.4	1.6	2.7
Treasury Note Rate (10-year)*	4.8	4.6	3.6	4.2
NYS Variables				
Employment	1.0	1.2	0.3	0.7
Wages	7.8	8.4	2.8	3.8

* Annual Average Rate

Source: NYS Assembly Ways and Means Committee staff

Tax Revenue Outlook

The U.S. economic recovery that followed the recession of 2001 resulted in robust growth in State tax collections that averaged slightly more than 10 percent from SFY 2003-04 through SFY 2006-07. During that period, Wall Street prosperity drove healthy growth in wages and therefore tax withholdings. Low interest rates resulted in record growth in housing prices and homeownership rates. From the resulting “wealth effect” consumers were able to cash out the increased equity in their homes, the so-called mortgage equity withdrawal, fueling healthy growth in consumer consumption.

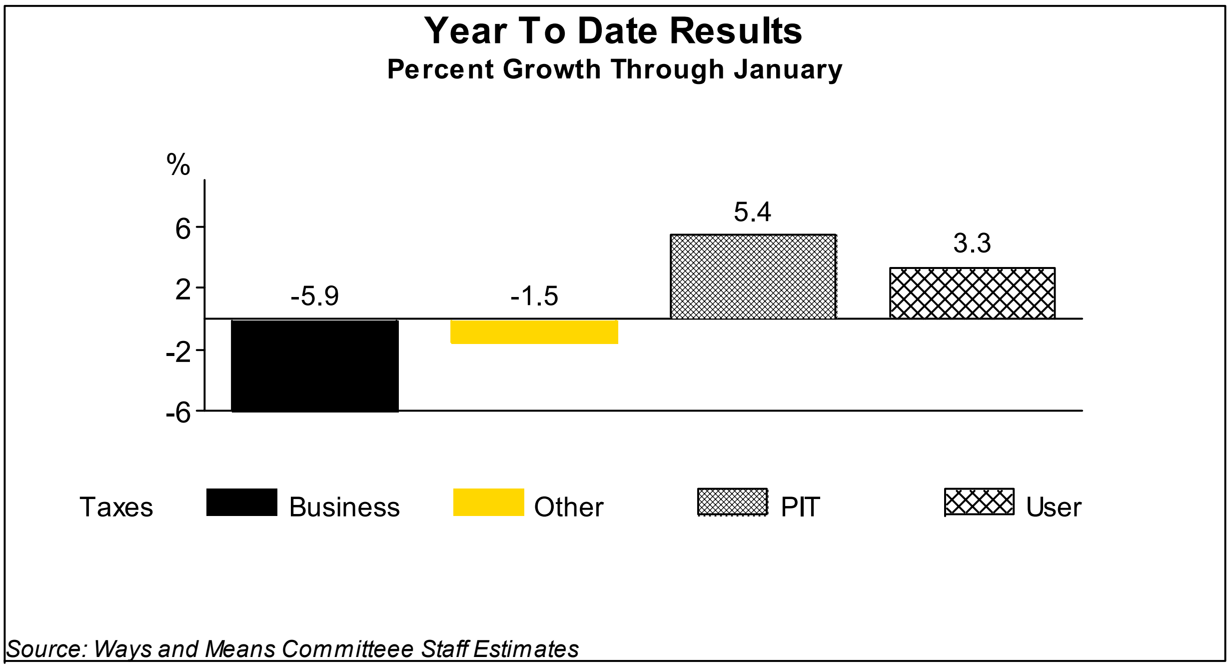

Figure 12

However, the collapse of the housing market and the resulting fallout from the sub-prime mortgage crisis, combined with record high energy prices, resulted in a significant slowdown in economic growth in the latter part of 2007 with a commensurate slowdown in State tax revenues. Revenue growth in the current fiscal year was just 3.3 percent through January. Overall, the Committee estimates that revenues will total \$60.9 billion, which is \$50 million above the Executive estimate. The Committee estimate is \$364 million below the Assembly’s Midyear Revenue Update issued in October 2007.

Table 4

Summary of Total Tax Collections (Dollar Amounts in Millions)					
	2006-07 Actual	2007-08 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$34,581	$36,510	$1,929	5.6%	$108
User Taxes	$13,457	$13,928	$471	3.5%	$62
Business Taxes	$8,606	$8,382	($224)	-2.6%	($64)
Other	$2,097	$2,081	($16)	-0.8%	($56)
Total Tax Collections	**$58,740**	**$60,901**	**$2,161**	**3.7%**	**$50**

The Wall Street Impact

Over the past four years, strong growth in Wall Street profits and wages produced robust growth in personal income tax withholding averaging 7.7 percent. However, the fallout from the housing market downturn and the resulting crisis in sub-prime lending has taken its toll on the financial services industry. According to the Securities Industry and Financial Markets Association, NYSE member firms lost $3.8 billion in the third quarter of 2007, lowering yearly profits to $5.1 billion, 60 percent below the previous year's level. Although fourth quarter numbers have not yet been finalized, many of the major securities firms have announced large fourth quarter losses as well, threatening to send annual profits into negative territory. Despite declining profitability, Wall Street firms appear to have set aside significant reserves from which to make their typical year-end bonus payouts. This has led to business taxes declining by 2.6 percent. However, the Committee expects financial sector bonuses to decline by 2.7 percent over the last quarter, resulting in final withholding growth of only 6.0 percent in SFY 2007-08 down from double digits in the prior year.

Decline in U.S. Housing Market Beginning to Take a Toll on New York

The U.S. housing market is now in the midst of a deep correction. The National Association of Realtors recently announced that sales of existing homes fell by 13 percent in December 2007 compared to December 2006. In addition, the price of these homes declined by 1.8 percent, the first decline in median sales prices since the Association began keeping records.[8] Furthermore, the Commerce Department reported

[8] "Home Prices Sank in 2007, and Buyers Hid", By Michael M. Grynbaum, New York Times, January 25, 2008; http://www.nytimes.com/2008/01/25/business/25home.html.

that new home sales have fallen by 26 percent in 2007, the steepest drop since the department started keeping records in 1963.

According to the New York State Association of Realtors, the median sales price of existing single-family homes declined by 4.4 percent in 2007 with sales of existing family homes dropping by 8.5 percent.[9] Yet State real estate tax collections have continued to grow throughout the fiscal year. The reason for the growth can be partially attributed to the strength of the residential and commercial real estate markets in Manhattan. For example, growth in total collections from Manhattan exceeded 31 percent through October, while collections in the rest of New York City were down by 4.1 percent. Furthermore, transfer tax liability in the counties north of New York City and Long Island has declined by 6.1 percent. Largely based on the historical trends in monthly collections, the Committee staff expects transfer tax collections to decline by 16.5 percent over the last quarter of the fiscal year, finishing the year up 1.3 percent.

As mentioned above, withholding collections have been robust most of the year, reflecting healthy growth in base and variable wages. Personal income tax quarterly estimated payments have been strong for most of the year, with growth averaging 12.5 percent. This indicates that capital gains realizations, which have increased by an average of 33 percent per year since their most recent trough in 2002, continue to experience healthy growth in 2007. Despite the recent stock market volatility, capital gains are expected to grow by 12.4 percent in 2007.

Sales tax collections have also experienced healthy growth in the current fiscal year. Through January, collections were up 4.9 percent over the prior year. Much of the strength in sales taxes is the result of strong growth in the New York City region, which has benefited from record increases in tourism attributed to the decline of the dollar and the implicit purchasing power of foreign currencies.

Corporate tax collections have benefited recently from strong earnings and unusually large growth in non-recurring tax audits. For example, corporate franchise taxes have grown by 162 percent since its trough of 2002-03. Bank taxes have experienced similar growth over the same period. However, a slowdown in corporate profitability, especially in the financial services and banking sectors, dampened growth in underlying tax liability in SFY 2007-08. Furthermore, the absence of large corporate audit settlements has thus far resulted in an overall decline in business tax collections of

[9] New York State Housing Statistics, New York State Association of Realtors, January 29, 2008. www.NYSAR.com/consumers/stats.asp.

nearly 6 percent year-to-date. However, the Executive is expecting a large tax audit settlement to be received before the end of the current fiscal year, which should help to offset much of the year-to-date decline in the corporate franchise tax collections. After experiencing unusually large growth in the fourth quarter of the prior fiscal year bank tax collections are expected to decline by 47.5 percent in the final quarter of the fiscal year reflecting industry losses from the subprime mortgage crises. Overall, business tax collections are expected to decline by 2.6 percent for the fiscal year.

Outlook for SFY 2008-09

The Committee staff is forecasting that the current slowdown in economic activity will continue through 2008. Consequently, the main drivers of state tax revenues are forecasted to experience slower growth in the upcoming fiscal year. The Committee forecast is $644 million below the Executive estimate, reflecting a more negative outlook for the US and State economies in 2008. The Committee forecast is $1.3 billion below the forecast released in the Assembly's Midyear Update, again, reflecting a general deterioration in the economic climate since the fall of 2007.

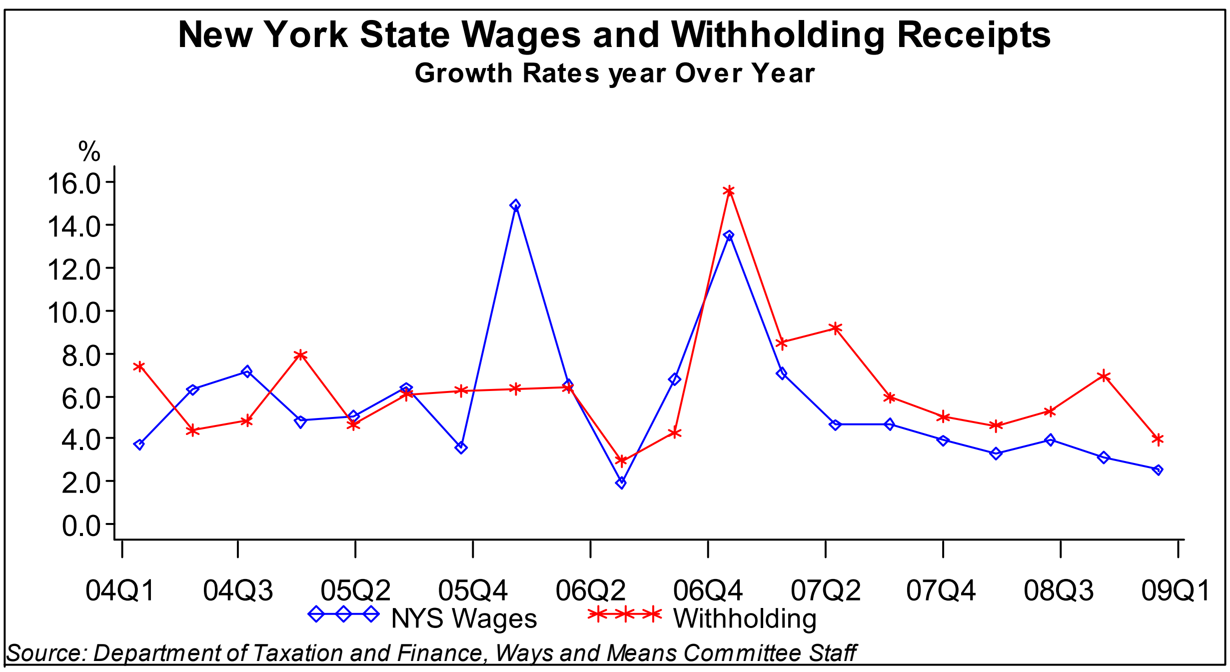

Figure 13

Growth in wages, the main component of personal income, is expected to decelerate from a healthy growth of 8.4 percent in 2007 to just 2.8 percent in 2008 (5.0 percent to 2.8 percent on a fiscal year basis). In addition, projected declines in the

S&P 500 of 5.2 percent are expected to lower total capital gains realizations in the coming year by 12.1 percent. This would be the first decline in capital gains realizations since 2002. As a result, overall growth in the personal income tax, before accounting for the Executive's revenue actions, is expected slow to just 5.8 percent.

Table 5

Summary of Total Tax Collections (Dollar Amounts in Millions)					
	2007-08 Estimate	2008-09 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$36,510	38,059	$1,549	4.2%	(471)
User Taxes	$13,928	14,228	$300	2.2%	16
Business Taxes	$8,382	9,453	$1,071	12.8%	(129)
Other	$2,081	2,109	$28	1.3%	(60)
Total Tax Collections	**$60,901**	**$63,849**	$2,948	4.8%	**($644)**

Of particular concern for the personal income tax forecast is the prospect of job reductions on Wall Street and the impact on both the City and State economies. Employment declines in this area are magnified since average salaries in the financial services industry are much higher than the statewide average. For example, the average bonus in 2007 was estimated at $180,420, more than three times the statewide average base wage of $51,000.[10] The Committee staff estimates that after four years of job growth, State securities industry employment will decline by 0.6 percent. However, should the economic circumstances on Wall Street result in additional job reductions, wage growth will decline further, negatively impacting personal income taxes.

The Committee staff expects the housing slowdown to continue through 2008 as the country continues to work off excess inventory of unsold homes and the number of foreclosures begins to subside. As a result, the housing market will continue to have a negative impact on transfer tax collections and also on consumer confidence and consumer spending. The Committee staff estimates that transfer tax collections will decline by 12.7 percent in SFY 2008-09.

Growth in sales tax collections is projected to slow down. The decreasing wealth effect from the housing market decline and the slowdown in the economy is expected to reduce demand for consumer durables and in automobiles 2008. Continued strength in

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[10] "Wall Street Bonuses Slip from 2008 Record," Press Release, Office of the State Comptroller, January 17, 2008. <www.osc.state.ny.us>

international tourism is expected to offset a portion of this weakness, reducing current law sales tax growth to 3.2 percent. Executive proposals to merge the 8 cent per gallon sales tax on motor fuels into the existing taxes on petroleum products, as well as other proposals to increase collections from sales over the Internet and sales on Indian reservations, will result in a net decrease of $52 million, lowering overall collections to 2.8 percent.

Despite a slowdown in corporate earnings, underlying growth in business tax collections is expected to grow slightly in the upcoming fiscal year. The full year impact of the recently enacted combined reporting legislation should offset the weakness in underlying liability resulting from the economic slowdown

Baseline Revenue Growth

The Executive has introduced several proposals that are expected to increase revenues by $1.1 billion. Furthermore, the SFY 2007-08 Enacted Budget contained a series of law changes that are estimated to raise revenues by $372 million in the current fiscal year and by an additional $455 million in the upcoming SFY 2008-09. Adjusting for the tax law changes lowers the current law baseline forecast to just three percent in the current fiscal year and 2.9 in the upcoming fiscal year.

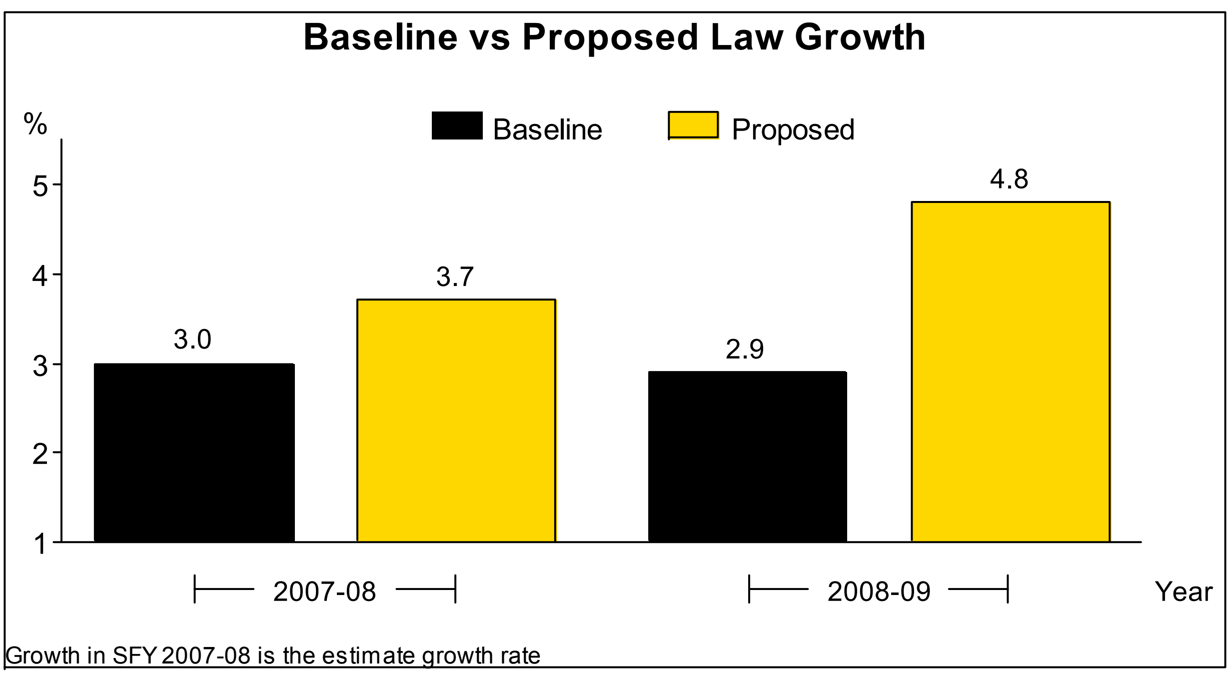


Figure 14

Increased Volatility Part of the Forecast Risk

The Committee staff's baseline revenue forecast is predicated on a significant slowdown in general economic activity, which is highlighted in the previous chapter of this report and detailed in the *Economic Report.* Much of the slowdown in economic activity is the result of the sub-prime mortgage crisis and resulting credit crunch. The impact of this downturn may have a disproportionate impact on New York due to the State's high concentration of financial services and banking sector employment and wages. The State's revenue system has become increasing reliant on taxes received from the workers and businesses in this sector (see the Personal Income Tax section of this report). This has made the system much more volatile than in prior years.

While the average growth in tax revenues has increased over the past decade, the increased growth has been accompanied by an increase in volatility. During the ten year period from 1985-86 to 1995-96, taxes grew at an average of 4.0 percent annually. The variation in growth, as measured by the standard deviation, was 3.1 percent during this period. Since 1996-97 the average growth rate of state tax revenue has increased to 5.2 percent, however, the standard deviation in growth rates increased to 6.5 percent.

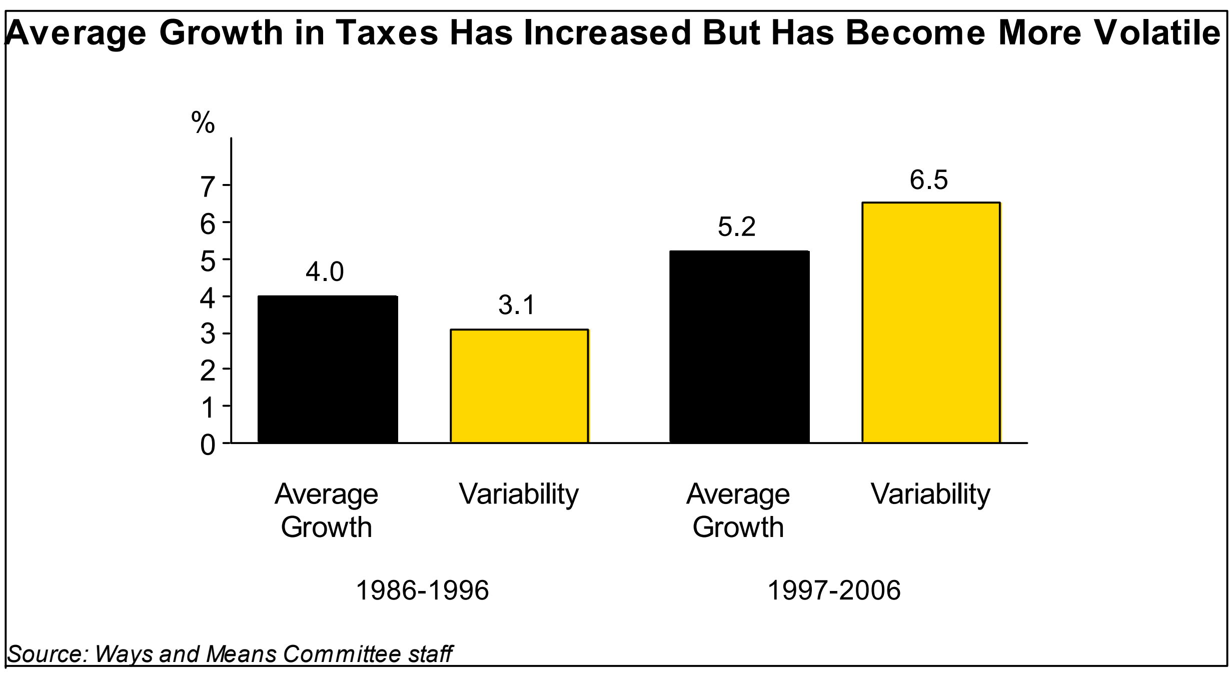


Figure 15

While the increased volatility has led to stronger growth during economic expansions, it also leads to steeper declines during periods of economic contractions.

This increase in volatility as can be seen in Figure 17 must be taken into account when assessing the risks associated with the Committee staff's forecast, especially as the risk of an economic recession increases.

The personal income tax, which accounts for nearly 60 percent of all tax revenues, is more volatile than all but the corporate tax. Over the past decade, Figure 18 shows the average growth in personal income tax revenues increased to 6.6 percent, from an average of 4.3 percent in the 10 year period from 1986 to 1996. This increase in growth is accompanied by an increase in variability, which increased from 4.6 percent to eight percent over the same period.

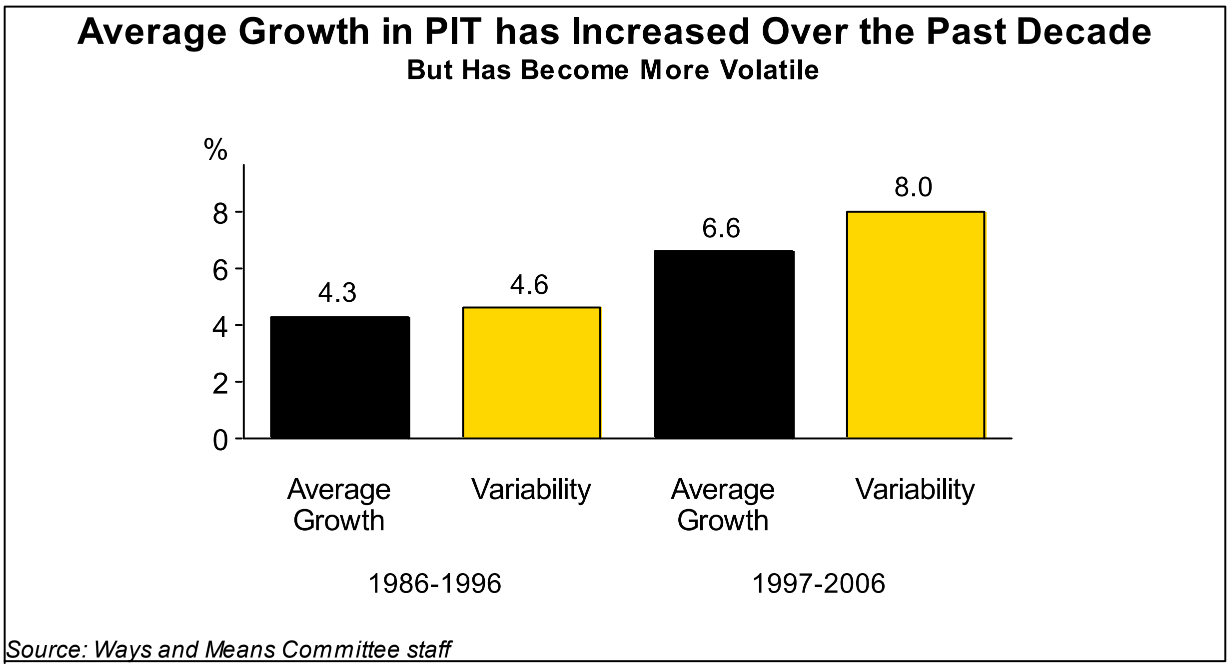


Figure 16

In addition, during the last recession declines in capital gains realizations were responsible for $2.5 billion of the personal income tax decline from SFY 2001-02 through SFY 2002-03. Income components, other than capital gains declined by an additional $1.2 billion, much of this from a large decline in Wall Street bonuses, combining to produce a 14.7 percent decline in personal income taxes over those two fiscal years.

Overall Revenue Accuracy

The predicted downturn in the economy is concentrated in the State's financial services sector. This translates into a baseline revenue forecast that is well below the average growth over the last few years. However, judging by prior history, the risk of overestimating revenues becomes greater depending on how deep and prolonged this downturn turns out to be. DOB has lowered their estimates for the current fiscal year by $1.1 billion since the Enacted Plan was released. Due to the volatility in the economy the Division of the Budget (DOB) lowered their forecast for this fiscal year and next fiscal year by $495 million in the 21-Day amendments. However, it should be noted that although these revisions are significant, especially in terms of the consequences they have on the provisions of State programs and services, they are relatively small on a statistical basis, representing roughly a 1.8 percent error in the overall forecast.

In the Executive's Economic and Revenue Outlook, the Division of the Budget assesses recent forecast performance, both in terms of size of the error in dollar amounts, and as a percentage of total collections. The DOB uses the Enacted Budget as benchmark, which includes the Legislature's disposition of the Executive's revenue proposals and accounts for the Consensus economic and revenue forecasting process. Overall, DOB estimates that the average absolute error is 3.5 percent since 1996. Such errors are not out of the norm for economists or other forecasting units, but can still result in forecast errors that appear to be large in sheer dollar terms.

Detailed Forecast Tables

Table 6

Total Tax Collections SFY 2007-08 (Dollar Amounts in Millions)	2006-07 Actual	2007-08 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$34,581**	**$36,510**	**$1,929**	**5.6%**	**$109**
Gross Receipts	**40,090**	**43,112**	**3,022**	**7.5%**	**139**
Withholding	26,802	28,400	1,598	6.0%	149
Estimated Payments	10,355	11,670	1,315	12.7%	(27)
Vouchers	7,572	8,618	1,046	13.8%	46
IT 370s	2,783	3,052	269	9.7%	(73)
Final Payments	2,102	2,115	13	0.6%	(1)
Delinquencies	832	927	95	11.5%	18
Total Refunds	**5,510**	**6,602**	**1,092**	**19.8%**	**30**
Collections	**34,581**	**36,510**	**1,929**	**5.6%**	**109**
User Taxes and Fees	**13,457**	**13,928**	**471**	**3.5%**	**62**
Sales and Use Tax	10,739	11,218	480	4.5%	20
Motor Fuel Tax	513	515	2	0.3%	-
Cigarette Tax	985	979	(6)	-0.6%	6
Motor Vehicle Fees	769	769	(0)	0.0%	33
Highway Use	153	148	(5)	-3.1%	1
Alcoholic Beverage Tax	194	206	12	6.0%	6
Alcoholic Beverage Fees	58	50	(8)	-14.0%	(2)
Auto Rental Tax	46	43	(3)	-5.5%	(2)
Business Taxes	**8,606**	**8,382**	**(224)**	**-2.6%**	**(64)**
Corporate Franchise	4,228	4,128	(100)	-2.4%	22
Utility Tax	820	821	1	0.1%	5
Insurance Tax	1,258	1,269	11	0.9%	(23)
Bank Tax	1,210	1,001	(209)	-17.3%	(93)
Petroleum Business Tax	1,090	1,163	73	6.7%	25
Other	**2,097**	**2,081**	**(16)**	**-0.8%**	**(56)**
Estate and Gift	1,053	1,022	(31)	-3.0%	(35)
Real Estate Transfer	1,022	1,035	13	1.3%	(21)
Pari Mutuel	21	23	2	10.5%	-
Other	1	1	0	48.9%	-
Total Taxes	**58,740**	**60,901**	**2,161**	**3.7%**	**50**
General Fund Misc Receipts	2,419	2,490	71	2.9%	-
Lottery	2,309	2,594	285	12.3%	2
Total w/Misc Receipts and Lottery	**$63,468**	**$65,985**	**$2,517**	**4.0%**	**$52**

Table 7

Total Tax Collections SFY 2008-09 (Dollar Amounts in Millions)					
	2007-08 Estimate	2008-09 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,510**	**$38,059**	**$1,549**	**4.2%**	**($471)**
Gross Receipts	**$43,112**	**$45,155**	**$2,043**	**4.7%**	**($431)**
Withholding	$28,400	$29,679	$1,279	4.5%	($347)
Estimated Payments	$11,670	$12,248	$578	5.0%	($154)
Vouchers	$8,618	$8,867	$249	2.9%	($160)
IT 370s	$3,052	$3,381	$329	10.8%	$6
Final Payments	$2,115	$2,274	$159	7.5%	$63
Delinquencies	$927	$954	$27	2.9%	$7
Total Refunds	**$6,602**	**$7,096**	**$494**	**7.5%**	**$40**
Collections	**$36,510**	**$38,059**	**$1,549**	**4.2%**	**($471)**
User Taxes and Fees	**$13,928**	**$14,228**	**$300**	**2.2%**	**$16**
Sales and Use Tax	$11,218	$11,528	$310	2.8%	$23
Motor Fuel Tax	$515	$350	-$165	-32.0%	($1)
Cigarette Tax	$979	$1,076	$97	9.9%	$25
Motor Vehicle Fees	$769	$800	$31	4.0%	($29)
Highway Use	$148	$156	$8	5.4%	($6)
Alcoholic Beverage Tax	$206	$226	$20	9.7%	$6
Alcoholic Beverage Fees	$50	$47	-$3	-6.0%	($1)
Auto Rental Tax	$43	$45	$2	4.7%	($1)
Business Taxes	**$8,382**	**$9,453**	**$1,071**	**12.8%**	**($129)**
Corporate Franchise	$4,128	$4,625	$497	12.0%	($62)
Utility Tax	$821	$796	-$25	-3.0%	$6
Insurance Tax	$1,269	$1,493	$224	17.7%	$30
Bank Tax	$1,001	$998	-$3	-0.3%	($98)
Petroleum Business Tax	$1,163	$1,541	$378	32.5%	($5)
Other	**$2,081**	**$2,109**	**$28**	**1.3%**	**($60)**
Estate and Gift	$1,022	$1,183	$161	15.8%	$13
Real Estate Transfer	$1,035	$904	-$131	-12.7%	($71)
Pari Mutuel	$23	$21	-$2	-8.7%	($2)
Other	$1	$1	$0	0.0%	$0
Total Taxes	**$60,901**	**$63,849**	**$2,948**	**4.8%**	**($644)**
General Fund Misc Receipts	$2,561	$2,283	-$278	-10.9%	**$0**
Lottery	$2,594	$2,940	$346	13.3%	**($23)**
Total w/Misc Receipts and Lottery	**$66,056**	**$69,072**	**$3,016**	**4.6%**	**($667)**

Table 8

Total Tax Collections By Fund Type SFY 2007-08 (Dollar Amounts in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**22,719**	**4,664**	**9,128**	**-**	**36,510**
User Taxes and Fees	**8,512**	**1,637**	**2,624**	**1,155**	**13,928**
Sales and Use Tax	7,873	721	2,624	-	11,218
Motor Fuel Tax	-	107	-	408	515
Cigarette Tax	404	575	-	-	979
Motor Vehicle Fees	(21)	234	-	556	769
Highway Use	-	-	-	148	148
Alcoholic Beverage Tax	206	-	-	-	206
Alcoholic Beverage Fees	50	-	-	-	50
Auto Rental Tax	-	-	-	43	43
Business Taxes	**6,205**	**1,518**	**-**	**659**	**8,382**
Corporate Franchise	3,594	534	-	-	4,128
Utility Tax	606	201	-	14	821
Insurance Tax	1,157	112	-	-	1,269
Bank Tax	848	153	-	-	1,001
Petroleum Business Tax	-	518	-	645	1,163
Other	**1,046**	**-**	**823**	**212**	**2,081**
Real Property Gains	-	-	-	-	-
Estate and Gift	1,022	-	-	-	1,022
Real Estate Transfer	-	-	823	212	1,035
Pari Mutuel	23	-	-	-	23
Other	1	-	-	-	1
Total Taxes	**38,482**	**3,155**	**3,447**	**2,026**	**60,901**

Table 9

Total Tax Collections By Fund Type SFY 2008-09 (Dollar Amounts in Millions)	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**23,851**	**4,693**	**9,515**	**-**	**38,059**
User Taxes and Fees	**8,850**	**1,663**	**2,697**	**1,019**	**14,228**
Sales and Use Tax	8,089	743	2,697	-	11,528
Motor Fuel Tax	-	73	-	277	350
Cigarette Tax	441	635	-	-	1,076
Motor Vehicle Fees	47	209	-	544	800
Highway Use	-	3	-	153	156
Alcoholic Beverage Tax	226	-	-	-	226
Alcoholic Beverage Fees	47	-	-	-	47
Auto Rental Tax	-	-	-	45	45
Business Taxes	**6,985**	**1,655**	**-**	**813**	**9,453**
Corporate Franchise	4,009	616	-	-	4,625
Utility Tax	596	183	-	17	796
Insurance Tax	1,348	145	-	-	1,493
Bank Tax	853	145	-	-	998
Petroleum Business Tax	179	566	-	796	1,541
Other	**1,205**	**-**	**667**	**237**	**2,109**
Real Property Gains	-	-	-	-	-
Estate and Gift	1,183	-	-	-	1,183
Real Estate Transfer	-	-	667	237	904
Pari Mutuel	21	-	-	-	21
Other	1	-	-	-	1
Total Taxes	**40,891**	**8,011**	**12,878**	**2,069**	**63,849**

Personal Income Tax

Table 10

Personal Income Tax Collections Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	2007-08 WAM Estimate	Percent Growth	Diff Exec	2008-09 WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**36,510**	**5.6%**	**108**	**$38,059**	**4.2%**	**($471)**
Gross Receipts	**43,112**	**7.5%**	**139**	**45,155**	**4.7%**	**(431)**
Withholding	28,400	6.0%	149	29,679	4.5%	(347)
Estimated Payments	11,670	12.7%	(27)	12,248	5.0%	(154)
Vouchers	8,618	13.8%	46	8,867	2.9%	(160)
IT 370s	3,052	9.7%	(73)	3,381	10.8%	6
Final Payments	2,115	0.6%	(1)	2,274	7.5%	63
Delinquencies	927	11.5%	18	954	2.9%	7
Total Refunds	**6,602**	**19.8%**	**30**	**7,096**	**7.5%**	**40**
Prior Year Refunds	4,261	31.9%	13	4,437	4.1%	25
Current Refunds	1,500	0.0%	-	1,750	16.7%	0
Previous Refunds	509	98.4%	194	305	-40.1%	15
State/City Offsets	509	-2.5%	-	604	18.7%	0
Collections	**36,510**	**5.6%**	**109**	**38,059**	**4.2%**	**(471)**
Transfers to STAR	(4,664)	16.8%	**-**	(4,693)	0.6%	-
Transfers to DRRF/RBTF	(9,128)	19.4%	**(28)**	(9,515)	4.2%	-
General Fund PIT Collections	**22,719**	**-1.0%**	**$82**	**$23,851**	**5.0%**	**($353)**

General Description

New York imposes a tax on income earned within the state by individuals, estates and trusts. New York's definition of income closely follows Federal rules, which include wages and salaries, capital gains, unemployment compensation and interest and dividend compensation. The New York standard deduction or itemized deductions, and exemptions claimed on federal taxes are subtracted from the Federal definition of income to arrive at New York taxable income. Certain credits are then subtracted from the calculated tax to arrive at total tax liability.

Personal income tax (PIT) receipts contribute over one-half of all tax collections. PIT receipts are received through employee withholdings, estimated tax payments, payments accompanying tax returns, late payments and through audits and assessments.

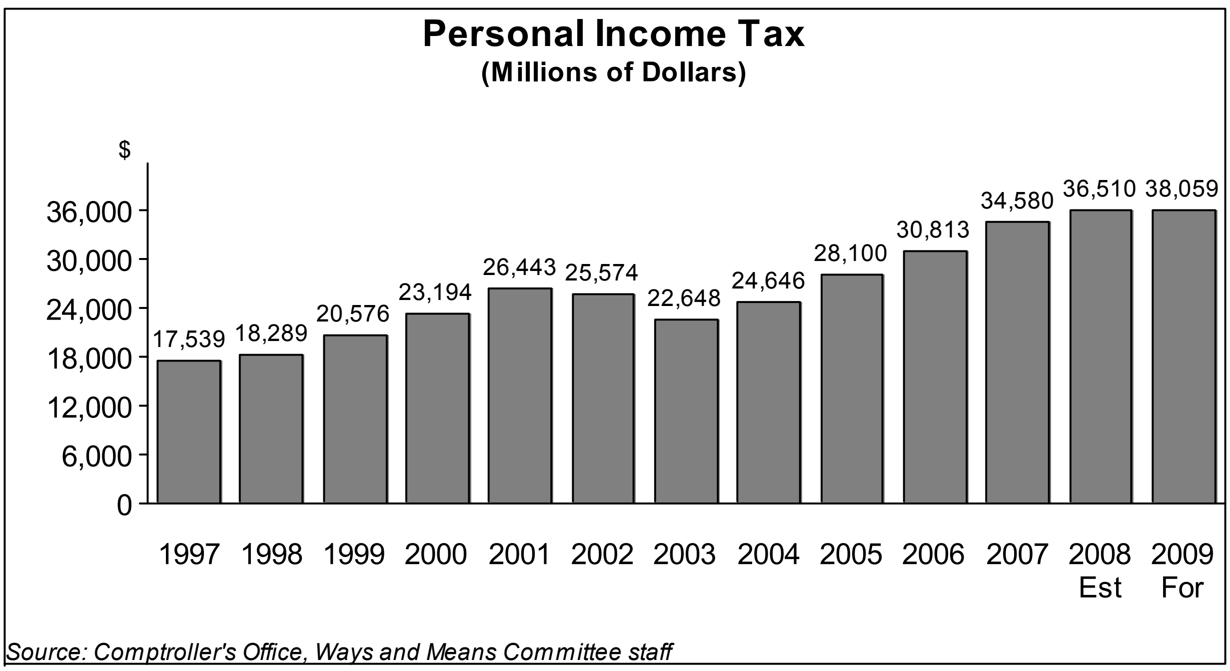


Figure 17

SFY 2007-08 Estimate

Net Collections

The Committee staff estimates that All Funds personal income tax collections will total $36.510 billion in SFY 2007-08. This represents an increase of $1.9 billion or

5.6 percent over All Fund collections in SFY 2006-07. The growth in collections is the result of strong growth in a number of components, primarily estimated payments and the components of the April settlement. The Committee staff estimate is $24 million above the Executive's Midyear estimate.

Withholding

Through December 2007, withholding collections increased by $1.342 million or 7.8 percent over the comparable period in 2006. The Committee staff estimates that by the end of the fiscal year withholding collections will total $28.400 billion. This represents an increase of $1.6 billion or 6.0 percent over total collections during the 2006-07 fiscal year. The Committee staff's estimate $149 million above the Executive's Budget estimate.

The Committee staff estimate reflects wage growth of 5.0 percent during the 2007-08 state fiscal year. Much of this slowdown is due to weakness in variable wage growth which is expected to grow by just 6.8 percent during the current fiscal year. Variable wage growth shows particular weakness during the fourth quarter of the fiscal year – a quarter that is of particular importance to withholding collections because it is the quarter that financial sector firms pay out bonus wages to their employees. During the fourth quarter of the 2007-08 fiscal year the committee expects variable wages to decline by 2.7 percent. This is in stark contrast to variable wage growth of 39 percent during the final quarter of the previous fiscal year.

Though bonus wage growth of just 6.8 percent is weak there is a risk that it could turn out to be even weaker. Some expect no growth or even negative growth over the final quarter. The committee staff believes that there are still sectors of the financial markets that performed very well during the whole of the fiscal year and that those sectors will continue to pay out significant bonuses to employees. The slowdown is the result of weakness in under performing sectors. Those sectors will be more selective in terms of which employees receive a bonus and the bonus amount is likely to be smaller. It is also the case that while there has been a decline in some sector profits over the last half of the calendar year, many firms posted enormous profits during the first half of the year. Those firms still have money and in an effort to retain employees are likely to still pay out significant bonus wages. The true effect of the slowdown in the economy in terms of bonus wages will be felt in the following fiscal year when variable wage growth is expected to be negative 3.0 percent for the year. Through February, withholding collections have been strong, suggesting the committee staff expectations are likely to materialize.

Estimated Payments

Estimated payments, also known as vouchers, consist of quarterly estimated tax payments made by taxpayers who expect that the amount of tax being withheld from their wages will fall short of their final tax liability. In general, estimated payments are paid by taxpayers whose income is derived from non-wage sources, like capital gains, interest and dividend income.

The Committee staff expects that estimated payment collections for SFY 2007-08 will be $8.618 billion, which represents an increase of $1.046 million or 13.8 percent over collections from SFY 2006-07. The Committee staff estimate is $46 million above the Executive's estimate.

Estimated payments collections are contingent on non-wage sources of income, most notably capital gains income. Capital gains income has become second only to wages as the most significant component to adjusted gross income. The Committee staff expects capital gains income to grow 12.4 percent during 2007. Though strong, this is a slow down compared to growth in excess of 20 percent which has been the norm since 2003.

The Committee staff expects that the economic slowdown will not affect capital gains income until the following year. Capital gains are expected to decline by 12.1 percent in 2008. In fact, it is possible that the expectation of an economic downturn is one of the reasons capital gain grew robustly in 2007. With a slowdown looming investors may make the decision to engage in profit taking, selling off part of their portfolio and thereby increasing their capital gains income. By 2008 the slowdown will mean that profits are no longer there, prompting investors to hold on to their portfolio or to sell at a loss. Either way the result will be capital gains income will shrink in 2008.

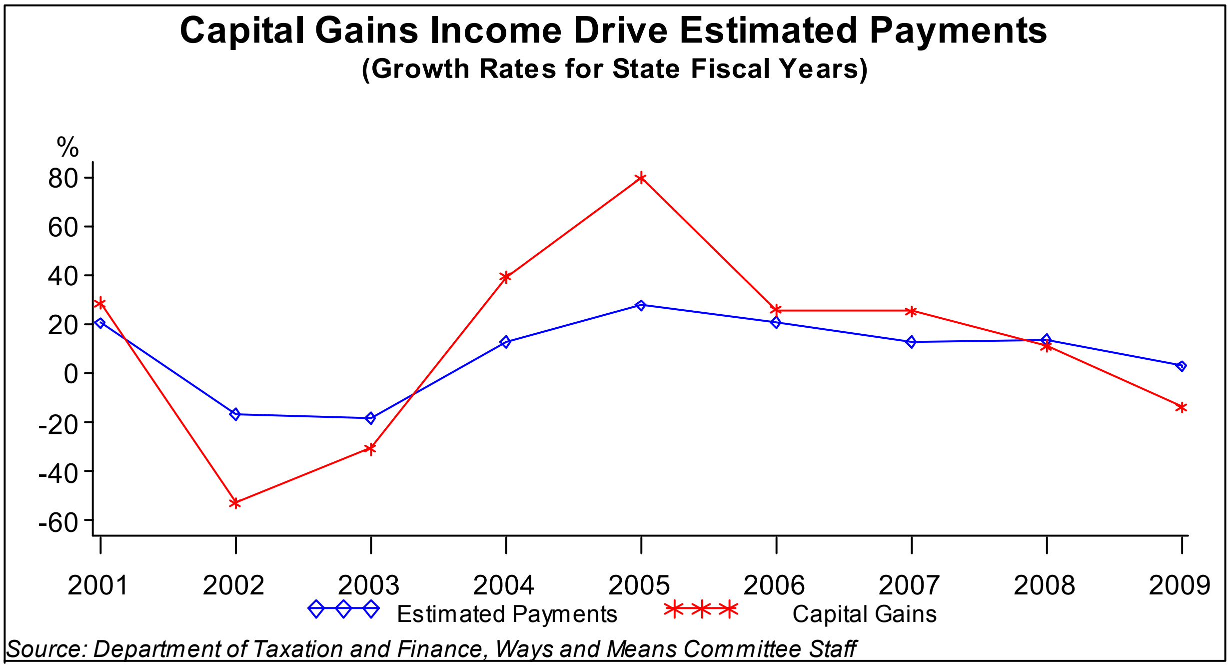


Figure 18

April Settlements

In April, taxpayers must file either an extension or final return to settle their tax liability for the prior fiscal year. These returns are accompanied by a corresponding payment if the taxpayer owes money; or by a claim for a refund if they have paid too much over the course of the year. As a result, April is usually large in terms of personal income tax collections.

Final Payments

Final payments, which result from the timely filing of tax returns each April 15th, increased by $54 million or 2.8 percent through December 2007. The Committee staff estimates that final payments will total $2.115 billion in SFY 2007-08. This estimate is $13 million below the Executive estimate.

Extensions

In April 2007, extension deposits (IT-370s) increased by $247 million or 9.1 percent over April 2006. The Committee staff estimates that extension deposits will total $3.052 billion in 2007-08, representing an increase of $269 million or 9.7 percent over the previous fiscal year. This estimate is $73 million below the Executive's estimate.

Extensions and final payments are fairly interchangeable. As taxpayers settle their prior year liability they make the decision to either make a final payment or to file for an extension. Over resent years more and more taxpayers are choosing to file an extension. As a result IT-370 extension payments have outpaced final payments.

Refunds

Refunds are issued to taxpayers who have paid more than their tax liability. The dollar amount of refunds paid out between January and March of each year is administratively determined by the Executive. The amount paid during this three month period in recent years has been $960 million. Starting in January of 2006 that amount was increased to $1.500 billion. Beginning in April the remaining refunds, known as prior year refunds, are paid to taxpayers as they are processed. Roughly two-thirds of prior year refunds are paid out in April and May of each year.

The Committee staff estimates that prior year refunds will total $4.261 billion in SFY 2007-08, representing an increase of $1.030 billion or 31.9 percent above the previous fiscal year. This estimate is $13 million above the Executive's estimate.

The significant increase in refunds paid out during the 2007-08 fiscal year is due to a number of new tax credits enacted during the 2006 legislative session. Most were small credits with either a minimal fiscal impact in 2007-08 or no impact until SFY 2008-09. These include a land conservation credit, a credit for volunteer firefighters, home heating system replacement credit and the historic homes rehabilitation credit. However, the newly created child credit is expected to reduce revenues by $625 million during SFY 2007-08. The child credit is a "piggyback" of the Federal child credit, which is $1,000 per child. The Federal credit is partially refundable above $11,000 and begins to be fully refundable for taxpayers whose incomes are above $17,000. The credit decreases for taxpayers with incomes above $110,000 and is completely phased out for taxpayers earning more than $170,000.

The State child credit is simply 33 percent of the federal credit. However, it only applies to children between the ages of 4 and 17, and is fully refundable to all taxpayers who claim the federal credit. Under the State child credit, a taxpayer could receive up to $330 for every child between the ages of 4 and 17.

Together the newly enacted tax credits will reduce revenues $720 million during SFY 2007-08, resulting in a 31 percent increase in refunds during the fiscal year. Absent these credits, refunds would have grown by just 9.3 percent for SFY 2007-08.

The 2007 April settlement provided a significant positive cash flow for the State. Final payments in April grew by 5.0 percent and totaled $1.571 billion. Extensions deposits grew by 9.1 percent and totaled $2.961 billion. Combined, the two components contributed $4.532 billion in revenue. However, refunds also increased significantly to $1.892 billion in April. As a result, the net revenue flow from the April settlement was $2.640 billion. This is a 13.2 percent decline from the April 2006 settlement.

Delinquencies

Delinquency collections arise from taxpayer audits. Delinquency payments are estimated to total $927 million in SFY 2007-08, which is $95 million or 11.5 percent more than collections from SFY 2006-07. The Committee staff estimate is $18 million above the Governor's Midyear estimate.

SFY 2008-09 Forecast

The Committee staff's forecast for personal income tax collections during SFY 2008-09 shows continued growth. All Funds collections are forecast to be $38.059 billion, which is $1.53 billion or 4.2 percent higher than the Committee staff's SFY 2007-08 estimate.

Withholding

Withholding collections are forecast to total $29.679 billion in SFY 2008-09. This is $1.3 billion or 4.5 percent higher than the 2007-08 withholding estimate. The Committee staff forecast is $347 million below the Executive's forecast. Growth in withholding is based on forecasted wage growth of 2.8 percent in SFY 2008-09.

The economic slowdown that we are just now beginning to feel reverberate through the economy will begin to really effect collections starting in the 2008-09 fiscal year. Withholding collections will be dampened by a significant slow down in wage growth. Total wages during SFY 2008-09 are expected to grow at 2.8 percent.

Bonus wages are again the driving force for the slowdown. Variable wages are expected to decline by 3.0 percent during the fiscal year. In the fourth quarter alone variable wages will decline by 3.1 percent. This will significantly hamper withholding collections during the all important fourth quarter. Over recent years the fourth quarter is responsible for upwards of 36 percent of total withholding collections. A decline in the fourth quarter disproportionately harms collections.

Estimated Payments

The Committee staff forecasts that voucher payments will total $8.867 billion. This represents an increase of $249 million or 2.9 percent over SFY 2007-08 collections. The forecast is $160 million below the Executive's forecast. Growth in estimated payments is still strong, but fails to match the double digit growth rates of the past few years. The primary reason for the slowdown is net capital gains income, which is expected to decline by 12.1 percent in 2008.

Voucher payments are expected to slow in the fiscal year largely because of the decline in capital gains income. Though other sources of non-wage income show growth during the year capital gains income has become the most significant factor in voucher payments.

Final Payments

Final payments are forecast to total $2.274 billion in SFY 2008-09. This represents an increase of $159 million or 7.5 percent over the Committee staff's SFY 2007-08 estimate. The Committee staff's forecast is $63 million above the Executive's forecast.

Extensions

The Committee staff forecasts extensions (IT-370s) to total $3.381 billion in SFY 2008-09. This represents an increase of $329 million or 10.8 percent from the Committee staff's SFY 2007-08 total. This forecast is $6 million above the Executive's.

Refunds

The Committee staff forecasts that prior year refunds will total $4.437 billion in SFY 2008-09, representing an increase of $176 million or 4.1 percent over total estimated refunds during SFY 2007-08. The growth in refunds is explained by the newly enacted tax cuts that took effect in 2007. The Executive's forecast is $23 million below the Committee staff's forecast.

Some changes in the Executive budget will affect prior year refunds. Current refunds which are paid out between January and March to early filers who have overpaid on liability has been administratively set at $1.500 billion. However, beginning in 2008-09 fiscal year that amount has been raised to $1.750 billion. Therefore, prior year refunds will be reduced but total refunds are not affected.

Also the executive budget proposes to improve auditing and compliance measures. Combined the measures are expected to reduce refunds by $175 million in 2008-09.

Delinquencies

Delinquency payments are forecast to total $954 million in SFY 2008-09, which is $27 million or 2.9 percent above estimated collections from SFY 2007-08. The Staff's estimate is $7 million above the Executive's forecast.

Liability by Region

The graph below illustrates the share of personal income tax liability by region. Together, residents of Long Island and New York City contribute 54 percent of all liability. The Mid-Hudson region, which consists of Ulster, Dutchess, Sullivan, Orange, Putnam, Westchester and Rockland Counties, contribute an additional 15 percent of total liability.

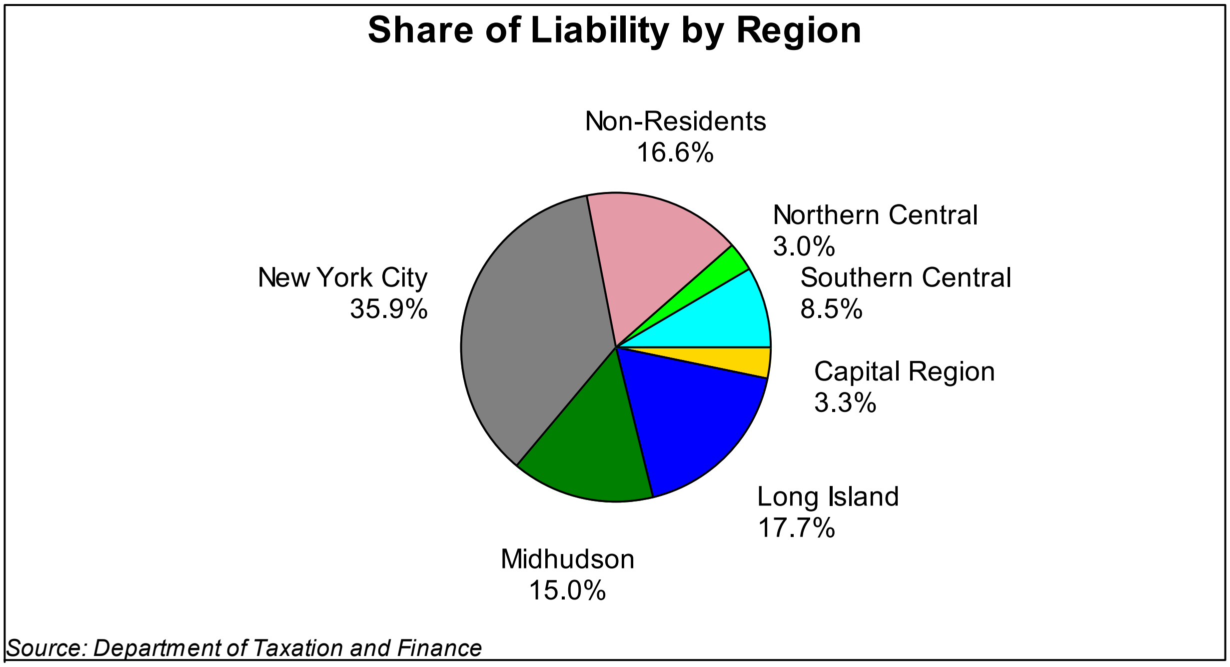


Figure 19

Effect of Bonuses on Withholding Collections – Analyzing Forecast Risk

Bonuses, Wages and Withholding Tax Receipts

Since the early 1970s, financial sector bonuses have become an ever increasing component of wages and overall Personal Income tax receipts. While from 1975 through the mid-1980s the average share of bonuses to wages was 8.9 percent, the share increase to 14.7 percent through 1998 and has averaged 21.2 percent since the first quarter of 2007.

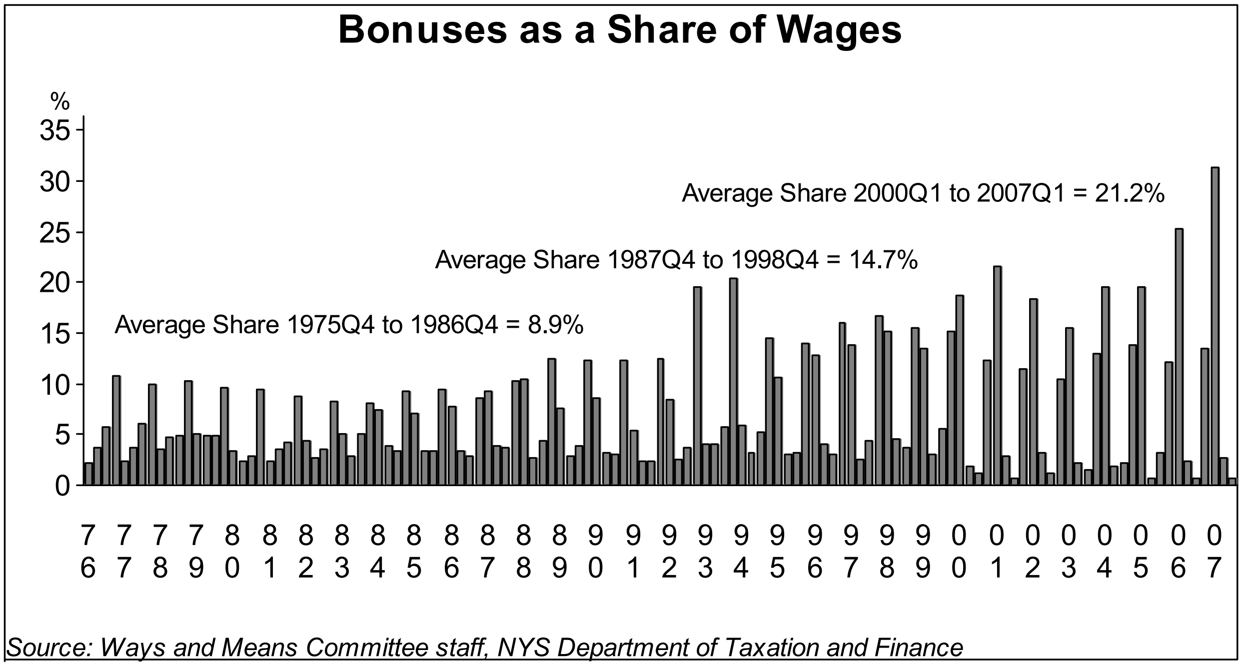


Figure 20

Sensitivity Analysis

The importance of bonuses is better understood based on the sensitivity analysis the Ways and Means Committee staff undertook to gauge potential withholding receipts assuming alternative scenarios for bonuses growth during the fourth quarter of 2007 and the first quarter of 2008.

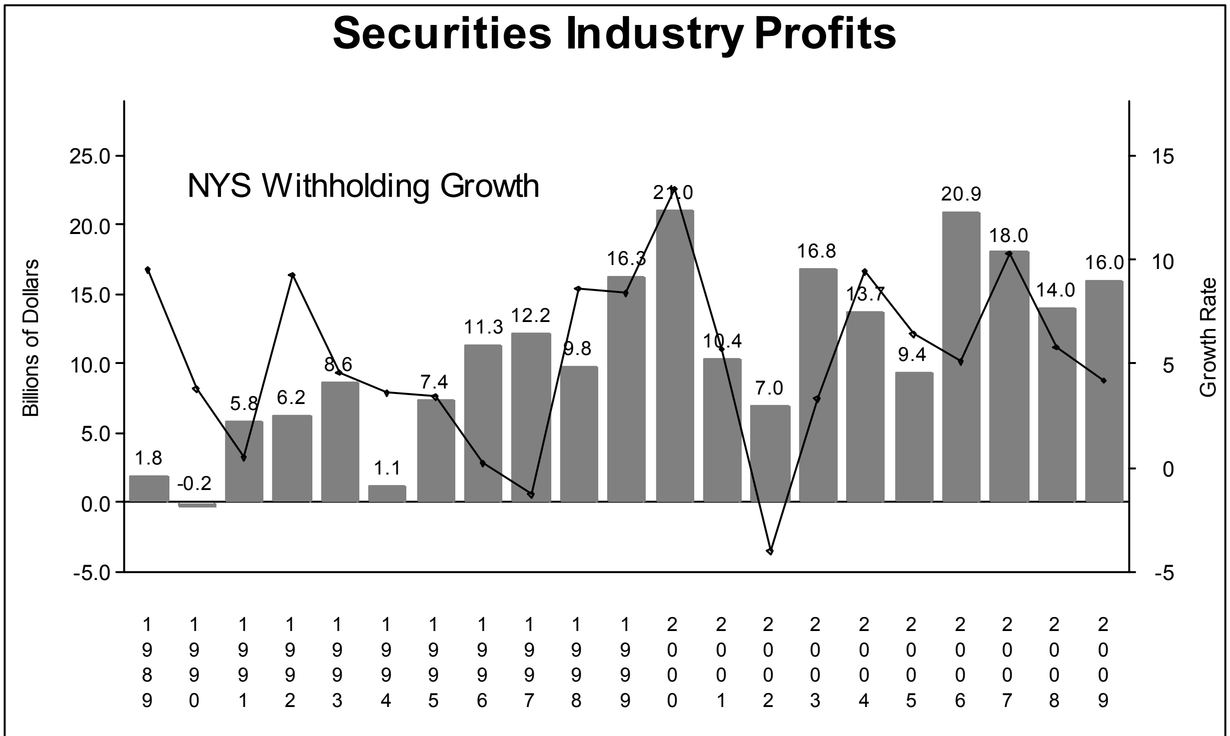
The current uncertainty in the financial services industry is summarized in the Economic section of this report and points to the possibility of significant layoffs and slower or negative growth in bonuses through the first quarter of 2008.

To understand the downside potential of withholding receipts we provide a "floor" estimate by assuming that bonuses during the last quarter of SFY 2008 grows at a rate equal to that experienced during the average for the last two U.S. recessions in 2001 and 1991.[11]

[11] We assumed that 2008Q1 bonuses decrease 21.1 percent, equal to the quarterly growth of 2002Q1, and that 2007Q4 bonuses decrease 1.9 percent average of Q4 growth rates in 2001 and 1990.

Securities Industry Wages and Withholding Tax Receipts

As explained in other sections of the Revenue and Economic Reports of the NYS Assembly's Ways and Means Committee, part of the expected slowdown in the State economy, and therefore revenues, is attributed to the less positive outlook for the securities industry. (Figure 21 provides an overview of the recent historical and expected future profits for this industry.)



Source: Securities Industry and Financial Markets Association, Ways and Means Committee

Figure 21

In 2008, securities industry profits are forecast to total $14 billion, down from an expected $18 billion in 2007, and a near-record $20.9 billion in 2006. Figure 13 highlights the close relationship between securities industry profits and withholding collections. Preliminary regression analysis reveals that the long-term elasticity between growth in profits and growth in withholding is 0.12, or a 10 percent increase in securities industry profits leads to a 1.2 percent increase in withholding receipts. This elasticity is greater, close to 0.18, when we restrict the sample from 2002 to the present, signifying the importance of the financial services industries to wages and withholding receipts.

Income Gap in New York

The Income Gap

According to the most recent data the United States is ranked first among industrialized nations in terms of income disparity. The wealthiest five percent of Americans earn nearly nine times that of the lowest 20 percent.[12]

For New York a growing disparity in wealth among the richest and the poorest can create a number of problems in terms of revenue collections. The vast wealth created by Wall Street can be a boom for New York revenue collections, as it has been over recent years. However, any downturn in that sector can be just as big a bust for State coffers. A significant decline in Wall Street's fortunes will result in a significant slump in State revenue growth. Some analysts have suggested that wealth that is more evenly spread across socio-economic classes is best at ensuring revenue stability.[13]

Trends in Income

Wealth in New York is not broadly spread across socio-economic classes and is instead highly concentrated among few very wealthy taxpayers. This is not a particularly new phenomenon, nor is it uncommon when compared to other states or the nation as a whole. However, because of the large financial sector, the income gap may be more prominent in New York than other states.

The graph below demonstrates the income gap by comparing the percentage of AGI earned by three groups: the top one percent, the bottom 40 percent, and those in the middle percentiles. The graph shows that the bottom and the middle groups have seen a decline in their overall share of AGI, while the top one percent has seen their share rise. In 1995 the largest share of income was accounted for by middle income residents. By 2000 the wealthiest one percent accounted for the largest share of income.

[12] CIA World fact Book: https://www.cia.gov/library/publications/the-world-factbook/fields/2172.html

[13] "*Could Wall Streets Woes be Good for New York*" Parrott, James. http://www.gothamgazette.com/article/economy/20071218/21/2379

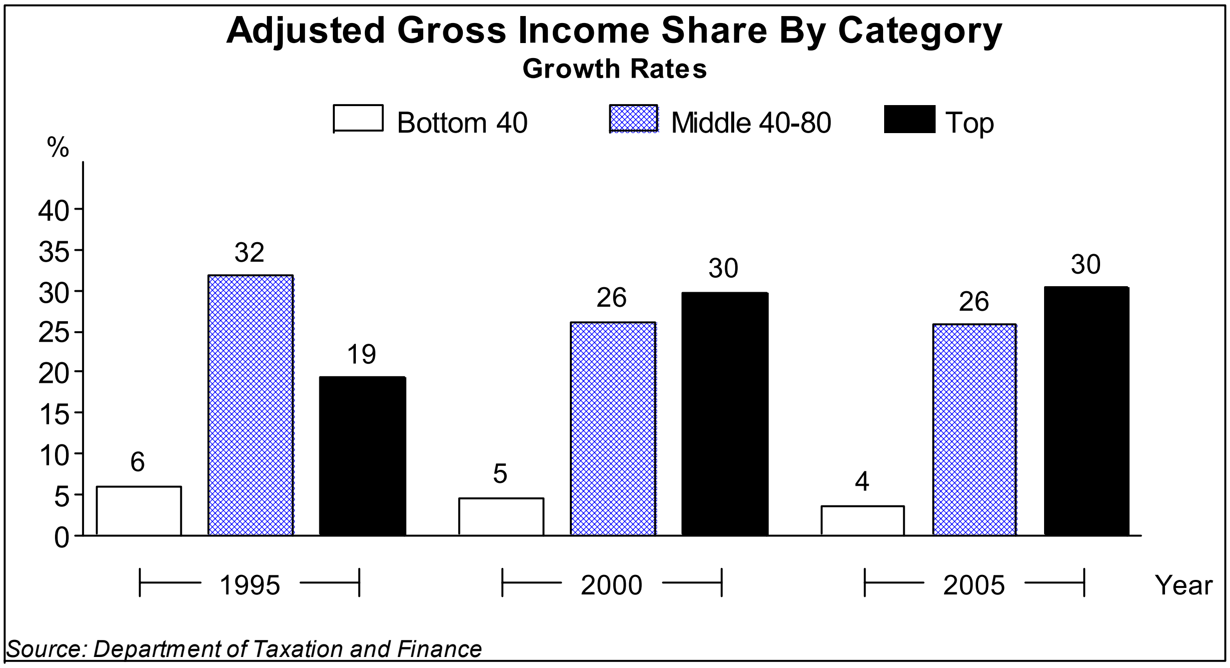


Figure 22

To demonstrate how acutely concentrated wealth in New York is, it is helpful to compare the top one percent of income earners (99th percentile) to those in the top 98th percentile. In 2005 the top one percent held 30.3 percent of AGI. Those in the 98th percentile held just 6.0 percent. The average income for each group is $1.9 million and $380,000 respectively. In other words, the top one percent earned more than five times the income of the second percent of taxpayers.

The line graph below shows the trend in the share of income for the same three groups discussed above. The share of income for the wealthiest one percent declined in 2002 as a result of the downturn following the September 11th attacks. Their income quickly rebounded, however, and by 2005 they once again accounted for the largest share of New York adjusted gross income.

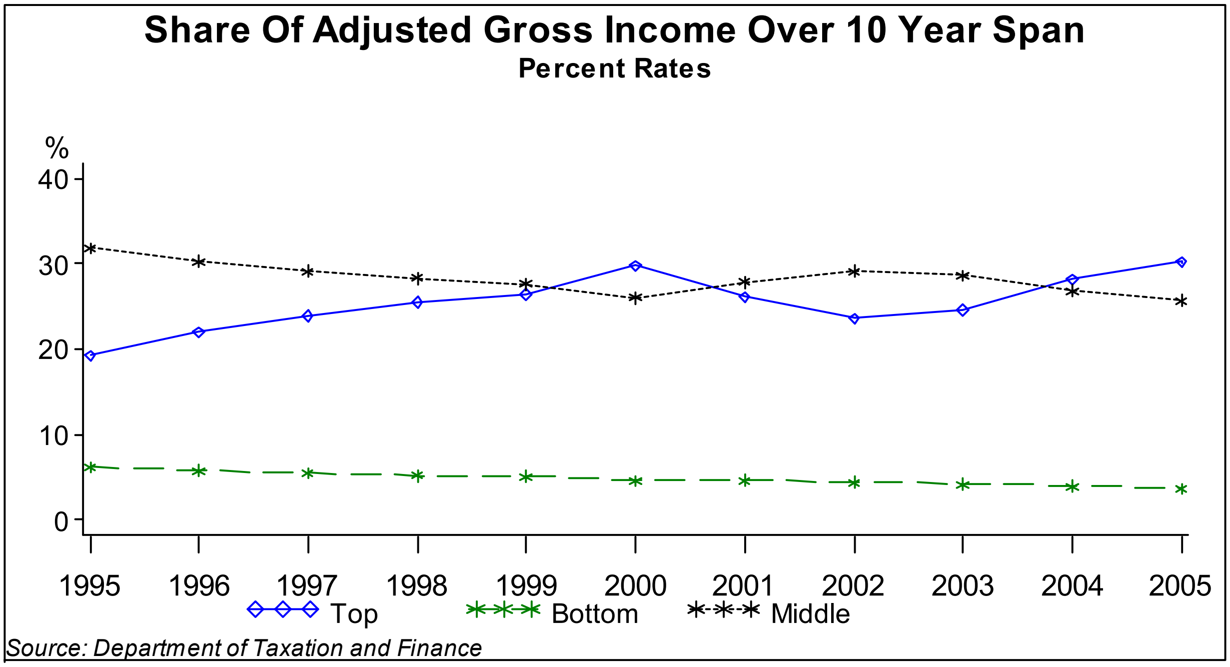


Figure 23

Much of the increase in wealth among the top one percent has been the result of substantial growth in non-wage income such as capital gains. Capital gains income is traditionally earned by wealthy individuals - those capable of making significant capital investments. In 1995 capital gains income made up just 4.4 percent of AGI. By 2005 capital gains income constituted 11.3 percent of AGI. The graph below shows how capital gains income has been concentrated across income groups.

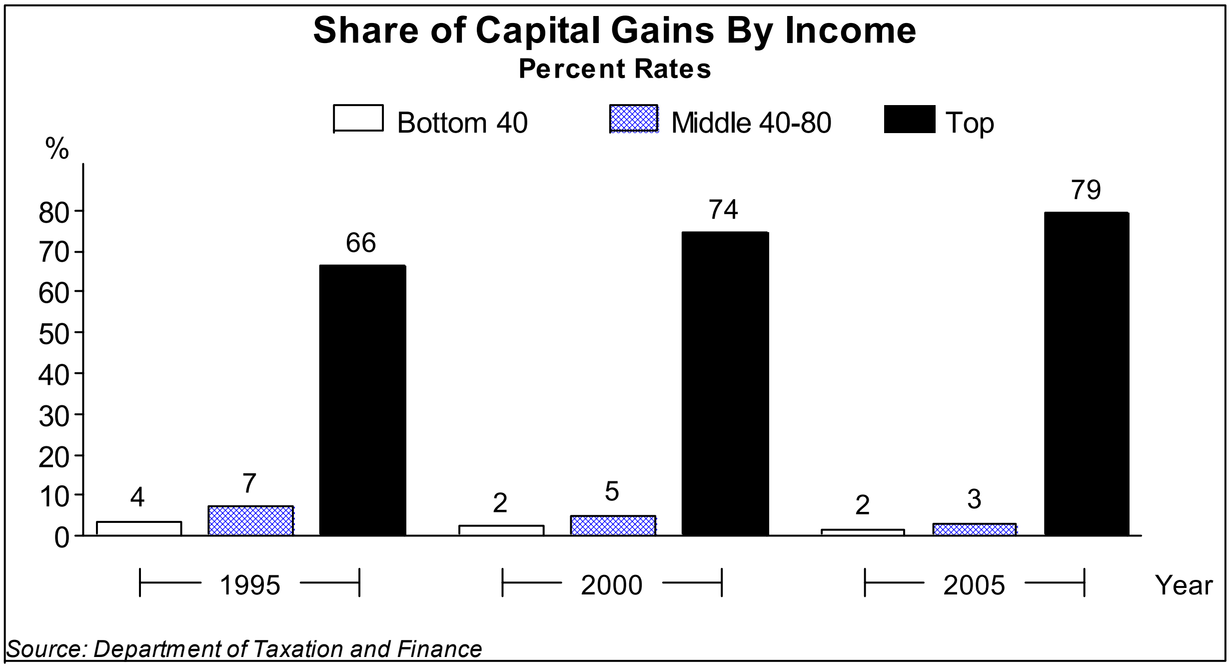


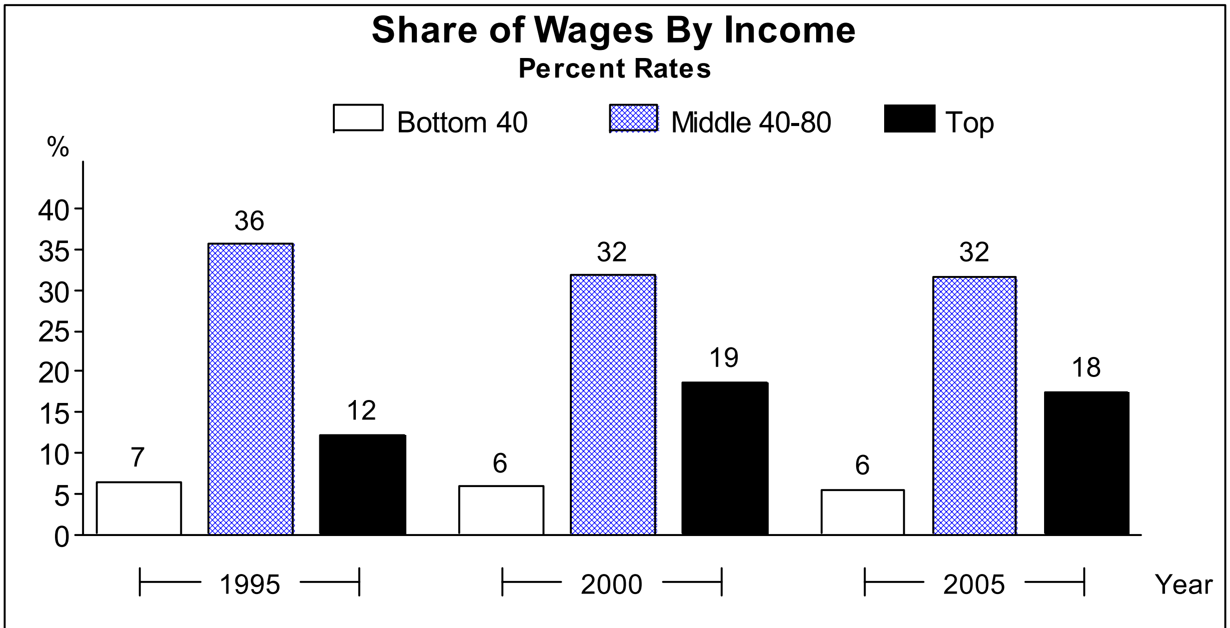
Figure 24

Very few taxpayers have benefited from the growth in capital gains income. Between 1995 and 2005 capital gains income increased by $50.3 billion, from just $14.1 billion in 1995 to $64.4 billion in 2005. Yet, $48.1 billion or 95.5 percent of that increase was accrued by the top 10 percent of taxpayers. Even more striking - $41.6 billion or 82.7 percent of that increase was in the hands of the wealthiest one percent.

A comparison of the top two percent of taxpayers further reveals how capital gains income is concentrated. In 2005 those in the 99th percentile held 79.2 percent of all capital gains income. Those in the 98th percentile held just 5.7 percent. In addition, capital gains income has become an increasingly valuable component of wealth for the top one percent. In 1995, capital gains made up just 15.2 percent of income for the wealthiest one percent of New York residents. By 2005 capital gains made up 29.2 percent of their income. In contrast, capital gains made up just 3.3 percent of income for all other residents in 2005.

In addition, the share of wages held by the lowest income taxpayers has actually declined since 1995. The share of those in the bottom 40 percent declined from 6.6 percent in 1995 to 5.9 percent in 2000. By 2005 their share was down to 5.6 percent. Significant growth occurred by those in the top one percent. Their share of wages increased from 12.3 percent in 1995 to 17.5 percent in 2005. This increase was largely due to the ever increasing bonus wages paid out to employees of Wall Street investment firms.

Base wages have remained stagnant over the past decade and according to recent census data real average wages for people in the lowest 20 percent have actually declined since 1980.[14] This has been the result of a number of factors including the loss or manufacturing jobs and a minimum wage that has not risen as fast as inflation. Employment gains in low paying service sector jobs have gone far in holding unemployment in check, but have done little to increase wage growth among lower income residents. As a result their share of wage income has declined since 1995.



Source: Department of Taxation and Finance

Figure 25

The combination of exploding capital gains income among the wealthiest New Yorkers and stagnant wages for lower income new Yorkers are the main factors contributing to the growing income gap in New York.

Average Income

Looking at the share of income tells a great deal about the growing income gap; but it doesn't provide a complete sense of how well taxpayers are doing over time. The

[14] *Historical Income Tables* Census Data: http://www.census.gov/hhes/www/income/histinc/f03ar.html

fact that the top one percent of taxpayers are doing very well does not necessarily mean that lower income residents aren't doing just as well in relative terms. For that we look at how average income has grown over the past 10 years.

The graph below shows the growth rate in income for the top one percent, the bottom 40th percentile and the middle percentiles over a ten year period beginning in 1996. The top one percent has seen significant growth in overall income since 1995, while the bottom 80 percent have experienced only moderate growth year over year.

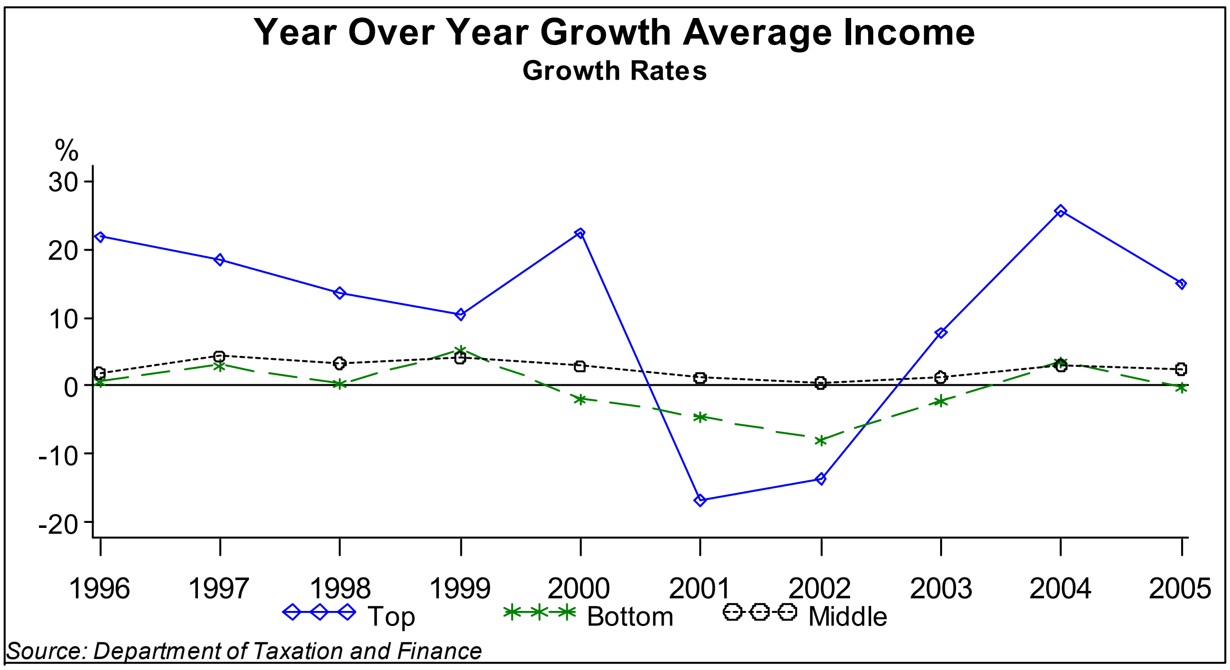


Figure 26

Another perspective is to look at cumulative income growth among the three income groupings. Using 1995 as a benchmark we can see that the top one percent has experienced tremendous growth. In 2005 their income was 185 percent higher than it had been in 1995. On the other hand the bottom 40 percent are only making nine percent more than they were in 1995. The middle income taxpayers are fairing somewhat better, but still have seen their income grow by just 45 percent since 1995. Moreover, these numbers are not adjusted for inflation. In real terms, the bottom 40 percent may be making less than they did in 1995.

From a revenue perspective this analysis points to the fact that a significant portion of personal income tax revenue is increasingly dependant on just a handful of very wealthy taxpayers. The committee staff estimates that in 2005 the 90,000 residents in the 99th percentile made up 42 percent of total tax liability.

The last significant downturn in the State's economy followed the September 11th attacks. In 2001 and 2002 income declined for most new Yorkers and over that period New York lost $3.5 billon in personal income tax revenue. However, due to the high concentration of wealth and the nature of the downturn in the early years of the decade 88.4 percent of the revenue lost was from those in the 90th percentile. The top 99th percentile accounted for 74.1 percent of lost revenue.

Sales and User Taxes

Sales Tax

The sales and compensating use tax, imposed by Article 28 of the Tax Law, is a four percent broad-based consumption tax levied on the sale of tangible personal property, excluding items such as food, medicine, clothing and footwear under $110, products used in manufacturing and items purchased for resale. A limited number of services such as cleaning, parking and interior design are also subject to this tax. Certain non-profit and charitable organizations are exempt from paying sales tax on purchases. Sales tax is generally paid to and collected by the vendor at the time of purchase. Vendors remit sales tax collections annually, quarterly or monthly depending on their level of taxable sales. Depending on the amount of taxable sales, some vendors are also required to remit their sales tax liability electronically. All Funds sales tax collections are deposited into the General Fund, the Local Government Assistance Tax Fund (LGAC), and the Mass Transportation Operating Assistance Fund (MTOAF).

Table 11

User Tax Collections
Forecasts by State Fiscal Year
(Dollar Amounts in Millions)

	SFY 2007-08	Growth	Diff. Exec.	SFY 2008-09	Growth	Diff. Exec.
User Taxes and Fees	**$13,928**	**3.5%**	**$62**	**$14,228**	**2.2%**	**$16**
Sales and Use Tax	$11,218	4.5%	$20	$11,528	2.8%	$23
Motor Fuel Tax	$515	0.3%	$0	$350	-32.0%	($1)
Cigarette Tax	$979	-0.6%	$6	$1,076	9.9%	$25
Motor Vehicle Fees	$769	0.0%	$33	$800	4.0%	($29)
Highway Use	$148	-3.1%	$1	$156	5.4%	($6)
Alcoholic Beverage Tax	$206	6.0%	$6	$226	9.7%	$6
Alcoholic Beverage Fees	$50	-14.0%	($2)	$47	-6.0%	($1)
Auto Rental Tax	$43	-5.5%	($2)	$45	4.7%	($1)

SFY 2007-08 Estimate

The sales tax is expected to generate $11.218 billion on an All Funds basis in SFY 2007-08, an increase of $480 million or 4.5 percent from SFY 2006-07. This estimate is $20 million above the Executive's estimate released in the SFY 2008-09 Executive Budget.

Year-to-date sales tax collections grew 4.6 percent. Sales tax collections this fiscal year are being bolstered by strong collection growth in New York City. Record numbers of tourists visited New York City in 2007. Preliminary figures from NYC & Company (the city's tourism office) estimates 46 million people visited New York City in 2007, an increase of 5 percent over 2006. The increase was driven by foreign visitors. An estimated 8.5 million visitors were from other countries. The decreasing value of the dollar against other major currencies contributed to a large number of foreign visitors to the United States. Hotel occupancy in New York City continues to average 90 percent compared to 87 percent in 2006. The increased demand for hotel rooms increased the average daily room rate in the City nearly 14 percent. Local sales tax collections in New York City increased 7.3 percent in the April through December period over the prior year, compared to 3.5 percent growth for the rest of New York State.

In addition to strength in New York City sales tax revenue, other areas of the State that depend on tourism also saw a boost in the April through December period. Western New York, the Finger Lakes and Mid-Hudson regions saw growth of 6.3 percent, 6.9 percent and 5.3 percent, respectively. Other regions of the State saw modest growth in revenue. The Mohawk Valley was the exception with a decline in sales tax revenue of 0.3 percent. These data have been adjusted for local tax rate changes.

Sales tax collection growth is expected to slow to 3.9 percent for the January through March period. Consumers are being battered by economic uncertainty, higher costs for food and energy and the continuing housing slump. Retailers reported disappointing sales for the holiday season and are lowering expectations for 2008 due to a slowing economy.

Fund Distribution

The Committee staff estimates General Fund sales tax receipts of $7.873 billion in SFY 2007-08, representing an increase of 4.4 percent from the prior year. This estimate is $8 million higher than the SFY 2008-09 Executive Budget.

Receipts from one percentage point of the 4.0 percent State sales tax rate is dedicated to the Local Government Assistance Corporation (LGAC), which was created in 1990 to eliminate annual Spring borrowing. Once the LGAC debt service obligations are paid, excess revenues are transferred back to the General Fund along with certain other transactions. LGAC receipts are projected to be $2.624 billion in SFY 2007-08, representing an increase of 4.5 percent from the prior year.

In 1981, the Metropolitan Transportation Operating Assistance Fund (MTOAF) was created to help finance the State's public transportation system. A portion of the revenue is derived from a separate sales tax rate that is imposed in the Metropolitan Commuter Transportation District. Effective June 1, 2005, the rate was increased to 0.375 percent from 0.25 percent. The forecast for SFY 2007-08 is $721 million representing growth of 4.8 percent over SFY 2006-07.

SFY 2008-09 Forecast

The SFY 2008-09 forecast for sales tax collections is projected to be $11.527 billion, representing growth of 2.8 percent. This forecast is $22 million higher than the Executive Budget. There are numerous proposals in the Executive Budget that will reduce sales tax revenue $52 million in SFY 2008-09. The Governor proposes to repeal the State sales tax on motor fuel and diesel fuel and merge that tax into the petroleum business tax. This results in a reduction of sales tax revenue in the amount of $172.7 million. The remaining proposals all increase sales tax revenue. The Executive Budget includes a vendor re-certification program ($12 million), audit and compliance initiative ($30 million), repeal of the private credit card law ($7 million), require a tax stamp on illegal drugs ($13 million), require non-profit tax exempt organizations to collect sales tax on certain sales ($7.5 million), require certain on-line retailers to collect sales tax ($47 million) and curtail certain tax avoidance schemes related to aircraft, motor vehicles and vessels ($4 million).

The economy is expected to remain sluggish in SFY 2008-09. Consumer spending on durable goods and disposable income are expected to grow at modest rates of 1.4 percent and 4.0 percent, respectively. Sales of automobiles and light trucks are forecast to show no growth in SFY 2008-09 over SFY 2007-08. New York City tourism is expected to remain strong in 2008, partially offsetting weaker spending by New York residents.

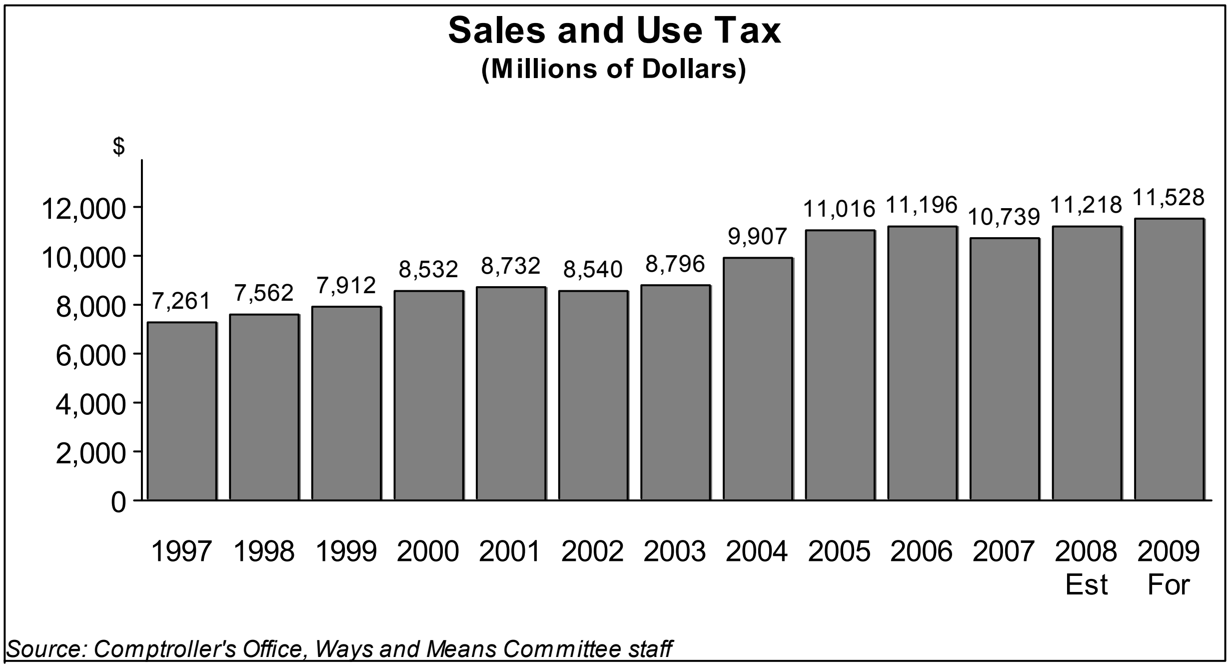


Figure 27

Fund Distribution

The Committee staff estimates General Fund sales tax receipts of $8.088 billion in SFY 2008-09, representing growth of 2.7 percent over the prior year. This estimate is $8 million above the SFY 2008-09 Executive Budget.

Sales tax collections dedicated to LGAC are projected to be $2.696 billion in SFY 2008-09, representing growth of 2.7 percent over the prior year. Dedications to the Metropolitan Transportation Operating Assistance Fund (MTOAF) are forecast to be $743 million, an increase of 3.1 percent.

Focus on the Consumer

Personal Consumption Expenditures

Consumer spending is a major contributor to economic growth. Based on data from the Commerce Department, consumer spending on necessities (food, shelter and clothing), energy and medical care represented 61 percent of total personal consumption expenditures in the third quarter of 2007. This percentage has steadily increased since 2002. The majority of these expenses is not subject to sales tax or receives preferential treatment through exemptions or a reduced tax rate. This leaves less than 40 percent of spending that is discretionary and therefore subject to sales tax.

Spending on necessities represents approximately 40 percent of total personal consumption expenditures based on data from the Bureau of Economic Analysis. This percentage has remained fairly constant over the last six years. Expenditures for medical care and energy have increased over this period while expenditures for motor vehicles have decreased. Energy as a percentage of total expenditures was 4.5 percent in 2002 and has increased steadily each year. The average for the first three quarters of 2007 was 6.0 percent. The pump price for a gallon of regular unleaded gasoline in New York State averaged $2.52 cents per gallon in the 1Q of calendar year 2007 and was $3.11 per gallon for the 4Q of 2007. In addition to high gasoline prices, New Yorker's are more dependent on fuel oil to heat their homes. In the first quarter of the 2007-2008 heating season (October – December) the average price of a gallon of home heating oil was $3.24 per gallon, an increase of 28.6 percent over the prior year.

The tax law contains provisions that help reduce the burden of increasing costs on the consumer. Since 1980, there is no State sales tax on residential energy expenditures and effective June 2006 the State enacted a cents per gallon excise tax on the purchase of gasoline. The excise tax rate is 8 cents per gallon, effectively capping the State sales tax on gasoline at $2.00 per gallon. The pump price of a gallon of gasoline no longer matters in the context of the State sales tax as long as it is above $2.00 per gallon. These actions help reduce the burden on New York's consumer in this era of increasing energy prices. Additionally, since April 2006 there is no State sales tax on clothing and footwear purchases of less than $110 per item and in September 2007 New York City eliminated the local sales tax on all clothing and footwear purchases regardless of price.

Consumers exhibited their uncertainty by spending less over the 2007 holiday season. Retail sales were strong at the start of the shopping season as consumers chased bargains and stores responded with additional price cuts. After an initial push, sales became lackluster in the weeks approaching Christmas. The lackluster holiday shopping season combined with continued concern over the economy has forced retailers to lower their expectations for 2008. Of particular concern to State sales tax revenue is the weak forecast for auto sales. Automobile dealers sold 16.1 million cars and light trucks in 2007 and the WAM forecast for 2008 sales is 15.7 million, a decrease of 0.4 million units over the prior year. The last time auto sales were below 16 million units was in 1998. Motor vehicles and parts represent nearly one-quarter of the State's taxable sales. Over the past five years, the trend in sales tax collections and auto sales is virtually identical.

Housing Wealth

There has been much discussion regarding the relationship between housing wealth and consumer spending. During the period from the mid-1990's through 2006, housing prices rose rapidly. This resulted in many homeowners using the price appreciation in their home to boost their discretionary spending (20 percent), finance home improvement projects (17 percent), repay non-mortgage debt (15 percent) or acquire assets (48 percent).[15]

In a January 2007 paper the Congressional Budget Office (CBO) discussed housing wealth and consumer spending.[16] The most likely scenario according to the CBO is that falling home prices will have a moderately negative impact on consumer spending. The negative impact on consumer spending will be greater if home prices fall dramatically or if homeowners expected prices to continue increasing at a rapid rate. The research on the impact of mortgage equity withdrawals (MEW) on consumer spending is mixed. Some reports imply that consumers spend between 18 and 39 cents per dollar of MEW in the year they withdrew the equity. Other research finds little or no impact of MEW on consumer spending. One criticism of the research that estimates large impacts of MEW on consumer spending is that the consumer spending may trigger the MEW, not that the MEW triggers the consumer spending. A consumer may have already decided to make a major purchase and use MEW as a source of financing whether or not the price of their home increased. MEW may also be the result of rising home prices due to increased consumer confidence or increased expectations of higher future income.

According to Jonathan McCarthy and Charles Steindel in a recent paper on housing activity and consumer spending, consumers will increase spending to a greater degree when they view an increase in wealth as permanent.[17] Their research indicated that consumer's extraction of home equity was for the most part an opportunity to repay debt and not a change to spending behavior. They conclude that longer term economic

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[15] Alan Greenspan and James Kennedy, "Sources and Uses of Equity Extracted from Homes", *Federal Reserve Board*, Working Paper 2007-20, p. 17.
[16] Congressional Budget Office, "Housing Wealth and Consumer Spending", January 2007.
[17] Jonathan McCarthy and Charles Steindel, "Housing Activity and Consumer Spending", *Business Economics*, April 2007.

growth prospects are a larger determinant of consumer spending rather than appreciation in financial assets, particularly housing.

Both studies agree that lower housing prices will have some negative impact on consumer spending, but the real driver for consumer spending will be the overall economic outlook and its impact on employment, wages and inflation. SFY 2008-09 will be a challenging year for state and local sales tax revenue as consumers try to balance numerous economic challenges from higher prices for necessary purchases, the continued housing slump, and volatility in the financial markets. Consumers may react by staying on the sidelines until there is some noticeable direction of where the economy is headed.

Auto Rental Tax

The auto rental tax, imposed by Article 28-A of the Tax Law, applies to the rental of any passenger car with a gross vehicle weight of 9,000 pounds or less that can seat a maximum of nine passengers. The auto rental tax is imposed at a rate of five percent on auto rental charges incurred for use in New York State. The tax does not apply to leases of one year or more. Since SFY 2002-03 all auto rental receipts are dedicated to the Highway and Bridge Trust Fund.

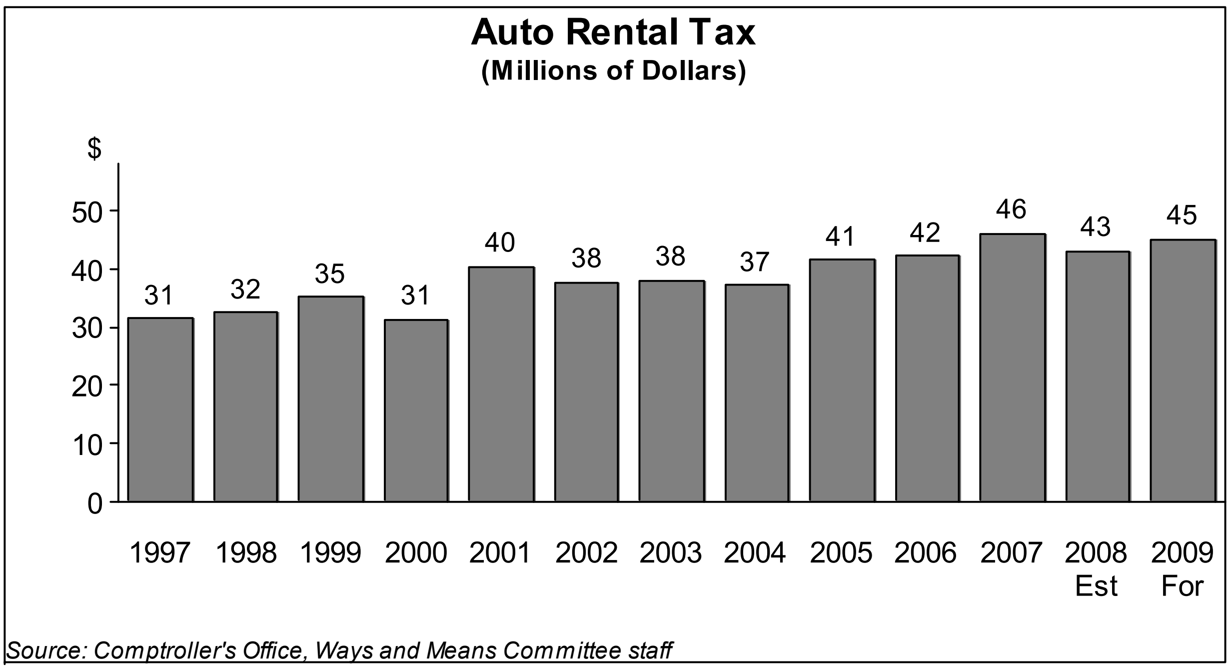


Figure 28

SFY 2007-08 Estimate

Collections to date are trending to $43 million for SFY 2007-08. This represents a decline of 5.5 percent over SFY 2006-07. December collections were weak. Collections were nearly $2 million below the historical average for December. The Committee staff estimate is $2 million below the SFY 2008-09 Executive Budget.

SFY 2008-09 Forecast

The Committee staff estimate for SFY 2008-09 is $45 million. This represents an increase of $2 million or 4.7 percent over SFY 2007-08.

Motor Fuel Taxes

Article 12-A of the Tax Law imposes an 8 cents per gallon tax on diesel motor fuel at the point of import or use in New York. The tax also applies to gasoline, upon first import into or production within New York. The tax has three components: regular tax (4 cents per gallon), additional tax (3 cents per gallon) and supplemental tax (1 cent per gallon).

Motor fuel tax collections are dedicated based on the following schedule:

- Gasoline receipts are split between the Highway and Bridge Trust Fund (81.5 percent) and the Dedicated Mass Transportation Trust Fund (18.5 percent).
- Diesel receipts are split between the Dedicated Highway and Bridge Trust Fund (63 percent) and the Dedicated Mass Transportation Trust Fund (37 percent).

SFY 2007-08 Estimate

The Committee staff estimates that motor fuel taxes will total $515 million in SFY 2007-08, this estimate is 0.3 percent higher than the previous fiscal year. The Committee staff estimate is the same as the Executive estimate. Revenues collected from motor fuel taxes are not deposited into the General Fund, but instead are statutorily dedicated in the following manner:

- $107 million deposited in the Dedicated Mass Transportation Trust Fund (DMTTH); and,
- $408 million to the Dedicated Highway and Bridge Trust Fund (DHBTF).

Through December 2007, motor fuel collections are $394 million an increase of $1 million or 0.4 percent above the comparable period in the prior fiscal year.

SFY 2007-08 Forecast

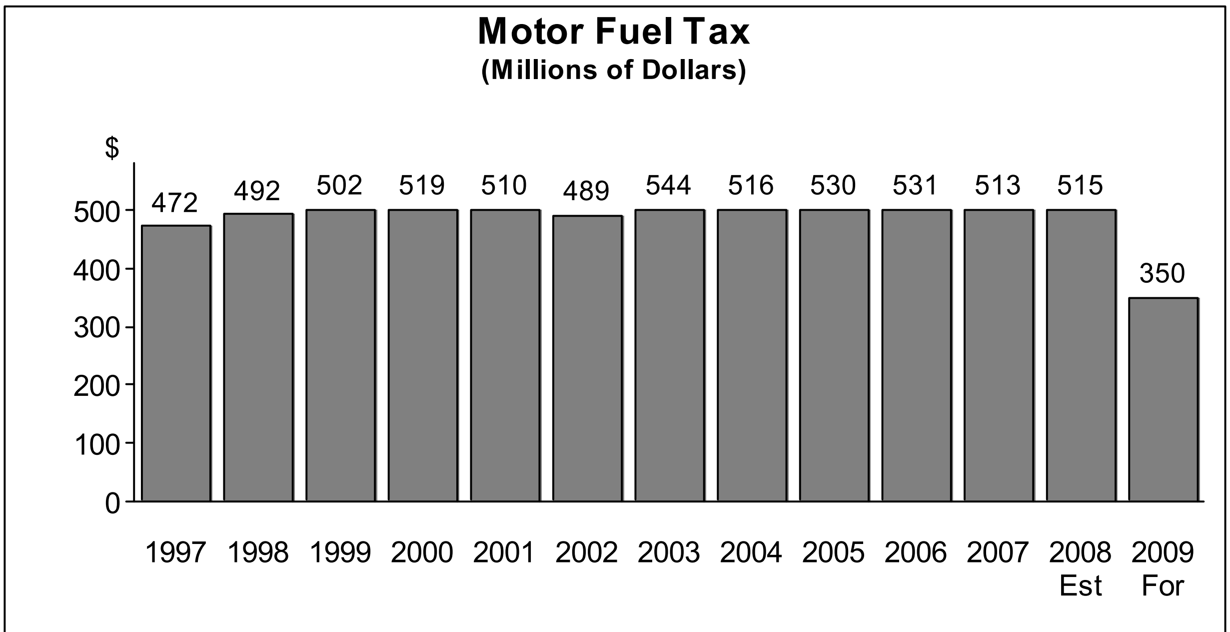
The Committee staff forecast for motor fuel taxes in SFY 2008-09 is $350 million, a 32.0 percent or $165 million decrease. The large decline in motor fuel tax receipts reflects the proposal to combine the motor fuel tax and sales tax on motor fuel and diesel motor fuel into the petroleum business tax, effective December 1, 2008. This will be offset by an increase in the petroleum business tax rate.

Absent this proposal the committee estimates an additional $7 million in revenue including revenues from enforcement of the motor fuel tax on sales to non-Native Americans on New York reservations. The Committee staff forecast is $1 million below the Executive forecast. Motor fuel taxes will be distributed as follows:

- $73 million to the Dedicated Mass Transportation Trust Fund; and,
- $277 million to the Dedicated Highway and Bridge Trust Fund.

The consolidation of the motor fuel taxes explains the decline in the dedicated funds, however, these funds will be held harmless by compensating them under the petroleum business tax distribution of revenues.

Revenue Trends



Source: Comptroller's Office, Ways and Means Committee staff

Figure 29

Motor Fuel taxes are generally very stable, having only increased by 10 percent over a 12 year period. Much of the fluctuations can be explained by changes in consumption in both gasoline and diesel fuel. Consumption of diesel fuel is largely a function of economic activity. As the economy slows down, the demand for shipping contracts pushing consumption of diesel fuel lower. It is expected that motor fuel taxes would be effected by a decrease in consumption due to higher gasoline prices.

Motor Vehicle Fees

Revenue from Motor Vehicle Fees comes from over 50 different license, registration, service, and penalty receipts. Passenger and commercial vehicle registrations and licensing fees are the largest components.

Registration fees are weight-based for passenger vehicles, commercial vehicles, trailers, and ambulances. Buses, taxis, livery vehicles, and rental cars are charged registration fees based upon their seating capacity. Other vehicles such as semi trailers, motorcycles, MOPEDS, farm vehicles, snowmobiles, and all terrain vehicles are charged a flat fee. Motorboat registration is based upon the length of the boat.

Other fees include in-transit permits, certificates of title; manufacturers, dealers and repairmen also pay fees for miscellaneous licenses and permits.

Resident drivers are required to obtain a New York driver license within 90 days of becoming a resident. This license is issued by the Department of Motor Vehicles with fees based on various classifications.

Other items included in motor vehicle receipts are: business permits for driving schools, repair shops, and car dealerships; special plate fees, penalty fees for driving without insurance or refusing a chemical test; and various sticker fees.

SFY 2007-08 Estimate

In SFY 2007-08, All Funds receipts are estimated to total $769 million, representing no difference from last year. The Committee staff's estimate is $33 million higher than the Executive. Through December 2007, motor vehicle collections are $571 million, a decrease of $54 million or 8.7 percent from the comparable period in the prior fiscal year.

In addition to the dedication of registration fees a guarantee amount of $169.4 million from non-dedicated fees is deposited into the dedicated funds. 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 anticipated that the General Fund will maintain $47.4 million because non-dedicated motor vehicle fees will exceed the agreed amount.

Of the $769 million in motor vehicle fees, the Committee staff estimates that the Dedicated Mass Transportation Trust Fund will receive $234 million, while the Dedicated Highway and Bridge Trust Fund will receive $556 million.

SFY 2008-09 Forecast

The Committee staff estimates that in SFY 2008-09 the General Fund will receive $47 million, the Dedicated Mass Transportation Trust Fund will receive $209 million and the Dedicated Highway and Bridge Trust Fund will receive $544 million.

In SFY 2008-09, All Funds receipts are forecast to total $800 million, a 4.0 percent increase. The growth reflects the budget proposal that implements the WHTI (Western Hemisphere Travel Initiative) which is a result of the Intelligence Reform and Prevention Act of 2004 (IRTPA), requiring all travelers to present a passport or other document that denotes identity and citizenship when entering the U.S.

This proposal would generate $52.5 additional million in 2008-09. The Committee staff forecast is $29 million below the Executive forecast.

Revenue Trends

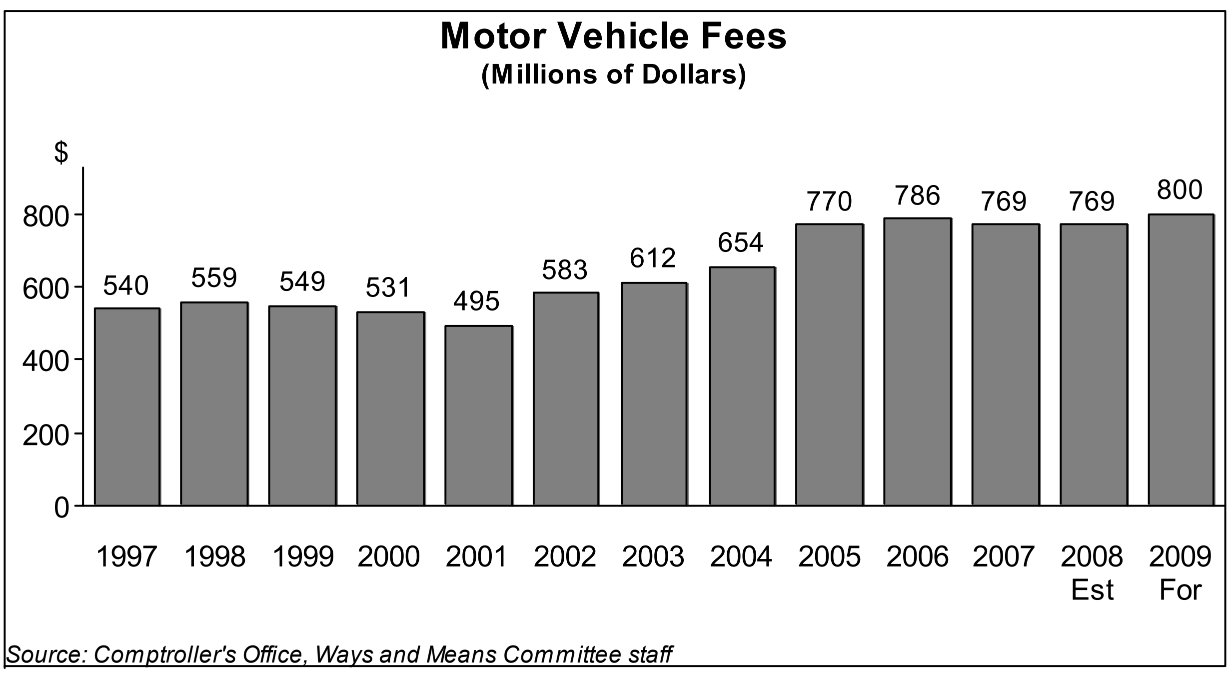


Figure 30

The increase in motor vehicle fees is explained by recent increases in registration fees enacted in prior fiscal years and the transfer of fees previously classified as General Fund Miscellaneous Receipts into the dedicated transportation funds.

Highway Use Tax

The truck mileage tax is a weight-distance tax generally imposed on commercial vehicles having a loaded gross weight of more than 18,000 pounds. The tax is imposed at rates graduated according to the gross vehicle weight and miles traveled on public highways. In addition, a supplemental tax equal to the base truck mileage tax was imposed prior to January 1, 1999. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the remaining supplemental tax was reduced by an additional 20 percent.

The fuel use tax applies to commercial vehicles that purchase fuel outside New York State, but is consumed while traveling on New York highways. It has two components: the motor fuel component and the sales tax component. The aggregate fuel use tax rate is the sum of the motor fuel tax rate and the sales tax rate. The sales tax rate has two components, the state sales tax rate which is 4 percent and the lowest county sales tax rate at this time which is 3 percent. These rates are applied to the capped price of $2 per gallon. Currently, the fuel use tax is 36.15 cents per gallon for diesel and 37.9 cents per gallon for gasoline.

Highway certificate of registration are issued triennially at a cost of $15 for an initial permit and $4 for a permit renewal. Additionally, 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.

All Highway Use Tax receipts are earmarked to the Dedicated Highway and Bridge Trust Fund.

SFY 2007-08 Estimate

The Committee staff estimates that receipts in SFY 2007-08 will total $148 million, a decrease of $4.7 million, which reflects a non-peak tri-annual renewal year for permits, and the adverse impact of the $2 gas cap on the fuel use component. This estimate is$1 million higher than the Executive’s.

Through December 2007, Highway Use Tax receipts are $114.1 million a decrease of $4.7 million or 4.0 percent below the comparable period in the prior fiscal year.

SFY 2008-09 Forecast

The Committee staff's forecast for Highway Use Tax receipts is $158 million for SFY 2008-09, which represents 6.8 percent growth from SFY 2007-08. This forecast is $6 million below the Executive's. Receipts from the peak certificate of registration would add $2 additional million due to the triennial renewal peak, moreover the tax on carriers - from the petroleum business tax- would be merged to the highway use tax effective December 2008, receipts would be increased by $7.7 million accordingly.

Revenue Trends

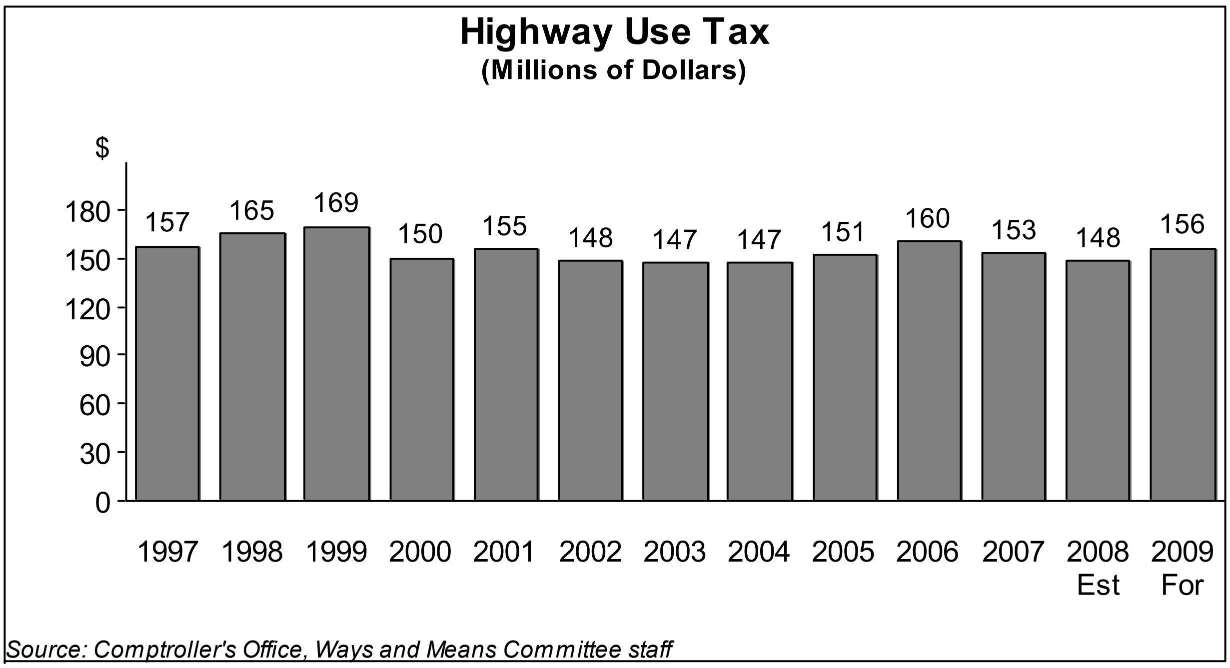


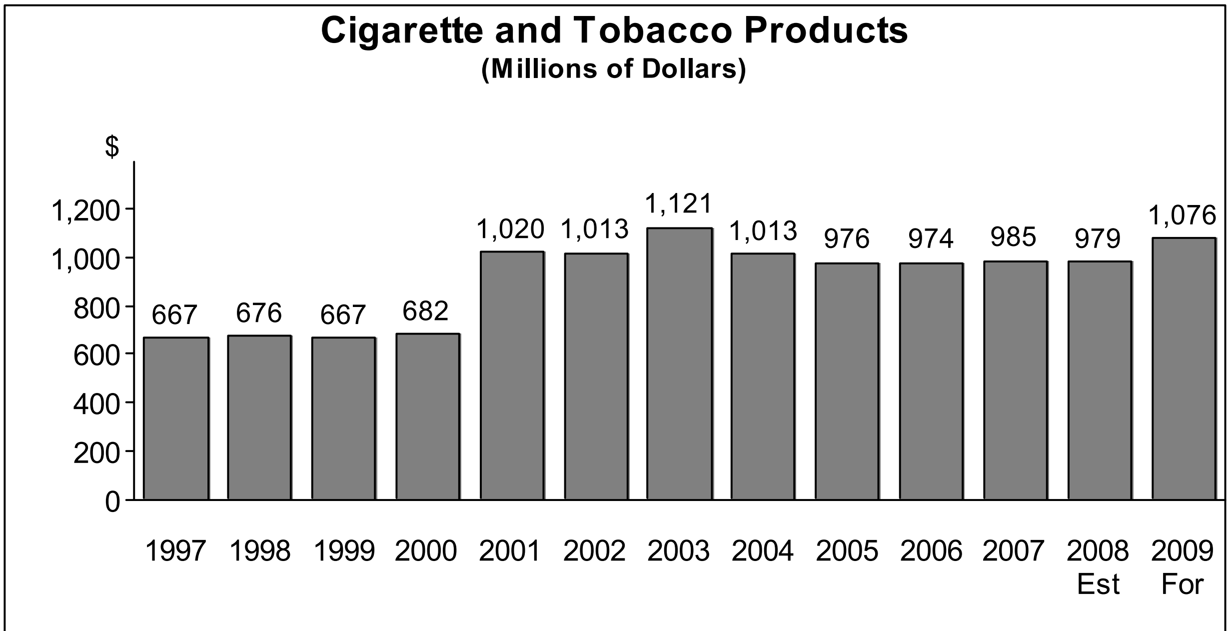
Figure 31

Highway use taxes are generally very stable from year to year. The decline in the level of collections since 2000 is largely due to tax reductions enacted in the late 1990's.

Cigarette and Tobacco Taxes

Article 20 of the Tax Law imposes a cigarette excise tax at the rate of $1.50 per package of 20 cigarettes sold within the State. Of the total cigarette tax levied, 58.2 cents or 38.78 percent of the receipts are deposited into the General Fund. The remaining 91.8 cents or 61.22 percent are dedicated to fund the Health Care Reform Act (HCRA) programs.

The State also levies a tax on distributors of all other tobacco products equal to 37 percent of the wholesale price of all tobacco (non-cigarette) products. In addition, there are annual license fees of $100 for all retail establishments and $25 for every vending machine that sells cigarette or tobacco products.



Source: Comptroller's Office, Ways and Means Committee staff

Figure 32

SFY 2007-08 Estimate

The Committee staff estimates that cigarette and tobacco receipts will generate $979 million on an All Funds basis in SFY 2007-08, a decrease of $6 million or 0.6 percent from SFY 2006-07. This is $7 million above the Executive's estimate released in the Executive Budget. The SFY 2007-08 estimate is consistent with year-to-date collection patterns. Collections-to-date are flat over the prior year.

The Committee staff estimates General Fund cigarette and tobacco tax receipts of $404 million in SFY 2007-08, representing a decline of 1.6 percent from the prior year. This estimate is $3 million below the Executive Budget.

SFY 2008-09 Forecast

All Funds cigarette and tobacco receipts are projected to be $1.076 billion in SFY 2008-09. The Committee staff forecast is $24 million above the Executive forecast. The forecast for SFY 2008-09 includes $93 million from the collection of tax on sales by Native American retailers to non-Native Americans and $3.6 million from a proposal to tax little cigars as cigarettes. They are currently taxed as a tobacco product. Excluding these tax proposals the SFY 2008-09 forecast would be the same as SFY 2007-08. The Assembly predicts flat growth for cigarette consumption compared to a decline in consumption forecast by the Executive. After several years of decline, cigarette consumption has stabilized.

Alcoholic Beverage Fees

Distillers, brewers, retailers, wholesalers and others who sell alcoholic beverages in New York State are required by Articles 4, 4-A, 5, and 6 of the Alcoholic Beverage Control Law to be licensed by the State Liquor Authority (SLA). Approximately, 2,500 retail outlets, 18,500 grocery stores and 26,400 bars and restaurants are licensed. Licenses are issued triennially, biannually and annually, and are paid directly to the SLA.

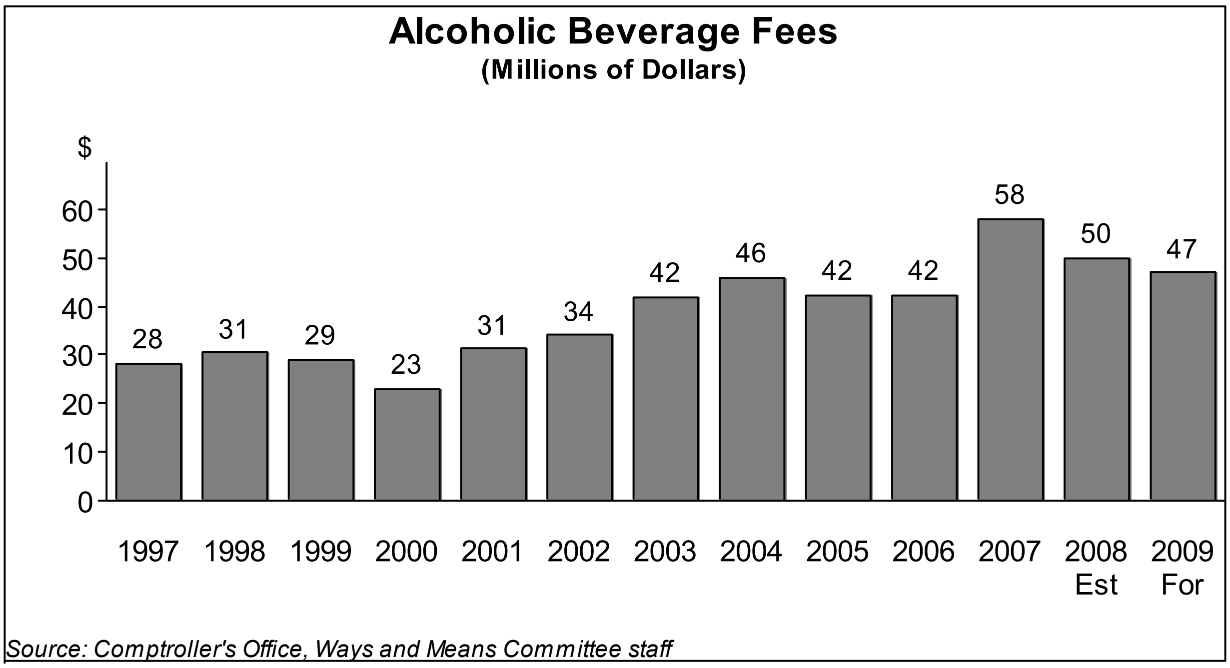


Figure 33

SFY 2007-08 Estimate

The Committee staff estimates that receipts from alcoholic beverage fees will total $50 million in SFY 2007-08, an $8 million or 14.1 percent decrease from SFY 2006-07. SFY 2006-07 included a one-time accounting adjustment related to on-line license renewals. This estimate is $2 million lower than the Executive Budget. Adjusted for the one-time accounting adjustment, growth in SFY 2007-08 is expected to be 8.2 percent.

SFY 2008-09 Forecast

The Committee staff forecasts receipts will total $47 million in SFY 2008-09, a decrease of $3 million or 6.0 percent over SFY 2007-08. This is consistent with the license renewal cycle. Collections in fiscal years that end in an odd number are lower.

Alcoholic Beverage Tax

Article 18 of the Tax Law imposes a tax on various alcoholic beverages, including beer, wine, and other spirits. The tax rate varies depending on the alcohol content of the beverage. All of the receipts are deposited into the General Fund.

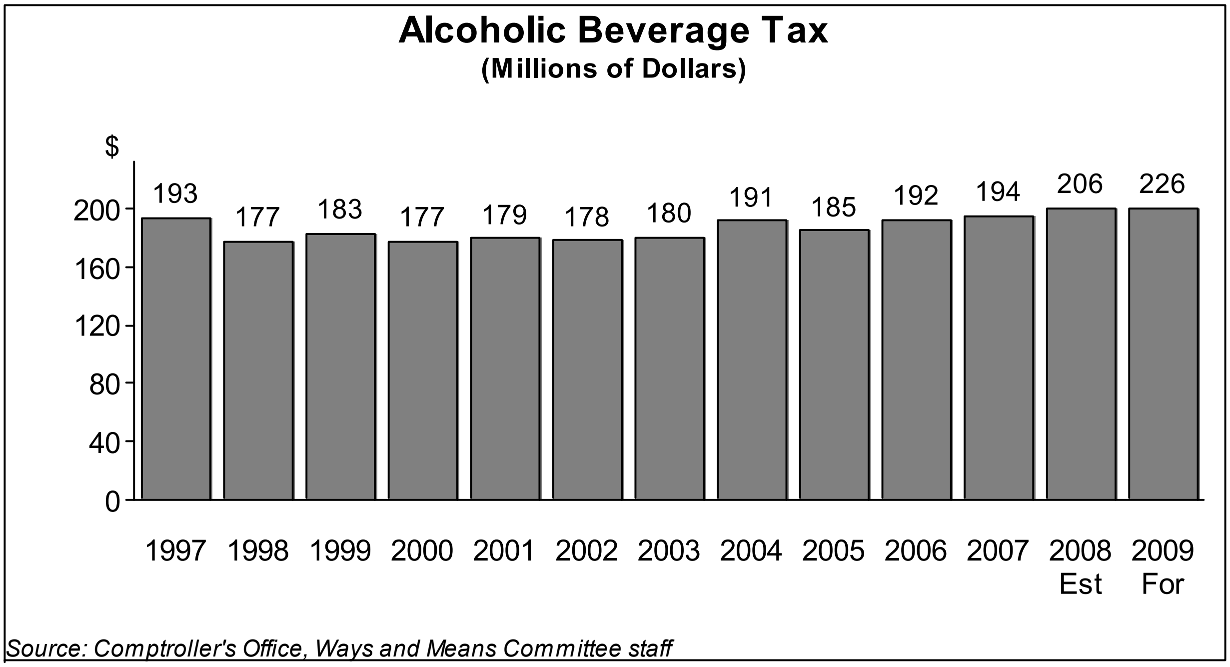


Figure 34

SFY 2007-08 Estimate

The Committee staff estimate for SFY 2007-08 alcoholic beverage tax receipts is $206 million, representing an increase of $12 million or 6.0 percent growth over SFY 2006-07. This estimate is $6 million above the SFY 2008-09 Executive Budget. Year-to-Date collection growth of 6.0 percent is driven by strong consumption growth in liquor and wine. Year-to-date volume in liquor and wine sales is up approximately 8.0 percent and 5.9 percent, respectively, over the prior year. Beer consumption is also up, growing 3.6 percent in the April through December period.

SFY 2008-09 Forecast

Alcoholic beverage tax receipts are forecast to be $226 million in SFY 2008-09, representing an increase of 9.7 percent over the prior year. This forecast is $6 million above the Executive Budget. Excluding the Executive's proposal to tax flavored malt beverages as a liquor, the SFY 2008-09 forecast would be $211 million, representing growth of 2.4 percent over the prior year.

Business Taxes

Table 12

Business Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2007-08	Growth	Diff. Exec.	SFY 2008-09	Growth	Diff. Exec.
Business Taxes	**8,382**	**-2.6%**	**(64)**	**9,453**	**12.8%**	**(129)**
Corporate Franchise	4,128	-2.4%	22	4,625	12.0%	(62)
Utility Tax	821	0.1%	5	796	-3.0%	6
Insurance Tax	1,269	0.9%	(23)	1,493	17.7%	30
Bank Tax	1,001	-17.3%	(93)	998	-0.3%	(98)
Petroleum Business Tax	1,163	6.7%	25	1,541	32.5%	(5)

Corporate Franchise Tax

The Article 9-A corporate franchise tax is imposed on every domestic or foreign corporation for the privilege of exercising its corporate franchise, doing business, employing capital, or owning or leasing property in New York.

Corporations generally pay based on the higher of:

- entire net income allocated to New York;
- allocated capital;
- minimum taxable income allocated to New York; or,
- a fixed dollar minimum tax.

Figure 35

SFY 2007-08 Estimate

Corporate franchise tax collections have declined by $502 million or 16.4 percent through December 2007. Despite these declines collections are expected to increase in the last quarter due to large audit payments.

The Committee staff estimates that All Funds corporate franchise tax collections will total $4.128 billion in SFY 2007-08, representing a decline of $100 million or 2.4 percent from SFY 2006-07. This estimate is $22 million higher than the Executive's Budget estimate. The decline in SFY 2007-08 collections reflects several factors including a substantial increase in refunds on prior year payments and a significant decrease in expected March pre-payments. In addition, corporate taxpayers will pay $132 million less in the current year because of the reduction in the corporate tax rate to 7.1 percent from 7.5 percent, a reduction in the alternative minimum tax rate, and the acceleration of the phase-in of single sales factor apportionment.

While year to date calendar payments under the corporate franchise tax have exhibited double digit growth through the first three quarters of fiscal year, the current year closeout and out year forecasts are riddled with uncertainty and carry several inherent risks. The greatest unknown relates to timing. Revenue departments across the country brace for the impact of the historic Wall Street losses in relation to the sub-prime fallout. Despite the numerous manipulations contained on the average tax form it is clear that the core number, net income, has fallen sharply in the second half of 2007.

SFY 2008-09 Forecast

In SFY 2008-09, corporate franchise tax receipts are forecast to total $4.625 billion, an increase of $497 million or 12.0 percent from SFY 2007-08. An increase in receipts is projected despite a sharp slowdown in corporate profits in 2008. The Committee staff is forecasting corporate profits growth of just 2.6 percent in 2007, down from profit growth of 13.2 percent in 2006. Profits are expected to decline in 2008 by -2.7 percent. The growth in collections in the upcoming fiscal year is largely the result of a shift in the timing of additional revenues projected from the implementation of tax loophole closers enacted in the prior fiscal year and new legislation proposed by the Executive.

Corporate Franchise Tax Receipts Reach a Record High

Corporate franchise tax collections reached record levels for SFY 2006-07 totaling over $4.2 billion dollars. This dramatic increase comes only four years after the corporate franchise tax hit a ten year low in SFY 2002-03. The increase in revenue was attributable to robust growth in corporate and financial sector profits, record level audit collections, and lower than average refunds. SFY 2007-08 collections are still well above average and look to be slightly less than the prior fiscal year. SFY 2007-08 audit receipts continue to be at historic highs.

From SFY 1995-96 through SFY 1999-2000 collections remained somewhat flat, ranging between $2.048 and $2.168 billion, representing an increase of just $120 million or 5.9 percent. This period is representative of the latter years of the dot com boom prior to the recession of 2001-02. In the next two fiscal years, collections increased and then decreased dramatically, increasing by 21.4 percent and then decreasing by 35.3 percent the following year. The dramatic decline has been attributed to the shocks to the economy from the September 11th attacks and a recession. Since SFY 2002-03, where collections were $1.6 billion, there has been strong, often double-digit growth.

Boom to Bust

Recent years have proven that corporate franchise collections are very responsive to fluctuations in economic conditions. The recent robust growth in the corporate franchise tax collections can most readily be seen in the growth in corporate and financial sector profits. On the heels of the September 11th attacks corporate profits have grown in the range of 11.5 percent to 24.0 percent since SFY 2002-03. This vigorous growth in profits came to an abrupt halt in the second half of 2007 as many corporations invested in mortgage backed securities reported enormous write-downs in relation to the sub-prime lending fall out.

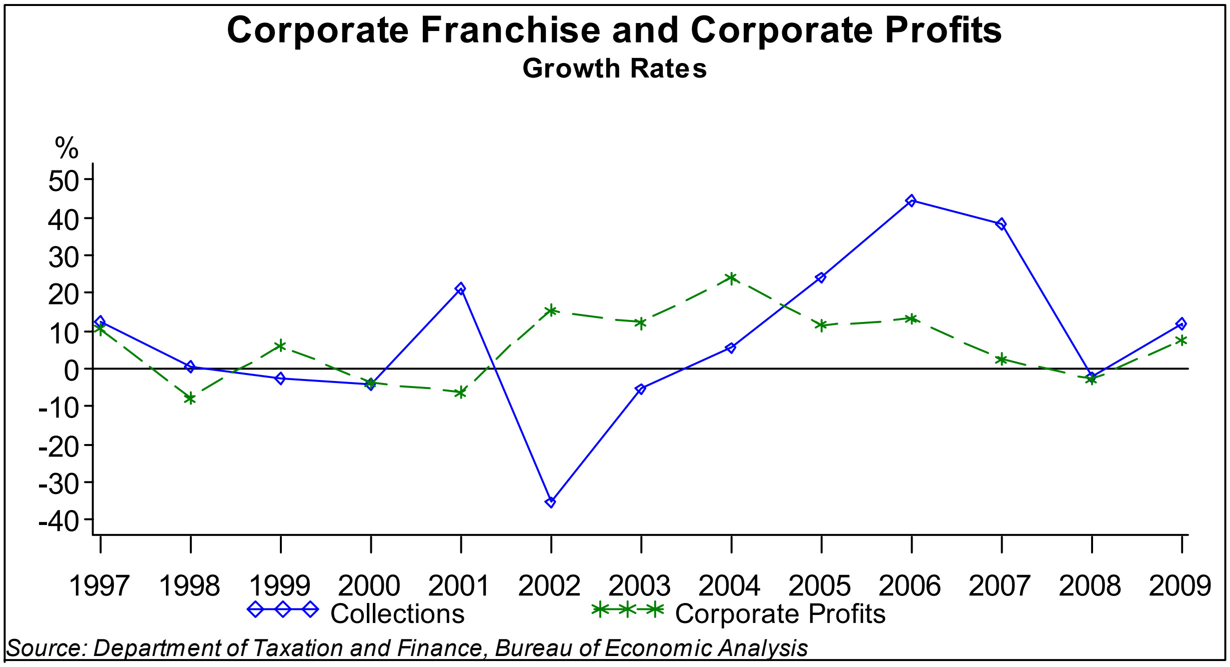


Figure 36

From all indications policy makers and revenue departments should expect significant declines in revenues associated with major corporations and in particular Wall Street firms due to recent write offs, declining balance sheets, and overall pessimism on the economy in the short term. (See section on Sub-prime Collapse, page 10) Many of the major forecasting entities have consistently revised leading economic indicators downward as calendar year 2007 progressed. These factors alone impose a significant risk to the SFY 2008-09 forecast especially in the Corporate Franchise tax as this revenue source is highly tied to financial firms and manufacturers, both of whom have suffered losses in the recent past.

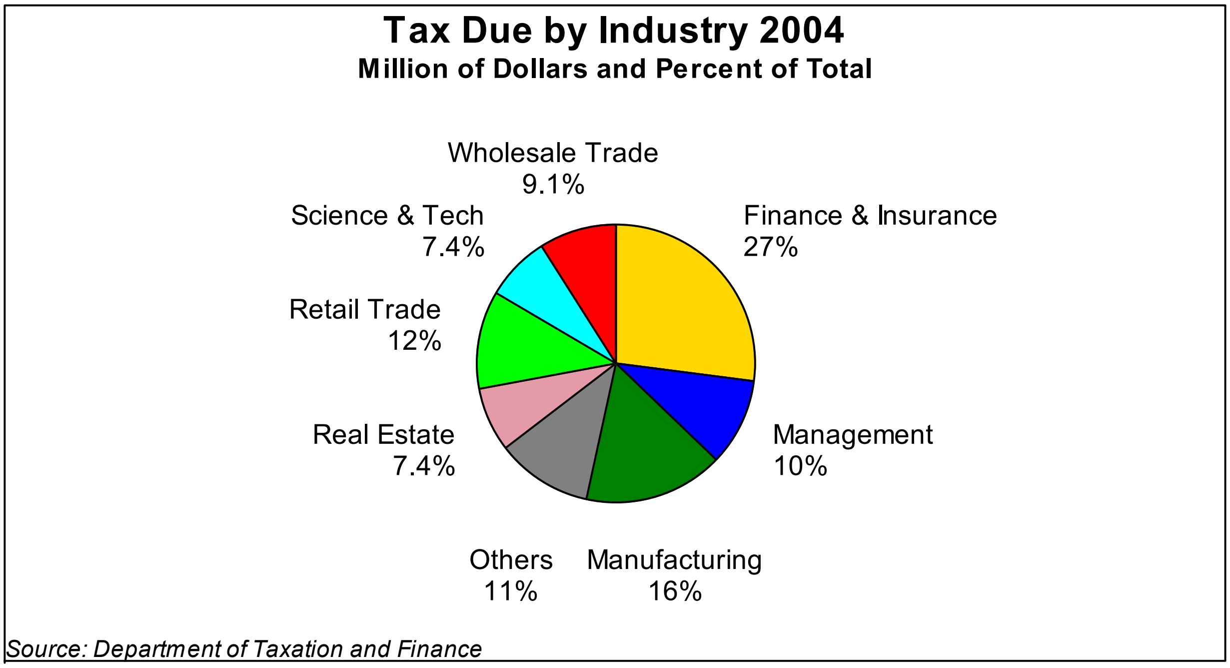


Figure 37

Recent Audit Collections

Audits have been a major contributor to increased collections in the business taxes in general, and the corporate franchise tax in particular. Audit collections totaled \$1.1 billion in SFY 2006-07 and are expected to remain strong at \$1.2 billion in SFY 2007-08. SFY 2007-08 was the third consecutive year of exceptionally high audit collections. In the 3 year period beginning in SFY 2005-06 audit collections are projected to be 196.8 percent above the ten year average over SFY 1996-2005. Over the same ten year period, audit collections as a percentage of All Funds collections averaged 14.4 percent. For SFY 2005-06 audits as a percentage of All Funds collections were 23.5 percent, 26.4 percent in 2006-07 and an estimated 28.5 percent for the current year 2007-08.

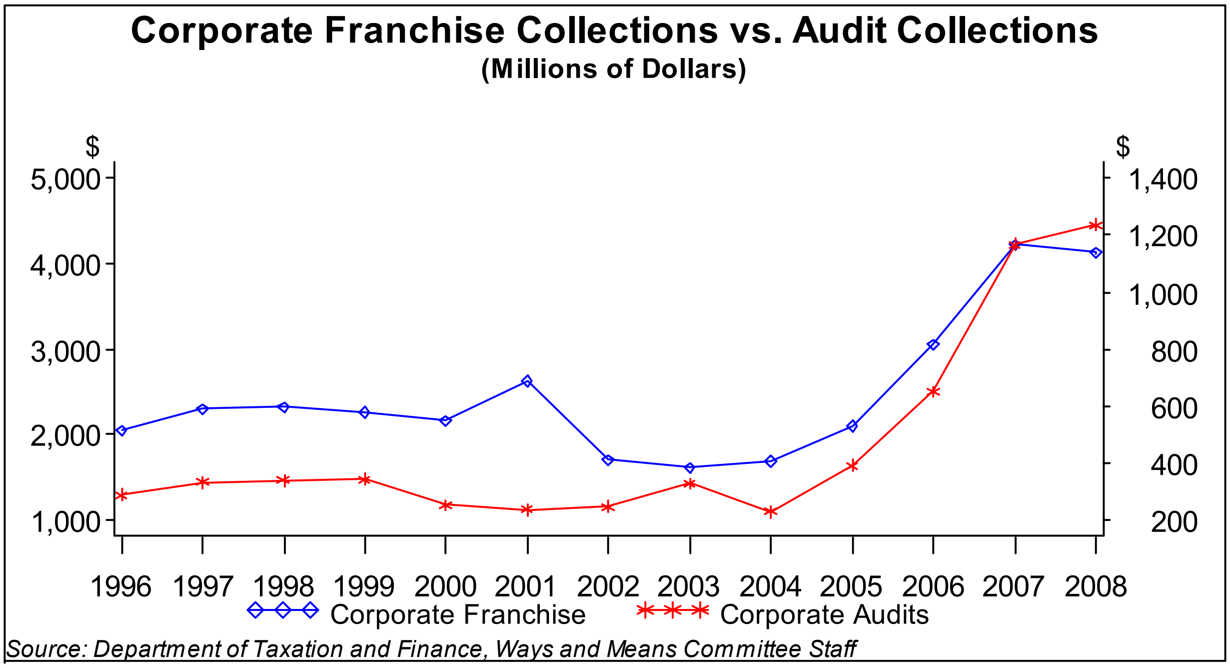
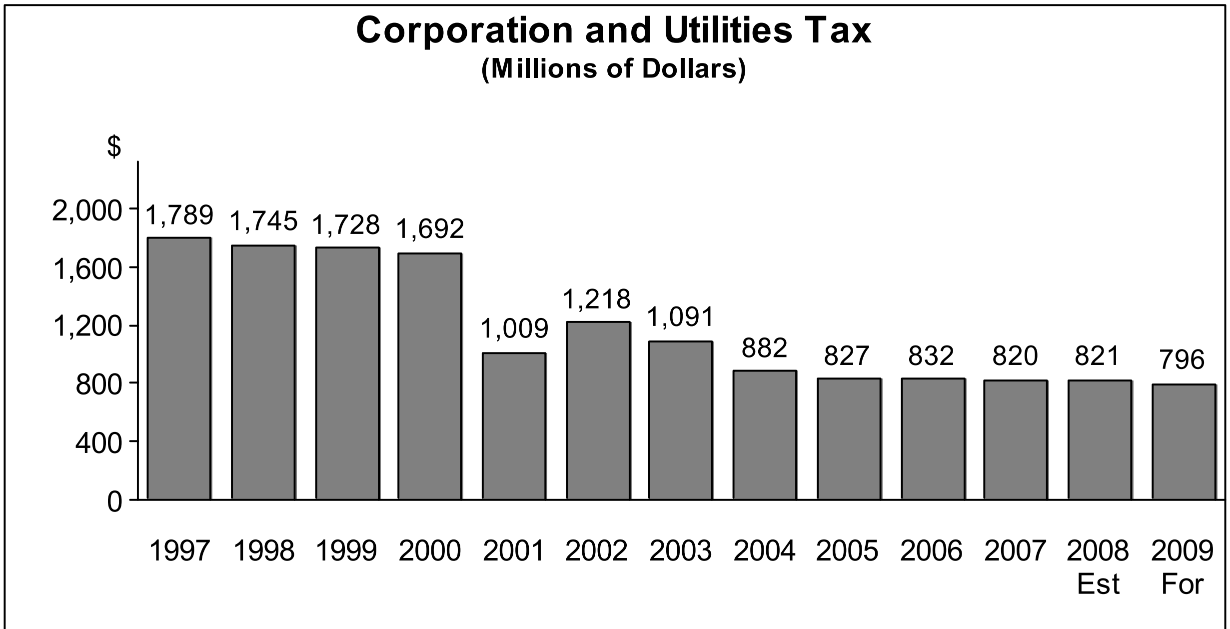

Corporate Franchise Collections vs. Audit Collections
(Millions of Dollars)
$
5,000
4,000
3,000
2,000
1,000
$
1,400
1,200
1,000
800
600
400
200
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Corporate Franchise
Corporate Audits
Source: Department of Taxation and Finance, Ways and Means Committee Staff

Figure 38

Utility Tax

Article 9 of the Tax Law imposes a gross receipts tax and fees on public utilities, telecommunications companies regulated by the Public Service Commission, transportation and transmission companies, and agricultural cooperatives.

Chapter 63 of the Laws of 2000 changed the method of taxation for certain utility companies from a gross receipts base to a net income base. Under these provisions, certain portions of the gross receipts tax were eliminated, while others were phased-down through 2005. As a result, many of the businesses that paid the utility tax now pay under the corporate franchise tax, reducing utility tax collections significantly.



Source: Comptroller's Office, Ways and Means Committee staff

Figure 39

SFY 2007-08 Estimate

Utility tax receipts decreased by $17 million or 3.0 percent through December 2007. The Committee staff estimates that utility tax receipts will total $821 million in SFY 2007-08, representing an increase of $1 million or 0.1 percent from SFY 2006-07. This estimate is $5 million higher than the Executive. An unexpected double digit increase in MTA surcharge collections related to telecom and transmissions companies is balancing the slight decline in General Fund receipts for that same sector.

The gross receipts tax on telecommunications and residential transmissions/distribution of electricity and gas (Section 186 A&E of Article 9) is the largest component of the New York State Corporation Utility Tax. Year to date General Fund collections have declined by 4.9 percent and is estimated to decline by 3.8 percent for the fiscal year. It may be reasonable to expect continued erosion of this particular component of the utility tax as the infrastructure of landline based telecom is well developed with penetration rates upward of 92 percent for most areas and demographics of the U.S. We may expect a similar trend with cellular-phones as recent industry reports boast that over 250 million Americans now subscribe to a cellular-phone service garnering a penetration rate of 82.4 percent. A well developed infrastructure along with consistent industry competition may offer consumers the benefits of economies of scale that may be often times reflected in decreasing service prices.

SFY 2008-09 Forecast

Utility tax receipts are forecast to total $796 million in SFY 2008-09, representing a decrease of $25 million or 3.0 percent over SFY 2007-08. Collections are forecast to remain stable, and the slight decrease is largely caused by $34 million in Executive proposals in the 2007-08 Budget.

Insurance Tax

Insurance taxes are authorized by Articles 33 and 33-a of the Tax Law and Articles 11 and 12 of the Insurance Law. Article 33 of the Tax Law imposes a premium tax ranging from 1.5 to 2.2 percent on certain insurance companies for the privilege of operating in a corporate form in New York State. Article 33-a imposes a tax on independently procured insurance. Articles 11 and 12 impose retaliatory taxes and a tax on excess line brokers (brokers authorized to procure insurance from out-of-state carriers not authorized to do business in New York).

The franchise tax on insurance corporations has generally changed from one based on allocated Entire Net Income (ENI) and gross allocated premiums to one based on allocated premiums. Non-life insurance companies moved to a premiums only tax, imposed at a rate of 1.75 percent on accident and health premiums and 2.0 percent on all other non-life premiums. Life insurers now pay the greater of 1.5 percent of premiums, or the old calculation of 7.1 percent on ENI plus 0.7 percent of premiums limited to a total liability of no more than 2.0 percent of premiums.

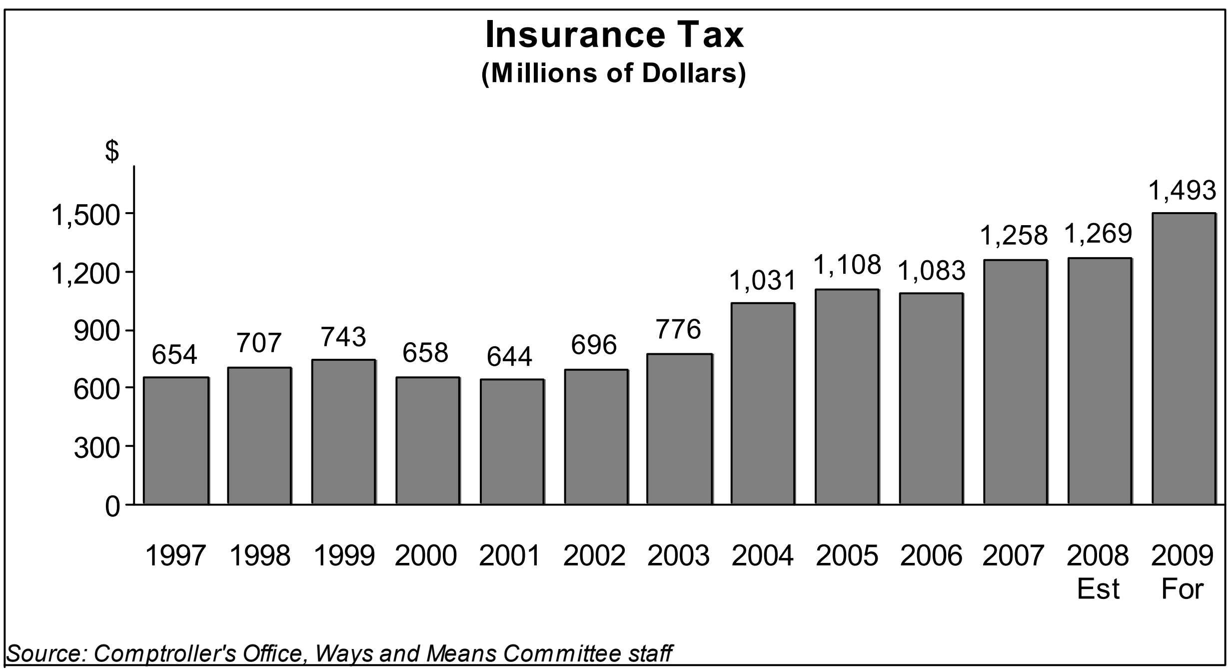


Figure 40

SFY 2007-08 Estimate

Insurance tax collections increased by $7 million or 0.9 percent through December 2007. The Committee staff estimates that insurance tax receipts will total $1.269 billion in SFY 2007-08, representing an increase of $11 million or 0.9 percent over SFY 2006-07. The Committee staff estimate is based on relatively flat premium growth in 2007 after several years of large increases. The Committee staff estimate is $23 million below the Executive.

SFY 2008-09 Forecast

Insurance tax receipts are forecast to total $1.493 billion in SFY 2008-09, representing an increase of $224 million or 17.7 percent over SFY 2007-08. This forecast takes into consideration modest growth in insurance premiums and $187 million in Executive proposals.

For the third straight year U.S. premiums growth is forecast to remain relatively flat. The 2007 estimate is no growth and a decline of 0.03 percent is expected in 2008. Despite slow growth in premiums the net income for the industry is expected to be strong as profits increase due to a strong industry combined ratio.[18]

U.S. premiums and New York premiums growth appear to carry a loose association with each other over the last twenty years. Risks are often associated with particular geographic locations and the effects of a shock to the industry may be felt at different times with varying magnitudes, (e.g. there are differing exposures and risks for companies heavily vested in the South (hurricanes) and those underwriting financial related products (sub-prime).)

[18] www.iii.org,Earlybirdforecast, Dec. 17, 2007.

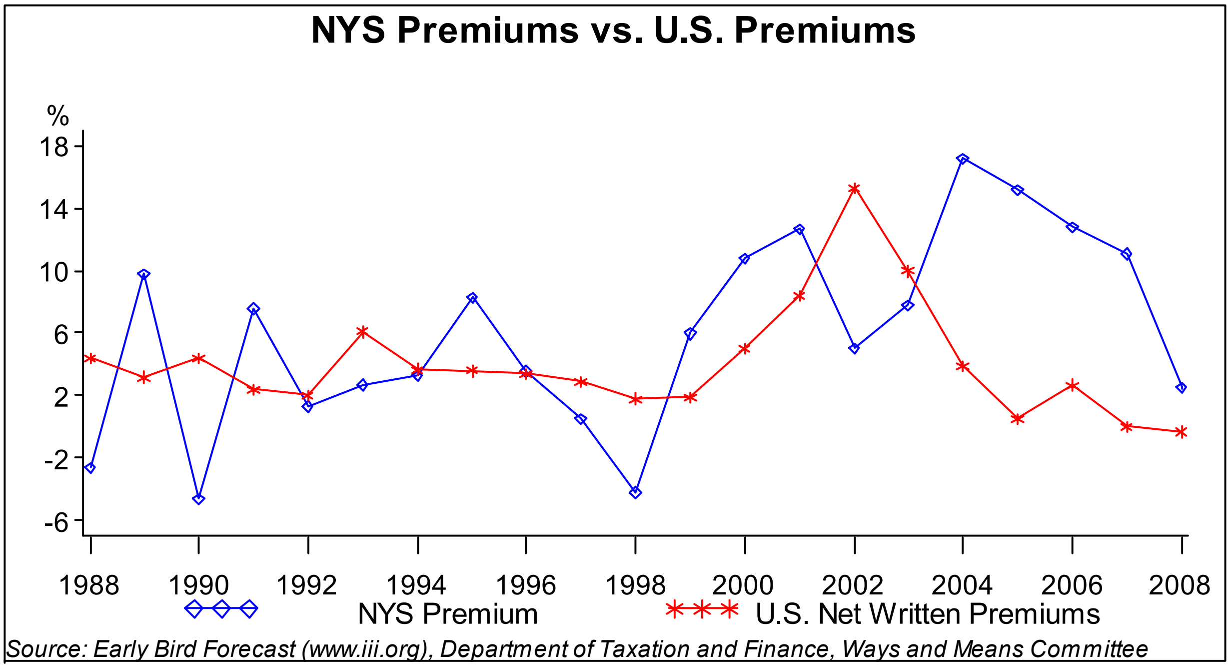

NYS Premiums vs. U.S. Premiums
%
18
14
10
6
2
-2
-6
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
NYS Premium
U.S. Net Written Premiums
Source: Early Bird Forecast (www.iii.org), Department of Taxation and Finance, Ways and Means Committee

Figure 41

Bank Tax

In general, the bank tax is imposed on all corporations performing banking business in New York. Corporations subject to the bank tax will pay the highest of the following four alternative bases:

- entire net income allocated to New York;
- alternative entire net income allocated to New York;
- taxable assets allocated to New York; or,
- a minimum of $250.

The entire net income base uses federal taxable income before the net operating loss and other special deductions. The federal base is then modified to arrive at the New York entire net income base.

The alternative minimum income base is a broader version of profits similar to the federal definition and has a lower tax rate of three percent. However, banking corporations may qualify for lower tax rates if they meet certain criteria with respect to net worth or the ratio of mortgages to total assets.

The asset base is a net worth base. In the asset base, taxable assets are computed by deducting from the average total value of assets, any money property received from the FDIC or FSLIC, and inter-bank placements (not to exceed $500 million).

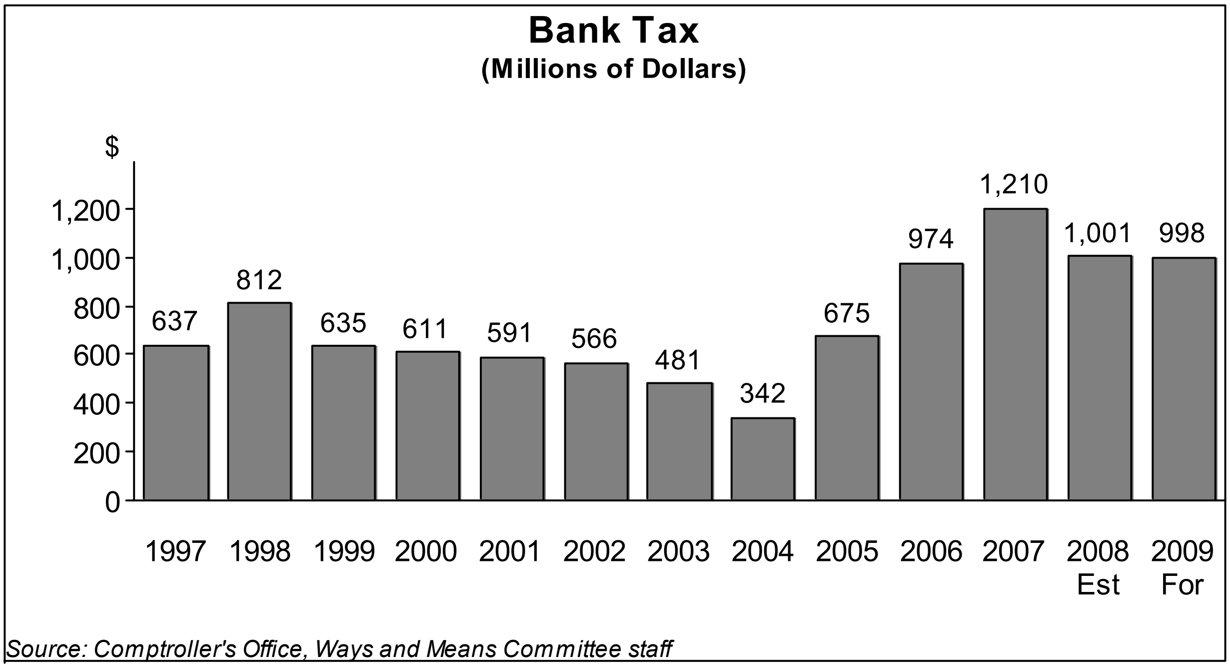


Figure 42

SFY 2007-08 Estimate

Bank tax collections have increased by $21 million or 2.7 percent through December 2007. The Committee staff estimates that bank tax receipts will total $1.001 billion in SFY 2007-08, representing a decrease of $209 million or 17.3 percent from SFY 2006-07. The Committee staff estimate is $93 million below the Executive's. The decline in collections over the final quarter of the fiscal year is due to a projected decrease in audit collections and fallout from large write-offs related to losses associated with sub-prime mortgages. Collections are expected to benefit from tax loophole closers that were included in the Enacted Budget. Provisions that closed loopholes with respect to Real Estate Investment Trust subsidiaries and certain Article 9-A subsidiaries are expected to generate $94 million in the current fiscal year. The additional revenue is partially offset by a reduction in the Bank Tax rate to 7.1 percent for taxable years occurring on or after January 1, 2007.

SFY 2008-09 Forecast

In SFY 2008-09, bank tax collections are forecast at $998 million, representing a decrease of $3 million or 0.3 percent from SFY 2007-08. The preservation of current collections largely reflects expected revenue from several 2007-08 Executive Budget proposals.

The New York State Legislature has adopted and extended the provisions of the federal Gramm-Leach-Bliley Act several times since 1999. The Gramm-Leach-Bliley Act is an act of Congress which repealed the Glass-Steagall Act thus allowing banks the ability to compete in several new lines of business mainly securities investment, commercial banking, and insurance services. Strong merger and acquisition activity in the mid-1990s to early 2000s allowed banks to instantaneously enter new territory and profit from the synergies of the expanded lines of business.

With the low interest rate environment of the last recovery and the steep increase in housing prices many mortgage lenders loosened their credit risk to give birth to the sub-prime mortgage market. This same adjustment of risk assessment carried on through to investment brokers willing to sell and buy secondary mortgage instruments or mortgage backed securities. Given the low default environment in housing during the origination of most of these mortgages financing institutions had an undue high tolerance for risk. This led to an asset that had high value allowing firms to increase their overall net worth. The more capital a firm has the more ability to increase their leverage. The same leverage necessary to fuel mergers, acquisitions, and other business operations.

As banks adjust their risk perspective with a declining economy and record setting foreclosures, the value of many of these securities will decline. Although banks are in the business of lending money and must do so to survive, the amount of loan activity has decreased as their credit standards have increased. The Committee staff believes this financial disruption will have a deleterious effect on the NYC economy leading to lower ability to increase corporate profits, especially in the critical finance sector.

The sub-prime/mortgage back securities fallout did significant damage to the balance sheets for many major banks. However, the lasting effects of this crisis may be mitigated by the banks expanding and innovative business model and new lines of business. Increasing revenues from non-traditional lines of business from international markets, transaction, and wealth management services may help the bottom line.

Petroleum Business Tax

Article 13-A of the Tax Law imposes the petroleum business tax (PBT) on every petroleum business for the privilege of engaging in business, employing capital, owning or leasing property, or maintaining an office in the state. Gasoline is subject to tax at the time it is imported, while diesel is taxable upon the first sale.

The petroleum business tax also applies to the fuel that motor carriers purchase outside New York State, but consume within the State. On each January 1st, the tax rates are indexed based on the producer price index for refined petroleum products published by the Bureau of Labor Statistics, rounded to the nearest 1/10 of one cent.

All revenues from the basic tax are earmarked to dedicated funds, namely the Dedicated Mass Transportation Trust Fund, Dedicated Highway and Bridge Trust Fund and the Mass Transportation Operating Assistance Fund. The dedication is as follows: 19.7 percent to the Mass Transportation Operating Assistance Fund[19] and 80.3 percent to the Dedicated Mass Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund.[20] The supplemental tax as well as the tax on Carriers (section 301-h of the tax law) is fully earmarked to the dedicated funds.

[19] This fund is comprised of the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.
[20] Receipts from the dedicated funds are split 37 percent and 63 percent respectively between the two funds.

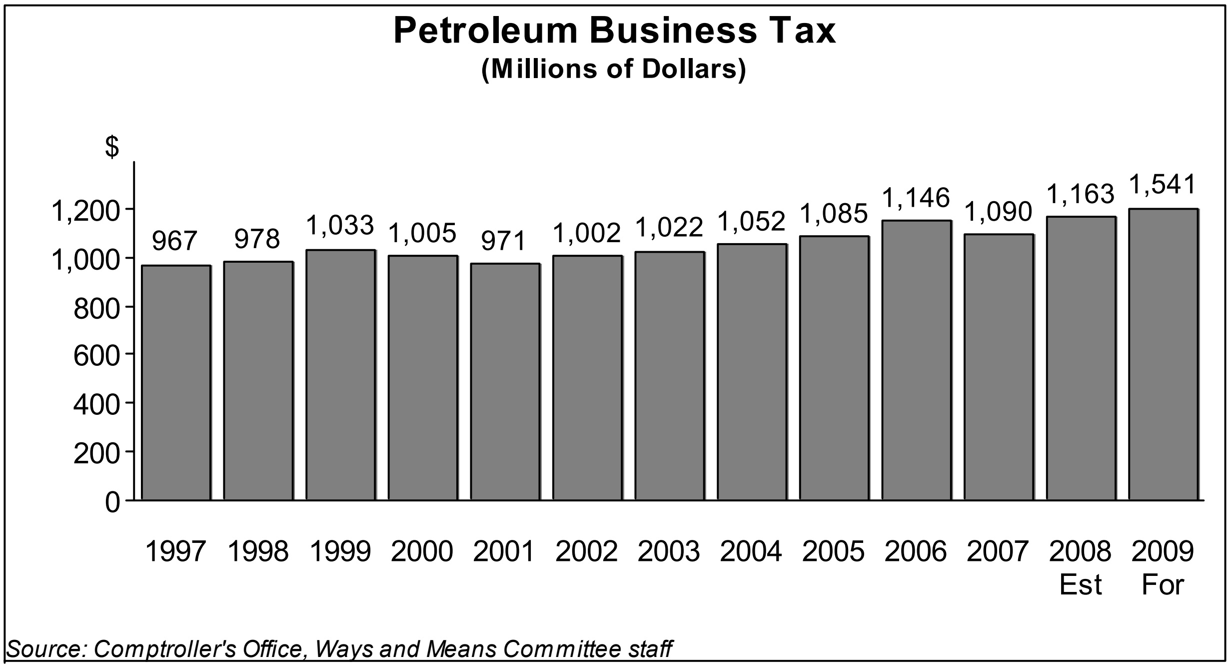


Figure 43

SFY 2007-08 Estimate

The Committee staff anticipates All Funds receipts of $1.163 billion for SFY 2007-08, representing a 6.7 percent increase from SFY 2006-07. This estimate is $25 million above the Executive's.

Through December 2007 petroleum business tax collections are $874 million, an increase of $70 million or 8.7 percent above the comparable period in the prior fiscal year.

Revenues from this tax are split between various dedicated funds. Of the total expected in SFY 2007-08, $377 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $141 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $645 million is deposited into the Dedicated Highway and Bridge Trust Funds. The petroleum business tax rates will be increased by 5 percent in January 2008 as scheduled.

SFY 2008-09 Forecast

In SFY 2008-09, All Funds receipts are forecast to total $1.541 billion, a $378 million or 32.5 percent increase from SFY 2007-08. This forecast is $5 million below the Executive's forecast.

Of the total expected in SFY 2008-09, $179 million in the General Fund, $419 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $147 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $796 million will be deposited into the Dedicated Highway and Bridge Trust Fund.

Revenue Trends

This forecast assumes that demand for gasoline and diesel will be soft. As the market for petroleum products continue to show signs of uncertainty, receipts from these taxes will continue to show little effect from higher oil prices due to the cap of 5 percent indexing of petroleum rates.

The Executive is proposing to combine all of the State's taxes on petroleum products into the PBT. This shift accounts for the majority of the increase in the tax in the upcoming fiscal year, although the indexing of the components such as the motor fuel and sales tax will increase revenue by $13 million in SFY 2008-09 and $51 million on a full year basis.

Focus on Business Tax Changes

The Executive budget contains a number of proposed business tax actions with an estimated revenue impact of $670 million in State Fiscal Year 2008-09 and $669 million in State Fiscal Year 2009-10. These proposals impact the tax planning strategies of multi-state general business corporations, banks, insurance companies, non-resident partners and personal income taxpayers.

Some tax strategies, because they adhere to the law, can be closed by changing the law. Other tax avoidance schemes are more nebulous in form and require a different response. So, the Executive budget has proposed making a permanent the tax shelter reporting provisions. These provisions target tax avoidance schemes that in many cases take the form of a valid business transaction but lack “economic substance” and encourage “voluntary compliance.” The reporting provisions bring to the attention of the Tax Department transactions that are possibly sham transactions undertaken primarily, if not exclusively, for tax-related reasons.

Particular aspects of the New York State business taxes have been altered over the past several fiscal years with hopes of closing loopholes, creating a level playing field, and encouraging economic development. In addition to targeted incentive programs in the form of tax credits there have been several legislative proposals that were aimed at creating a more friendly business environment.

Tax Planning

Over the last three decades, taxpayers, especially at the state level, have engaged in increasingly aggressive tax planning. Partially, this growth in exploitation may be tied to the rise of multi-jurisdictional corporations operating in many states and many countries which opens up a range of tax planning strategies. Another factor is the increase in the relative significance of state taxes due to the reductions in federal business taxes beginning in the Regan years. State taxes became in many cases larger than federal taxes and, since federal rates had gone down, were no longer as valuable as federal tax deductions. Whatever the reasons, state tax planning has grown exponentially in recent years with a corresponding negative effect on the State.

As Judge Learned Hand once noted, a taxpayer "may so arrange his affairs that his taxes shall be as low as possible." In fact, exploiting a tax provision requires rigorous adherence to the letter of the law. For example, last year the Legislature enacted provisions aimed at revoking the favorable tax treatment enjoyed by real estate investment trusts (REITs) that are subsidiaries of general business corporations and banks. REITs, which are essentially mutual funds investing in real estate, were created with two purposes: 1) to provide the small investor the opportunity to invest in large real estate projects and 2) to provide investment capital for real estate development. A Wall Street Journal article dated February 1, 2007, entitled “Wal-Mart Cuts Taxes By Paying Rent To Itself” details how Wal-Mart established its own REIT to own its stores and thus create state tax deductions (rental expense) for its retail subsidiaries. Wal-Mart carefully crafted the REIT to meet the statutory requirement of at least 100 shareholders by enlisting 100 Wal-Mart executives to own, without voting rights, about 1 percent of the REIT’s shares.

Combination

Modern corporations often do business in many states and many countries. In addition, for a variety of tax and non-tax reasons, they often operate, not as a single corporation with many divisions, but as holding companies with many subsidiaries. As numerous tax planning strategies become available to the multi-jurisdiction business structured as a holding company with subsidiaries. This is especially true in New York whose general business tax excludes all subsidiary income. The legal form in which a company operates should not, however, mean that its tax liabilities are less than a taxpayer operating in another form. Requiring all affiliated companies that are in substance operating as one unitary business to file a combined return is one way to level the playing field between a company operating through divisions and one operating through subsidiaries. New York has long had a rule requiring such combined filing when there was distortion of income. The 2007-08 Enacted Budget changed the law to require combined filing whenever there are substantial inter-corporate transactions between corporations with common ownership engaged in the same business.

New York State taxpayers are now required to file a combined return with other related entities engaged in a unitary business when: (1) there are substantial transactions among related companies (80 percent stock ownership) and (2) when distortion exists despite no substantial transactions. The 80 percent ownership requirement as well as the substantial intercompany transaction test, makes New York not a full unitary state such as California.

The United States Supreme Court has explicitly defined unitary and set a minimum standard under which a State may require a corporation to file a combined return when unitary relationship exists between taxpayer and other related entities. A unitary relationship is commonly attributed to entities when they have functional integration, centralized management, and economies of scale.

Substantial inter-corporate transactions are statutorily defined and further codified under Tax Department regulations. The definition includes processing business activities on behalf of related corporations, selling goods acquired from related corporations, financing sales of related corporations, transferring assets such as intangibles, account receivables, 50 percent or more of receipts are derived from related companies, and 10 percent of assets transfer among related and unitary corporations.

Executive Proposals that Alter Business Taxes

The Executive has proposed the following in the SFY 2008-09 Executive Budget

- Reduce the Tax Rate Imposed on the Capital Base Under the Corporate Franchise Tax and Eliminate the Existing Cap for Non-Manufacturers: This part would amend the corporation franchise tax, by reducing the tax rate of the capital base from 0.178 percent to 0.15 percent and would eliminate the $1 million cap for non-manufacturers.

- Subject For-profit HMO's to the Insurance Tax: This proposal would subject for-profit HMO's to the Insurance Tax. As a result, these companies would pay a tax equal to 1.75 percent of their premiums, which is equal to the rate paid by accident and health insurance companies. Under current law, HMO's are subject to the corporate franchise tax.

- Restructure the Fees Imposed on Partnerships, Limited Liability Companies (LLC), and minimum Corporate Filers: This part would change the way LLC filing fees are calculated. Currently the fees are based on the number of members within the LLC. Under this proposal, the fees would instead be based on New York source income. The fees would range from $50 for companies where their New York Source income is less than $100,000 to $2,500 for companies with income above $25 million. In addition, the proposal would expand the fee to all partnerships and would also change the fixed dollar minimum tax under the corporate franchise tax to the same schedule.

- Technical Corrections to Eliminate Remaining REIT Loopholes: This part would require all captive REITs to file a combined return with the closest corporation that directly or indirectly owns or controls them.

- Require Certain Credit Card Companies to Pay the New York Bank Tax: This part would subject credit card banking corporations that meet or exceed a certain level of business in New York State to the Bank Tax.

- Create Comprehensive Program to Encourage Voluntary Disclosure to Increase Compliance with Tax Law: The proposal is intended to improve taxpayer compliance by encouraging voluntary compliance while simultaneously increasing the civil and criminal penalties for willful violation of the tax law.

Glossary of Certain Tax Terms

- Combination: A combination filing requires that all companies with common owners in the same general business file as one universal company in order to capture the appropriate level of New York income, which conducts business through subsidiaries and affiliates.

- REIT/RIC: These are abbreviated entity names for a *Real Estate Investment Trust* and a *Regulated Investment Company* respectively. Generally, both entities are formed to make investments of particular assets, real estate for REIT and securities for RIC (e.g., mutual funds), and are generally not taxed at entity level provided that the income generated is distributed to shareholders.

- REIT/RIC favorable tax treatment: Corporate, Banks, and Insurance taxpayers in New York State are allowed a deduction of the REIT/RIC income, varying from 50, 60 and 100 percent of such income, from being subject to tax.

- Income Exporting through another entity: Income generated in New York is transferred to another entity through which the income would be paid as wages to such an individual by the entity. As a result, the income generated in New York State would not be subject to tax all together, even though the income was derived from New York State.

- Income Assignment: Income earned, instead of being subject to taxation in a current year, may be shifted to a New York corporation being subject to corporate franchise tax that imposes a favorable-lower tax rate on its investment.

- Bad debt (uncollectible funds) deduction: New York State offers a favorable tax debt deduction by permitting an additional amount of bad debt deduction based on a historical percentage of such loss.

- Formulary apportionment: To measure the income generated from New York State, New York measures such income based on a ratio of certain factors (wages, deposits and receipts) within New York over such factors everywhere. With respect to banks, the percentage at which wages represent is less fully counted in measuring the factors that the other two measures.

- Grandfathered Bank subsidiaries: Certain bank subsidiaries that have been permitted to be taxed under the corporate franchise tax in the past, instead of being taxed under the bank tax, due partially to deregulation of financial industries which were permitted to practice previously prohibited financial services.

- Corporate Reorganization: Generally speaking, corporations are permitted tax free reorganization of its corporate structures for various business reasons under the Internal Revenue Code. Acquisition, merger, sales of stocks, assets, etc. are generally permitted practice. However, such practice may be manipulated to reduce the appropriate income in New York for certain taxpayers such as bank subsidiaries discussed immediately above at a State level.

- Expenses deduction for earning Interest, dividends and gains: New York allows expense deductions incurred to generate interests, dividends, and gains for bank taxpayers.

- Decoupling deductions permitted under the Internal Revenue Code: Since New York State's starting income is the federally adjusted income, treatment on deductions permitted under the Internal Revenue Code are already deducted and subsumed in the starting New York State income. The domestic production deduction, enacted in the American Jobs Act of 2004 permitting a certain income derived from eligible activities, would reduce the taxable income for New York State significantly.

Other Taxes

Table 13

Other Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2007-08	Growth	Diff. Exec.	SFY 2008-09	Growth	Diff. Exec.
Other	**2,081**	**-0.8%**	**(56)**	**2,109**	**1.3%**	**(60)**
Estate and Gift	1,022	-3.0%	(35)	1,183	15.8%	13
Real Estate Transfer	1,035	1.3%	(21)	904	-12.7%	(71)
Pari Mutuel	23	10.5%	-	21	-8.7%	(2)
Other	1	48.9%	-	1	0.0%	-

Estate Tax

Article 26 of the Tax Law imposes a tax on the transfer of property upon death. Commonly known as the estate tax, article 26 imposes a graduated rate structure on the value of estates in excess of one million dollars. All of the receipts from this tax are deposited into the General Fund.

In 1997, legislation was enacted which phased-in a reduction of New York's Estate Tax making the tax liability equal to the Federal credit for state estate taxes paid. New York automatically conformed State law to the unified credit provisions specified in Federal Law, but capped the maximum credit at $1 million. However, the Federal "Economic Growth and Tax Relief Reconciliation Act of 2001" repealed the credit for state estate taxes over four years. [21] In order to avoid a massive loss of revenues at a time of fiscal pressure, New York amended State law such that New York's estate tax is equal to the Federal estate tax credit as it existed in 1998.

Subject to extensions, estate taxes must be filed and payments made within nine months of the decedent's death.

SFY 2007-08 Estimate

The Committee staff estimates that estate tax collections will total $1.022 billion in SFY 2007-08, which represents a decrease of $31 million or 3.0 percent from the previous fiscal year. This estimate is $35 million below the Executive's estimate. Estate tax collections have increased steadily over the past few fiscal years, as increases in the equity and real estate markets have contributed to increases in net worth and thus the taxable value of estates. After adjusting for an uncharacteristically large amount of revenues in December of 2006, the estate tax is estimated to grow slightly over SFY 2006-07.

SFY 2008-09 Forecast

Estate Tax collections are forecast to total $1.183 billion in the upcoming fiscal year, an increase of 15.8 percent. The forecast is dependent upon the settlement of a

[21] "By the time the 2001 Act was passed, every one of the 50 states and the District of Columbia had in place a state death tax that reflected, largely or entirely, the federal credit." Lee, Carolyn Joy. "The Unfortunate State Tax Side Effects of Federal Death Tax 'Repeal.'" *State Tax Notes.* December 17, 2001. P. 935 – P. 949.

number of large estates. The Committee staff forecast is $13 million above the Executive's forecast.

Revenue Trends

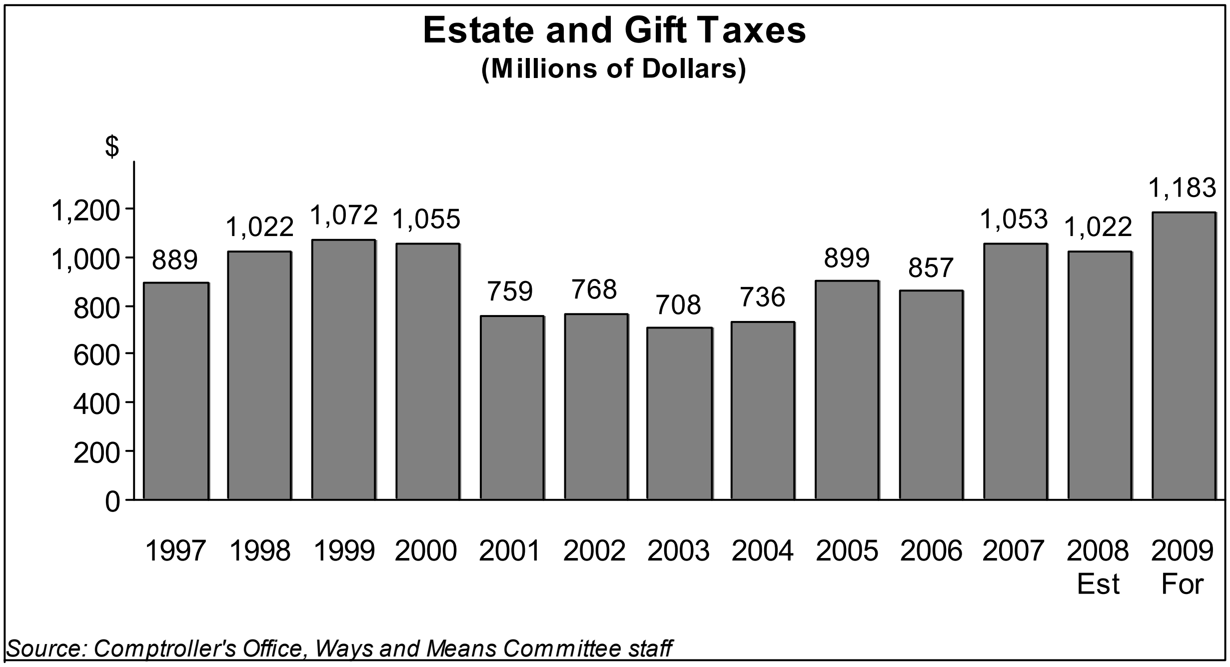


Figure 44

Generally, revenues attributable to the Estate tax are dependent upon the given number of taxable estates and the size of those estates in a given year. Therefore, revenues cannot be expected to increase or decrease based directly on economic fluctuations. However, estates, like other forms of wealth, are somewhat dependent on the general health of the economy. When the first one million dollars of an estate become exempt from taxation on February 1, 2000, estate tax collections fell off considerably. However, since that time, estate tax collections have generally seen an upward trend – continuing the previous pattern.

Real Estate Transfer Tax

Article 31 of the New York State Tax Law levies a 0.4 percent tax on real property transfers in excess of $500. The tax also applies to transfers of economic interests such as shares in cooperatively owned apartments. An additional tax of one percent, referred to as the 'mansion tax', is levied on the transfer of one, two or three family residences over one million dollars. Typically, the party conveying the property (grantor) is liable for the 0.4 percent tax and the party purchasing the property (grantee) is liable for the additional one percent mansion tax, when applicable. The tax is collected at the local level and sent to the State, with a lag of a few months or more.

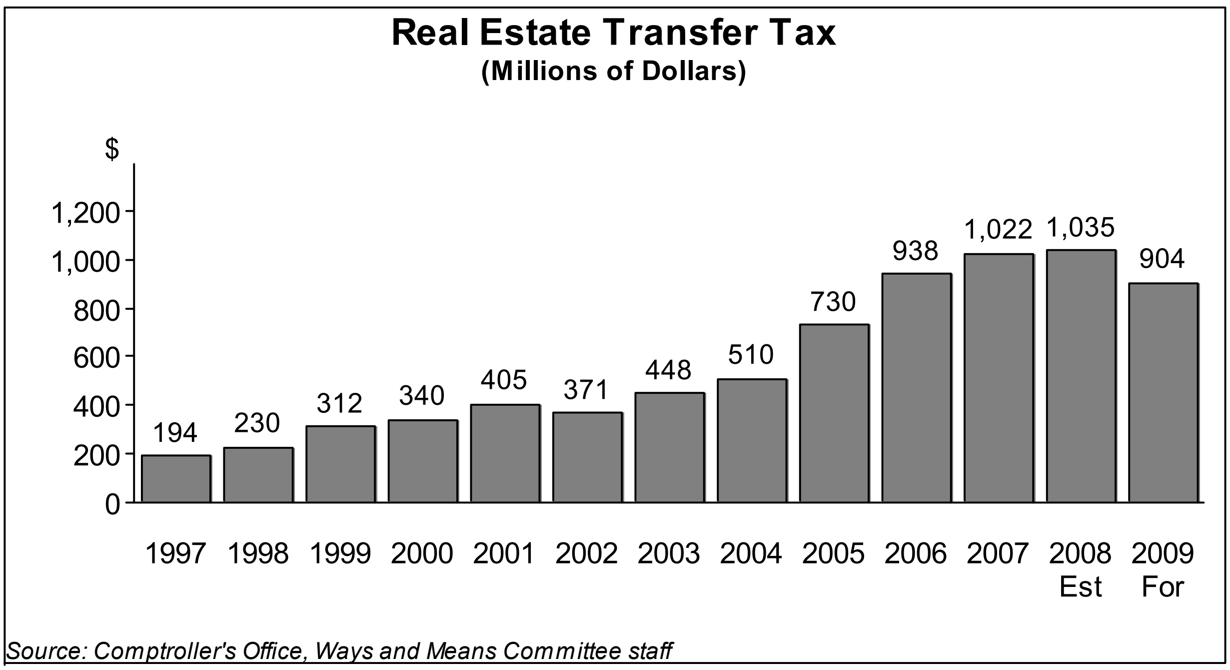


Figure 45

SFY 2007-08 Estimate

Based on year-to-date collections, historical collection patterns and present economic forecasts, the Committee staff forecasts that RETT receipts will total $1.035 billion in SFY 2007-08, representing a 1.3 percent increase from SFY 2006-07. The Executive estimates that RETT revenues in SFY 2007-08 will total $1.056 billion, a increase of 3.3 percent or $34 million from SFY 2006-07. Included in the SFY 2007-08 Budget, $212 million from RETT revenues will be deposited into the Environmental Protection Fund (EPF). Based on Committee staff estimates, approximately $823 million will then be available to pay debt service on the Clean Water Bond Act – of which

$127 million will be used. Approximately $696 million will then be transferred to the General Fund.

Through January, total RETT receipts are up five percent compared to last year. Through November, receipts are up 12.7 percent in New York City, which made up 59 percent of total RETT receipts in SFY 2006-07. According to the New York City Office of Management and Budget, the increase in RETT receipts within NYC is attributable to a considerable rise in commercial activity offset by a mild slowdown in the residential sector.[22] It is likely that the upshot in the commercial sector is the result of a lack of new commercial building during the residential upswing of recent years.[23]

Table 14

Regional Growth Rates of Real Transfer Tax		
Region	YTD Growth Change From November 2006	2007-08 YTD Percentage Share
NYC	12.7%	58.9%
Long Island	13.6%	14.2%
Mid-Hudson	-12.8%	9.4%
Capital Region	-2.8%	2.1%
Mohawk Valley	12.5%	0.4%
North Country	4.6%	0.5%
Western NY	8.0%	1.4%
Southern Tier	-3.7%	0.7%
Central NY	7.8%	1.0%
Finger Lakes	7.6%	1.5%
Unclassified	32.2%	9.8%

Throughout most of the State, receipts have experienced moderate growth. However, collections in the Mid-Hudson and Southern Tier are down compared to the same time last year. Confirmed by RETT year-to-date collections, the Federal Reserve Board reported that the housing markets in Upstate and Western New York have weakened while the market has remained strong in New York City.

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[22] Through September, receipts are up 30.4 percent in Manhattan and up 8.0 percent in Brooklyn. Receipts are down 13.5 percent in Staten Island and down 13.3 percent in Queens, while receipts were down 3.2 percent in the Bronx. Manhattan made up 71 percent of NYC RETT receipts in SFY 2006-07, while Brooklyn and Queens yielded approximately 12 percent of receipts each and The Bronx and Staten Island contributed less than five percent each.
[23] NYC Office of Management and Budget, “Monthly Report of Current Economic Conditions” October 10, 2007.

SFY 2008-09 Forecast

In light of an anticipated slowing in the real estate market, the Committee staff estimates that RETT receipts in SFY 2008-09 will be approximately $904 million, representing a decrease of $131 million or 12.7 percent from the SFY 2007-08 closeout. According to Moody's, total real estate loans in SFY 2008-09 will continue to increase, but at a slower pace than previous years. Likewise, real estate loans increased 13.3 percent in SFY 2006-07 and are forecast to grow 8.2 percent in SFY 2007-08 and 8.1 percent in 2008-09. Another factor which should contribute to a soft landing for the real estate market is the New York commercial rental vacancy rate. When the rental vacancy rate is lower, commercial space is in higher demand and commercial building and sales increase. According to Committee staff estimates, housing starts decreased by 17.3 percent in SFY 2007-08 and will decrease by an additional 9.6 percent in SFY 2008-09. Because of the delay between starts, sales and conveyance of revenues from localities to the state, the decrease in housing starts can be expected to result in a decrease in RETT revenues in SFY 2008-09.

Revenue Trends

Real Estate Transfer Tax (RETT) receipts are a function of the number of real estate transactions and the dollar amount of each sale. In the last ten years, RETT receipts have grown fourfold (426 percent) from $194 million in SFY 1996-97 to $1.022 billion in SFY 2006-07. Had receipts merely increased by the rate of inflation they would have increased by 24 percent during the same period. The bulk of this growth took place during SFY 2004-05 and SFY 2005-06, when receipts grew by more than $200 million each year. This drastic increase in RETT receipts is attributable to a surging real estate market in New York State, especially in New York City and the surrounding suburbs. The surging real estate market in and around New York City put many properties above the million dollar mark – subjecting many properties to the additional 'mansion tax.' Over the same period that total RETT receipts grew by $828 million, the share of RETT revenues attributable to the 'mansion tax' grew from 10 percent to 24 percent.

New York's Real Estate Market

It is often said that there is no national real estate market, only a series of local markets. This is no more evident than when looking at the real estate markets throughout New York State. More specifically, the New York City real estate market remained strong throughout 2007 – buoyed by an extremely strong commercial sector.

In contrast to New York City, many upstate housing markets experienced sizeable increases in their housing inventory. Nationwide, the homeowner vacancy rate increased every quarter between the second quarter of 2005 through the first quarter of 2007, increasing from 1.8 percent to 2.8 percent. In the second and third quarters of 2007, the homeowner vacancy rate has decreased slightly. However, the vacancy rate in the Northeast has remained the lowest in the Nation – at only two percent in the third quarter of 2007, up from 1.7 percent in the third quarter of 2006.[24]

After ranging between 5.7 and 6.6 percent between 2005 and 2007, the Ways and Means staff forecasts that mortgage rates will remain below 6.2 percent through SFY 2008-09.

New York City – Metro Market

According to the Federal Reserve Board, New York City's residential market has remained strong.[25] Meanwhile, Prudential Douglas Elliman, claims in the fourth quarter of 2007 the inventory of co-ops and condo's in Manhattan were instep with inventory from the same quarter in 2006, however the median market prices were up by 6.4 percent, which was primarily driven by increases in the luxury market. In Long Island and Queens, the inventory of available properties continues to grow; 4th quarter inventory was up 12.4 percent from the same quarter in 2006.[26] The continued growth in inventory has resulted in a dip in the median market value, declining by 3.2 percent from the same quarter in 2006.

In addition, the Federal Reserve Board reported strength in the commercial real estate markets throughout the New York City metro area. So while the real estate market may have slowed in New York, it is showing signs of continued health, in stark contrast to rest of the nation.

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[24] United State Department of Commerce, "Census Bureau Reports Residential Vacancies and Homeownership." October 26, 2007.

[25] The Federal Reserve Board, "The Beige Book: Second District—New York." September 5, 2007.

Prudential Douglas Elliman Real Estate, prepared by Miller Samuel Inc. "Manhattan Market Overview: A Quarterly Survey of Manhattan Co-op and Condo Sales 4Q 07." www.prudentialelliman.com.

[26] Prudential Douglas Elliman Real Estate, prepared by Miller Samuel Inc. "Long Island/Queens Market Overview: A Quarterly Survey of Long Island Queens Sales Co-op and Condo Sales 4Q 07", www.prudentialelliman.com.

Looking Ahead

A major real estate market indicator, New York single-family home permits continued their downward trend through the third quarter of 2007, decreasing by 13.5 percent from the same quarter in the prior year; while multi-family home permits declined by only one percent compared to the same quarter in 2006.[27] These changes in the real estate market should not have an immediate impact on RETT receipts in SFY 2007-08 because of the lag between authorization to build, sale of a completed home, collection of the tax at the local level and the transfer of such funds to the State. The same cannot be said for SFY 2008-09.

New York City RETT receipts – which accounts for over half of the revenue generated – are expected to decline by 29.1 percent during 2008.[28] This combined with the fact that the Northeast is suffering from a sales housing slump; the Nation is seeing the first decline in median price home sale prices in at least four decades; along with tighter lending standards, and higher unemployment rates will undoubtedly have a significant negative impact on RETT receipts in 2008.[29] In fact, some economists are predicting that the housing market will continue its downward spiral until at least the summer and even then the up-turn will be sluggish at best which may continue to have a negative impact on the RETT receipts for 2009 and beyond.

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[27] Federal Deposit Insurance Corporation, "FDIC State Profiles: New York State Profile –Third Quarter 2007." http://www.fdic.gov/bank/analytical/stateprofile/NewYork/NY/NY.xml.html.

[28] New York City Independent Budget Office "Tax Revenues Slip, Labor Costs Rise: City's Fiscal Outlook Dims", Fiscal Outlook January 2008

[29] Michael M. Grynbaum, "Home Prices Sank in 2007, and Buyers Hid", nytimes.com, Jan. 25, 2008

Pari-Mutuel

The Racing, Pari-mutuel Wagering and Breeding Law imposes a pari-mutuel tax on bets placed at racetracks, simulcast theaters and Off-Track Betting (OTB) facilities. For-profit and not-for-profit racing associations, as well as OTB Corporations, are taxed a percentage of their total betting pools for the privilege of conducting pari-mutuel wagering. All of the receipts are deposited in the General Fund.

The tax is paid on the last business day of each month for the period from the 16th day of the preceding month through the 15th day of the current month. Payments required to be made on March 31 must include all taxes due and accruing through the last full week of racing in March.

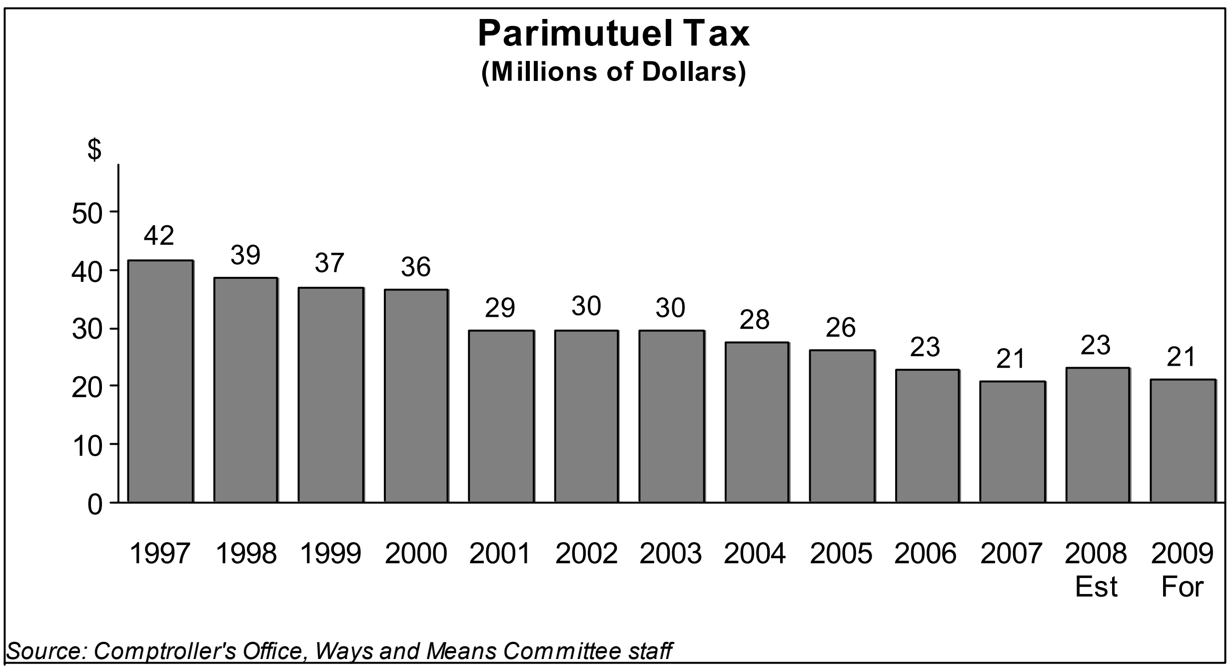


Figure 46

SFY 2007-08 Estimate

The Committee staff estimates that receipts will total $23 million in SFY 2007-08, a growth of 6 percent or $1.2 million compared to SFY 2006-07. This estimate is the same as the Executive's budget.

SFY 2008-09 Forecast

The Committee staff forecast for SFY 2008-09 is $21 million, representing a decline of $2 million from SFY 2007-08. This estimate is $2 million less than the Executive's.

Revenue Trends

As horseracing has become less popular and the industry has benefited from various tax cuts, pari-mutuel receipts have steadily decreased over the last 20 years. Contributing to the decrease in revenues, the relative share of bets from Off-Track Betting (OTB) sites has increased compared to on-track bets. Since OTB's benefit from lower tax rates, pari mutual tax revenues decrease.

Lottery

The New York State Lottery was established via a Constitutional Amendment in 1976 for the express purpose of raising revenues for education. The Lottery is currently comprised of Instant Games, Daily Numbers, Win 4, Pick 10, Take 5, Quick Draw, Lotto, Mega Millions, Instant Win and Video Lottery Terminals (VLTs). The Lottery's games are sold by approximately 16,000 licensed retailers throughout the State. A percentage of sales from each game are dedicated to fund education. Most games dedicate between 15 and 45 percent of sales to education, VLTs dedicate approximately 4 percent of net sales to education. Like the education dedications, the percentage of sales dedicated to prizes also vary considerably – from 40 percent of Lotto sales to 92 percent of VLT sales. Exempting VLTs, 15 percent of Lottery sales are placed into a special revenue account to cover the administrative expenses of the Lottery Division. Depending on individual facility revenues, between 3 and 4 percent of Video Lottery Terminal sales are used for administrative expenses, which include commissions paid to the host facility, marketing allowances and other distributions designed to assist the ailing horse racing industry. For each game, administrative allowances, prizes and the education dedication account for the entirety of sales.

The Division's administrative expenses are appropriated by the Legislature each year as part of the State Operating Budget, but are funded completely with revenues from Lottery sales. When the administrative allowance set aside from sales exceeds the administrative costs of the Division, the remaining funds are transferred to the general Lottery account and dedicated to education. The Lottery Aid Guarantee – which is the amount of revenue that will be dedicated to education from lottery sales - is established in the State Budget and is based on expected revenues. If revenues fall short of the Lottery Aid Guarantee, General Fund revenues compensate for the shortfall. However, when revenues exceed the Lottery Aid Guarantee, the excess revenues are applied to the following fiscal year – termed a carry-out.

According to the International Gaming and Wagering Business Journal, New York has led the nation in traditional Lottery sales for the last four years. According to the Journal, New York accounted for nearly 12 percent of national lottery sales between SFY 2003-04 and SFY 2007-08.

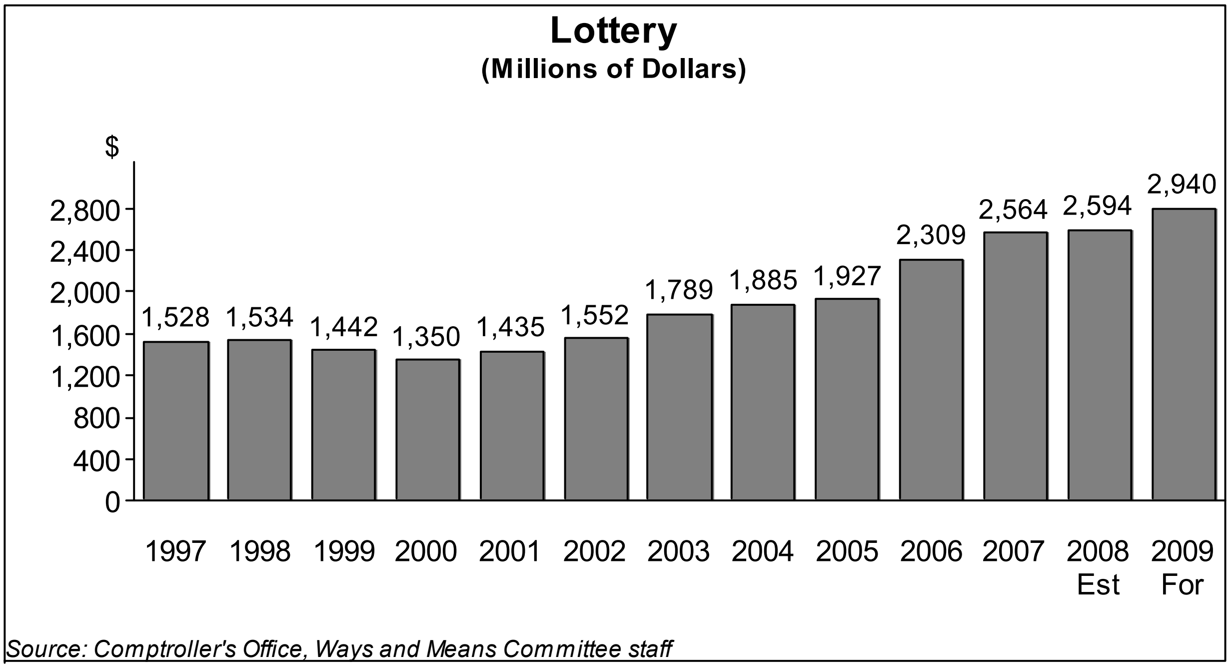


Figure 47

SFY 2007-08 Estimate

The Ways and Means Committee staff expects SFY 2007-08 Lottery revenues will total $2.594 billion, which includes $398 million in administrative surplus and $474 million from VLTs. The estimate is approximately $2 million more than the Executive estimate. The majority of growth is from VLT revenues.

As of February 16, 2008, non-VLT year to date revenues have increased by $20 million or 1.3 percent. This increase can be attributed to a 15.9 percent or $19.8 million increase in Mega Millions revenues. Part of the increase in Mega Millions revenues is directly attributable to a lower than normal frequency of large jackpots last year. Daily Numbers, Win-4, and Pick 10 have experienced slightly positive growth. Year-to-date, Lotto, Take Five and Instant Win revenues have decreased slightly, while Quick Draw has remained flat.

SFY 2008-09 Forecast

The Committee staff forecasts that SFY 2008-09 Lottery revenues will total $2.940 billion, representing an increase of $346 million or 13.3 percent over the Committee’s estimate for SFY 2007-08. The SFY 2008-09 forecast includes approximately $759 million in VLT revenues and an administrative surplus of $398 million. The Committee forecast is $23 million below the Executive.

In addition to the projected $509 million in VLT receipts for education in 2008-09, the Executive has proposed an additional $250 million in receipts from the sale of VLT development rights at Belmont Park. Accordingly, this would bring the total Lottery receipts up to $2.940 million for the SFY 2008-09.

Furthermore, the Executive has proposed monetizing the revenue stream from on going Lottery operations, with the goal of creating a $4 billion endowment for higher education. The details of such a transaction have yet to be developed and consequently its impact on future Lottery revenues is undetermined at this time.

Revenue Trends

Lottery revenues have generally risen over the last decade. Driven by large gains in instant game sales, which more than doubled since SFY 1997-98, Lottery receipts have grown from $1.534 billion in SFY 1997-98 to $2.309 billion in SFY 2006-07. Beginning in SFY 2004-05, Lottery revenues have substantially benefited from the introduction of Video Lottery Terminals (VLTs). VLTs produced $269.7 million in SFY 2006-07 and are estimated to yield $475 million in SFY 2007-08, accounting for 12 percent and 18 percent of lottery revenues, respectively.

Table 15

Lottery Revenues (Dollar Amounts in Millions)									
	2006-07 Actuals	WAM 2007-08	Change	Exec. 2007-08	Diff.	WAM 2008-09	Change	Exec. 2008-09	Diff.
Lotto Total	$96	$96	$0	$95	$1	$84	($12)	$89	($5)
Numbers	$297	$295	($2)	$299	($4)	$304	$9	$312	($8)
Win-4	$244	$248	$4	$248	$0	$260	$12	$262	($2)
Quick Draw	$111	$109	($2)	$109	$0	$142	$33	$136	$6
Pick10	$11	$11	($0)	$11	$0	$11	$0	$11	$0
Take 5	$114	$110	($4)	$109	$1	$106	($4)	$110	($4)
Mega	$161	$163	$2	$152	$11	$165	$2	$150	$15
Instant Win	$4	$4	$0	$4	$0	$3	($1)	$4	($1)
Instant	$664	$678	$14	$676	$2	$704	$26	$719	($15)
Other	$12	$8	($4)	$12	($4)	$13	$5	$13	$0
Non-VLT Total	**$1,714**	**$1,722**	$8	**$1,715**	**$7**	**$1,792**	**$70**	**$1,806**	($14)
Admin. Surplus	$327	$398	$71	$402	($4)	$389	($9)	$393	($4)
Non-SBE Total	$2,041	$2,120	$79	$2,117	$3	$2,181	$61	$2,199	($18)
VLT'S	$270	$474	$204	$475	($1)	$759	$285	$764	($5)
Total	**$2,311**	**$2,594**	**$283**	**$2,592**	**$2**	**$2,940**	**$346**	**$2,963**	**($23)**

2008-09 forecast includes adjustment for proposed legislation by the Executive (see 2008 Budget Bill A. 9810)

Video Lottery Terminals

Legislation enacted in 2001 authorized the Lottery Division to license the operation of video lottery gaming at Aqueduct, Monticello, Yonkers, Finger Lakes and Vernon Downs horse tracks. The legislation also allowed additional horse tracks to become VLT facilities pursuant to local authorization and Division of Lottery approval. The other tracks that have been authorized so far are Saratoga Raceway, Batavia Vernon Downs, Buffalo Fairgrounds and Tioga Downs. The authorizing legislation requires that VLTs pay at least 90 percent of wagers as prizes.

In 2002 and 2003, several legislative enhancements were made to address concerns raised by tracks regarding revenue distribution. However, these changes were found to be inadequate, prompting the Legislature to make additional changes in the SFY 2005-06 Budget and again in early 2008. Therefore, in order to promote the operation of VLTs and increase funding for education, it was necessary to make operating VLTs more lucrative for vendors. Legislation was passed to provide a marketing allowance and give vendors a larger share of net revenues, providing VLT operators with more incentive to begin operating VLTs. While the education dedication decreased as a result of these changes, the increase in sales is expected to produce a net increase in revenues for education. Starting in SFY 2008 the revenue distribution for VLTs will be as follows:

Table 16

Previous VLT Distribution (Dollar Amounts in Millions)				
Distribution Category	$0-50	$50-100	$100-150	$150+
Vendor	32%	29%	29%	26%
Education	50%	53%	56%	59%
Marketing	8%	8%	5%	5%
Administration	10%	10%	10%	10%

As of April 2008								
	Saratoga	Finger Lakes	Buffalo	Monticello	Batavia	Tioga	Yonkers	Vernon Downs
Vendor Fee	32%	32%	42%	42%	**36%	**40%	34%	42%
Education	46%	46%	34%	40%	40%	36%	42%	34%
Capital	*4%	*4%	4%	None	*4%	*4%	*4%	4%
Marketing	8%	8%	10%	8%	10%	10%	10%	10%
Administration	10%	10%	10%	10%	10%	10%	10%	10%

*Yonkers, Saratoga, Finger Lakes, Tioga, Batavia - CAPITAL MAX'S OUT AT $2.5 million

**Batavia and Tioga on sliding scale: Batavia 36%, 29%, 26% and Tioga 40%, 29%, 26% (see prior year distribution category for deta

The previous VLT distribution provided between 50 to 59 percent of revenues to education and 10 percent of revenues to administration. The remaining revenue was split among the track, purses for races at that track and the breeder's fund for horses from that track. As detailed in the above table, starting in 2008 most VLT vendors will receive a flat proceed rate as well as additional marketing and capital funding. The new distribution does not change the VLT vendor's autonomy to negotiate the revenue split related to purses and breeders. Each track is responsible for negotiating agreements with the relevant entities.

In the 2008 enacted legislation, all but Batavia and Tioga will have a flat vendor fee (see above table notation), prior to 2008 enacted legislation, as profits increased at a VLT facility, the distribution of proceeds were adjusted to provide greater distribution of funds to education.

Although, the prior distribution schedule did provide for marketing, the new distribution package provides for greater marketing as well as capital expenditures. The goal of the new distribution package is to provide VLT facility vendors with the necessary funding to enhance the facilities as well as provide additional promotional monies to encourage people to come to their facilities to enjoy VLTs, revitalize interest in equestrian sports as well as promote other activities such as dining, shopping and in some instances concerts.

Once touted as a quick source of needed revenue and economic stimuli after the September 11th attacks, it took considerably longer than anticipated for tracks to begin operating VLTs. However, VLT facilities finally began to produce substantial revenues in the second half of SFY 2006-07. After yielding only $153 million in SFY 2004-05 and $160 million in SFY 2005-06, revenues reached $270 million in SFY 2006-07. Highlighted by the opening of Yonkers in October with 1,870 VLTs, the Video Lottery Terminal program is finally starting to produce revenues. The Committee staff estimates that VLT revenues in SFY 2007-08 will total $474 million.

Table 17

Video Lottery Terminals (Dollar Amounts in Millions)			
Racino	SFY 2007-08 WAM Education Revenue Estimated	SFY 2008-09 WAM Education Revenue Forecast	SFY 2008-09 Anticipated Growth
Saratoga	$69	$71	2.90%
Finger Lakes	$49	$50	2.04%
Buffalo	$23	$24	4.35%
Monticello	$33	$33	0.00%
Batavia	$15	$15	0.00%
Tioga Downs	$21	$22	4.76%
Yonkers	$247	$276	11.74%
Vernon Downs	$17	$18	5.88%
Aqueduct	$0	$0	0.00%
TOTAL	**$474**	**$509**	**7.4%**

**Tioga became full year facility as of July 2006 / Yonkers and Vernon Downs as of Oct. 2006*

Saratoga Racing and Gaming was the first VLT facility in the state, opening in January of 2004 with 1,370 terminals. Due to its initial success, another 400 VLTs were added during SFY 2006-07. Finger Lakes and Buffalo began operating VLTs a few weeks after Saratoga. Based on their success, Finger Lakes added 190 more machines in SFY 2006-07 as well. Monticello Raceway began operation in the summer of 2004 and Batavia began operation in May of 2005, however neither facility has produced the revenues once expected. Tioga Downs opened in July of 2006 and Yonkers and Vernon Downs both opened in October of 2006. Since opening, Yonkers has expanded from less than 2,000 machines to almost 5,500. It is the largest VLT facility in the State yielding approximately half of VLT revenues in SFY 2007-08. In SFY 2008-09, the Committee staff forecasts VLT revenues of $509 million, representing a 7.4 percent growth over the prior year. The anticipated growth at Yonkers is largely based on new marketing strategies that are being implemented.

Looking Back and Ahead

Lotto

The New York Lottery was established as the result of a voter referendum in 1966 and game sales commenced in June 1967. The Division of the Lottery currently operates as an independent unit of the Department of Taxation and Finance to administer the Lottery and operates within the provision of the New York State Lottery for Education Law (Tax Law, Article 34). The sole purpose of the Lottery is to raise revenue for education in the State of New York through the sale of tickets for Lottery games.

The New York Lottery continues to be one of the most successful lotteries in the world. Yet, the overall growth in non-VLT lottery receipts in SFY 2007-08 are expected to remain flat or slightly lower than SFY 2006-07.

In SFY 2008-09 the Lottery has plans to address the lack luster sales of lottery by introducing new products, enhancing technology, and revamping their marketing strategies. With these new initiatives, the Executive anticipates a non-VLT Lottery receipt growth of six percent over the SFY 2007-08, with receipts growing from $1.699 billion in SFY 2007-08 to $1.801 billion in SFY 2008-09. The Lottery anticipates that the new advertising and marketing strategy will have a direct and positive correlation with the Executive's proposal (see Budget Bill A. 9807, part E) to monetize the Lottery.

The Executive's budget revenue stimuli package for non-VLT lottery proceeds focuses on Quick Draw. There are approximately 3,400 businesses that currently participate in the Quick Draw network. However, the Lottery Division claims that the Quick Draw market is relatively untapped especially in the downstate area where approximately seven percent of the population play Quick Draw compared to thirteen percent elsewhere in the State. The Executive's Budget proposes that Quick Draw receipts would increase 25 percent over SFY 2007-08 if legislation (see Budget Bill A. 9810, part A) were enacted authorizing the permanency of Quick Draw as well as the removal of other operating restrictions imposed on retail outlets (e.g. limited hours of operation and 2,500 square footage requirements) provided such action is implemented in combination with Lottery's planned 2008-09 restructuring of marketing, advertising, and promotional incentives.

VLTs

In the future, VLT revenues will be affected by recent events in Pennsylvania, where 62,000 VLTs were approved to be placed at racetracks around the State. Many of these facilities are located within driving distance of New York City, and can be expected to compete for New York's VLT players. The first of such facilities opened on November 14, 2006 at Pocono Downs near Wilkes-Barre with 1,083 machines. In December 2006, the Pennsylvania Gaming Control Board approved gaming at additional facilities – for a total authorization of 11 gaming sites. Six of these sites have opened and by all accounts have been well received. Additional competition can be expected from Native-American casinos in the Catskills and the proliferation of online gambling. Likewise, Governor Deval Patrick of Massachusetts recently proposed authorization for three casinos in the Bay State. If authorized, these casinos would provide additional competition for New York's VLTs.

Even with competition by surrounding states, the growth rate for all VLT receipts, except Yonkers, are anticipated to increase by three percent in SFY 2008-09. Yonkers is expected to increase receipts by 12 percent in SFY 2008-09. This is significant as Yonkers accounts for approximately 52 percent of revenue generated for education by VLTs. The anticipated growth of VLT receipts is largely based on renewed marketing strategies as well as increased public awareness that Yonkers, Tioga and Vernon Downs are now year-round destinations. Growth at the Yonker's raceway is expected to be somewhat higher than the others because of its close proximity to New York City and other densely populated areas. Growth in VLT revenue is expected to increase substantially, beginning in the second half of SFY 2009-10 when the facilities at Aqueduct Raceway are expected to open.

Miscellaneous Receipts

Miscellaneous Receipts – General Fund

General Fund miscellaneous receipts consists of income derived annually from abandoned property, investment earnings, fees, licenses, fines, surcharges, patient income, and reimbursement income. In addition, miscellaneous receipts typically include certain non-recurring revenue actions.

General Fund miscellaneous receipts are expected to total $2.2 billion in SFY 2008-09, $248 million or 9.9 percent lower than SFY 2007-08, a result of a $124 million decrease in license and fee collections, $12 million decrease in reimbursement, $53 million decrease in other transactions, a $25 million decrease from investment income and $34 million decrease in abandoned property.

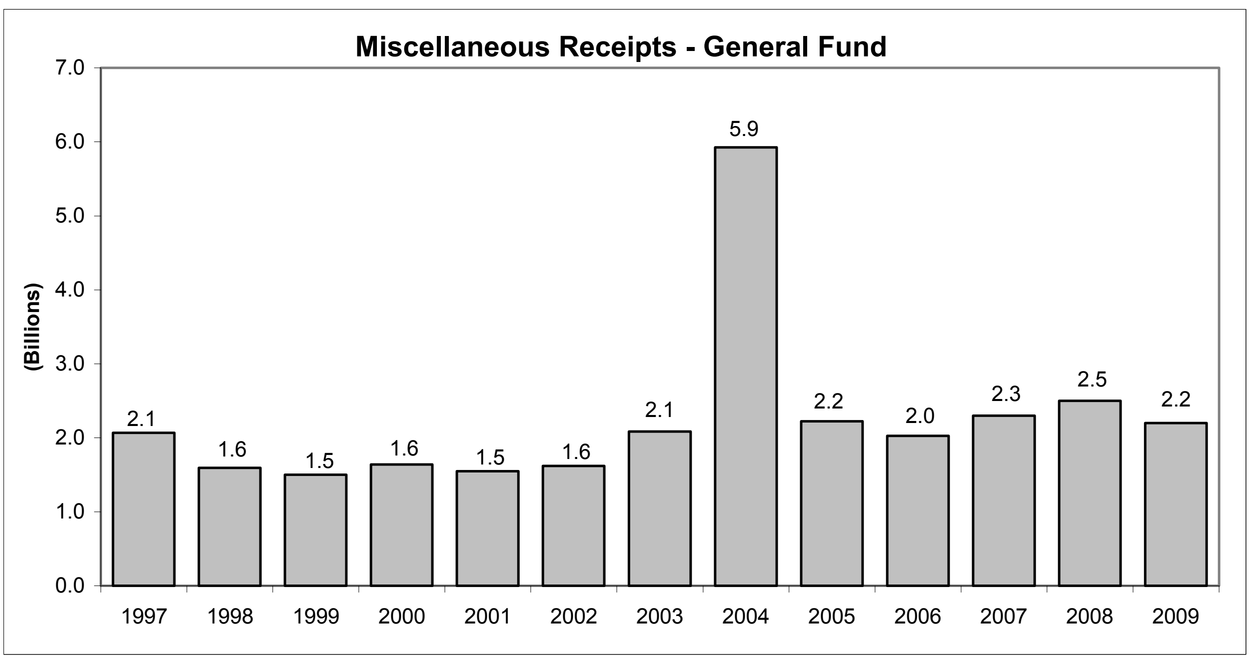


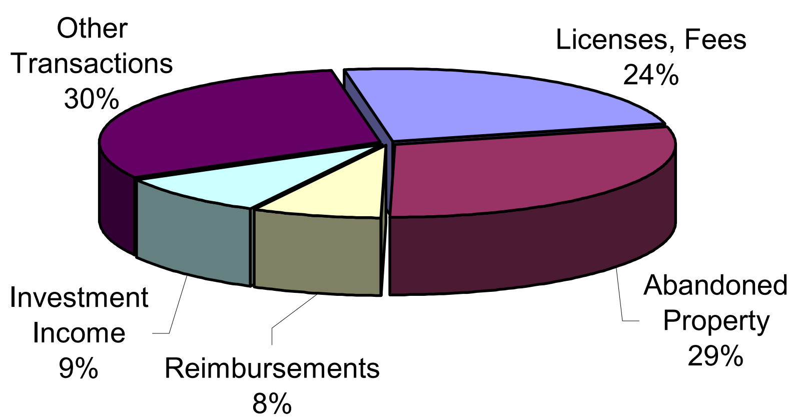
Figure 48

Miscellaneous receipts in the General Fund have been a steady source of revenue. The sizeable increase in 2004 receipts reflects the one time deposit of tobacco bond proceeds to fund the shortfall in the Health Care Fund.

Miscellaneous Receipts-General Funds
(Dollars in Millions)

	2006-07 Actual	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Licenses, Fees	$698.7	$662.0	$537.9	($124.1)	-18.7%
Abandoned Property	$708.2	$684.0	$650.0	($34.0)	-5.0%
Reimbursements	$164.8	$184.0	$172.4	($11.6)	-6.3%
Investment Income	$190.7	$225.0	$200.0	($25.0)	-11.1%
Other Transactions	$505.1	$735.0	$682.0	($53.0)	-7.2%
Total	**$2,267.5**	**$2,490.0**	**$2,242.3**	**($247.7)**	**-9.9%**

General Fund
Miscellaneous Receipts
SFY 2008-09



Source: Executive Budget and Assembly Ways & Means Committee Staff

Miscellaneous Receipts - Special Revenue Funds

State Funds miscellaneous receipts consists of 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.

The Executive estimates miscellaneous receipts in State Funds of $19.4 billion in SFY 2008-09, an increase of $1.7 billion or 9.6 percent from SFY 2007-08. The change in miscellaneous receipts is primarily related to increases in receipts from the Lottery and Video Lottery Terminal receipts $341 million, other revenue $233 million, SUNY Income increase $66 million, HCRA $50 million, and Industry Assessment $43 million, capital projects, including authority bond proceeds of $953 million and $13 million in debt service offset by a decrease in Medicaid $5 million.

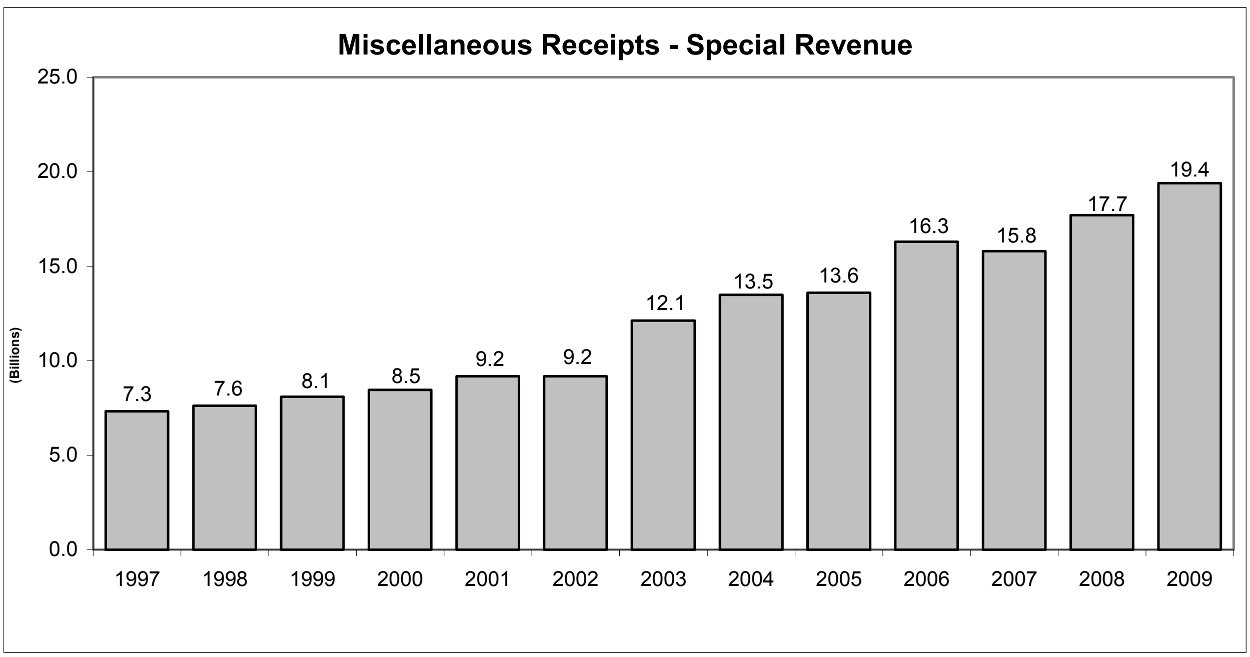


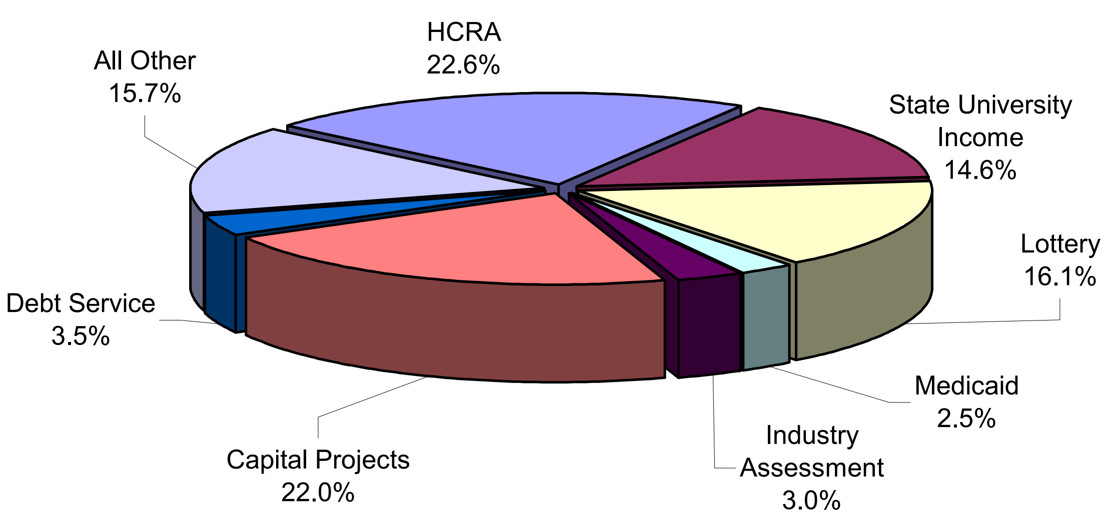
Figure 49

Special Revenue Miscellaneous receipts have grown by 166 percent since 1996-97. This is attributable to increased dedicated receipts for health care and STAR. In addition, the increase in miscellaneous receipts is due to $4.8 billion in significant deposits of health care insurance conversion proceeds.

Miscellaneous Receipts – Special Revenue Funds
(Dollars in Millions)

	2006-07 Actual	2007-08 Estimated	2008-09 Projected	Change	Percent Change
HCRA	$3,642	$4,331	$4,381	$50	1.2%
State University Income	$2,759	$2,773	$2,839	$66	2.4%
Lottery	$2,544	$2,782	$3,123	$341	12.3%
Medicaid	$736	$490	$485	($5)	-1.0%
Industry Assessment	$501	$543	$586	$43	7.9%
Capital Projects	$2,247	$3,306	$4,259	$953	28.8%
Debt Service	$848	$671	$684	$13	1.9%
All Other	$2,533	$2,809	$3,042	$233	8.3%
Total	**$15,810**	**$17,705**	**$19,399**	**$1,694**	**9.6%**

Special Revenue Funds
Miscellaneous Receipts
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means Committee Staff

Agency	Description Effective Date	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	$2,400	$2,400
HCR	SONYMA Excess Balance - 4/1/08	100,000	-
SED	Increase State Records Center Storage Fee - 4/1/2009	-	525
T&F	Eliminate NYC Fringe/Indirect Waiver - - 4/1/08	10,025	10,025
	Administrative Actions - Subtotal	**$112,425**	**$12,950**
II. STATUTORY			
AG&MKTS	Increase Food Safety Penalties - 4/1/08	$1,200	$1,200
BUDGET	Include IDA's in Cost Recovery Billings - 4/1/08	5,000	5,000
BUDGET	Raise Cost Recovery Cap to $50 million - 4/1/08	10,000	10,000
CIV SERV	Reimbursement for NYC Plan Review - 8/1/08	550	550
DMNA	Power Plant Assessment - - 4/1/08	11,700	11,700
DOH	Increase Fines Dedicated to Patient Safety - 4/1/08	500	500
DOH	Increase Covered Lives Assessment on Insurers from $850M to $990M - - 4/1/08	140,000	140,000
DOH	CLEP Specialist Certification Program - - 4/1/08	420	420
DOH	CLEP Waived Testing Limited Laboratory Registration Program - - 4/1/08	400	400
DOT	Motor Vehicle Law Enforcement and Highway Safety Fee - 7/1/08	96,800	129,000
DOT	Bidding Administrative Efficiencies 4/1/08	40	42
ENCON	Increase Operating Permit Program Fee- 4/1/08	19,000	19,000
ENCON	Expand Bottle Bill to Beverage Containers -4/1/08	25,000	100,000
INSUR	Violation of Insurance Law 4/1/08	90	90
INSUR	Failure to File Annual Statement -4/1/08	5	5
INSUR	Failure to Respond to Special Report -4/1/08	5	5
INSUR	Failure to comply with Reporting Requirements of the Financial Security Act -4/1/08	5	5
INSUR	Doing Insurance Business without a License - 4/1/08	90	90
INSUR	Violation of Section 1222 - 4/1/08	90	90
INSUR	Violation of Insurance Law Article 15	1	1
INSUR	Doing Business as Agent, Broker, Adjuster or Reinsurance Intermediary without a License - 4/1/08	90	90
INSUR	Act as Agent for Unauthorized Insurer -4/1/08	90	90

Fee And Revenue Actions List			
Agency	Description Effective Date *continued*	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
INSUR	Penalty in Lieu of Revocation of License issue under Article 21 4/1/08	20	20
INSUR	Violation of Article 23, Prior Approval not Required 4/1/08	20	20
INSUR	Violation of Article 23, Prior Approval Required 4/1/08	1	1
INSUR	Violation of Article 2324 4/1/08	4	4
INSUR	Unfair Methods of Competition, Power of the Superintendent	4	4
INSUR	Violation of Prompt Pay 4/1/08	4	4
INSUR	Failure of Insurer to comply with Worker's Compensation Law 4/1/08	90	90
INSUR	Violation of Holocaust Victims Insurance Act 4/1/08	5	5
INSUR	Violation of Section 3216 -4/1/08	20	20
INSUR	Violation of Section 3224 -4/1/08	5	5
INSUR	Inspection and Coverage of Physical Damage for Private Passenger Auto - 4/1/08	20	20
INSUR	Gap Insurance Failure to Notify Lessee or Debtor 4/1/08	5	5
INSUR	Violation of Section 4224 -4/1/08	20	20
INSUR	Violation of Section 4228 -4/1/08	90	90
INSUR	Violation of Article 4241 -4/1/08	20	20
INSUR	Willful Failure to Comply with Article 44- 4/1/08	90	90
INSUR	Failure to File per Section 4505 -4/1/08	90	90
INSUR	Violation of Section 4228 -4/1/08	5	5
INSUR	Soliciting Membership in Unauthorized Societies - 4/1/08	5	5
INSUR	False Statements Filed with MVAIC -4/1/08	5	5
INSUR	Violation of Section 6409 -4/1/08	5	5
INSUR	Alternate Penalty that can be Leveled Under Section 7711 -4/1/08	5	5
INSUR	Failure to comply with Reporting Requirements or Payments Listed in Section 9109b -4/1/08	1	1
LABOR	SERB Arbitration Fee -10/1/08	225	450
LOTTERY	Extend Quick Draw, Elilminate Restrictions	36,000	60,000
OGS	Contract Vendor Service Fee -4/1/08	8,000	20,000

Fee And Revenue Actions List			
Agency	Description Effective Date *continued*	New Annual Revenue SFY 2008-09 (000's)	New Full Annual Revenue SFY 2010-11 (000's)
ORPS	Real Property Transfer Fee -4/1/08	21,500	31,500
ST POLICE	Motor Vehicle Law Enforcement Highway Safety Fee 7/1/08	48,400	64,500
WIRELESS	Close Prepaid Wireless loophole 4/1/08	5,000	12,000
	Statutory Actions - Subtotal	**$430,735**	**$607,262**
	ADMINISTRATIVE AND STATUTORY - TOTAL	**$543,160**	**$620,212**

Federal Funds

Federal grants consist of reimbursement from the Federal government for services performed by the State in accordance with Federal laws and regulations. The State is required to follow specific cash management practices regarding the timing of withdrawal for each grant award.

The Executive estimates total Federal grants receipts of $36.9 billion in SFY 2008-09, an increase of $1.0 billion above SFY 2007-08.

Federal grants in the Special Revenue fund support a multitude of programs of which Medicaid is the largest. The Executive estimates Federal grants for Medicaid will be $22.8 billion in SFY 2008-09. Other programs include Welfare, Food and Nutrition Services, and Supplementary Educational Services.

Federal grants in the Capital Projects fund support transportation planning, engineering, construction projects, housing programs, rehabilitation of state armories and other environmental purposes as well as local wastewater treatment project financed through the State's revolving loan fund. The Executive estimates Federal grants for Capital Project at $2.01 billion in SFY 2008-09.

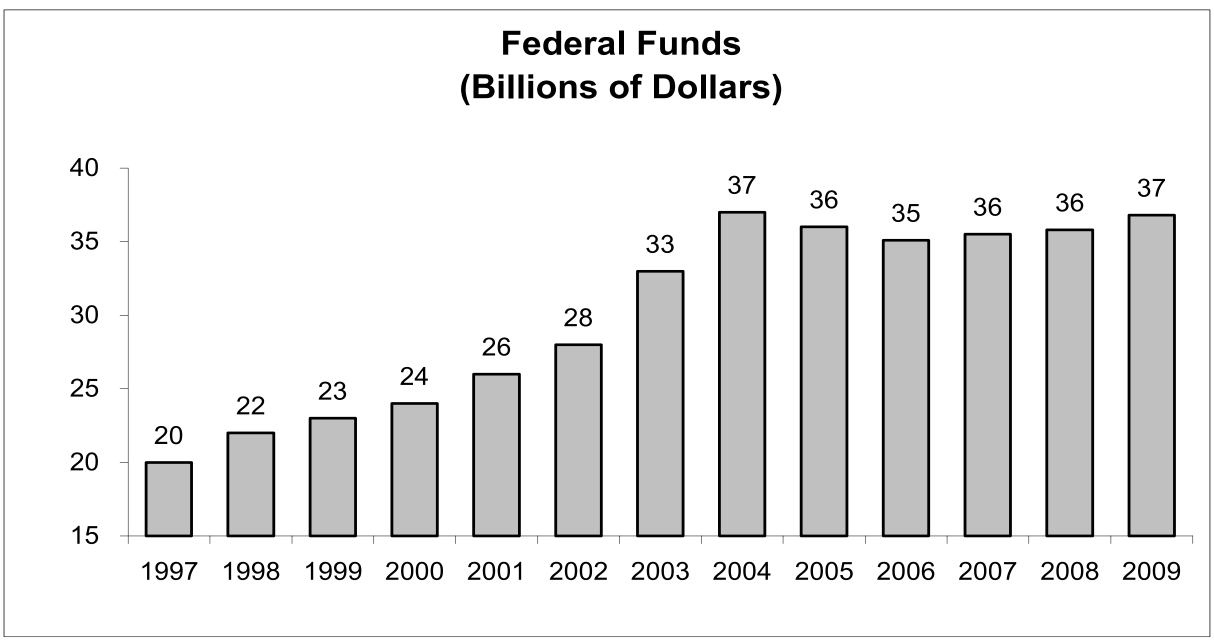
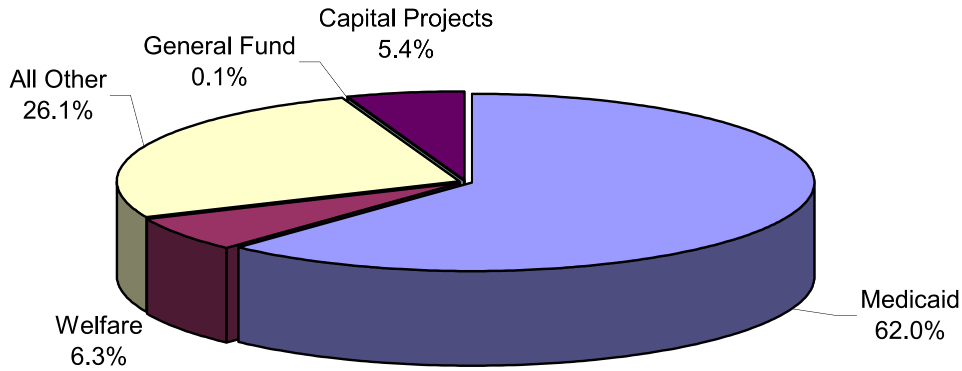


Figure 50

Federal Funds
(Dollars in Millions)

	2006-07 Actual	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Special Revenue	**$33,690**	**$33,911**	**$34,832**	**$921**	**3%**
Medicaid	$22,649	$22,266	$22,859	$593	3%
Welfare	$2,243	$2,300	$2,334	$34	1%
All Other	$8,798	$9,345	$9,639	$294	3%
General Fund	**$151**	**$71**	**$41**	**($30)**	**-42%**
Capital Projects	**$1,738**	**$1,859**	**$2,010**	**$151**	**8%**
Total All Funds	**$35,579**	**$35,841**	**$36,883**	**$1,042**	**3%**

Federal Funds
SFY 2008-09



Source: Executive Budget

EXECUTIVE TAX REVENUE PROPOSALS

Eliminate Sunset of Quick Draw – Part A

The Executive proposes to eliminate the sunset provisions of Quick Draw and to eliminate the restrictions which currently limit daily operations to no more than thirteen hours daily. The Executive is proposing to increase accessibility of Quick Draw by removing restrictions that limit Quick Draw ticket sales to places that are licensed for the sale of alcoholic beverage for on-premises consumption where at least 25 percent of the gross sales are from food or to facilities that do not sell alcoholic beverage with at least 2,500 hundred square feet. The Executive estimates that the continuation of Quick Draw will produce a projected $136 million in revenues for the SFY 2008-2009 which supports education funding as well as providing commissions for Lottery retailers.

Permanently Extend the Seven Day Alcohol License Sales Law – Part B

This part makes the seven day alcohol sales license law permanent and repeals the State Liquor Authority reporting requirement relating to the number of retailers applying for the new seven day license. The law sunsets May 15, 2008. Fiscal: Preserves current license revenue stream.

Apply Tax on Flavored Malt Beverages at Low Liquor Tax Rate – Part C

This part would create a new category of alcoholic beverage excise tax for flavored malt beverages and impose the excise tax on these products at a rate of $2.54 per gallon, the equivalent rate in gallons for low alcohol liquor taxed at a rate of $0.67 per liter. Fiscal: $15 million in SFY 2008-09, $18 million when fully implemented.

Reform Brownfields Cleanup Program and Limit Certain Tax Credits – Part D

In addition to providing administrative guidelines for the Department of Environmental Conservation, this bill amends the Tax Law by placing a cap of $10 million on the tangible property tax credit available for participation in the Brownfield Cleanup Program (BCP) for a taxpayer that was issued a notice of acceptance into the BCP, or if a taxpayer received a certificate of completion (COC) from another taxpayer on or after July 1, 2007. Fiscal: Provides additional revenues in future fiscal years.

Reform the Brownfields Cleanup Program – Part E

This part modifies the Brownfield Cleanup Program structure, enhancing the site preparation credit, and the groundwater remediation credit depending on the extent of cleanup. In addition the tangible property credit would be enhanced but cannot exceed $15 million.

More generous credits are awarded to projects in an Environmental Zone, a qualified census tract, in conformance with a Brownfield Opportunity Area plan, a local waterfront revitalization plan, or a comprehensive plan for “smart growth.” Fiscal: Provides additional revenues in future fiscal years.

Repeal Private Label Credit Card Law - Part F

This part repeals the tax law that allows private label credit card companies to receive a refund of sales tax paid when an account is written off as uncollectible. This section of law was enacted in 2006. Fiscal: $7 million in SFY 2007-08; $9 million when fully implemented.

Require a Tax Stamp on Illegal Drugs – Part G

This part requires a tax stamp on all marijuana and controlled substances acquired or possessed by a dealer in New York State. This part exempts from the tax all marijuana and controlled substances acquired or possessed by a government agency or pursuant to the Public Health Law. Fiscal: $13 million in SFY 2007-08; $17 million when fully implemented.

Merge Motor Fuel Tax, Petroleum Business Tax and Sales Tax on Fuel into one Petroleum Business Tax – Part H

This proposal would consolidate and reform the state and local taxes on motor fuel, Diesel motor fuel and other petroleum products that are currently imposed under Tax Law Article 12-A (the tax on gasoline and motor fuel) and Article 13-A (the tax on petroleum businesses) and the sales and use taxes on those products. To do so, Article 12-A would be repealed and amendments would be made to Article 13-A to impose a new excise tax on motor fuel, highway Diesel motor fuel, non-highway Diesel motor fuel, and residual petroleum product. Fiscal: Revenues would be increased by $13.2 million in SFY 2008-09 and $55.9 million in SFY 2009-10.

Decouple from Federal Qualifying Production Activities Income (QPAI) Deduction – Part I

This part would require businesses to add back the amount of the deduction allowed under Internal Revenue Code § 199 for Qualifying Production Activities Income ("QPAI") when determining entire net income. Fiscal: An increase of $56 million annually.

Reduce Corporation Franchise Tax Capital Base Rate and Eliminate Liability Cap under This Base – Part J

This part would amend the corporation franchise tax, by reducing the tax rate of the capital base from 0.178 percent to 0.15 percent, eliminating the $1 million cap on that tax base for non-manufacturers. The bill also conforms the definition of "manufacturer" under the capital base to the definition under the entire net income base. Fiscal: Increase of $98 million in SFY 2008-09 and $70 million in SFY 2009-10.

Include For-profit Health Maintenance Organizations as Insurance Corporations Subject to Article 33 of the Tax Law – Part K

This part amends the definition of an "insurance corporation" in the Tax Law to include a Health Maintenance Organization (HMO). Non-life insurance corporations are subject to a premiums only tax under Article 33 for taxable years beginning on or after January 1, 2003. The rate of the premiums tax varies for non-life companies depending on the type of insurance. Premiums for accident and health insurance contracts are currently taxed at the rate of 1.75 percent of premiums. HMOs would be taxed at this rate as well. Fiscal: Net increase in revenue of $247 million in SFY 2008-09 and $288 million in SFY 2009-10.

Require Non-profit Tax-exempt Organizations to Collect Sales Tax on Additional Sales – Part L

This part requires non-profit tax exempt organizations to collect sales tax on additional retail sales including on-line, mail order catalogue, and auction sales and rentals or leases of tangible personal property. Fiscal: $7.5 million in SFY 2007-08; $15 million when fully implemented.

Authorize an Additional $4 Million of Annual Low-Income Housing Credits for Ten Years – Part M

This part would authorize the commissioner of Housing and Community Renewal to allocate an additional $4.0 million in low income housing credits to taxpayers who can claim the credit for up to ten years. Currently the commissioner can allocate $16.0 million in credits, this part would increase that total to $20.0 million. Fiscal: This bill would decrease revenue by $4.0 million beginning in SFY 2008-09.

Require Taxpayers to Pay the Fee Charged by Federal Government and Other States for Offsetting Tax Refunds to Pay for the New York State Income Tax Debts Owed by Those Taxpayers – Part N

This part would allow the State to recover fees and charges imposed by the Federal government and other States for remitting tax overpayments to the State in satisfaction of the taxes owed by the taxpayer. The cost of the fee, currently paid by New York, would be considered part of the taxpayers New York State tax debt. Fiscal: Will increase revenue by $1.3 million annually beginning in SFY 2008-09.

Clarify the Commissioner of Taxation and Finance's Powers under Article 21 of the Highway Use Tax – Part O

This proposal would allow the Commissioner to utilize license plate recognition software and related visual detection equipment as a method to check, verify and ascertain the number of miles traveled by, and the weight of, each vehicular unit on the public highways in this state. This proposal would help combat bootlegging of fuels into the state and provide a level playing field in the fuel industry. Fiscal: Revenues would be increased by $7.5 million in SFY 2008-09 and $15 million thereafter.

Amend Definitions of the Tax Law and New York City Administrative Code Pertaining to the Determination of Residency Status of Taxpayers – Part P

Under current law a taxpayer, who is mostly out of the country, can still be classified as a resident if that taxpayer's spouse or children spend more than 90 days in taxpayer's principle place of abode that is located in New York. This part would alter that definition so that the spouse or children need only spend 90 days in New York, not specifically in the taxpayer's principle place of abode, in order for the taxpayer to be considered a resident. Fiscal: Increase tax revenues by $5.0 million annually beginning in SFY 2009-10.

Extend for Two Years the Credit for Taxicabs and Livery Service Vehicles Accessible by Individuals with Disabilities – Part Q

The current credit is allowed for expenses associated with upgrading a vehicle to make it accessible for individuals with disabilities. The credit is capped at $10,000 per vehicle. The current bill is set to sunset on December 31, 2008. This part extends the credit for two years so that the credit expires on December 31, 2010. Fiscal: Reduce revenues by $3.0 million in SFY 2009-10 and SFY 2010-11.

Extend the MTA Surcharges on Business Taxes for Four Years – Part R

This bill extends for four more years, the temporary MTA business tax surcharges currently scheduled to sunset in taxable years ending before December 31, 2009. Fiscal: None.

Restructure and Reform the Fees and Minimum Taxes Imposed on Limited Liability Companies (LLC) – Part S

This part would change the way LLC filing fees are calculated. Currently the fees are based on the number of members within the LLC. The amended calculation will be based on New York source income so as to better reflect the level of New York Activity. The minimum fee is $50 if New York Source income is less than $100,000 with a maximum fee of $2,500 if New York Source income exceeds $25 million. The bill expands the fee to all partnerships as well. The bill also changes the fixed dollar minimum tax under the Article 9-A general business tax to the same schedule. Fiscal: Increase revenue by $75.0 million beginning in SFY 2008-09.

Include Gain from the Sale of Partnerships and Similar Entities as NY-source Income to Nonresidents Where Gains is From Real Property in NY – Part T

Under current law a nonresident can avoid taxation by placing New York real property in an entity and then selling his or her interest in the entity. Sale of this interest is treated as the sale of an intangible asset and not taxed under current law. This part would amend current law by stipulating that sale of a taxpayer's interest is taxable to the extent his or her interest is tied to New York real property. Fiscal: Increase revenues by $10.0 million annually beginning in 2009-10.

Make Statutory Technical Corrections to Eliminate Remaining REIT/RIC Loopholes – Part U

This part would require all captive REITs and captive RICs to file a combined return with the closest corporation that directly or indirectly owns or controls them. Fiscal: Restore SFY 2007-08 budget estimates.

Change Mandatory First Estimated Tax Installment Payment for All Business Taxes From 25 Percent to 30 Percent – Part V

This bill would require every corporation taxpayer whose tax or MCTD surcharge for the preceding year was in excess of $100,000 to remit 30 percent (instead of 25 percent) of its preceding year's corporation tax or surcharge as its mandatory first installment. This would apply to taxpayers under the State corporation tax, corporate franchise tax, banking corporation franchise tax, and insurance corporation franchise tax. Fiscal: Increase revenue by an estimated $100 million in SFY 2008-09.

Increase the Percent, Annual Credit Cap and Refundable Portion of the Empire State Film Production Tax Credits – Part W

This bill increases the percentage of qualified production costs allowed to be claimed under the empire state film production credit from 10 percent to 15 percent; increases the aggregate amount of tax credits allowed annually from $60 million to $65 million in 2008, $70 million in 2009, and $75 million in 2010 and 2011, makes the credit fully refundable from 50 percent refundable in the first tax year earned, and amends the definition of "production costs" to include total budget costs, with some limited exceptions. Fiscal: Decrease annual tax receipts by $5 million in SFY 2008-09, $10 million in SFY 2009-10 and $15 million in SFY 2010-11 and SFY 2011-12.

Establish Evidentiary Presumption that Certain Sellers Using New York Residents to Solicit Sales in the State are "Vendors" Required to Collect Sales and Use Tax –Part X

This part establishes a presumption that sellers that enter into agreements with New York residents where the residents are compensated for referring customers to the sellers are vendors under the Tax Law and are therefore required to register with Taxation and Finance and collect and remit sales tax to the State. Fiscal: $43 million in SFY 2008-09; $73 million when fully implemented.

Classify Certain Credit Card Companies as Taxpayers under Article 32 of the Tax Law – Part Y

This bill amends the Tax Law to provide that a banking corporation will be deemed to be doing business in New York if: (1) it has issued credit cards to 1,000 or more customers with mailing addresses in New York State; (2) it has 1,000 or more merchant customers located in New York State; (3) it has receipts of $1,000,000 or more from customers who have been issued credit cards and have mailing addresses within New York; (4) it has receipts of $1,000,000 or more from merchant customers located in New York during the taxable year arising from credit card transactions; or (5) it has either 1,000 or more customers who are card holders or merchants in New York, or receipts of $1 million or more from customers who are cardholders or merchants in New York arising from credit card transactions. The bill also defines the term "credit card" to include various forms of cards that are generally considered credit cards, including bank, travel, and entertainment cards. The amendments provide that interest, fees and penalties in the nature of interest, service charges, and other fees are earned within New York State if the mailing address of the card holder is within the State. Fiscal: Increase of $95 million in SFY 2008-09 and $75 million in SFY 2009-10.

Create Comprehensive Program to Encourage Voluntary Disclosure to Increase Compliance with Tax Law – Part Z

This part includes a number of subparts intended to make compliance initiatives and penalties more effective. The initiatives cut across different tax areas including Sales Tax and Personal Income Tax law. The provisions include making the voluntary disclosure of tax avoidance methods permanent, granting the commissioner the authority to require electronic filing of sales tax, and changing the criminal penalties for tax crimes to make them comparable to larceny charges, as well as other provisions. Fiscal: Fully enacted the provisions are expected to increase revenue by $78.5 million in SFY 2008-09

Provide Tax Credits for Bioheat for Residential Purposes – Part AA

This part reinstates the Bioheat credit that expired on June 30, 2007. The credit is for the purchase of bioheat for residential purposes and is equal to $0.01 per percent of biodiesel per gallon of bioheat, not to exceed twenty cents per gallon. The credit will be available for four years beginning in tax year commencing on or after January 1, 2008 and ending December 31, 2011. Fiscal: reduces revenues by $1.0 million annually from SFY 2009-10 to SFY 2012-13.

Authorize New York City to Impose a 4 Percent Sales and Use Tax after August 1, 2008 – Part BB

This part imposes a four percent sales and use tax in New York City upon expiration of the four percent local sales and use tax dedicated to the Municipal Assistance Corporation (MAC). Fiscal: None.

Classify Little Cigars as Cigarettes under the Tax Law – Part CC

This part would require that little cigars that are similar in size to cigarettes be treated and taxed like cigarettes. Fiscal: $3.6 million in SFY 2007-08; $4.8 million when fully implemented.

Authorize Video Lottery Gaming at Belmont Park – Part DD

The Executive proposes the authorization of the operation of Video Lottery Terminals (VLTs) at Belmont Park. Current law specifically prohibits Belmont Park from operating VLTs. In addition, this legislative proposal sets the commission rate paid to the operators of VLTs at Belmont and Aqueduct at thirty-two percent. It is anticipated that the sale of the Belmont Park VLT development rights will produce $250 million in revenue.

Prohibit Certain Tax Avoidance Schemes – Part EE

This part would narrow the sales tax exemption for commercial aircraft and the use tax exemption for motor vehicles, vessels and aircraft in order to curtail certain abusive sales and use tax avoidance schemes. Fiscal: $4 million in SFY 2007-08; $6.3 million when fully implemented.

Education, Labor, and Family Assistance

The Executive proposes several amendments to the school real property tax relief program known as STAR in an effort to reduce the cost of the program which is estimated to cost – provided the amendments are enacted - $5 billion in SFY 2008-09.

Offsets Against basic Middle Class STA R- Part Q

The Governor proposes to generate additional revenue by authorizing the State to offset against basic Middle Class STAR rebates for certain legal debts which include, but are not limited to, delinquent child support payments and delinquent taxes. The Executive estimates this proposal will generate an additional $15 million in revenue.

New York City "STAR" Personal Income Tax (PIT) Credit - Part R

The Governor proposes to limit the NYC PIT credit to taxpayers earning $250,000 or less annually, thereby producing an additional $20 million in savings to the state. Plus, there is an additional proposal to delay the scheduled increase to the New York City PIT credit until 2009, 2010 and thereafter which will provide an additional savings of $40 million.

Delay Scheduled Middle Class STAR Increases - Part S

The Executive proposes to delay the scheduled 17 percent increase for the Basic Middle Class STAR rebate for one year. It is estimated that this delay will produce a savings of $169 million to the State. The increase would have provided the average homeowner with a benefit increase of $65. The Enhanced Middle Class STAR program will be implemented as scheduled, representing a total increase of $91 million to the STAR program.

Changing the "floor" adjustment relating to the STAR benefit - Part W

The Executive proposes to increase from 5 to 10 percent the maximum reduction that can occur in a taxpayer's STAR benefit based on changes in assessed value or market value. For the 2.6 million taxpayers likely to be affected, this will reduce exemption savings by an average of $40 for a savings to the State of $110 million.

Transportation, Economic Development and Environmental Conservation

Power for Jobs – Part Y

Extends the expiration for one year to June 30, 2009 the Power for Jobs and Energy Cost Savings Benefit Programs. The legislation would also authorize the Power Authority of the State of New York (PASNY) to pay up to $25 million to the General Fund for a loss of gross receipts tax revenue associated with the SFY 2008-09 Power for Jobs Program. The Executive also proposes, beginning July 1, 2009, the creation of a new 1,000 megawatt long-term program called the Electricity Cost Discount. The new program would be administered and paid for by PASNY, with annual payments of up to $120 million. PASNY would have the authority to enter into contracts of up to seven years with eligible businesses and not-for-profit corporations. Award criteria would include significance of electricity cost to an applicant's overall costs, the number of jobs created and retained, and energy efficiency investments.

RECOMMENDED ALL FUNDS LEGISLATION
(Dollar Amounts in Millions)

REVENUE ENHANCEMENTS	2008-09	2009-10	2010-11
PERSONAL INCOME TAX	**211**	**247**	**247**
Amend Definitions of Temporary Stay	0	15	15
Amend Definition of Presence in New York	0	5	5
Tax Gain from Sale of Partnerships	0	10	10
Refund Offsets	1	1	1
Improve Audit and Compliance Efforts	175	175	175
LLC Minimum Partner Fees	35	35	35
Make Permanent Reporting of Tax Shelters	0	6	6
STAR	**354**	**380**	**165**
Increase STAR Exemption Floor from 5 percent to 10 percent	110	115	120
Delay Basaic Middle Class Rebates	169	175	0
Authorize Tax Deparmtent of Offset Debts Against STAR Rebate	15	15	15
Restructure New York City STAR	60	75	30
USER TAXES AND FEES	**192**	**200**	**177**
Voluntary Disclosure and Compliance Program	30	0	0
Repeal Bad Debt Provisions	7	9	9
Limit Tax Exemptions for Sales by Non-Profits	8	15	15
Close Loophole on Tax Avoidance	4	6	6
Require Sales Tax Vendors to Re-register	12	37	12
Conform Tax Treatment of Little Cigars	4	5	5
Conform Tax Treatment of Flavored Malt Beverages	15	18	18
Require Tax Stamp on Illegal Drugs	13	17	17
Western Hemisphere Travel Initiative	53	20	10
Sales Tax Nexus	47	73	85
BUSINESS TAXES	**762**	**761**	**761**
Improve Audit and Compliance Efforts	55	75	75
Voluntary Disclosure and Compliance Program	20	0	0
LLC Minimum Partner Fees	40	40	40
Make Permanent Reporting of Tax Shelters	0	11	11
Credit Card Nexus	95	75	75
Conforming HMOs Taxation	247	288	288
Capital Base	98	70	70
Decoupling from Federal QPAI Regulations	56	56	56
Expiration of ITC for Financial Services	35	75	75
Simplify Taxation of Motor Fuel	13	56	56
License Reader Enforcement	8	15	15
Modify Pre-Payment Requirements	95	0	0
TAX REDUCTIONS	**(24)**	**(23)**	**(23)**
Encourage Alternative Fuel Production - Biofuel	0	(1)	(1)
Expand the New York State Film Credit	(5)	(10)	(15)
Low Income Housing Credit	(4)	(4)	(4)
Handicapped Accessible Taxis Credit	0	(3)	(3)
Power for Jobs Program	(15)	(5)	0
All Funds Legislation Change With STAR	**1,495**	**1,565**	**1,327**
All Fund Legislation Change Without STAR	**1,141**	**1,185**	**1,162**

A Review of the School Tax Relief (STAR Proposal)

The STAR Program has three main components:

- It provides residential homeowners with a partial exemption from school property taxes;
- It provides a rebate to residential homeowners based on the homeowners income; and,
- It provides a personal income tax credit to New York City residents. In 2007-08 the credit is $290 for married filing joint and $145 all others[30].

The Exemption

The school tax property relief (STAR) provisions authorize three types of property tax relief. The first is an exemption that is divided into two separate categories, the Basic STAR and the Enhanced STAR. This provision exempts a portion of the residential assessment value from school taxation. The basic exemption reduces the assessed value by $30,000 and the Enhanced exemption decreases the assessed value by $56,800[31] (*note: exemption adjustment increases are made in counties where the county's average market value exceeds the state's average market value)*.

All primary residential homeowners are eligible for the Basic STAR exemption. The Enhanced STAR exemption is for seniors (65 year of age) that are within certain income limits; for 2008, the income eligibility limit is set at $70,600 (income eligibility is adjusted annually by the CPI).

The Rebate

The second type of school tax relief, the Middle Class STAR rebate, follows the same eligibility requirements as the above referenced STAR exemption. However, instead of receiving a reduction on the school tax bill the property owner receives a rebate check from the New York State Department of Taxation and Finance. For Basic STAR recipients, the amount of the rebate is based on the monetary value of the Basic exemption which is then multiplied by a certain percentage (see Table 1) depending on

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[30] The NYC PIT credit was increased from 230 for married filing joint to $290 as part of the 2007-08 Budget (see L.2007,c. 57)

[31] In 2007, the Enhanced exemption was again increased to $56,800 from 50,000 and provisions were enacted to annually adjust the base exemption by the CPI factor (see L. 207, c. 57)

the homeowner's income(s). Lower income earners receive a greater benefit then higher income earners. Homeowners earning over $250,000 are not eligible for a rebate. A basic example on how the rebate works, if a homeowner receives assessed exemption of $30,000 and the tax rate is 2 percent tax, the school tax reduction (benefit) would be $600; for a homeowner earning less than $90,000 this would equate to a rebate of approximately $360 for a combined STAR savings of $960.

In 2007-08 the Enhanced Middle Class STAR rebate was set at 25 percent of the Enhanced STAR exemption. This would mean that a senior with a tax rate of 2 percent would receive a school tax exemption of $1,136 which would equate to a rebate of approximately $284 for a total STAR savings of $1,420. Note: In 2008-09, the Enhanced Middle Class STAR rebate benefit is scheduled to increase from 25 percent to 35 percent.

In 2007 Basic STAR recipients were required to file a separate application with the Department of Taxation and Finance in order to receive the Middle Class Rebate, eligible Enhanced STAR recipients did not. In 2008 and beyond a separate application will no longer be required to receive the Middle Class STAR rebate, provided the home is not a new purchase and no change in ownership status has occurred.

2007-08 Enacted Budget – Basic Middle Class STAR Rebate

Outside the New York City Metro-Area				
Adjusted Gross Income	Less than $90,000	$90,001 - $150,000	$150,001 - $250,000	More than $250,000
SFY 2007-08 Rebate	60%	45%	30%	-
SFY 2008-09 Rebate	70%	52.5%	35%	-
SFY 2009-10 Rebate	80%	60%	40%	-

2007-08 Enacted Budget – Basic Middle Class STAR Rebate

New York City Metro-Area				
Adjusted Gross Income	Less than $120,000	$120,001 - $175,000	$175,001 - $250,000	More than $250,000
SFY 2007-08 Rebate	60%	45%	30%	-
SFY 2008-09 Rebate	70%	52.5%	35%	-
SFY 2009-10 Rebate	80%	60%	40%	-

NYC PIT Credit

In New York City the allowable STAR exemption limit is multiplied by 50 percent and applied to both the general and school tax. However, as a supplement, New York City residents are eligible for a STAR personal income tax (PIT) credit. Similar to STAR exemption reductions, the City is reimbursed by the State for the revenues lost as a result of this credit.

In New York City for the 2007 tax year, for income earners of $250,000 or less, married filing joint the credit will be increased to $260, up from $230 in 2006, and $145 for all others, up from $115 in 2006. For income earners in excess of $250,000 the PIT credit remains at $230 for married filing joint and $115 for all others.

The personal income tax credit is scheduled to increase in 2008 to $310 for married filing joint and $155 for all others, and again in 2009 and thereafter from $310 to $335 and from $155 to $167.50. There are no scheduled increases for those making over $250,000; however, in 2010 a cost of living adjustment will be applied to the $250,000 ceiling.

Fiscal Impact of STAR

In 2007-08, the State provided property tax relief totaling approximately $5 billion. This includes $2.8 billion for property taxpayers and $940 million for senior property taxpayers, as well as $1.1 billion for New York City residents who pay personal income tax. STAR is anticipated to increase by $1.8 billion in 2008-09 and by $2.3 billion in 2009-10.[32]

2008 Executive STAR Proposal(s)

The 2008-2009 Budget has the following STAR initiatives:

- Delay for one year the scheduled increases in the Basic STAR rebate, a savings of approximately $169 million;
- Delay for one year the scheduled increases in the NYC STAR PIT, a savings of $40 million;
- Eliminate the NYC STAR credit for taxpayers earning in excess of $250,000, estimated to affect one-hundred thousand tax payers and provide a saving of $20 million annually to the State;

[32] "School Tax Relief (STAR)", STAR Facts, http://www.budget.state.ny.us/localities/star/star.html, Feb. 18, 2008

- Authorize the Department of Taxation and Finance to capture STAR rebates to offset debts owed pursuant to child support collections as well as other debts owed to the State and City of New York, a savings of $15 million annually; and,
- Increases from 5 to 10 percent the maximum reduction that can occur in the taxpayer's STAR benefit based on changes in assessed value or market value, a savings of approximately $110 million.

The Executive estimates that even with the proposed amendments to the STAR Rebate program, the program will still grow by $123 million, which can largely be attributed to the scheduled benefit increase for Enhanced STAR recipients as well as greater participation in the program.

Governmental Funds

Financial Plan

New York uses a cash basis Financial Plan to report the amount of money that is collected and spent during the State fiscal year. Each year the Division of Budget develops a plan that shows proposed receipts and disbursements for the coming fiscal year. The plan is then submitted as part of the Executive Budget. It is revised subsequent to enactment of the budget to show the effect of the changes made by the Legislature to the Executive's original budget proposal. The plan is then updated quarterly to reflect actual experience and revised estimates.

The Financial Plan divides receipts and disbursements into different fund types. The General Fund is the fund into which most State taxes are deposited and from which State Operations and the state share of local grants are disbursed. The General Fund provides for funding to programs that are not supported by dedicated fees and revenues.

Programs that are supported by dedicated fees and revenues are funded from Special Revenue Funds. These funds are used to insure that monies are used solely for the purpose for which they are raised, or to insure that individual programs are self-supporting. Examples of such dedicated funding streams include the Environmental Protection Fund and the Dedicated Highway and Bridge Trust Fund. When Non-Federal Special Revenue funds, Capital, and Debt Service Funds are combined with the General Fund the total is known as State Funds.

Special Revenue Funds also contains Federal funds. State Funds and Federal Funds combine to produce an All Funds figure. The All Funds amount is usually reported as the State Budget total.

All Funds

All Funds includes All Governmental Funds receipts plus receipts made from non-governmental (Proprietary and Fiduciary) fund types. All Governmental Funds is a term referring to all State government funds within the following fund types: General, Special Revenue, Capital Projects, Debt Service and Federal Funds. Receipts in the All Funds encompasses areas such as Federal, Miscellaneous Receipts, taxes and fees.

Receipts on an All Governmental Funds basis for SFY 2008-09 are projected to be $122.4 billion, an increase of $5.4 billion or 4.6 percent over SFY 2007-08 estimates. The All Funds receipts increase is the result of a $2.9 billion increase in tax receipts, and a $1 billion increase in federal grants and a $1.4 billion increase in miscellaneous receipts.

All Funds receipts for health and mental health programs are projected to increase by $1.9 billion, of this amount, $593 million is related to increased Federal Medicaid receipts; special revenue health receipts are projected to increase by $424 million over SFY 2007-08.

Transportation receipts are anticipated to be $6.2 billion, an increase of $182 million or 3 percent above SFY 2007-08 levels. Receipts dedicated for transportation are deposited into the Mass Transportation Operating Assistance Fund, the Dedicated Mass Transportation Trust Fund, the Dedicated Highway and Bridge Trust Funds and the Revenue Bond Tax Fund

General Fund

The Ways and Means staff projects that General Fund receipts would total $55.3 billion including transfers, an increase of $2.2 billion or 4.2 percent above SFY 2007-08 estimates, the result of increases in Personal Income Tax of $1.1 billion, Consumption Taxes increase of $338 million, Business Taxes increase of $780 million, Other Taxes increase of $159 million and decreases in Miscellaneous Receipts of $248 million.

General Fund receipts for health and mental health programs are projected to increase by $919 million over SFY 2007-08. Medicaid receipts are projected to increase by $878 million. Higher education is projected to increase by $111 million and education is projected to increase by $1.2 billion.

Environmental programs are anticipated to decrease $11 million below prior year level.

Transfers

The General Fund receives over $12 billion that are transferred from Special Revenue and Debt Service funds. Excess personal income tax receipts from the Revenue Bond Tax fund, excess real estate transfer taxes from the Clean Water/Clean

Air fund and excess sales tax receipts from the local government assistance tax fund, not needed to pay debt service are transferred to the General Fund. Included in the General Fund receipts are over $723 million in transfers from a variety of Special Revenue Funds.

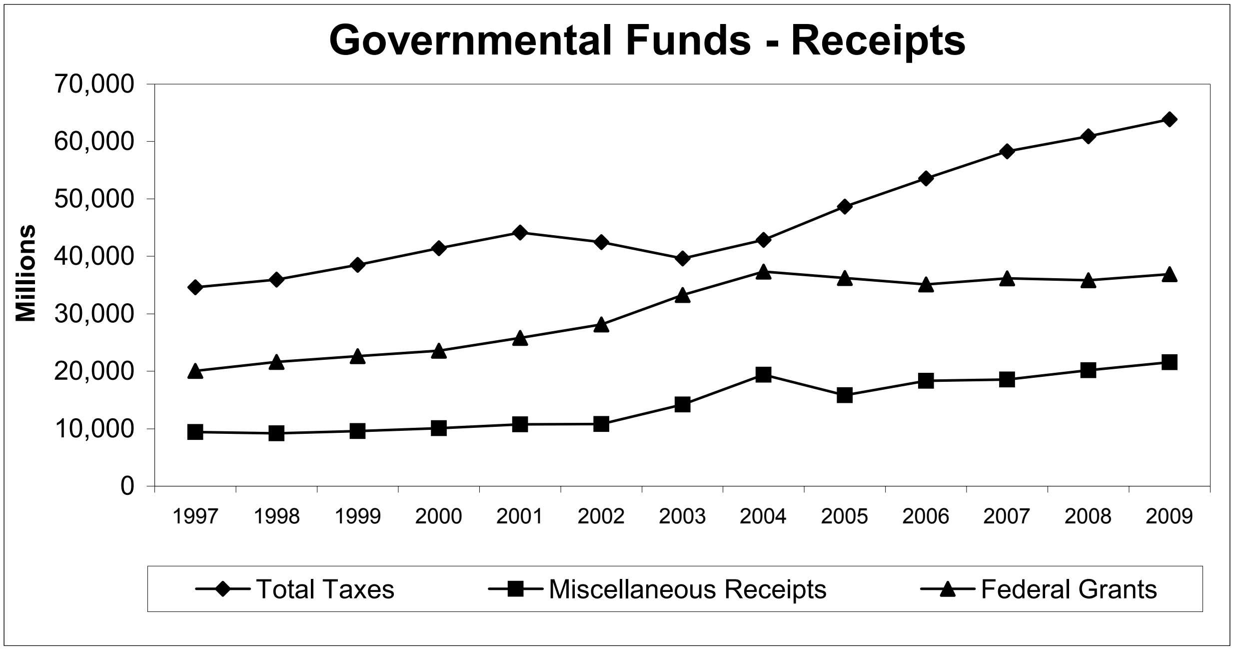


Figure 51

Table 18

All Governmental Fund Receipts SFY 2008-09 (Dollar Amounts in Millions)	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**23,851**	**4,693**	**9,515**	**-**	**38,059**
User Taxes and Fees	**8,850**	**1,663**	**2,697**	**1,019**	**14,228**
Sales and Use Tax	8,089	743	2,697	-	11,528
Motor Fuel Tax	-	73	-	277	350
Cigarette Tax	441	635	-	-	1,076
Motor Vehicle Fees	47	209	-	544	800
Highway Use	-	3	-	153	156
Alcoholic Beverage Tax	226	-	-	-	226
Alcoholic Beverage Fees	47	-	-	-	47
Auto Rental Tax	-	-	-	45	45
Business Taxes	**6,985**	**1,655**	**-**	**813**	**9,453**
Corporate Franchise	4,009	616	-	-	4,625
Utility Tax	596	183	-	17	796
Insurance Tax	1,348	145	-	-	1,493
Bank Tax	853	145	-	-	998
Petroleum Business Tax	179	566	-	796	1,541
Other	**1,205**	**-**	**667**	**237**	**2,109**
Estate and Gift	1,183	-	-	-	1,183
Real Estate Transfer	-	-	667	237	904
Pari Mutuel	21	-	-	-	21
Other	1	-	-	-	1
Total Taxes	**40,891**	**8,011**	**12,878**	**2,069**	**63,849**
Miscellaneous Receipts	2,242	14,456	684	4,259	21,641
Federal Grants	41	34,832	-	2,010	36,883
All Governmental Funds	**43,174**	**57,299**	**$13,562**	**$8,338**	**122,373**

Dedicated Receipts

Special Revenues

Dedicated special revenue receipts which include non-federal Special Revenue Funds, are projected to be $7.9 billion, an increase of $157 million or 2.0 percent. Receipts consist of the School Tax Relief Fund, Dedicated Mass Transportation Trust Funds, MTOA, HCRA and other special revenue funds.

Debt Service Funds

This dedicated fund tax receipts consist of: the Revenue Bond Tax Fund (RBTF), the Clean Water/Clean Air Fund (CWCAF), and the Local Government Assistance Tax Fund (LGAC). It is anticipated that the debt service funds will increase by $304 million or 2.4 percent for SFY 2007-08 to SFY 2008-09.

A statutory provision was established for the dedicated fund tax receipts. The RBTF is the cash behind the Personal Income Tax Revenue Bonds (PIT). The Fund receives 25 percent of all State personal tax receipts and they are pledged to pay the debt service for PIT bonds. The CWCAF receives all real estate transfer taxes in excess of deposits to the Environmental Protection Fund. These receipts are used to pay for the 1996 Clean Water/Clean Air general obligation bonds. The LGAC Fund was established to pay the debt service on finance payments to local governments previously financed by the State. The Fund receives one percent of all State sales and compensating use taxes.

Capital Projects Funds

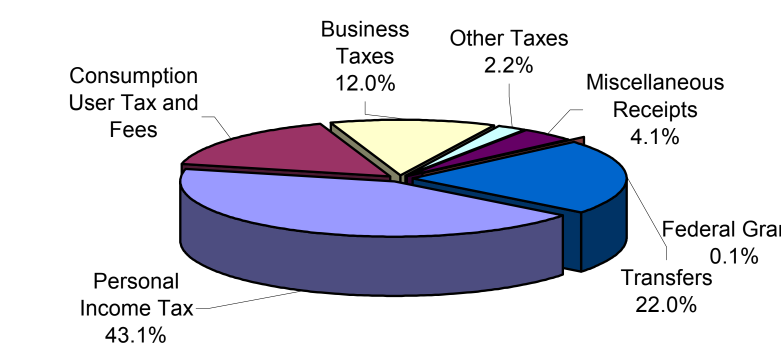
The dedicated funds established by statutory law are: the Dedicated Highway and Bridge Trust Funds (DHBTF) and the Environmental Protection Fund (EPF). Miscellaneous receipts consist of authority bond proceeds, State park fees, environmental revenues and other receipts. Federal grants receipts are usually received (reimbursement) after the State spends money pursuant to Federal government regulations. It is projected that the Capital Projects Fund will increase by $43 million or 2.1 percent from SFY 2007-08 to SFY 2008-09.

The DHBTF receipts support transportation (including reconstruction), replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads and aviation projects, matches 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, ferry lines and debt service on DHBTF bonds. The DHBTF receipts are estimated to increase by $18 million to $1.8 billion in SFY 2008-09.

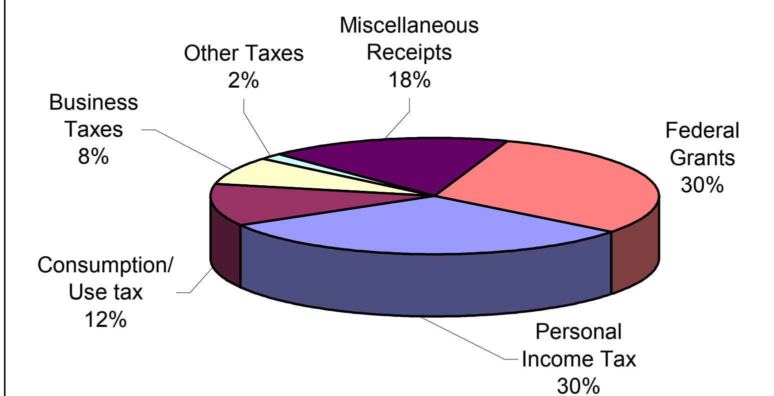
The EPF receipts support the solid waste account, parks, historic preservation, recreation, and designated open space projects. Miscellaneous receipts are used in the capital projects fund to reimburse from authority bond proceeds (as statutorily required), and for deposits into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund (both finance State park system facilities), Environmental Protection Fund, Natural Resources Damages Fund, to support capital projects at State facilities, and to reimburse the State for other miscellaneous spending for transportation and environmental projects on behalf of municipalities, public authorities and private corporations. The EPF receipts are estimated to increase $25 million or 11.8 percent to $237 million in SFY 2008-07.

Federal Grants are used under the Capital Projects fund to finance transportation (planning, engineering and construction projects), to support local wastewater treatment projects (the State's Revolving Loan Fund), rehabilitation of State armories, eligible housing programs and other environmental purposes. In SFY 2008-09 Federal grants for capital projects are estimated to be $2 billion, an increase of $151 million or 8.1 percent.

GENERAL FUND

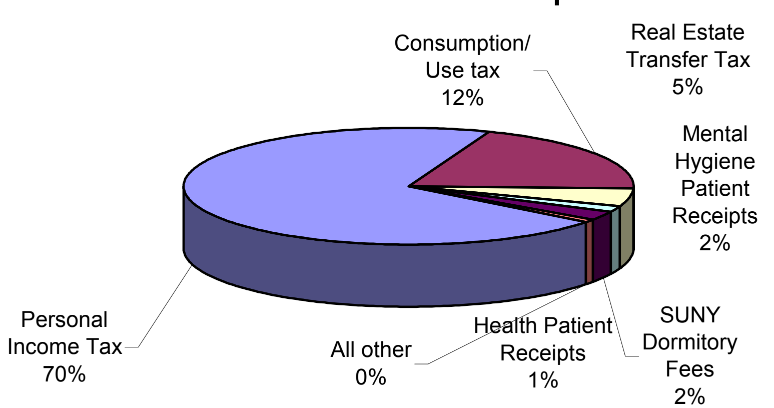


SPECIAL REVENUE



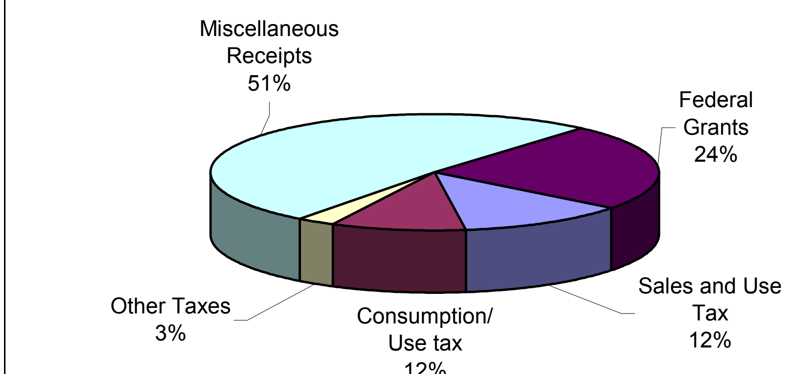
Source: Executive Budget and Assembly Ways and Means

Debt Service Funds Receipts



Source: Executive Budget and Assembly Ways and Means

Capital Projects Fund Receipts



Source: Executive Budget and Assembly Ways and Means

Table 19

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	4,664	4,693
Dedicated Mass Transportation Trust Fund			
Petroleum business tax	355	377	387
Motor Fuel Tax	108	107	73
Motor Vehicle Fees	186	234	209
Mass Trans. Operating Assistance Fund			
Corporate Surcharges			
Corporation Franchise Tax	551	534	616
Corporation and Utilities Tax	109	201	183
Insurance Tax	116	112	145
Bank Tax	186	153	145
Other			
Sales and Use Tax	688	721	743
Petroleum Business Tax	132	141	147
Corporation and Utilities - Sections 183 &184	68		
HCRA Resources Fund			
Cigarette Tax	574	575	635
Other Special Revenue Funds			
Motor Vehicle Fees	43		
Total Tax Receipts: Special Revenue Funds-Other	**7,110**	**7,819**	**7,976**
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	7,647	9,128	9,515
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	875	823	667
Local Government Assistance Tax Fund			
Sales and Use Tax	2,512	2,624	2,697
Total Tax Receipts: Debt Service Funds	**11,034**	**12,575**	**12,878**
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust			
Petroleum Business Taxes	604	645	796
Motor Fuel Tax	406	408	277
Motor Vehicle Fees	557	556	544
Highway Use Tax	153	148	153
Transmission Tax	17	14	17
Auto Rental Tax	45	43	45
Environmental Protection Fund			
Real Estate Transfer Tax	147	212	237
Total Tax Receipts: Capital Projects Funds	**1,929**	**2,026**	**2,069**
Total Tax Receipts: Other Funds	**20,073**	**22,420**	**22,923**

Source of Funds Analysis

Transportation Funds

Earmarked or dedicated revenues are an integral part of transportation financing. The long term nature of construction projects and the constant need for maintenance and safety repair require a long term commitment of funds.

There are four funds for dedicated transportation receipts to be deposited. They are the Mass Transportation Operating Assistance Fund, the Dedicated Mass Transportation Trust Fund, the Dedicated Highway and Bridge Trust Funds and the Revenue Bond Tax Fund.

The Department of Transportation (DOT) is responsible for the management of transportation programs related to highways and bridges, transit, aviation, ports, rail and other modes. All Fund receipts dedicated for transportation are estimated at $6.0 billion in SFY 2007-08 and $6.2 billion in SFY 2008-09. Non-federal Special Revenue Receipts dedicated for transportation purposes are $4.4 billion in SFY 2007-08 and $4.5 billion in SFY 2008-09. Federal receipts for transportation purposes are estimated to be $1.6 billion in SFY 2007-08 and $1.7 billion in SFY 2008-09.

Mass Transportation Operating Assistance Fund

The Mass Transportation Operating Assistance Fund (MTOAF) was created by the Legislature in SFY 1981-82 to help finance State mass transportation operating systems, which at that time were experiencing operating deficits. Pursuant to section 88-a of the State Finance Law, the fund is subdivided into Public Transportation Systems and Metropolitan Mass Transportation Operating Assistance Accounts. The Mass Transportation Operating Assistance Account provides funding for the transit systems in the Metropolitan Transportation Commuter District (MCTD) and consists of revenues from the following taxes: the petroleum business tax (PBT); the MTA corporate tax surcharge; a 0.375 percent sales tax imposed in the counties that comprise the MCTD, and taxes imposed on corporation and utility companies. The Public Transportation Systems Operating Assistance Account is the funding source for all other transit systems, primarily upstate, and consists of receipts from a portion of the PBT and a portion of all transportation taxes and taxes imposed on corporations and utility companies.

The Executive estimates that $1.86 billion, in SFY 2007-08, and $1.98 billion in SFY 2008-09 will be dedicated to support the activities funded through the MTOAF.

Dedicated Mass Transportation Trust Fund (DMTTF)

The Dedicated Mass Transportation Trust Fund receives dedicated revenues from the PBT, motor fuel tax, and motor vehicle fees. Dedicated tax revenues deposited into the DMTTF are expected to total $718 million in SFY 2007-08, and $669 million in SFY 2008-09. 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.

Dedicated Highway and Bridge Trust Funds (DHBTF)

The DHBTF is the largest component of the State's Transportation Capital Program. The fund receives dedicated revenues from the PBT, motor fuel tax, highway use tax, motor vehicle fees, and the auto rental tax.

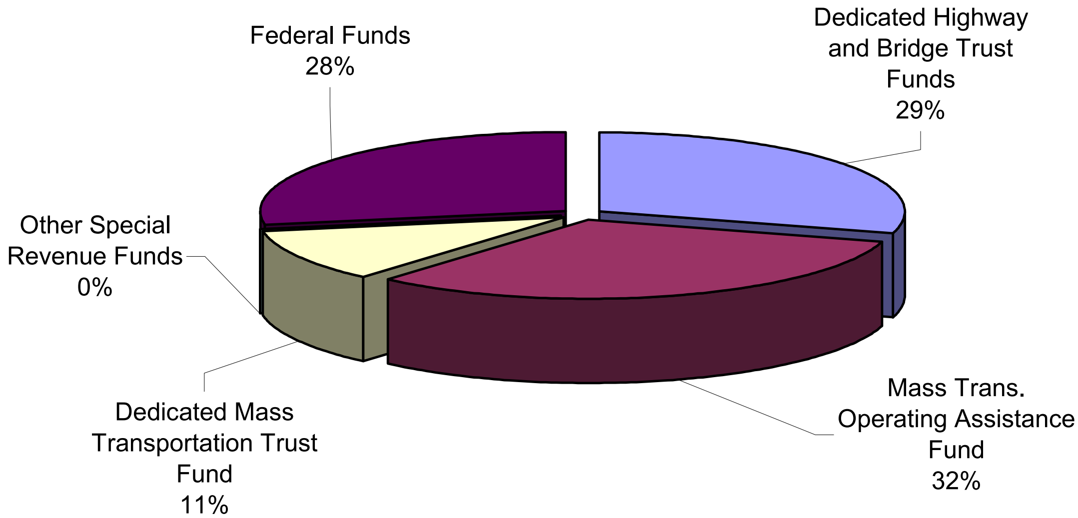
The monies of the Fund are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines and a portion of operations cost. Payments from the Fund are also pledge to support the debt service on Dedicated Highway and Bridge Trust Fund Bonds with debt service coverage of two times the revenues to support debt service costs.

In SFY 2007-08 the fund is expected to receive $1.81 billion, and $1.83 billion in SFY 2008-09.

Source of Transportation Funds
(Dollars in Millions)

	2006-07 Actual	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Dedicated Highway and Bridge Trust Funds	$1,782	$1,814	$1,832	$18	1.0%
Mass Trans. Operating Assistance Fund	$1,850	$1,862	$1,979	$117	6.3%
Dedicated Mass Transportation Trust Fund	$649	$718	$669	($49)	-6.8%
Other Special Revenue Funds	$43	-	-	-	-
Federal Funds	$1,568	$1,638	$1,734	$96	5.9%
Total Transportation Receipts	**$5,892**	**$6,032**	**$6,214**	**$182**	**3.0%**

Source of Transportation Funds
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means Committee Staff

Education Funds

Education receipts include income received from the General Fund support, Lottery, other revenue streams and Federal grants. Total Education Receipts are estimated at $25.8 billion, an increase of $1.5 billion above SFY 2007-08

General Funds support for Education in SFY 2008-09 is estimated at $19.1 billion, an increase of $1.2 billion above SFY 2007-08.

Special Revenue Education receipts are estimated at $2.9 billion, an increase of $346 million above SFY 2007-08. The increase is attributed to $61 million increase in Lottery, and $285 million increase in Other Education including.

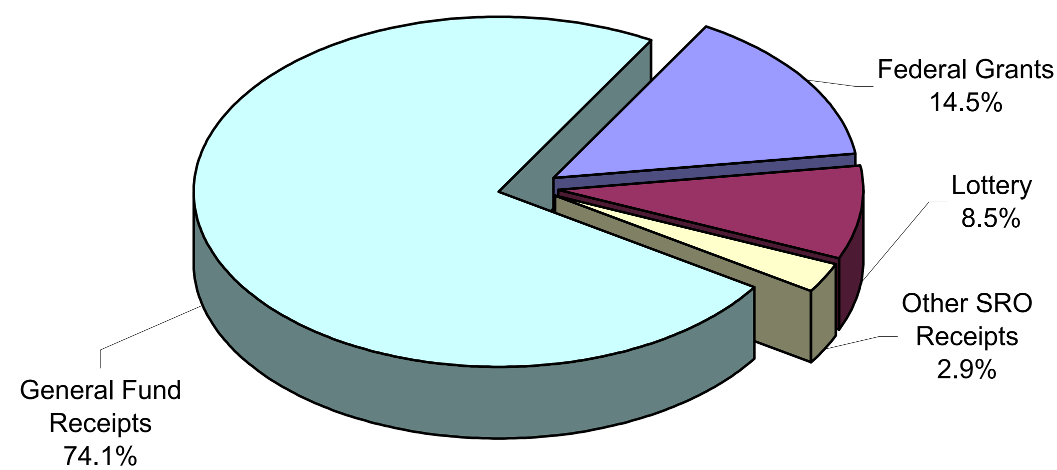
Capital Projects receipts are expected to be $2.0 billion, an increase of $48 million above the prior fiscal year.

Federal grants are expected to be $3.7 billion, an increase of $27 million above 2007-08.

Source of Education Funds
(Dollars in Millions)

	2006-07 Actual	2007-08 Projected	2008-09 Estimated	Change	Percent Change
Federal Grants	$3,619	$3,718	$3,745	$27	0.7%
Lottery	$2,309	$2,120	$2,181	$61	2.9%
Other SRO Receipts	-	$474	$759	$285	60.1%
General Fund Receipts	$16,280	$17,957	$19,116	$1,159	6.5%
Total Education Receipts	**$22,208**	**$24,269**	**$25,801**	**$1,532**	**6.3%**

Source of Education Funds
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means

Health Care Funds

New York State Health Care All Funds receipts for SFY 2008-09 is estimated to total $46.3 billion, an increase of $1.9 billion above the previous fiscal year. Health care receipt support several programs of which Medicaid is the largest. The program coordinates the provision, quality and cost of care for its enrolled members.

The General fund support for Health care is estimated at $13.7 billion, an increase of $919 million above SFY 2007-08. Medicaid receipts in the General Fund is estimated at $11.9 billion, an increase of $878 million over SFY 2007-08; $1.7 billion in other health receipts $41 million increase above the previous fiscal year.

Special Revenue Health Care receipts in SFY 2008-09 are anticipated to increase $424 million above the previous fiscal year. HCRA is anticipated to receive $5 billion, an increase of $110 million above SFY 2007-08.

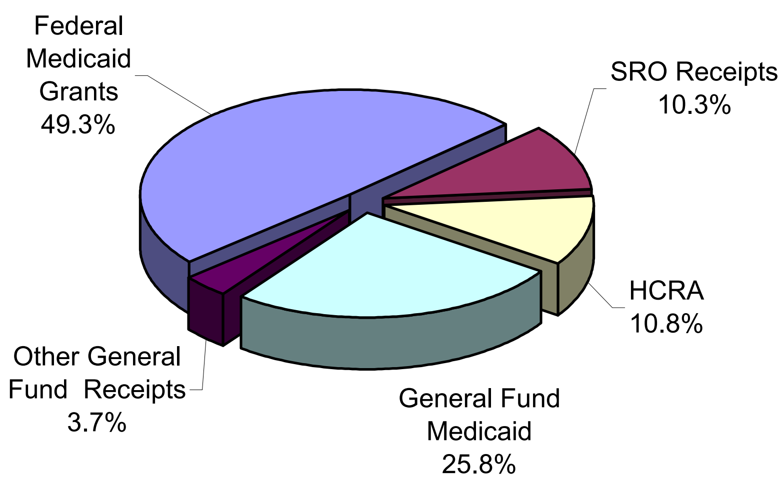
Capital projects receipts are estimated to increase $213 million above the SFY 2007-08 estimates. Debt service receipts are estimated to increase $5 million above prior year level.

Federal grants to the Health Care system are estimated at $22.9 billion, an increase of $593 million above SFY 2007-08.

Source of Health Care Funds
(Dollars in Millions)

	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Federal Medicaid Grants	$22,266	$22,859	$593	2.7%
SRO Receipts	$4,473	$4,787	$314	7.0%
HCRA	$4,906	$5,016	$110	2.2%
General Fund Medicaid	$11,101	$11,979	$878	7.9%
Other General Fund Receipts	$1,660	$1,702	$41	2.5%
Total Receipts	**$44,406**	**$46,342**	**$1,936**	**4.4%**

Source of Health Care Funds
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means Committee Staff

Health Care Reform Act (HCRA)

The State provides a variety of health care services such as Medicaid, Family Health Plus, Child Health Plus, Elderly Pharmaceutical Insurance Coverage, community based health care, and public health services like Early Intervention and General Public Health Works and Mental Hygiene.

Revenues to support HCRA includes surcharges and assessments on hospital revenues, proceeds from insurance company conversions, a “covered lives” assessment paid by Insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statue.

The SFY 2008-09 Executive budget estimates HCRA receipts of approximately $5 billion and a projected opening fund balance of $515 million that will support $5.1 billion of HCRA expenditures.

Conversion Proceeds

Receipts from conversions proceeds a result of the merger of WellChoice and WellPoint have enabled HCRA programs to remain operative. As a result of a merger, the State expected to receive $4.8 billion of which $4.26 billion was deposited into State accounts. The State anticipates an additional $550 million in SFY 2008-09 from the Wellpoint conversion. At the time of the merger the State received $2.7 billion in cash and 27 million shares of WellPoint common stock. In SFY 2006-07 $514 million, $999 in SFY 2007-08 million and $834 million in SFY 2008-09 derived from conversion proceeds.

Surcharges

HCRA receipts for the surcharge on patient service revenues are $2.1 billion, an increase of $49 million.

Cigarette Taxes

Cigarette receipts are expected to be $635 million, an increase of $60 million above the SFY 2007-08 estimates.

Covered Lives Assessments

HCRA receipts for the covered lives assessment on insurance companies and HMO's are $990 million, an increase of $140 million above prior year estimates.

Hospital Assessment (1 percent)

HCRA receipts for the one percent assessment on hospital inpatient revenues are $288 million, an increase of $17 million.

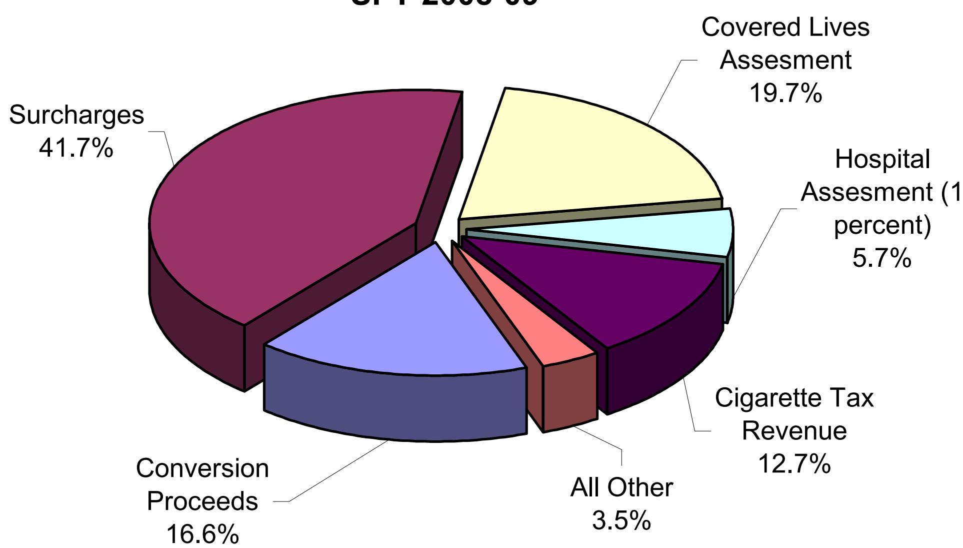
All Other

All Other HCRA receipts increased from $169 million to $178 million, an increase of $9 million.

Health Care Reform Act (HCRA) Receipts
(Dollars in Millions)

	2006-07 Actual	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Conversion Proceeds	$514	$999	$834	($165)	-16.5%
Surcharges	$1,847	$2,042	$2,091	$49	2.4%
Covered Lives Assesment	$809	$850	$990	$140	16.5%
Hospital Assesment (1 percent)	$256	$271	$288	$17	6.3%
Cigarette Tax Revenue	$574	$575	$635	$60	10.4%
All Other	$216	$169	$178	$9	5.3%
Total Receipts	**$4,216**	**$4,906**	**$5,016**	**$110**	**2.2%**

Source of HCRA Funds
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means Committee Staff

Higher Education Receipts

Higher Education receipts include income received from tuition, fees, and patient revenues from the City and State University system, and the Higher Education Services Corporation. Total Higher Education Receipts are estimated at $7.4 billion, an increase of $185 million above SFY 2007-08 estimates.

General Fund receipts for SFY 2008-09 are estimated at $3.7 billion, an increase of $111 million above SFY 2007-08. SUNY General Fund receipts $1.7 billion, a decrease $34 million below SFY 2007-08; $1.2 billion of CUNY receipts an increase of $179 million and $816 million HESC receipts a decrease of $34 million below the previous fiscal year.

Higher Education Special Revenue receipts are estimated $3.4 billion, an increase of $59 million above SFY 2007-08. The change is attributed to $66 million increase in SUNY income which includes $2 million increase in tuition, $38 million increase in user fees, $26 million increase in patient revenues, and $7 million decrease in HESC.

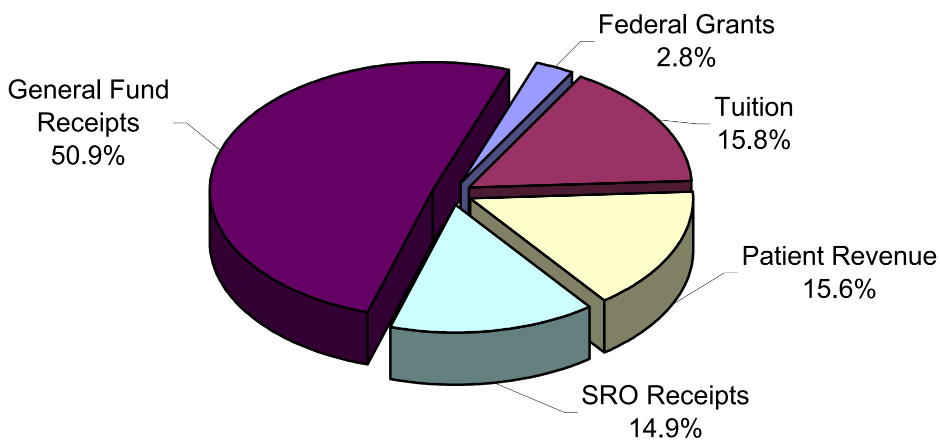
Capital Projects are estimated to be $14 billion, an increase of $1 million above the prior fiscal year. SUNY Dormitory fees which are pledged for debt service to the Dormitory Authority on bonds issued are estimated at $335 million, an increase of $9 million above SFY 2007-08 estimates.

Federal grants are expected to be $205 million, an increase of $5 million above 2007-08.

Source of Higher Education Funds
(Dollars in Millions)

	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Federal Grants	$200	$205	$5	2.5%
Tuition	$1,161	$1,163	$2	0.2%
Patient Revenue	$1,124	$1,150	$26	2.3%
SRO Receipts	$1,056	$1,098	$41	3.9%
General Fund Receipts	$3,643	$3,754	$111	3.1%
Total Receipts	**$7,184**	**$7,369**	**$185**	**2.6%**

Source of Higher Education Funds
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means Committee Staff

Environment Receipts

Environment receipts include income received from the General Fund, the Environmental Facilities Corporation and the Real Estate Transfer Tax. Total Environment Receipts are estimated at $2.5 billion, an increase of $115 million above SFY 2007-08.

General Funds receipts for SFY 2008-09 are estimated to decrease to $292 million, $11 million lower than the previous year.

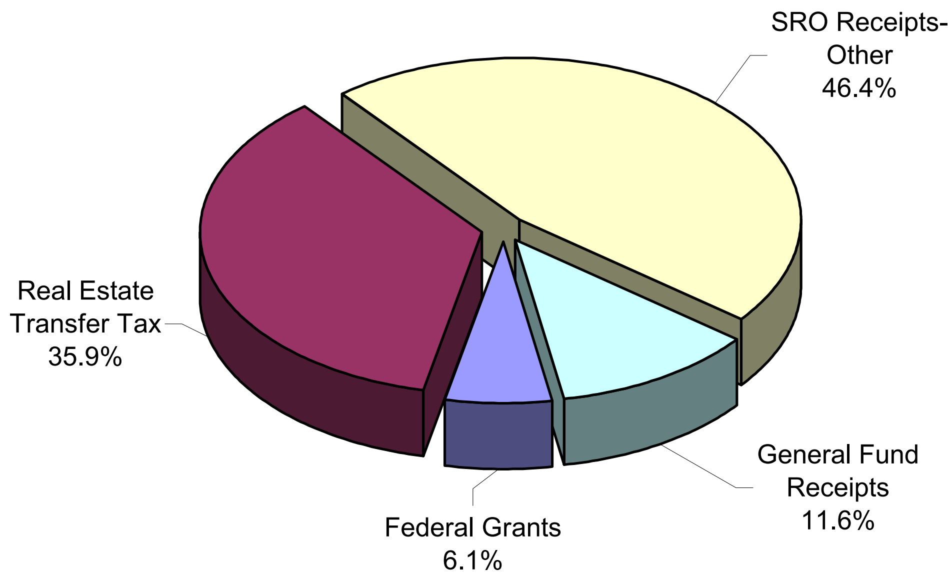
Environment Special Revenue receipts are estimated at $2.07 billion, an increase of $127 million above SFY 2007-08. The Real Estate Transfer Tax receipts are anticipated to increase $25 million in the Capital Project Fund and decrease $156 million in the Debt Service Fund from the previous year.

Federal grants are estimated to be $153 million, the same level as the previous year.

Source of Environment Funds
(Dollars in Millions)

	2006-07 Actual	2007-08 Estimated	2008-09 Projected	Change	Percent Change
Federal Grants	$156	$153	$153	($0)	0.0%
Real Estate Transfer Tax	$1,022	$1,035	$904	($131)	-12.7%
SRO Receipts-Other	$39	$910	$1,168	$258	28.3%
General Fund Receipts	$270	$304	$292	($11)	-3.7%
Total Receipts	**$1,487**	**$2,401**	**$2,517**	**$115**	**4.8%**

Source of Environment Funds
SFY 2008-09



Source: Executive Budget and Assembly Ways and Means Committee