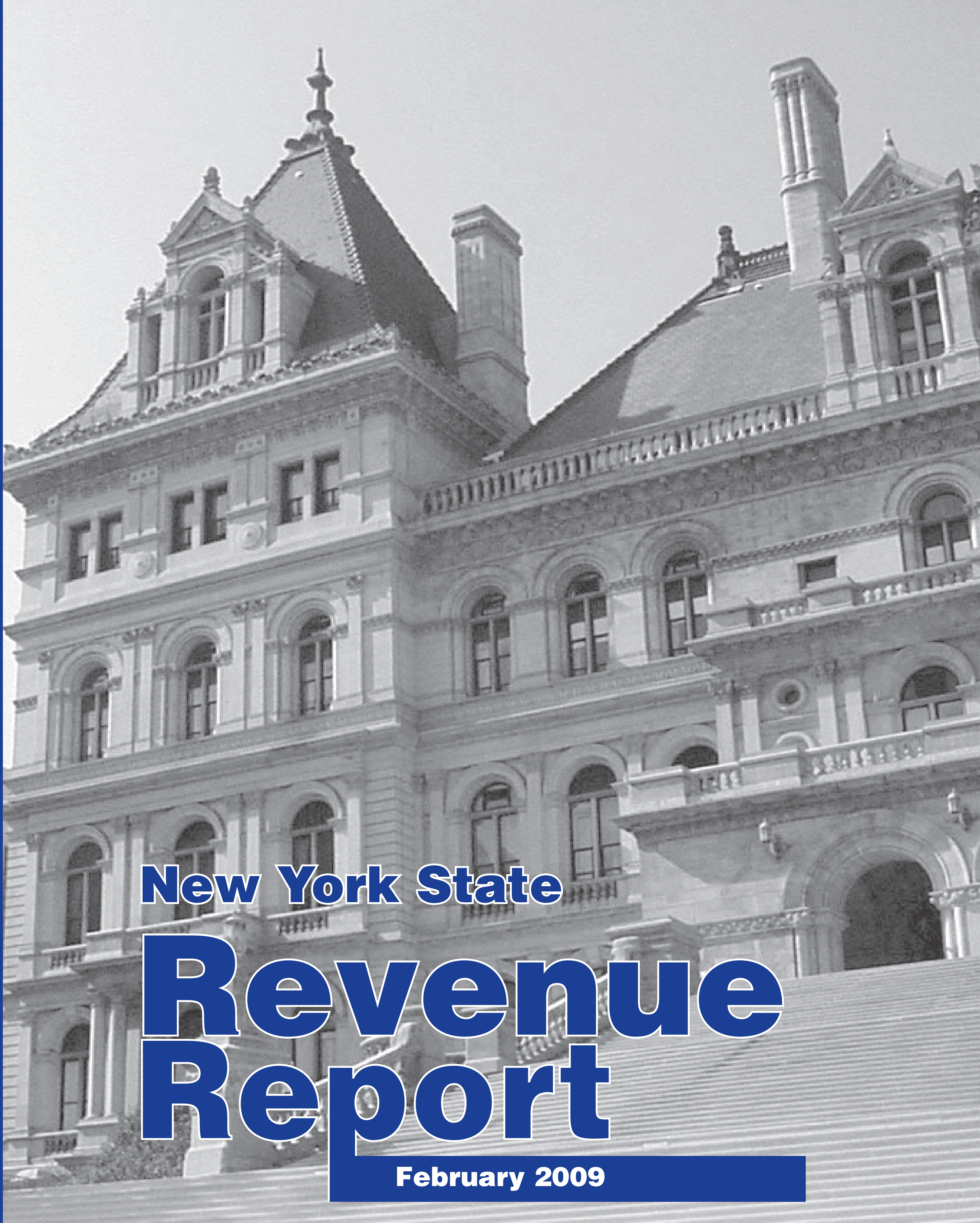

New York State

Revenue Report

February 2009

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee Staff

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February 11, 2009

Dear Colleagues:

I am pleased to provide you with the NYS Assembly Ways and Means Committee *Revenue Report* for State Fiscal Year (SFY) 2008-09 and 2009-10. 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 2008-09 and 2009-10.

The Committee staff projects that total All Funds receipts will reach $116.3 billion in SFY 2008-09, which represents an increase of $876 million, or 0.8 percent, over SFY 2007-08. The Committee staff estimate is $178 million lower than the Executive's estimate for SFY 2008-09.

The Committee staff projects that All Funds tax receipts will total $119 billion in SFY 2009-10, an increase of $2.7 billion, or 2.4 percent, over SFY 2008-09. The Committee staff forecast is $1,018 million lower than the Executive's forecast for SFY 2009-10. 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 2008-09 AND 2009-10

February 2009

SHELDON SILVER
Speaker
New York State Assembly

HERMAN D. FARRELL, JR.
Chairman
Assembly Ways and Means Committee

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National Economic Crisis Undermines State's Financial Plan

The state financial plan is in a precarious position as both the national and state economies continue to deteriorate and revenues continue to decline. The financial failings of Wall Street and the economic declines on Main Street have substantially changed the state's financial plan outlook. With very little reserves to fall back on the Executive Budget estimates that revenues will fall $1.7 billion short of spending in State Fiscal Year (SFY) 2008-09 without remedial legislative action.

According to a recent report by the Center on Budget and Policy Priorities, states across the nation are faced with a $94 billion cumulative shortfall for fiscal year 2009, while an additional $145 billion shortfall is estimated for fiscal year 2010. For fiscal year 2010, New York's budget gap of $13.7 billion is 24.3 percent of the previous year's General Fund, the third largest percentage share, following Arizona and California.[1]

The State's receipts are derived from a variety of sources, more than 50 percent of total state receipts derived from taxes. The other sources consist of both state assessments and fees as well as federal funds. Total State receipts for SFY 2008-09 are expected to total $116.3 billion. Of this amount, $60.6 billion are derived from taxes, $19.7 billion from miscellaneous receipts and $36 billion come from federal funds.

In SFY 2009-10, total state receipts are expected to total $119.0 billion an increase of $2.7 billion. Of this amount $60.2 billion are derived from taxes, $23.1 billion come from fees and assessments, and the remaining $35.8 billion are expected in Federal Funds. Taxes decline by $458 million or 0.8 percent while Miscellaneous Receipts increases by $3.3 billion.

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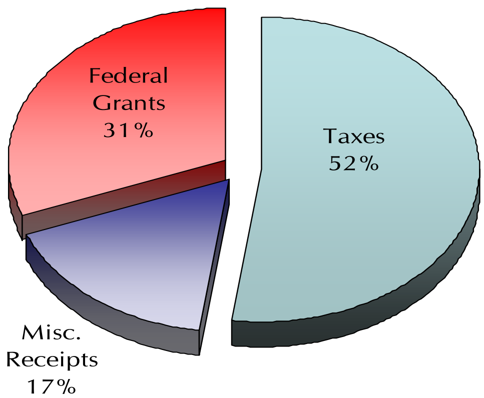
[1] "State Budget Troubles Worsen", E. McNichol and Iris J. Lav, Center on Budget and Policy Priorities, January 29, 2009.

All Governmental Funds Receipts

(Dollar Amounts in Millions)



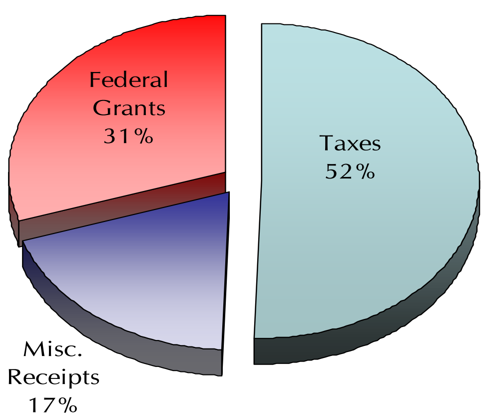
SFY 2008-09

Taxes	$60,609
Misc. Receipts	19,709
Federal Grants	35,978
Total	$116,296

Figure 1

All Governmental Funds Receipts

(Dollar Amounts in Millions)



SFY 2009-10

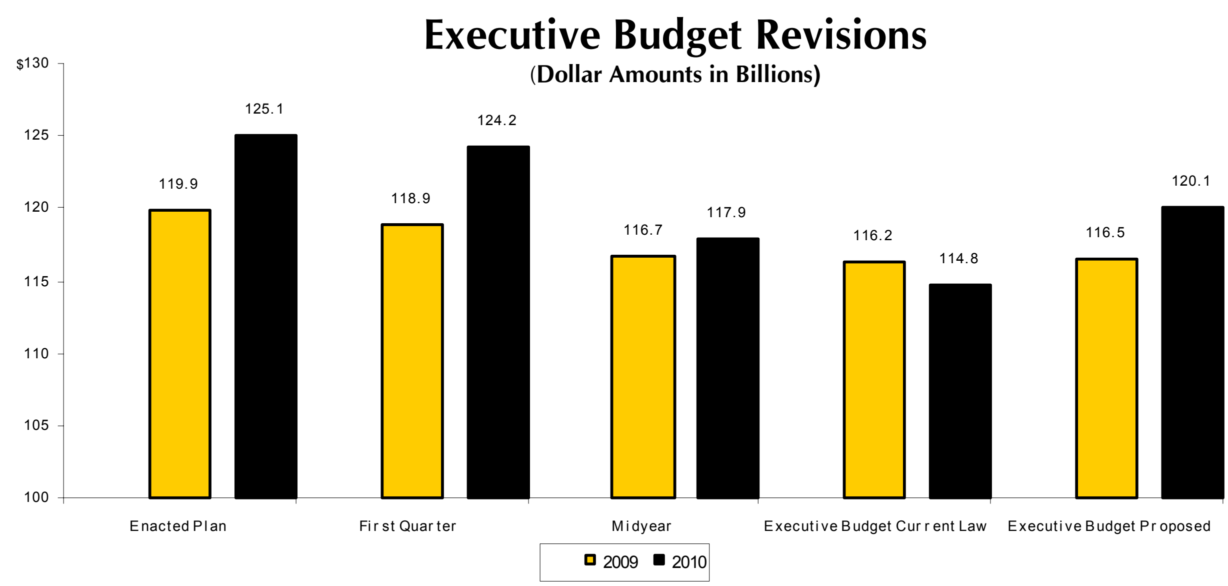
Taxes	$60,151
Misc. Receipts	23,054
Federal Grants	35,837
Total	$119,042

Figure 2

Economic Recession Causes Worst Decline in Revenues Since SFY 2002-03

Few, if any, states were prepared for the economic disruption caused by the collapse of the equity and real estate markets and the near collapse of the financial markets. The bleak outlook in the state's financial plan is primarily due to a significant downward revision in receipts. Economic conditions have quickly deteriorated since the Enacted Budget was passed by the Legislature in April 2008. Consequently, revenue forecasts that were based on expectations for the U.S. and New York economy in April must now be amended to reflect current economic realities.

Given the magnitude of the ongoing economic contraction, the Executive has substantially revised it's estimates of State revenue collections. For the upcoming fiscal year the Executive has revised All Fund revenues downward an additional $10.3 billion from the Enacted Budget estimates on a current year basis.



* Revenues prior to action on Article VII legislation
Source: Division of the Budget

Figure 3

Table 1

Summary of the Ways and Means Tax Forecasts (Dollar Amounts in Millions)						
Category	**2008-09**	**Change**	**Growth**	**2009-10**	**Change**	**Growth**
PIT	$36,689	$124	0.3%	$34,421	($2,269)	-6.2%
User	$14,163	$200	1.2%	$16,206	$2,043	14.4%
Business	$7,742	($489)	-5.9%	$7,941	$199	2.6%
Other	$2,015	($68)	-3.3%	$1,589	($432)	-21.4%
Total	**$60,609**	**($263)**	**-0.4%**	**$60,151**	**($458)**	**-0.8%**

Table 2

Forecast Differences from the DOB Midyear Update (Dollar Amounts in Millions)		
Category	**2008-09**	**2009-10**
PIT	$6	($149)
User	($208)	($573)
Business	$27	($192)
Other	($3)	($105)
Total	**($178)**	**($1,018)**

SFY 2008-09

In SFY 2008-09, the Committee staff estimates that tax revenues will total $60.6 billion, a decline of $263 million or 0.4 percent below the prior year. This estimate is $178 million below the Executive's midyear estimate. The difference in the forecast lies largely in the staff's estimates of personal income tax withholding, sales tax, and corporate franchise taxes.

SFY 2009-10

With the economy expected to remain in recession for much of 2009, absent any action on the Executive's revenue proposals, the Ways and Means Committee staff is forecasting State tax revenues of $57.3 billion, a decline of $3.3 billion, or 5.5 percent below SFY 2008-09 levels. This equates to a $3.6 billion, or 5.9 percent decline in revenues since SFY 2007-08. After including the Executive's tax proposals of approximately $2.9 billion[2], revenues would total $60.2 billion, a decline of $458 million, or 0.8 percent. The Committee Staff forecast is $1.018 billion below the Executive's forecast. Much of the difference in the forecast is attributable to differences in the Committee's outlook for user tax revenues, which accounts for $573 million of the difference.

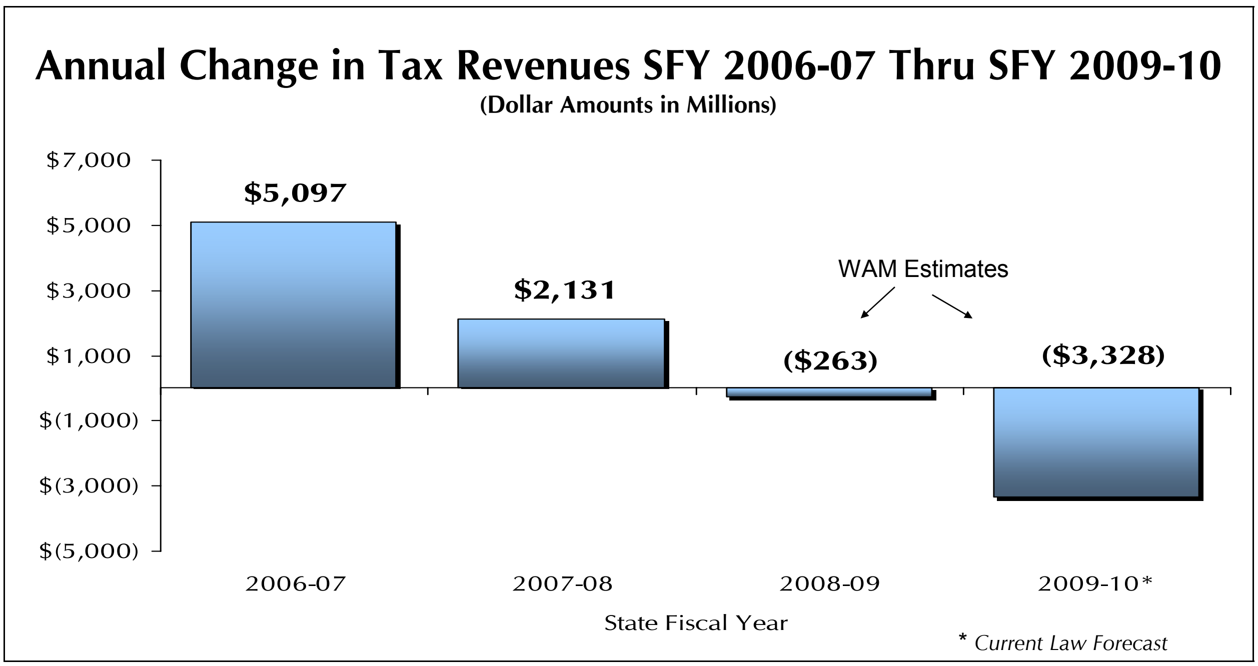


Figure 4

[2] This represents the total All Funds impact of the tax proposals contained in A.160-A, the Article VII Revenue bill. The total All Funds receipts number is $5.2 billion when fees and assessments are included.

Current Law vs. Proposed Law Growth Rates

Much of the discussion on the direction of revenue is based on a current law analysis to provide the reader with a truer picture of the relationship between the economy and State tax revenues. However, the Executive is proposing a variety of revenue actions that if enacted, will increase tax collections by $2.9 billion in SFY 2009-10. For purposes of analysis, the Committee staff accepts the fiscal estimates presented by the Executive. After adjusting for these proposals the proposed law growth in tax collections would be negative 0.8 percent, compared to a 5.5 percent decline on a current law basis.

The significance of the revenue decline for fiscal planning purposes can be illustrated by examining the historical average growth rates in each of the tax components and the baseline estimates predicted by the Committee Staff (see Table 3). In many instances out-year budgets are based on revenue growth that is consistent with these trends. For example, tax collections would be nearly $10 billion higher had revenues simply increased by the average growth rate over the two fiscal years.

Table 3

SFY 2008-09 & 2009-10 Forecasts (Dollars Amounts in Millions)			
Category	**2008-09**	**2009-10***	**1999-2009 Avg. Growth**
PIT	0.3%	-7.2%	6.8%
User	1.2%	1.3%	3.6%
Business	-5.9%	-5.6%	2.2%
Other	-3.3%	-21.4%	4.5%
Total Taxes	**-0.4%**	**-5.5%**	**5.0%**

**Current Law Growth Rates*

The Executive's revenue actions will have the most significant impact on the growth in User Taxes. The Committee staff estimates that under current law, User Taxes would increase by 1.3 percent in SFY 2009-10. Once the Executive's proposals are included, the growth in User Taxes rises to 14.4 percent. The following chart (Figure 5) illustrates the current law growth rates compared with the proposed law growth for each of the tax categories.

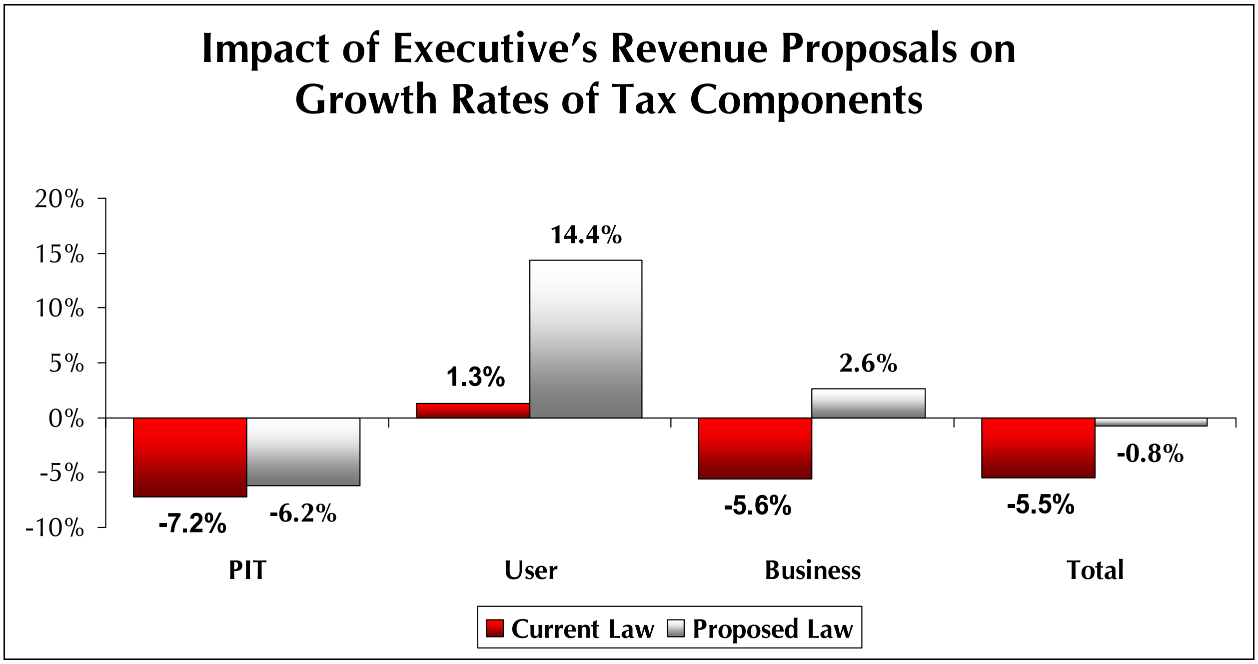


Figure 5

First Decline in State Tax Revenue Since 2002-03

The current economic downturn is expected to result in the first decline in State Tax revenues since the 2001 recession, which resulted in two consecutive years of revenue declines (see Figure 6). The current decline is not expected to be as severe in terms of percentage decline over a two year period, although the dollar amount of decline is similar in magnitude.

In SFY 2001-02, revenue declined by 3.8 percent, followed by an additional 6.7 percent decline in SFY 2002-03. Growth in revenue resumed in SFY 2003-04, in part due to the temporary tax increases enacted in 2003 to help provide budgetary relief for that and future fiscal years.

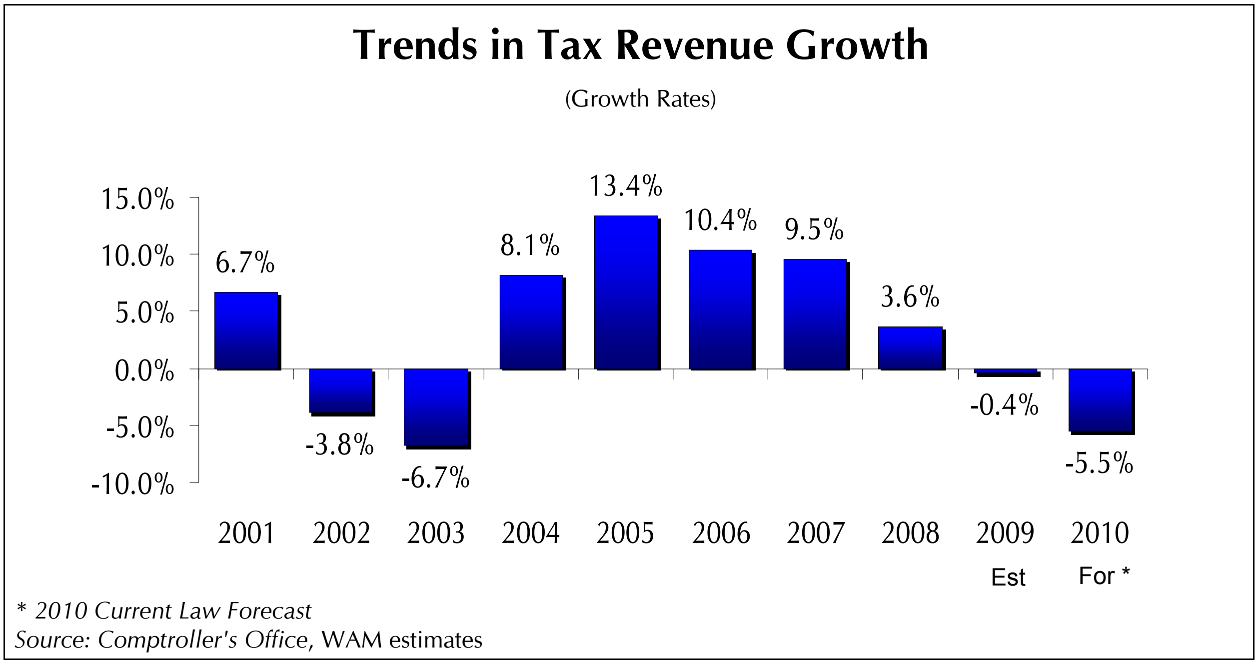


Figure 6

Year to Date Results

Year-to-date collections through December have grown by 6.0 percent. This growth rate is due to the 30 percent increase in personal income tax collections in the month of April, the result of a large settlement on 2007 tax liability. Since April, tax collections have only grown by 1.1 percent (see Figure 7). Collections are expected to get significantly worse in the last quarter of the fiscal year, which is typically when the State receives a large portion, nearly 30 percent, of its total revenues. The Committee staff expects revenues to decline by 15.7 percent in the current quarter of the fiscal year due to the impacts of the recession and financial crisis.

The fourth quarter decline in revenues will be most severe in the personal income tax, where the forecasted 47.9 percent decline in Wall Street bonus compensation will contribute to a $1.9 billion or 19.2 percent decline in withholding over the same quarter. Furthermore, the financial market turmoil is expected to lead to a 16.8 percent decline in estimated payments for the quarter. Overall, personal income taxes, which are currently growing by 10.9 percent, are expected to decline by 22.1 percent or $2.6 billion over the last three months of the fiscal year, ending up just 0.3 percent above the prior year (see Figure 8).

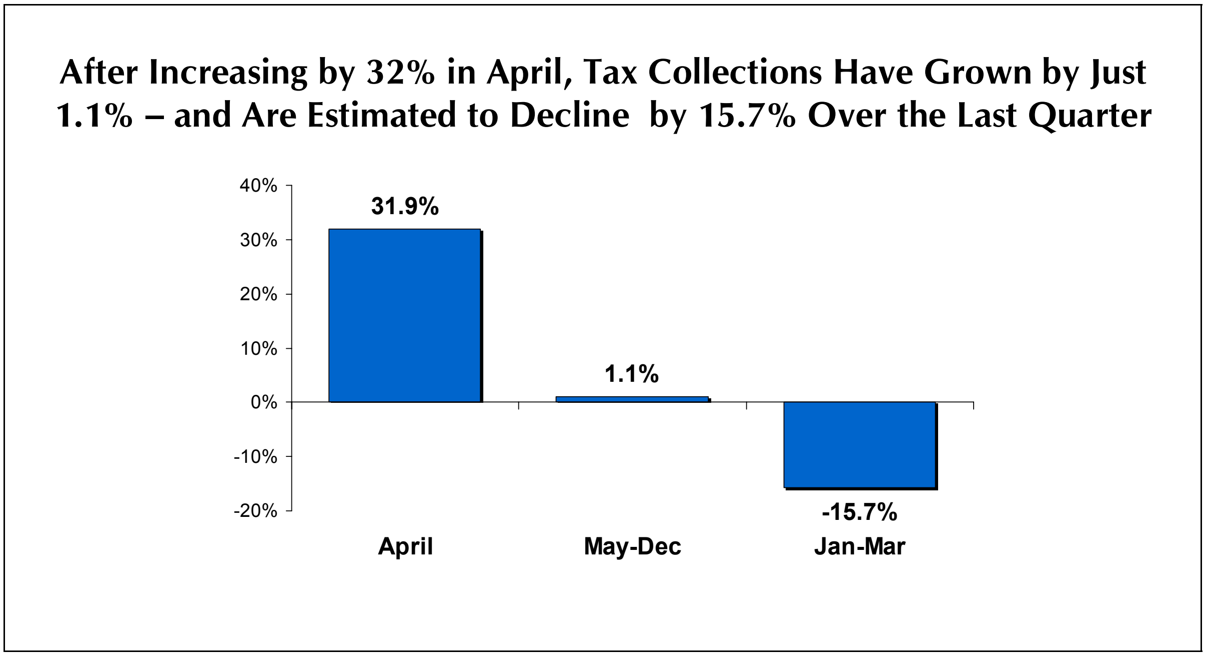


Figure 7

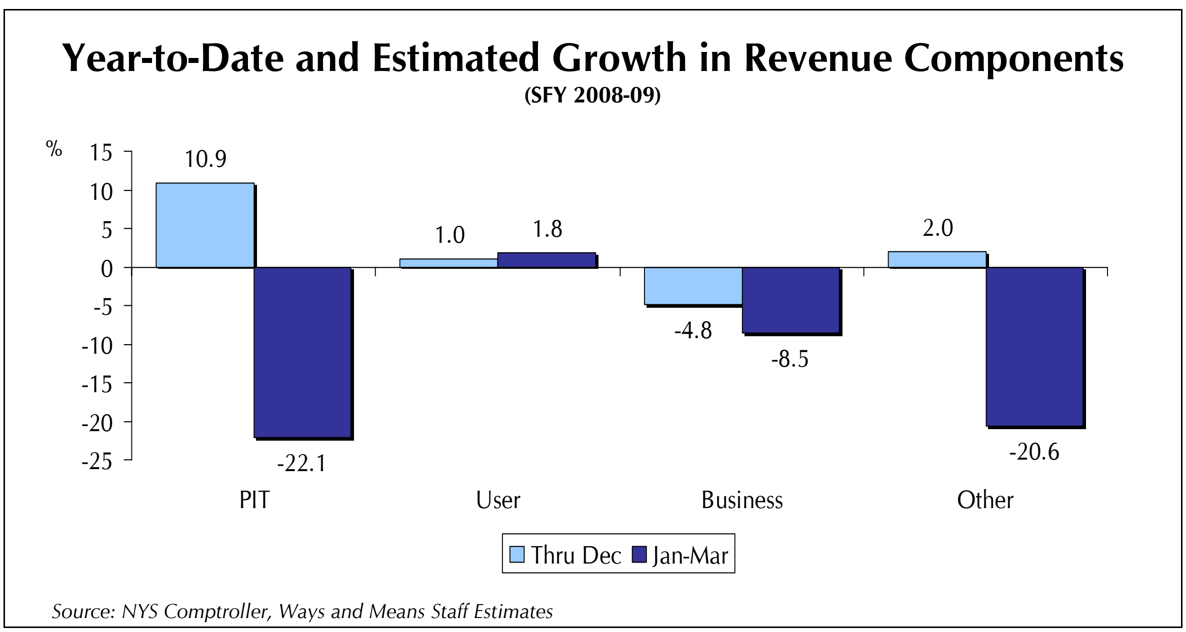


Figure 8

Through December, Sales and Use Tax collections declined by 1.5 percent largely due to the first monthly declines of the year that occurred in November and December. Sales taxes declined by 7.0 and 11.8 percent respectively, which likely reflects the disappointing sales during the holiday retail shopping season.[3]

Business Taxes have declined for most of the fiscal year, declining by $269 million, or 4.8 percent through December, largely the result of eroding corporate earnings and the unprecedented write-downs in the financial services and banking sectors. However, a large increase in audit collections in December masks the underlying weakness in the corporate franchise tax. Adjusting for the audit collections, the corporate franchise would have declined by 29 percent in December.

Actions taken in the Enacted Budget are expected to alleviate a portion of the expected decline in the last quarter of the fiscal year. These actions include an increase in the March pre-payment from 25 percent to 30 percent of prior year liability, an increase in the capital base alternative tax, a tax shelter voluntary compliance initiative and the extension of the corporate and bank tax to out-of-state credit card companies. Overall, Business Taxes are expected to decline by $489 million or 5.9 percent in SFY 2008-09.

Deteriorating Economic Conditions Force Forecast Revisions

With each evaluation of the State's fiscal condition, the Ways and Means Committee staff has lowered its estimate for total revenues. In November's Mid-Year Update the Committee staff estimated that total taxes in the current fiscal year would fall short of the Executive's Enacted Plan estimates by $2.9 billion. As economic conditions have continued to deteriorate, the Committee staff has revised this estimate downward an additional $428 million. The Ways and Means Committee staff now estimates that tax collections will be $60.6 billion, which is $3.3 billion below the Executive's initial forecast contained in the Enacted Budget. The staff's current estimate for SFY 2008-09 is $178 million lower than the Executive's 30-Day amended estimate.

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[3] Some of the decline in December collections could also be the result of the impact of winter ice storms that impacted much of upstate NY in December, as well as administrative issues relating to the issuance of new quarterly tax forms, which is expected to push a portion of December's collections into January 2009.

In the November 2008 Mid-Year Update, the Ways and Means Committee staff forecasted that tax collections for the upcoming SFY 2009-10 would be $59 billion, $6.9 billion below the Executive's 1st Quarter Update and $1.1 billion below the Executive's Mid-Year Financial Plan Update.

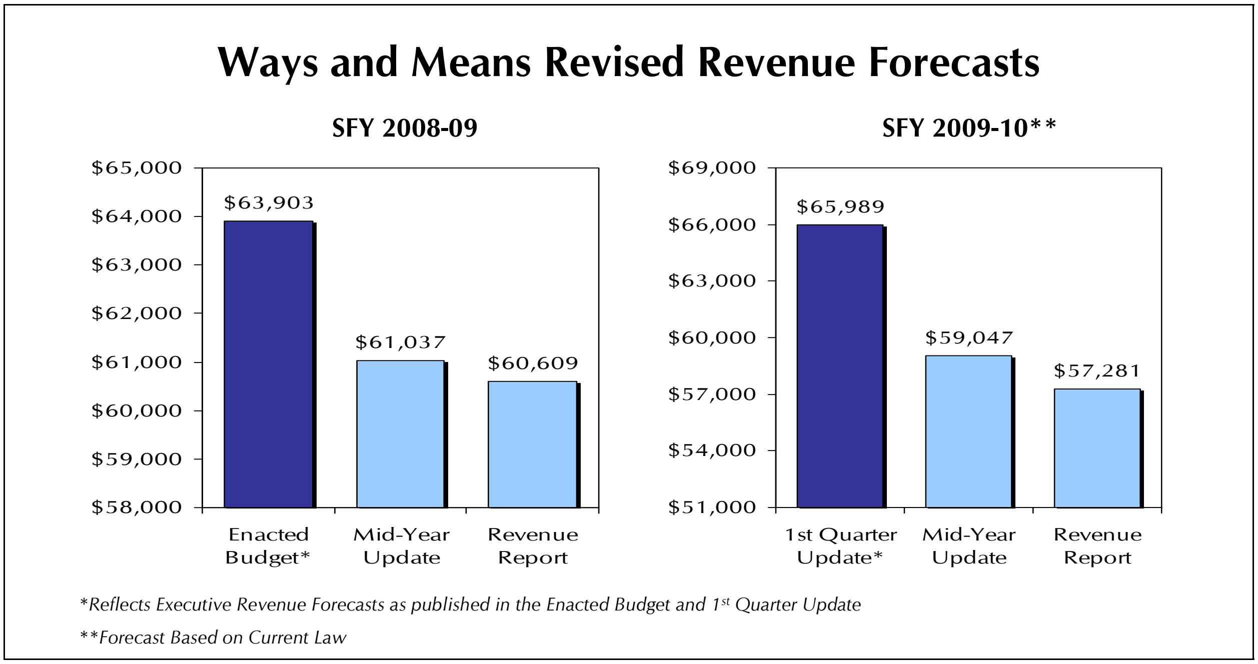


Figure 9

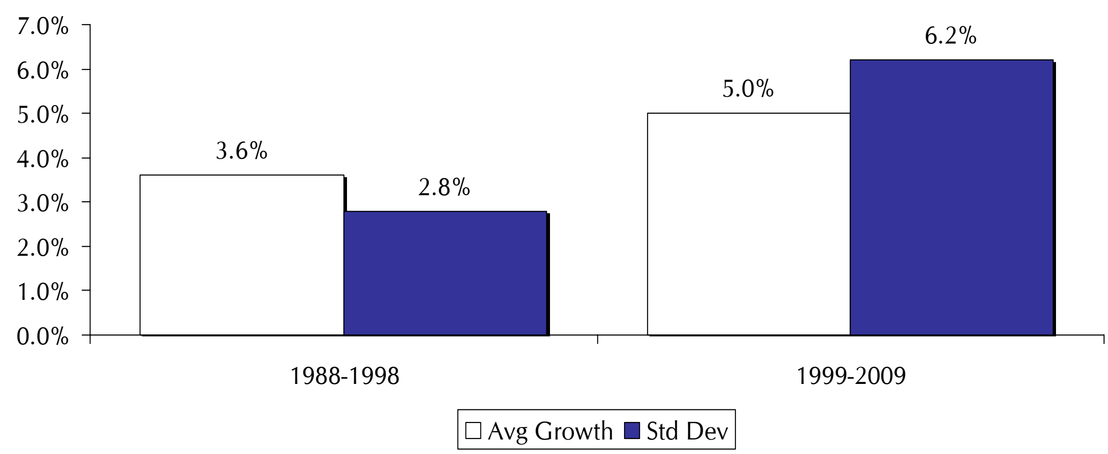
The continued weakening of the economy since the Mid-Year Update has again led the Committee staff to lower its current forecast from the Mid-Year Update. For SFY 2009-10, the Ways and Means Committee Staff is now forecasting that total tax collections will fall to $57.3 billion on a constant law basis, $3.3 billion lower than the current fiscal year and $1.018 billion lower than the Executive 30-Day amended forecast. The latest forecast is $8.7 billion below the Executive's 1st Quarter Financial Plan Update. If not for the assumed economic benefit from the proposed economic stimulus plan still working its way through Congress, revenues would be even lower.

Revenue Volatility Aggravates State's Fiscal Position

The Committee staff's baseline revenue forecast is predicated on a significant slowdown in general economic activity, which is highlighted in this report and detailed in the Economic Report. 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. 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 1987-88 to 1997-98, taxes grew at an annual average of 3.6 percent. The variation in growth, as measured by the standard deviation, was 2.8 percent during this period. Since 1998-99 the average growth rate of state tax revenue has increased to 5.0 percent, however, the standard deviation in growth rates increased to 6.2 percent.

Average Growth in Revenue Has Increased Along With Volatility



Source: NYS Comptroller, WAM staff estimates

Figure 10

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 must be taken into account when assessing the risks associated with the Committee staff's forecast.

Forecast Implications of Financial Crisis

In the next two chapters the Ways and Means Committee's Revenue Report provides a brief overview of the current economic environment and, more importantly, of the fundamental causes that led to the near collapse of the financial system. The Ways and Means Committee staff hopes to provide the “bridge” between the current recession, its genesis, path to recovery, and, importantly, the implications for the current and future New York State revenue sources. The analysis that follows premises the current recession on a toxic combination of easy credit, over-leveraging, low quality sub-prime mortgages, securitization, and credit risk sharing that led to a total financial meltdown when economic agents were faced with higher interest rates, tight credit, and home prices that started collapsing. The complex financial system imploded dragging down the entire economy and, therefore, revenue collections.

Economic Basis for Revenue Forecast

Estimating revenue collections depends on imprecise relationships between economic variables, taxpayer behavior, and tax administration. Forecasts are based on statistical relationships from historical data. However, when unforeseen or unique shocks affect the economy, normal rules and relationships may not apply.

The U.S. and NYS economies are faced with a financial crisis of historic proportions. While no two economic cycles are ever the same, certain trends or patterns are fairly consistent for economists to theorize and anticipate the direction of outcomes. However, not since the Great Depression has the U.S. witnessed events and governmental intervention of such magnitudes. The financial system is being shaped anew while the U.S. economy is seeking a new equilibrium as it continues to contract sharply.

As financial institutions are going through the process of deleveraging – inclusive of write-downs of depreciating assets and reduction of loan exposure as witnessed by increasing lending standards. – the "real" economy is experiencing a two-fold shock:

- Reductions in the availability of short-term credit for expansion (i.e. capital and labor inputs expansion);[4] and,

- Reductions in consumer purchases as households are faced with lower wealth (a result of stock market losses and depreciating housing stocks), and deteriorating confidence.

This has led to very little confidence in the economy. As consumer and investor confidence erodes, the duration and the depth of the recession gets worse. This leads to an expectation that the turn-around in the economy is not immediately forthcoming.

Confidence or the timing of a quick economic recovery cannot be measured with any precision. Surveys, financial market interest rate spreads, and other economic and financial

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[4] A particular example of short-term business financing is commercial paper. Firms with high-quality debt and ratings are able to borrow from money market mutual funds and other investors without collateral for financing short-term obligations such as payroll. As investors have been increasingly reluctant to loan – due to their own precarious liquidity positions – interest rates for commercial paper have soared, imposing severe constraints on financial and corporate institutions.

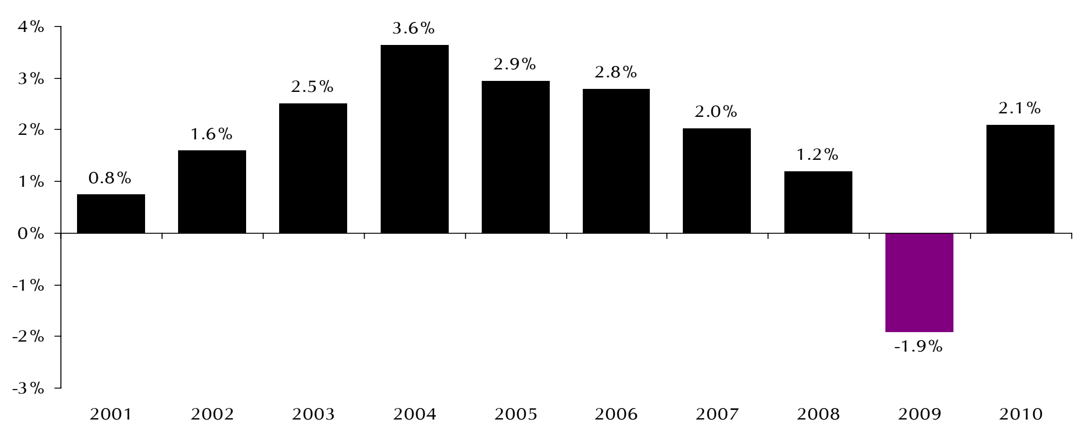
indicators are used to help forecasters gauge where to direct a point estimate within a range of statistical probabilities. This is made even more difficult given the depth and duration of the recession, uncertain regulatory environment and the significant change in the financial and securities markets. Nevertheless, after factoring in the impact of an economic stimulus package, the Committee staff expects a modest rebound in economic activity in the second half of 2009.

U.S. Economy in Recession - Economic Contraction has Negative Implications for NYS Revenue Receipts

According to the National Bureau of Economic Research, the official body that is responsible for dating economic recessions and expansions, the U.S. economy entered into a recession effective December of 2007.

Key macroeconomic indicators point to a severe and protracted recession. Output and, therefore, employment have posted or are expected to post further declines as industries are being affected by the economy-wide deleveraging and contraction.

The U.S. Economy Entered into a Recession in December 2007 and it is not Expected to Recover Until the 3rd Quarter of 2009



Source: U.S. Bureau of Economic Analysis, NYS Assembly Ways and Means Committee staff

Figure 11

The Committee staff currently estimates that GDP, the broadest measure of the health of the national economy, will increase by 1.2 percent in 2008, following declines in both the third and fourth quarters of 2008. The Ways and Means Committee staff projects that the national economy, as measured by GDP, will contract by 1.9 percent in 2009 followed by growth of 2.1 percent in 2010.

Economic activity in all industries and markets has been impacted by the financial crisis. For example, the real estate market is hurt by the tightening in the credit markets. The depreciation of residential real estate is taking its toll on the consumer market. Without consumer demand small businesses cannot meet tougher lending standards to get credit.

As housing represents the single-largest asset of U.S. consumers, the imbalance in the supply and demand for housing had ripple effects on manufacturing, transportation, and other higher-order capital-intensive industries all the way to the retail industries as currently witnessed by declines in retail sales.

In turn, reduced demand for retail products, leads to lower inventories, lower demand for durable and non-durable goods and an overall contraction of economic activity that leads to unemployment, lower incomes and a repeat of the vicious cycle until the economic system has been purged of the causes and effects of the housing malinvestments.

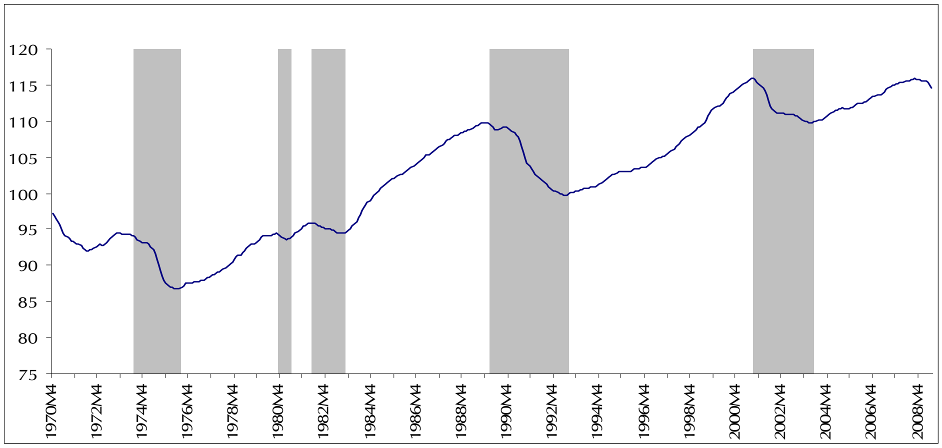
Coincident and Leading Economic Indicators Point to Further Deterioration

As of November 2008, the New York State Department of Labor's Index of Coincident Economic Indicators (ICEI) declined at an annual rate of 3.6 percent. Since January 2008, the ICEI has declined by 0.8 percent, underlying the State's dire financial predicament. (See Figure 12.) Five consecutive declines in the index have historically been associated with a State recession.[5] A prolonged decline (at least five consecutive months) in the ICEI serves as the trigger for the release of money from the State's "rainy day" reserve fund.

[5] Designed to identify a common but unobserved component of several macroeconomic variables, the Coincident Index provides timely information on current economic conditions. Its design is based on four variables, consistent with similar methodologies across the literature: private sector employment, unemployment rate, average weekly hours of manufacturing workers, and sales tax collections (proxy for retail sales).

New York State Index of Coincident Economic Indicators

July 1992 = 100



Note: Shaded Areas Represent NYS Recessions

Source: New York State Department of Labor

Figure 12

A similarly constructed index by the Federal Reserve Bank of New York points to a significant economic decline across New York, with the index registering a 5.2 percent annualized decline in November 2008, the ninth consecutive drop. The index for New York City did not enter negative growth until August of 2008, but the rate of decline has accelerated since.

Weakening Labor Markets, Household Wealth, and Consumer Confidence Substantially Reduce Sales Tax Growth

Dramatic declines in business activity with massive job losses and increases in unemployment are the unavoidable consequences of the overall economic contraction. Since the start of the recession in December 2007, the U.S. economy has lost 3.6 million jobs and the losses are forecast to continue well into 2009. As of January 2009 the unemployment rate stood at 7.6 percent, up from 4.9 percent as of December 2007, the highest since September 1992.

Figure 13

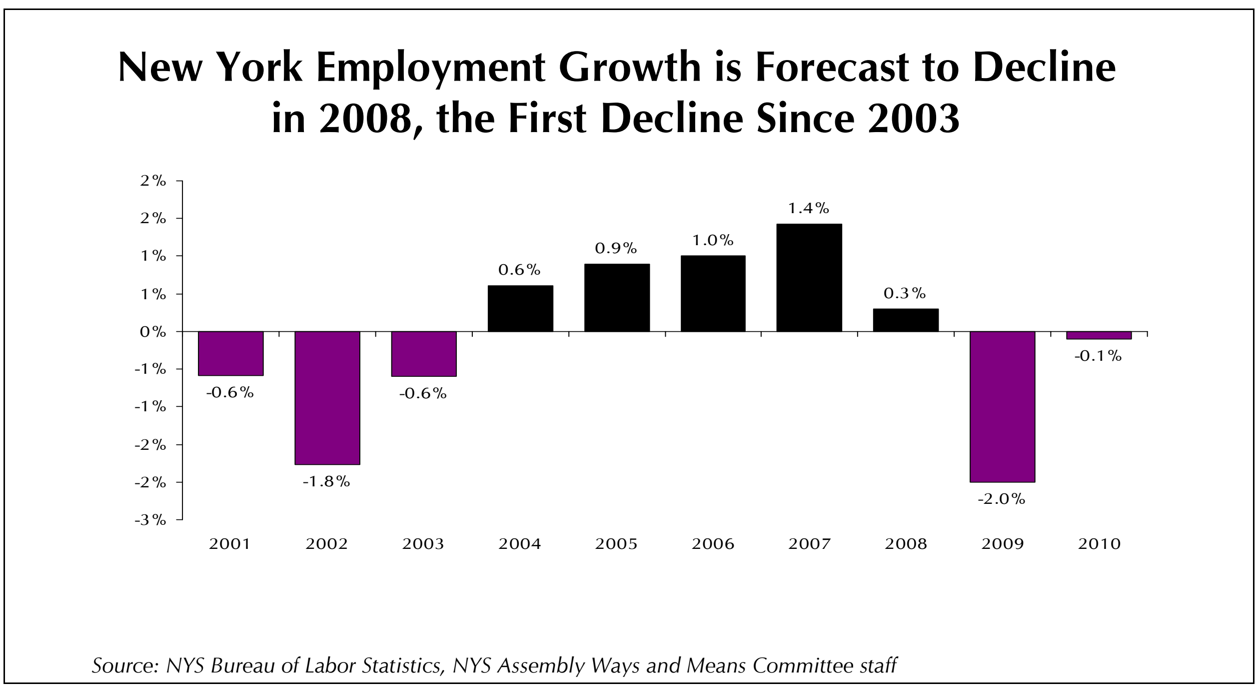


Figure 14

In 2008, New York employment is projected to increase by 0.3 percent while a 2.0 percent decline is currently projected for 2009. With the exception of the education and health industries, every other sector of the State will experience losses in employment.

By the end of December 2008, the S&P 500 stock market index posted a 38.5 percent decline over the same period in 2007 with similar stock market losses around the world as witnessed by the 42 percent decline in the S&P Global 1200 index. The Ways and Means Committee staff projects a further erosion in the S&P annual average rate of 22.2 percent decline before rebounding 11.5 percent in 2010.

The steep deterioration in economic conditions has precipitated historic declines in consumer confidence as evidenced by the Conference Board's Consumer Confidence Index. As of December 2008, the Index registered a value of 38.0, an all-time low. As a result, consumer expenditures growth slowed rapidly in 2008 and is forecast to decline by 1.6 percent in 2009, the first decline since 1980.

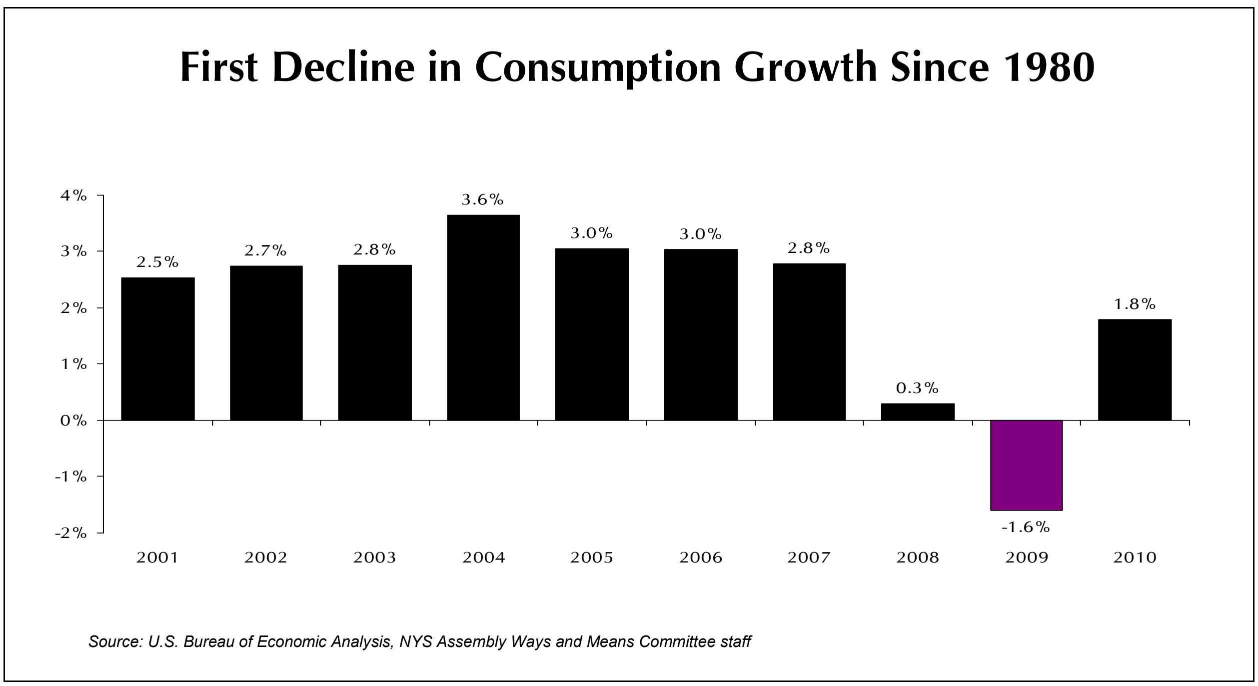
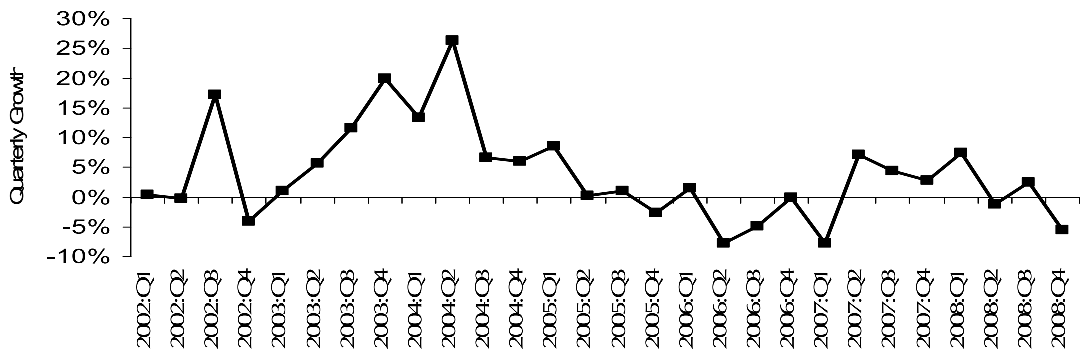


Figure 15

While overall consumption growth has slowed dramatically, the composition of consumption expenditures bears an important role in the behavior of tax receipts as they relate to the sales tax.

Sales Taxes Declined Sharply During 2008Q4 Due to Weak Holiday Shopping Season



Source: Comptroller's Office

Figure 16

The combination of rising unemployment and a decline in household wealth has lowered consumer confidence with declines in the sales tax in the fourth quarter of 2008 that will continue into 2009.

Expenditures on consumption durables historically exhibit a much greater volatility as is evidenced in Figure 17. As consumer durable purchases rely more heavily on debt, and therefore interest rates, they are more sensitive to the business cycle.

After registering double-digit growth during 2006 and robust growth in early 2007, consumer durables expenditure growth posted double-digit declines in 2008, and growth is not expected to recover until the third quarter of 2009. As the New York State sales tax base is “biased” towards consumer durables, such declines have severe implications for sales tax collections, as witnessed by the 11.8 percent decline in December 2008 compared to the same month a year ago.

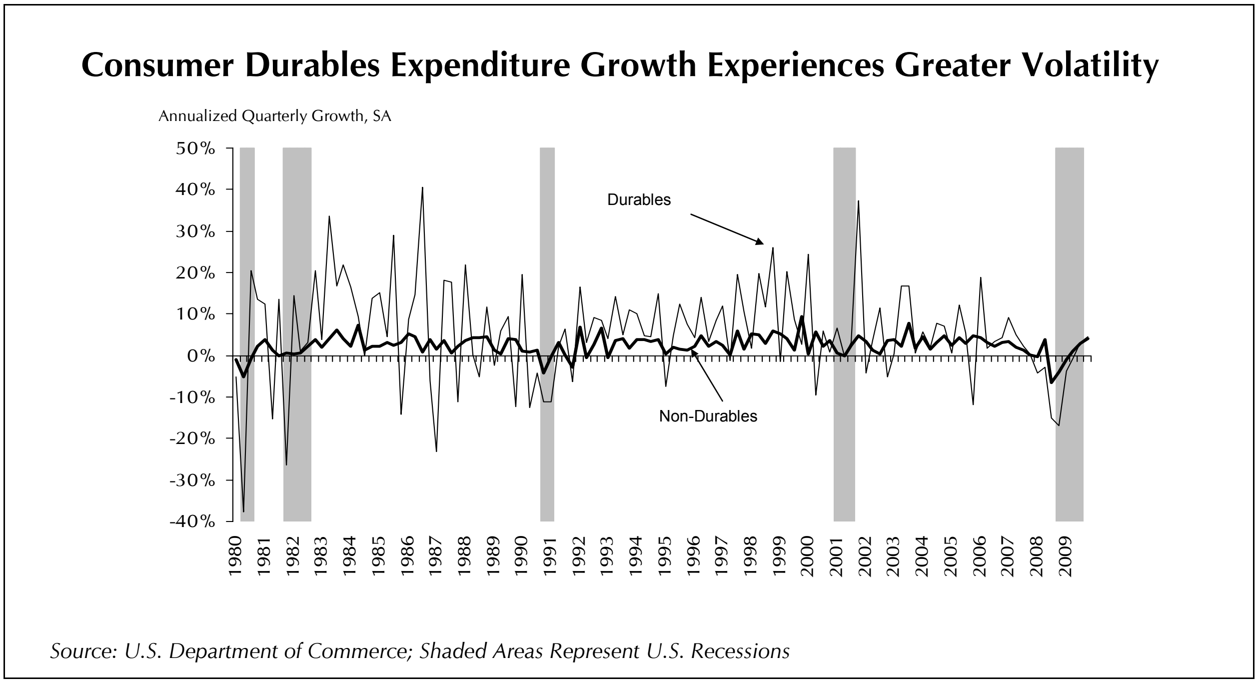


Figure 17

Personal Income Tax Receipts Reflect Lower Wages and Salaries

New York State tax receipts critically depend on wages and salaries compensation as well as on user taxes, such as the sales tax. Wages and salaries in New York are estimated to have grown by 1.9 percent in 2008, down from 8.8 percent in 2007, and are forecasted to decline by 4.1 percent in 2009.

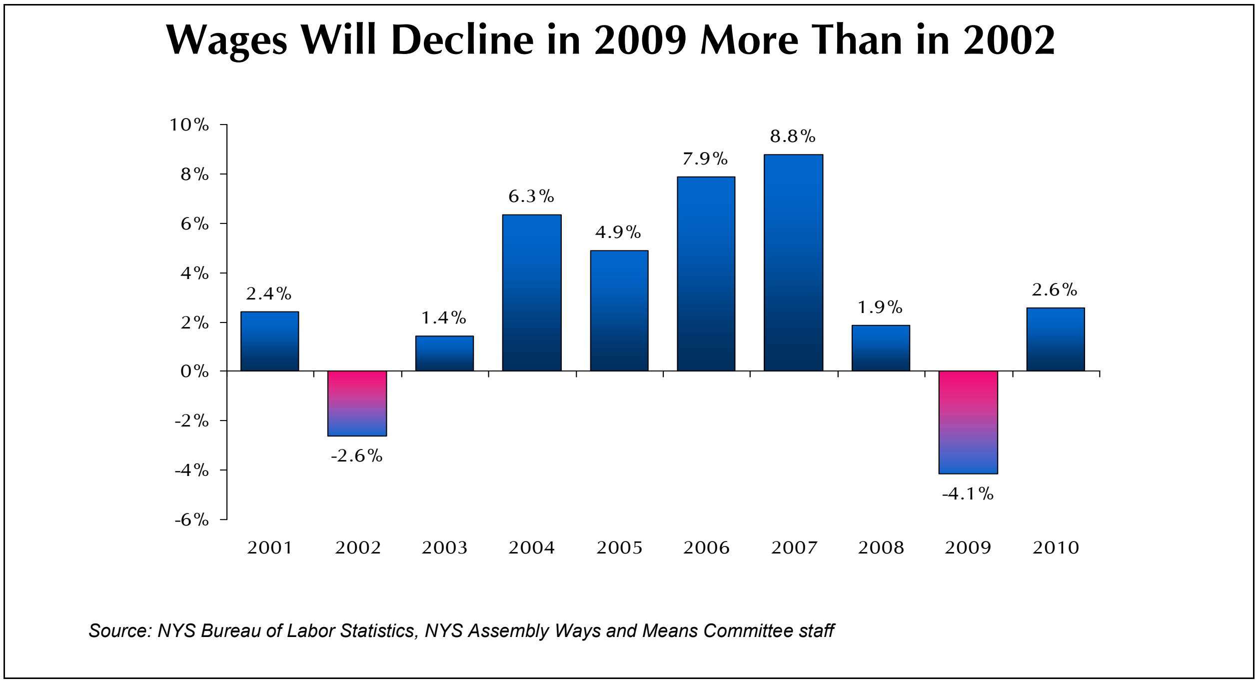


Figure 18

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 2.4 percent and variable wages are expected to decline by 1.3 percent.

Variable compensation, which includes bonuses, stock options and other forms of compensation, is expected to decline by 30.4 percent in 2009 while base wages are forecast to increase by 0.1 percent.

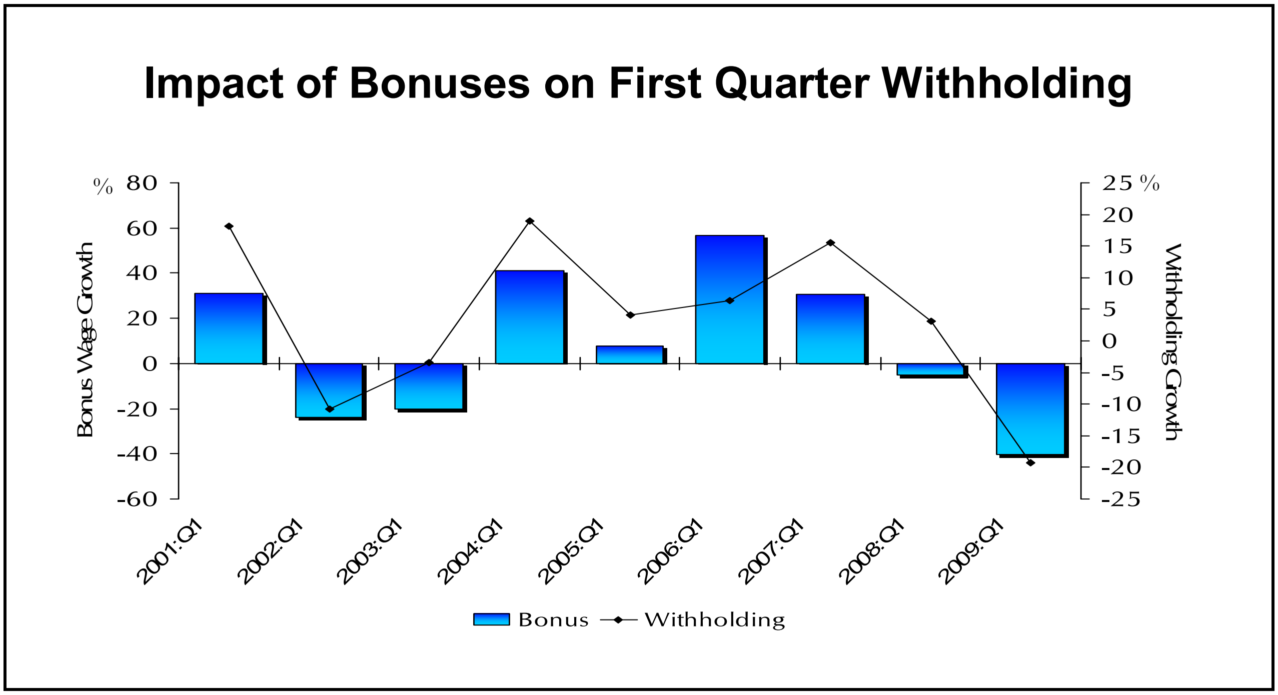


Figure 19

New York City, and Wall Street in particular, account for a significant share of compensation. Over half of the wages paid in the State are paid in New York City, although the City accounts for only 42.7 percent of employment. In 2007 Wall Street accounted for more than 25 percent of all wages paid in the City, while accounting for only five percent of the jobs.

Considering the large projected bonus declines as shown in Figure 19, the potential for dramatic decline in personal income tax receipts is a near certainty as explained in our report.

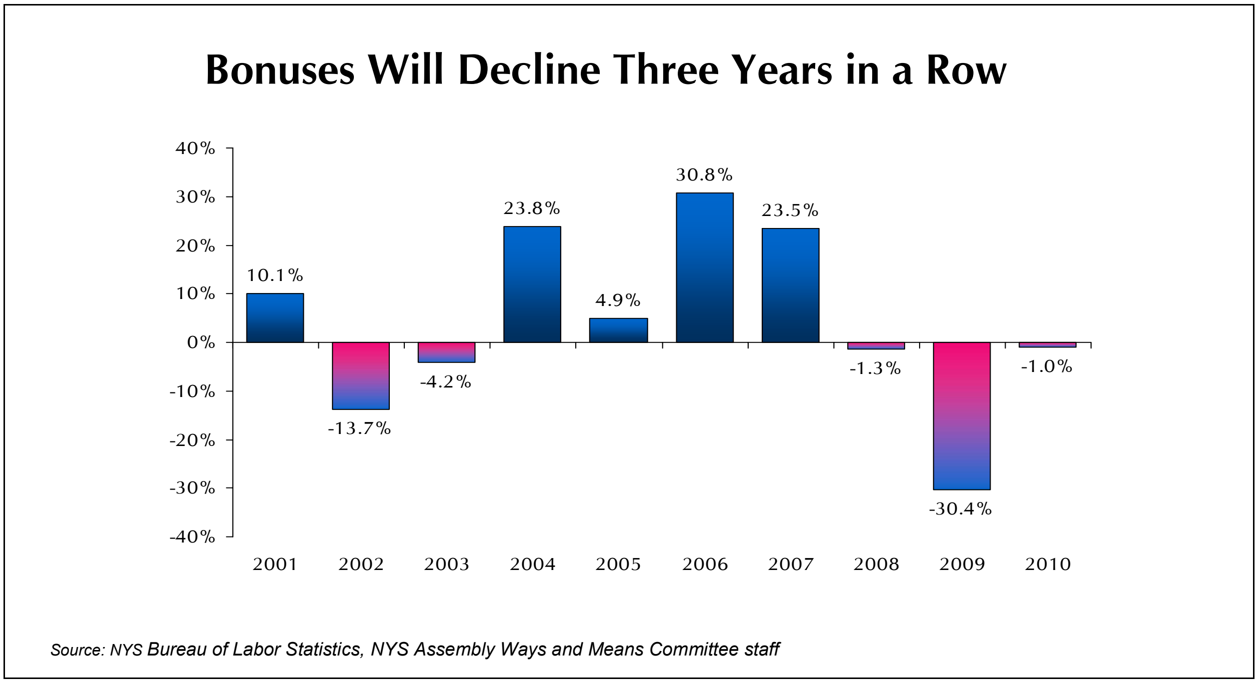


Figure 20

Declines in Real Estate and Equity Markets Reduce Capital Gains

The level of capital gains activity is another 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 much of the increases in the estimated payments component of personal income tax collections. (See Figure 21).

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.

The Committee staff projects net capital gains will decline by 50.0 percent in 2008, followed by an 18.5 percent decline in 2009.

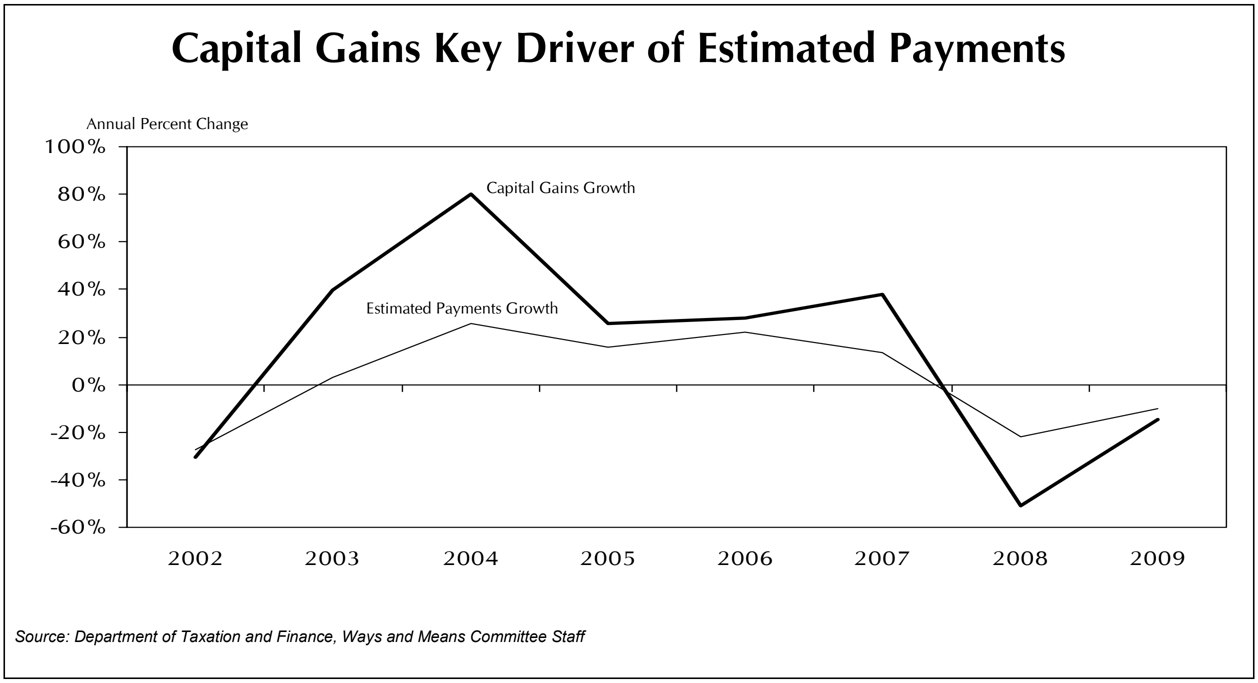


Figure 21

Volatile Energy Markets Increase Risks for Special Revenue Funds

Oil prices peaked in the summer of 2008 with the price of West Texas Intermediate reaching an average of $133.88 per barrel in June. Since September 2008 with the world economy in recession and with speculation on commodity prices, including oil, having subsided, oil prices have been declining, reaching the mid-$40s per barrel as of late January 2009.

The world economy may help stabilize oil prices, which has a significant effect on the State's revenue as various tax receipts are dedicated to several Special Revenue funds:

a) Motor Fuel Tax: imposed on gasoline and diesel fuels used in New York, tax receipts depend on total taxable gallons consumed, which in turn depends on fuel prices. As fuel prices increase consumption decreases and therefore tax collections decrease. All Motor Fuel tax receipts are deposited into the Dedicated Highway and Bridge Trust Fund (DHBTF) and the Dedicated Mass Transportation Trust Fund (DMTTF);

b) Petroleum Business Tax (PBT): imposes a tax on the import of petroleum products. The precise tax rate depends on the type of product as well as on the respective price changes over the course of the year. Therefore, volatility in fuel prices cause volatility in tax receipts. All of PBT receipts are deposited with the DHBTF, DMTTF, and the Metropolitan Mass Transportation Operating Assistance Account.

If any disruption in the energy markets or oil producing countries triggers another speculative run on oil, it could produce a damaging effect on gas prices that would further weaken an already battered consumer.

Global Economic Weakness Prolongs National and State Fiscal Recovery

Global financial and economic trends deteriorated over the course of 2008 with most major private forecasters sharply reducing their estimates for global GDP growth. As of January 6, 2009, according to the Macroeconomic Advisers, a trade-weighted measure of global GDP is expected to grow 0.6 percent in 2009, followed by growth of 3.7 percent in 2010. The Organization of Economic Cooperation and Development (OECD) also lowered its outlook and anticipates for its 30 members a 0.3 percent decline in GDP in 2009.

The U.S. dollar regained some of its strength over the second half of 2008 but still remains weak compared to the Euro. The dollar's weakness contributed significantly to a recovery in U.S. exports over the last few years. Weakness in foreign economies as well as the relative strengthening of the dollar will continue to hamper U.S. exports. However, on the positive side, weakened domestic demand exerts downward pressure on imports.

With record-breaking visitors during 2007 and 2008, New York City provides an ideal support for sales tax receipts, especially as the tax burden is exported to residents of other states or countries. The relative strengthening of the U.S. dollar combined with weak domestic and international demand for tourism services is expected to slow hotel and related spending over the course of 2009.

Table 4

Key Economic Forecast Variables (Percent Change)			
	Estimate 2008	Forecast 2009	Forecast 2010
US Variables			
Real GDP	1.2	(1.9)	2.1
Personal Income	3.7	0.7	3.4
Corporate Profits (Before Tax)	(12.7)	(9.5)	7.9
Employment	(0.4)	(2.7)	0.1
S&P 500 Stock Price	(17.3)	(22.2)	11.5
Treasury Bill Rate (3 month)*	1.4	0.4	1.1
Treasury Note Rate (10-year)*	3.7	2.8	3.3
NYS Variables			
Employment	0.3	(2.0)	(0.0)
Wages	1.9	(4.1)	2.6

* Annual Average Rate

Source: NYS Assembly Ways and Means Committee staff

The Financial Crisis and State Revenues

The new millennium has brought challenges to the nation's economy with the "boom-bust" business cycle experienced over the last decade. New York City and State have felt the brunt of the economic shocks, the first dealing with the 9/11 attack and the second with the near collapse of the financial markets. The volatility in the U.S. economy will continue to challenge the State's ability to finance the service needs of an advanced economy.

What started in 2006 as a worrisome increase in default rates for subprime mortgages escalated to a full-blown financial crisis of global proportions. Participants in the financial market benefited from the availability of cheap credit, willing homebuyers, and an unprecedented innovation in a variety of "exotic" financial instruments such as securitization of mortgage-generated income streams in multiple "tranches" of varying risk and returns, and other "structured-finance" tools. Structured finance allows for the sharing of risk, hedging interest rate movements, as well as providing enhanced security in the municipal bond market. However the collapse of the housing market exposed a fragile financial system. The financial crisis has prompted and will lead to further significant changes in Wall Street.

This crisis is more than a cyclical recession but a structural shift in the financial sector with significant and substantial repercussions to the State's main revenue base. Major investment banks have filed for bankruptcy or have been purchased at fire-sale prices, while others moved to a bank holding company structure, to benefit from access to Federal Reserve financing. The Federal government through fiscal and monetary policy tools has injected massive amounts of liquidity in the credit markets as well as individual companies in the hope of stemming the collapse of the financial system.

Considering the significant declines in revenue collections and the projected deficits, it is incumbent to provide an analysis and understanding of the root causes of the current crisis to enable an appreciation of the recommended measures to alleviate the worst consequences as well as pave the way for the expected recovery.

The following sections describe the various economic and financial developments that unfolded over the last few years and their effect on State revenues.

The Housing Market Collapse

Economists have theorized as to how the global financial system found itself near collapse and how the U.S. economy entered what promises to be one of the most severe recessions in history. What is beyond dispute is that irrespective of the fundamental structural causes, the housing market's boom and bust preceded and ignited the financial meltdown.

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 by 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 interest rates fell to historical lows in 2002 and 2003, the extensive availability of credit led to a classic "credit/lending boom-bust" economic scenario that this time played out in the housing and financial markets. A combination of easy and low-cost credit as well as the creation of 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 expectations that prices will continue to grow, thus, rendering more equity for the current owners.

The monetary expansion of 2000 to 2004 precipitated an investment boom that in some cases, such as the real estate market, led to what economists call "bubbles", an unsustainable state of affairs that was bound to collapse once interest rates and the willingness to lend and borrow subsided. Combined with the new financial vehicles – themselves a by-product of sophisticated financial analysis that was able to implement new tools on the premise of excessive leverage supported by low interest rate environment – home ownership steadily rose while the risk of default was perceived to be spread wider.[6]

As interest rates started rising in 2004 and growth in consumer prices accelerated in 2005 – thus, consumers were now faced with higher prices of both durable and non-durable goods while the ability to borrow was more constrained due to higher interest rates – existing homeowners started facing the possibility of not being able to afford their homes (those

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[6] In an effort to maximize yields financial firms borrowed heavily – given the low interest rate environment – and invested the principal in high-yield mortgage-backed securities. In many cases borrowing was done via the use of short-term obligations, thus exposing them to an unbalanced time horizon of obligations and revenues. Considering the high leverage ratios, when the value of the assets declined there was insufficient equity on the balance sheets to cover the "exposure" to their investors. The natural outcome for many, see Bear Stearns and Lehman Brothers, was insolvency and bankruptcy.

with adjustable rate mortgages) while potential homeowners were faced with more expensive purchase terms that they were not willing to pay for. The latter led to a decline in home sales starting mid-2006 while home price increases started easing and then outright declining.

In particular, as the housing market was expanding prior to 2005, higher-risk subprime mortgages with adjustable rates (ARMs) and “teaser” low initial interest rates acquired 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.

In the meantime, residential builders accelerated the pace of home construction with some even creating their own “in-house” financing units to expedite sales and take advantage of the abundance of credit. (See chart below.)

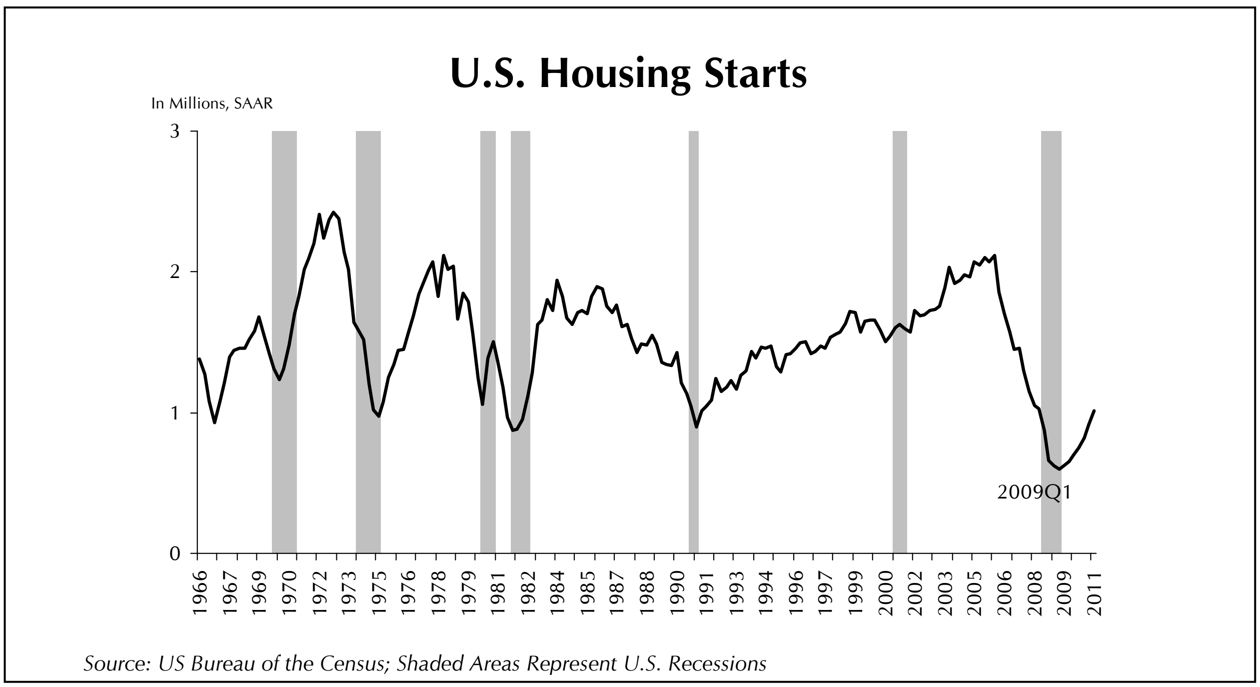

Figure 22

However, as housing price increases reversed course in 2005 and 2006 – with the level of affordability declining consistent with Fed-induced interest rate increases – consumers realized that their ability to escape higher adjustable-mortgage interest rates on the expectation of ever-increasing housing prices and a quick sale evaporated, the housing market started to experience strains, and home prices started declining precipitously. (See chart below.)

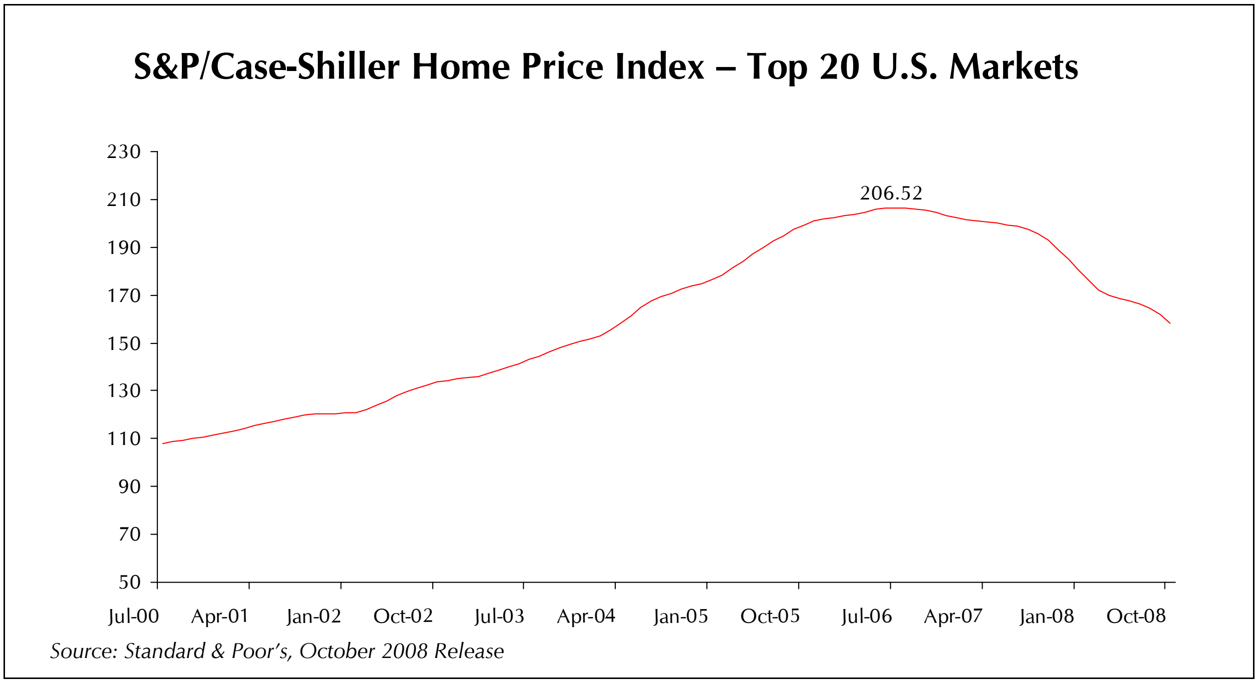

Figure 23

While the real estate market's collapse was gradual in the late part of 2006 it gathered momentum in early 2007 leading to the collapse of the Bear Stearns hedge funds – with huge exposure in sub-prime residential mortgages - which precipitated the collapse of a complex "shadow banking system". The financial collapse is having a severe effect on State revenues.

Figure 23 shows that as of October 2008, the composite S&P Case/Shiller Home Price index for the top 20 markets in the U.S. was down 23.4 percent from its July 2006 peak.

The subprime mortgage market turmoil quickly spread to the overall financial system with major financial groups posting huge losses as they adjusted down the value of complicated financial instruments that were premised on normally secure and ever-rising housing prices. Investors' unease in these products reduced risk-taking activities beginning the banking system's aversion to lending to consumers and businesses with less then quality credit.

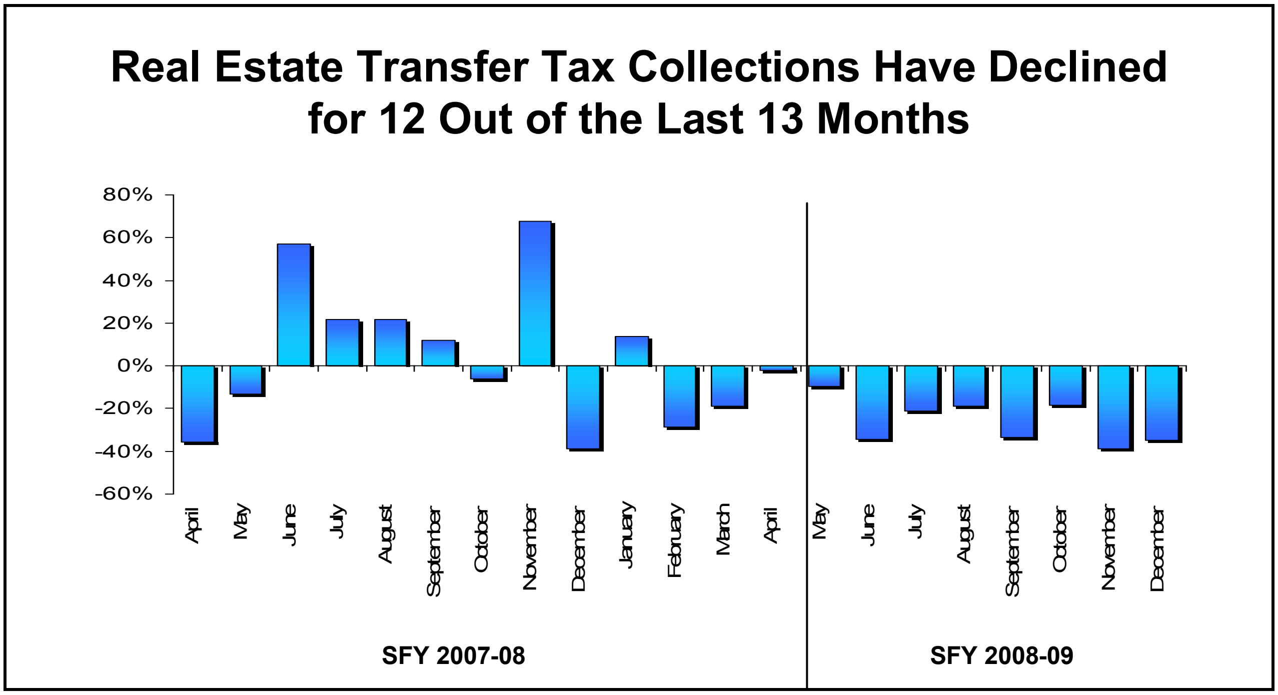

Figure 24

Recent trends in the real estate transfer tax collections also show the signs of the housing contraction in New York (see Figure 24). Real estate transfer tax collections had begun to show signs of weakness during SFY 2007-08, finishing the year virtually unchanged from the prior year. The trend in collections has gotten noticeably worse in SFY 2008-09, with collections consistently exhibiting monthly declines from the prior fiscal year. Year-to-date collections are down 24.9 percent through December. With the decline in housing showing no immediate signs of subsiding, the committee staff estimates transfer tax collections will continue to decline, finishing the year 28.3 percent below SFY 2007-08.

Financial markets, various industries, as well as consumers, are closely interconnected. The financial market system – and at its core money as the medium of exchange acts as the "loose joint" that links the ability to demand capital and consumer goods with the willingness to supply. Therefore, maintaining a stable financial system is a critical element of a sound economy. Most certainly at the heart of the current economic recession, and the State's fiscal crisis, is a lack of confidence in the financial system caused by a complex web of financial investments premised on low quality mortgages and high leverage. The element of time and the importance of money as a medium of exchange need to be constantly kept in mind to understand the inner workings of the market economy.

Understanding the importance of monetary aggregates in the context of the U.S. central banking system allows for an understanding of the intertemporal dislocations that are affected within the overall economy – and in particular in those industries that are further removed from the production of final consumer goods, i.e. industries that are capital intensive – when interest rates fluctuate under the influence of monetary policy.[7] For example, aggressive investments in subprime mortgages in the residential real estate industry led and was caused by the development of a "superstructure" of financial instruments and innovations that exposed the financial system to unprecedented risks.

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 various tranches or "slices" of variable seniority and credit quality.[8]

Banks and other financing institutions were involved by providing liquidity guarantees, advising on transactions, and underwriting loans. Therefore, as they were exposed in a variety of ways to the value of the asset-backed securities, as soon as those values declined banking institutions found themselves exposed to the same uncertainty regarding their future.

A particular financial innovation, Credit Default Swap (CDS) contracts, played a large role in the problems experienced by AIG and is still threatening financial institutions. CDS is a credit derivative contract between two counterparties, the buyer and the seller of the contract, where the buyer pays the seller periodic fees in exchange for the seller assuming the credit risk if there is a default to a third party. For example, AIG's financial products unit – a company allowed to expand and include subsidiaries focusing on an array of financial instruments other than traditional insurance policies - sold CDSs to investors to

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[7] While various interest rates are reported and followed by analysts, it is useful to think of a "natural" rate of interest that reflects the intertemporal preferences of economic agents in their exchange of present for future goods and consumption. When monetary policy affects the direction of that rate, production and consumption choices across time are affected with implications for the business cycle. (This concept is similar to the concept of the natural unemployment rate.)

[8] A particular feature of CDOs is that they can be repackaged into other CDOs, thus further spreading risk – a positive feature by itself – but at the same time further increasing the opaque nature of these financial instruments. In particular, the complicated collection of underlying collateral assets raises the difficulty in valuing CDOs especially when the values of the underlying assets declines.

protect against default in assets, including subprime mortgages. As the housing market collapsed in many parts of the country, the value of those contracts has declined prompting AIG to seek capital as collateral for those contracts. The inability to raise sufficient capital in a short period of time led to the need for a capital infusion by the Federal Reserve.

CDSs are highly leveraged financial instruments that create substantial liabilities for the seller. Consider the following example: if a CDS guarantees the credit worthiness of 200 CDOs each trading at $1,000, then the notional value of the contract is $200,000. However, should the underlying assets lose value or even become worthless, the seller of the CDS contract is liable for the full notional value, which is usually much larger than any fees and revenues generated through the sale of the contracts.

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

The appetite for mortgage debt was seemingly endless. Consumer debt outstanding for households – excluding consumer credit – increased rapidly since 2001 only to come to a halt as the recycling of mortgage originations effectively stopped in 2007 and 2008. The chart below provides an overview of mortgage debt outstanding for households for the period 2002 to the third quarter of 2008.

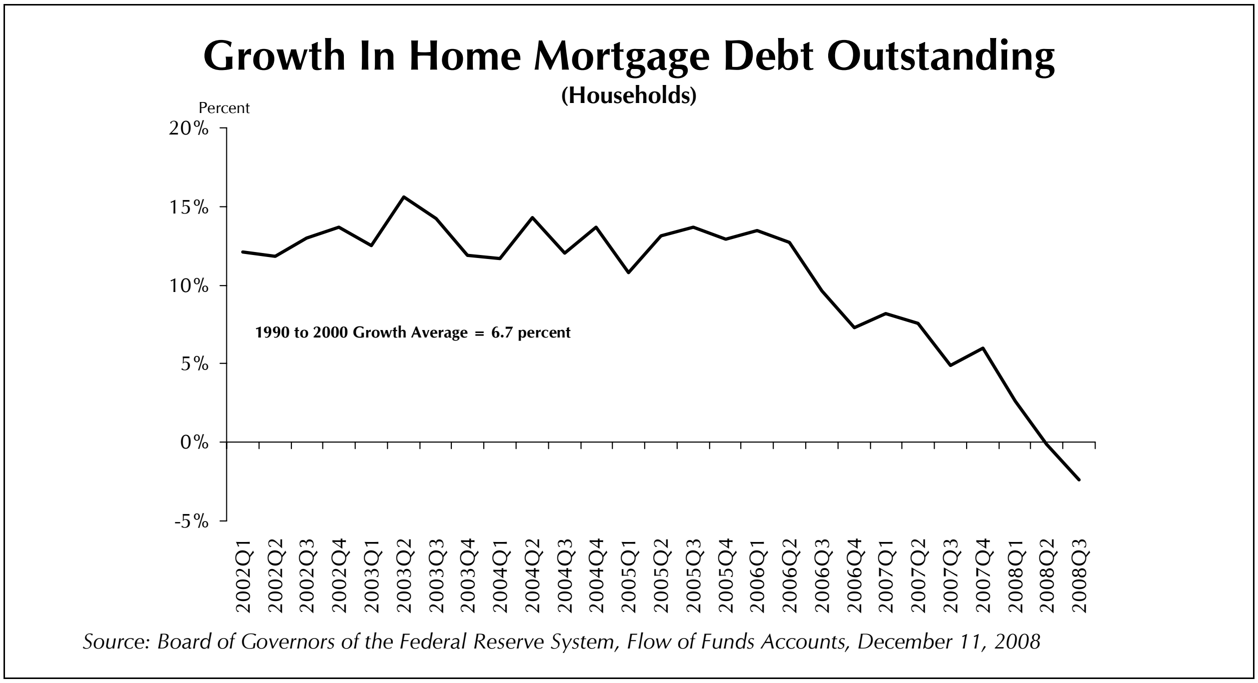


Figure 25

Through the second quarter of 2006, households were accumulating mortgage debt at double-digit growth rates, double the average growth for the period 1990 to 2000. The high volume of mortgages helped provide tax funds for New York City and other local governments.

By mid-2007 the house bubble had burst and the question was who will be affected and how wide-spread the damage will be. The downgrades by rating agencies of assets backed by residential mortgage-backed securities led to near insolvency of financial institutions as well as bankruptcies, e.g. Bear Stearns and Lehman Brothers. The emergency infusion of capital by foreign and domestic private and governmental institutions was and still is a short-term measure to alleviate the confidence panic has spread through the financial world.

Effect on NYS Tax Revenues

The implications for tax policy critically depend on the specific “tax-portfolio” of a state. New York heavily relies on income taxes, both on individuals and businesses. The personal income tax accounts for 60 percent of State taxes as of fiscal year 2008, while sales taxes account for 19 percent and corporate income tax receipts account for approximately seven percent of total State taxes. Research has shown that the personal income tax is elastic with respect to changes in personal income – particularly with respect to the volatile variable compensation component of wage income – as well as quite volatile in comparison to business and sales tax receipts.

The Path to Recovery

The U.S. economy reached a cyclical peak in December 2007, and according to the National Bureau of Economic Research the U.S. economy has been in recession since then. During the last two U.S. recessions, early 1990s and 2001, the economic downturn lasted three quarters as measured by the real Gross Domestic Product (GDP). However, during those two cycles employment declined by five and 10 quarters, respectively.

However, what is the "mechanism" that will lead to the eventual recovery? Monetary and fiscal policies are being tested in their effectiveness as economists and policy makers seek solutions. The following describes in summary form the "channels" through which the economy is expected to go through in its road to recovery:

a) The Federal Reserve has been injecting massive amounts of liquidity in the system while maintaining interest rates at historically low levels. Similar measures undertaken by the Treasury department – in the form of direct capital injections in major financial institutions – have already led to a partial thawing in the commercial paper market while key lending indicators (e.g. the LIBOR rate) have been trending downwards;

b) The above is expected to lead to the easing of borrowing costs as financial institutions recapitalize and expand borrowing to credit-worthy customers;

c) A return to market stability will lead to a restoration of consumer and business confidence. Such confidence is critical for the sustainability of the recovery;

d) The Federal government is about to approve and implement a massive fiscal policy initiative, a combination of direct spending and tax cuts, intended to jumpstart the economy and prevent the worst consequences of a prolonged recession. The timing of implementation and the responsiveness of the economy will be critical to the success of any stimulus plan;

e) The economic recovery is not a process that can be accurately predicted as it depends on a number of uncertain factors and the interaction of myriad events that monetary and fiscal policy authorities have little control over. Current monetary policy is by all estimates very accommodative as the Federal Reserve sees little risk of short-term inflation. Monetary and fiscal policy authorities need to remain vigilant with respect to the timing and implementation of policies.

Consumer and business confidence will have to solidify for the economy to stabilize and the recovery to take a firm hold. According to the National Association of Realtors the housing market is expected to start recovering in late 2009 as existing home sales – a key indicator of housing activity – are forecast to register positive growth at a sustainable level. Following dramatic declines since 2005, residential investment is currently forecasted to modestly rebound in 2010. (See chart below.)

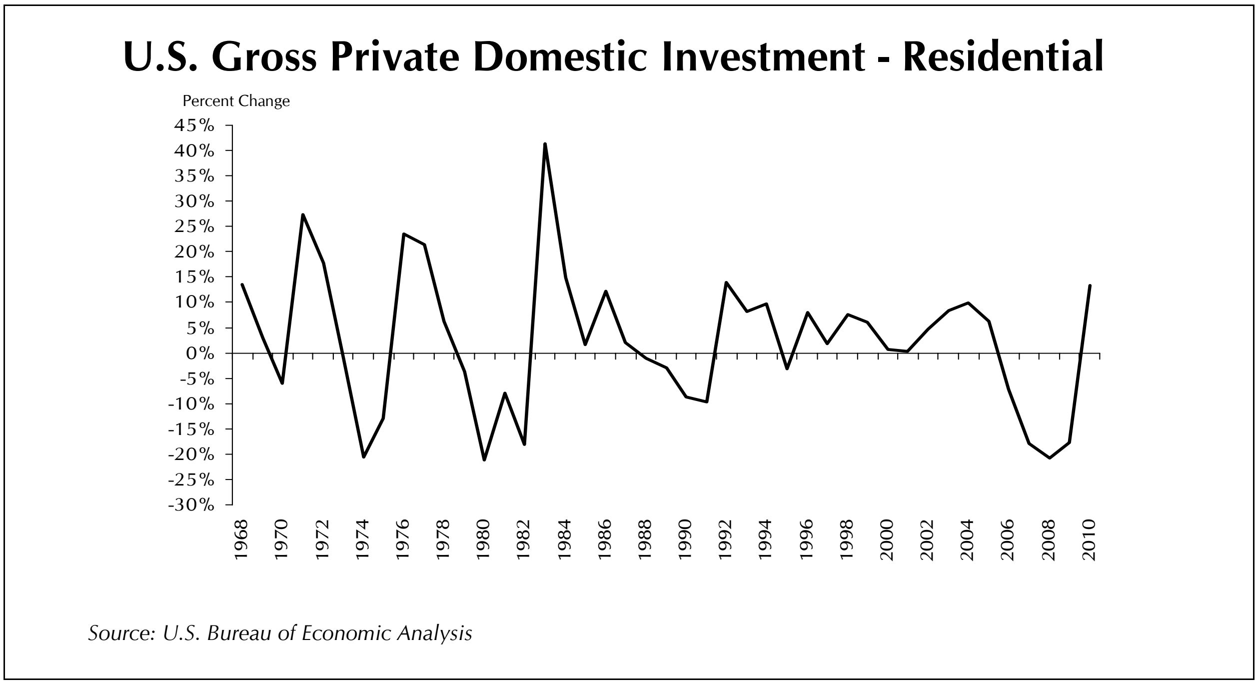


Figure 26

Financial Crisis and Future Revenue Trends

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. New York's leading presence in the U.S. and international financial markets has been shaken by the unprecedented actions of the last few months. The traditional investment banking activities of Wall Street and overall business models are bound to change with uncertain implications for growth, especially as it translates to revenue and bonuses.

Uncertainty in the financial markets as well as the anticipation of weak economic growth has been painfully reflected on the major stock market indicators. The S&P 500 declined by 17.3 percent in 2008, the first decline since 2003, and is forecast to decline an additional 22.2 percent on average in 2009. The financial markets' strength (weakness) is translated into stronger (weaker) receipts growth for the personal income tax, sales tax, and estate tax.

In 2007 member firms of the New York Stock Exchange reported a loss of $11.0 billion, the first loss since 1990. The New York City Mayor's Office of Management and Budget projects a $47 billion loss for 2008, followed by a loss of $10 billion in 2009.

Considering the overall corporate profits' outlook, following four consecutive years of double-digit growth, profits are forecast to decline in 2008 and 2009 with growth rates of negative 12.7 percent and 9.5 percent, respectively.

These losses are responsible for a wave of layoffs across financial institutions. Reduced compensation, and large declines in bonuses are expected to lead to dramatic declines in personal income tax receipts through the first quarters of 2009.

While most of the early job losses concentrated in the areas of mortgage lending, without a big concentration in New York City, the restructuring in banking and insurance is already reflected in employment figures. According to an analysis by the New York State Comptroller, the financial services sector in New York City could lose as many as 48,000 jobs.

It is also important to recognize the disproportionate impact of the securities industry in New York City has by considering the significant "multiplier" effects generated due to the industry's high compensation levels. According to the State Comptroller, each job added in the securities industry leads to the creation of two additional jobs in other industries in New York City.

The implications for New York City revenues are critical as the securities industry accounts for 20 percent of State tax revenues and 12 percent of City tax revenues.[9] In addition to losses expected due to the securities industry declines, the real estate slowdown in New York City is threatening revenues from real estate taxes. For example, according to updated forecasts by the Office of Management and Budget of New York City, real estate transaction taxes are expected to decline by 29 percent in FY 2009 followed by an 8.8 percent decline in FY 2010.

Similarly PIT receipts are forecast to decline by $2.3 billion in SFY 2009-10, assuming no legislative actions, and the Real Estate Transfer tax almost $400 million below its SFY 2006-07 levels. The critical question is how will the nation and the State recover from the current recession? Will the current one be a protracted recession or is the economy and revenues bounce similar to the recovery in 2003?

Financial Crisis and Revenue Sustainability

Since SFY 2003-04, the State has experienced record increases in all taxes, especially the ones directly related to the booming Wall Street and real estate markets. For example, the Real Estate Transfer Tax (RETT) generated a total of $312 million in SFY 1998-99 and $509 million as early as SFY 2003-04. However, by SFY 2006-07, RETT receipts were up to $1.022 billion, reflective of the explosive growth in the number and value of real estate transactions. Stable revenue growth is the cornerstone of a sound financial plan.

During those years of unprecedented gains the State increased its reliance upon sources of revenue that are inherently unstable. However this mix of volatile tax receipts sources – such as the bonus component of wages and capital gains – has also proved to be unsustainable. The transformation in the financial markets – with the disappearance of investment banks and what promises to be new safeguards and oversight in lending practices – will have significant implications for the State's future revenues. To the extent that incentive compensation in Wall Street changes, as most observers tend to think, with more internal restriction in bonus pools and allocations, it is doubtful that New York will experience going forward the same unprecedented growth in PIT receipts, especially from wealthier income groups.

[9] Includes revenues from all tax sources.

It is important to note that the recent monetary and fiscal policy responses will have implications for the State's revenue potential in the medium-to-long run horizon. While monetary policy was effective in providing much needed backstop financing since late 2007, it was not able to prevent the economy from entering a recession. Similarly, the success of the proposed fiscal stimulus critically depends on the timing and effectiveness of proposed measures in building business and consumer confidence and revitalizing the credit markets.

Assessing Forecast Risk

The dramatic failure of the financial markets since 2007 has sent shock waves throughout the economy. The State's economy has had its share of economic shocks before, namely, the stock market crash of 1987 and the attack on NYC on 9/11. The monetary policy initiatives of the Federal Reserve were successful in preventing a financial collapse but were not enough to prevent a national recession.

While most analysts predict a turnaround in the economy in mid-to-late 2009, the unprecedented uncertainty that prevails in the markets poses unique challenges to economic forecasters. The downside risks will continue to outweigh any upside risks to the U.S. forecast and, consequently, to the State forecast, even assuming a substantial stimulus package as was incorporated by the Ways and Means Committee staff.

A critical component of the hoped-for recovery is the timely success of the Federal fiscal and monetary policy rescue packages that have been enacted and/or are being contemplated. To the extent that financial markets and overall economic participants resume their saving/investment and productive credit activities, the U.S. and State economies should enter the recovery phase by mid-2009. A host of other parameters, such as global geopolitical conditions, global economic growth, and energy costs, also contribute to market uncertainty and will be critical to the precise timing of the recovery or to a more prolonged recession.

Note that the Ways and Means Committee staff revenue estimates are premised on a macroeconomic forecast that incorporates a Federal fiscal stimulus package similar to the one debated and passed by the Senate and the House of Representatives. The staff's revenue forecasts incorporate a significant downside risk to the extent that the economic recovery does not occur by mid-2009. In addition, several of the tax provisions of the Federal package include measures, e.g. the depreciation bonus allowance, will reduce business tax receipts in New York. On the positive side, any additional economic activity that would not have occurred absent the stimulus is expected to add to the PIT and user taxes base.

Appendix A

Federal Reserve Actions as of December 31, 2008			
Action	Funding ($ Billions)		Description
	To Date	Potential	
Interest Rate Reductions			Federal funds rate target reduced 10 times between September 2007 to December 2008, from 5.25% to zero and 0.25%.
Loans to Financial Institutions	94	Unknown	Up to 90 days short-term loans to institutions that accept monetary deposits.
Term Auction Facility (TAF)	450	600	Allows financial institutions to pledge collateral in exchange for a short-term loan. Interest rates are determined by auction.
Commercial Paper Funding Facility	334	1,800	The Fed accepts short-term commercial paper directly from potential issuers.
Support for Money Market Mutual Funds			
- Money Market Investor Funding Facility	0	540	Purchase of certificates of deposit and commercial paper from money market mutual funds.
- Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility	24	Unknown	Funds U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper from money market mutual funds.
Support for Primary Dealers			
- Term Securities Lending Facility	172	200	Trades Treasury securities held by the Fed with an institution's own securities for up to one month (for the 17 financial institutions known as primary dealers).
- Primary Dealer Credit Facility	37	Unknown	Overnight loans to primary dealers in exchange for eligible collateral.
Support for the Mortgage Market			
- Purchases of debt owned by government-sponsored enterprises (GSEs)	15	100	The Fed will purchase up to $100 billion in debt issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks through auctions.
- Purchases of mortgage-backed securities	0	500	The Fed will purchase up to $500 billion in MBSs issued by GSEs and Ginnie Mae.
Support for Consumer and Small Business Lending			
- Term Asset-Backed Securities Loan Facility	0	200	Up to $200 billion will be loaned to holders of certain AAA-rated asset-backed securities (consumer and small business loans) and the Troubled Asset Relief Program will provide $20 billion of credit protection for those loans.
Currency Swaps	500	Unlimited	The Fed has contracted with 14 foreign central banks to make U.S. dollars available temporarily. After a specified period of time, the original amounts of dollars will be returned in exchange for the foreign currency.

U.S. Department of the Treasury Actions as of December 31, 2008			
Action	Funding ($ Billions)		Description
	To Date	Potential	
Troubled Asset Relief Program (TARP)	247	700	The Emergency Economic Stabilization Act of 2008 grants authority to the Treasury to purchase up to $700 billion in assets through a new program, TARP.
Housing-Related Tax Provisions	0	12	Refundable tax credit for first-time home buyers.
Purchases of Obligations and Securities Issued by Fannie Mae and Freddie Mac	71	Unlimited	Purchases of residential mortgage-backed securities.
Conservatorship for Fannie Mae and Freddie Mac	14	200	The Treasury received senior preferred equity shares and warrants in exchange for any future contributions necessary to keep the two entities solvent.
Temporary Guarantee Program for Money Market Funds	Unknown	3,000	The Treasury will guarantee investors' shares as of September 19, 2008. Participating funds pay a fee of 1.5 or 2.2 basis points times the number of shares outstanding.
Supplemental Financing Program	259	Unlimited	The Treasury is borrowing from the public to assist the Federal Reserve.

Appendix B

Key Recent Financial Events Involving Major Financial Institutions

- ✓ During the Spring of 2008, the Federal Reserve agreed to acquire Bear Stearns assets, thus facilitating the sale of the venerable investment bank to JP Morgan Chase;
- ✓ On September 15, 2008 the U.S. stock market suffered its worst daily point decline since September 11, 2001. Lehman Brothers Holdings, Inc. filed for Chapter 11 protection, the largest in U.S. history considering Lehman's $639 billions in assets.
- ✓ Soon after and under intense market pressure Goldman Sachs and Morgan Stanley decided to change their structure to that of a bank holding company, thereby availing themselves to Federal Reserve liquidity while at the same time accepting more regulatory scrutiny;
- ✓ Merrill Lynch & Co. announced their sale to Bank of America at a third of the price that the company was valued only one year prior;
- ✓ On September 17, 2008 the Federal Reserve announced that it had extended to AIG a secured loan for up to $85 billion, and assumed an 80 percent equity stake. The New York Fed also bought $19.5 billion of residential mortgage-backed securities from AIG's portfolio and $24.5 billion of AIG's CDOs;
- ✓ As of October 3, Congress and the President had approved a "bailout" package for the entire financial system, one of the most significant government interventions in financial markets in the history of the U.S. As of the end of October the U.S. Treasury had announced plans to directly inject capital in major U.S. banking institutions via the purchase of preferred stocks. In the meantime, Wells Fargo has announced its purchase of Wachovia Corp., the fourth largest U.S. bank, which was close to seeking bankruptcy protection;
- ✓ The Federal Reserve also provided direct financial assistance to Citigroup by accepting to absorb 90 percent of any losses resulting from the Federal government's guarantee of a pool of Citigroup's assets after payouts have been made by Citigroup, the Troubled Asset Relief Program, and the FDIC;

- ✓ Global financial institutions were faced with similar problems that led governments in adopting measures that effectively nationalized major banks. Governmental bailouts were announced for key banks in Britain, the Benelux, and Germany as well as a state takeover of a bank in Iceland. The British government intervened to save major mortgage lender Bradford & Bingley, while it also announced its intent to inject capital in troubled banks via the purchase of preferred stocks, as well as other measures to guarantee short-term debt. The Netherlands, Belgium and Luxembourg also took over substantial parts of the Belgian-Dutch banking and insurance company Fortis. German Finance Ministry announced that the government and top banks were moving to inject billions of euros into troubled mortgage lender Hypo Real Estate. Finally, the Iceland government and Glitnir bank announced that the state will assume a 75-per-cent stake in Glitnir.

Detailed Revenue Tables

Table 5

Total Tax Collections SFY 2008-09 (Dollar Amounts in Millions)	2007-08 Actual	2008-09 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,565**	**$36,689**	**$124**	**0.3%**	**$7**
Gross Receipts	**43,171**	**43,784**	**613**	**1.4%**	**51**
Withholding	28,440	27,414	(1,026)	-3.6%	(212)
Estimated Payments	11,640	12,656	1,016	8.7%	204
Vouchers	8,592	7,864	(728)	-8.5%	237
IT 370s	3,048	4,792	1,744	57.2%	(33)
Final Payments	2,167	2,766	599	27.6%	58
Delinquencies	923	948	25	2.7%	1
Total Refunds	**6,605**	**7,095**	**490**	**7.4%**	**45**
Collections	**36,565**	**36,689**	**124**	**0.3%**	**6**
User Taxes and Fees	**13,993**	**14,163**	**170**	**1.2%**	**(208)**
Sales and Use Tax	11,296	11,140	(156)	-1.4%	(180)
Motor Fuel Tax	525	510	(15)	-2.8%	(13)
Cigarette Tax	976	1,341	365	37.4%	30
Motor Vehicle Fees	748	730	(18)	-2.4%	(36)
Highway Use	148	144	(4)	-2.7%	(3)
Alcoholic Beverage Tax	205	202	(3)	-1.3%	(4)
Alcoholic Beverage Fees	48	43	(5)	-9.9%	(2)
Auto Rental Tax	47	53	6	12.8%	-
Business Taxes	**8,231**	**7,742**	**(489)**	**-5.9%**	**27**
Corporate Franchise	3,997	3,554	(443)	-11.1%	55
Utility Tax	802	884	83	10.3%	26
Insurance Tax	1,219	1,203	(16)	-1.3%	(18)
Bank Tax	1,058	998	(60)	-5.6%	4
Petroleum Business Tax	1,155	1,103	(52)	-4.5%	(40)
Other	**2,083**	**2,015**	**(68)**	**-3.3%**	**(3)**
Estate and Gift	1,037	1,260	223	21.5%	16
Real Estate Transfer	1,021	732	(289)	-28.3%	(18)
Pari Mutuel	24	22	(2)	-6.8%	(1)
Other	1	1	0	12.4%	-
Total Taxes	**60,872**	**60,609**	**(263)**	**-0.4%**	**(178)**
General Fund Misc Receipts	2,460	2,999	539	21.9%	-
Lottery	2,610	2,954	344	13.2%	-
Total w/Misc Receipts and Lottery	**$65,942**	**$66,562**	**$620**	**0.9%**	**($178)**

Table 6

Total Tax Collections SFY 2009-10 (Dollar Amounts in Millions)	2008-09 Estimate	2009-10 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,689**	**$34,421**	**($2,269)**	**-6.2%**	**($149)**
Gross Receipts	**43,784**	**41,396**	**(2,389)**	**-5.5%**	**(138)**
Withholding	27,414	27,512	98	0.4%	(413)
Estimated Payments	12,656	10,395	(2,261)	-17.9%	289
Vouchers	7,864	7,246	(618)	-7.9%	195
IT 370s	4,792	3,149	(1,643)	-34.3%	94
Final Payments	2,766	2,386	(380)	-13.7%	-
Delinquencies	948	1,103	155	16.3%	(14)
Total Refunds	**7,095**	**6,975**	**(120)**	**-1.7%**	**11**
Collections	**36,689**	**34,421**	**(2,269)**	**-6.2%**	**(149)**
User Taxes and Fees	**14,163**	**16,206**	**2,043**	**14.4%**	**(573)**
Sales and Use Tax	11,140	12,747	1,607	14.4%	(540)
Motor Fuel Tax	510	508	(2)	-0.4%	(20)
Cigarette Tax	1,341	1,433	92	6.9%	49
Motor Vehicle Fees	730	868	138	18.9%	(40)
Highway Use	144	154	10	7.2%	(6)
Alcoholic Beverage Tax	202	276	74	36.5%	(21)
Alcoholic Beverage Fees	43	155	112	259.8%	3
Auto Rental Tax	53	66	13	24.5%	3
Business Taxes	**7,742**	**7,941**	**199**	**2.6%**	**(192)**
Corporate Franchise	3,554	3,791	237	6.7%	(61)
Utility Tax	884	923	39	4.4%	(5)
Insurance Tax	1,203	1,384	181	15.0%	(13)
Bank Tax	998	720	(278)	-27.9%	(61)
Petroleum Business Tax	1,103	1,123	20	1.8%	(52)
Other	**2,015**	**1,583**	**(432)**	**-21.4%**	**(105)**
Estate and Gift	1,260	887	(373)	-29.6%	(137)
Real Estate Transfer	732	672	(60)	-8.2%	32
Pari Mutuel	22	23	1	4.5%	-
Other	1	1	0	0.0%	-
Total Taxes	**60,609**	**60,151**	**(458)**	**-0.8%**	**(1,018)**
General Fund Misc Receipts	2,999	3,806	807	26.9%	-
Lottery	2,954	2,879	(75)	-2.5%	-
Total w/Misc Receipts and Lottery	**$66,562**	**$66,836**	**$274**	**0.4%**	**($1,018)**

Table 7

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	**$23,077**	**$4,440**	**$9,172**	**$0**	**$36,689**
User Taxes and Fees	**8,548**	**1,919**	**2,606**	**1,090**	**14,163**
Sales and Use Tax	7,815	720	2,606	-	11,140
Motor Fuel Tax	-	107	-	403	510
Cigarette Tax	456	885	-	-	1,341
Motor Vehicle Fees	33	207	-	490	730
Highway Use	-	-	-	144	144
Alcoholic Beverage Tax	202	-	-	-	202
Alcoholic Beverage Fees	43	-	-	-	43
Auto Rental Tax	-		-	53	53
Business Taxes	**5,734**	**1,378**	**-**	**630**	**7,742**
Corporate Franchise	3,104	450	-	-	3,554
Utility Tax	671	195	-	18	884
Insurance Tax	1,106	97	-	-	1,203
Bank Tax	853	145	-	-	998
Petroleum Business Tax	-	491	-	612	1,103
Other	**1,283**	**-**	**495**	**237**	**2,015**
Estate and Gift	1,260	-	-	-	1,260
Real Estate Transfer	-	-	495	237	732
Pari Mutuel	22	-	-	-	22
Other	1	-	-	-	1
Total Taxes	**$38,642**	**$7,737**	**$12,273**	**$1,957**	**$60,609**

Table 8

Total Tax Collections By Fund Type SFY 2009-10 (Dollar Amounts in Millions)	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$22,399**	**$3,416**	**$8,605**	**$0**	**$34,421**
User Taxes and Fees	**9,658**	**2,415**	**2,902**	**1,231**	**16,206**
Sales and Use Tax	8,705	1,139	2,902	-	12,747
Motor Fuel Tax	-	107	-	401	508
Cigarette Tax	487	947	-	-	1,433
Motor Vehicle Fees	35	223	-	610	868
Highway Use	-	-	-	154	154
Alcoholic Beverage Tax	276	-	-	-	276
Alcoholic Beverage Fees	155	-	-	-	155
Auto Rental Tax	-	-	-	66	66
Business Taxes	**5,955**	**1,346**	**-**	**640**	**7,941**
Corporate Franchise	3,345	446	-	-	3,791
Utility Tax	709	196	-	18	923
Insurance Tax	1,279	105	-	-	1,384
Bank Tax	622	98	-	-	720
Petroleum Business Tax	-	500	-	623	1,123
Other	**911**	**-**	**592**	**80**	**1,583**
Estate and Gift	887	-	-	-	887
Real Estate Transfer	-	-	592	80	672
Pari Mutuel	23	-	-	-	23
Other	1	-	-	-	1
Total Taxes	**$38,923**	**$7,177**	**$12,100**	**$1,952**	**$60,151**

Executive Tax Proposals

In SFY 2009-10, the Executive Budget contains $5.2 billion in additional revenue enhancements, which includes increased taxes, fees and assessments. The total amount increases to $6 billion in SFY 2010-11.

For SFY 2009-10, the total amount of enhancements is broken down as follows:

- $2.9 billion in All Funds Taxes;
- $133 million in Lottery enhancements;
- $2.2 billion in All Funds Miscellaneous Receipts (Fees and Assessments).

The remainder of this section will discuss the revenue proposals that are contained in A.160-A/S.60-A, the Executive's Article VII Revenue Bill. In addition, Table 9 contains a list of the tax proposals as well as their associated fiscal impacts.

Article VII Revenue Bill (A.160-A/S.60-A)

Part A- Amend Definition of "Resident Individual" in Personal Income Tax

Under current law, a taxpayer with residence in New York is not taxed as a resident if, within a 548 consecutive day period: (1) the taxpayer is present in a foreign country or countries for at least 450 days; (2) the taxpayer is not present in the state for more than 90 days; and (3) the taxpayer's spouse and minor children do not reside at the taxpayer's permanent place of abode in New York for more than 90 days. This proposal would amend the Tax Law to base the residency requirement on the number of days being present anywhere in New York, rather than limiting it to the number of days that the taxpayer spends in their primary residence.

Fiscal: No impact in 2009-2010, Increase of $5 million annually thereafter.

Part B - Clarify Definition Of "Manufacturer" Under Capital Base Of The Corporation Franchise Tax

This part would conform the definition of manufacturer under the capital base to the definition of manufacturer under the entire net income base. The conforming amendments would specifically exclude electricity generation from the definition of manufacturing and restrict the benefits under the reduced capital base liability cap to taxpayers manufacturing in New York.

Fiscal: Increase of $18 million in SFY 2009-10 and $16 million in SFY 2010-11. There is no fiscal impact for this bill after SFY 2010-11 because of the expiration of the $10 million capital base cap in 2010.

Part C - Limit The Exemption Provided For Cooperative Insurance Corporations Under The Insurance Franchise Tax

This part would amend the exemption for town and county co-operative insurance corporations to provide that the exemption will apply only to corporations that report direct written premiums to the Superintendent of Insurance of $25 million or less for the taxable year.

Fiscal: Increase revenues by $19 million in SFY 2009-10 and $15 million annually thereafter.

Part D - Restructure The Franchise Tax On Insurance Companies To A Tax Based On Premiums

This part would conform the tax base used by life insurance companies to the tax base used by property and casualty insurance companies. Under the bill, all insurance companies will pay a tax based solely on premiums at a rate of 2 percent.

Fiscal: Increase revenue by $62 million in SFY 2009-10 and $50 million annually thereafter.

Part E - Reciprocal Program With The United States Treasury Department

This part would clarify that the Tax Department has the authority to enter into agreements with the Federal government and other states to offset tax and non-tax payments against tax and non-tax debts, provided that similar privileges are afforded to one other.

Fiscal: Increase of $5 million in 2009-2010 and $30 million annually thereafter.

Part F – Clarify Definition Of An Insurance Business With Regards to Captive Insurance Companies

This bill would require overcapitalized captive insurance companies whose premiums are 50 percent or less of their gross receipts to file a combined return with their affiliates.

Fiscal: Increase revenue by $33 million in SFY 2009-10 and $29 million thereafter.

Part G - Eliminate Underutilized Tax Credits

This bill would eliminate 6 credits allowed under the corporate franchise taxes and the personal income tax. The credits that would be eliminated are the automated external defibrillator credit, the fuel cell electric generating credit, the security guards training credit, the alternative fuels credit, the qualified emerging technology company (QETC) capital tax credit, and the transportation improvement contributions credit. As a result of these amendments, none of these credits will be allowed for taxable years beginning on or after January 1, 2009.

Fiscal: Increase revenues by $5.9 million in SFY 2009-10 and $9.0 million thereafter.

Part H - New York Source Income To Non-Residents With Real Property Located In New York

Current law taxes non-residents on income attributable to an ownership interest in real or tangible property located in New York. The sale of an interest in real or tangible property by a non-resident is typically treated as an intangible asset that is not taxable. This part would amend the tax law to subject the gain on such sales to taxation when 50 percent or more of the real property is located in New York.

Fiscal: No impact in 2009-10, increase of $10 million annually thereafter.

Part I - Change Mandatory First Estimated Tax Installment Payment

This bill would increase the percentage used by business taxpayers to compute the mandatory first installment from 30 to 40 percent.

Fiscal: Increase revenue by $351 million in SFY 2009-10.

Part J -Impose Annual Filing Fees Based On New York Source Income

Under current law, general partnerships are not subject to the filing fee imposed on limited liability companies and limited liability partnerships. Under this part, all three would be subject to the filing fees, except that partnerships that are not limited liability partnerships would be exempt from filing fees if they have New York source income of less than one million dollars. Fees range under current law between $25 for entities with New York source income not more than $100,000 to $4,500 for entities with New York source income over $25,000,000.

Fiscal: Increase revenue by $50 million annually, starting in 2009-10.

Part K - Reform the Empire Zones Program

This part authorizes numerous program reforms and administrative changes to the Empire Zones Program with the intent of achieving substantial cost savings and improvement in the program's strategic focus by more narrowly targeting benefits to firms creating jobs and making capital investment in the State.

- Expands the basis for decertification to include: i) making any misrepresentation of material fact on a business annual report; (ii) failure to invest in a facility substantially in accordance with representation made by the business enterprise in its applications; and (iii) failure to meet the requirements of the cost-benefit analysis provided.

- Requires business enterprises to be recertified by the Commissioner of DED by meeting or exceeding a 20:1 ratio of the actual value of wages, benefits and capital investments paid by a business enterprise for at least a three-year period at the location(s) approved by the Commissioner, versus the amount of state tax benefits actually claimed and used by the business enterprise for that time period at those location(s). Business enterprises certified prior to April 1, 2005 will be reviewed in 2009. If they are decertified, they will lose their EZ benefits for 2008 and thereafter. Business enterprises reviewed and decertified thereafter will lose their benefits starting in the year in which they are decertified.

- For new business applicants seeking certification on or after April 1, 2009, the bill requires a 20:1 ratio of estimated value of wages, benefits and capital investments to be paid by a business enterprise versus the estimated value of state tax benefits that may be claimed by that business enterprise, for first three years of certification at locations approved by the Commissioner of DED.

- Limits new certifications beginning April 1, 2009 to firms that are manufacturing enterprises (including high-tech, bio-tech, clean-tech, and agri-business), financial service enterprises, or extraordinary projects.

- Terminates the authority to designate new Empire Zones and to increase the area of existing zones for applications filed after April 1, 2009.

- Repeals the QEZE sales and use tax exemption and replace it with a QEZE credit or refund containing similar provisions.

Fiscal: Increase revenue by $272 million in SFY 2009-10 and by $292 million in thereafter.

Part L – Low Income Housing Tax Credit

This part would increase the aggregate amount of low-income housing tax credits the Commissioner of DHCR may allocate from $20 million to $24 million.

Fiscal: Reduce revenues by $4 million in SFY 2009-10 and for a 10 year period thereafter.

Part M - Limit Itemized Deduction for High Income Taxpayers

This proposal would limit the ability of taxpayers with incomes over $1 million to reduce their tax liability by claiming itemized deductions. Currently, taxpayers with incomes over $525,000 are allowed to claim 50 percent of the value of itemized deductions. Charitable deductions would be excluded from this proposal and may still be claimed as itemized deductions for the purposes of state income taxes.

Fiscal: Revenue increase of $140 million in 2009-10, $200 million in 2010-11, $150 million in 2011-12 and thereafter.

Part N - Non-Resident Investment Management Services Income

This part would expand treatment of nonresident personal income tax to include income received from hedge fund management fees. Most of this income is characterized as a capital gain on a federal level, and is not presently treated as New York source income.

Fiscal: Revenues would be increased by $60 million annually, starting in SFY 2009-2010.

Part O - Provide Taxpayers With A Refundable Tax Credit For Increasing Research Activities

This part is intended to provide an incentive for New York businesses to increase their research and development expenditures by providing a tax credit modeled after the Federal R&D tax credit. The credit would be equal to ten percent of the taxpayer's New York research expenditures (which include grants) that exceed the average of the taxpayer's research expenditures for the two immediately preceding taxable years.

Fiscal: The Commissioner of UDC would allocate the credits and the amount of credit claimed each year would be limited to (i) $20 million for the State fiscal year commencing April 1, 2009; (ii) $33 million for the State fiscal year commencing April 1, 2010 and (iii) $45 million for the State fiscal year commencing April 1, 2011 and each fiscal year thereafter.

Part P - Expand Qualified Emerging Technologies Credits

A qualified emerging technology company ("QETC") is allowed a credit under Articles 9-A and 22 of the Tax Law for certain facilities, operations, and training costs or expenditures. To be eligible for the credit, the QETC cannot have more than 100 full-time employees, and 75 percent of those employees must be employed in New York. This bill would clarify the way the employment test for this credit is applied by allowing firms with more than 100 qualifying employees to continue to receive benefits and not considering employment outside New York State in determining eligibility.

Fiscal: No fiscal impact in 2009-10 or 2010-11. It would reduce tax receipts by an estimated $5 million beginning in SFY 2011-12.

Part Q - Sales Tax - Impose Sales Tax On Cable And Satellite Television/Radio Services

This part would extend the State and local sales tax to cable service and tangible personal property or other services provided with cable service, but not on Internet access service, on which tax is prohibited by the federal Internet Tax Freedom Act.

Fiscal: Revenues would be increased by $136 million in 2009-10 and $180 million annually thereafter.

Part R - Increases the Cigar Tax

This proposal changes the method of calculating the tax imposed on cigars from 37 percent of a wholesaler's price to a 50 cent tax imposed per cigar.

Fiscal: Revenue would increase by $10 million in 2009-10 and by $15 million thereafter.

Part S - Sales Tax - Treat All Discount Coupons Consistently For Sales Tax Purposes

This part would include the dollar value of the "store" coupon in the total receipt subject to sales tax. Currently, if a manufacturer coupon is used, the sales tax is imposed on the sales price, but if a store coupon is used, the sales tax is imposed on the discounted sales price. This bill eliminates this differential treatment by treating all coupons as manufacturer's coupons for sales tax purposes.

Revenues would be increased by $3 million annually.

Part T - Authorizes The Diversified Investment Of Long-Term Lottery Prize Funds

This proposal would authorize the investment of long-term funds available and retained on deposit for the payment of Lottery prizes to be invested in obligations other than those obligations currently delineated in State Finance Law Section 98-a; provided that such investment satisfies a prudent investment standard and are approved by the Comptroller.

Fiscal: Revenues would increase by $37 million in SFY 2009-10 and $50 million thereafter.

Part U - Replace The Year-Round Sales Tax Exemption For Clothing And Footwear Under $110 With Two, One-Week Exemption Periods With A $500 Threshold

This part would replace the year-round sales and compensating use tax exemption for clothing and footwear under $110 with two, one-week exemption periods for clothing and footwear under $500, and authorize counties and cities that impose sales and compensating use taxes to elect the exemption weeks. New York City, which currently exempts all sales of clothing and footwear from the local portion of the sales tax, is not affected by this proposal.

Fiscal: Revenues would be increased by $462 million in 2009-10 and $660 million annually thereafter.

Part V - Expand Sales And Local Sales Tax Base To Cover Miscellaneous Personal Services And Credit Rating And Reporting Services Now Taxed In New York City

While the State sales tax applies to a variety of consumer purchases, it does not cover personal services (such as beauty, barbering, manicure, pedicure, massage, health salon, or gymnasium services) or credit rating and reporting services. This bill would expand the sales tax base to cover these services, thus conforming the State tax to the taxes already imposed by New York City.

Fiscal: Revenues would be increased by $78 million in 2009-10 and $104 million annually thereafter.

Part W - Video Lottery Operations

Eliminates the sunset provisions for VLT operations and authorizes the Division of Lottery to determine the appropriate hours of operation as well as make technical changes to resolve inconsistencies created by prior legislation.

Fiscal: Increase revenue by $45 million in SFY 2009-10 and thereafter.

Part X - Malt Liquor Tax

This proposal would create a new category of alcohol beverage excise tax for flavored malt beverages and imposes the excise tax on these products at a rate of $2.54 per gallon, the equivalent rate in gallons for low alcohol liquor which is taxed at a rate of $0.67 per liter.

Fiscal: Increase revenue by $15 million in SFY 2009-10 and $18 million annually thereafter.

Part Y - Pari-mutuel Extender

The proposal would extend provisions related to simulcasting and purses of pari-mutuel racing until June 30, 2010, such provisions are currently set to expire on June 30, 2009.

Fiscal: Reduce pari-mutual receipts by $5 million in 2009-10.

Part Z - Increase Prepaid Cigarette Sales

The proposal increases the rate of the prepaid sales tax from seven percent to eight percent of the base retail price on a package of cigarettes. The increase will reflect the combined minimum sales tax level that the majority of counties currently impose.

Fiscal: Increase revenue by $14 million in SFY 2009-10.

Part AA - Prohibit Certain Sales Tax Avoidance Schemes

This bill would clarify the meaning of "new resident" and prohibit the use of non-resident affiliates to avoid registering and paying sales taxes for commercial aircraft and the use tax for motor vehicles, vessels, and aircraft to New York.

Fiscal: Revenues would be increased by $4 million in 2009-10 and $6 million annually thereafter.

Part BB - Repeal Private Label Credit Card (Bad Debt) Law

This bill would repeal Tax Law §1132(e-1), which allows private label credit card lenders, as well as vendors who use private label credit card lenders to finance their credit card sales, to claim a sales tax credit or refund on accounts financed by or assigned to the lender that are written or charged off as uncollectible.

Fiscal: Revenues would be increased by $8 million in 2009-10 and $10 million annually thereafter.

Part CC - Impose A Sales Tax On Digital Products

The bill would impose sales tax on digital products, such as MP3 music files, ring tones, movies, digital books, digital photographs, downloaded and online games, and other entertainment services. The sales tax would also be imposed on pay-per-view or on-demand movies sold by a cable or satellite television provider for a separately-stated charge.

Fiscal: Revenues would be increased by $15 million in 2009-10 and $20 million annually thereafter.

Part DD - Repeal The Sales Tax Cap On Motor Fuel And Diesel Motor Fuel

This bill would: (1) repeal the sales and compensating use tax cap on motor fuel and diesel motor fuel; (2) restore the percentage rate of sales and compensating use taxes on motor fuel and diesel motor fuel; and (3) repeal the authority for counties and cities that impose sales and use taxes to elect a tax cap.

Fiscal: Revenues would be increased by $90 million in 2009-10 and $120 million annually thereafter.

Part EE – Highway Use Tax Decals

This part would reauthorize the Commissioner of Taxation and Finance to require the use of decals under the Highway Use Tax imposed by Article 21 of the Tax Law. In 2007, the state repealed the use of decals due to the enactment of Federal legislation prohibiting states from using decals as evidence for highway use tax compliance. In 2008 the Federal government repealed that prohibition.

Fiscal: Preserves State revenues.

Part FF - Modernize Definition Of "Vendor" To Include An Affiliate Nexus Provision

Many brick and mortar retailers also have mail order and Internet sales operations that are tightly integrated with their brick and mortar activities. Some of these retailers have circumvented the requirement to collect sales and use tax on their catalog and Internet sales by attempting to avoid nexus with New York, segregating their Internet and catalog operations into affiliates that are separate from their brick and mortar stores, as well as their distribution, headquarters, and other functions. This part seeks to preclude such a practice and increase the number of remote sellers that are required to collect the State's sales and use tax.

Fiscal: Revenues would be increased by $9 million in 2009-10 and $12 million annually thereafter.

Part GG - Video Lottery Terminals at Belmont Park

The Executive proposes to authorize the operation of Video Lottery Terminals at Belmont Park. The legislation includes provisions to limit the commission rate paid to the operators of the VLTs at Belmont to 36.5 percent of net machine income and marketing allowances to no more than eight percent as well as prohibits such facility from receiving capital improvement allowances.

Fiscal: The sale of the VLT rights is expected to produce $370 million in revenue in 2010-11.

Part HH - Impose A State Sales Tax And Compensating Use Tax Surcharge On Certain Beverage Products

This bill would impose a State sales and compensating use tax surcharge of 18 percent on certain beverage products. The surcharge would apply to non-dietetic soft drinks and fruit drinks that contain less than seventy percent natural fruit juice. However, diet soda and certain water products would not be subject to the new, additional tax. Pure bottled water is not a beverage product and would not be subject to this additional tax.

Fiscal: Increase revenue by $404 million in 2009-10 and $539 million annually thereafter.

Part II - Eliminate Quick Draw Sunset Provisions and Operating Restrictions

This proposal would eliminate the sunset provisions of Quick Draw which is set to expire on May 31, 2010. In addition the proposal removes restrictions which currently limit daily operations to no more than thirteen hours daily and restrictions that limit Quick Draw to facilities that are licensed for the sale of on-premise consumption of alcoholic beverages where at least twenty-five percent of the gross sales are from food or in facilities that do not sell alcohol beverages but are least 2,500 square feet.

Fiscal: The continuation of Quick Draw will increase revenue by $40 million in SFY 2009-10 and $59 million in SFY 2010-11 annually thereafter.

Part JJ- Multi-jurisdictional Lottery

This proposal removes restrictions related to the participation in the games of more than one government authorized group and provides for the operation and administration of a joint, multi-jurisdiction and out-of-state lottery.

Fiscal: Increase Lottery revenue by $11 million in SFY 2009-10 and $21 million in SFY 2010-11 and thereafter.

Part KK - Sale Of Wine In Grocery Stores

The proposal would authorize the sale of wine in a grocery store or drug store which currently holds a license to sell beer. There would be a one-time franchise fee; the fee would be .46 of one percent of the total gross sales of the licensee in the previous year, or in instances where the licensee has been in business for less than a year, the fee will range from fee ranges from $825 to $425,000 depending on the square footage of the licensee facility. In addition to the one-time franchise fee, there would be an annual licensing fee of $110.

Fiscal: Increase revenue by $105 million in SFY 2009-10, $54 million in SFY 2010-11 and $3 million thereafter

Part LL - Increase Excise Tax on Beer and Wine

The proposal would increase the beer tax from 11 cents to 24 cents per gallon and the wine tax from 18.93 cents to 51cents gallon. In addition a "floor" tax would be imposed which would be payable on or before June 22, 2009. The floor tax would be 13 cents per gallon on beer and at a rate of 32.08 cents per gallon on wine. The floor tax would be applicable to retailers as well as wholesalers.

Fiscal: Increase revenue by $63 million in SFY 2009-10 and thereafter.

Part NN - Impose State and Local Sales Taxes on Certain Transportation Services

This bill defines transportation service to include the service of transporting, carrying, or conveying a person or persons by any means. This would include but not be limited to taxicab, charter, black car, limousine, coach, for-hire vehicle, commuter van, or other vehicle service, horse-drawn cab or coach service, pedicab service, and intra-state charter bus, vessel, train, and plane service, charter fishing service, and sightseeing service.

Fiscal: Revenues would be increased by $45 million in SFY 2009-10 and $60 million annually thereafter.

Part OO - Impose a Sales Tax on Various Amusement Charges

This part would expand the types of amusement charges that are subject to State and local sales taxes. Amusement charges currently consist of (1) charges for admission to a place of amusement, (2) dues and initiation fees paid to a social or athletic club, and (3) charges of a cabaret, night club or other similar establishment. The bill would the sales to charges for theaters, fairs, race tracks, exhibitions, circuses, golf courses, gymnasiums, bowling alleys, swimming pools and other places where people engage in sports or athletic activities, campgrounds and parks, and any other place that has equipment, apparatus, exhibit, display, or other facilities for amusement such as devices, rides and games at an amusement park.

Fiscal: Revenues would be increased by $53 million in SFY 2009-10 and $70 million thereafter.

Part PP - Narrow the Sales Tax Definition of Capital Improvement and Its Application.

This part would narrow the exemption for services rendered in conjunction with work that constitutes a capital improvement. More specifically, the exemption would only apply where the addition or alteration constituted new construction or a new addition to or total reconstruction of existing construction.

Fiscal: Revenues would be increased by $120 million in SFY 2009-10, and $160 million annually thereafter.

Part QQ – Increase the highway use tax replacement fee

This bill would increase the fees for replacement certificates of registration under the Tax Law Article 21 highway use tax. More specifically, the fee to replace a certificate of registration would be increased from $4 to $15 in the case of a motor vehicle, and from $2 to $15 in the case of a trailer, semi-trailer, dolly or other device.
Fiscal: Increase of $5 million in SFY 2009-10.

Part RR - Impose Additional Sales Tax and Use Tax on Certain Luxury Property

This bill, which is modeled on a federal excise tax that was in effect from 1991 to 2003, would add an additional sales and use tax at the rate of 5% on the retail sale or use within the State of: (1) passenger motor vehicles to the extent the sale price exceeds $60,000; (2) vessels to the extent the sale price exceeds $200,000; (3) aircraft to the extent the sale price exceeds $500,000; and (4) jewelry or fur clothing and footwear, to the extent the sale price exceeds $20,000.

Fiscal: Increase of $12 million in SFY 2009-10 and $15 million annually thereafter.

Part SS – Tax Compliance and Enforcement Initiative

This part would overhaul the Departments' tax compliance and enforcement tools by increasing interest and penalties, both civil and criminal, for willful violations of the tax law

Fiscal: Increase revenue by $85 million annually, beginning in SFY 2009-10.

Public Protection and General Government

Part MM - Authorize Cities And Villages To Collect Utilities Gross Receipts Taxes On Mobile Phone Services

This part amends General City Law §20-b and Village Law §5-530 to include mobile telecommunications service within the scope of the utility gross receipts tax that may be imposed by cities and villages.

Fiscal: Extending the utility gross receipts tax to mobile telecommunications is estimated to provide $12.5 million in additional annual revenue for cities and villages outside of New York City.

Education, Labor And Family Assistance Bills

Part M - Eliminate the Middle Class STAR rebates and decrease corresponding New York City credit amounts.

This part would repeal the Middle Class STAR Rebate Program beginning with school years 2009-10, repeal the Middle Class STAR offset, and reduce the NYC Personal Income Tax Credit.

In 2009 and all subsequent years, the New York City Personal Income Tax Credit for married individuals filing jointly and widow(er)s would be reduced from $310 to $125. All other qualifying taxpayers would have their credits decreased from $155 to $62.50 over the corresponding years. Taxpayers earning $250,000 and over would not receive the credit, with this threshold being indexed for inflation beginning in 2010.

Fiscal: Reduce General Fund spending by $1.538 billion in SFY 2009-10.

Table 9

EXECUTIVE BUDGET (30-DAY) -- REVENUE ACTIONS (Dollar Amounts in Millions)		
	2009-10	**2010-11**
REVENUE ENHANCEMENTS	**$2,862**	**$3,255**
PERSONAL INCOME TAX	**378**	**471**
Amend the Definition of Presence in New York	0	5
Gain from the Sale of Partnerships	0	10
Itemized Deduction Limitation	140	200
Non-LLC Partnership Fees	50	50
Nonresident Hedge Fund Income	60	60
Reciprocal Vendor Offset	3	15
Empire Zones Reform	118	124
Improve Non-Voluntary Tax Collections*	7	7
USER TAXES AND FEES	**1,845**	**2,492**
Abusive Tax Avoidance	4	6
Affiliate Nexus	9	12
Allow the Sale of Wine in Grocery Stores	105	54
Cigar Tax Reform	10	15
Cigarette and Tobacco Retail Registration Fee	17	6
Digital Property Taxation	15	20
Eliminate Clothing Exemption	462	660
Flavored Malt Beverages	15	18
Impose Sales Tax on Entertainment-Related Spending	53	70
Impose Sales Tax on Luxury Goods	12	15
Impose Sales Tax on Transportation-Related Spending	45	60
Increase Auto Rental Tax	8	10
Increase Beer and Wine Tax Rates	63	63
Increase Highway Use Tax Renewal Fees	5	0
Increase Prepaid Sales Tax Rates on Cigarettes	14	0
License Plate Issuance	0	129
Limit Capital Improvement Exemption	120	160
Motor Vehicle License Fee Increases	22	38
Motor Vehicle Registration Fee Increases	61	104
NYC Personal and Credit Services	78	104
Repeal Bad Debt Provisions	8	10
Repeal the Sales Tax Cap on Fuel	90	120
Sales Tax on Cable and Satellite Television and Radio	136	180
Sales Tax on Soft Drinks	404	539
Treating Coupons Consistently	3	3
Empire Zones Reform	9	18
Improve Non-Voluntary Tax Collections*	78	78

EXECUTIVE BUDGET (30-DAY) -- REVENUE ACTIONS (Dollar Amounts in Millions)		
	2009-10	**2010-11**
BUSINESS TAXES	**$639**	**$292**
Overcapitalized Captive Insurance Corporations	33	29
Disallow Utility Definition as Manufacturers	18	16
Cooperative Insurance Companies	19	15
Eliminate Underutilized Tax Credits	6	9
Increase Prepayment to 40 Percent	351	0
Reciprocal Vendor Offset	3	15
Restructure the Insurance Tax	65	58
Empire Zones Reform	145	150
TAX REDUCTIONS	**(4)**	**(39)**
Expand the Low Income Housing Tax Credit Program	(4)	(4)
Create an Enhanced Research and Development Credit	0	(35)
Expand the Qualified Emerging Technology Company FOT Credit	0	0
ALL FUNDS TAX LEGISLATION CHANGE	**2,858**	**3,216**
LOTTERY	**133**	**545**
Eliminate Quick Draw Restrictions	40	59
Extend VLT Hours of Operation	45	45
Allow for Additional Multi-Jurisdictional Lottery Games	11	21
Lottery Prize Fund Investment	37	50
Authorize VLT's at Belmont Park	0	370
ALL TAXES AND LOTTERY CHANGE	**$2,991**	**$3,761**

TAX ANALYSIS

Personal Income Tax

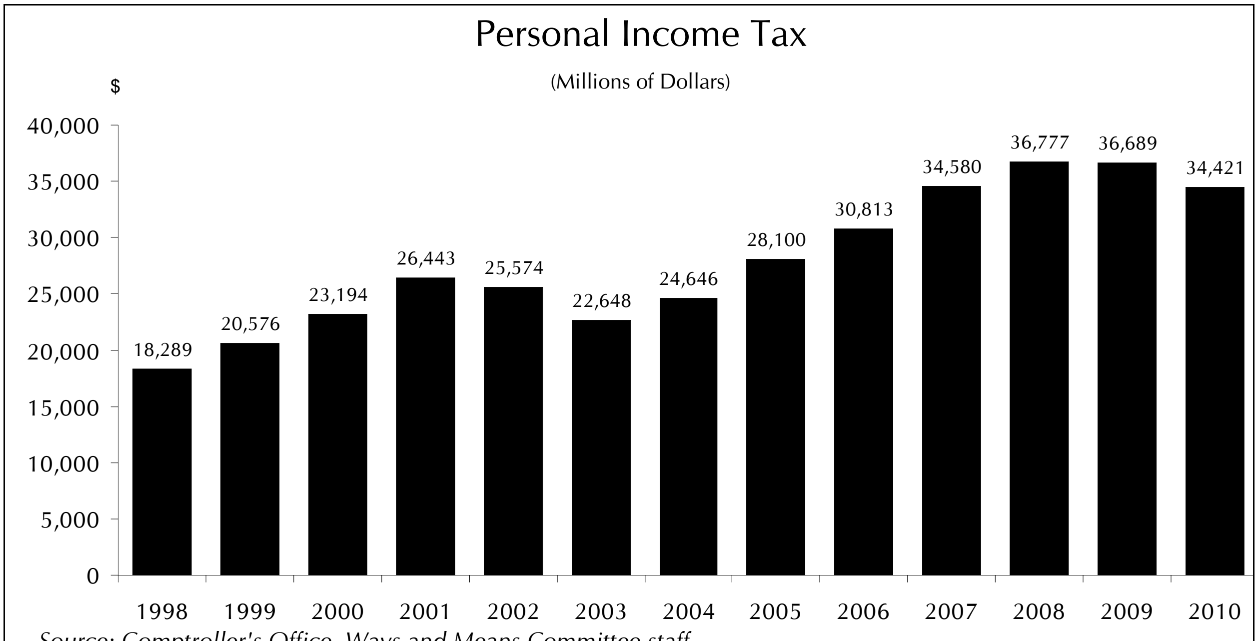
Table 10

Personal Income Tax Collections Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	2008-09 WAM Estimate	Percent Growth	Diff Exec	2009-10 WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,689**	**0.3%**	**$6**	**$34,421**	**-6.2%**	**($149)**
Gross Receipts	**43,784**	**1.4%**	**51**	**41,396**	**-5.5%**	**(138)**
Withholding	27,414	-3.6%	(212)	27,512	0.4%	(413)
Estimated Payments	12,656	8.7%	204	10,395	-17.9%	289
Vouchers	7,864	-8.5%	237	7,246	-7.9%	195
IT 370s	4,792	57.2%	(33)	3,149	-34.3%	94
Final Payments	2,766	27.6%	58	2,386	-13.7%	0
Delinquencies	948	2.7%	1	1,103	16.3%	(14)
Total Refunds	**7,095**	**7.4%**	**45**	**6,975**	**-1.7%**	**11**
Prior Year Refunds	4,520	5.5%	(4)	4,241	-6.2%	(79)
Current Refunds	1,750	16.7%	-	1,750	0.0%	0
Previous Refunds	379	11.4%	49	400	5.5%	90
State/City Offsets	446	-6.9%	-	584	30.9%	0
Collections	**36,689**	**0.3%**	**6**	**34,421**	**-6.2%**	**(149)**
Transfers to STAR	(4,440)	-4.8%	**-**	(3,416)	-23.1%	-
Transfers to DRRF/RBTF	(9,172)	0.3%	**(1)**	(8,605)	-6.2%	37
General Fund PIT Collections	**$23,077**	**1.4%**	**$5**	**$22,399**	**-2.9%**	**($111)**

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 includes wages and salaries, capital gains, unemployment compensation, 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.



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

Figure 27

SFY 2008-09 Estimate

Net Collections

The Committee staff estimates that All Funds personal income tax collections will total $36.689 billion in SFY 2008-09. This represents an increase of $124 million or 0.3 percent over All Fund collections in SFY 2007-08. A large influx of payments from the April Settlement has provided a cushion to offset what is expected to be a sharp decline in withholding and estimated payments in the last quarter of the fiscal year. Through December, PIT collections have grown by 10.9 percent but are expected to decline by 22.1 percent over the remainder of the fiscal year as a result of the weakening economy, declining capital gains realizations, and a sharp decline in Wall Street bonuses.

Withholding

Through December 2008, withholding collections increased by $866 million or 4.7 percent over the comparable period in 2007. The Committee staff estimates that by the end of the fiscal year withholding collections will total $27.414 billion. This represents a decrease of $1.026 billion or 3.6 percent compared to total collections during SFY 2007-08. The Committee staff's estimate is $212 million below the Executive's Budget estimate.

To estimate withholding collections for the final quarter of the SFY 2008-2009, the Committee staff referenced historical elasticities, or marginal response to change in withholding with respect to wages. The staff segmented wages into base and variable wage portions to utilize historical elasticity estimates of 1.1 for base wage growth and 1.7 for variable wage growth.

The Committee staff's estimate reflects an anticipated wage decline of 2.4 percent for SFY 2008-09. Due to the turmoil in financial markets bonus payouts are expected to suffer a steep decline versus prior year totals. Variable wage growth over the second half of the year is estimated at negative 34.4 percent. Over the period SFY 2001-02 to SFY 2007-08, the Committee staff estimates that approximately 86 percent of all variable wage collections occurred in the second half of the fiscal year. Combined with an estimated decline in base wages of 0.7 percent over the last quarter of the current fiscal year, withholding growth is expected to decline for the first time since SFY 2002-03.

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 2008-09 will be $7.864 billion, which represents a decrease of $728 million or 8.5 percent versus collections from SFY 2007-08. The Committee staff's estimate is $237 million above the Executive estimate.

The first quarter of the fiscal year experienced growth in voucher collections of 5.3 percent over the previous first quarter. This was followed by a 7.3 percent second quarter decline in vouchers over the same quarter a year ago. The third quarter of the fiscal year resulted in a decline in vouchers of 18.2 percent.

The recent decline in voucher collections, which were down 3.9 percent through December, follows a five year average of 17.7 percent annual growth starting SFY 2003-04. This growth corresponds with surging growth in capital gains, the largest source of non-wage income over recent years. Capital gains grew by 39.5 percent in 2003, 79.8 percent in 2004, 25.9 percent in 2005 and 27.9 percent in 2006. The Committee staff estimates capital gains income to decline by 50.9 percent in 2008, followed by another 18.5 percent decline in 2009, in light of widespread losses in the financial sector.

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 $532.9 million or 27.2 percent through December 2008. The Committee staff estimates that final payments will total $2.766 billion in SFY 2008-09. This estimate is $58 million above the Executive estimate.

Extensions

In April 2008, extension deposits (IT-370s) increased by $1.756 billion or 59.3 percent over April 2007. The Committee staff estimates that extension deposits will total $4.792 billion in 2008-09, representing an increase of $1.744 billion or 57.2 percent over the previous fiscal year. Since extension payments are based on the previous year's liability, this is a reflection of strong growth in non-wage income for calendar year 2007. This estimate is $33 million below the Executive's estimate.

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 $1.5 billion, and had been $960 million prior to that. Starting in January of 2008 that amount was increased to $1.750 billion. Beginning in April the remaining refunds, known as prior year refunds, are paid to taxpayers as they are processed. Approximately 70 percent of prior year refunds are paid out in April and May of each year.

The Committee staff estimates that prior year refunds will total $4.520 billion in SFY 2008-09, representing an increase of $234 million or 5.5 percent above the previous fiscal year. This estimate is $4 million below the Executive estimate.

Delinquencies

Delinquency collections arise from taxpayer audits. Delinquency payments are estimated to total $948 million in SFY 2007-08, which is $25 million or 2.7 percent above collections in SFY 2007-08. The Committee staff estimate is $1 million above the Executive's.

Overview

April 2008 payments provided significant cash flow for the State. Final payments in April grew by 26.4 percent and totaled $1.992 billion. Extensions deposits grew by 59.3 percent and totaled $4.718 billion. Combined, the two components contributed $6.710 billion in revenue. Overall, net collections grew by 39.7 percent in April, compared to a 3.0 percent growth rate for collections between May and December 2008.

SFY 2009-10 Forecast

The Committee staff's forecast for personal income tax collections during SFY 2009-10 reflects reduced income in a rapidly deteriorating economy. Current law All Funds collections are forecast at $34.043 billion, which is $2.646 billion or 7.2 percent lower than the Committee staff's SFY 2008-09 estimate. With the Executive's proposals, All Funds collections are forecast at $34.421 billion, $2.269 billion or 6.2 percent decline with respect to the Committee staff's SFY 2008-09 estimate.

Withholding

Withholding collections are forecast to total $27.312 billion in SFY 2009-10. This is $102 million or 0.4 percent lower than the 2008-09 withholding estimate. With the Executive's proposals, these collections are forecast at $27.512 billion, a $98 million or 0.4 percent increase over the prior fiscal year. The Committee staff forecast is $413 million below the Executive's forecast. Growth in withholding is based on forecasted wage decrease of 0.32 percent in SFY 2009-10.

Estimated Payments

The Committee staff forecasts that voucher payments will total $7.246 billion. This represents a decrease of $618 million or 7.9 percent below SFY 2008-09 collections. The forecast is $195 million above the Executive's forecast. Growth in estimated payments has been declining basis since May of this year. This negative growth for SFY 2009-10 is attributed to expected declines in capital gains.

Final Payments

Final payments are forecast to total $2.336 billion in SFY 2009-10. This represents a decrease of $430 million or 15.5 percent over the Committee staff's SFY 2008-09 estimate. With the Executive's proposals, final payments are forecast to total $2.386 billion, a $380 million or 13.7 percent decline compared to the prior fiscal year estimate. The Committee staff's forecast is equivalent to the Executive's forecast.

Extensions

The Committee staff forecasts extensions (IT-370s) to total $3.149 billion in SFY 2009-10. This represents a decrease of $1.643 billion or 34.3 percent from the Committee staff's SFY 2008-09 total, which can be attributed to an estimated decline in 2008 PIT liability. This forecast is $94 million above the Executive's estimate.

Refunds

The Committee staff forecasts that prior year refunds will total $4.359 billion in SFY 2009-10, representing a decrease of $161 million or 3.6 percent over estimated prior year refunds during SFY 2008-09. With the Executive's proposals, prior year refunds are forecast to total $4.241 billion, representing a decrease of $279 million or 6.2 percent versus SFY 2008-09. The Executive's forecast is $79 million below the Committee staff's forecast.

Delinquencies

Delinquency payments are forecast to total $1.093 billion in SFY 2009-10, which is $145 million or 15.3 percent above estimated collections from SFY 2008-09. With the Executive's proposals, delinquency payments are forecast to total $1.103 billion in

SFY 2009-10, a $155 million or 16.3 percent increase over the SFY 2008-09 estimate. The Staff's estimate is $13 million below the Executive's forecast.

Adjusted Gross Income

Table 11 outlines the components of Adjusted Gross Income (AGI). The trends for each component highlight the importance of non-wage income. Capital gains have become increasingly important, but other non-wage components such as business income have also grown in importance. The growth in non-wage components is correlated to the increase in the number of wealthy taxpayers as non-wage income is typically earned by wealthier taxpayers.

Table 11

Components of AGI (Dollar Amounts in Millions)						
		Actual			Estimates	
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
NYSAGI						
Amount	$525,989	$571,916	$632,600	$702,405	$657,481	$622,768
Percent Change	11.0%	8.7%	10.6%	11.0%	-6.4%	-5.3%
Wages						
Amount	$397,431	$416,988	$445,210	$480,888	$489,163	$467,458
Percent Change	6.5%	4.9%	6.8%	8.0%	1.7%	-4.4%
Capital Gains						
Amount	$51,162	$64,411	$82,412	$113,622	$55,820	$45,469
Percent Change	79.8%	25.9%	27.9%	37.9%	-50.9%	-18.5%
Interest, Dividends and Pensions						
Amount	$48,917	$58,647	$69,623	$72,988	$75,291	$73,371
Percent Change	7.4%	19.9%	18.7%	4.8%	3.2%	-2.6%
Business and Partnership Income						
Amount	$53,686	$60,718	$67,249	$68,230	$71,483	$71,610
Percent Change	11.5%	13.1%	10.8%	1.5%	4.8%	0.2%
Other Income						
Amount	($25,266)	($28,848)	($31,894)	($33,332)	($34,309)	($35,201)
Percent Change	16.5%	14.2%	10.6%	4.5%	2.9%	2.6%

New York Income Analysis

Trends in Income

Wealth in New York, in terms of AGI, is not broadly spread across socio-economic classes and is instead highly concentrated among relatively few 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 concentration of income is more prominent in New York than other states.

The chart below illustrates the concentration of income by comparing the percentage of AGI earned by three groups: the top one percent, the bottom 40 percent, and those in the middle percentiles for three years. The graph shows that since 1996 the bottom and middle groups have seen a decline in their overall share of AGI, while the top one percent has seen its share rise.

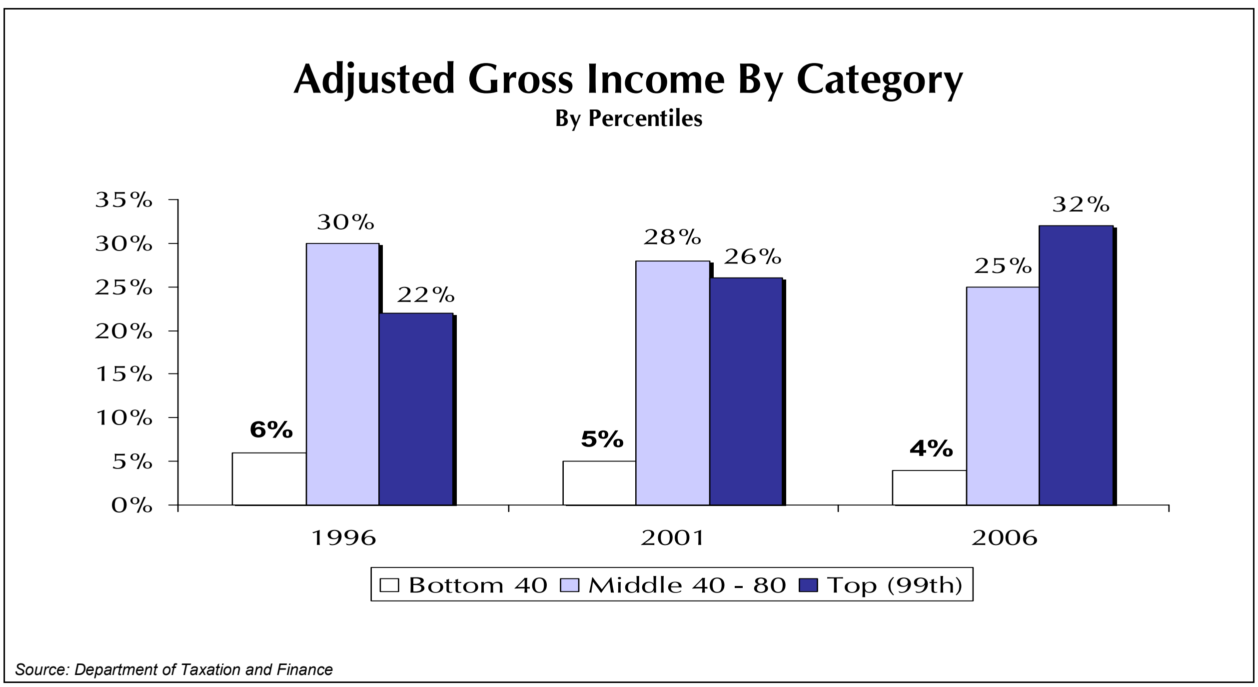


Figure 28

To demonstrate the acute concentration of wealth in New York, a comparison can be made between the top one percent of income earners (99^{th} percentile) and those in the top 98^{th} percentile. In 2006, the top one percent earned 32.2 percent of all AGI. Taxpayers in the 98^{th} percentile earned 6.1 percent. The average AGI for each of these two groups was

$2.19 million and $413,215, respectively, meaning that the second highest percentile earned less than one fifth (18.8 percent) of the income earned by filers in the highest percentile.

A large portion of the concentration of wealth among the top one percent can be explained by the distribution of capital gains income. Capital gains income has traditionally been earned by wealthy individuals – those capable of making significant capital investments. The pie chart below reveals the distribution of capital gains income in 2006.

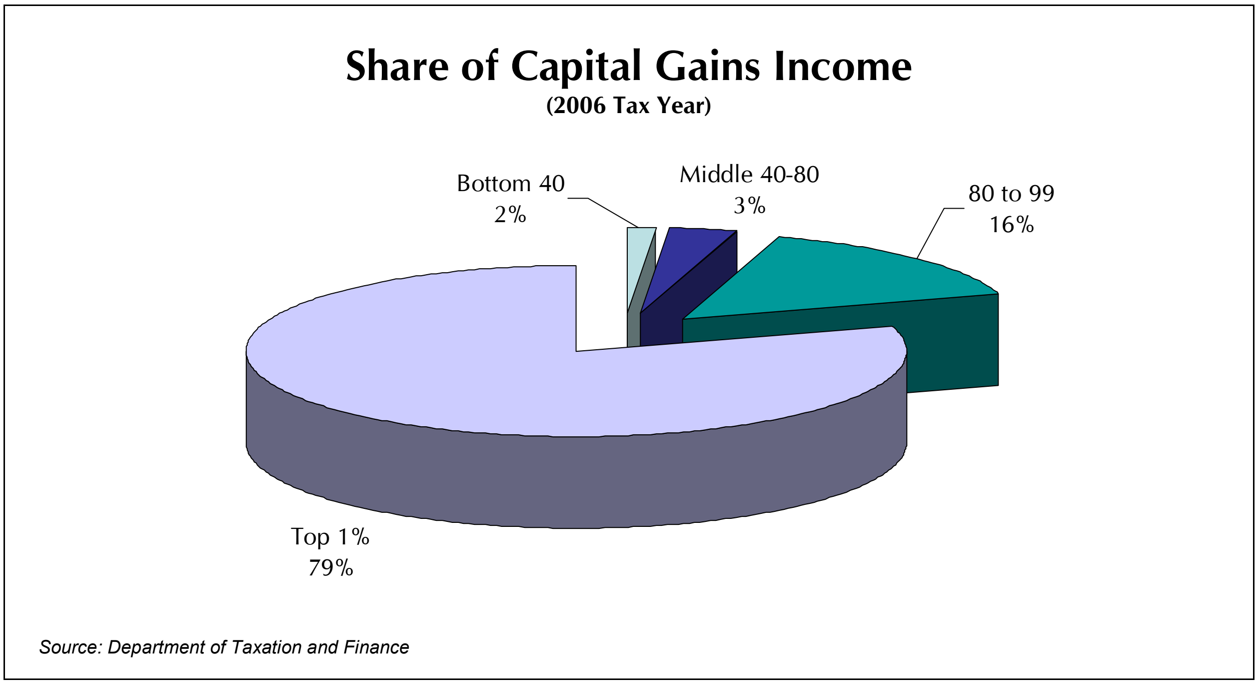


Figure 29

While the distribution of capital gains income has an obvious effect on the concentration of income in the top percentile, trends in business, interest and dividend income go farther to explain the decline in the shares of AGI among the lower percentiles and the growth in shares among New York's most wealthy.

Business income subject to personal income taxes includes income from sole proprietorships, partnerships, and S corporations. Between 1996 and 2006 this income has increased $35.8 million, from $31.4 million in 1996 to $67.2 million in 2006. However, the amount of business income earned by the bottom forty percent of New York tax filers has actually decreased, both in percentage terms and in nominal dollars, with totals of $811.4 million and negative $1.4 billion for the years 1996 and 2006, respectively. The top ten percent of taxpayers accrued the vast majority of the increase in business income, earning $34.4 billion or 95.9 percent of this total. Specifically, the top one percent earned $23.2 billion, or 64.9 percent, of this additional business income.

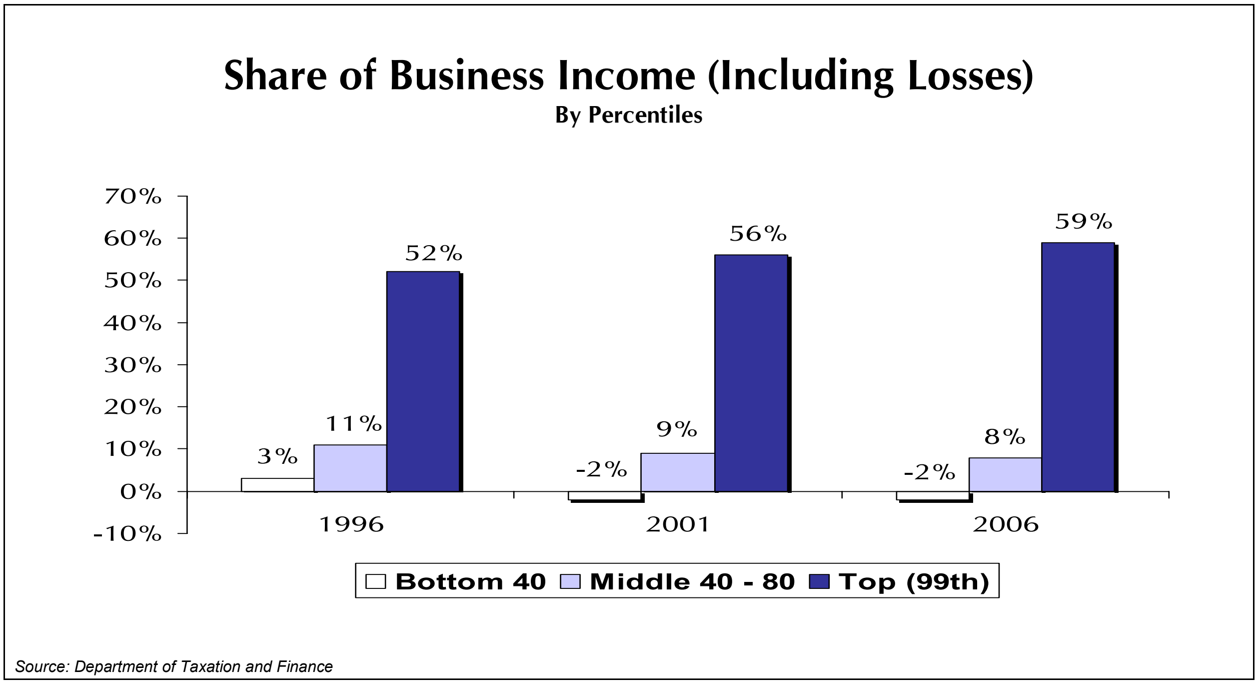


Figure 30

Similarly, trends in interest and dividend income have revealed a widening gap in shares between the top percentiles and the rest. Interest and dividend income has increased from $23.5 billion in 1996 to $39.4 billion in 2006. Of this additional income, 96.4 percent of it, or $15.3 billion, was earned by the top ten percent. Consistent with the trend in business income, most of this gain was concentrated in the top percentile. The top one percent accounted for $12.7 billion, or 80 percent, of the total increase. The total share of interest and dividend income accumulated by the highest income earners has increased from 31 percent in 1996 to 51 percent in 2006, with a 15 percent gain between 2001 and 2006 alone.

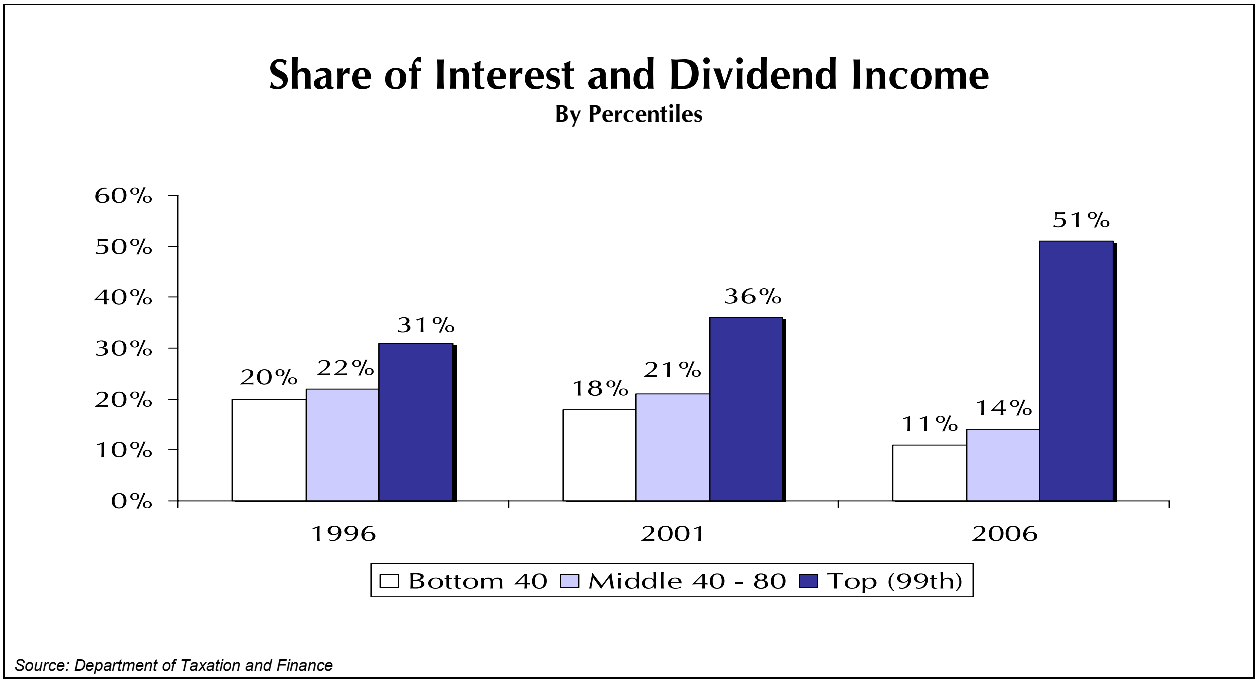


Figure 31

Dependency on Top Income Earners

New York, like the Federal government, utilizes a progressive personal income tax structure. This method of taxing naturally implies a higher weight on the contributions of the State's most wealthy taxpayers. As a result, a progressive tax structure has a more elastic response to market volatility than a less progressive structure. With expectations for drastically declining bonus wages and other non-wage income, stemming from the ongoing financial sector turmoil, income earned by the top percentages of taxpayers is expected to be significantly reduced. Individuals making over $150,000 currently pay a flat rate of 6.85 percent in personal income tax on all of their taxable income. This, in turn, means disproportionate losses in State revenue relative to the losses in income.

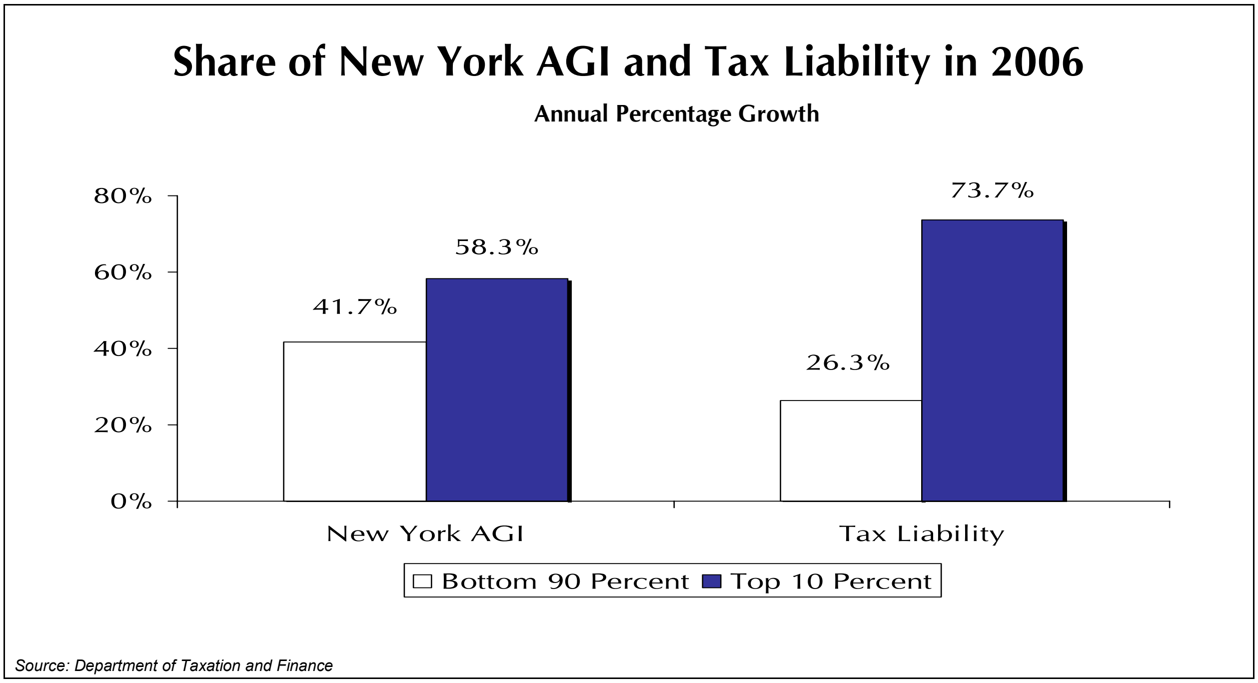


Figure 32

Increasing Collections Volatility

Over the last decade, net personal income tax collections have increased dramatically, but have also become significantly more volatile. This results in a higher degree of difficulty making accurate estimates and forecasts during a downturn.

Contributing to this difficulty is the uncertainty as to how financial markets will develop following the restructuring of financial business models. In particular, capital gains income appears to have hit a peak of approximately \$114 billion in 2007. In real terms, these levels may not be reached again for many years. If both individuals and businesses become more risk adverse, the potential for big risks and, therefore, profits is diminished, leading to lower average growth in collections but with possibly less volatility.

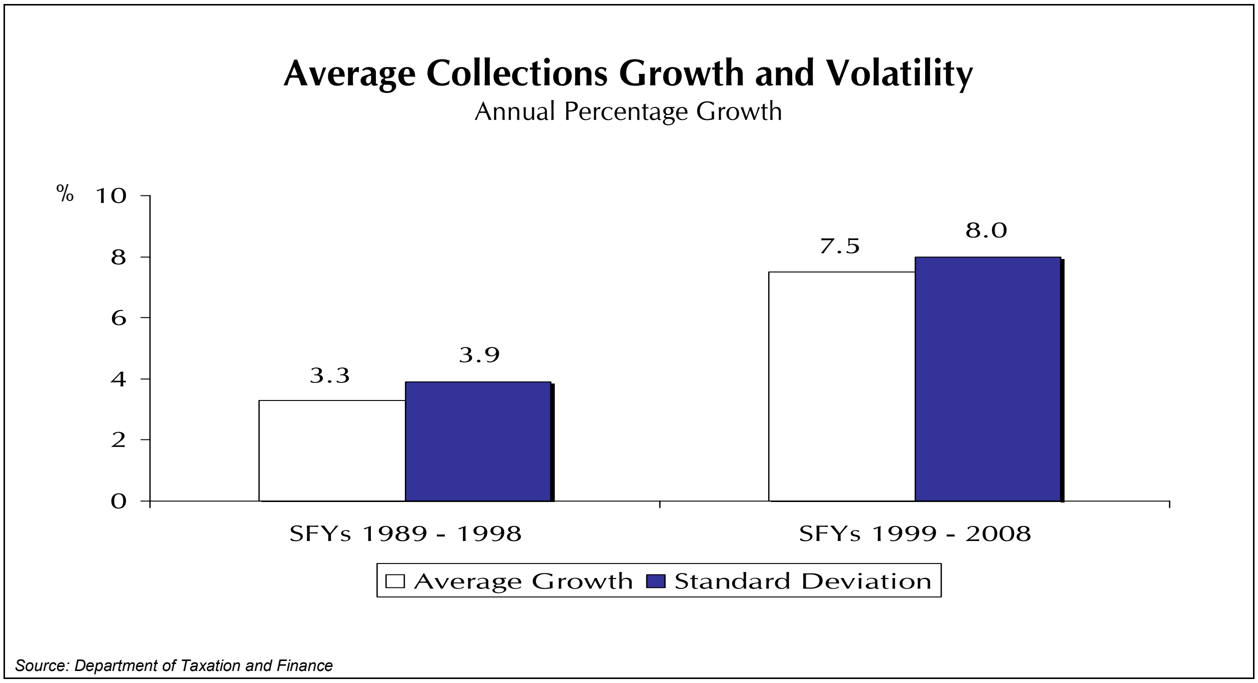


Figure 33

National Income Tax Revenue Comparison

While the forecast for New York is one of reduced revenue stemming from a lengthy recession, the outlook is quite similar to what is taking place across the nation. Federal income tax revenues are expected to decline $86 billion, or eight percent, due in large part to lower incomes and large losses in consumer and business wealth.[10]

On an individual state basis, the trend is generally the same. Between the months of April and September, there are three estimated payments due dates. For 2008, the sum of these three payments averaged 1.1 percent growth among 35 states on a year-over-year basis. The last of those three payments, however, declined by an average of 2.7 percent. Of these 35 states, 17 experienced negative growth in their third estimated payment. New York's estimated payments encountered a particularly extreme shift, growing 22.9 percent over its first three payments and declining 7.3 percent with regard to the third payment exclusively.[11]

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[10] United States. Congressional Budget Office. The Budget and Economic Outlook: Fiscal Years 2009 to 2019. Washington: 8 Jan. 2009.
[11] Boyd, Donald J. and Lucy Dadayan. "Sales Taxes, Income Taxes Both Show Decline; Further Losses Appear Likely in First Half of 2009." **State Revenue Report**. Nelson A. Rockefeller Institute of Government. Jan. 2009: 74.

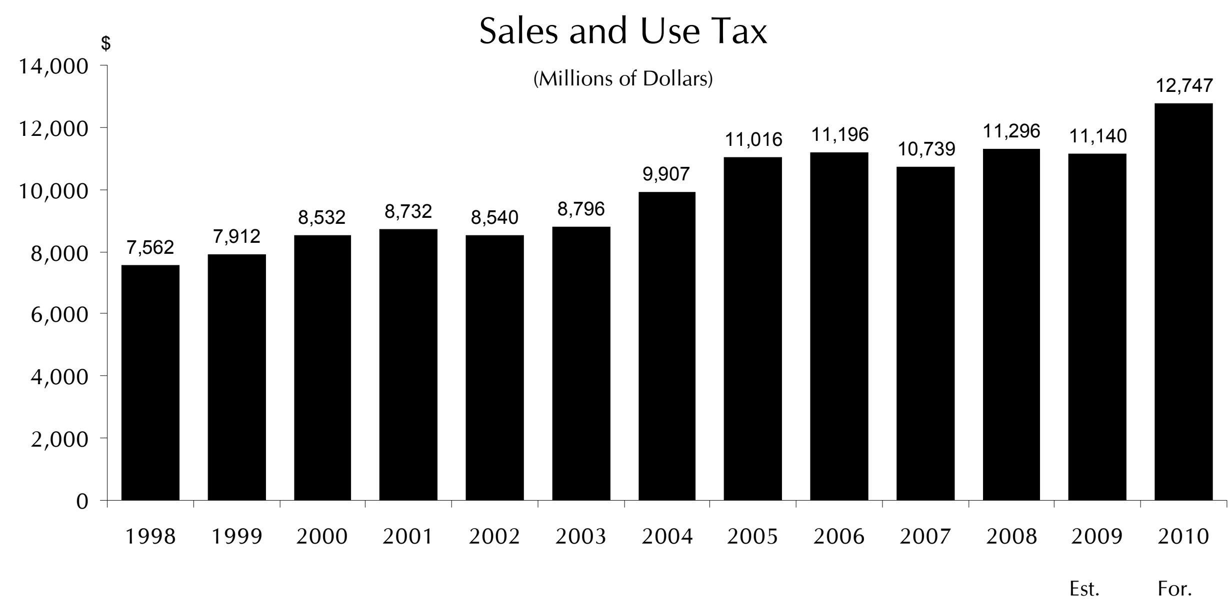
Sales and User Taxes

Table 12

User Tax Collections Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2008-09	Growth	Diff. Exec.	SFY 2009-10	Growth	Diff. Exec.
User Taxes and Fees	**$14,163**	**1.2%**	**($208)**	**$16,206**	**14.4%**	**($573)**
Sales and Use Tax	$11,140	-1.4%	($180)	$12,747	14.4%	($540)
Motor Fuel Tax	$510	-2.8%	($13)	$508	-0.4%	($20)
Cigarette Tax	$1,341	37.4%	$30	$1,433	6.9%	$49
Motor Vehicle Fees	$730	-2.4%	($36)	$868	18.9%	($40)
Highway Use	$144	-2.7%	($3)	$154	7.2%	($6)
Alcoholic Beverage Tax	$202	-1.3%	($4)	$276	36.5%	($21)
Alcoholic Beverage Fees	$43	-9.9%	($2)	$155	259.8%	$3
Auto Rental Tax	$53	12.8%	$0	$66	24.5%	$3

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).



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

Figure 34

SFY 2008-09 Estimate

The sales tax is expected to generate $11.140 billion on an All Funds basis in SFY 2008-09, a decrease of $156 million or 1.4 percent from SFY 2007-08. This estimate is $180 million below the Executive's 2008-09 estimate.

As of the end of December 2008, year-to-date sales tax collections for SFY 2008-09 are $7.909 billion. This represents a decline of $111 million, or 1.4 percent, from 2007 to 2008. This decline can be attributed to a number of factors. According to recent studies, the recent financial crisis has "reduced household net worth by over $12 trillion since 2007".[12] The collapse in stock prices by 17.3 percent in 2008 (S&P 500) and the decline in auto sales have negatively impacted sales tax collections due to a loss of confidence and disposable income.

All Funds Sales tax collections, including collections in the Metropolitan Commuter Transportation Commuter District (MCTD), declined by 1.5 percent in the first three quarters of SFY 2008-09. MCTD collections have grown by 1.5 percent through December, while collections from the statewide four percent rate have declined by 1.4 percent. Local sales tax collections in New York City increased 1.5 percent in the April through December period over the prior year. New York City is likely to see declines in revenue, as it will be most affected by any drop in Wall Street bonuses.

Fund Distribution

The Committee staff estimates General Fund sales tax receipts of $7.823 billion in SFY 2008-09, representing a decrease of 2.2 percent from the prior year. Receipts from one percentage point of the four percent State sales tax rate are 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 $2.214 billion in SFY 2008-09, representing a decrease of 16 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 2008-09 is $720.9 million representing growth of 2.2 percent over SFY 2007-08.

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[12] "The Wealth Effect", Moody's Economy.com, November 2008.

SFY 2009-10 Forecast

The SFY 2009-10 forecast for sales tax collections is projected to be $11.193 billion, representing growth of 0.5 percent. This forecast is $540 million lower than the Executive's SFY 2009-10 forecast. The Executive has proposed $1.553 billion in revenue actions in the SFY 2009-10 budget. Taking those measures into account, sales tax receipts are expected to be $12.747 billion, an increase of 14.4 percent over 2008-09.

Fund Distribution

In SFY 2009-10, The Committee staff estimates General Fund sales tax receipts of $7.863 billion, Debt service collections of $2.510 billion, and MCTD collections of $709 million, representing a decline of 1.7 percent over the prior year.

Volatility of the Sales Tax

Fiscal Policy Implications – Stable Revenue Source

An understanding of tax volatility can assist legislators in shaping future tax policy. It is intuitive to assume that a more stable revenue source will be less susceptible to major swings in economic activity. For example, one would expect that economic recessions or expansions will have a greater effect on the bonus component of wages compared to the base of the sales tax that is more or less comprised of life necessities that are less variable to the economic cycle.

The Ways and Means Committee Staff analysis confirms that sales tax receipts are less volatile compared to the Personal Income Tax (PIT) and Business Taxes. The table below shows the Coefficient of Variation for PIT, Business Taxes, and the Sales Tax (for both adjusted for tax law changes collections and unadjusted collections).

Table 13

TAX RECEIPTS VOLATILITY (Quarterly Growth Rates)				
Period	PIT	Business	Sales (Adj.)	Sales (Unadj.)
1986Q1 to 2008Q4	1.85	3.31	1.30	1.61
2000Q1 to 2008Q4	1.66	4.09	1.32	1.98

With a Coefficient of Variation, adjusted for law changes, of 1.30, the sales tax exhibits less volatility compared to other tax sources for the time period 1986 to present.[13] Restricting the sample period to the last eight years a similar pattern emerges. However, notice that the volatility of the sales tax unadjusted for law changes increased over the last eight years as the clothing and footwear exemption, together with all other exemptions, narrows the base of the sales tax rendering it more "vulnerable" to the economic cycle. The fiscal policy implication is that the sales tax provides a more stable revenue source, or one less sensitive to the overall economic trends.

Volatility of Sales Tax Base Components

Table 14

VOLATILITY OF CONSUMPTION EXPENDITURES (Annualized Quarterly Growth Rates)				
Period	Durables	Non-Durables	Services	Total
1986Q1 to 2008Q4	2.02	0.94	0.48	0.69
2000Q1 to 2008Q4	2.63	1.10	0.53	0.85

The sales tax is applied on tangible personal property while services are taxable only to the extent they are enumerated in the Tax Law. The table above shows that the volatility of consumption expenditures on durable goods – e.g. autos, appliances, etc. - far exceeds that of any other consumption category. Therefore, to the extent that the Tax Law exempts from the sales tax base items that are more prevalent in the non-durables and services consumption categories, sales tax receipts will be more volatile as a consequence.

Expansion of the Tax Base – Executive Proposals

As part of the deficit reduction plan for SFY 2000-10, the Executive is proposing an expansion of the sales tax base to include additional services. In particular, the Executive Budget proposes:

- Imposing sales tax on cable and satellite television/radio services;
- Including the value of a store coupon in the taxable amount of a purchase;

[13] The Coefficient of Variation (CV) is defined as the ratio of Standard Deviation to the Mean of a series. A measure of dispersion around the mean, the CV does not depend on specific units of measurement and is useful when comparing series with different units or much different means.

- Revoking the tax exemption on clothing and footwear under $110 per item, and replacing it with two, one-week exemption periods with a $500 per item threshold;
- Taxing miscellaneous personal services and credit rating and reporting services
- Taxing digital products
- Imposing a tax on certain non-commuter transportation services;
- Taxing various amusement charges; and,
- Imposing an additional sales tax on luxury property.

It is useful to compare the New York sales tax to that of other states. Nationally, New York is ranked 29th in terms of how many services the State taxes. New York taxes 57 services, slightly more than the national average of 56 and the regional average of 44, which includes New Hampshire (11), Vermont (32), Massachusetts (18), Connecticut (79), Rhode Island (29), New Jersey (74), and Pennsylvania (55).[14]

New York and 30 other states exempt food from the State sales tax, while many other states (12) subject food to the regular States sales tax rate, and others (7) have a separate rate for food. New York State exempts prescription drugs from State sales tax, while six states subject prescription drugs to tax, whether at the regular sales tax rate or at a separate rate.[15] The following table shows how many other states are already taxing those products and services proposed by the Executive.

If each of these proposals is passed, it would change New York's ranking in total number of services taxed regionally and nationally. New York would then tax 63 services, well above the average, both regionally and nationally, and will be ranked 32nd among the 50 states.

[14] Federation of Tax Administrators, "FTA Survey of Services Taxation – Update," July 2008.
[15] FTA, "State Sales Tax Rates," January 1, 2008.

Table 15

TAXATION OF OTHER STATES	
Product or Services	Number of States
Cable and Satellite TV	
Cable TV Services**	25
Satellite TV Services**	22
Personal Services	
Barber Shops/Beauty Parlors**	7
Health Clubs and Tanning**	21
Massage	10
Credit Reporting **	12
Transportation	
Taxis*	8
Limosine Services*	16
Chartered Flights*	9
Local Buses**	5
Courier Service**	6
Amusement	
Concerts, Theaters and Movies*	31
Participatory Sports*	27
Health Clubs*	22
Amusement Parks and Rides*	36
Circus Admissions*	34
Billiard Parlors**	27
Coin-operated Video Games**	18
Private Club Membership**	23
Cultural Events**	33
Luxury Property	0

* 2009-10 New York State Executive Budget

** Forsberg, Mary, "Making the Sales Tax Pull its Weight," New Jersey Policy Perspectives, June 2006. www.jnpp.org/rpt_salestax.html

Employment Effects on the Sales Tax

As of January 2009 the national unemployment rate reached 7.6 percent, the highest rate since September 1992. High unemployment can negatively affect sales tax collections through two channels. First, as more people are out of work, there is less disposable income to be spent on taxable goods and services, leading to reduced revenues for the State. In addition, there is a secondary effect on the behavior of those still employed. Worsening employment trends create concern among many workers over the security of their jobs. This leads to declining consumer confidence, currently at an all-time low of 38, and reduced spending as consumers increase savings to guard against the event of a family's wage earner losing his or her job.[16]

The Wealth Effect

Another trend that has a significant effect on the sales tax is the "Wealth Effect." As housing prices and, therefore, equity wealth rise, homeowners tap into that wealth to fund current spending. This trend was clearly observed in the early 2000s. During the period 2003 to 2006 homeowners borrowed heavily against their housing equity to finance rapidly increasing consumption expenditures.

Economists often debate how large this wealth effect is, and how much increased housing wealth can actually add to spending. However, with the $8 trillion in increased housing wealth during the boom, even a small wealth effect led to much more spending. Even at a conservative estimate of $1 increase in housing wealth leading to only a $0.05 increase in spending, the housing boom then added more than $75 billion a year to consumer spending.[17] It is likely that the effect was even larger. In the last two years, however, housing prices have been steadily declining, resulting in the loss of this major driver of consumer spending; therefore, sales tax receipts have declined significantly. The Congressional Budget Office estimates that the wealth effect will subtract 0.75 percentage points from growth of average consumption spending in 2009, and reduced growth by 1.1 percent in 2008.[18]

Federal Stimulus Package

Congress is about to introduce a fiscal stimulus package to help the nation's economy recover sooner from the ongoing recession. The main components include:

- State fiscal relief to support education and Medicaid reimbursement;
- Additional infrastructure funding;

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[16] The Conference Board, Consumer Confidence Survey Press Release, 30 December 2008. www.conference-board.org/economics/ConsumerConfidence.cfm.

[17] Zandi, Mark, Financial Shock: a 360° Look at the Subprime Mortgage Implosion and How to Avoid the Next Financial Crisis, Pearson Education, Upper Saddle River, 2009, p. 73-74.

[18] Elmendorf, Douglas W., "The State of the Economy and Issues in Developing an Effective Policy Response," Statement before the U.S. House Committee on the Budget, January 27, 2009, cited in: New York State Assembly Ways and Means Committee staff, "New York State Economic Report: Draft," January 30, 2009, pg 14, footnote 13.

- Enhanced tax credits including child care credit, first time homebuyer credit, and the earned income tax credit; and,
- Business tax cuts to stimulate hiring and investment.[19]

To the extent this additional spending flows to New York State consumers, more disposable income will be available. With more disposable income, retailers throughout the State should see increasing sales thus, with the State receiving more revenue from sales taxes.

Many are hoping that a federal stimulus package could boost consumer spending, which is forecast to decline 1.6 percent in 2009, the first yearly drop in consumer spending since 1980. There is precedent for such a stimulus impacting consumer spending – in the second quarter of 2008, when the last round of tax rebate checks were mailed, consumer spending temporarily spiked, particularly among those with incomes below the 95th percentile.[20]

Online Purchases and the Streamlined Tax Project

Remote sales have progressively become important as the Internet has resulted in exponential growth of on-line purchases, resulting in the erosion of the sales tax base, to the extent that States do not collect sales tax from these sales. Some studies estimate that this erosion could be sufficiently large to alter a State's spending and tax decisions.

This trend has led to a number of inefficient economic practices. For example, consumers in a state that imposes a sales tax can avoid paying this tax by purchasing online from an out-of-state seller. In this case, the consumer has based his or her consumption decision on taxes rather than economic costs. This generates economic inefficiencies through the misallocation of resources and the loss of output.[21]

These economic inefficiencies could be avoided through more streamlined tax collection practices between states. One program in particular, the Streamlined Sales Tax Project, founded in 2000, aims to standardize the way all states collect and administer the sales tax.

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[19] "The Obama-Biden Plan," http://change.gov/agenda/economy_agenda, accessed January 17, 2009."
[20] Leonheardt, David, "Time to Steer'forceful Course' for Stimulus," New York Times, February, 4, 2009, pg. B1.
[21] Woodward, Thomas, "Economic Analysis of Taxing Internet and Other Remote Sales," CBO Testimony before the Committee on Finance, United States Senate, August 1, 2001.

There are several benefits to such a system, particularly more efficient, uniform rules on registration, compensation, returns, and recovery of bad debt, and enhanced collections on Internet, phone and mail-order purchases.[22]

Currently, 19 states have become full members of the Streamlined Sales Tax Project, meaning that its laws conform to the Agreement. Three states are associate members, those whose practices are in compliance with the Agreement, but the necessary law changes are not expected to take effect before July 1, 2009. [23]

Candidates for the Streamlined Project are typically those that rely on the sales tax for a large share of revenue, such as Tennessee, South Dakota, Ohio, Michigan and New Jersey. New York could also benefit from streamlining, as over 18 percent of New York State's revenue comes from the Sales tax, the second largest source of revenue in the State. There has been no successful legislation to incorporate the Agreement's provisions in the New York State Sales Tax Law. New York's sales tax does not comply with many of the provisions in the Streamlined Agreement, and many changes would need to be made in order to become a full member in the program. For example: [24]

- The Agreement's uniform product definitions would need to be incorporated into sales tax exemptions. This would significantly change the way New York State taxes a number of products;
- Exemption thresholds, such as the sales tax exemption on clothing and footwear costing less than $110 per item, would need to be revoked; and,
- All localities would need to impose sales tax on the same products and services as the State, and as each other. This is particularly true for New York City, which has a sales tax base quite unique from that of the rest of the state.

[22] Office of Tax Policy Analysis, "Streamlining New York's Sales Tax," October 2006, New York State Department of Taxation and Finance, page i.
[23] http://www.streamlinedsalestax.org/govbrdstates.htm.
[24] Office of Tax Policy Analysis, "Streamlining New York's Sales Tax," October 2006, New York State Department of Taxation and Finance, page ii.

The following administrative changes would need to be made to conform to the Agreement as well:

- Offering tax amnesty;
- Allowing the use of a state-certified software system for sales tax collection and returns; and,
- Permitting sellers to collect tax based on the ZIP code of the purchaser, which has a large impact on New York State sellers who sell to consumers out-of-state.

Overall, the changes that would need to be made in the way New York State defines, administers and collects taxes are sufficiently daunting, to making any genuine attempt at compliance more difficult. Without a uniform system such as the Streamlined Project, New York has relied on the Courts to determine when it is appropriate to tax out-of-State purchases. The case of *Quill v. North Dakota* determined in 1998 that there is no requirement that vendors selling to consumer out-of-state must collect sales taxes on those purchases. Furthermore, the court found in this case that "while a State may, consistent with the Due Process Clause, have the authority to tax a particular taxpayer, imposition of the tax may nonetheless violate the Commerce Clause." The Court found that a tax conformed to the Commerce Clause when it constituted "sufficient nexus to justify imposition of the purely administrative duty of collecting and remitting the use tax," and found that "sufficient nexus" existed when the selling company has actors or affiliates in the sate. If the company lacks such actors or affiliates, there is no sufficient nexus, and any tax imposed on purchases to that company would violate the Commerce Clause.[25]

A more recent case in the New York State Supreme Court found in favor of such remote taxation. While Amazon.com has no offices or facilities in New York State, the court found in January that it does, in fact, have affiliates in the State. Amazon uses operators of websites to send customers to its Amazon.com, and many of those operators exist in New York State, constituting sufficient nexus. Both Amazon.com, which continued to collect taxes while the case was pending, and Overstock.com, which has ended relationships with its affiliates in order to suspend taxation of New York State purchases, have vowed to appeal to federal courts if needed, indicating that no clear resolution of this issue is likely for many years. [26]

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[25] 504 U.S. 298 (1992).

Until the courts or a consortium of states clearly resolve this issue, the purchase of products and services over the Internet will continue to have an effect on sales tax collections in New York State. According to estimates, New York may have lost as much as $1.9 billion in sales tax collections due to e-commerce, while losses are projected to grow to $2.3 billion by 2011. [27]

[26] Hansell, Saul, "Court To Amazon: Keep Collecting Sales Tax," New York Times January 13, 2009.
[27] "State and Local Sales Tax Revenue Losses from E-Commerce: Updated Estimates", by Donald Bruce and William Fox, Center for Business and Economic Research, The University of Tennessee, September 2001.

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.

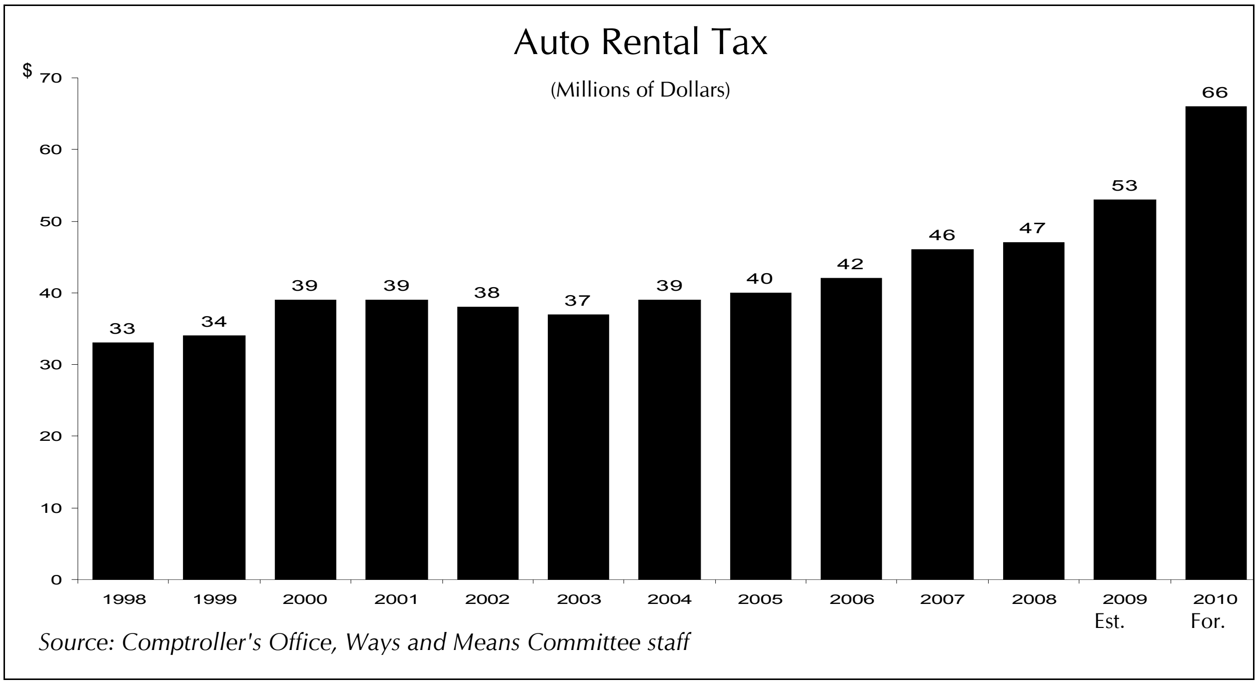


Figure 35

SFY 2008-09 Estimate

Collections are estimated to reach $53 million for SFY 2008-09. This represents growth of 12.8 percent over SFY 2007-08.

SFY 2009-10 Forecast

The Committee staff estimate for SFY 2009-10 is $58 million. This represents an increase of $5 million or 9.4 percent over SFY 2008-09.

One proposal in the Executive's Amended Budget for 2009-10 is estimated to raise auto rental tax revenue by $8 million, directed to the Dedicated Highway and Bridge Fund. This proposal involves a one percent increase in the auto rental tax, from 5 percent to 6 percent. This would be the first increase in the auto rental tax since it was first imposed in 1990. Taking this measure into account, auto rental tax receipts are expected to be $66.2 million, an increase of 24.5 percent over SFY 2008-09.

Motor Fuel Taxes

Article 12-A of the Tax Law imposes an eight 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).

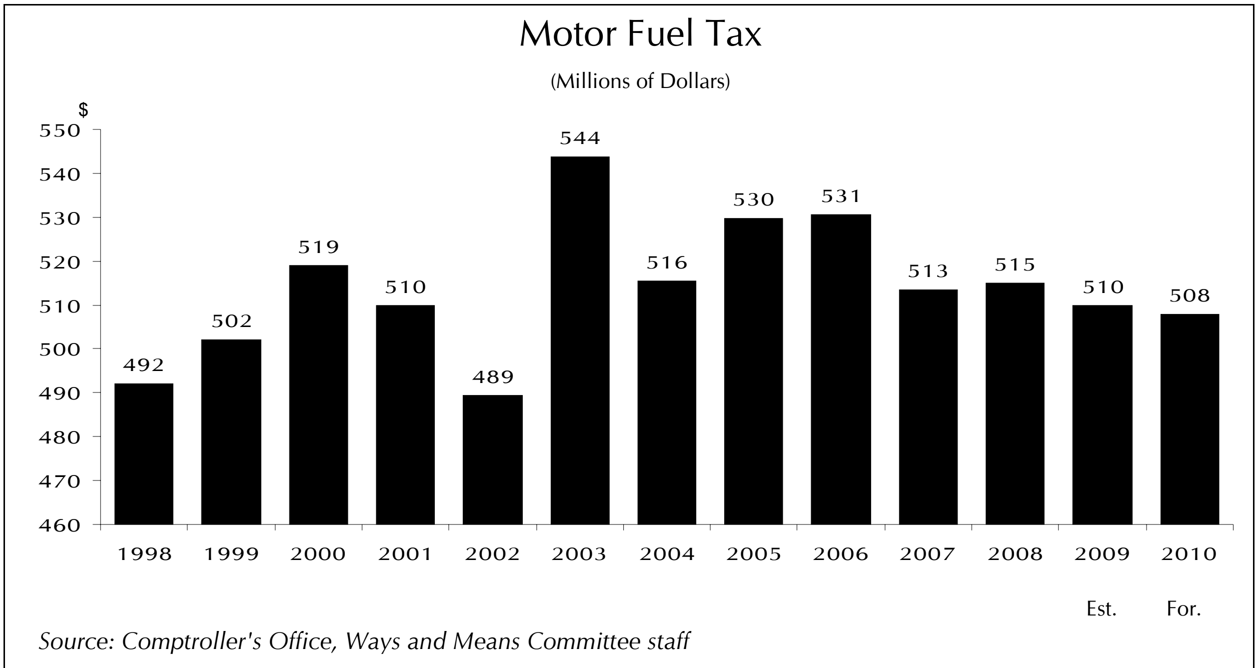


Figure 36

SFY 2008-09 Estimate

The Committee staff estimates that motor fuel taxes will total $510 million in SFY 2008-09, this estimate is 2.8 percent lower than the previous fiscal year. The Committee staff estimate is $13 million below 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,
- $403 million to the Dedicated Highway and Bridge Trust Fund .

Through December 2008, motor fuel collections are $383 million, a decrease of 2.8 percent over the comparable period in the prior fiscal year.

SFY 2009-10 Forecast

The Committee staff forecast for motor fuel taxes in SFY 2009-10 is $508 million, a 0.4 percent or $2 million decrease. The Committee staff forecast is $20 million below the Executive forecast. Motor fuel taxes will be distributed as follows:

- $107 million to the Dedicated Mass Transportation Trust Fund,
- $401 million to the Dedicated Highway and Bridge Trust Fund.

Revenue Trends

Motor Fuel taxes are generally very stable, having 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 expands the demand for shipping expands and the consumption of diesel fuel increases. The recent decline in motor fuel taxes is largely explained by a decrease in consumption due to higher gasoline prices early in 2008 and the worsening economy. The recent decline in gasoline prices is likely to have a positive impact on consumption, although this impact is likely to be offset by a falling demand due to the decline in economic activity.

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 and 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.

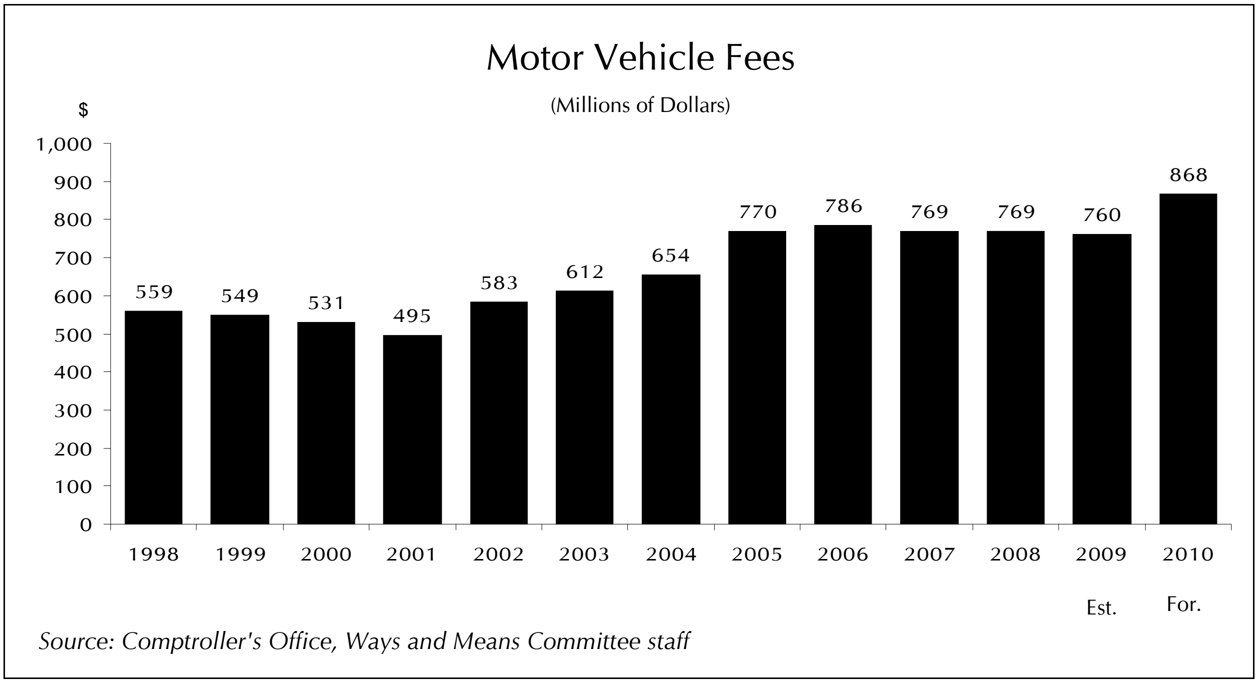


Figure 37

SFY 2008-09 Estimate

In SFY 2008-09, All Funds receipts are estimated to total $730 million, representing a decrease of 2.4 percent from last year. The Committee staff's estimate is $18 million lower than the Executive. Through December 2008, motor vehicle collections are $544 million, a decrease 4.8 percent from the comparable period in the prior fiscal year.

Of the $785 million in motor vehicle fees, the Committee staff estimates that the Dedicated Mass Transportation Trust Fund will receive $207 million, while the Dedicated Highway and Bridge Trust Fund will receive $490 million.

SFY 2009-10 Forecast

In SFY 2009-10, All Funds receipts are forecast to total $868 million, a 18.9 percent increase. The Committee staff forecast is $40 million below the Executive forecast.

The Committee staff estimates that in SFY 2009-10 the Dedicated Mass Transportation Trust Fund will receive $223 million and the Dedicated Highway and Bridge Trust Fund will receive $610 million.

Revenue Trends

The increase in motor vehicle fees is explained by recent changes 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

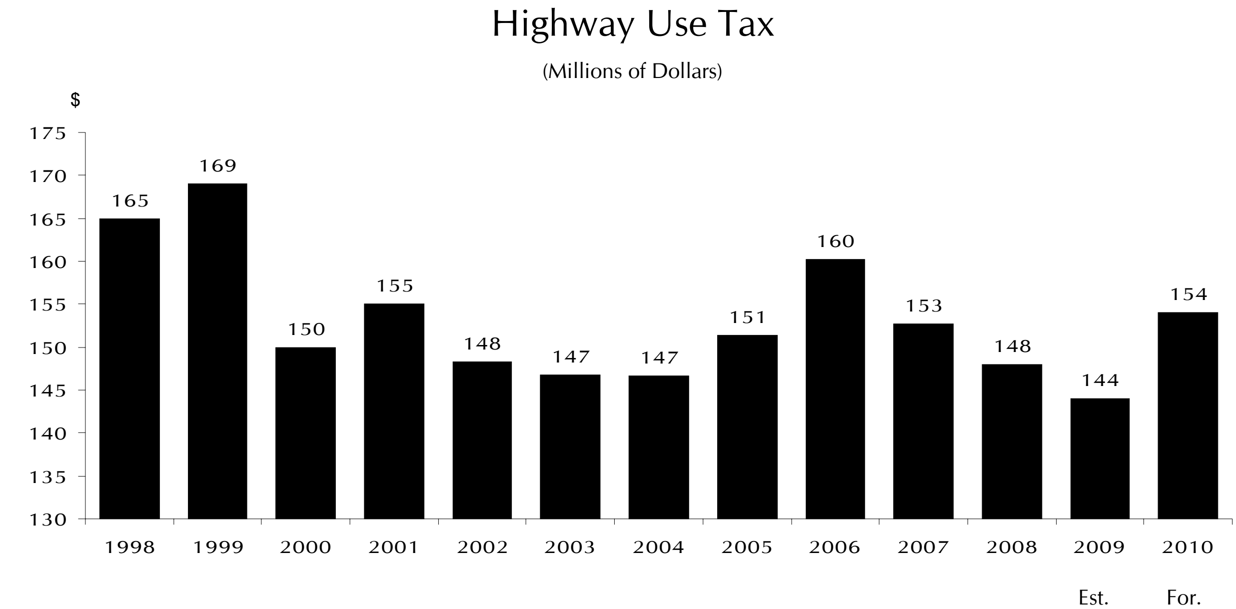
Highway use tax revenues are derived from three sources: the truck mileage tax, highway use permit fees, and the fuel use tax.

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.

Highway use permits are mandatory to owners of vehicles subject to the highway use tax. The permits are triennial at a cost of $15 for an initial permit.

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.

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



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

Figure 38

SFY 2008-09 Estimate

The Committee staff estimates that receipts in SFY 2008-09 will total $144 million, a decrease of $4 million, or 2.7 percent below the prior year. This estimate is $3 million lower than the Executive estimate. Much of the decline in Highway Use Taxes can be attributed to the decline in economic activity, which lowers the demand for shipping.

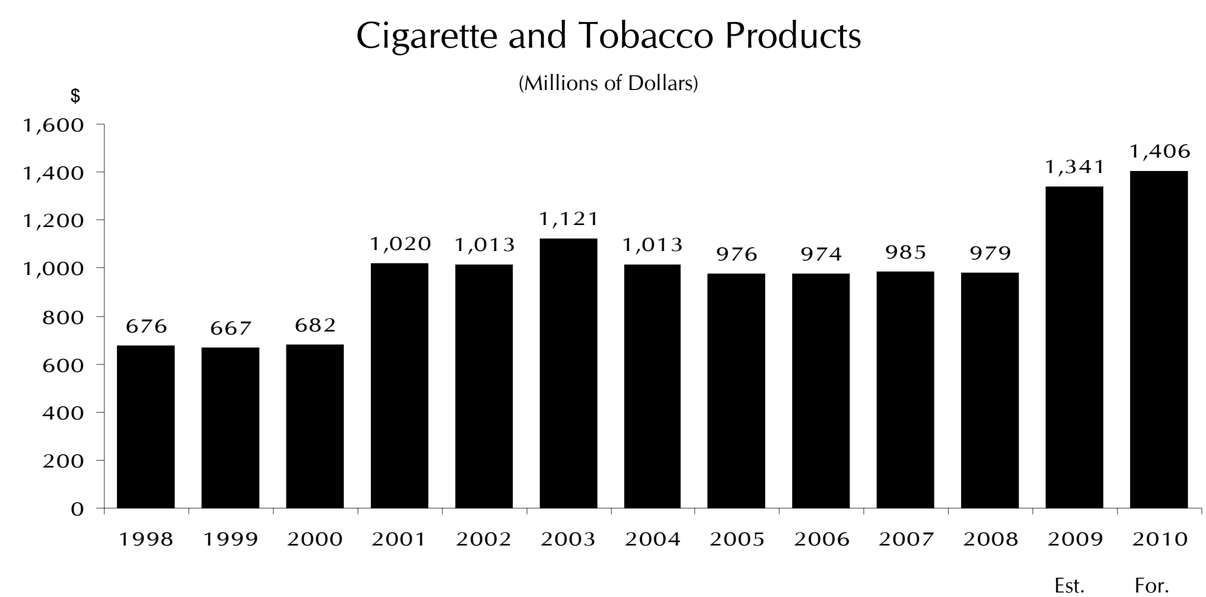
SFY 2009-10 Forecast

The Committee staff's forecast for Highway Use Tax receipts is $154 million for SFY 2009-10, which represents 6.9 percent increase from SFY 2008-09. This forecast is $6 million below the Executive's. This increase is largely the result of proposals continued in the Executive Budget that will increase registration fees.

Cigarette and Tobacco Taxes

Cigarette and Tobacco Taxes are governed via Article 20 of the New York State Tax Law. In 2008, legislation was enacted to increase the tax on cigarettes from $1.25 to $2.75 per package of 20 cigarettes sold within the State (see L. 2008, c. 57). The legislation also modified the sharing of the cigarette tax revenue, increasing the amount dedicated to the Health Care Reform Act (HCRA) from 61.22 percent to 70.63 percent. The remaining 29.37 percent or 81 cents is deposited into the General Fund.

Additional cigarette and tobacco revenue receipts are obtained through annual licensing fees of $100 for retail establishments and $25 for every vending machine that sells cigarettes. There are approximately 25,000 licensed retail vendors and 2,600 licensed vending machines in New York, generating on average and annual revenue stream of $2.6 million.



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

Figure 39

SFY 2008-09 Estimate

The Committee staff estimates that cigarette and tobacco receipts (includes licensing fees) will generate $1.341 billion on an All Funds basis in SFY 2008-09, an increase of

$365 million or 37.4 percent from SFY 2007-08. This is $30 million above the Executive's estimate. The SFY 2008-09 estimate is consistent with year-to-date collection patterns.

As a result of the $1.25 increase in cigarette taxes, collections as of the third quarter of the SFY 2008-09 have increased by 28.8 percent over prior year (adjusted for revenue received due to the floor tax) despite a year-to-date consumption reduction of approximately 16 percent.

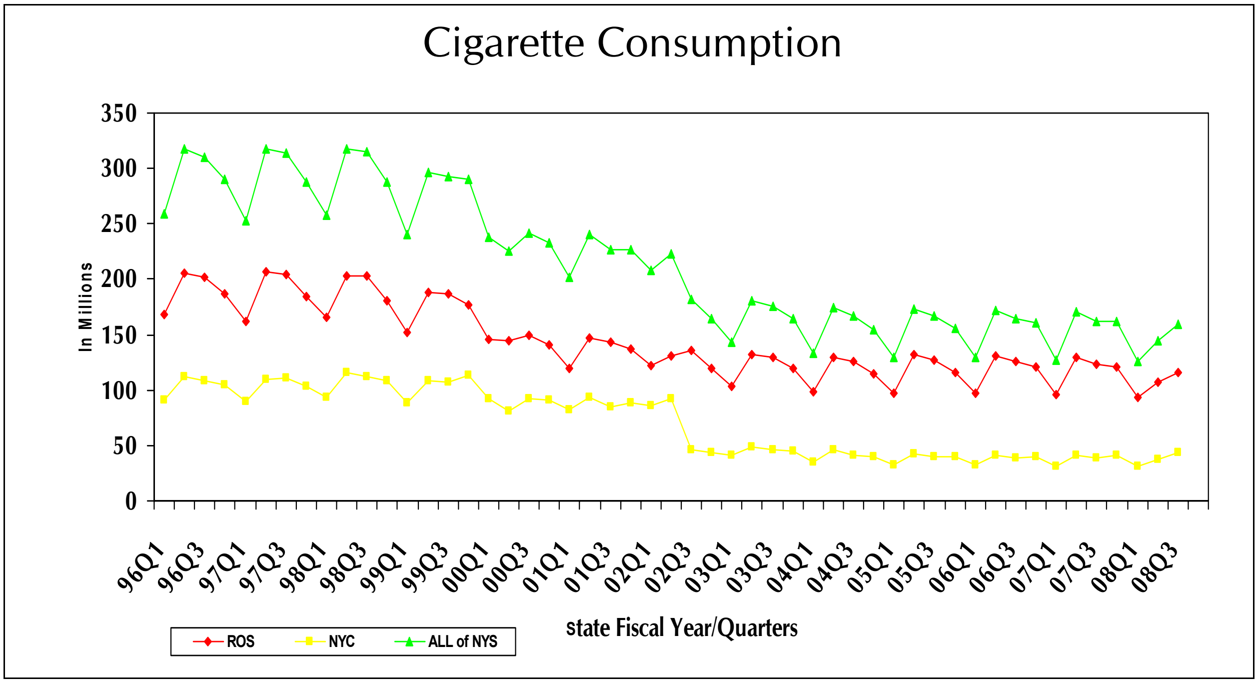


Figure 40

The Committee staff estimates General Fund cigarette and tobacco tax receipts of $438 million in SFY 2008-09, representing a 7.1 percent increase from the prior year. HCRA receipts are estimated to be $903 million, representing a 59.3 percent increase over the prior year. The increase in HCRA is directly related to legislation that was enacted in 2008 which increased the cigarette tax from $1.50 to $2.75, as well as, increased the disbursement of revenue, increasing the HCRA share by 17 percent.

SFY 2009-10 Forecast

All Funds cigarette and tobacco receipts are projected to be $1.406 billion in SFY 2009-10, an increase of $65 million from the estimated SFY 2008-09 close-out, a growth of 4.8 percent. The Committee staff forecast is $49 million above the Executive's forecast.

The Ways and Means Committee staff predicts consumption will continue to decline at approximately 21 percent, compared to the Executive's 2008-09 budget estimate of 28.8 percent. The Committee staff consumption reductions are based on current consumption trends.

The Ways and Means Committee staff did not include cigarette or tobacco tax revenue for cigarettes and tobacco products sold on Native American land. Although current State Law authorizes the collection of cigarette and tobacco excises taxes to non-Native Americans sold at such locations and such collections were scheduled to begin February 2009, the Federal Government has placed an injunction on said collections.[28]

Another area of concern for the projected revenue collection in SFY 2009-10 is a proposal by the Executive to increase the registration fee for the sale of cigarettes in New York State. The current annual registration fee is $100 for retailers and $25 per vending machine. The fee generates approximately $3 million annually which is deposited into the general fund. If the current proposal should pass, annual registration fees would be based on the gross sales for both retailers and vending machine operators; for retailers the minimum annual registration fee would increase from $100 to $1,000 (provided gross sales did not exceed $1.0 million), for cigarette vending operators the fee would increase from $25 to a minimum of $250 per machine (provided the gross sales were under $1,000 per machine). The Division of Budget estimates that approximately 40 percent of the retailers and 100 percent of vending operators would fail to renew their registrations. The lack of outlets for which to buy cigarettes may have a significant impact on sales and could ultimately reduce revenues, especially in areas outside of New York City, which currently account for approximately 75 percent of cigarettes sales.

Factors Affecting Collections

Cigarette tax collections are influenced by factors such as increased health consciousness, Federal and State clean indoor air legislation, increases in the price of cigarettes by manufacturers, and Federal and State tax increases. It is important to note that the Federal Government has recently passed into law, an increase on the Federal tobacco excise tax increasing the tax from 39 cents to one dollar per pack. The additional revenue is said to

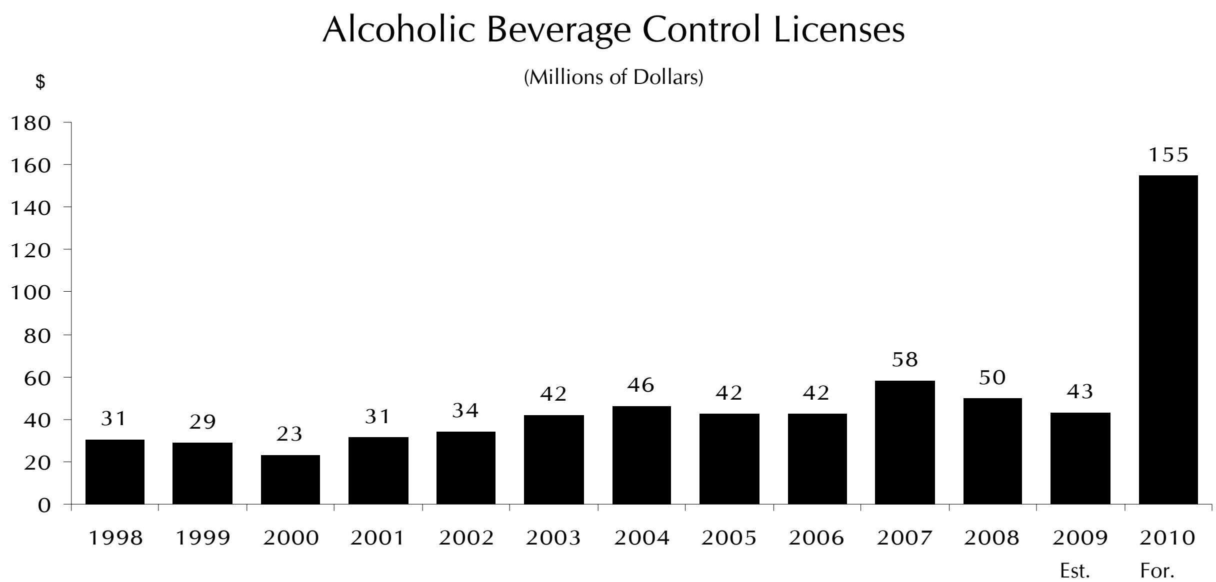
[28] White, Nicola, M., (2009, January 13), "New York Cigarette Tax Law Legal Stumbling Blocks", taxanalysts

be needed to pay for the State Children's Health Insurance Program (SCHIP). [29] Although, New York's 2008-09 tax increase from $1.50 to $2.75 resulted in a modest decline in consumption, an additional tax increase may have a greater negative impact on sales and ultimately reduce revenues.

[29] Insurancenewsnet.com, Chicago Business Wire, "Fitch 2009 U.S. Tobacco Outlook: Higher Taxes to Further Pressure Cigarette Volumes, 18 Nov. 2008, "Thehttp://www.insurancenewsnet.com/article.asp?n=1&neID=20081118290.2_eaf600ee4368bdf5 (19 Jan. 2009).

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.



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

Figure 41

SFY 2008-09 Estimate

The Committee staff estimates that receipts from alcoholic beverage fees will total $43 million in SFY 2008-09, a $5 million decline or 9.9percent decrease from SFY 2007-08. This estimate is based on year-to-date collections and the collection patterns over the last three years. This estimate is $2 million lower than the Executive's 2008-09 estimate.

SFY 2009-10 Forecast

The Committee staff forecasts receipts will total $51 million in SFY 2009-10. This is an increase of $8 million or 18.6 percent over SFY 2008-09. This estimate is $3 million higher than the Executive's 2009-10 forecast. The Executive Budget this year proposes one measure with implications for alcoholic beverage fees – allowing the sale of wine in grocery stores. This proposal is estimated to raise $103.5 million in SFY 2009-10 through a franchise fee of .46 percent of the total gross sales of the store's previous year and various licensing fees. Taking this proposal into account, alcoholic beverage control license receipts are expected to be $155 million, an increase of 287 percent over SFY 2008-09.

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.

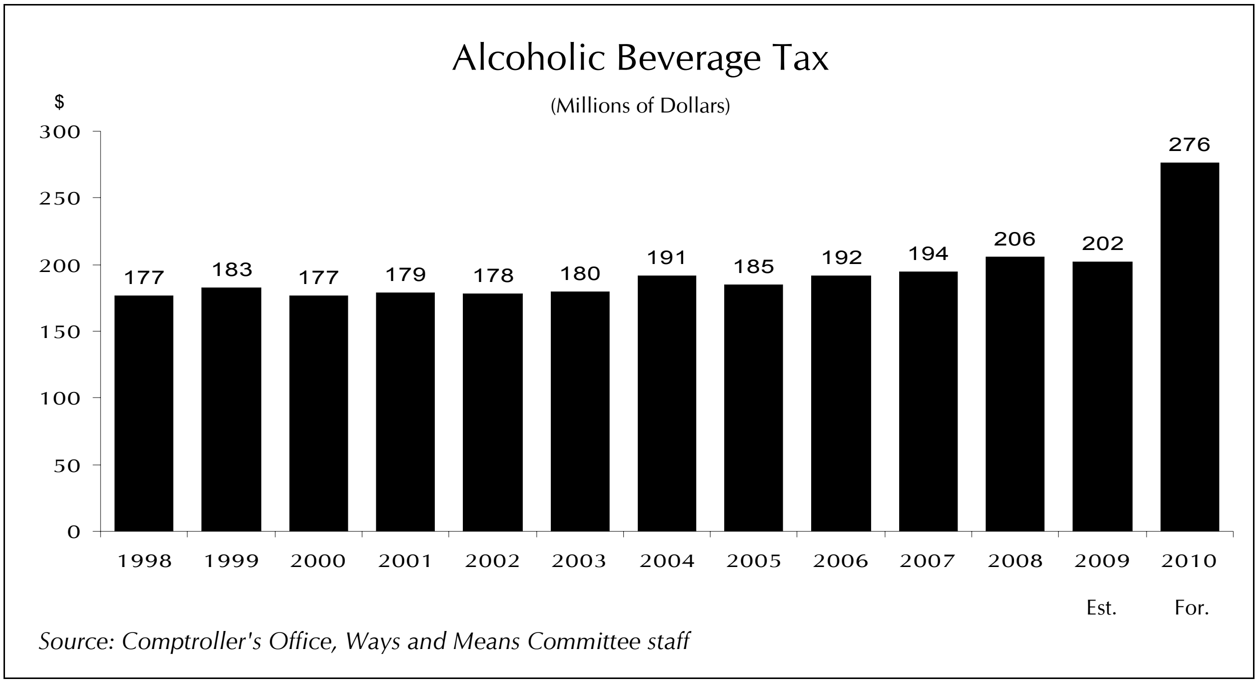


Figure 42

SFY 2008-09 Estimate

The Committee staff estimate for SFY 2008-09 alcoholic beverage tax receipts is $202 million, representing a decline of $3 million or 1.3 percent over SFY 2007-08. This estimate is $4 million below the Executive's 2008-09 estimate. YTD collections have declined 0.76 percent over the April through December period of 2007.

SFY 2009-10 Forecast

Alcoholic beverage tax receipts are forecast to be $199 million in SFY 2009-10, representing a decline of 1.5 percent over the prior year. This forecast is $21 million below the Executive's 2009-10 forecast. In the SFY 2009-10 Executive Budget three measures are proposed related to alcoholic beverages:

- Impose a tax on flavored malt beverages at the low liquor rate, including a floor tax of the same amount;
- Allow the sale of wine in grocery and drug stores upon payment of a franchise fee; and,
- Increase the excise tax on beer and wine, including a floor tax of the same amount.

The table below describes the details of the proposed increase in the excise tax on wine, beer and flavored malt beverages. There are currently no proposals to change the taxation of liquor.

Table 16

New York State Alcoholic Beverage Tax Rates			
Alcoholic Beverage	Current Excise Tax Per Volume	Proposed Increase	Proposed Total Excise
Liquors > 24% (per liter)	$1.70	NA	NA
Liquors < 24% (per liter)	$0.67	NA	NA
Wine (per liter)	$0.05	$0.0847	$0.1347
Beer (per gallon)	$0.11	$0.13	$0.24
Malt Beverges (per gallon)	$0.11	$2.43	$2.54

The total value of these proposals is $86.7 million. Taking theses proposals into account, alcoholic beverage tax receipts are expected to be $286 million, an increase of 40 percent over SFY 2008-09.

The following chart shows the trend in the consumption of alcoholic beverages since 2002. The major changes in volume occurred with a large spike in 2004, followed by a large decline in consumption in 2005.

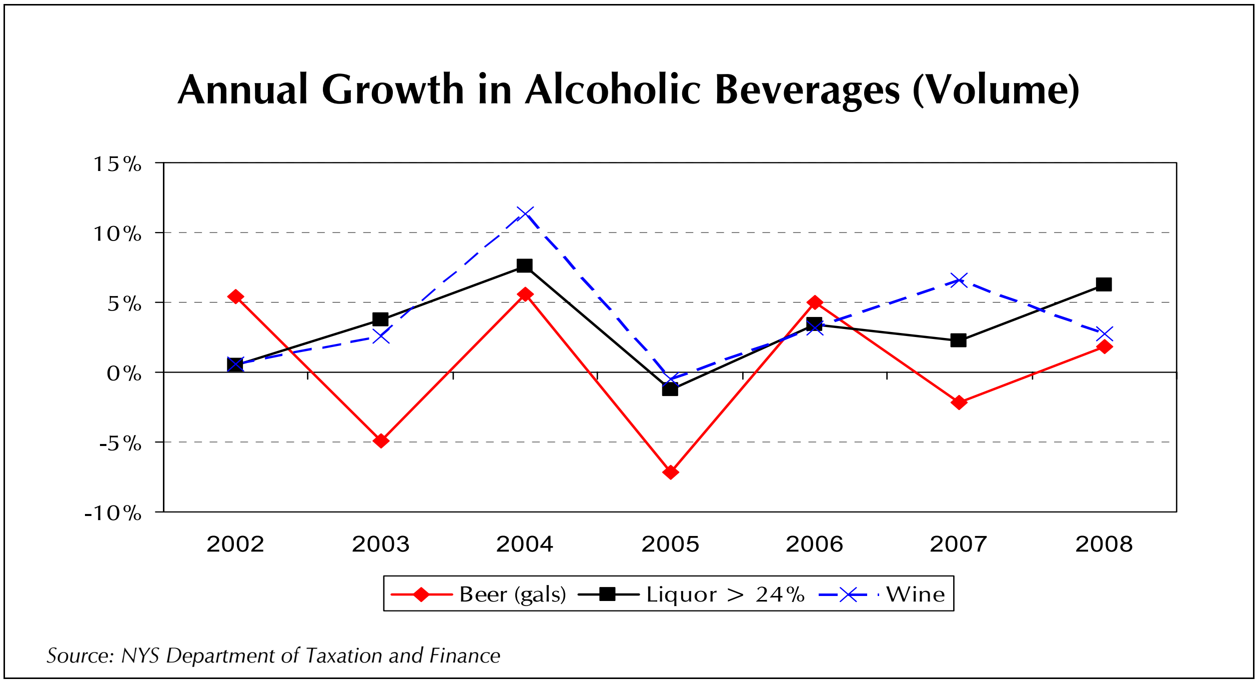

Annual Growth in Alcoholic Beverages (Volume)
15%
10%
5%
0%
-5%
-10%
2002
2003
2004
2005
2006
2007
2008
Beer (gals)
Liquor > 24%
Wine
Source: NYS Department of Taxation and Finance

Figure 43

Business Taxes

Table 17

Business Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2008-09	Growth	Diff. Exec.	SFY 2009-10	Growth	Diff. Exec.
Business Taxes	**7,742**	**-5.9%**	**27**	**7,941**	**2.6%**	**(192)**
Corporate Franchise	3,554	-11.1%	55	3,791	6.7%	(61)
Utility Tax	884	10.3%	26	923	4.4%	(5)
Insurance Tax	1,203	-1.3%	(18)	1,384	15.0%	(13)
Bank Tax	998	-5.6%	4	720	-27.9%	(61)
Petroleum Business Tax	1,103	-4.5%	(40)	1,123	1.8%	(52)

Corporate Franchise Tax

Article 9-A franchise taxes are imposed on every domestic or foreign corporation "for the privilege of exercising its corporate franchise, or of doing business, or of employing capital, or of owning or leasing property ... in a corporate or organized capacity, or of maintaining an office in this state..." (Tax Law §209.1).

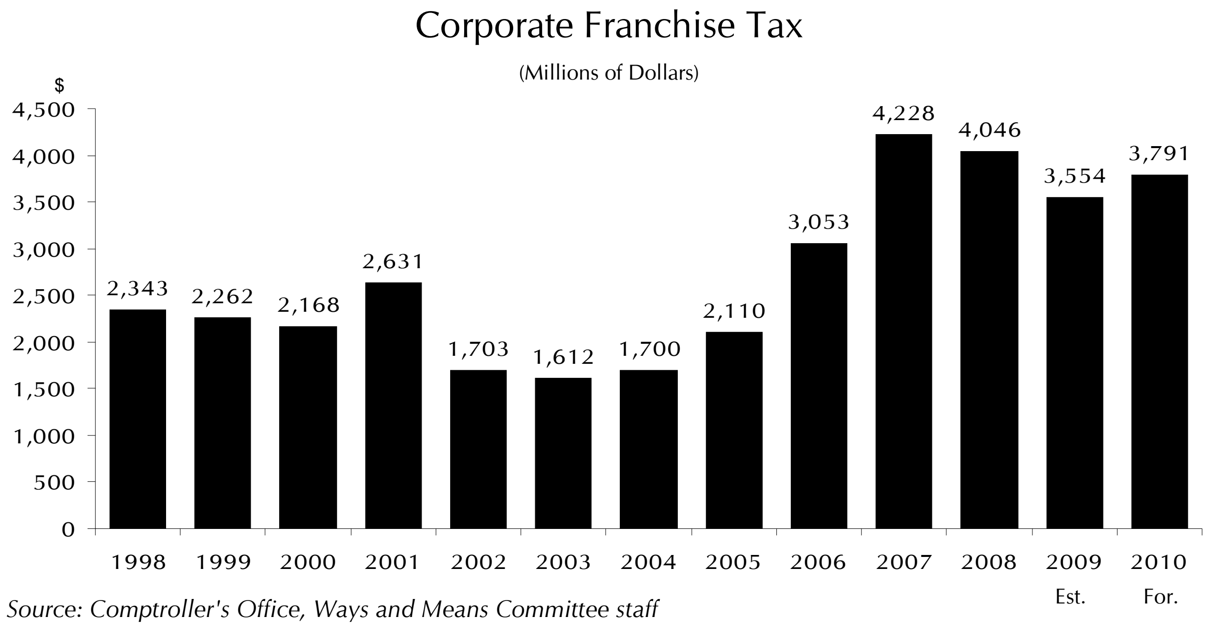
The corporate franchise tax is composed of three parts:

1. All corporations will pay the highest of the following four alternative bases:

   - 7.1 percent of entire net income allocated to New York;
   - 0.15 percent of allocated capital, subject to a maximum of $10,000,000;
   - an alternative minimum tax of 1.5 percent of entire net income; and,
   - A fixed dollar minimum tax, which ranges from $25 to $5,000, and is based upon the amount of New York receipts.

2. For corporations that own more than 50 percent of the voting stock of another corporation, a tax of 0.09 percent of allocated subsidiary capital is to be paid.

3. If a corporation is in the Metropolitan Commuter Transportation District, they pay an additional surcharge which is distributed to the Metropolitan Transportation Authority.



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

Figure 44

SFY 2008-09 Estimate

The Committee staff estimate for SFY 2008-09 is calculated using a combination of year-to-date collections and historical collection patterns. Furthermore, the fiscal impact of previously enacted revenue actions are also taken into consideration when finalizing the estimate. The Ways and Means Committee's SFY 2008-09 closeout is $3.544 billion, a decrease of 11.1 percent from the previous year.

There still is considerable downside risk to this estimate despite the fact that the State is three-quarters of the way through the fiscal year and final collections are only three months away. The economic climate has deteriorated and over the past few months as Wall Street market indices have experienced wide fluctuations. Consumer sentiment, an indicator of future consumption, has also been volatile as the recession creeps into all parts of the economy. The Federal government's stimulus package is currently being debated in Congress, and its immediate as well as long-term effects are the subjects of discord amongst economists.

Table 18

2008 Tax Law Changes (Dollars Amounts in Millions)	
1st Installment	64
Capital Base	102
Enforcement	50
Federal QPAI Decoupling	32
S Corp	80

Year to Date Results and Cash Flow

Corporations have a three-year window in which to finalize their tax returns for a given tax year. Corporations are currently finalizing their 2006 and 2007 state tax returns, and are changing their cash management strategies to meet recessionary times. In economic expansions, corporations usually carry forward prior year overpayments – which are referred to as prior-year adjustments – to reduce current year liability. However, during recessions corporations incur reduced liabilities and may be experiencing cash flow restrictions. This contributes to the dramatic increase in current year refunds. Through December, refunds reached $611 million, an increase of 66 percent over last year.

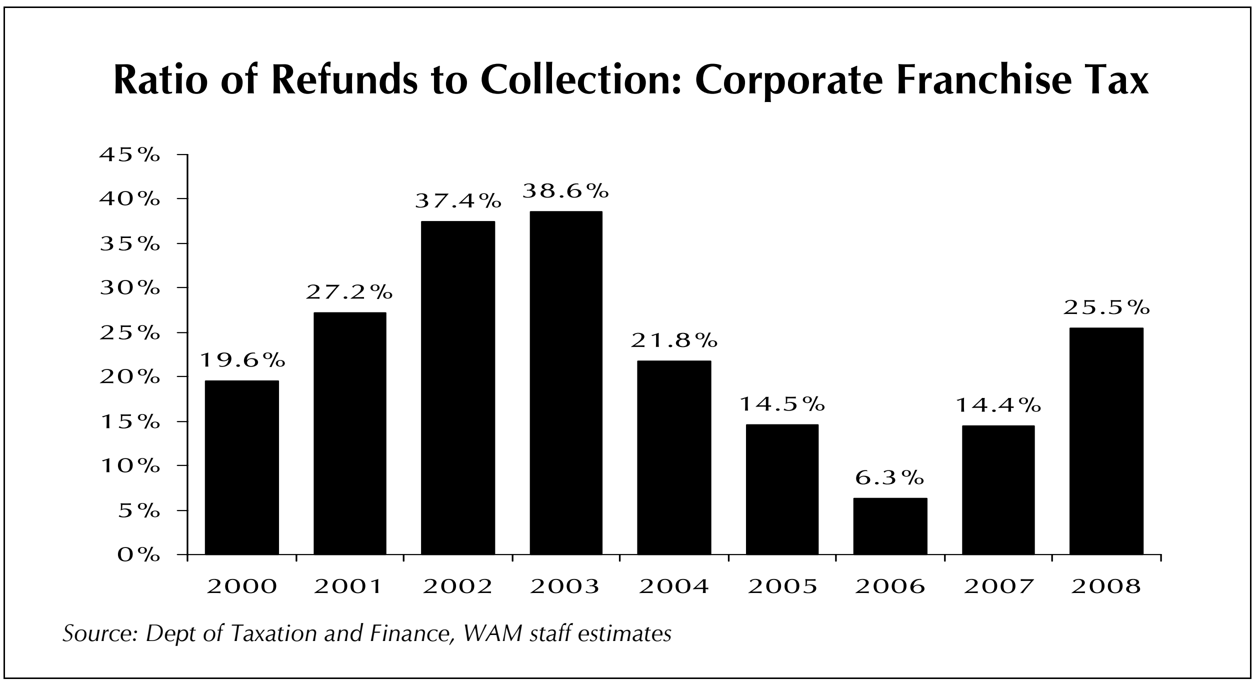


Figure 45

The historical percentage of refunds to collections is a good indicator for what New York State should expect in refunds in the next few years. The 2001 recession ended in November; however refunds as a percentage of total collections continued to rise for two years after the end of the recession. If this pattern holds, New York should expect the ratio of refunds to collections to rise through SFY 2011-12. Prior year adjustments, also display the same two-year recessionary lag. Total prior-year adjustments, which include most refunds, totaled $1.1 billion through December, an increase of 56.3 percent over the prior year.

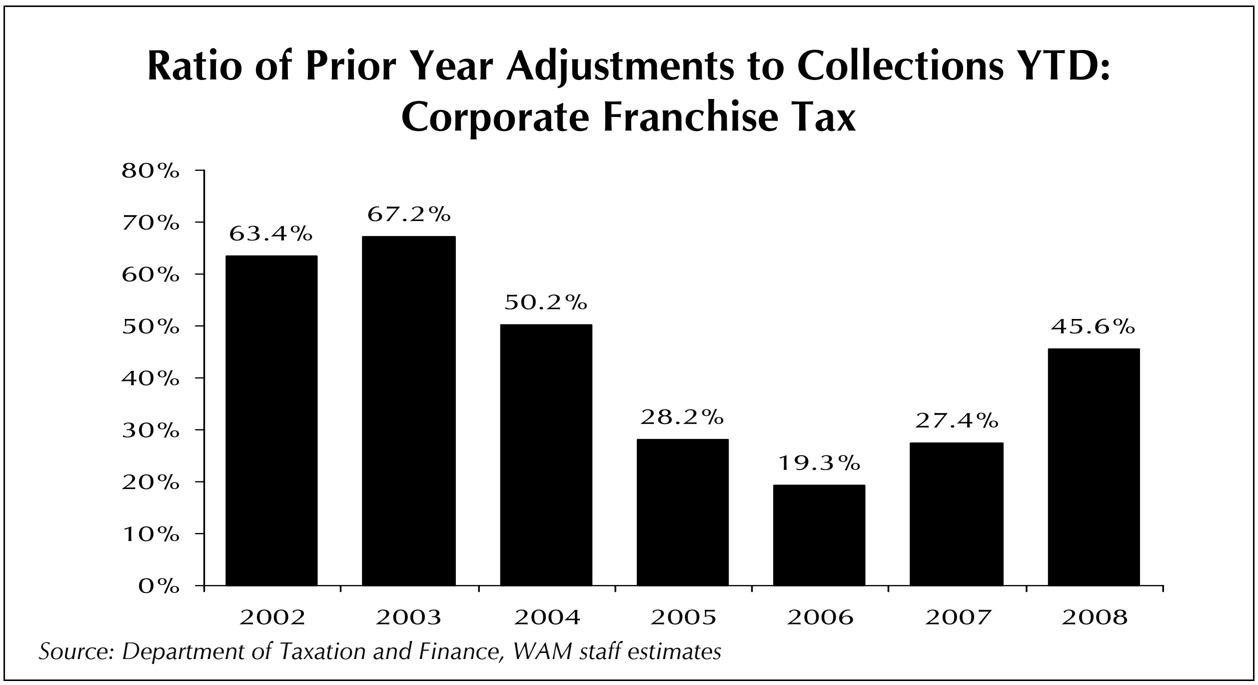


Figure 46

Additional uncertainty surrounds the expected growth in the March 2009 payments, which includes both a final payment on 2008 liability and a 30 percent prepayment on 2009 liability. The March prepayment is based upon the previous year's liability, which is expected to be significantly lower because of the deterioration in economic conditions. Excluding refunds and audits, current year corporate franchise payments are down 21.3 percent from the previous year. This decrease will be a significant factor in the quantity of payments made in March.

Through December, audit collections were $387 million, or 40 percent higher than last year. However, growth in audits in the remaining quarter of the fiscal year is expected to slow significantly from the first three quarters. The Division of the Budget forecasts audit collections for SFY 2008-09 to be $1.098 billion, or 7.6 percent lower than last year.

SFY 2009-10 Forecast

The Ways and Means Committee staff forecast for corporate franchise tax receipts is $3.791 Billion, an increase of $237 million or 6.7 percent from SFY 2008-09. Corporate profits are declining as almost all industries are experiencing declines in production, employment, and sales. The most significant sectors of New York's economy are experiencing dramatic decreases in profitability. Finance, insurance, manufacturing, and retail trade are experiencing first-hand the effects of the tightening of credit due to the economy wide de-leveraging, as well as the decrease in consumer demand which continues as job losses mount. The increase in revenue is solely attributable to $361 million in proposed revenue actions. (See Table 19). Absent these actions, revenues would decline by $124 million or 3.2 percent.

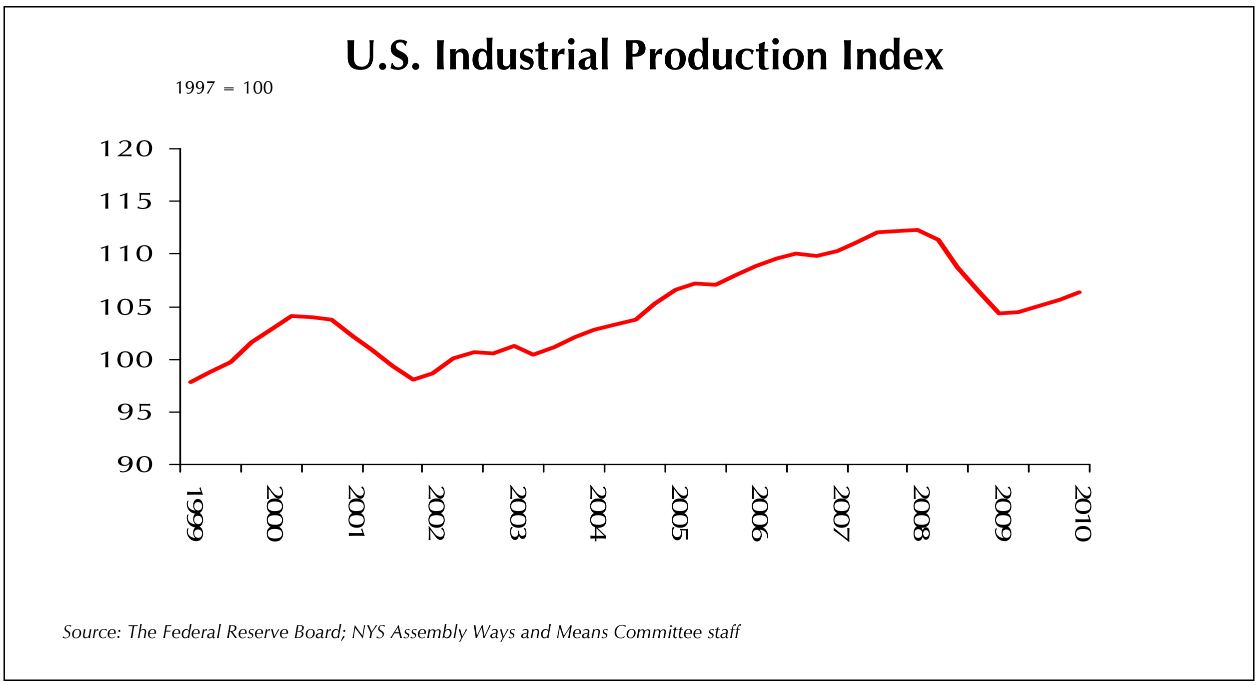
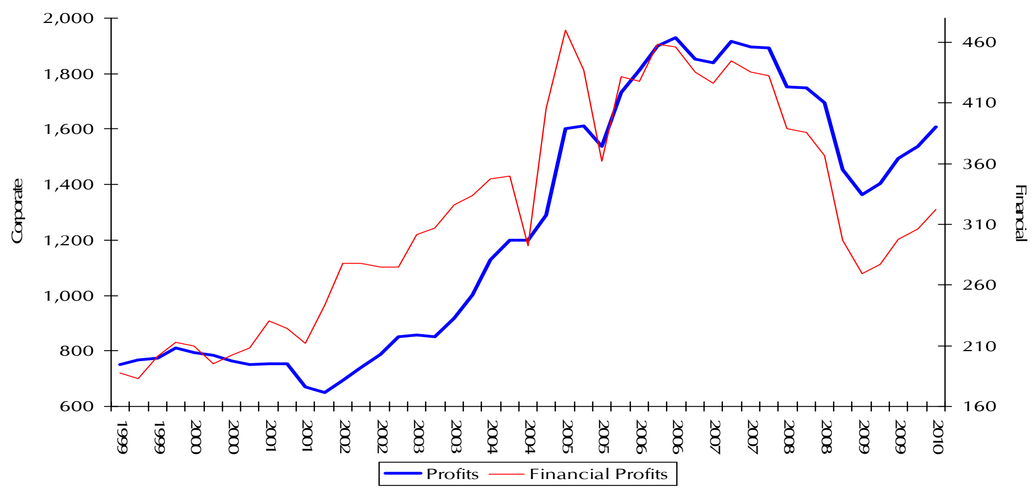


Figure 47

Industrial production, a nation-wide measure of output which is highly correlated with New York State's manufacturing corporations' profitability, is expected to decrease by five percent in 2009, following a 1.7 percent decline in 2007, with a rebound of 2.3 percent in 2010.

Quarterly Growth in US Corporate Profits



Source: U.S. Bureau of Economic Analysis, NYS Assembly Ways and Means Committee staff

Figure 48

Corporate non-financial industry profits and financial industry profits are closely correlated with Corporate Franchise tax receipts. In the current fiscal year both measures of profitability have deteriorated. Aggregate U.S. before tax corporate profits are estimated to decline by 12.7 percent in 2008. Corporate profits are forecasted to decline an additional 9.5 percent in 2009 before rebounding by 7.9 percent in 2010.

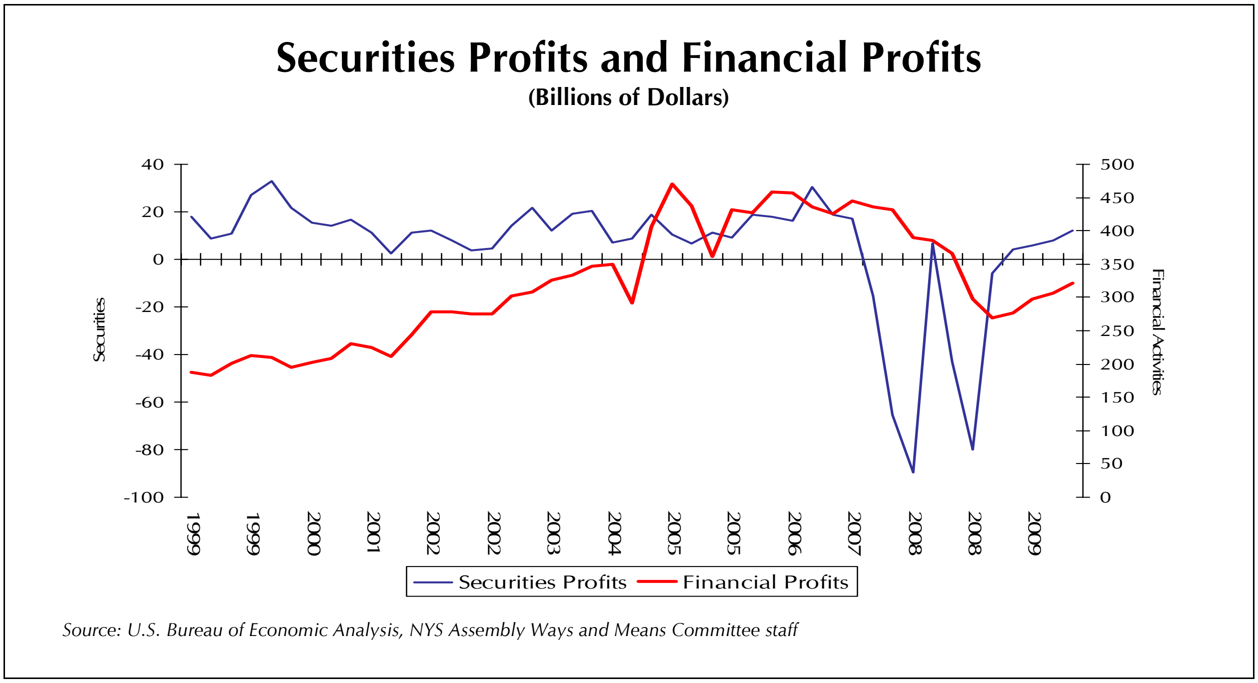


Figure 49

The securities industry has experienced severe losses from the collapse of the housing and credit markets. In 2007, securities industry profits tuned negative for the first time in more than 15 years. Losses continued in 2008 with a loss of $8.7 billion in the third quarter of 2008 after $20.7 billion in losses in the first half of 2008. However profits are expected to return to positive territory in 2009.

Under the Glass-Steagall Act of 1933, banks were forbidden to have securities and insurance operations, but over the years regulations were enacted to weaken the walls between the industries. After the enactment of the federal Gramm-Leach-Bliley Act (GLBA) on November 12, 1999, securities companies, banks and insurance companies have been allowed to expand their operations into areas other than traditional banking. For example, banks were formally allowed to expand into insurance and securities operations, forming an entity called a financial holding company (FHC). To ease the changeover into this new era, New York State enacted GLBA transitional provisions which allowed companies that were taxed under the corporate franchise article, or the bank franchise tax, to retain their status as either corporate franchise or bank tax filers. With the further consolidation and merging of the banking and financial services industry after the financial crisis of 2008, the line between the types of businesses has been blurred even further.

Executive's Proposed Tax Actions

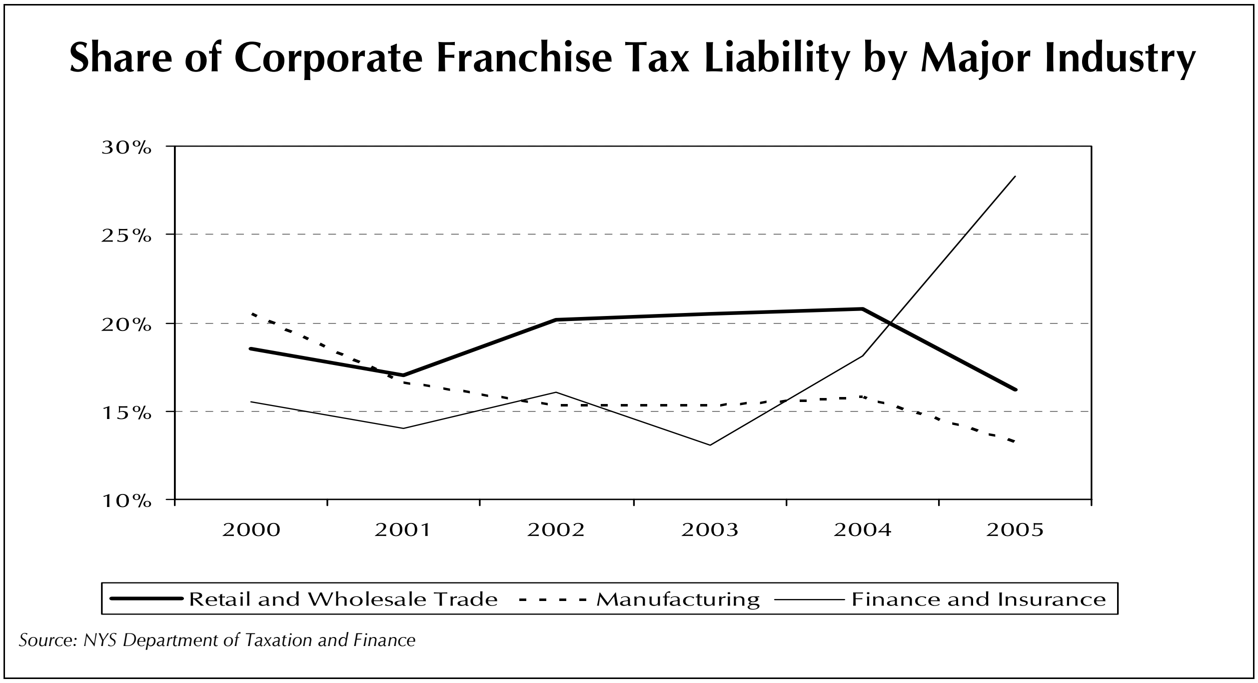
The governor has proposed a wide range of Corporate Franchise Tax Law changes, and if enacted, they are expected to generate $361 million in revenue for the State. The Ways and Means Committee's proposed law forecast for SFY 2009-10 is $3,791 million; $61 million lower than the Governor's forecast.

Table 19

Governor's Corporate Franchise Proposals and Fiscal Impacts in 2009-10 (Dollar Amounts in Million)	
Overcapitalized Captive Insurance Corporations	33
Disallow Utility Definition for Manufacturers	18
Eliminate Underutilized Tax Credits	6
Increase Prepayment to 40 percent	174
Reciprocal Vendor Offset	3
Empire Zones Reform	132
Expand Low Income Housing Credit	-4

Corporate Franchise Tax Base

Manufacturing businesses used to account for the largest share of the Corporate Franchise tax. Since 1997 the share of Corporate Franchise taxes contributed by the industry has fallen from 25.8 percent to just 13 percent in 2005. This decline coincides with both the decline in manufacturing employment in the State and the nation in general, and with tax incentives granted to manufacturers to help stabilize their presence in the State. The share that wholesale and retail trade accounted for during the same period experienced an upward trend, except in 2005 when the share of the finance and insurance sector surged. The finance and insurance industry fortunes have been a volatile source for New York State tax receipts.



Share of Corporate Franchise Tax Liability by Major Industry
30%
25%
20%
15%
10%
2000
2001
2002
2003
2004
2005
Retail and Wholesale Trade
Manufacturing
Finance and Insurance
Source: NYS Department of Taxation and Finance

Figure 50

Bank Tax

In 1927, a franchise tax was imposed on banks and financial institutions. The nature and structure of the tax have varied since origination, but only the current structure is summarized below.

Tax Rates

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:

- 7.1 percent of entire net income allocated to New York;
- 3 percent of alternative entire net income allocated to New York;
- a variable tax that ranges from 1/10 to 1/50 of a mill of assets allocated to New York; or,
- a fixed minimum of $250.

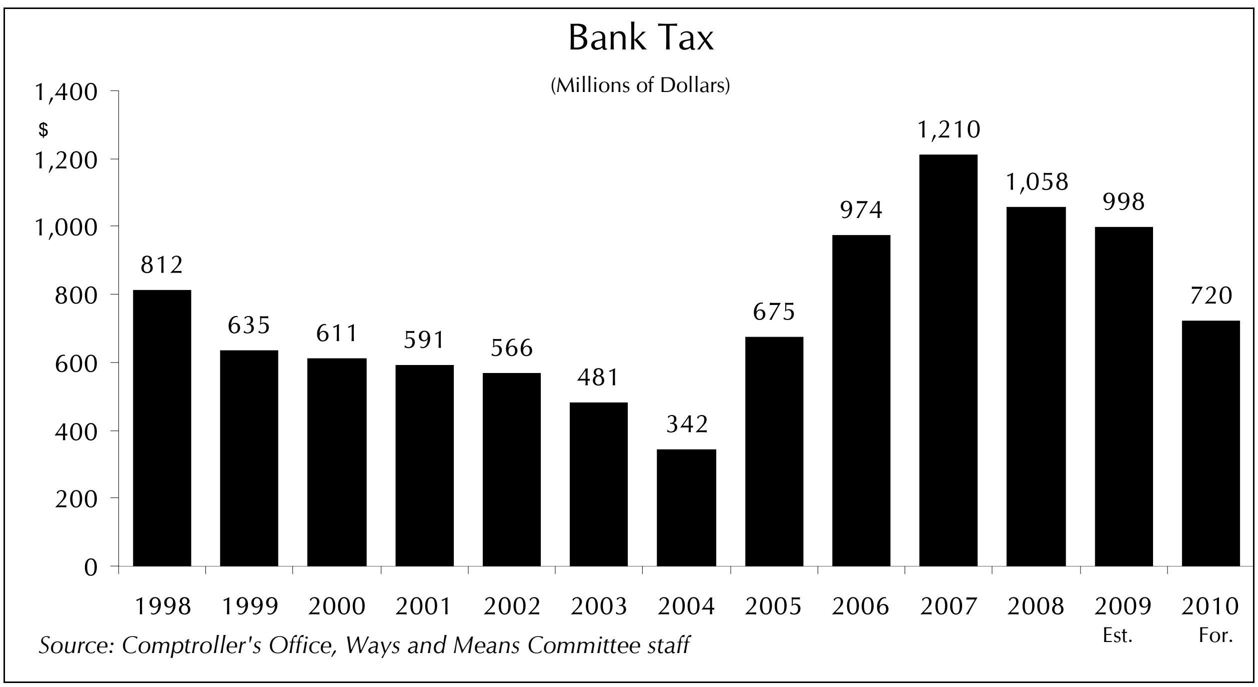


Figure 51

SFY 2008-09 Estimate

All Funds collections through December were $751.2 million, a decline of $47.3 million or 5.9 percent from the same period last year. This decline would have been steeper if not for an unusually large number of audits this fiscal year. The increase in audits is primarily due to the Voluntary Compliance Initiative that was part of last year's Enacted Budget. The fallout from the financial crisis has taken its toll on the banking industry, as many of the State's largest banks have had to write-off billions of dollars in bad debts. To help stabilize the banking system, the Federal Reserve and the Department of the Treasury have injected funds into banks and insurance companies in the past few months (e.g. TARP), though lending conditions remain tight. The Ways and Means Committee closeout for SFY 2008-09 is $998 million, a decline of $59 million or 5.7 percent from collections in the prior fiscal year.

Cash Flow

Similar to corporate franchise taxpayers, banks are currently finalizing 2006 and 2007 tax returns, and many are also not electing to carry forward their overpayments as they face liquidity restrictions. During periods of economic expansion many banks elect to carry forward overpayments to reduce next year's liability. During recessionary periods, many instead choose to request refunds. Through December, banks have received $234 million in refunds, an increase of $170.2 million or 269.7 percent from the previous year. This ratio of historical refunds to collections is currently as high as it was two years after the end of the 2001 recession. If historical patterns are applicable to this recession, then bank refunds are likely to maintain their current levels or climb higher through the end of the recession and for a period of time thereafter. Prior year adjustments, which represent overpayments on prior-year liability, have also risen by 71.4 percent, reducing collections by $438 million in the current year.

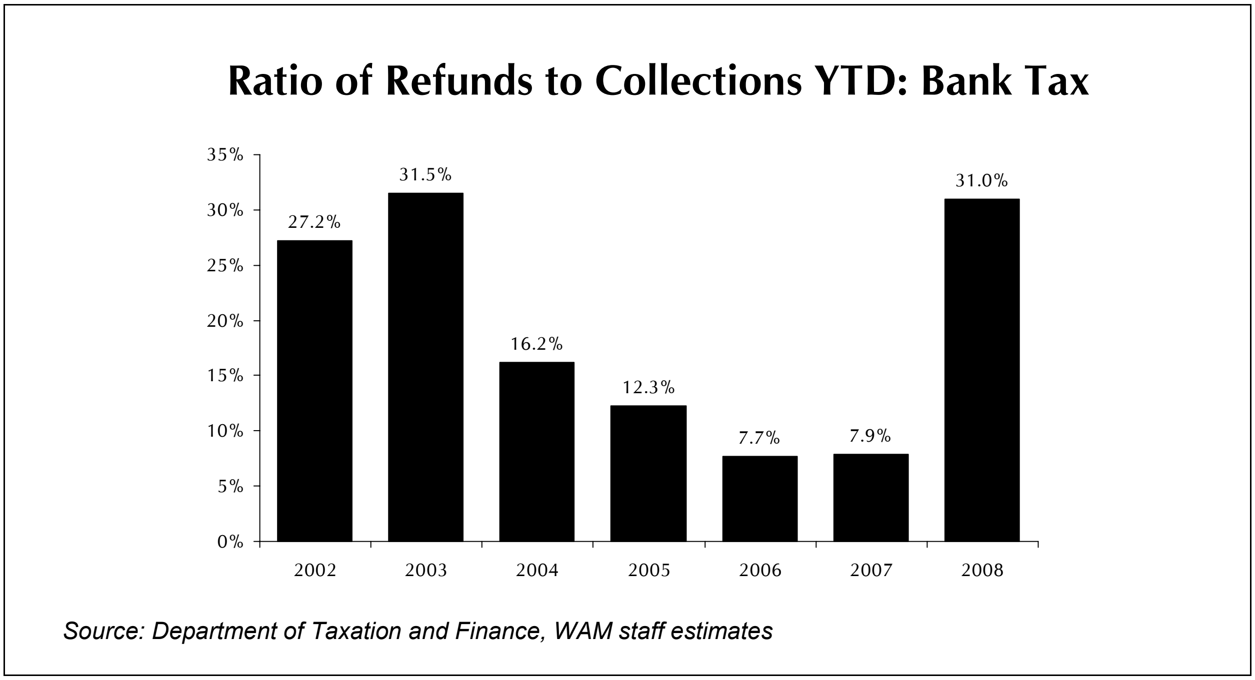


Figure 52

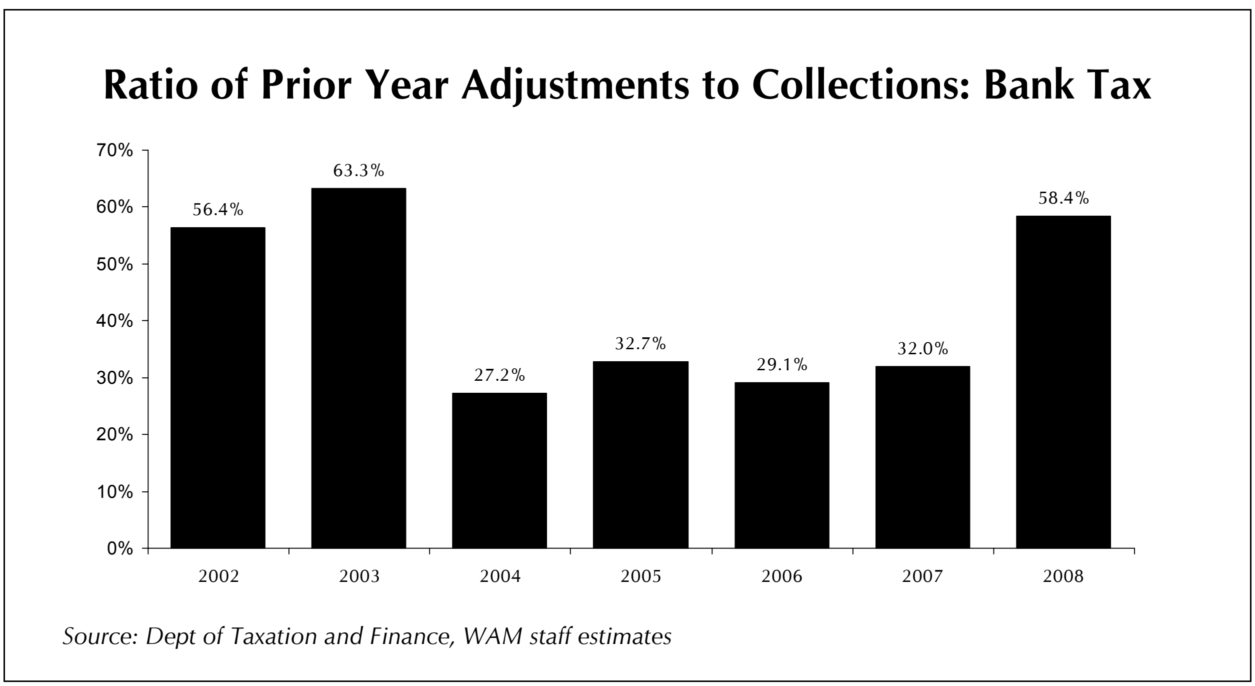


Figure 53

In SFY 2008-09 New York State received an unusually large amount of payments from audits. Absent this dramatic increase, Bank tax collections would have decreased 31 percent from the same period last fiscal year. Through December, audits have increased $188.8 million, or 232 percent, over the same period last fiscal year. This rise in audits is due the Voluntary Compliance Initiative (VCI) that was enacted in 2008. This program is open to all business filers, and it permits them to report and pay underreported tax liabilities in return for reduced penalties. The program ends on January 31, 2009.

SFY 2009-10 Forecast

The Ways and Means Committee's current law forecast for Bank tax receipts in SFY 2009-10 is $720 million, a decrease of $278 million, or 27.9 percent from the previous fiscal year. The decline is due primarily to expected further declines in profitability in the banking industry, the absence of the high level of audits of the prior year and the continued high levels of audits and prior year adjustments which serve to reduce current year collections. After adjusting for the Executive's revenue proposals, bank tax collections are expected to be $720 million, a decline of 27.9 percent from the prior year.

Executive's Proposed Tax Actions

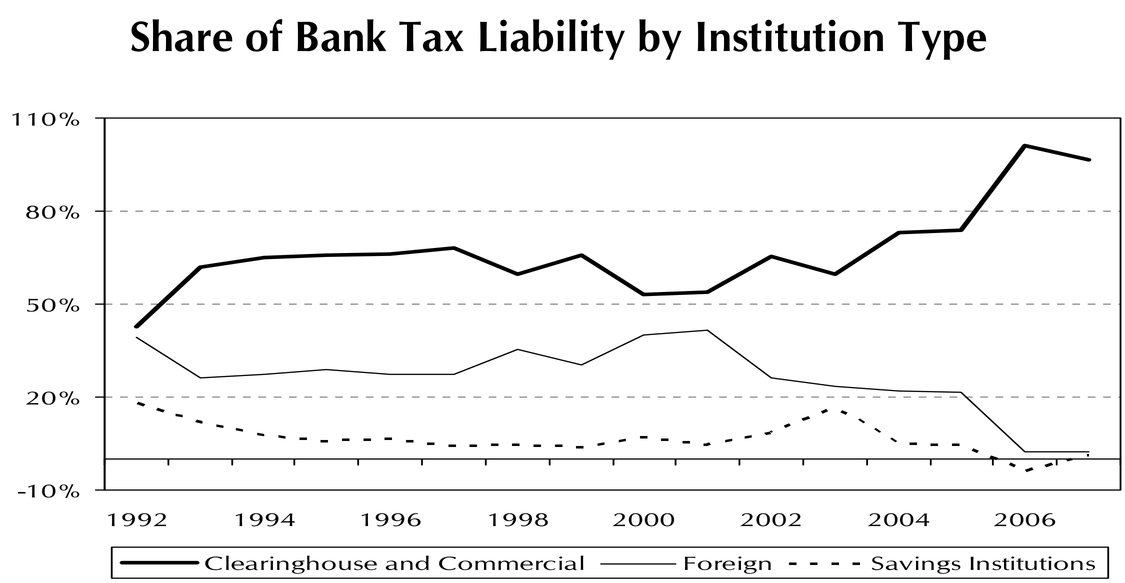
The Executive has proposed two provisions that would increase revenues in SFY 2009-10. The March prepayment would be increased from 30 to 40 percent of prior year liability. This is estimated to generate $47 million in a one-time increase in SFY 2009-10. In addition, the Executive's proposed Empire Zone reform is projected to increase Bank tax revenue by $13 million annually.

Table 20

Governor's Bank Proposals and Fiscal Impacts in 2009-10 (Dollar Amounts in Million)	
Increase Prepayment to 30 percent	47
Empire Zones Reform	13

Tax Base

Over the past few decades the structure of the banking industry has shifted. In the 1980's and 1990's approximately 50 percent of the entire Bank tax collected was paid by clearinghouse and commercial banks. In 2007, banks classified as clearinghouse and commercial banks paid 97 percent of the Bank tax. Savings institutions and foreign banks had been paying a much larger share of the New York Bank tax, but in the past few years their share has declined. (See Figure 54)



Source: NYS Department of Taxation and Finance

Figure 54

Insurance Tax

Insurance companies in New York State are taxed by two separate taxing bodies, the Tax Department and the Insurance Department. Pursuant to Article 33 of the Tax Law, the Tax Department imposes income and/or premiums on insurance companies. The Insurance Department imposes taxes on insurance companies pursuant to Articles 11 and 21 of the Insurance Law.

Article 33 of the Tax Law imposes a tax on insurance companies for the privilege of operating in a corporate form in New York State. Significant Legislative changes to Article 33 were enacted in 2003. The new calculation and rates vary by type of insurer as illustrated below:

Life Insurers

The greater of:

1. The highest of four alternative bases listed below, *plus* 0.7 percent of premiums written on risks assigned to New York State; or,

2. 1.5 percent of premiums written on risks assigned to New York State.

The total amount of tax cannot exceed 2.0 percent of taxable premiums. This rate was reduced from 2.2 percent effective for taxable years beginning on or after July 1, 2002.

Non–Life Insurers

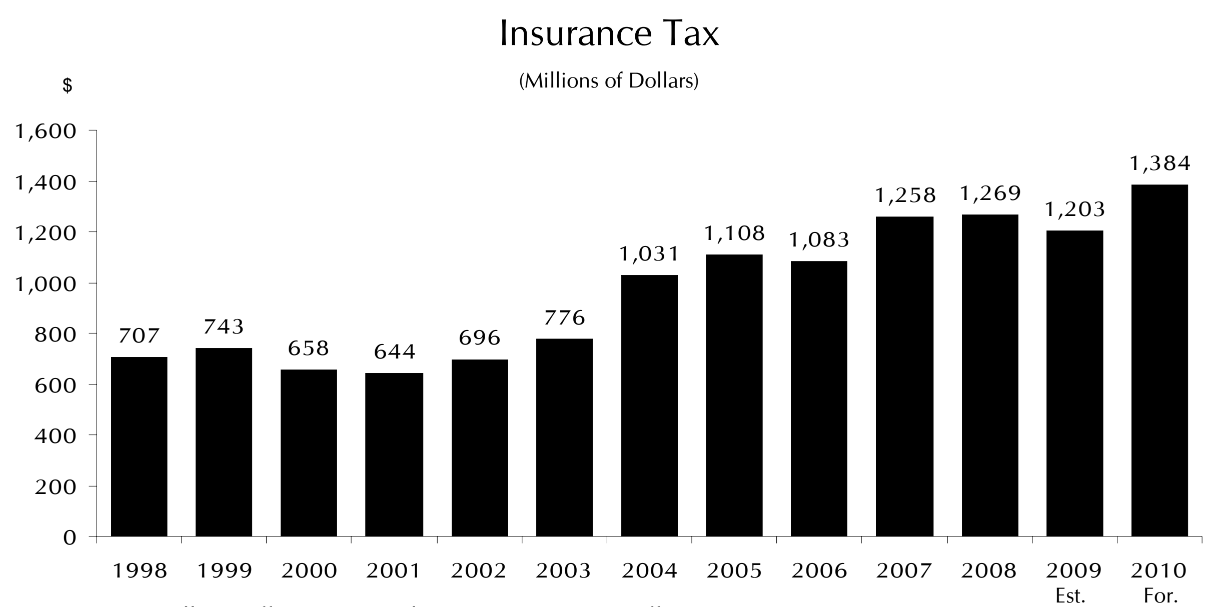
1. 1.75 percent of premiums written on risks assigned to New York State for Accident and Health (A/H) insurers; or,

2. 2.0 percent of premiums written on risks assigned to New York State for Property and Casualty (P/C) insurers.

Four Alternative Bases of Tax for Life – Insurance Calculation

1. 7.1 percent on allocated entire net income;
2. One and six-tenths mills for each dollar of allocated business and investment capital;

3. Nine percent on statutory allocated income and salaries basis arrived at by taking 30 percent of the taxpayers net income plus salaries or compensation paid to officers and to holders of more than five percent of the issued stock, minus $15,000 and any net loss for the reported year; or,
4. $250.
   Plus
   0.8 mill for each dollar of allocated subsidiary capitol.



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

Figure 55

SFY 2008-09 Estimate

Through December, insurance tax collections for the fiscal year are down $92.6 million, or 11 percent, from the same period last year. The Ways and Means Committee's estimate for SFY 2008-09 is $1.203 billion, a decline of $16 million or 1.3 percent. The decrease in this fiscal year is attributable to deterioration in underwriting performance and a continuing decline in revenue from premiums.

Year to Date Results and Cash Flow

Fiscal year-to-date through December, refunds have increased $27.2 million, or 96.5 percent over the same period last year. However, the ratio of refunds to collections has not approached the levels seen in 2002 and 2004. Should the historical pattern of increasing refunds and prior year adjustments repeat itself during the current economic downturn, future levels of refunds and adjustments will dampen growth in tax receipts for the next several years. The Ways and Means Committee Staff expects that refunds and prior year adjustments will remain at their current levels for the remainder of this fiscal year as well as the next.

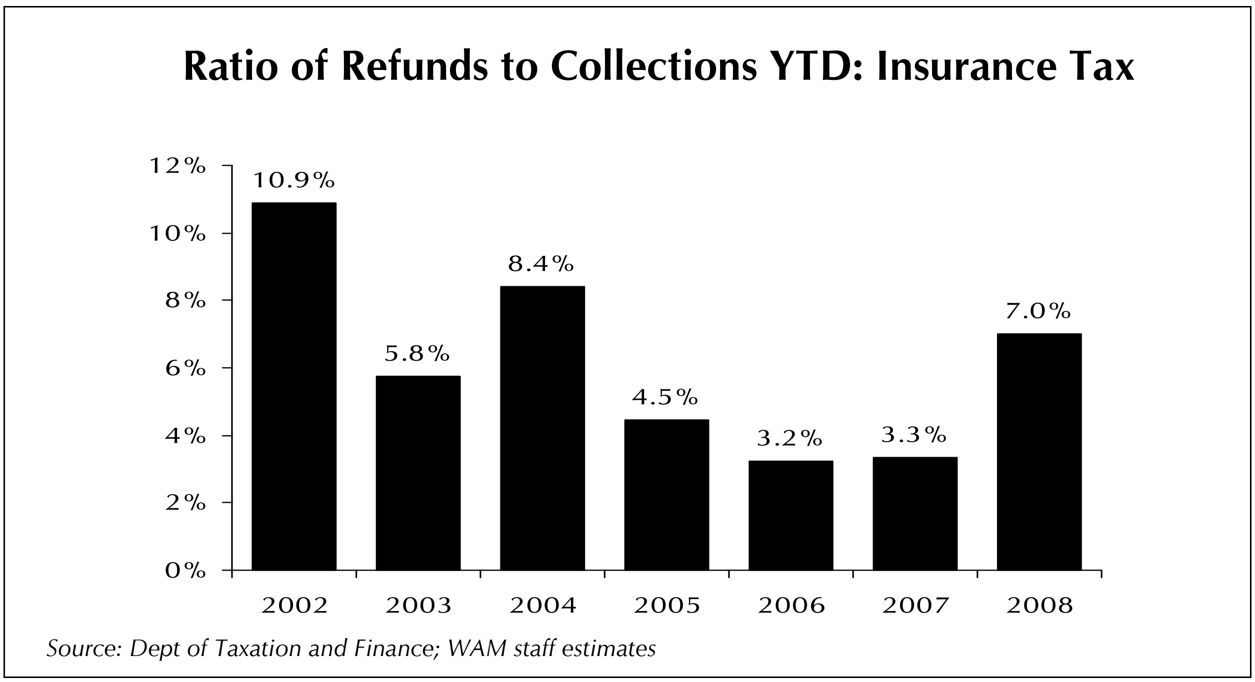


Figure 56

SFY 2009-10 Forecast

The Ways and Means Committee current law forecast for SFY 2009-10 is $1.221 billion, $18 million, or 1.5 percent, more than the committee is projecting for SFY 2008-09. After adjustment for the Executive's proposed revenue action, insurance taxes are expected to be $1.384 billion, a 15 percent increase.

Table 21

Governor's Insurance Proposals and Fiscal Impacts in 2009-10 (Dollar Amounts in Million)	
Increase Prepayment to 30 percent	79
Eliminate Exemption for Large Cooperative Insurance Companies	19
Restructure the Insurance Tax	65

Tax Base

The share of tax liability borne by the Accident and Health insurance sector of the market has increased since 1995. This is largely due to rising health insurance premiums.

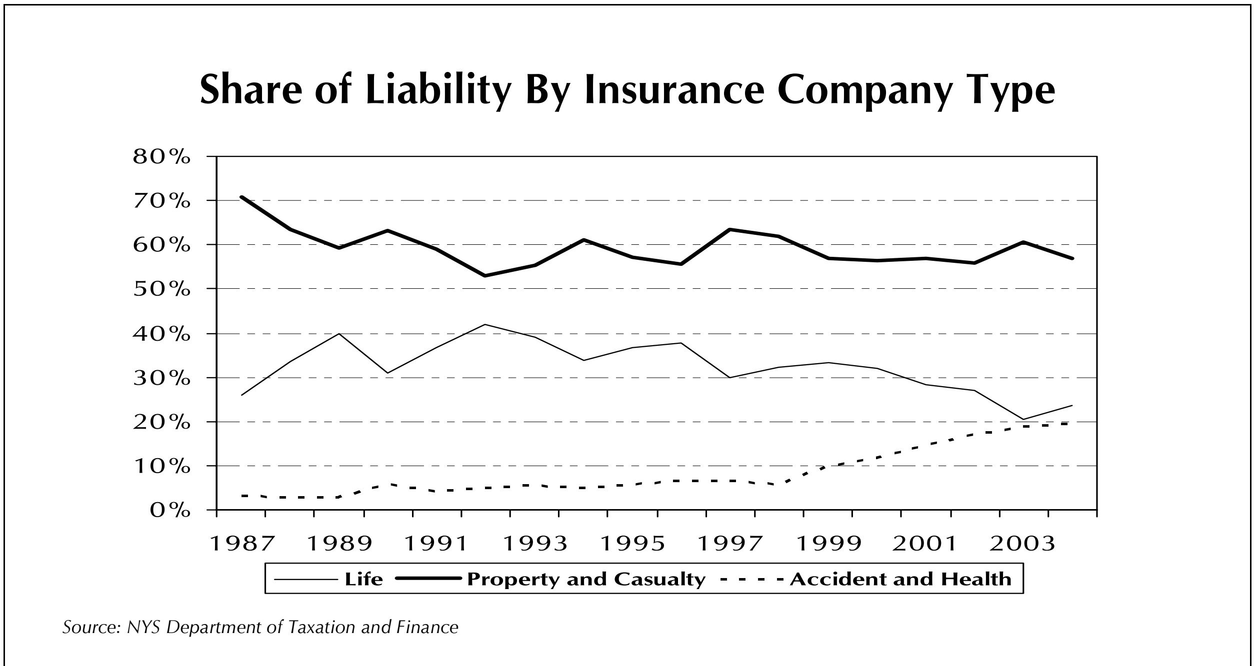


Figure 57

Utilities Tax

All transportation or transmission companies exercising their corporate franchise, doing business, employing capital, owning or leasing property in the state in a corporate or organized capacity, or maintaining an office in New York are subject to a franchise tax.

Transportation or transmission companies pay a tax of the greater of:

1. $75;

2. 1.5 mills per dollar of net value (not less than $5 per share) of issued capital stock; or,

3. if dividends paid on the par value of any stock during any calendar year amount to six percent or more, 0.375 mill for each 1 percent of dividends paid, computed at par value of the stock.

The excise tax on the sale of telecommunication services is imposed at the rate of 2.0 percent of gross receipts from:

1. intrastate telecommunication services;
2. interstate and international telecommunication services (other than interstate and international private telecommunication services) that originate or terminate in New York and that are charged to a service address in New York; and,
3. interstate and international private telecommunication services (Ch. 60, Sec. 186-e).

SFY 2008-09

All Funds collections through December were $628.1 million, an increase of $62.5 million or 11.1 percent over last year. The Way and Means Committee's staff estimate for SFY 2008-09 is $884 million, an increase of $82.5 million or 10.2 percent over last year. The tax on telecommunications services, the largest component of the Article 9 Corporation and Utilities tax, generated $408.8 million through December, an increase of $19 million or 4.9 percent.

SFY 2009-10 Forecast

The Ways and Means Committee's Staff current law forecast for Utility tax collections is $871 million, a decrease of $13 million, or 1.5 percent, over the Committee's estimate for the previous fiscal year.

The Ways and Means Committee January proposed law forecast for utility tax receipts in SFY 2009-10 is $922 million, $38 million or 4.3 percent higher than the previous fiscal year. The Executive's January proposed law forecast is $928 million, $6 million or 0.6 percent higher than the Committee's forecast. Both the Ways and Means and the Executive's proposed law forecasts incorporate a $51 million revenue boost from the proposed increase in tax prepayments.

Table 22

Governor's Utility Proposals and Fiscal Impacts in 2009-10 (Dollar Amounts in Million)	
Increase Prepayment to 30 percent	51

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[30] and 80.3 percent to the Dedicated Mass Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund.[31] The supplemental tax as well as the tax on Carriers (section 301-h of the tax law) is fully earmarked to the dedicated funds.

[30] This fund is comprised of the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.

[31] Receipts from the dedicated funds are split 37 percent and 63 percent respectively between the two funds.

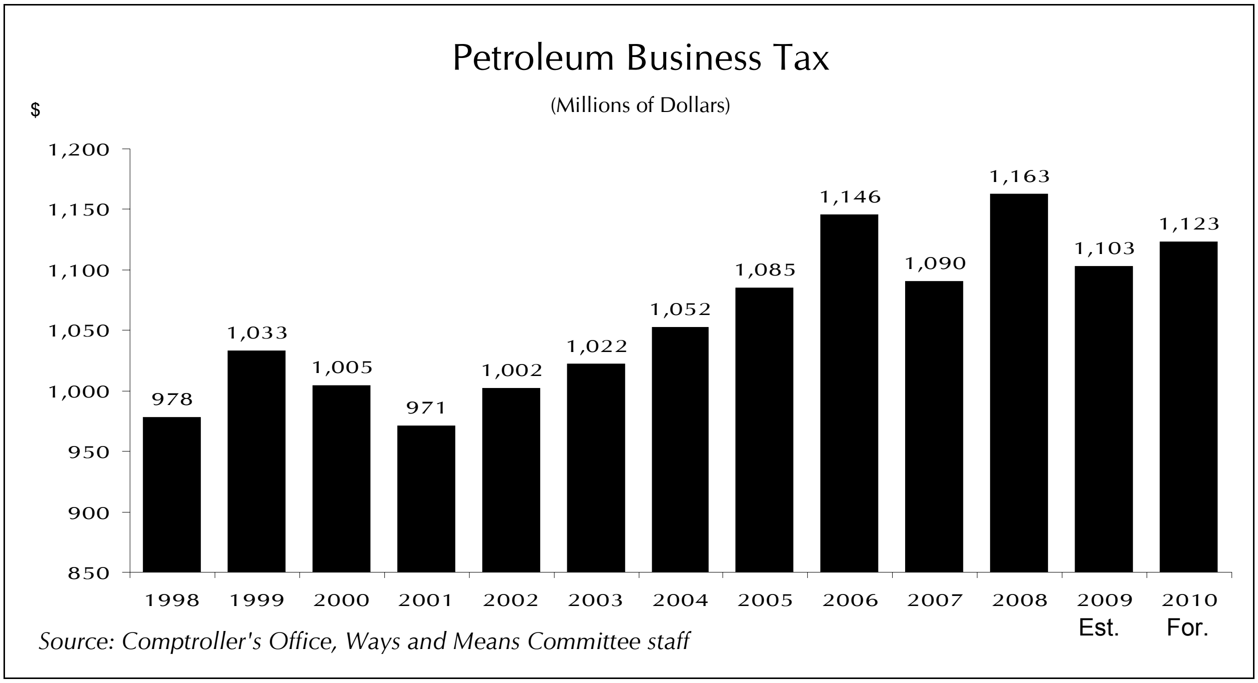


Figure 58

SFY 2008-09 Estimate

The Committee staff anticipates All Funds receipts of $1.103 billion for SFY 2008-09, representing a 4.5- percent decrease from SFY 2007-08. This estimate is $40 million below the Executive's.

Through December 2008 petroleum business tax collections are $835 million, a decrease of 4.5 percent below the comparable period in the prior fiscal year.

Revenues from this tax are split between various dedicated funds. Of the total expected in SFY 2008-09, $358 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $134 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $611 million is deposited into the Dedicated Highway and Bridge Trust Funds. The petroleum business tax rates were decreased by 1.6 percent in January 2008 as scheduled.

SFY 2009-10 Forecast

In SFY 2009-10, All Funds receipts are forecast to total $1.123 billion, a 1.8 percent increase from SFY 2008-09. This forecast is $52 million below the Executive's forecast.

Of the total expected in SFY 2009-10, $363 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $136 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $624 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. Higher consumption from the decline in petroleum prices will be offset by weaker demand from a slowing economy.

Other Taxes

Table 23

Other Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2008-09	Growth	Diff. Exec.	SFY 2009-10	Growth	Diff. Exec.
Other	**2,015**	**-3.3%**	**(3)**	**1,583**	**-21.4%**	**(105)**
Estate and Gift	1,260	21.5%	16	887	-29.6%	(137)
Real Estate Transfer	732	-28.3%	(18)	672	-8.2%	32
Pari Mutuel	22	-6.8%	(1)	23	4.5%	-
Other	1	12.4%	-	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. [32] 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 2008-09 Estimate

The Committee staff estimates that estate tax collections will total $1.260 billion in SFY 2008-09, which represents a decrease of $223 million or 21.5 percent from the previous fiscal year. This estimate is $16 million above 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.

SFY 2009-10 Forecast

Estate Tax collections are forecast to total $887 million in the upcoming fiscal year, an decrease of 29.6 percent. The forecast is reflects the dramatic decline in household net worth from the recent downturn in the equities and housing markets. The Committee staff forecast is $373 million below the Executive's forecast.

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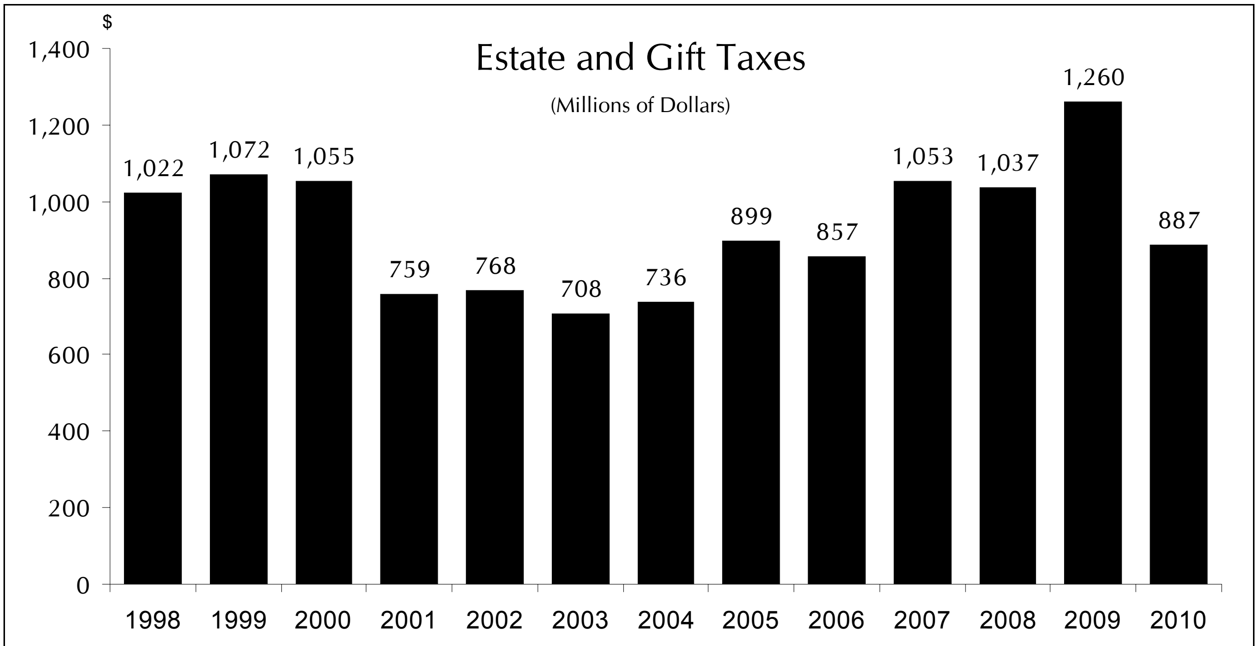
[32] "By the time the 2001 Act was passed, every one of the 50 states and the District of Columbia had in place a state death tax that reflected, largely or entirely, the federal credit." Lee, Carolyn Joy. "The Unfortunate State Tax Side Effects of Federal Death Tax 'Repeal.'" *State Tax Notes*. December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



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

Figure 59

Real Estate Transfer Tax

Article 31 of the New York State Tax Law levies a two dollar per $500 or 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.

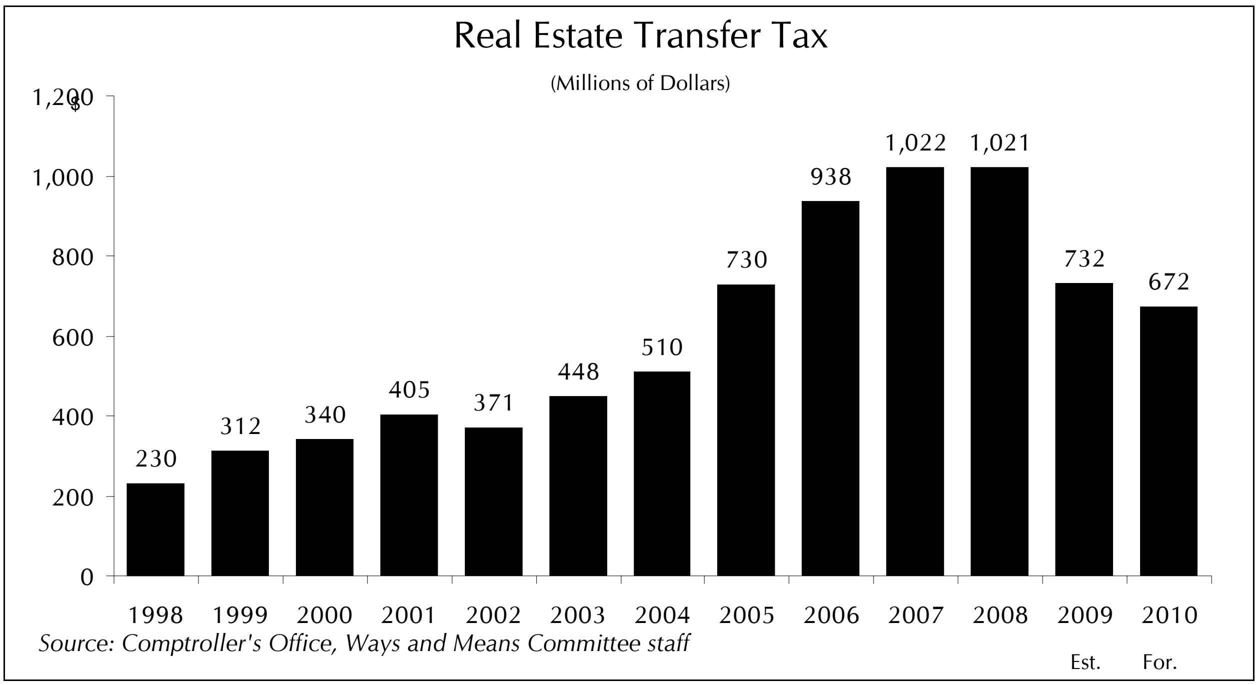


Figure 60

SFY 2008-09 Estimate

Based on year-to-date collections, historical collection patterns and present economic forecasts, the Committee staff forecasts that Real Estate Transfer Tax (RETT) receipts will total $732 billion in SFY 2008-09, representing a 28.3 percent decrease from SFY 2007-08. Of the $732 million, $237 million will be deposited into the Environmental Protection Fund as required by section 1421 of the New York State Tax Law, the balance is to be deposited into the Clean Water/Clean Air Bond Debt Service Fund (CWCA) any unused

RETT funds deposited into CWCA will be transferred to the General Fund; the Executive estimates that $390.1 million will be available to the General Fund in 2008-09.

Through December 2008, RETT receipts are down by 25 percent statewide compared to the same period last year. As of November (latest available data), RETT receipts in New York City were down by 20.1 percent. This is significant as New York City accounted for 61.1 percent of all RETT receipts in SFY 2007-08 and as of September of this year, NYC RETT receipts accounted for 65.7 percent of YTD RETT receipts. According to the New York City Independent Budget Office (IBO), NYC RETT receipts are expected to decline by more than 50 percent over the next two years, they predict that 2009 receipts will be a mere $1.6 billion significantly down from the $2.6 million IBO predicts for 2008.[33] Commercial vacancy rates have increased from 5 percent in 2007[34] to a staggering 10 percent as of December 2008.[35]

Table 24

Regional Real Estate Transfer Tax Collections and Growth Rates

Nov. YTD SFY 2007-08	Nov. YTD Receipts SFY 2008-09	Nov. YTD $ Change	Nov. YTD % Change	% of Total Total Receipts SFY 2007-08	% of Total Total Receipts SFY 2008--09
429	343	-87	-20.1%	58.9%	64.5%
104	69	-35	-33.3%	14.2%	13.0%
68	48	-20	-29.6%	9.4%	9.0%
15	11	-4	-26.4%	2.1%	2.1%
3	2	-1	-25.7%	0.4%	0.4%
4	4	0	-3.3%	0.5%	0.7%
10	8	-3	-25.8%	1.4%	1.5%
5	4	-1	-15.7%	0.7%	0.8%
7	5	-2	-27.4%	1.0%	1.0%
11	9	-3	-21.7%	1.5%	1.6%
72	29	-43	-59.7%	9.8%	5.4%
729	532	197	-27.0%	100.0%	100.0%

[33] New York City Independent Budget Office, Fiscal Outlook, "As Economy Weakens, City's Budget Gaps Swell", January 09, 2009, page 4.
[34] NYC Office of Management and Budget, "Monthly Report of Current Economic Conditions" January 09, 2009, page 4.
[35] Bagli, Charles, V., New York Times, Business, "As vacant office space grows, so does lender's crisis", 4 Jan. 2009, http://www.nytimes.com/2009/01/05/business/05real.html, (19 Jan. 2009)

Table 25

New York State Mansion Tax Liability: SFY 1996-1997 thru 2007-08				
SFY	# of Real Estate Transaction Subject to Mansion Tax	Mansion Tax Liability (in million)	Total RETT Revenues	% of Revenues from Mansion Tax
1996-1997	1,064	19.3	194	9.9%
1997-1998	1,374	26.3	230	11.4%
1998-1999	1,810	35.5	312	11.4%
1999-2000	2,331	46.2	340	13.6%
2000-2001	4,025	90.6	405	22.4%
2001-2002	3,429	69.5	371	18.8%
2002-2003	5,111	99.3	448	22.2%
2003-2004	6,150	150.0	510	29.4%
2004-2005	9,582	198.0	730	27.1%
2005-2006	11,406	240.0	938	25.6%
2006-2007	11,824	248.0	1,021	24.3%
2007-2008	13,526	316.0	1,021	31.0%

Note: This data was provided by the Department of Taxation and Finance; these are estimates that could be subject to manual corrections and revisions.

SFY 2009-10 Forecast

In light of a slowing real estate market, the Committee staff estimates that RETT receipts in SFY 2009-10 will be approximately $672 million, representing a decrease of $60 million or 9.2 percent from the SFY 2008-09 closeout.

The Committee staff attributes the instability of the financial market and the upswing in unemployment as well as the credit crunch as major factors in the reduction of RETT receipts; notably, in November 2008, NYC residential building permits were down by 74 percent compared to a year earlier.[36] Because of the delay between housing starts, sales, and conveyance of revenues from localities to the state, the decrease in housing permits will have a direct impact on RETT revenues in SFY 2009-10 and SFY 2010-11.

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 $1.021 billion in SFY 2007-08. 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 31 percent. Just as the housing boom had a sudden and significant positive impact on RETT receipts since 2005, the Committee staff anticipates the current fiscal crisis facing the nation, and in particular the New York City financial and housing sectors, will have a significant negative impact on RETT receipts in all of 2009-10 with a sloth like recover in 2010-11.

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 has been largely immune to the decline in housing values that has troubled the rest of the United States, that is until now. According to Moody's Economy.com, residential real estate values in Manhattan, in particular Midtown, have only just begun to feel the impact of the "recession". Moody's anticipates the economic downturn that devastated the financial sector will soon flow-over to the real estate market, bringing significant reductions in the value of property as well as noticeable increases in inventory. This downward trend in the real estate market is expected to continue through FY 2010.[37]

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[36] Massey, Daniel, Crain's New York Business.Com, "Residential permits fall 74%", 2 Jan. 2009, http://www.crainsnewyork.com/apps/pbcs.dll/article?AID=/20090102/FREE/901029983/0/nonprofits&template=printart, (19 Jan. 2009)

[37] Moody's Economy.com, "Regional Financial Review", October 2008, *www.economy.com*, (November 18, 2008).

In addition to the reduction in building permits that were noted earlier, based on figures published by the Mortgage Bankers Association, national mortgage applications and home loans had fallen during the final week of October, to the slowest pace since the week of December 29, 2000.[38] Meanwhile, the National Association of Realtors (NAR) reported that New York realtors sold 7,166 existing single-family homes in New York State in September 2008, a 4 percent decrease compared to September 2007.[39]

Mortgage Rates

U.S. mortgage interest rates have been volatile recently. According to data from Freddie Mac, rates on 30-year fixed rate mortgages reached 6.10 percent in the first week of October and then fell to 5.94 percent the following week. From there the rate skyrocketed to 6.46 percent for the week ending October 16, 2008, the fastest weekly increase in more than 20 years. The rate then dropped to 6.04 percent, before bouncing back to 6.46 percent by the end of the month.[40] A downward bounce took place again in November, lowering the mortgage rates to under 6 percent. Economists continue to predict slow economic growth as well as weak sales in the housing market.

Looking Ahead

There is little doubt that New York's economic health is in a precarious state of affairs. RETT receipts will be directly impacted by the credit crunch, volatile mortgage rates, and the anticipated lay-offs in the financial sector. The Committee staff anticipates continued negative growth in RETT receipts through SFY 2009-10 with a modest up-swing late in the year as the affects of the stimulus packages should begin to revive the housing market, albeit at a slow pace.

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[38] Nothaft, Frank, Economic and Housing Research, "Weekly Commentary" 13 Nov. 2008, http://www.freddiemac.com/news/finance/, (Nov. 19, 2008).
[39] New York State Association of Realtors, "Empire state begins typical seasonal slowdown in September", n.d., http://www.nysar.com/consumers/stats.asp, (Nov. 18, 2008).
[40] Real Estate & Mortgage Resources, "Mortgage Interest Rate Report", 11 Nov. 2008, http://www.realestateabc.com/rates2.htm (Nov. 18, 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.

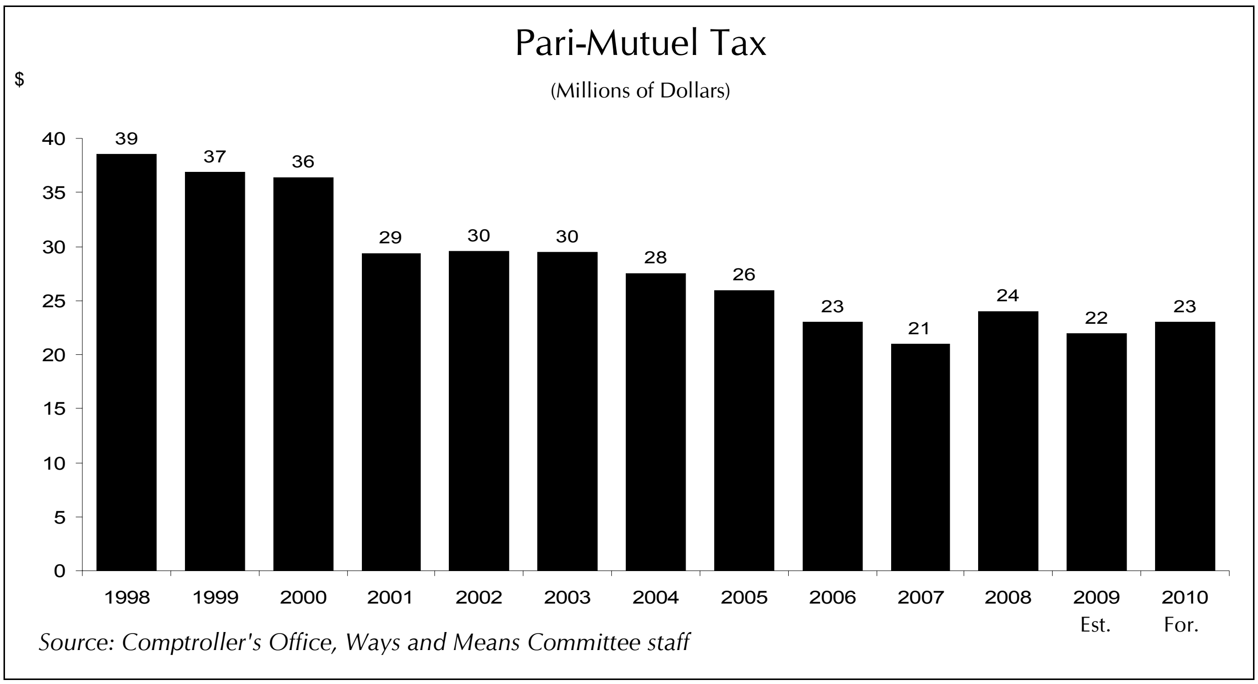

Figure 61

SFY 2008-09 Estimate

The Committee staff estimates that receipts will total $22 million in SFY 2008-09, a negative growth of 6.8 percent or $1 million compared to SFY 2007-08. This estimate is $1 million below the Executive’s 2009-10 Budget estimate.

SFY 2009-10 Forecast

The Committee staff forecast for SFY 2009-10 is $23 million, representing a growth of 4.5 percent from SFY 2008-09. This estimate is equal to the Executive's 2009-10 Budget estimate.

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).

Traditional lottery 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. Similar to revenue education dedications, the percentage of sales dedicated to prizes also vary considerably – from 40 percent of Lotto sales to 92 percent of VLT sales. Fifteen percent of Lottery sales are placed into a special revenue account to cover the administrative expenses of the Lottery Division, whereas 10 percent of VLT proceeds are dedicated to administrative expenses.

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.

SFY 2008-09 Estimate

The Ways and Means Committee staff expects SFY 2008-09 Lottery revenues will total $2.954 billion, which includes $375 million in administrative surplus, $835 million in VLT revenue, including a one-time licensing fee of $370 for VLT rights at Aqueduct. Adjusted for the franchise fee, the 1 percent decline is due to a combination of flat and declining growth in several of the traditional lottery games and the re-distribution of VLT profits.

As of the third quarter of SFY 2008-09, traditional Lottery year-to-date proceeds were up by 1.7 percent or $21 million over the same period in SFY 2007-08. The increase in revenue was due primarily to increased sales of instant games which were up by 5.3 percent. However, sales in other games remained flat while Lotto and Quick Draw continue to decline. Of particular interest is the fact that as of the third quarter of SFY 2008-09 Lotto revenues are down by 20 percent or $15 million over the same period in SFY 2007-08.

Table 26

Traditional Lottery (Dollar Amounts in Millions)			
GAME	2007-08 ACTUALS	WAM 2008-09 CLOSEOUT	WAM 2009-10 FORECAST
Lotto	95	82	85
Numbers	299	301	315
Win-4	251	258	273
Quick Draw	111	109	113
Pick 10	11	11	11
Take 5	112	117	130
Mega	167	150	173
Instant Win	665	702	741
Other	8	14	14
Total	1,719	1,744	1,855

Third quarter YTD VLT revenue was down by 8.9 percent or $30.5 million over the same third quarter in SFY 2007-08. The decrease in VLT revenues can be attributed to legislation that was enacted in 2008 legislation that modified the distribution of revenue proceeds (see Table 3).

The Committee staff estimates that VLT revenues in SFY 2008-09 will total $835 million which includes an additional $370 million in revenue that will be generated from a "licensing" fee to operate VLTs at Aqueduct raceway.

Table 27

Video Lottery Terminals - Education Aid (Dollar Amounts in Millions)			
Racino	SFY 2007-08 Actuals	SFY 2008-09 WAM Closout	Number of VLTs
Empire	252	239	5,334
Saratoga	70	64	1,770
Monticello	32	22	1,587
Finger Lakes	49	47	1,199
Buffalo	23	17	959
Vernon	17	14	761
Tioga	21	17	750
Batavia	15	13	600
Aqueduct			0
Subtotal	**479**	**433**	**12,960**
Unused Admin.	12	15	
**Licensing Fees		370	
TOTAL	**491**	**818**	**12,960**

***Licensing Fee is for Aqueduct VLT rights.*

SFY 2009-10 Forecast

The Committee staff forecast the SFY 2009-10 Lottery revenues will total $2.879 billion, representing a decline of $75 million over the Committee staff's estimate for SFY 2008-09. The SFY 2009-10 forecast reflects an anticipated $523 million in proceeds from VLTs as well as $2.356 billion in traditional lottery sales. The estimate includes $133 million in revenue actions as proposed in the Executive Budget.

The Committee Staff's forecast does not include revenue from VLTs at Aqueduct in SFY 2009-10. Delaware North, the company that purchased the VLT rights for Aqueduct has elected to forgo a temporary facility and will open a permanent facility sometime in 2010. The Committee Staff will continue to monitor the progress of VLT's at Aqueduct and make adjustments as information becomes available.

Video Lottery Terminals (VLT)

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 tracks; Empire City, Saratoga Raceway, Monticello, Finger Lakes, Buffalo Fairground, Vernon Downs, Tioga Downs and Batavia Downs, as well as Aqueduct are required to distribute 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 and again in 2008-09. These legislative changes were necessary to make operating VLTs more productive for vendors, thus promoting the operation of VLTs which ultimately increases funding for education. The 2008-09 enacted legislation provides vendors with a larger share as well as additional revenue for marketing and capital expenditures. While the percentage dedicated to education has decreased as a result of these changes, it is anticipated that the revenue that is now dedicated to capital improvements and marketing will yield greater participation, which will in due course increase the educational aid derived from the VLTs.

Prior to 2005-06 VLT distribution provided 61 percent of revenues to education and 10 percent of revenues to administration. The remaining revenue was split amongst the track, purses for races at that track and the breeder's fund for horses from that track. The distributions to the track, purses and breeders were to change over time, giving more money to purses and the breeders. In 2005-06 legislation was passed that ended the required redistribution proceed based on time. The legislation also removed reference to specific percentages that were dedicated to purses or breeders. Instead, each track is responsible for negotiating agreements with the relevant entities. However, there has been some evidence that the tracks, horsemen and breeders have had difficulty reaching agreement on mutually acceptable revenue disbursements. Also differing from the previous distribution, the percentage of revenues dedicated to education now increases as revenues at each track rise. In 2008-09 in order to provide more incentive to advertise and market the racino facilities legislation was enacted once again to change the distribution of the proceeds. The new distribution of the machine net income will provide greater marketing allowance and capital allowances and will be used for the promotion, advertisement and improvements at the VLT facilities. The following chart shows the distribution changes.

Table 28

VLT Distributin Prior to 2008 Legislation (Dollar Amounts in Million) Except Yonkers					Yonkers VLT Distribution Prior to 2008 Legisltion			
Distribution Category	$0-50	$50-100	$100-150	$150+	$0-50	$50-100	$100-150	$150+
Vendor	32%	29%	29%	26%	32%	29%	29%	26%
Education	50%	53%	56%	59%	54%	57%	57%	60%
Marketing	8%	8%	5%	5%	4%	4%	4%	4%
Administration	10%	10%	10%	10%	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%

Revenue Trends

In New York 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 $2.13 billion in SFY 2007-08. Beginning in SFY 2004-05, Lottery revenues have substantially benefited from the introduction of Video Lottery Terminals (VLTs). VLTs produced $490 million in SFY 2007-08. As of the third quarter of SFY 2008-09, all but one of the eight VLT facilities have realized greater participation (Monticello as of December 27, 2008 had a year-to-date revenue decline of 8.8 percent). It is assumed that greater participation is in part a result of the legislation that was enacted in 2006/07 which provided vendors with greater marketing abilities as well as the recent legislation (2008) that expands the marketing and capital allowances and modifies the revenue split of VLT proceeds (see Table 3). The modified splits should provide the VLT vendors with the necessary tools they need to promote and generate greater interest and participation in New York's gaming establishments.

Overview

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 for education reached $490 million in SFY 2007-08.

Saratoga Racing and Gaming was the first VLT facility in the state, opening in January of 2004. Thus far, it has been the only facility to meet revenue expectations and added another 400 VLTs 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. 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 while Empire (Yonkers) and Vernon Downs both opened in October of 2006. Since opening, Yonkers has expanded from less than 2,000 machines to operating 5,334 as of mid-year 2008. Yonkers is the largest VLT facility in the State yielding approximately half of VLT revenues in SFY 2007-08. In 2008, legislation was enacted that authorized VLTs at Aqueduct. To date, neither Aqueduct's opening date nor the number of operational VLTs has been confirmed. Therefore, for the SFY 2008-09 closeout as well as the 2009-10 forecast the Committee staff nor the Division of Budget included VLT revenue from Aqueduct.

Lottery Outlook

Traditionally gambling has been considered an entertainment activity that was recession proof. Although still resilient there is some indication that even gambling is not immune from the fiscal perils of the deep recession the country is currently facing. According to a recent article in "TIME" (on line), two out of every five states are experiencing reductions in lottery sales and while revenues from other gambling sources continue to show growth, that growth has slowed considerably.[41] Such slow growth in gambling is more likely than

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[41] Cousins, Juanita, Time, "As Recession Deepens, Lottery Sales Soar", 11 Jan. 2009, http://www.time.com/time/printout/0,8816,1870936,00.html (19 Jan. 2009)

not the cause for Turning Stone's (Western New York) reduction in its workforce of 50-100[42] employees and Foxwood Casino in Connecticut lay off of 700 employees in 2008[43].

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[42] Coin, Glenn, Syracuse Standard, "Turning Stone cuts jobs" 31 Oct. 2008, http://www.syracuse.com/news/index.ssf?/base/news-12/122544333330800.xml, (19 Jan. 2008)

[43] Bowles, Adman, Norwich Bulletin, "Foxwoods nears end of layoffs 700 employees let go as casinos hit by economy", 17 Oct. 2008, http://www.norwichbulletin.com/casinos/x1261528917/Foxwoods-nears-end-of-layoffs, (19 Jan. 2009)

Miscellaneous Receipts

Miscellaneous Receipts – General Fund

General Fund miscellaneous receipts consist 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 $3.8 billion in SFY 2009-10, $682 million or 21.8 percent higher than SFY 2008-09, a result of a $174 million increase in license and fee collections, $2 million decrease in reimbursement, $540 million increase in other transactions, a $20 million increase from investment income, and $50 million decrease in abandoned property.

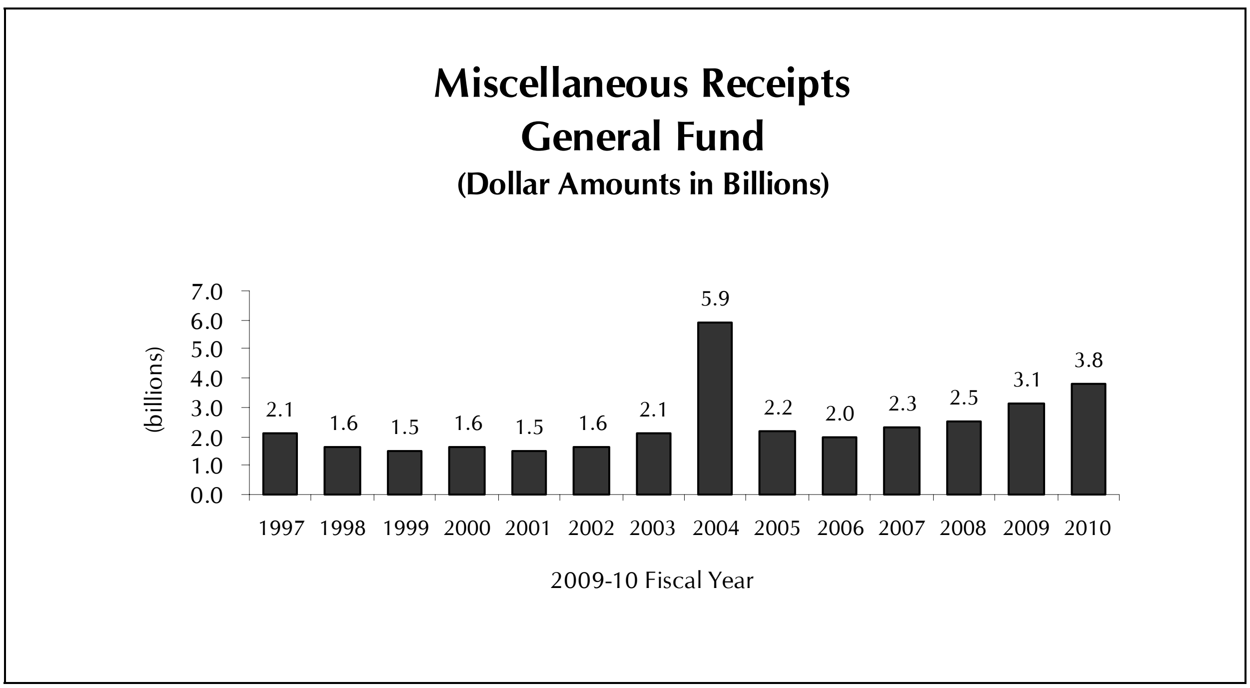


Figure 62

Miscellaneous receipts have been a steady source of revenue for the General Fund. 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 Fund
(Dollar Amounts in Millions)

	2007-08 Actual	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Licenses, Fees	$604.0	$598.0	$772.0	$174.0	29.1%
Abandoned	$694.0	$750.0	$700.0	($50.0)	-6.7%
Reimbursements	$163.0	$174.0	$172.0	($2.0)	-1.1%
Investment Income	$221.0	$180.0	$200.0	$20.0	11.1%
Other Transactions	$778.0	$1,422.0	$1,962.0	$540.0	38.0%
Total	**$2,460.0**	**$3,124.0**	**$3,806.0**	**$682.0**	**21.8%**

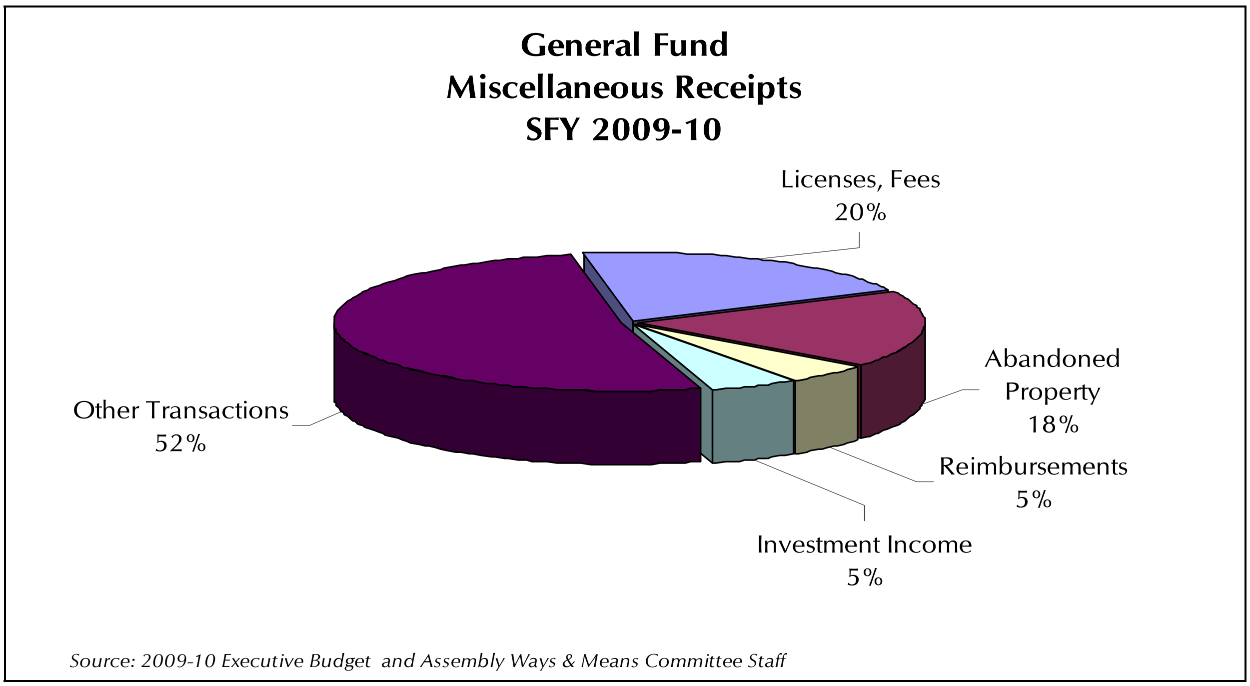


Figure 63

Miscellaneous Receipts - Special Revenue Funds

State Funds miscellaneous receipts consist 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 $19.1 billion in SFY 2009-10, an increase of $2.3 billion or 13.7 percent from SFY 2009-10. The change in miscellaneous receipts is primarily related to increases in HCRA receipts of $672 million, Medicaid increase $336 million, other revenue $184 million, SUNY Income increase $76 million, and Industry Assessment $335 million.

Capital Projects

Capital Projects spending is funded from two sources: authority bond proceeds which support spending financed through Authority Bonds, and miscellaneous receipts (Parks, Environmental, and other receipts) which finance State pay-as-you-go spending.

The Executive estimates capital projects, including authority bond proceeds of $720 million and $51 million in debt service offset by a decrease in Lottery and Video Lottery Terminal receipts of $75 million.

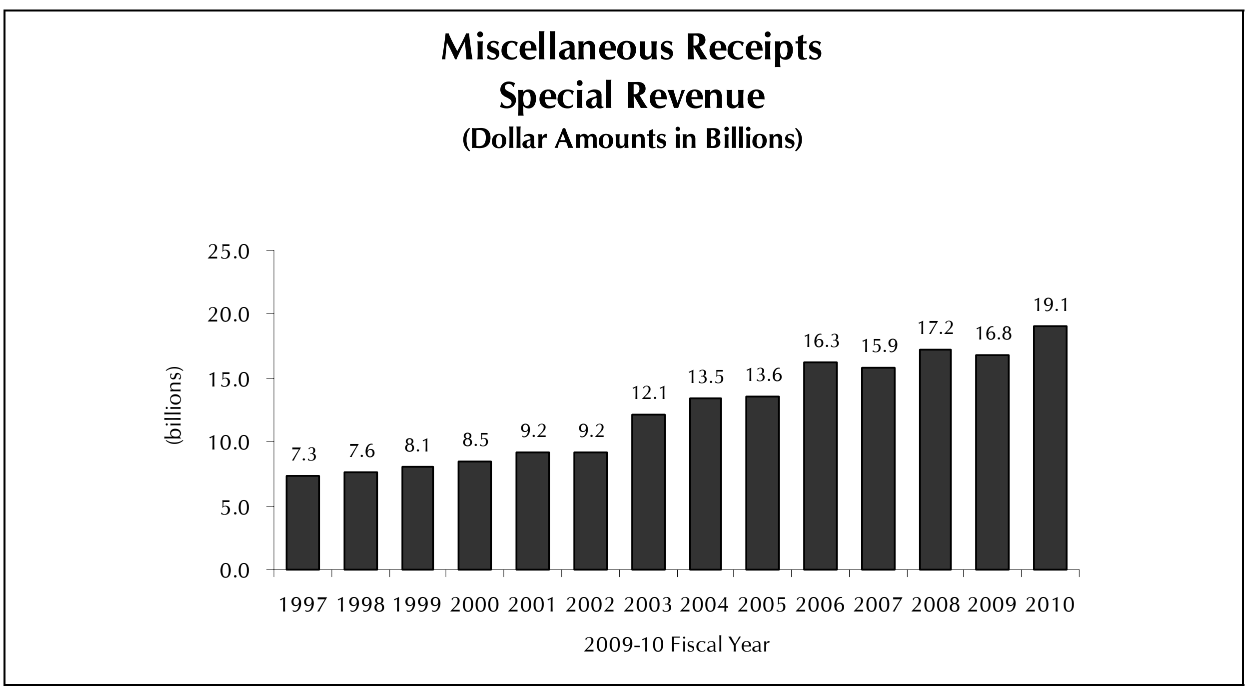


Figure 64

Special Revenue Miscellaneous receipts have grown by 162 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
(Dollar Amounts in millions)

	2007-08 Actual	Estimated 2008-09 Estimated	2009-10 Projected	Change	Percent Change
HCRA	$4,187	$3,634	$4,306	$672	18.5%
State University Income	$2,789	$3,192	$3,268	$76	2.4%
Lottery	$2,767	$3,142	$3,067	($75)	-2.4%
Medicaid	$526	$548	$884	$336	61.3%
Industry Assessment	$527	$660	$995	$335	50.8%
Capital Projects	$2,729	$2,900	$3,620	$720	24.8%
Debt Service	$842	$779	$830	$51	6.5%
All Other	$2,809	$1,978	$2,162	$184	9.3%
Total	**$17,176**	**$16,833**	**$19,132**	**$2,299**	**13.7%**

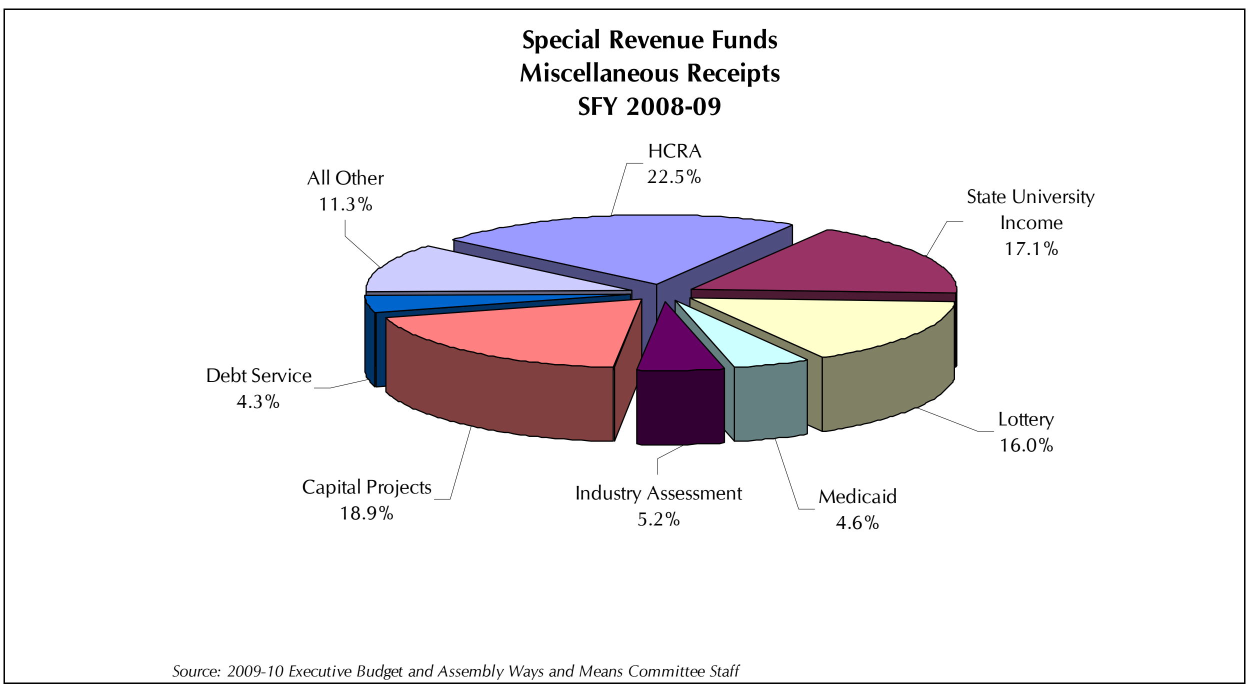


Figure 65

Table 29

Executive Recommendations ($ in 000's)				
	General Fund		All Funds	
	2009-10	2010-11	2009-10	2010-11
I. New or Increased Fees				
Increase Feed Tonnage Fees	-	-	146	146
Increase Food Licensing Fees	-	-	3,180	3,108
Establish Seed Dealer Licensing Fees	-	-	500	500
Expand New Statewide Central Register Fees	2,700	2,500	2,700	2,500
Increase Civil Service Exam Fees	1,360	1,381	1,360	1,381
Establish a Local Fee for Hiring a Public Retiree	60	60	60	60
Increase Public Management Intern Placement Fee	-	-	175	175
Expand Insurance Fingerprinting Fee	6,250	6,250	6,250	6,250
Establish Security Guard Training Fees	446	446	446	446
Increase Nuclear Power Plant Fee	1,350	1,350	2,700	2,700
Increase Motor Vehicle Registration Fee	-	-	60,500	103,700
Increase Motor Vehicle License Fee	-	-	21,900	37,600
Reissue License Plates	-	129,000	-	129,000
Establish a Fee for MV-278 Certificate	500	500	500	500
Increase State Pollutant Discharge Elimination System Fees	-	-	5,000	5,000
Establish New Marine Fishing License	-	-	3,000	6,000
Establish Trout and Salmon Stamp	-	-	3,000	4,000
Increase DEC Education Camp Fee	-	-	115	115
Increase Physician Fees	-	-	16,400	16,400
Establish Early Intervention Parent Fee	-	-	-	27,500
Assess Early Intervention Provider Fee	-	-	1,700	3,600
Restructure Clinical Lab Fees	-	-	36,500	36,500
Increase Certificate of Need Fees	-	-	4,000	4,000
Increase Asbestos Fee	9,152	8,448	9,152	8,448
Increase Boiler Fee	2,167	2,000	2,167	2,000
Establish Explosives Fees and Penalties	294	289	294	289
Increase Real Property Transfer Fee	14,250	19,000	14,250	19,000
Increase Parks Administrative Fees	-	-	6,500	6,500
Establish Horse Entrance Fee	-	-	1,000	1,000
Increase State Licensing Fees	-	-	3,500	3,500
Increase in Surcharge on Auto Insurance	-	-	48,375	64,500
Establish Processing Fee for Paper Tax Returns	6,800	6,800	6,800	6,800
Establish Bad Check Fee	1,500	1,500	1,500	1,500
Establish Installment Payment Fee	4,500	4,500	4,500	4,500
Establish Tax Preparer Fee	6,000	6,000	6,000	6,000
Increase Highway Use Tax Renewal Fee	-	-	4,600	-
Increase Cigarette & Tobacco Retail Registration Fee	(1,800)	(7,400)	16,700	6,200
Establish Non-LLC Partnership Fee	50,000	50,000	50,000	50,000
Total New or Increased Fees	**105,529**	**232,624**	**345,470**	**571,490**

Executive Recommendations ($ in 000's) *continued*	General Fund		All Funds	
	2009-10	2010-11	2009-10	2010-11
II. Charges and Assessments for Specific Sectors				
Increase Utility Assessment	651,600	651,600	651,600	651,600
Reinstitute Hospital Assessment	-	-	316,400	271,200
Reinstitute Home Care Assessment	-	-	19,100	21,800
Increase Hospital Surcharges	-	-	126,000	108,000
Increase Covered Lives Assessment	-	-	240,000	120,000
Extend the Covered Lives Assessment	-	-	5,000	5,000
Establish Physical Procedure Surcharge	-	-	49,800	98,500
Increase Insurance Assessment for Public Health Programs	-	-	99,800	49,900
Establish Timothy's Law Insurance Assessment	-	-	179,000	91,000
Increase Insurance Assessment for Tobacco Control and Early Intervention	-	-	92,600	93,700
Extend Insurance Assessment	-	-	-	134,800
Third Party Administrator Fee	-	-	63,100	126,200
Add'l Sales Tax on Soft Drinks for Health Care Programs	-	-	404,000	539,000
Total Charges and Assessments for Specific Sectors	**651,600**	**651,600**	**2,246,400**	**2,310,700**
III. New or Increased Fines				
Allow Civil Penalties for Non-Housing Cases	125	156	125	156
Remove Cap on Surcharges	9,900	9,900	9,900	9,900
Increase Vehicle Safety Fines	721	721	721	721
Establish Uncertified Crane Operation Penalty	436	436	436	436
Increase License Suspension Fees	16,069	16,069	16,069	16,069
Increase Food Safety Violation Penalties	1,200	1,200	1,200	1,200
Automated Speed Enforcement Cameras	50,000	100,000	50,000	100,000
Total New or Increased Fines	**78,451**	**128,482**	**78,451**	**128,482**
IV. Other Revenue Actions				
Expand the Bottle Bill	-	-	118,000	118,000
Reform the Empire Zones Program	272,000	292,000	272,000	292,000
Allow the Sale of Wine in Grocery Stores	105,000	54,000	105,000	54,000
Expand Tax Collections	85,000	85,000	85,000	85,000
Reciprocal Vendor Offset	5,000	30,000	5,000	30,000
Increase Prepaid Sales Tax Rates on Cigarettes	14,000	-	14,000	-

Executive Recommendations ($ in 000's) *continued*				
Allow Decals for TMT Carriers	-	-	-	-
Increase Prepayment to 40%	333,000	-	351,000	-
Pari-Mutuel Tax Extender	-	-	-	-
Eliminate Quick Draw Restrictions	-	-	40,000	59,000
Extend VLT Hours of Operation	-	-	45,000	45,000
Allow for Additional Multi-Jurisdictional Lottery Games	-	-	11,000	21,000
Lottery Prize Fund Investment	-	-	37,000	50,000
Authorize VLT's at Belmont Park	-	-	-	370,000
Total Other Revenue Actions	**814,000**	**461,000**	**1,083,000**	**1,124,000**

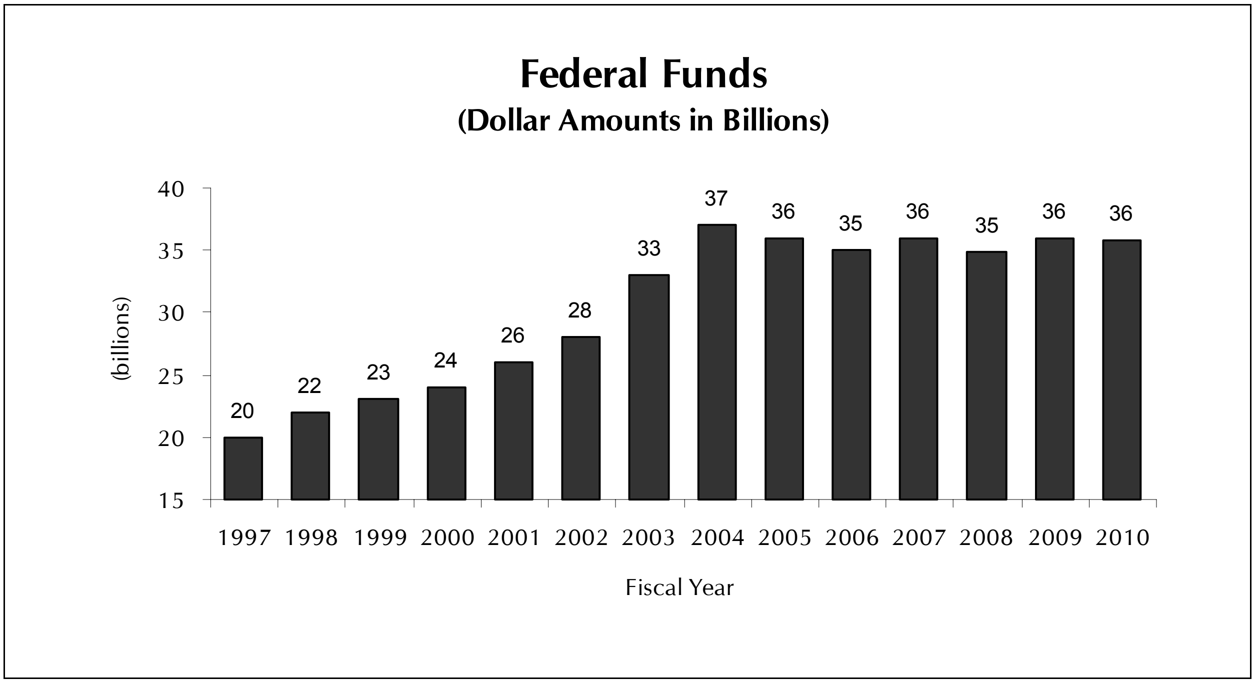
Federal Funds

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.

The Executive estimates total Federal grants receipts of $35.8 billion in SFY 2009-10, a decrease of $141 million from SFY 2009-10.

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 $22.2 billion in SFY 2009-10. 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 $1.8 billion in SFY 2009-10.


Federal Funds
(Dollar Amounts in Billions)
40
35
30
25
20
15
(billions)
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22
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24
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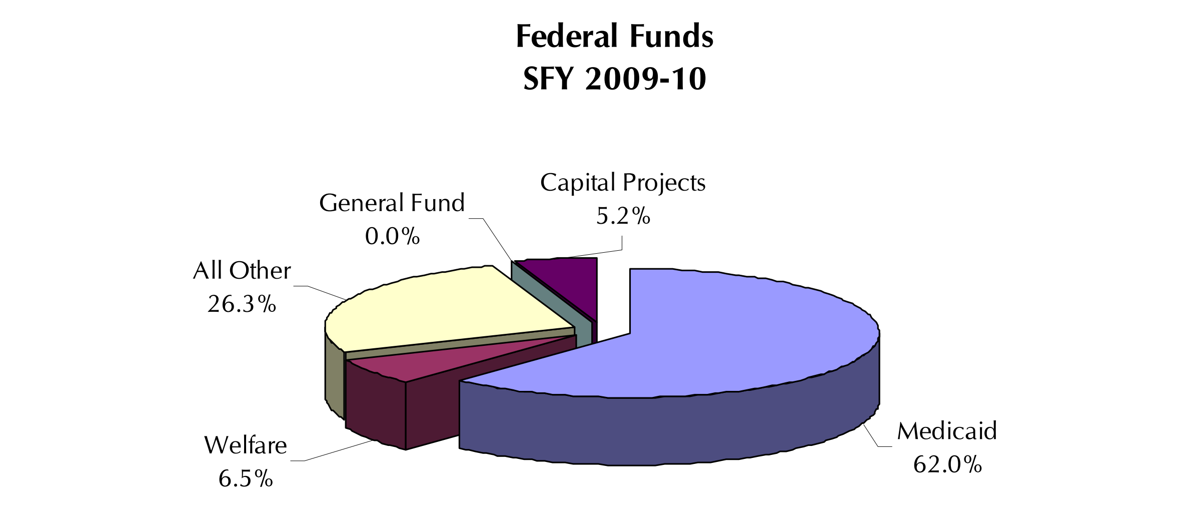
33
37
36
35
36
35
36
36
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
Fiscal Year

Figure 66

Federal Funds

(Dollar Amounts in millions)

	2007-08 Actual	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Special Revenue	**$33,095**	**$34,031**	**$33,971**	**($60)**	**0%**
Medicaid	$22,167	$22,556	$22,212	($344)	-2%
Welfare	$2,184	$2,334	$2,334	$0	0%
All Other	$8,744	$9,141	$9,425	$284	3%
General Fund	**$69**	**$41**	**$0**	**($41)**	**-100%**
Capital Projects	**$1,745**	**$1,906**	**$1,866**	**($40)**	**-2%**
Total All Funds	**$34,909**	**$35,978**	**$35,837**	**($141)**	**0%**



Source: 2009-10 Executive Budget and Ways and Means Committee Staff

Figure 67

American Recovery and Reinvestment Plan (ARRP)

The federal government is working on an economic stimulus package that includes financial assistance to states. The House of Representatives has passed a bill that would allocate federal funds through existing programs but also the establishment of new programs. The Senate's economic stimulus package is still under debate albeit at a lesser amount to state and local governments.

Fiscal Stabilization Fund

Within the ARRP, the House and the Senate would establish a State Fiscal Stabilization Fund (SFSF) to help state governments fund education and other critical services.

The 61 percent of the funds in the House proposal would support K-12 and higher education in the states. The purpose is to restore state funding for education (at all levels) to their fiscal year 2008 level. In the House version, any funds allocated to the state that exceed this requirement would have to be passed to local school districts based on their relative shares of Title I. Thirty-nine percent is to be used for "public safety and other government services" (including education). There is a set aside for education performance grants. States must apply for these additional funds, and at least half of these funds would have to be passed through to local educational agencies (LEAs). The House would make one half of the funds available over each of the next two fiscal years.

Although the Senate provisions are not finalized, the Senate would provide a lesser amount for the SFSF with all the funds directed toward providing support for education but with a portion set aside for performance grants. The Senate would provide the SFSF as one allocation to the states.

Health

The House and Senate bills would implement temporary Federal Medical Assistance Percentage (FMAP) grant increases to states for 27 months. Specifically the legislation focuses on preventing reductions and providing across-the-board increases, and increases for high unemployment. The House and Senate provisions for increases differ. In addition, the Senate and House are considering additional Medicaid provisions that would monitor eligibility levels by states, maintain local governments' share and prohibit states from taking grants and depositing them into state reserves.

Transportation

Grants will be made to state and local governments that will include the following programs: Federal-aid highways, public transit, competitive grants for surface transportation investments and other transportation projects will include the Federal Aviation Administration and Amtrak among others. The grant monies will be used to reduce greenhouse gas emissions, repair roads and bridges, provide aid for infrastructure projects across the nation including airport improvements and rail improvements.

Education

Grants will be implemented through the current federal-state programs for the following: Title I, Special Education, Educational Technology and Vocational Rehabilitation Services. In addition, there are provisions in the House version to modernize public schools and monies for higher education projects that will enable universities to modernize, renovate, and repair their educational facilities.

Labor

The ARRP seeks to address the severe declines in employment by investing in the Workforce Investment Act (WIA) and the dislocated worker reemployment and training grants. The legislation also includes grants to the Unemployment Insurance fund increasing unemployment compensation by $25 a week through calendar year 2009.

TANF

An emergency contingency fund will be created to help the Temporary Assistance for Needy Families (TANF) and will enable states to manage caseload increases, expenditures related to non-recurrent, short-term benefits and increased expenditures for subsidized employment. Eligibility and amount of grant funds disbursed will be based upon a state's caseload in a quarter and compared to the corresponding quarter in the emergency fund base year, but no more than 25 percent of existing contingency dollars plus the emergency fund can be distributed in a state's block grant for that year.

Broadband technology expansion will benefit from state's receipt of competitive grants targeted to unserved and underserved areas. Under Senate provisions, half the funds would be earmarked for rural areas, and states would be required to match funding up to 20 percent. Byrne/JAG will receive an increase in funding, but the Senate would appropriate significantly more. The Senate includes additional funding to be spent directly on violence against women programs and crime victim compensation and assistance

FUND ANALYSIS

Financing the State Budget

Financing the State budget depends on the sufficiency and stability of revenues that comes from personal income, the sale of goods and services, business activities, other various taxes, and fees and federal grants. New York state revenues have been greatly affected by the financial crisis. The average increase in All Funds revenues over the past ten years has been $4.8 billion. In SFY 2008-09, the growth in All Funds receipts is projected at $1.1 billion or 0.95 percent (see Figure 68). Receipts from various taxes and the executive proposals are expected to have a net increase of $3.6 billion or 3.1 percent in SFY 2009-10 for total collections of $120.1billion. SFY 2009-10 All Funds disbursements of $121.1 billion are expected to increase less than previous years at $1.3 billion or 1.1 percent.

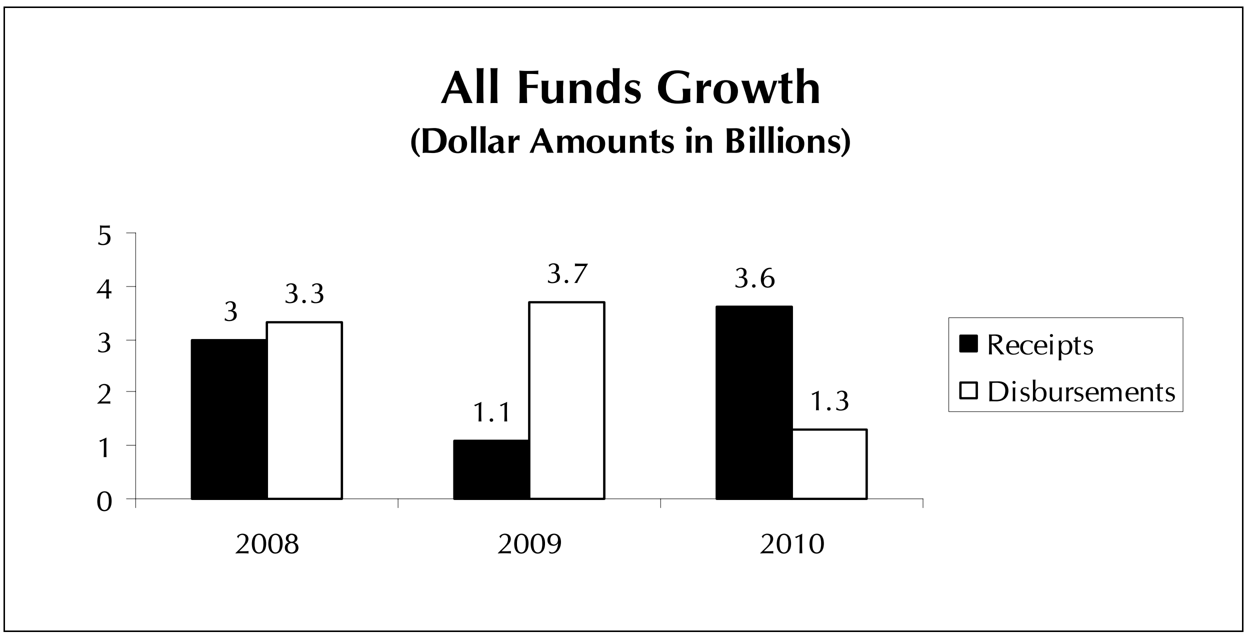


Figure 68

Growth in All Funds revenues affects how the state budget will be financed. All Funds disbursements of $119.8 billion exceed All Funds receipts of $116.5 billion producing a structural operating deficit of $3.3 billion in SFY 2008-09 (see Figure 69). Flat revenue growth cannot finance disbursement increases in the areas of Medicaid, education, and debt service. In SFY 2009-10, the All Funds operating deficit is reduced significantly to less than $1 billion due to increases in user taxes and fees and miscellaneous receipts.

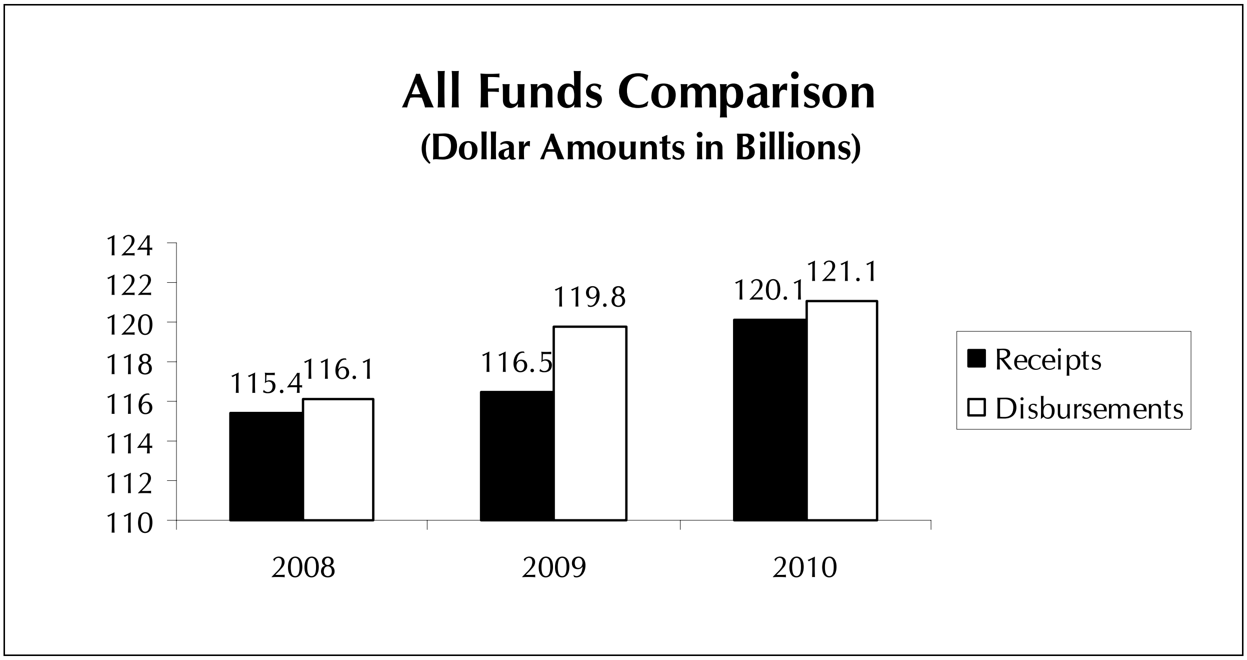


Figure 69

The Midyear Executive Financial Plan estimates current services gaps in the General Fund to be $1.7 billion in SFY 2008-09, $13.7 billion in SFY 2009-10 and $17.1 billion in SFY 2010-11 (see Figure 70). The current services gaps result from forecasting receipts and disbursements prior to the Executive's recommended gap closing measures. The Executive's proposed budget includes measures to close the current service gaps of SFY 2008-09 with nearly a $2 billion impact on the gap closing plan for SFY 2009-10.

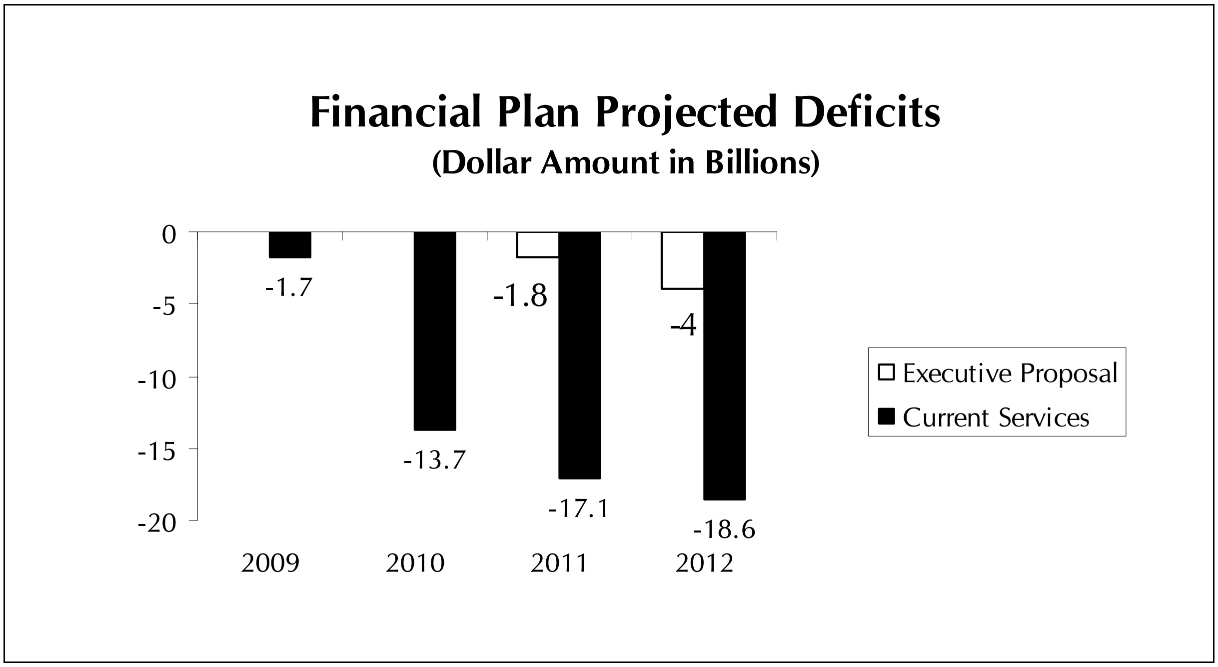


Figure 70

State Funds in SFY 2008-09, which excludes federal grants, has an operating deficit of $4 billion (see Figure 71). With receipts remaining flat and with increased disbursements in the areas of economic development, transportation, education and mental health, the State is planning to use reserves and fund balances to close the operating deficit. The State Funds operating deficit of $1.5 billion for SFY 2009-10 is much narrower than the previous year.

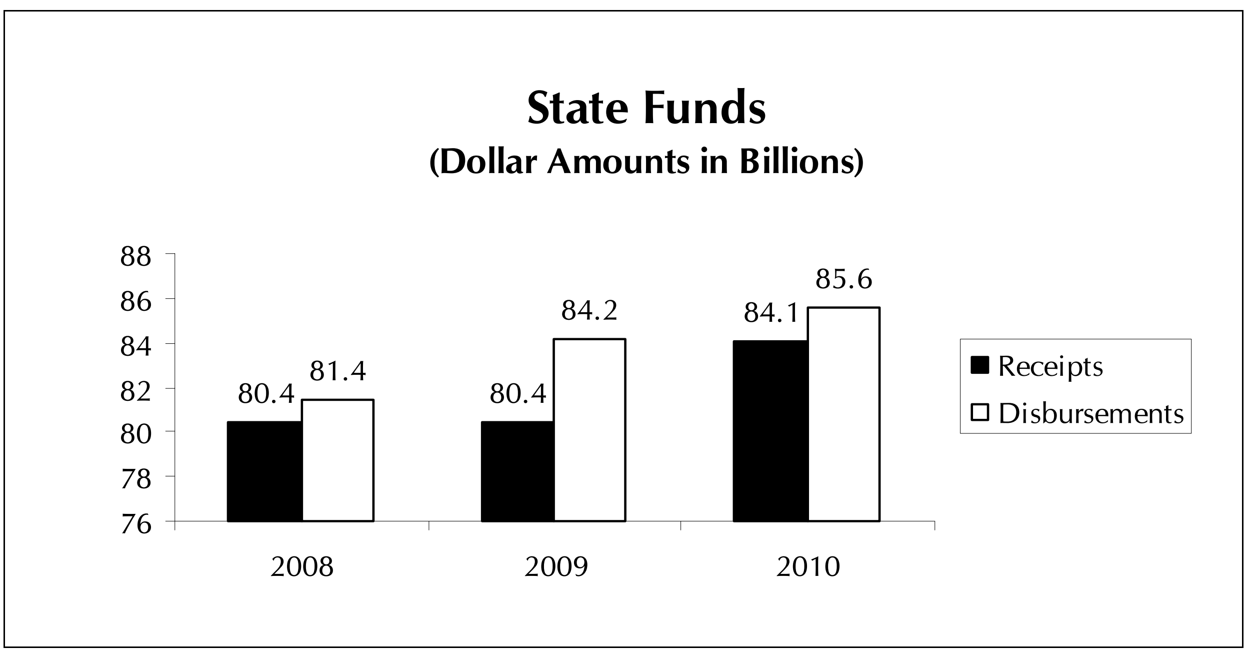


Figure 71

The Executive balances the SFY 2008-09 operating deficit by using available reserves, transferring funds balances from special revenues funds and public authorities. Reserve balances in SFY 2007-08 were $2.8 billion in the General Fund and $3.7 billion in Special Revenue Funds (see Figure 72). The SFY 2008-09 All Funds operating deficit of $3.3 billion is offset by using prior year reserves of $1.3 billion in General Fund, $1.8 billion in Special Revenue, and public authority fund balances.

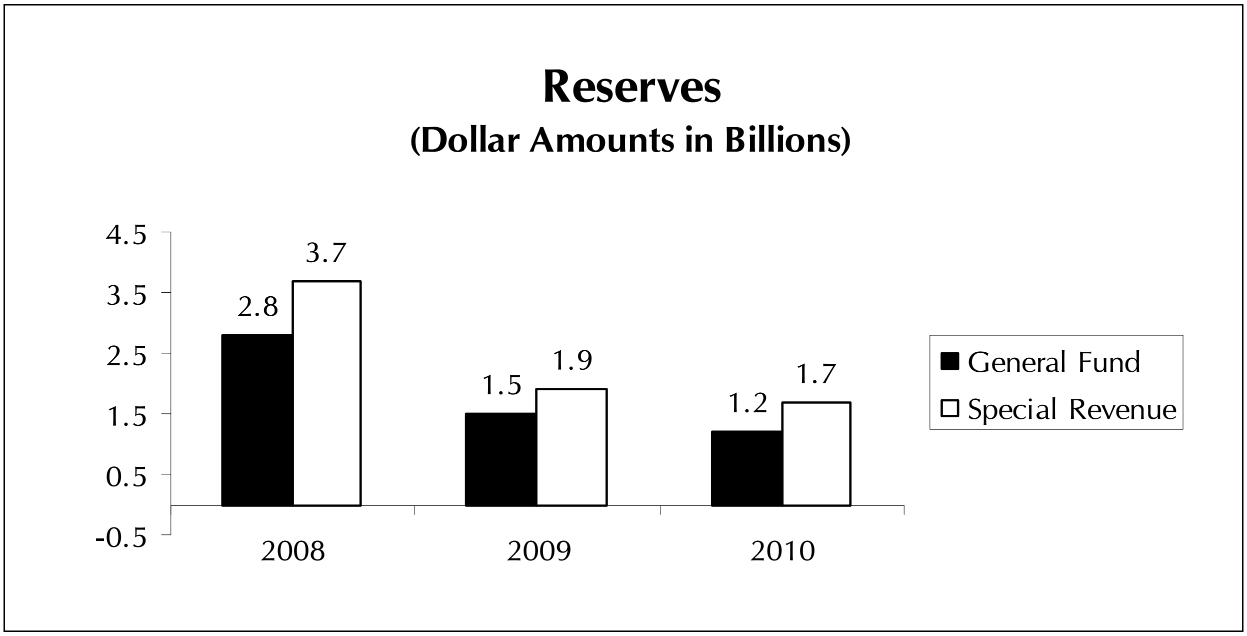


Figure 72

In SFY 2009-10, General Fund reserves are estimated to be $1.2 billion, the minimum requirement for the General Fund. The State must rely on other sources of revenues aside from reserves to mitigate the impact of the continued financial crisis during the upcoming SFY 2009-10.

The Executive has proposed $5.2 billion in new sources of revenues for SFY 2009-10 to finance the state budget (see Figure 73). Approximately $3.1 billion from the Executive revenue proposals are estimated to be collected in the General Fund. If the General Fund revenue includes other actions such as the elimination of the STAR rebate, then General Fund resources increase to $4.8 billion.

Executive proposed revenue enhancements in Miscellaneous Receipts are $782 million in the General Fund and $2.3 billion in All Funds. The proposed General Fund Miscellaneous receipts are largely related to an increase in the utility assessment to two percent. The proposed All Funds Miscellaneous receipts includes the utility assessments, many other assessments relating to health care, hospitals and insurance companies, and the expanded bottle bill proposal (see Table 29).

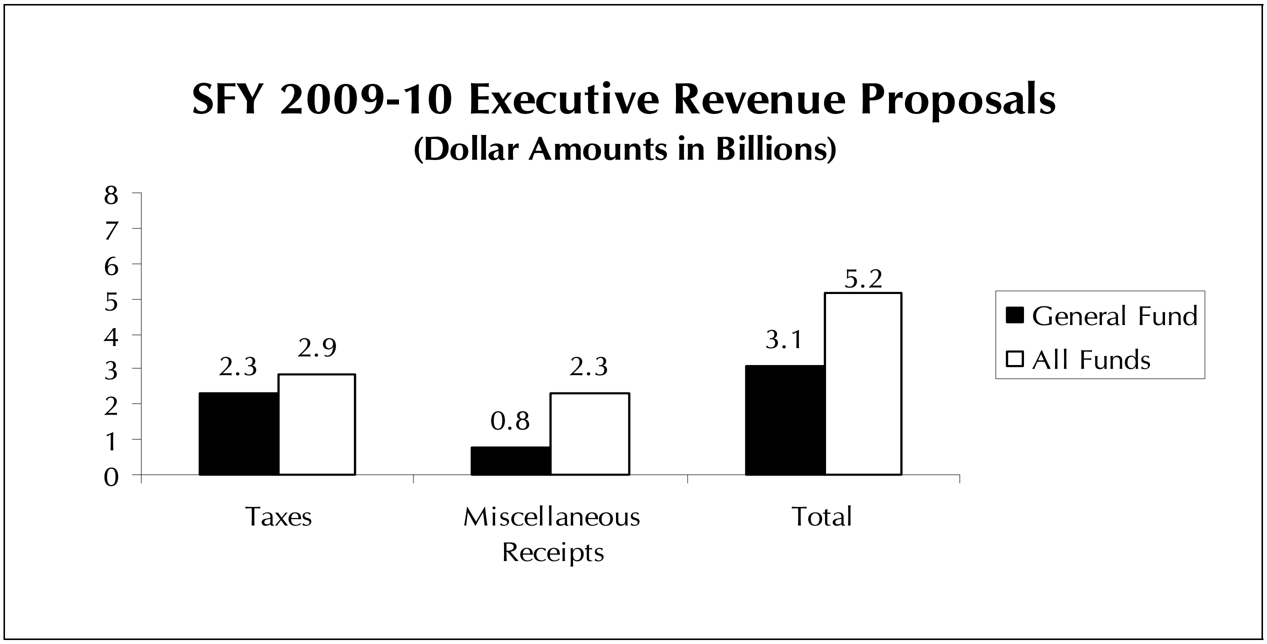


Figure 73

Miscellaneous receipts comprises of the State's various interest earnings, licenses, surcharges and non-recurring revenues. For SFY 2009-10, The Executive estimates to collect $23 billion in the All Funds Miscellaneous receipts. Miscellaneous receipts are estimated to be $3.8 billion in the General Fund and $19.1 billion in Special Revenue Funds (see Figure 74).

General Fund Miscellaneous receipts of $3.8 billion is largely related to an increase in licenses and fees, and other transactions that include utility assessment, public authorities fund balance transfers such as the Power Authority and Battery Park City Authority.

Special Revenue Funds Miscellaneous receipts include moneys from health care to support HCRA, SUNY tuition and patient income, lottery receipts, and industry assessments. Special Revenue Funds receipts are $19 billion, an increase of $2.3 billion particularly from increased assessments on hospitals, insurance and utility companies and Medicaid related revenues.

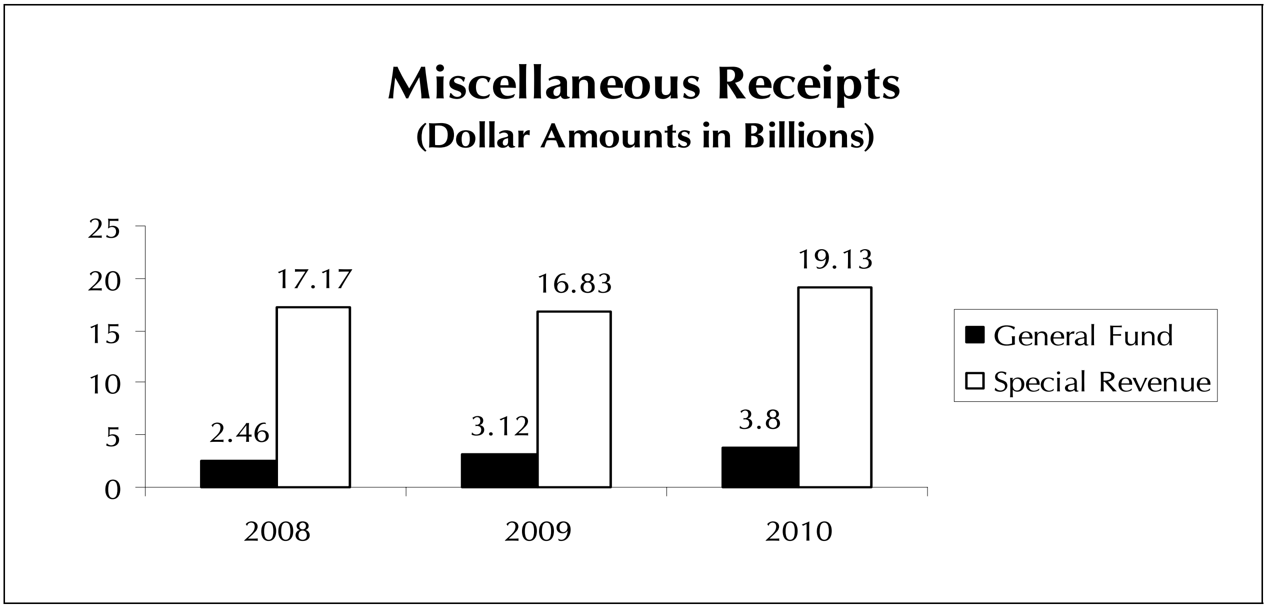


Figure 74

The 14 percent growth in Special Revenue Fund provide revenues to pay for items previously funded through the General Fund disbursement transfers to support spending in the Special Revenue Funds in areas such as health care. Such measures are proposed to mitigate the lack of revenues that would normally flow to the General Fund if it were not for the financial crisis.

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 contain 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 with 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 2009-10 are projected to be $119 billion, an increase of $2.7 billion or 2.3 percent over SFY 2008-09 estimates. The All Funds receipts increase is the result of a $458 million decrease in tax receipts, and a $141 million decrease in federal grants and a $3.3 billion increase in miscellaneous receipts.

All Funds receipts for health and mental health programs are projected to increase by $369 million, this includes $344 million decrease from Federal Medicaid receipts from the previous year. Special revenue health receipts including HCRA receipts are projected to increase by $1.8 billion over SFY 2008-09.

Transportation receipts are anticipated to be $6 billion, an increase of $150 million or 2.5 percent above SFY 2008-09 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 $54.1. billion including transfers, an decrease of $145 million or .27 percent below SFY 2008-09 estimates, the result of decreases in Personal Income Tax of $717 billion, Consumption Taxes increase of $1.1 billion, Business Taxes increase of $221 million, Other Taxes decrease of $372 million and increases in Miscellaneous Receipts of $682 million.

General Fund receipts for health and mental health programs are projected to decrease by $1.1 billion below SFY 2008-09. Medicaid receipts are projected to decrease by $1.2 billion. Higher education is projected to increase by $1.1 billion and education is projected to decrease by $365 million.

Environmental programs are anticipated to decrease $103 million below prior year level.

Transfers

The General Fund receives over $11.4 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 $940 million in transfers from a variety of Special Revenue Funds.

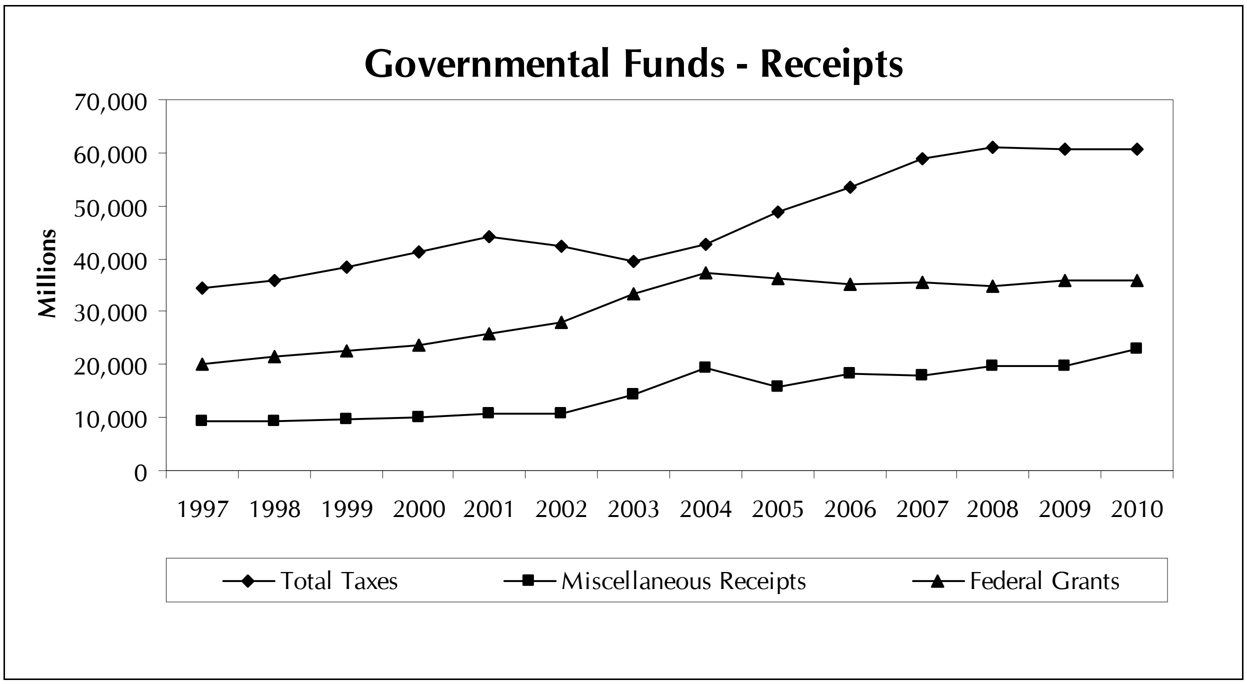


Figure 75

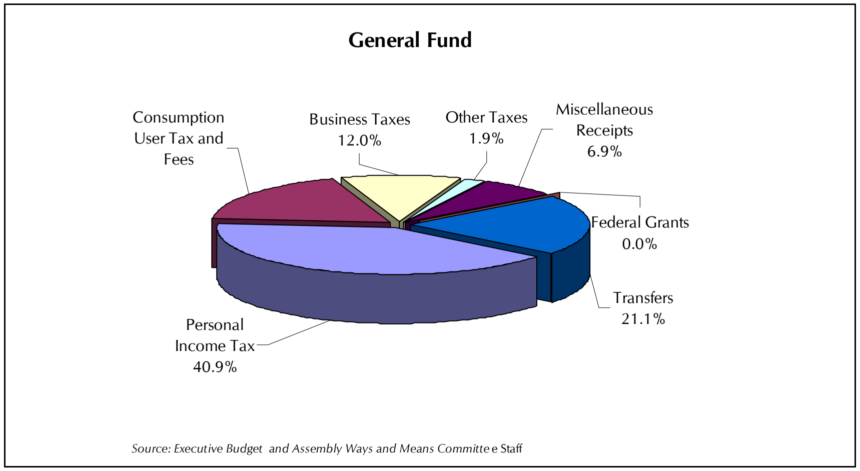


Figure 76

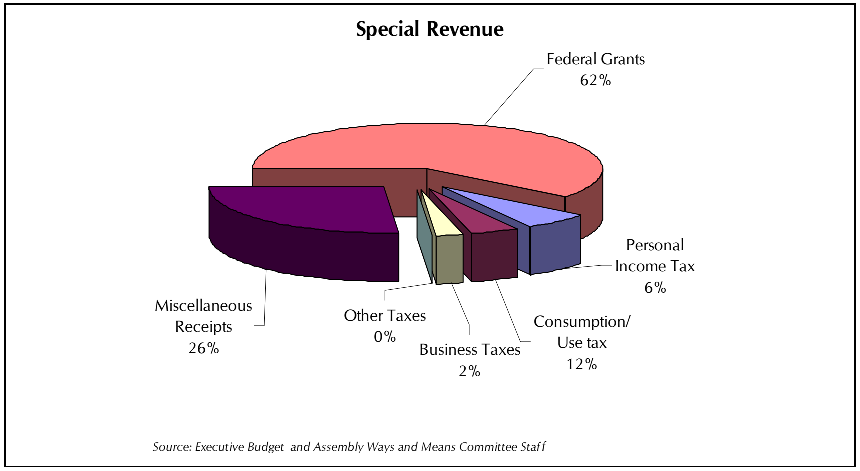


Figure 78

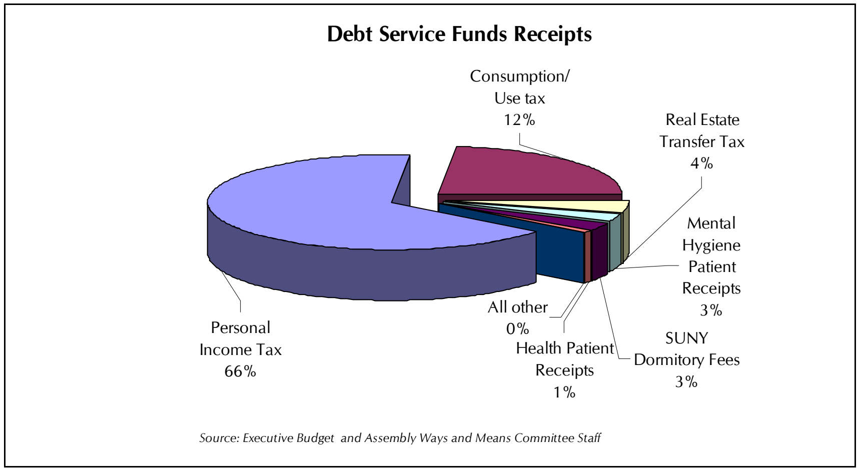


Figure 77

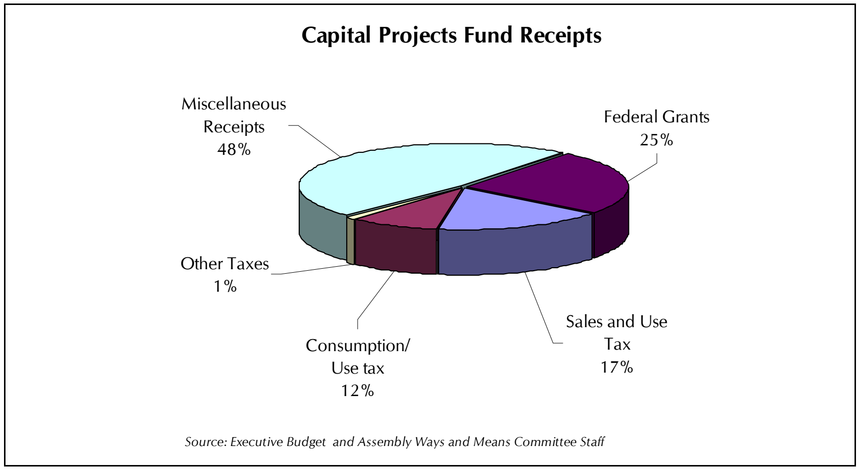


Figure 79

Table 30

DEDICATED FUND TAX RECEIPTS
(Millions of Dollars)

	2007-08 Actual	2008-09 Estimated	2009-10 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	4,664	4,400	3,416
Dedicated Mass Transportation Trust Fund			
Petroleum business tax	376	358	365
Motor Fuel Tax	110	107	107
Motor Vehicle Fees	189	166	182
Mass Trans. Operating Assistance Fund			
Corporate Surcharges			
Corporation Franchise Tax	551	450	446
Corporation and Utilities Tax	115	195	196
Insurance Tax	131	97	105
Bank Tax	178	145	98
Other			
Sales and Use Tax	705	720	751
Petroleum Business Tax	138	133	135
Corporation and Utilities - Sections 183 &184	68	68	68
HCRA Resources Fund			
Cigarette Tax	567	885	947
Sales and Use Tax		-	387
Other Special Revenue Funds			
Motor Vehicle Fees	41	41	41
Total Tax Receipts: Special Revenue Funds-Other	**7,833**	**7,765**	**7,244**
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	9,141	9,172	8,605
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	809	495	592
Local Government Assistance Tax Fund			
Sales and Use Tax	2,646	2,606	2,903
Total Tax Receipts: Debt Service Funds	**12,596**	**12,273**	**12,100**
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust	**1,835**	**1,719**	**1,870**
Petroleum Business Taxes	641	612	623
Motor Fuel Tax	415	403	401
Motor Vehicle Fees	569	490	610
Highway Use Tax	148	144	154
Transmission Tax	15	17	17
Auto Rental Tax	47	53	66
Environmental Protection Fund			
Real Estate Transfer Tax	212	237	80
Total Tax Receipts: Capital Projects Funds	**2,047**	**1,956**	**1,950**
Total Tax Receipts: Other Funds	**22,476**	**21,994**	**21,294**

Source of Funds Analysis

There are six main budget spending areas from which funds are used to support the Budget transportation, education, health care, health care reform act (HCRA), higher education, and the environment.

Transportation has just over $6.1 billion in receipts, with 88 percent being financed by the Dedicated Highway and Bridge Trust Funds, Mass Transportation Operating Assistance Fund and Federal Funds. Education receives $27.4 billion in receipts and its primary funding source is the General Fund at $19.3 billion. The Health Care fund totals $43.9 billion and is primarily financed by federal Medicaid grants at $22.2 billion.

The Health Care Reform Act (HCRA) will have approximately $5.8 billion in receipts which are primarily funded by $2.3 billion in surcharges (assessments on hospital revenues) and $1.2 billion in covered lives assessments (assessments paid by insurance carriers). Higher Education receipts are projected to be $8.7 billion and relies heavily on $4.3 billion in general fund receipts, with another $4.2 billion received through tuition, patient revenue and special revenue receipts respectively. Environment funds will be backed by $1.8 billion in receipts, with its primary funding in $672 million in real estate transfer taxes and $726 million in special revenues.

The State allocates receipts from the various revenue sources according to New Yorkers' needs in each of the six primary spending targets. The monies earmarked will be used for maintenance to the implementation of new innovative ideas that enable the State to keep pace with the changes in technology.

It is important to note that New York State will face many challenges this upcoming 2009-10 fiscal year. There will be shortfalls in receipts, each of the six programs will be scaled back, and it will be difficult to meet benchmarks previously charted. However, the State has an obligation to meet minimum requirements in order to facilitate the health and welfare of its citizens and will work towards ensuring all programs are adequately funded.
The following summarizes the SFY 2009-10 budget and its funding sources.

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 long term fund commitment.

There are four dedicated transportation funds: Mass Transportation Operating Assistance Fund, Dedicated Mass Transportation Trust Fund, Dedicated Highway and Bridge Trust Funds and Revenue Bond Tax Fund.

The Department of Transportation (DOT) is responsible for transportation management programs related to highways and bridges, transit, aviation, ports, rail and other modes. All Fund receipts dedicated for transportation are estimated at $5.9 billion in SFY 2008-09 and $6.1 billion in SFY 2009-10. Non-federal Special Revenue Receipts dedicated for transportation purposes are $4.2 billion in SFY 2008-09 and $4.4 billion in SFY 2009-10. Federal receipts for transportation purposes are estimated to be $1.7 billion in SFY 2008-09 and $1.7 billion in SFY 2009-10.

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 0.38 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 funds 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 Assembly estimates that $1.8 billion in SFY 2008-09, and $1.8 billion in SFY 2009-10 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 $631 million in SFY 2008-09, and $654 million in SFY 2009-10. 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.

Fund monies 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 pledged 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.

The fund is expected to receive $1.7 billion in SFY 2008-09 the, and $1.9 billion in SFY 2009-10.

Source of Transportation Funds

(Dollars Amounts in Millions)

	2007-08 Actual	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Dedicated Highway and Bridge Trust Funds	$1,835	$1,719	$1,870	$151	8.8%
Mass Trans. Operating Assistance Fund	$1,886	$1,807	$1,799	($8)	-0.4%
Dedicated Mass Transportation Trust Fund	$675	$631	$654	$23	3.6%
Other Special Revenue Funds	$41	$41	$41	-	0.0%
Federal Funds	$1,560	$1,740	$1,724	($16)	-0.9%
Total Transportation Receipts	**$5,997**	**$5,938**	**$6,088**	**$150**	**2.5%**

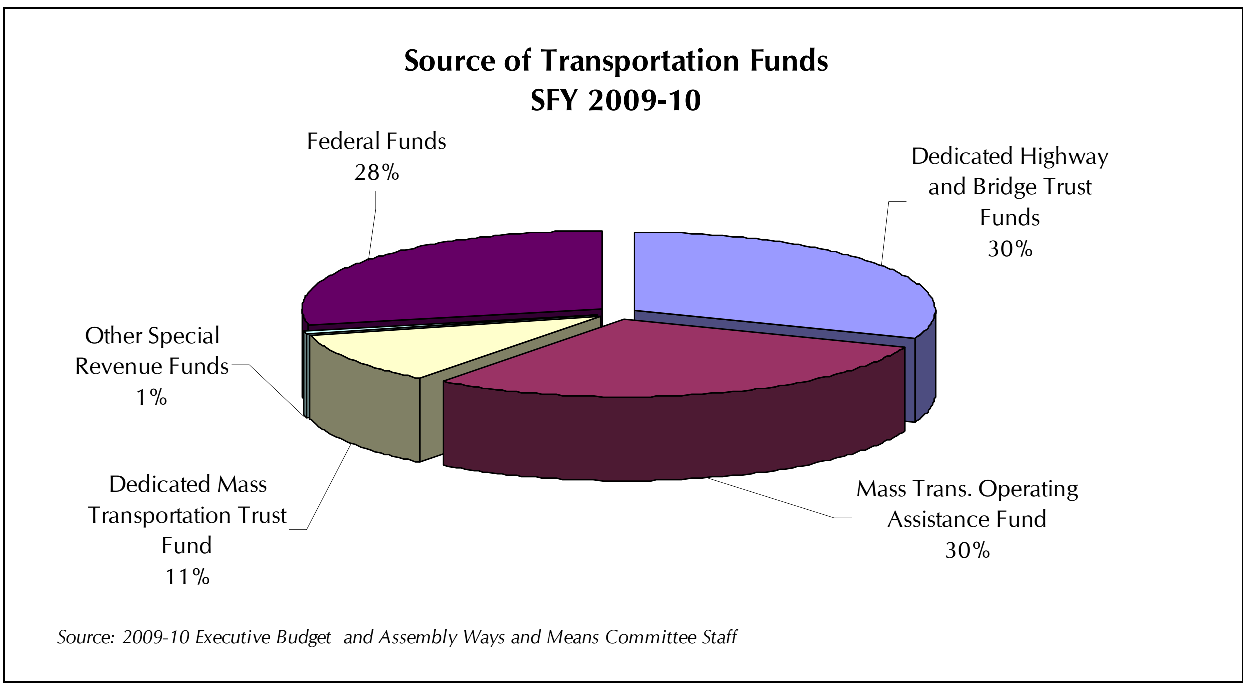


Figure 80

Education Funds

Education receipts include income received from the General Fund support, Lottery, other revenue streams and Federal grants. Total Education Receipts for SFY 2009-10 are estimated at $27.4 billion, a decrease of $365 million above SFY 2008-09.

General Fund support for Education in SFY 2009-10 is estimated at $19.3 billion, a decrease of $91 million below SFY 2008-09.

Special Revenue Education receipts are estimated at $2.1 billion in the SFY 2009-10. Lottery receipts are estimated to be $2.4 billion, an increase of $237 million from SFY 2009-10.

Capital Projects receipts are expected to be $1.6 billion, a decrease of $220 million above the prior fiscal year.

Federal grants are expected to be $3.5 billion, an increase of $21 million above 2008-09.

Source of Education Funds
SFY 2009-10

	2007-08 Actual	2008-09 Projected	2009-10 Estimated	Change	Percent Change
Federal Grants	$3,404	$3,520	$3,542	$21	0.6%
Lottery	$2,117	$2,119	$2,356	$237	11.2%
Other SRO Receipts	$2,314	$2,698	$2,166	($532)	-19.7%
General Fund Receipts	$17,946	$19,433	$19,342	($91)	-0.5%
Total Education Receipt	**$25,781**	**$27,770**	**$27,405**	**($365)**	**-1.3%**

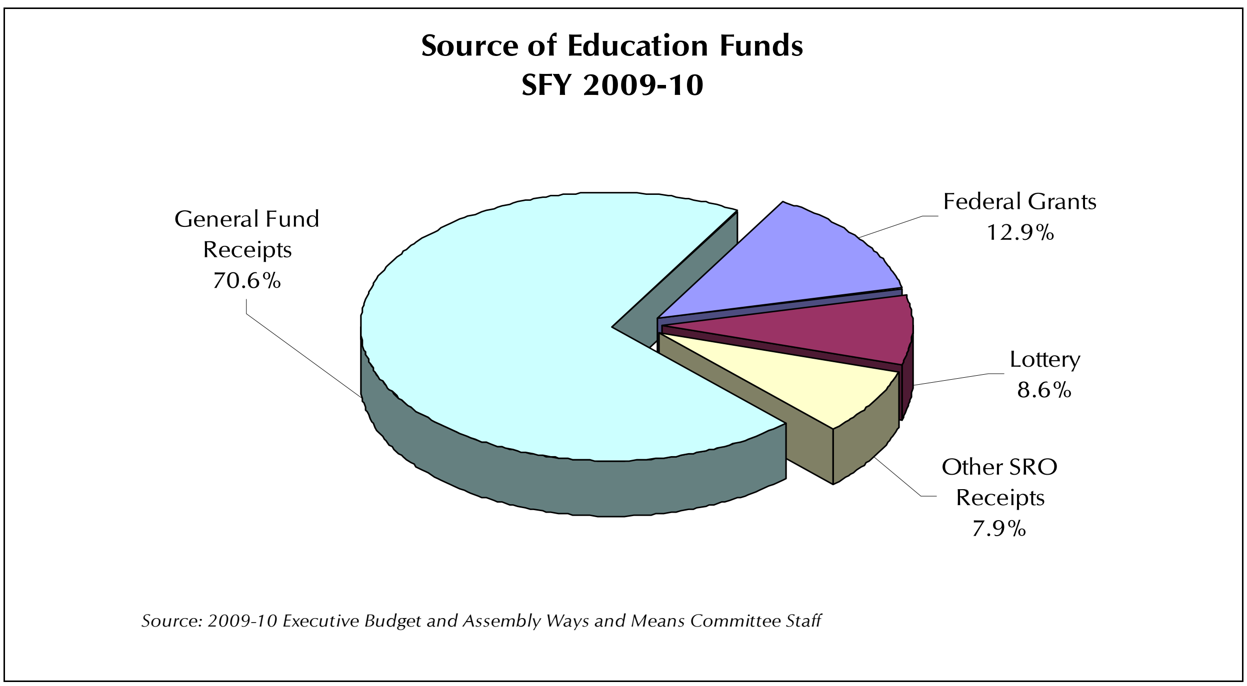


Figure 81

Health Care Funds

New York State Health Care All Funds receipts for SFY 2009-10 is estimated to total $43.9 billion, an increase of $369 million above the previous fiscal year. Health care receipts support several programs including Medicaid. Medicaid is the largest health care program and coordinates the provision, quality and cost of care for its enrolled members.

The General fund support for Health care is estimated at $10.7 billion, a decrease of $1.1 billion SFY 2008-09. Medicaid receipts in the General Fund are estimated at $7.3 billion, a decrease of $1.2 billion below SFY 2008-09; $3.4 billion in other health receipts, $162 million increase above the previous fiscal year.

Special Revenue Health Care receipts in SFY 2009-10 are anticipated to increase $496 million above the previous fiscal year. HCRA is anticipated to receive $5.8 billion, an increase of $1.3 million above SFY 2008-09.

Capital projects receipts are estimated to increase $131 million above the SFY 2008-09 estimates. Debt service receipts are estimated to increase $48 million above prior year level.

Federal grants to the Health Care system are estimated at $22.2 billion, a decrease of $344 million from SFY 2008-09.

Source of Health Care Funds
SFY 2009-10

	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Federal Medicaid Grants	$22,556	$22,212	($344)	-1.5%
SRO Receipts	$4,761	$5,257	$496	10.4%
HCRA	$4,518	$5,801	$1,283	28.4%
General Fund Medicaid	$8,563	$7,336	($1,227)	-14.3%
Other General Fund Receipts	$3,195	$3,357	$162	5.1%
Total Receipts	**$43,593**	**$43,962**	**$369**	**0.8%**

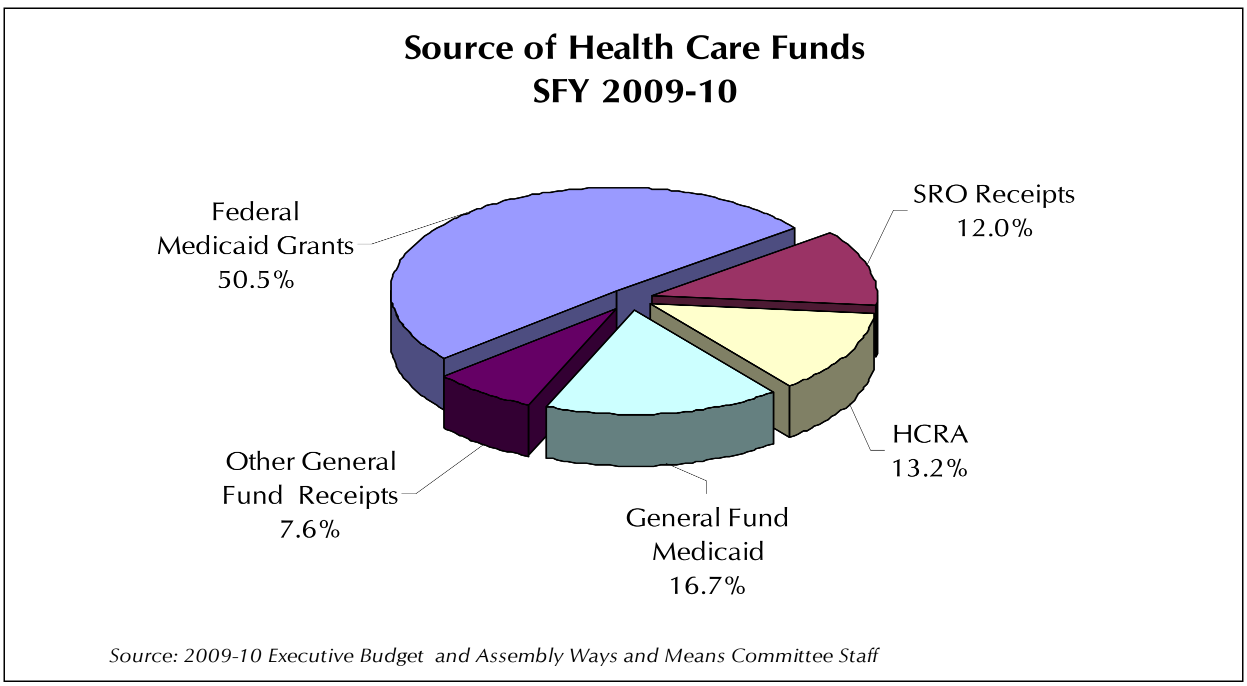


Figure 82

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. These programs are supported by HCRA which was established in 1996 to improve the quality of health care coverage.

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 2009-10 Executive budget estimates HCRA receipts of approximately $5.8 billion and projected HCRA expenditures in he same amount.

Conversion Proceeds

Receipts from conversion 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. 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 $233 million in SFY 2008-09 derived from conversion proceeds.

The Executive anticipates $377 million in conversion proceeds for the SFY 2009-10, an increase of $144 million over the previous year.

Surcharges

HCRA receipts for the surcharge on patient service revenues are $2.3 billion, an increase of $228 million.

Cigarette Taxes

Cigarette Tax receipts are expected to be $947 million, an increase of $62 million above the SFY 2008-09 estimates.

Non-Dietetic Soft Drink Tax

Non-dietetic soft drink tax revenue is estimated at $387 million.

Covered Lives Assessments

HCRA receipts for the covered lives assessment on insurance companies and HMOs are $1.2 billion, an increase of $245 million above prior year estimates.

Hospital Assessment (1 percent)

HCRA receipts for the one percent assessment on hospital inpatient revenues are $306 million, an increase of $18 million.

All Other

All Other HCRA receipts increased from $101 million to $300 million, an increase of $199 million.

Health Care Reform Act (HCRA) Receipts
(Dollar Amounts in Millions)

	2007-08 Actual	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Surcharges	$2,042	$2,091	$2,319	$228	10.9%
Covered Lives Assessment	$850	$920	$1,165	$245	26.6%
Cigarette Tax Revenue	$575	$885	$947	$62	6.9%
Non-Dietetic Soft Drink Tax	-	-	$387	$387	100.0%
Conversion Proceeds	$999	$233	$377	$144	61.8%
Hospital Assessment (1 percent)	$271	$288	$306	$18	6.3%
All Other	$169	$101	$300	$199	197.0%
Total Receipts	**$4,906**	**$4,518**	**$5,801**	**$1,283**	**28.4%**

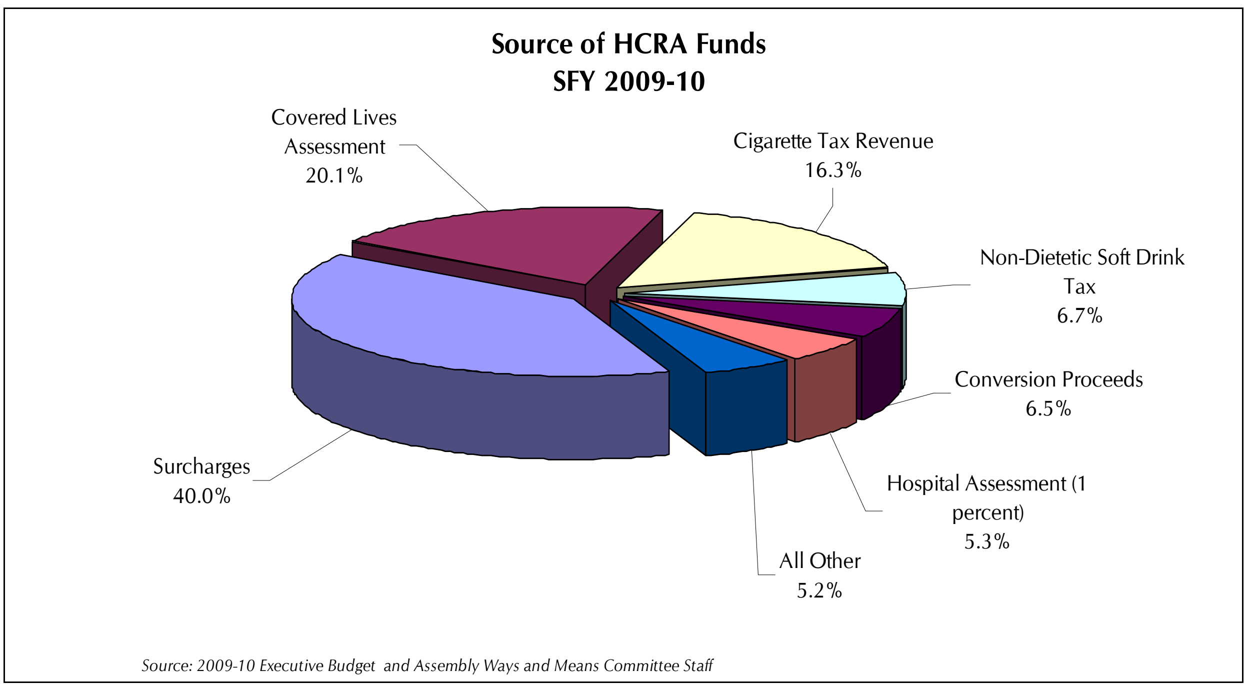


Figure 83

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 $8.7 billion, an increase of $1.1 billion above SFY 2008-09 estimates.

General Fund receipts for SFY 2009-10 are estimated at $4.3 billion, an increase of $800 million above SFY 2008-09. SUNY General Fund receipts are expected to be $1.8 billion, a decrease $99 million below SFY 2008-09. CUNY receipts are estimated to increase by $840 million to $1.6 billion in SFY 2009-10 while HESC receipts will increase by $58 million to $866 million.

Higher Education Special Revenue receipts are estimated at $1.2 billion, an increase of $47 million above SFY 2008-09. The change is attributed to $322 billion increase in SUNY income which includes $48 million increase in tuition, $43 million increase in user fees, $231 million increase in patient revenues, $4 million from CUNY, and $4 million decrease in HESC.

Capital Projects are estimated to be $20 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 $338 million, an increase of $3 million above SFY 2008-09 estimates.

Federal grants are expected to be $208 million, an increase of $5 million over SFY 2008-09.

Source of Higher Education Funds
SFY 2009-10

	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Federal Grants	$203	$208	$5	2.3%
Tuition	$1,064	$1,112	$48	4.5%
Patient Revenue	$1,660	$1,891	$231	13.9%
SRO Receipts	$1,152	$1,200	$47	4.1%
General Fund Receipts	$3,513	$4,313	$800	22.8%
Total Receipts	**$7,593**	**$8,723**	**$1,131**	**14.9%**

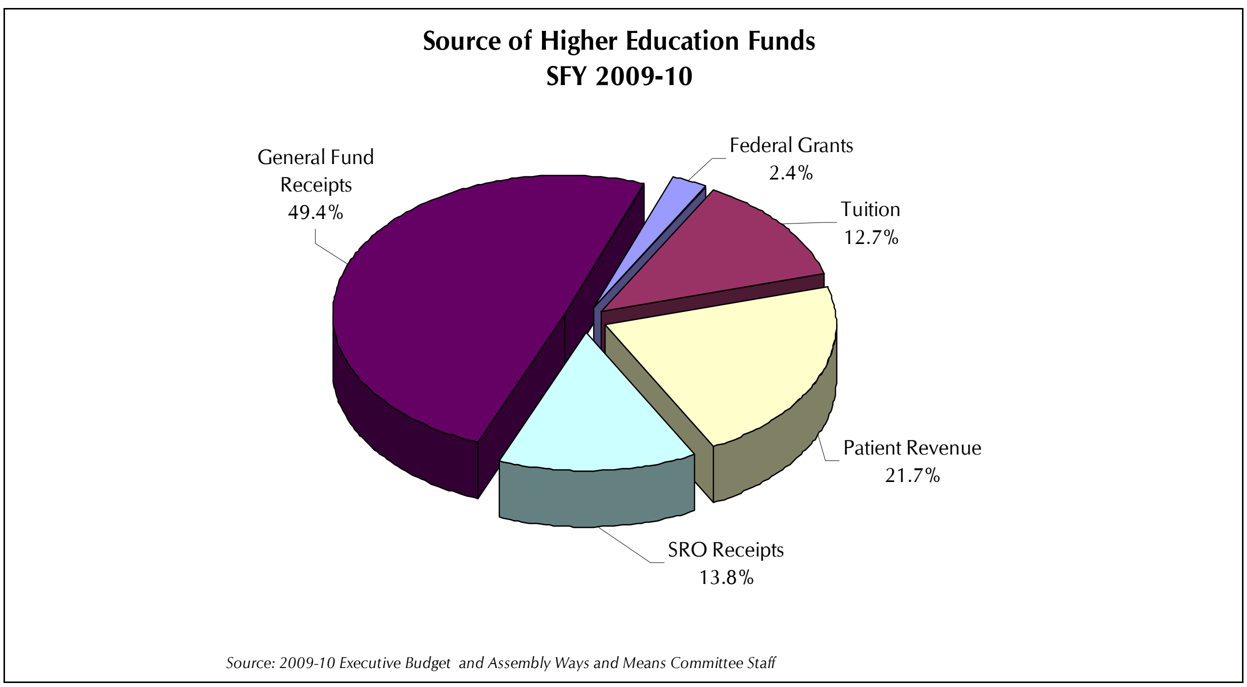


Figure 84

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 $1.8 billion, a decrease of $103 million below SFY 2008-09.

General Fund receipts for SFY 2009-10 are estimated to remain unchanged from the previous year at $277 million.

Environment Special Revenue receipts are estimated at $726 million, a decrease of $50 million from SFY 2008-09. The Real Estate Transfer Tax receipts are estimated at $672 million a decrease of $60 million. The components of the Real Estate Transfer Tax receipts are anticipated to decrease by $157 million in the Capital Project Fund and increase $97 million in the Debt Service Fund from the previous year.

Federal grants are estimated to be $169 million an $8 million increase from the previous year.

Source of Environment Funds
SFY 2009-10

	2007-08 Actual	2008-09 Estimated	2009-10 Projected	Change	Percent Change
Federal Grants	$197	$161	$169	$8	4.9%
Real Estate Transfer Tax	$1,021	$732	$672	($60)	-8.2%
SRO Receipts-Other	$277	$776	$726	($50)	-6.5%
General Fund Receipts	$235	$277	$277	($0)	-0.2%
Total Receipts	**$1,729**	**$1,946**	**$1,843**	**($103)**	**-5.3%**

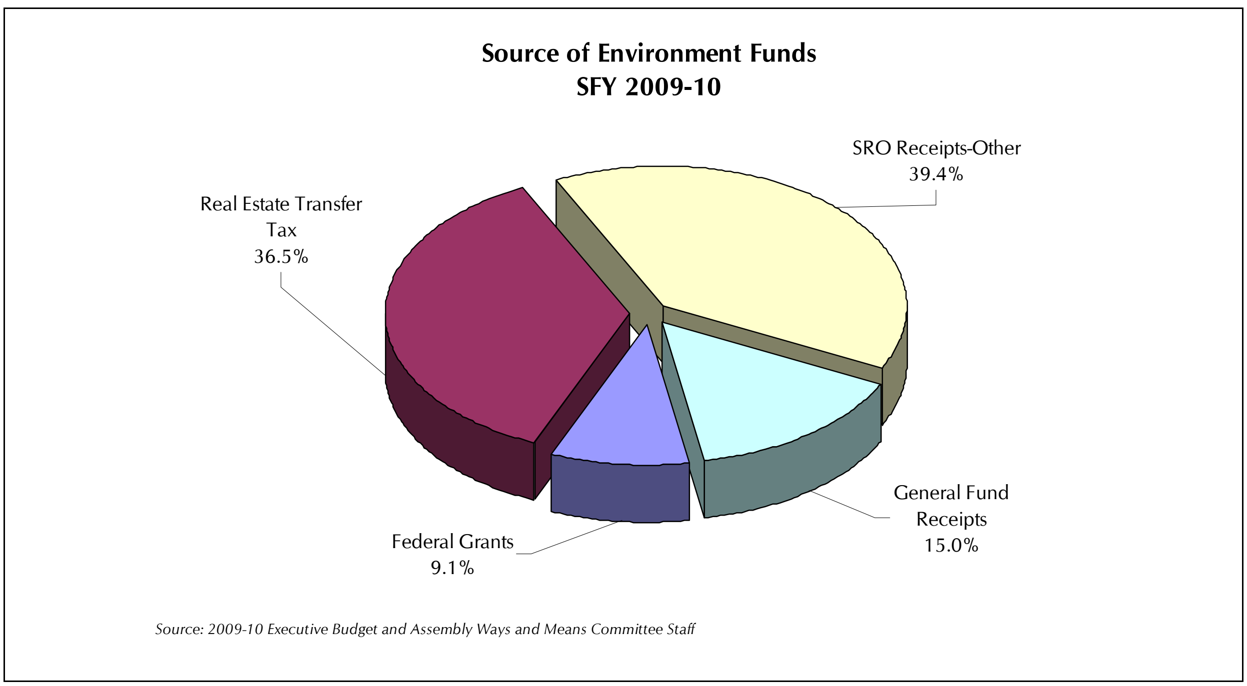


Figure 85