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Special Quarterly Report on the State Financial Plan  
Revenue Results and Trends

*First Quarter State Fiscal Year 2008-09*  
*July 2008*

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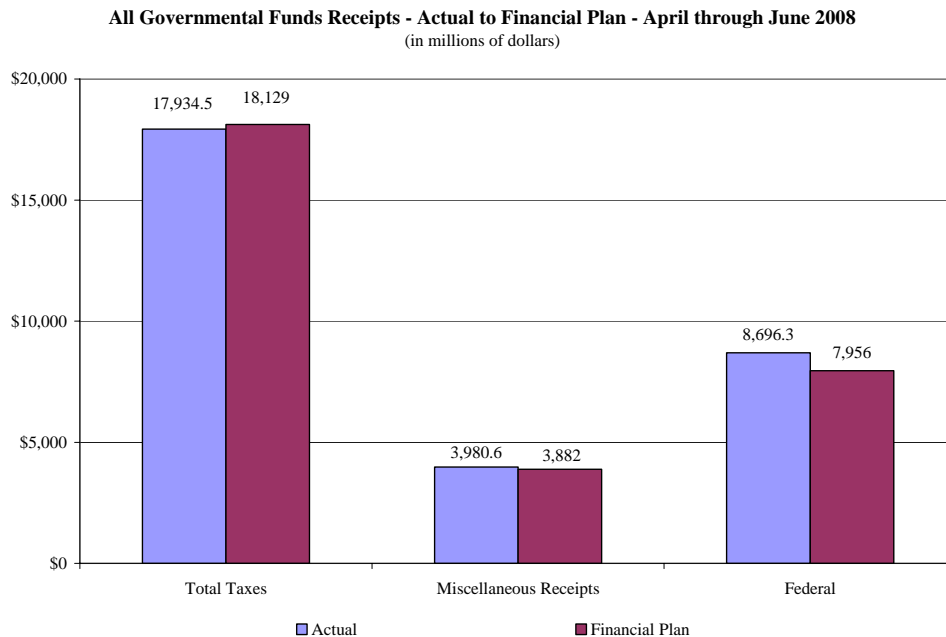
## Introduction

This report is the first of a series of quarterly reports that will highlight key aspects of the State Financial Plan, including variances and risks, as actual revenue and spending information is made available through the Office of the State Comptroller Monthly Cash Reports.

Because of continuing concerns over the State's economy and the associated impact on State finances, this first report focuses on revenue collected through the first quarter of State Fiscal Year (SFY) 2008-09. All governmental fund receipts are \$644 million higher than projections included in the New York State 2008-09 Enacted Budget Financial Plan, released May 1, 2008. Despite this apparent strong start, an analysis of key revenue components indicates that New York may not sustain this level of revenue growth and that receipts could decline below projections throughout the remainder of the fiscal year.

## All Governmental Funds Financial Plan Projections vs. Actual

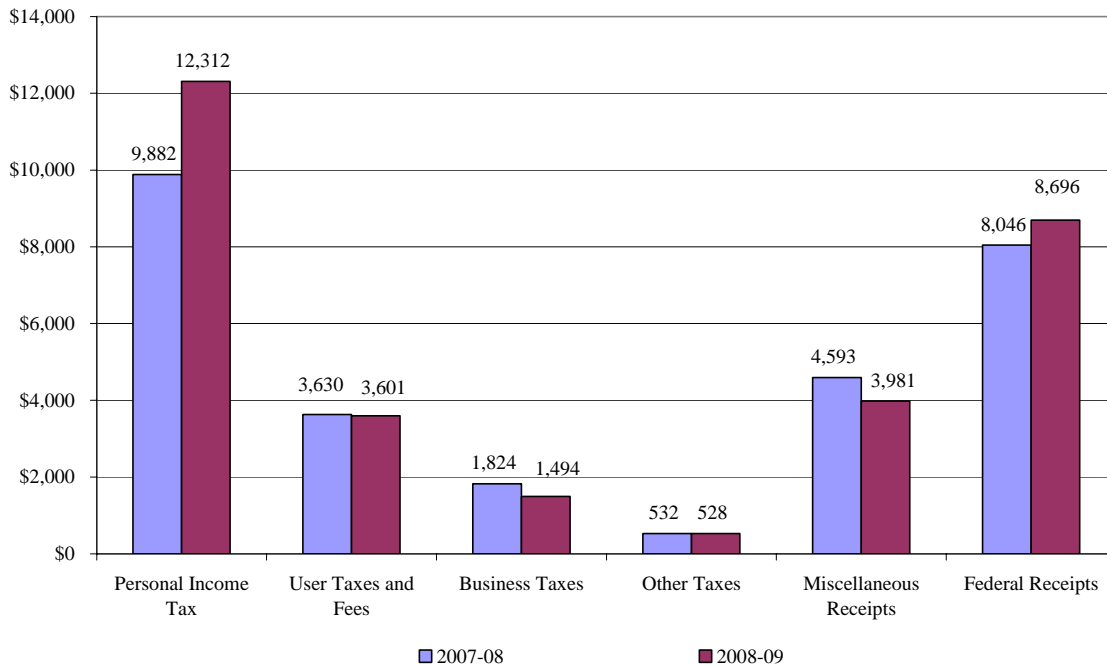
All governmental fund receipts total \$30.6 billion for the first quarter of SFY 2008-09, or \$644 million higher than current Financial Plan projections. The results primarily reflect federal receipts, which are \$740 million higher than projected for the period. However, such receipts are largely reimbursements for spending that has already taken place. More important, total tax collections in all governmental funds are \$195 million below projections, mainly due to lower than anticipated business tax collections, which are not entirely offset by higher than expected personal income tax collections. Finally, miscellaneous receipts—which include lottery and gaming revenue, various fines and fees, and interest earnings—are \$99 million over Financial Plan projections through the first three months of the fiscal year. The following chart summarizes projections and results for the first quarter of the year.



## All Governmental Funds – Year-to-Year Growth

Compared with the prior year, all governmental funds receipts of \$30.6 billion for the first quarter of SFY 2008-09 are \$2.1 billion, or 7.4 percent, higher than SFY 2007-08 for the same period. The increase reflects personal income tax receipts, which are up \$2.4 billion, or 24.6 percent, through the month of June. Federal receipts also grew significantly by \$650 million, or 8.1 percent. These increases were offset by lower collections for business taxes, which were \$331 million below last year through June. Miscellaneous receipts were \$613 million below collections through June 2007, primarily because of a transfer of nearly \$500 million in April 2007 from the Public Asset Fund related to the conversion of the Empire Plan to for-profit status. A similar transfer of \$834 million is projected for SFY 2008-09, although it has not yet occurred. The chart below provides a year-to-year comparison of all governmental funds revenues from SFY 2007-08 to SFY 2008-09.

**All Governmental Funds Revenues - Year to Year Comparison April through June 2008**  
(in millions of dollars)

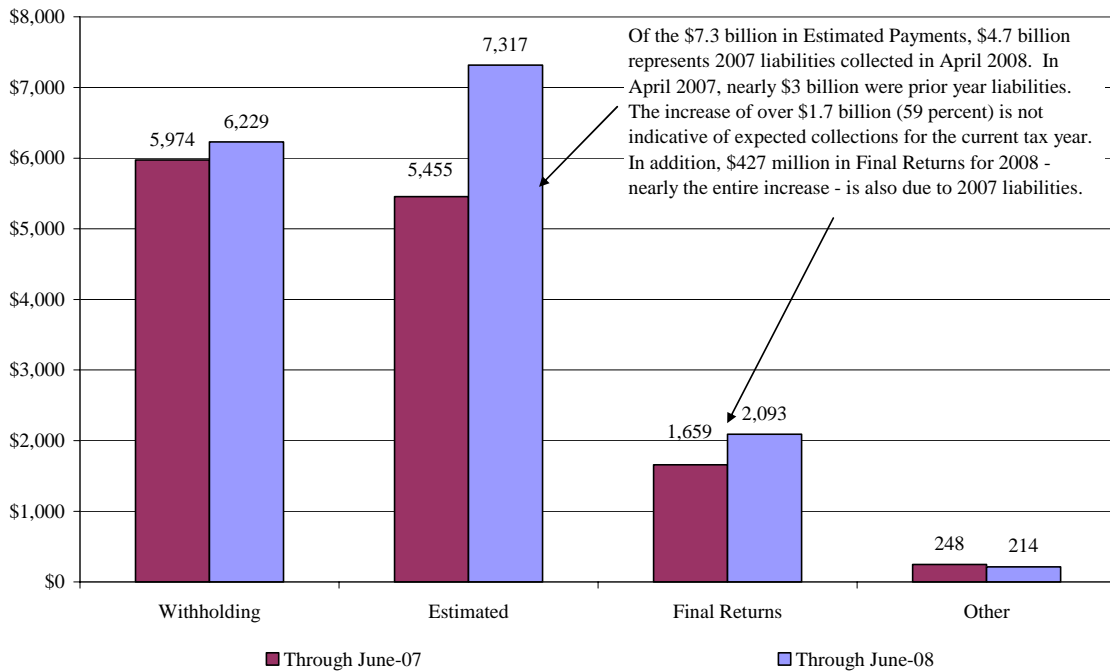


## General Fund Personal Income Tax

A comparison of actual General Fund personal income tax collections to Financial Plan projections for the first quarter indicates that net personal income tax receipts (after transfers to other funds) are approximately \$323 million higher than anticipated. The SFY 2008-09 Financial Plan projects growth of 5.1 percent for personal income tax receipts through the end of SFY 2008-09. The projection includes a strong 2007 “settlement,” or the receipt of estimated taxes and final returns in April 2008 for 2007 tax year liabilities.

The growth in personal income tax for the first quarter is primarily attributed to the settlement. Personal income tax receipts in May and June were more indicative of historical monthly collections. Through the first quarter of SFY 2008-09, collections from withholding—the largest portion of personal income tax and the portion that comes directly from paychecks—have increased 4.3 percent from the same period last year and are slightly above full-year growth projections for SFY 2008-09. Because settlement collections were so strong in April, it will be important to monitor refunds throughout the rest of the year as extensions filed by taxpayers are processed.

**Year to Date Comparison of General Fund Personal Income Tax Collections**  
(in millions of dollars)

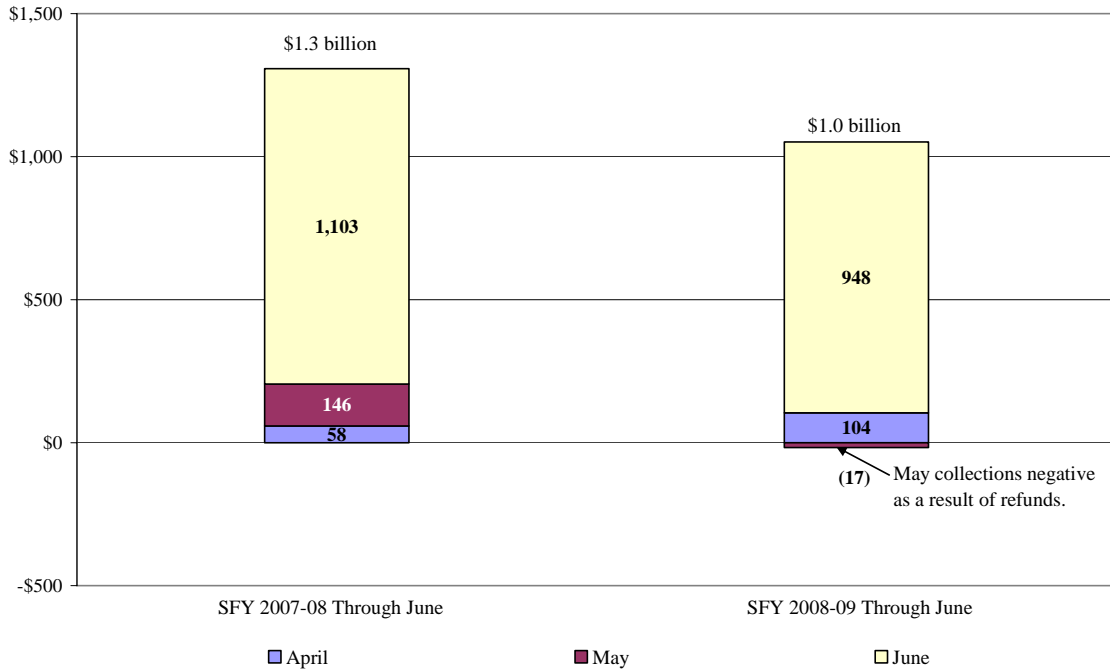


## General Fund Business Taxes

The SFY 2008-09 Financial Plan assumes approximately \$664 million in business tax revenue actions that include loophole closers and increased compliance. Without these actions, business tax collections would decline 1.4 percent from SFY 2007-08. In addition, the SFY 2008-09 Enacted Budget includes approximately \$59 million in business tax reductions. The SFY 2008-09 Financial Plan projects that General Fund business tax collections will grow 9.0 percent over SFY 2007-08, primarily due to revenue actions included in the SFY 2008-09 Enacted Budget that are reflected in bank taxes (21.5 percent), insurance taxes (7.5 percent) and corporate franchise taxes (7.5 percent). Compared with General Fund cash flow projections provided in the SFY 2008-09 Enacted Budget Financial Plan, General Fund business tax collections for the first quarter are \$453.3 million below projections.

Through the first quarter of the fiscal year, year-to-year General Fund collections for business taxes have declined by \$273.0 million, or 20.9 percent, primarily in tax collections from bank taxes (down \$152 million, or 54.2 percent) and corporate franchise taxes (down \$123.2 million, or 18.9 percent). Insurance taxes are also down \$13.6 million, or 5.2 percent.

**General Fund Business Taxes Through June - SFY 2007-08 and SFY 2008-09**  
(in millions of dollars)



## Federal Receipts

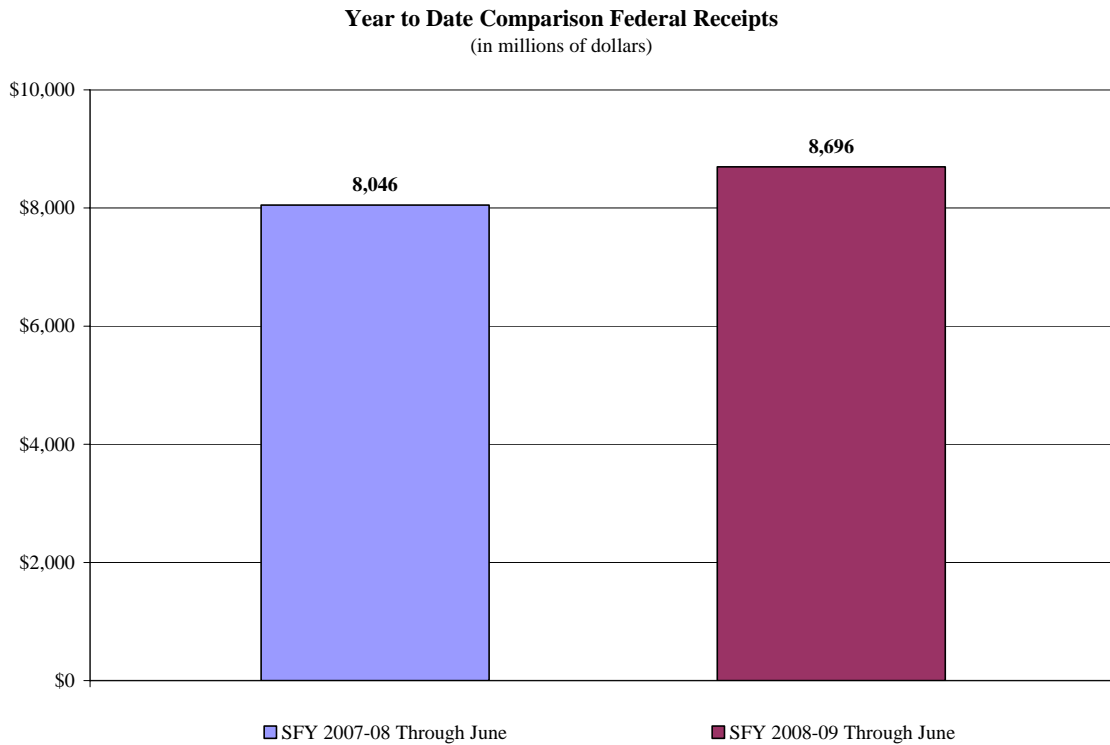
Through the first quarter of SFY 2008-09, federal receipts of \$8.7 billion were \$740 million over Financial Plan projections. Of the \$8.7 billion, \$340.1 million was reported in the Capital Projects Fund for various capital needs (primarily transportation). This is slightly lower than the \$377.8 million reported in SFY 2007-08, as well as the \$442 million expected in the Financial Plan.

Federal receipts have increased \$650.2 million, or 8.1 percent, over last year for the April through June period. Federal receipts for capital projects declined \$37.7 million, or 10 percent. Through the month of June, the State has received nearly \$8.4 billion for other non-capital needs, including Medicaid, other social services, education and mental hygiene, among others, representing an increase of \$687.9 million, or 9 percent.

By the end of SFY 2007-08, federal receipts were \$2.2 billion below initial projections made in April 2007 and \$932 million below the Financial Plan, updated with the 21-Day Amendments of the Executive's SFY 2008-09 Budget proposal. As federal receipts are subject to timing issues, including the timing of submissions and processing, the lower than expected revenues



from last year may, in part, explain the higher than anticipated revenues received through the first quarter of the current year. The chart below illustrates federal receipts through June for both SFY 2007-08 and the current year.



## Summary

While overall revenue collections are higher than projected through the first quarter of the 2008-09 fiscal year compared to the same period last year, results in tax collections indicate a continued need for caution, considering the weakness in the economy.

Most of the growth in personal income tax results from settlement of prior tax year liabilities in April and is not indicative of the projections for collections in future quarters of the current year. This rate of growth is not projected to continue. In addition, although the portion of personal income tax that represents current year liabilities (withholding) has grown at 4.3 percent and is slightly above year-end projections, economic conditions may affect collections through the rest of the year.

Furthermore, business tax collections continue to decline, mirroring the economic climate. However, revenue actions included in the SFY 2008-09 Enacted Budget are not in full force at this time; therefore, collections may increase in following quarters over the rest of the year. At this point, in order to meet current financial plan projections for the rest of the year, business

taxes would have to grow nearly 14 percent through the end of the year, when in fact they have declined over 18 percent in just the first three months.

While federal receipts currently exceed projections by \$740 million, they are subject to significant timing issues that impact when revenues are received. It is important to recall the end of SFY 2007-08, when federal receipts came in nearly \$1 billion below projections. Since federal receipts are primarily reimbursements for monies already spent, these timing issues significantly affect on the Financial Plan.

In summary, while overall receipts for the first quarter exceed projections, there are significant indicators that suggest the trends are not sustainable and require continued careful management of the State's Financial Plan.

