

---

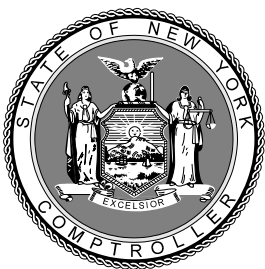
# **2002-03 Budget Analysis**

---

## **Review of Economic and Revenue Forecasts**

---

**H. Carl McCall**  
State Comptroller



**March 2002**

**State of New York  
Office of the State Comptroller  
Office of Fiscal Research & Policy Analysis  
Albany, New York 12236**

In an effort to reduce the costs of printing, please notify the Office of Fiscal Research and Policy Analysis at (518) 473-4333 if you wish your name to be deleted from our mailing list or if your address has changed.

Additional copies of this report may be obtained from:

**Office of the State Comptroller  
Public Information Office  
110 State Street  
Albany, New York 12236**

**(518) 474-4015**

Or through the Comptroller's World Wide Web site at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

## ***EXECUTIVE SUMMARY***

---

This report is the eighth annual review of economic and revenue projections for the State budget issued by the Comptroller. As in past years, the report compares forecasts published by the Executive and the Legislature focusing on whether economic and revenue forecasts are reasonable and consistent. This analysis is not based on an independent forecast of revenues or the economy.

### **Economic Uncertainty**

While economists widely agree that the national recession that began in March 2001 is over or very near to being over, revenue projections remain volatile due to such things as world events including military events in the Middle East and Afghanistan, and lingering effects of the September 11<sup>th</sup> terrorist attacks. As such, increased economic uncertainty should be and is part of any current forecast, as is documented in the Executive and legislative projections. This year the fundamental differences in the various forecasts are primarily due to uncertain economic indicators and how to interpret them.

In fact, although there are some significant variations in the different forecasts, the resulting State revenue predictions are relatively similar. In the past, revenue projection differences have been considerably larger and presented significant challenges to the budget process.

### **Improving the Forecasting Process**

The forecasting process is inherently flawed. It is a central theme in the dysfunctional budget saga that has produced 17 consecutive late budgets. Despite the fact that the Executive and the Legislature are required by law to complete a public report and come to consensus on available resources by March 10<sup>th</sup> of every year, the report has been produced only twice since 1996. As of this writing, there is still no report or agreement on resources and the 2002-03 budget will likely be late as well.

The inability to reach consensus on the revenue forecast may be based, to a degree, on the track record of the recent past when both revenue and economic performance exceeded highest expectations. Prior to State Fiscal Year (SFY) 2001, actual receipts exceeded proposed Executive Budget estimates by an average of more than \$2.0 billion a year. While the Office of the State Comptroller supports prudent budgeting practices that incorporate appropriate caution in order to preserve surpluses, significant and consistent under-forecasting may undermine good faith negotiating efforts and contribute to late budgets.

On the other hand, over-forecasting can place the State in the precarious position of mid-year budget crisis, especially in light of recent economic circumstances, in which the Executive proposes using all the State's reserves, except those in the Tax Stabilization Reserve Fund. While the State has slowly increased this fund, a rainy day fund

specifically for unanticipated deficits, it still only contains approximately 1.7 percent of General Fund revenues, while other state's rainy day funds average five percent. The Executive proposal to increase the allowable reserves from two percent of General Fund receipts to five percent is a step in the right direction; however, the proposal is weakened by the fact that the level would not be mandatory.

Clearly, the dysfunctional process needs to be reformed. Since 1995, the State Comptroller has continually endorsed comprehensive budget reform to address the issue. Reform should address five fundamental principles:

- **Timeliness** – The period of time allotted for negotiation is inadequate. As such, this period should be extended and one way of doing so would be to change the beginning of the fiscal year to July 1<sup>st</sup>.
- **Structural Balance** – The State consistently enacts proposals that are back-loaded, pushing payments off to future years. As such, meaningful multi-year financial planning is vital.
- **Contingency Planning** – As officials are discovering right now, the economy can be volatile and initial plans can require change. Reserves need to be increased and restricted so they can only be used for unexpected deficits.
- **Public Participation** – Conference committees were used in 1998, 1999 and 2000 and began to open the process and dismantle the “three men in a room” tradition. However, conference committees were given minimal amount decision-making authority while major decisions were still made by the three leaders without public notice or without the knowledge of rank and file members. Conference committees need to be expanded for meaningful public participation.
- **Economic and Revenue Forecasting** – Even though law dictates a report describing consensus in revenue forecasts, lawmakers ignore the law and consensus is not reached. Budgets are continually late and residents, local governments, not-for-profits, and schools pay the price. Reform should include increased information and disclosure for all parties involved and the State Comptroller should issue binding revenue forecasts if the Legislature and Executive fail to come to consensus.

## ***REVENUE FORECASTING IN NEW YORK***

The revenue forecasting process in New York remains flawed despite statutory changes made in 1996 that were intended to open up the process and impose a time frame to reach agreement. The law requires the Executive and the Legislature to hold a joint conference in March and jointly release a consensus economic report by March 10. No consensus has been reached for 2002 and no report issued to date.

Since 1996, only two consensus reports have been released. In 1997, the report was issued but contained a large range of differences in the estimates. In 1999, no consensus was reached but differences were narrowed and a report was released after the statutory deadline. Despite the fact that a revenue consensus has never been reached by the current statutory deadline, the Executive proposes accelerating the Consensus Revenue Forecasting Conference by ten days, with hopes of encouraging timely budget enactment.

### **Recent Forecasting Record**

The inability to reach consensus on revenue forecasts may be based, in part, on the track record of the past few years. Revenues and economic performance have exceeded expectations for six of the past seven years.

### **Track Record of Revenue Estimates** (Millions)

Fiscal Year	Upper Range of Disagreement on Revenue Projections	Revision in Estimated Revenues Included in the Adopted Budget	Actual Receipts Compared to Executive Budget
1995-96	\$ 549	\$ 300	\$ 570
1996-97	\$ 218	\$ 615	\$ 2,215
1997-98	\$ 1,012	\$ 1,518	\$ 2,715
1998-99	\$ 819	\$ 592	\$ 1,473
1999-00	\$ 725	\$ 313	\$ 1,821
2000-01	\$ 897	\$ 277	\$ 3,393
2001-02 <sup>1</sup>	\$ 1,398	\$ -24	N/A
Total	\$ 5,618	\$ 3,951	\$ 12,187

<sup>1</sup> The Legislature and the Executive never came to consensus on revenues for the 2001-02 fiscal year. The budget actions taken in October 2001 amended spending levels and policy only. The Executive's financial plan was amended on November 8 and again in January with the Executive budget submission. As of the time of this writing, the 2001-02 fiscal year has not ended. The number listed for revision in the adopted budget comes from the Executive's estimate as provided in the 30-day amendments. It is important to note that forecasts listed above were compiled in March 2001, before the attacks on the World Trade Center and the extent of economic decline was fully understood in any forecast.

- In 1995-96, the highest revenue projection by the Legislature was \$549 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$300 million. Fiscal year receipts were \$570 million above Executive Budget projections, or slightly ahead of the highest legislative forecast.
- In 1996-97, the highest revenue projection by the Legislature was \$218 million higher than the Executive March 15, 1996 estimate. The adopted budget revised the revenue estimates upwards by \$615 million. Fiscal year receipts were \$2.2 billion above Executive Budget projections, or \$2.0 billion above the highest legislative forecast.
- In 1997-98, the highest revenue projection by the Legislature was \$1.0 billion higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$1.5 billion. Fiscal year receipts were \$2.7 billion above Executive Budget projections, or \$1.7 billion above the highest legislative forecast.
- In 1998-99, the highest revenue projection by the Legislature was \$819 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$592 million. Fiscal year receipts were almost \$1.5 billion above Executive Budget projections, or almost \$700 million above the highest legislative forecast.
- In 1999-00, the highest revenue projection by the Legislature was \$725 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$313 million. Fiscal year receipts were \$1.8 billion above Executive Budget projections, or almost \$1.1 billion above the highest legislative forecast.
- In 2000-01, the highest revenue projection by the Legislature was \$897 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$277 million. Fiscal year receipts were almost \$3.4 billion above Executive Budget projections, or about \$2.5 billion above the highest legislative forecast.
- In 2001-02, the highest revenue forecast was \$1.4 billion higher than the Executive. The adopted budget was different from previous years in that it was a series of actions between August and October that produced a spending plan similar to the Executive's proposed budget. Although a spending plan was agreed upon, the Legislature and Executive never reached a revenue agreement. In the end, Executive revenue projections were used. The Executive announced on March 4, 2002 that the State was facing a potential \$500 million shortfall in receipts, which could be due to tax collection timing in January and February or revenue shortfalls due to the economy. The State Comptroller indicated a financial plan shortfall in the January and February Cash Reports to the Legislature. It is currently unknown how much of this potential shortfall will be made up in March 2002.

In six of the last seven years, the upper range of the revenue forecasts was attributable to the Assembly majority. In 1999-00, the Senate minority had the highest estimate. Each year these estimates were regarded as too optimistic. However, for the six years of actual collections, the estimates were almost \$8.0 billion too low mainly due to the unexpected strength of the economy. This does not, however, imply that overly optimistic forecasts are ever appropriate, given the events of last year.

## Forecasting Risks

Although economic and revenue forecasts use econometric tools that may appear to be precise, they are subject to inherent risks and unanticipated factors such as:

- On March 9, 2002, the President signed the Job Creation and Worker Assistance Act of 2002. The package includes a tax credit employers with 200 or fewer employees within the Liberty Zone and a bonus depreciation for properties placed in service on or before September 10, 2001 and lasts for 36 months. For individuals and businesses located within the New York Liberty Zone (lower Manhattan near the site of the World Trade Center) the bonus depreciation lasts longer. These provisions could cost New York State \$200-\$250 million per year for three years if the State does not uncouple from federal tax codes.
- Turning points in historical trends caused by economic slowdown or changes in taxpayer behavior changes in the tax law, economic circumstances, and perceptions about future changes.
- Changing composition and characteristics of the personal income tax and its impact on historical relationships.<sup>2</sup> The personal income tax comprises over half of all tax receipts.
- Reliance on income from the volatile financial markets including financial sector profits and bonuses, exercised stock options, and capital gains.
- Use of econometric techniques that produce a single number, with its implied statistical precision. In reality, the number represents a point estimate within a range; any figure in the range is just as likely to be correct.
- Variations due to economic inputs. Even minor differences in economic forecasts can result in significant revenue estimating errors.

---

<sup>2</sup> For more information see 2000-01 Budget Analysis: Review of Economic and Revenue Forecasts, March 2000, pp. 12-19, and 1998-99 Budget Analysis: Review of Economic and Revenue Forecasts, March 1998, pp. 15-26, both by the Office of the State Comptroller.

## ***ECONOMIC PROJECTIONS***

---

### **National Economy**

The Executive and legislative forecasts generally call for recovery and growth in the U.S. economy in 2002 from the recession that began in March 2001. The forecasts call for growth of between 1.0 and 1.7 percent in 2002, which is less optimistic than the March Blue Chip Consensus forecast of two percent. However, the Blue Chip Consensus forecast has been increasing each month from one percent in January, 1.5 percent in February to the current two percent. The Executive and legislative forecasts were completed in January and February and were in similar to the Consensus forecast at that time. In light of the volatile economy and the World Trade Center attacks of September 11<sup>th</sup>, the Assembly minority provided the least optimistic national economic outlook, with the Division of the Budget providing the most optimism.

### **Calendar Year 2002 National Economic Projections**

	<b>Lower Range</b>	<b>Upper Range</b>
GDP	1.0%	1.7%
Personal Income	2.5%	3.0%
Wages <sup>3</sup>	2.3%	2.7%
Corporate Profits (pre-tax)	1.5%	8.2%
Employment	-0.6%	-0.3%
Inflation	1.4%	1.5%

Growth is expected in most of the major economic indicators forecast by the Executive and legislature, with the exception of non-farm employment. Although personal income and wage growth are expected to increase in 2002, growth rates are much lower than in past years.

Inflation is expected to stay within the range of 1.4 and 1.5 percent. The Blue Chip consensus forecast for inflation in 2002 is 1.4 percent, consistent with the forecast range. This is a reduction from the 2001 inflation rate of 2.8 percent.

As in the past, the Executive and legislative forecasts varied significantly in their outlook for corporate profits in 2002, ranging from an increase of 1.5 percent to 8.2 percent. In the February Blue Chip forecast corporate profits were projected to grow 2.2 percent in 2002. In March, the forecast was increased to 4.1 percent.

---

<sup>3</sup> The Assembly minority did not provide projections for US wage growth.

## New York Economy

The State economic forecasts generally project improved performance over 2001 results. Employment is forecast to decline between 1.2 to 0.7 percent; personal income to grow between 0.9 to 3.9 percent; and wages in the range of -1.5 to 4.3 percent. The wage and income forecasts for the national and State economies differ widely as the nation is expected to grow faster than the State, which is consistent with economic downturns in the past where recovery in New York lagged the nation.

### Calendar Year 2002 State Economic Projections

	Lower Range	Upper Range
Personal Income	0.9%	3.9%
Wages	-1.5%	4.3%
Employment	-1.2%	-0.6%

### Risks to the Economic Forecasts

New York State remains dependent on the financial services sector, particularly that portion located in New York City and dominated by activity on Wall Street. This, in conjunction with the challenges that face the upstate economy present a risk to the forecast.<sup>4</sup> While many economists have agreed that the national recession is over or will be short lived, the economy is still very volatile and subject to many of the following outside pressures:

- The length and severity of the recession – while it is has been widely reported and many agree that the national recession is ending; there are State economic indicators that suggest that the economic slowdown in New York may not be over and may last until the end of 2002.
- The federal government has other spending priorities such as military defense and homeland security. As such, budget projections in New York State should not assume overly optimistic amounts of federal aid. The Executive budget submission and the Health Care Reform Act legislation passed in January both depend on substantial increases in federal funding. If these revenues do not materialize, State revenues may be necessary to fill budget gaps in lieu of other budgetary needs.

---

<sup>4</sup> For more information see Recent Trends in the New York City Economy, April 2001, by the Office of the State Deputy Comptroller.

## ***RECEIPTS PROJECTIONS***

This review compares revenue projections produced by the Executive, Senate Finance majority and minority, and Assembly Ways and Means majority and minority committees. The analysis focuses on major areas of disagreement. Tables in the Appendix provide revenue estimate comparisons on a tax-by-tax basis.

Revenue estimates for the two year period of 2001-02 through 2002-03 ranged between \$354 million and \$551 million above Executive estimates. The Assembly majority represented the upper-end and the Senate majority represented the lower-end of the estimates difference. The Assembly minority did not make projections for miscellaneous receipts or lottery revenues so they are not included in the overall comparison. However, the following table illustrates tax revenue along with total revenue to provide an indication of tax projection differences.

### **Differences from Executive General Fund Revenue Estimates** (Millions)

<b>Fiscal Year</b>	<b>Senate Majority</b>	<b>Assembly Majority</b>	<b>Senate Minority</b>	<b>Assembly Minority</b>
<b>2001-02</b>				
Tax Revenue	(\$300)	(\$251)	(\$213)	(\$243)
Total Revenue	(\$285)	(\$238)	(\$213)	N/A
<b>2002-03</b>				
Tax Revenue	\$583	\$713	\$628	(\$247)
Total Revenue	\$639	\$789	\$628	N/A
Two-Year Total Tax Revenue	\$283	\$462	\$415	(\$490)
Two-Year Total Revenue	\$354	\$551	\$415	N/A

Disagreement on total projected revenues for 2002-03 ranged from \$628 million to \$789 million above Executive estimates. The Senate Finance minority is closest to the Executive, varying by about \$628 million more than Executive projections. Differences in estimated revenues for 2001-02 were less significant and ranged from \$213 million to \$285 million below Executive estimates.

Note that legislative estimates for 2001-02 are less than current financial plan estimates provided in the Executive 30 day amendments. In a statement produced on March 4, 2002, the Division for the Budget cautioned that financial plan receipt estimates may be up to \$500 million too high, due to lower than expected tax collections in January and February of 2002. The Division declined to adjust the current financial plan with expectations that the loss could be due to timing issues. The February Cash Report to the Legislature produced by the Office of the State Comptroller reports that receipts are approximately \$475 million lower than current financial plan estimates.

The law requires a consensus forecasting conference to assist the Executive and Legislature in reaching a consensus revenue forecast. The conference met on March 6, 2002 and allowed experts in the field to offer guidance on the expected performance of the economy and its impact on State revenues.

In addition, the Executive and Legislature are also required to issue a joint report containing a consensus forecast of the economy and receipts for the current and upcoming state fiscal years. As of the date of this report, no consensus has been reached and no report has been issued. Since this requirement was enacted into law in 1996, only two consensus reports have been released. In 1997, a report was issued that contained a large range of differences in the estimates. In 1999, no consensus was reached but differences were narrowed and a report was released after the statutory deadline.

The consensus revenue forecasting process has not accomplished the desired results and has failed to be the positive milestone toward achieving on-time budgets. Additionally, it appears quite likely the State will not have an on-time budget for the 18<sup>th</sup> consecutive year. The Executive and Legislature are urged to make a commitment to the success of consensus forecasting and other reforms to improve the budget process.

### 2001-02 Forecast

For 2001-02, the Senate Finance majority committee provided budget estimates \$285 million lower than the Executive estimate, representing the highest variance of the four legislative committees. The personal income tax accounts for the bulk of this difference.

#### 2001-02 Revenue Estimates (Millions)

Category	Executive	Senate Majority	Difference
Personal Income Tax	\$ 26,977	\$ 26,772	\$ -205
Refund Reserve Account	\$ 2,905	\$ 2,905	\$ 0
User Taxes and Fees	\$ 7,082	\$ 7,082	\$ 0
Business Taxes	\$ 3,829	\$ 3,743	\$ -86
Other Taxes	\$ 781	\$ 772	\$ -9
Miscellaneous Receipts	\$ 1,609	\$ 1,609	\$ 0
Lottery	\$ 1,562	\$ 1,577	\$ 15
<b>Total Receipts</b>	<b>\$ 41,840</b>	<b>\$ 41,555</b>	<b>\$ -285</b>

### 2002-03 Forecast

For 2002-03, the Assembly majority has the greatest difference of total General Fund revenues from the Executive – \$789 million. The personal income tax again accounts more than half of this difference. The smallest reported difference for 2002-03 is from the Senate minority at \$628 million.<sup>5</sup>

<sup>5</sup> The Assembly minority did not compile projections for miscellaneous receipts or Lottery revenues so a comparison of total General Fund receipts is not valid.

The federal government recently enacted the Job Creation and Worker Assistance Act of 2002. Part of the package provides a 30 percent bonus depreciation for property placed in service in the “New York Liberty Zone” on or after September 10, 2001. The provision sunsets December 31, 2009 for residential and non-residential new structures and December 31, 2006 for all other property. The act also includes the Expansion of Work Opportunity Tax Credit for employers with 200 or fewer employees within the Liberty Zone. As the State tax code is tied to the federal income tax code, New York State (along with 46 other states) is estimated to lose \$200-\$250 million per year for the next three years (total cost for both provisions). New York City, also tied to federal codes, is estimated to lose up to \$100 million per year for three years. A number of states are currently considering uncoupling from the federal changes.

**2002-03 Revenue Estimates**  
(Million)

Category	Executive	Assembly Majority	Difference
Personal Income Tax	\$ 23,292	\$ 23,834	\$ 439
Refund Reserve Account	\$ (65)	\$ (65)	\$ 0
User Taxes and Fees	\$ 7,069	\$ 7,161	\$ 92
Business Taxes	\$ 3,775	\$ 3,952	\$ 177
Other Taxes	\$ 783	\$ 798	\$ 15
Miscellaneous Receipts	\$ 1,606	\$ 1,619	\$ 13
Lottery	\$ 1,910	\$ 1,973	\$ 63
<b>Total Receipts</b>	<b>\$ 38,435</b>	<b>\$ 39,224</b>	<b>\$ 789</b>

**Personal Income Tax**

The personal income tax accounts for more than 60 percent of the tax base and has accounted for the bulk of the underestimation of revenues in recent years. Since 1997, the personal income tax has accounted for almost two-thirds of the year-end revenue-related surplus.

The Senate majority projects personal income tax receipts will be \$542 million higher than forecast by the Executive, the largest variance of all legislative projections. A significant portion of the Senate majority’s 2002-03 personal income tax projection is attributable to 6.7 percent growth in withholding taxes.

**Withholding**

Withholding is the automatic deduction of personal income taxes from wages. Withholding tax tables instruct employers on the appropriate deductions and exemptions from wages, and at what rate to withhold taxes from the remaining wages. Regular wage payments, lump-sum bonus payments subject to mandatory withholding at the top statutory rate, and gains from stock options exercised in non-qualified employee stock option plans are subject to the tax.

The Senate majority projects withholding collections for 2002-03 of \$21.44 billion, \$373 million higher than the Executive. Some of this disagreement is attributable to stronger wage growth projected by the Senate. Assembly majority withholding growth projections are \$182 million higher than the Executive. The Assembly minority projects withholding at \$138 million below the Executive, although wages are estimated to grow 4.3 percent as compared to the Executive's estimate of 1.5 percent wage decline.

Recently, much of the growth in wages has been concentrated toward the upper end of the income distribution. This is due to the increases in bonus payments, exercised stock options, and capital gains. When income gains occur for these taxpayers, state tax revenues tend to increase by a higher percentage. This has been the driving force behind much of the unanticipated strength of tax collections in the fairly recent past. However, the factors contributing to growth in income are closely related to the financial markets, which are one of the more volatile elements of the State's economic structure. As seen over the past year, the growth of those incomes that are dependent on the performance of the stock market has decreased and the bonuses that are driven by corporate performance have declined significantly.

Consider, however, the relationship of job growth to wage growth. Non-bonus wage growth is indicative of changes in employment (wage growth provided in this report include both bonus and non-bonus wages) and therefore another indicator of economic changes. Legislative and Executive forecasts for non-farm employment growth are all negative for calendar year 2002, indicating declining employment levels. The range for total wage growth is slightly higher and positive (the Division of the Budget projects negative wage growth for calendar year 2002 and the Senate minority projects no wage growth at all).

### **Estimated Tax Payments**

Estimated payments are income tax payments made by individuals with large amounts of non-wage income. The primary components of non-wage income include capital gains, interest and dividend income. Capital gains had grown dramatically in recent years due to a robust stock market that contributed to larger gains and a federal income tax cut that encouraged many to realize capital gains.

The Assembly majority forecast for 2002-03 was \$151 million higher than the Executive. The Assembly majority's projected growth of estimated payments is due to a 15 percent increase in capital gains in calendar year 2002, following a 30 percent decline in 2001.

Capital gains had been the fastest growing share of total income in recent years and is one of the most volatile components. It is difficult to forecast with precision since it is a function of the stock market and taxpayer behavior. Realized capital gains is a tax concept, and is not included in traditional economic series. The level of realized taxable capital gains, which is typically found in the upper income classes, is related to the financial markets as well as tax law changes. The growing popularity of mutual funds also makes estimating difficult since taxpayers do not have to take any action to receive

capital gains distributions. Because capital gains growth has varied so much in recent years, it is more difficult to predict and often has been an area where forecasters have had significantly different growth projections.

## **Business Taxes**

In 2001-02, New York business taxes are projected to drop between 11.5 percent and 15.5 percent with estimated revenue declines of approximately \$500 million. Within this category, corporate franchise taxes are projected to decline the furthest with estimates as much as 31.6 percent below 2000-01 collections. The Senate minority is the only legislative body that agrees with Executive projections. The Assembly majority estimates business tax revenues to be \$171 million below the Executive.

Projections for 2002-03 are \$56 million below Executive projections from the Senate majority to \$177 million higher from the Assembly majority. Corporate franchise tax revenue projections proportionately follow overall business tax collections with the Senate majority at the low range (\$99 million below the Executive) and the Assembly majority at the high end (\$88 million above Executive projections).

## **User Taxes and Fees**

The Assembly majority provides the highest estimate, at \$41 million over the Executive, for 2001-02 user tax collections, with the majority of the variance contained in sales tax estimates. They go on to provide the highest projection for 2002-03, \$92 million over the Executive.

According to Assembly majority analysis, much of the decline in user taxes is due to declining sales tax receipts, which are the result of declining employment, sales tax cuts, and the overall economy. Sales taxes are projected to decline in 2001-02 by almost 2 percent, which is somewhat lower than projections from other legislative committees and the Executive.

The Assembly majority, as well as the other legislative committees, project an increase in user taxes, led by substantial increases in sales tax receipts in 2002-03. The Executive projects a slight (0.2 percent) decline in overall user taxes for 2002-03, mostly due to dedicated motor vehicle fees. Although sales tax growth is not projected to be as robust as legislative projections, the Executive does project growth of 2.7 percent in sales tax revenues. Both the Senate and the Assembly majority project sales tax growth of 4.3 percent.

## **Conclusions**

This report not only provides an overview of Executive and legislative economic and revenue forecasts, but also some context of the numbers and comments regarding consistency and reasonability. As of the writing of this report, the Executive and Legislature have yet to complete the task of agreeing on available resources and producing a report detailing such figures. This report indicates that revenue forecasts from the different parties are similar, thus easing what has historically been a significant barrier to achieving a budget by the beginning of the fiscal year.

**2001-02 Revenue Estimates Summary**  
(Millions)

	DOB	SFC MAJ	WAM MAJ	SFC MIN	WAM MIN
<b>Personal Income Tax</b>	26,977	26,772	26,842	26,778	26,771
Withholding	20,267	20,086	20,125	20,043	20,090
Estimated Payments	6,395	6,353	6,360	6,359	6,328
Final Returns	1,895	1,932	1,900	1,856	1,876
Other Payments	600	542	595	600	589
Refunds	(3,525)	(3,486)	(3,483)	(3,425)	(3,457)
Refund Reserves	2,905	2,905	2,905	2,905	2,905
STAR Deposit	(2,510)	(2,510)	(2,510)	(2,510)	(2,510)
STAR Reserve Deposit	1,200	1,200	1,200	1,200	1,200
DRRF Deposit	(250)	(250)	(250)	(250)	(250)
<b>User Taxes and Fees</b>	7,082	7,082	7,123	7,068	7,053
Sales	6,120	6,117	6,161	6,106	6,117
Cigarette	514	517	520	514	510
Motor Fuel	-	-	-	-	-
Motor Vehicle	202	193	191	202	190
Alcoholic Beverage	210	219	215	210	200
Auto Rental	36	36	36	36	36
<b>Business Taxes</b>	3,829	3,743	3,658	3,829	3,820
Corporate Franchise	1,755	1,655	1,598	1,755	1,709
Utilities	987	1,043	1,008	987	1,006
Insurance	630	615	601	630	612
Bank	457	430	451	457	493
Petroleum	-	-	-	-	-
<b>Other Taxes</b>	781	772	795	781	782
Estate and Gift	745	735	759	745	746
Real Property Gains	6	6	5	6	5
Pari-Mutual	29	30	30	29	30
Other	1	1	1	1	1
<b>Total Taxes</b>	38,669	38,369	38,418	38,456	38,426
<b>Miscellaneous Receipts</b>	1,609	1,609	1,622	1,609	N/A
Lottery	1,562	1,577	1,562	1,562	N/A
<b>Total</b>	41,840	41,555	41,602	41,627	N/A

**2001-02 Revenue Estimates  
Difference from Division of the Budget**

(Millions)

	SFC MAJ	WAM MAJ	SFC MIN	WAM MIN
<b>Personal Income Tax</b>	(205)	(135)	(199)	(206)
Withholding	(181)	(142)	(224)	(177)
Estimated Payments	(42)	(35)	(36)	(67)
Final Returns	37	5	(39)	(19)
Other Payments	(58)	(5)	-	(11)
Refunds	39	42	100	68
Refund Reserves	-	-	-	-
STAR Deposit	-	-	-	-
STAR Reserve Deposit	-	-	-	-
DRRF Deposit	-	-	-	-
<b>User Taxes and Fees</b>	-	41	(14)	(29)
Sales	(3)	41	(14)	(3)
Cigarette	3	6	-	(4)
Motor Fuel	-	-	-	-
Motor Vehicle	(9)	(11)	-	(12)
Alcoholic Beverage	9	5	-	(10)
Auto Rental	-	-	-	-
<b>Business Taxes</b>	(86)	(171)	-	(9)
Corporate Franchise	(100)	(157)	-	(46)
Utilities	56	21	-	19
Insurance	(15)	(29)	-	(18)
Bank	(27)	(6)	-	36
Petroleum	-	-	-	-
<b>Other Taxes</b>	(9)	14	-	1
Estate and Gift	(10)	14	-	1
Real Property Gains	-	(1)	-	(1)
Pari-Mutual	1	1	-	1
Other	-	-	-	-
<b>Total Taxes</b>	(300)	(251)	(213)	(243)
Miscellaneous Receipts	-	13	-	N/A
Lottery	15	-	-	N/A
<b>Total</b>	(285)	(238)	(213)	N/A

**2001-2002 Revenue Estimates  
Annual Growth From Actual 2000-01**

(Millions)

	DOB	SFC MAJ	WAM MAJ	SFC MIN	WAM MIN
Personal Income Tax	14.5%	13.6%	13.9%	13.6%	13.6%
Withholding	-3.3%	-4.1%	-4.0%	-4.4%	-4.1%
Estimated Payments	-7.0%	-7.6%	-7.5%	-7.5%	-7.9%
Final Returns	12.5%	14.7%	12.8%	10.2%	11.4%
Other Payments	7.3%	-3.0%	6.4%	7.3%	5.4%
Refunds	-2.9%	-3.9%	-4.0%	-5.6%	-4.7%
Refund Reserves	545.6%	545.6%	545.6%	545.6%	545.6%
STAR Deposit	33.7%	33.7%	33.7%	33.7%	33.7%
STAR Reserve Deposit	-200.0%	-200.0%	-200.0%	-200.0%	-200.0%
DRRF Deposit	0.0%	0.0%	0.0%	0.0%	0.0%
User Taxes and Fees	-4.3%	-4.3%	-3.8%	-4.5%	-4.7%
Sales	-2.4%	-2.5%	-1.8%	-2.6%	-2.5%
Cigarette	-2.7%	-2.1%	-1.5%	-2.7%	-3.4%
Motor Fuel	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Motor Vehicle	-40.1%	-42.7%	-43.3%	-40.1%	-43.6%
Alcoholic Beverage	-0.5%	3.8%	1.9%	-0.5%	-5.2%
Auto Rental	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%
Business Taxes	-11.6%	-13.5%	-15.5%	-11.6%	-11.8%
Corporate Franchise	-24.9%	-29.2%	-31.6%	-24.9%	-26.8%
Utilities	20.8%	27.7%	23.4%	20.8%	23.1%
Insurance	7.9%	5.3%	2.9%	7.9%	4.8%
Bank	-9.7%	-15.0%	-10.9%	-9.7%	-2.6%
Petroleum	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Other Taxes	-1.8%	-2.9%	0.0%	-1.8%	-1.6%
Estate and Gift	-1.8%	-3.2%	0.0%	-1.8%	-1.7%
Real Property Gains	0.0%	0.0%	-16.7%	0.0%	-16.7%
Pari-Mutual	0.0%	3.4%	3.4%	0.0%	3.4%
Other	0.0%	0.0%	0.0%	0.0%	0.0%
Total Taxes	7.1%	6.3%	6.4%	6.5%	6.5%
Miscellaneous Receipts	3.6%	3.6%	4.4%	3.6%	N/A
Lottery	12.1%	13.2%	12.1%	12.1%	N/A
Total	7.2%	6.4%	6.6%	6.6%	N/A

## 2002-03 Revenue Estimates Summary

(Millions)

	DOB	SFC MAJ	WAM MAJ	SFC MIN	WAM MIN
<b>Personal Income Tax</b>	23,292	23,834	23,721	23,771	22,952
Withholding	21,067	21,440	21,249	21,337	20,929
Estimated Payments	6,430	6,479	6,581	6,446	6,126
Final Returns	1,605	1,526	1,647	1,632	1,543
Other Payments	720	652	709	722	671
Refunds	(3,835)	(3,568)	(3,770)	(3,671)	(3,622)
Refund Reserves	(65)	(65)	(65)	(65)	(65)
STAR Deposit	(2,630)	(2,630)	(2,630)	(2,630)	(2,630)
STAR Reserve Deposit	-	-	-	-	-
DRRF Deposit	-	-	-	-	-
<b>User Taxes and Fees</b>	7,069	7,158	7,161	7,155	7,091
Sales	6,285	6,383	6,381	6,371	6,324
Cigarette	501	491	500	501	490
Motor Fuel	-	-	-	-	-
Motor Vehicle	65	65	56	65	66
Alcoholic Beverage	218	219	224	218	211
Auto Rental	-	-	-	-	-
<b>Business Taxes</b>	3,775	3,719	3,952	3,838	3,823
Corporate Franchise	1,761	1,662	1,849	1,792	1,810
Utilities	995	1,045	1,022	1,027	995
Insurance	516	569	561	516	509
Bank	503	443	520	503	509
Petroleum	-	-	-	-	-
<b>Other Taxes</b>	783	791	798	783	806
Estate and Gift	751	759	766	751	774
Real Property Gains	2	2	2	2	2
Pari-Mutual	29	29	29	29	29
Other	1	1	1	1	1
<b>Total Taxes</b>	34,919	35,502	35,632	35,547	34,672
<b>Miscellaneous Receipts</b>	1,606	1,632	1,619	1,606	N/A
Lottery	1,910	1,940	1,973	1,910	N/A
<b>Total</b>	38,435	39,074	39,224	39,063	N/A

**2002-03 Revenue Estimates  
Difference from Division of the Budget**

(Millions)

	SFC MAJ	WAM MAJ	SFC MIN	WAM MIN
<b>Personal Income Tax</b>	542	429	479	(340)
Withholding	373	182	270	(138)
Estimated Payments	49	151	16	(304)
Final Returns	(79)	42	27	(62)
Other Payments	(68)	(11)	2	(49)
Refunds	267	65	164	213
Refund Reserves	-	-	-	-
STAR Deposit	-	-	-	-
STAR Reserve Deposit	-	-	-	-
DRRF Deposit	-	-	-	-
<b>User Taxes and Fees</b>	89	92	86	22
Sales	98	96	86	39
Cigarette	(10)	(1)	-	(11)
Motor Fuel	-	-	-	-
Motor Vehicle	-	(9)	-	1
Alcoholic Beverage	1	6	-	(7)
Auto Rental	-	-	-	-
<b>Business Taxes</b>	(56)	177	63	48
Corporate Franchise	(99)	88	31	49
Utilities	50	27	32	-
Insurance	53	45	-	(7)
Bank	(60)	17	-	6
Petroleum	-	-	-	-
<b>Other Taxes</b>	8	15	-	23
Estate and Gift	8	15	-	23
Real Property Gains	-	-	-	-
Pari-Mutual	-	-	-	-
Other	-	-	-	-
<b>Total Taxes</b>	583	713	628	(247)
Miscellaneous Receipts	26	13	-	N/A
Lottery	30	63	-	N/A
<b>Total</b>	639	789	628	N/A

**2002-2003 Revenue Estimates  
Annual Growth From DOB Estimates**

	<b>DOB</b>	<b>SFC MAJ</b>	<b>WAM MAJ</b>	<b>SFC MIN</b>	<b>WAM MIN</b>
<b>Personal Income Tax</b>	-13.7%	-11.7%	-12.1%	-11.9%	-14.9%
Withholding	3.9%	5.8%	4.8%	5.3%	3.3%
Estimated Payments	0.5%	1.3%	2.9%	0.8%	-4.2%
Final Returns	-15.3%	-19.5%	-13.1%	-13.9%	-18.6%
Other Payments	20.0%	8.7%	18.2%	20.3%	11.8%
Refunds	8.8%	1.2%	7.0%	4.1%	2.8%
Refund Reserves	-102.2%	-102.2%	-102.2%	-102.2%	-102.2%
STAR Deposit	4.8%	4.8%	4.8%	4.8%	4.8%
STAR Reserve Deposit	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
DRRF Deposit	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
<b>User Taxes and Fees</b>	-0.2%	1.1%	1.1%	1.0%	0.1%
Sales	2.7%	4.3%	4.3%	4.1%	3.3%
Cigarette	-2.5%	-4.5%	-2.7%	-2.5%	-4.7%
Motor Fuel	0.0%	0.0%	0.0%	0.0%	0.0%
Motor Vehicle	-67.8%	-67.8%	-72.3%	-67.8%	-67.3%
Alcoholic Beverage	3.8%	4.3%	6.7%	3.8%	0.5%
Auto Rental	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
<b>Business Taxes</b>	-1.4%	-2.9%	3.2%	0.2%	-0.2%
Corporate Franchise	0.3%	-5.3%	5.4%	2.1%	3.1%
Utilities	0.8%	5.9%	3.5%	4.1%	0.8%
Insurance	-18.1%	-9.7%	-11.0%	-18.1%	-19.2%
Bank	10.1%	-3.1%	13.8%	10.1%	11.4%
Petroleum	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Other Taxes</b>	0.3%	1.3%	2.2%	0.3%	3.2%
Estate and Gift	0.8%	1.9%	2.8%	0.8%	3.9%
Real Property Gains	-66.7%	-66.7%	-66.7%	-66.7%	-66.7%
Pari-Mutual	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Taxes</b>	-9.7%	-8.2%	-7.9%	-8.1%	-10.3%
<b>Miscellaneous Receipts</b>	-0.2%	1.4%	0.6%	-0.2%	N/A
Lottery	22.3%	24.2%	26.3%	22.3%	N/A
<b>Total</b>	-8.1%	-6.6%	-6.3%	-6.6%	N/A