

STATEMENT OF
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PRESENTED TO ASSEMBLY BUDGET COMMITTEE
MAY 24, 2005

During this budget cycle, the members of this committee have listened to countless hours of prepared testimony. To spare you further pain, I will keep these remarks mercifully brief.

When we last spoke to you about revenues, we forecast that there would be \$287 million more than the Governor's budget proposal assumed. I indicated that we might be in for a pleasant April surprise. That proved to be an understatement.

Based on revenue collection patterns, we believe that the State will realize \$1.5 billion more than the governor's budget message projected. Nearly three-quarters of this windfall is attributable to the income tax. In March our income tax estimate for the two fiscal years was \$185 million above the Executive's. Today, we are \$1.1 billion higher.

We had projected that final income tax payments (those payments due on April 15 for the prior tax year) would increase by 45%. This extraordinarily high growth rate assumption reflected the enactment last June of a bill that imposed higher tax rates on incomes above \$500,000. Based on final collections for April and preliminary numbers on the spillover to early May, it appears that final collections grew by about 90%. Final payments this spring will total about \$1.8 billion – nearly \$500 million more than we expected.

While a portion of this extra money is attributable to the retroactive feature of the millionaires' tax, most of it appears to be part of the tax base and can be anticipated again in FY06.

The second April surprise came in the Corporation Business Tax. In March we told you that the tax was lagging – although we did not know why – so both OLS and the Executive lowered their CBT forecasts. But CBT collections in April and early May exceeded what could have been reasonably projected from the earlier months of the fiscal year. Accordingly, we are changing course and have increased our two-year CBT forecast by more than \$300 million.

I should note that our counterparts in Washington and other state capitals also enjoyed a pleasant April.

There are, in addition, some other, smaller revenue changes in our forecast. These changes will be detailed later today when we release a set of tables including all of the OLS and Executive forecasts.

It would be out of character for me to provide such very good news, without throwing in a few caveats.

The first is that the budget – and our revenue numbers – assume the successful implementation of \$1.26 billion in proposed revenue initiatives. The largest single item is \$500 million from the sale of State assets - - a projection that seemed highly optimistic - - and most of the others involve extending tax bases or increasing tax rates. To the extent that these initiatives are not realized, the windfall will be eroded. As is our practice, should the Executive indicate that they are withdrawing or modifying any of their revenue initiatives, we would adjust our revenue totals to reflect those changes. If, as this morning's newspapers report, the Governor intends to take \$450 million of initiatives off the table, we would project additional revenue not at \$1.5 billion, but rather \$1.05 billion.

Second, as this testimony exemplifies, our annual budget experience has become subject to the uncertainties of April 15. Over time we have become more dependent on the income tax and the income tax has become more dependent on volatile high-end income. Not only can the tax receipts from high-income taxpayers vary significantly from year-to-year, but often the direction and magnitude are not apparent until after April 15.

We are projecting another very good year for the income tax in FY06. If we are wrong – it may not be clear until this time next year. A big revenue shortfall with only six weeks left in a fiscal year is a budgetary nightmare. Prudence suggests that in these circumstances we budget the largest surplus we can afford.

I thank you for your attention and will be happy to respond to your questions.

FY 2006 OLS and Executive Revenue Comparison

\$ Millions

Figure 1

	FY 2005		Change Executive	FY 2005		Difference OLS May - Exec. May
	March 2005 Executive	May 2005 Executive		May 2005 OLS	OLS May - Exec. March	
Income Tax (Base)	\$9,055.0	\$9,580.0	\$525.0	\$9,550.0	\$495.0	(\$30.0)
Sales Tax (Base)	\$6,520.0	\$6,510.0	(\$10.0)	\$6,520.0	\$0.0	\$10.0
Corporation Business Tax	\$2,162.0	\$2,244.4	\$82.4	\$2,303.4	\$141.4	\$59.0
Other Major Taxes	\$3,193.0	\$3,252.0	\$59.0	\$3,227.0	\$34.0	(\$25.0)
All Other Revenues	\$6,366.6	\$6,375.4	\$8.8	\$6,372.6	\$6.0	(\$2.8)
Totals	\$27,296.6	\$27,961.8	\$665.2	\$27,973.0	\$676.4	\$11.2

	FY 2006		Change Executive	FY 2006		Difference OLS May - Exec. May
	March 2005 Executive	May 2005 Executive		May 2005 OLS	OLS May - Exec. March	
Income Tax (Base)	\$9,520.0	\$10,000.0	\$480.0	\$10,130.0	\$610.0	\$130.0
Sales Tax (Base)	\$6,850.0	\$6,820.0	(\$30.0)	\$6,850.0	\$0.0	\$30.0
Corporation Business Tax	\$2,155.1	\$2,235.0	\$79.9	\$2,327.0	\$171.9	\$92.0
Other Major Taxes	\$3,331.3	\$3,330.3	(\$1.0)	\$3,335.3	\$4.0	\$5.0
Executive Revenue Initiatives	\$1,260.0	\$810.0	(\$450.0)	\$810.0	(\$450.0)	\$0.0
All Other Revenues	\$4,296.6	\$4,341.2	\$44.6	\$4,346.4	\$49.8	\$5.2
Totals	\$27,413.0	\$27,536.5	\$123.5	\$27,798.7	\$385.7	\$262.2

FY 2005 and FY 2006 Combined

	Change Executive	Difference OLS May - Exec. May
Combined FY 2005 and FY 2006 Changes:	\$788.6	\$273.4

Figure 2A April and May Income Tax Final Payments Annual Amounts

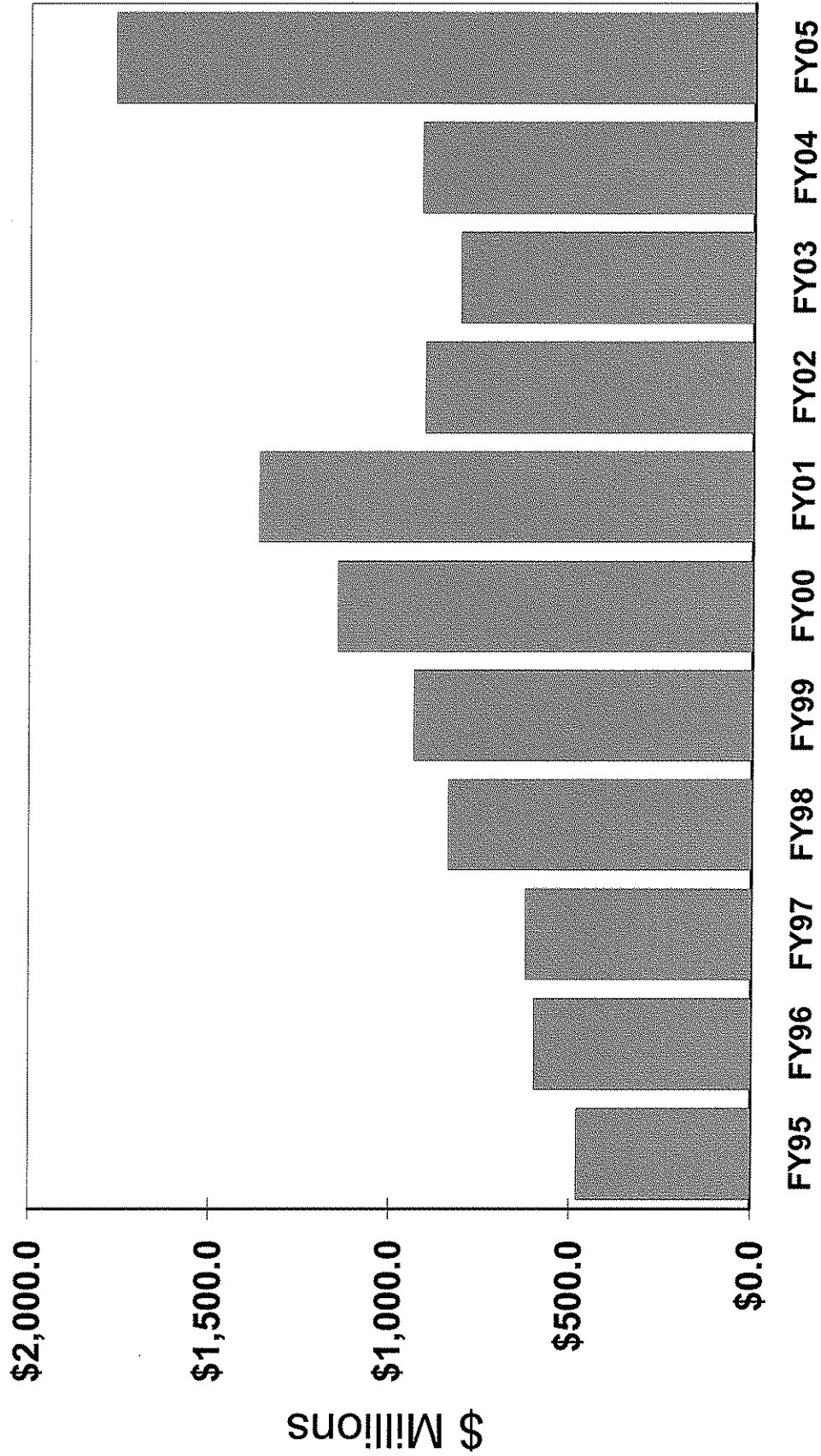
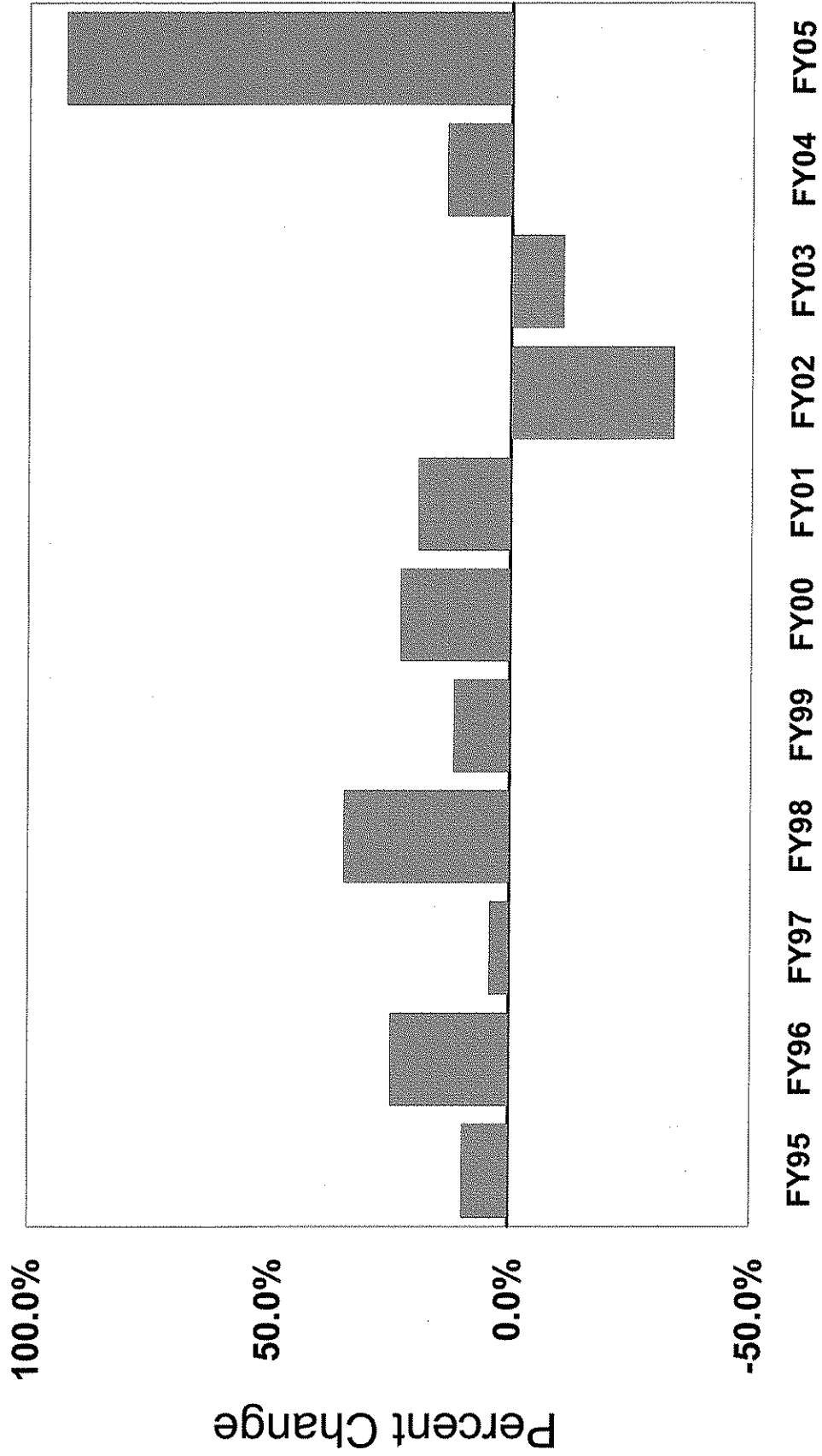


Figure 2B

April and May Income Tax Final Payments Annual Percent Change



**FY 2005 OLS and Executive
Revenue Comparison**
\$ Millions

Figure 3

	FY 2005 March 2005 Executive	FY 2005 May 2005 Executive	Change Executive	FY 2005 May 2005 OLS	Difference OLS May - Exec. March	Difference OLS May - Exec. May
GENERAL FUND:						
Major Taxes:						
Sales Tax Total	\$6,520.0	\$6,510.0	-\$10.0	\$6,520.0	\$0.0	\$10.0
Corporation Business	\$2,162.0	\$2,215.0	\$53.0	\$2,274.0	\$112.0	\$59.0
Energy contribution	\$0.0	\$29.4	\$29.4	\$29.4	\$29.4	\$0.0
Corp. Tax Total	\$2,162.0	\$2,244.4	\$82.4	\$2,303.4	\$141.4	\$59.0
Motor Fuels	\$565.0	\$565.0	\$0.0	\$560.0	-\$5.0	-\$5.0
Motor Vehicle Fees	\$272.0	\$272.0	\$0.0	\$272.0	\$0.0	\$0.0
Transfer Inheritance	\$500.0	\$500.0	\$0.0	\$480.0	-\$20.0	-\$20.0
Cigarette	\$636.0	\$640.0	\$4.0	\$645.0	\$9.0	\$5.0
Insurance Premiums	\$432.0	\$436.0	\$4.0	\$432.0	\$0.0	-\$4.0
Realty Transfer	\$345.0	\$365.0	\$20.0	\$380.0	\$35.0	\$15.0
Petroleum Products Gross Receipts	\$250.0	\$250.0	\$0.0	\$250.0	\$0.0	\$0.0
Alcoholic Beverage Excise	\$87.0	\$87.0	\$0.0	\$87.0	\$0.0	\$0.0
Corporation Business - Banks & Fin. Inst.	\$85.0	\$115.0	\$30.0	\$100.0	\$15.0	-\$15.0
Public Utilities Excise	\$9.0	\$10.0	\$1.0	\$9.0	\$0.0	-\$1.0
Tobacco Products Wholesale	\$12.0	\$12.0	\$0.0	\$12.0	\$0.0	\$0.0
Subtotal, Major Taxes	\$11,875.0	\$12,006.4	\$131.4	\$12,050.4	\$175.4	\$44.0
Misc. Taxes, Fees, Revenues:						
Transitional Energy Facility Assessment	\$221.9	\$239.6	\$17.7	\$239.6	\$17.7	\$0.0
Hotel Occupancy Tax	\$65.1	\$67.0	\$1.9	\$67.0	\$1.9	\$0.0
Telephone Assessment	\$115.0	\$115.0	\$0.0	\$115.0	\$0.0	\$0.0
Assessment on Homes > \$1 million	\$44.0	\$50.0	\$6.0	\$48.0	\$4.0	-\$2.0
Other	\$2,088.1	\$2,074.5	-\$13.6	\$2,074.5	-\$13.6	\$0.0
Subtotal, Misc. Revenues	\$2,534.1	\$2,546.1	\$12.0	\$2,544.1	\$10.0	-\$2.0
Interfund Transfers:						
State Lottery Fund	\$800.0	\$800.0	\$0.0	\$800.0	\$0.0	\$0.0
Securitizations	\$1,930.0	\$1,930.0	\$0.0	\$1,930.0	\$0.0	\$0.0
All Other Funds	\$549.2	\$554.0	\$4.8	\$554.0	\$4.8	\$0.0
Subtotal, Interfund Transfers	\$3,279.2	\$3,284.0	\$4.8	\$3,284.0	\$4.8	\$0.0
TOTAL, GENERAL FUND	\$17,688.3	\$17,836.5	\$148.2	\$17,878.5	\$190.2	\$42.0
PROPERTY TAX RELIEF FUND (Income Tax)						
	\$9,055.0	\$9,580.0	\$525.0	\$9,550.0	\$495.0	-\$30.0
CASINO REVENUE FUND						
	\$482.2	\$474.2	-\$8.0	\$474.2	-\$8.0	\$0.0
CASINO CONTROL FUND						
	\$69.6	\$69.6	\$0.0	\$69.6	\$0.0	\$0.0
GUBERNATORIAL ELECTION FUND						
	\$1.5	\$1.5	\$0.0	\$0.7	-\$0.8	-\$0.8
GRAND TOTAL, ALL FUNDS	\$27,296.6	\$27,961.8	\$665.2	\$27,973.0	\$676.4	\$11.2

**FY 2006 OLS and Executive
Revenue Comparison**
\$ Millions

Figure 4

	FY 2006 Mar-05 Executive	FY 2006 May-05 Executive	Change Executive	FY 2006 May-05 OLS	Difference OLS May - Exec. March	Difference OLS May - Exec. May
GENERAL FUND:						
Major Taxes:						
Sales Tax (Base)	\$6,850.0	\$6,820.0	-\$30.0	\$6,850.0	\$0.0	\$30.0
Tax Change Proposal	\$325.0	\$225.0	-\$100.0	\$225.0	-\$100.0	\$0.0
Sales Tax Total	\$7,175.0	\$7,045.0	-\$130.0	\$7,075.0	-\$100.0	\$30.0
Corporation Business	\$2,126.0	\$2,182.0	\$56.0	\$2,274.0	\$148.0	\$92.0
Energy contribution	\$29.1	\$53.0	\$23.9	\$53.0	\$23.9	\$0.0
Corp. Tax Total	\$2,155.1	\$2,235.0	\$79.9	\$2,327.0	\$171.9	\$92.0
Motor Fuels	\$580.0	\$580.0	\$0.0	\$575.0	-\$5.0	-\$5.0
Motor Vehicle Fees	\$294.3	\$294.3	\$0.0	\$294.3	\$0.0	\$0.0
Transfer Inheritance	\$545.0	\$530.0	-\$15.0	\$500.0	-\$45.0	-\$30.0
Cigarette	\$612.0	\$616.0	\$4.0	\$626.0	\$14.0	\$10.0
Insurance Premiums	\$443.0	\$447.0	\$4.0	\$443.0	\$0.0	-\$4.0
Realty Transfer	\$405.0	\$385.0	-\$20.0	\$430.0	\$25.0	\$35.0
Petroleum Products Gross Receipts	\$255.0	\$255.0	\$0.0	\$255.0	\$0.0	\$0.0
Alcoholic Beverage Excise	\$91.0	\$80.0	-\$11.0	\$91.0	\$0.0	\$1.0
Corporation Business - Banks & Fin. Inst.	\$85.0	\$100.0	\$15.0	\$100.0	\$15.0	\$0.0
Public Utilities Excise	\$9.0	\$10.0	\$1.0	\$9.0	\$0.0	-\$1.0
Tobacco Products Wholesale	\$12.0	\$13.0	\$1.0	\$12.0	\$0.0	-\$1.0
Subtotal, Major Taxes	\$12,661.4	\$12,610.3	-\$51.1	\$12,737.3	\$75.9	\$127.0
Misc. Taxes, Fees, Revenues:						
Transitional Energy Facility Assessment	\$235.0	\$235.0	\$0.0	\$235.0	\$0.0	\$0.0
Hotel Occupancy Tax	\$65.1	\$67.0	\$1.9	\$67.0	\$1.9	\$0.0
Telephone Assessment	\$119.0	\$119.0	\$0.0	\$119.0	\$0.0	\$0.0
Assessment on Homes > \$1 million	\$48.0	\$54.0	\$6.0	\$60.0	\$12.0	\$6.0
Cable Industry Fee Proposal	\$50.0	\$50.0	\$0.0	\$50.0	\$0.0	\$0.0
Asset Sales Proposal	\$500.0	\$200.0	-\$300.0	\$200.0	-\$300.0	\$0.0
Other	\$2,122.2	\$2,109.3	-\$12.9	\$2,109.3	-\$12.9	\$0.0
Subtotal, Misc. Revenues	\$3,136.3	\$2,834.3	-\$302.0	\$2,840.3	-\$299.0	\$6.0
Interfund Transfers:						
State Lottery Fund (Base)	\$820.0	\$820.0	\$0.0	\$820.0	\$0.0	\$0.0
State Lottery Fund - Video Lottery Proposal	\$150.0	\$150.0	\$0.0	\$150.0	\$0.0	\$0.0
All Other Funds	\$434.0	\$439.5	\$5.5	\$439.5	\$5.5	\$0.0
Subtotal, Interfund Transfers	\$1,404.0	\$1,409.5	\$5.5	\$1,409.5	\$5.5	\$0.0
TOTAL, GENERAL FUND	\$17,204.7	\$16,854.1	-\$350.6	\$16,987.1	-\$217.6	\$133.0
PROPERTY TAX RELIEF FUND (Income Tax Base)						
Tax Change Proposal	\$9,520.0	\$10,000.0	\$480.0	\$10,130.0	\$610.0	\$130.0
Subtotal, Property Tax Relief Fund	\$9,520.0	\$10,130.0	\$610.0	\$10,260.0	\$610.0	\$130.0
CASINO REVENUE FUND						
CASINO CONTROL FUND	\$487.2	\$481.3	-\$5.9	\$481.3	-\$5.9	\$0.0
GUBERNATORIAL ELECTION FUND	\$69.6	\$69.6	\$0.0	\$69.6	\$0.0	\$0.0
Subtotal, Casino Revenue Fund	\$556.8	\$550.9	-\$5.9	\$550.9	-\$5.9	-\$0.8
GRAND TOTAL, ALL FUNDS	\$27,413.0	\$27,556.5	\$123.5	\$27,798.7	\$385.7	\$262.2

Figure 5
Certain FY 2006 Executive Revenue Initiatives
(\$ Millions)

Revenue Source	Executive's March 2005 Estimated Amount	Executive's May 2005 Estimated Amount
Income Tax - Limit Property Tax Deduction	\$85.0	\$85.0
Income Tax - Pension Exclusion	\$45.0	\$45.0
Income Tax Sub Total	\$130.0	\$130.0
Sales Tax - Expansion ("Modernization") of Base	\$275.0	\$175.0
Sales Tax - UEZ Reforms	\$50.0	\$50.0
Sales Tax Subtotal	\$325.0	\$225.0
Asset Sales	\$500.0	\$200.0
Video Lottery Terminals	\$150.0	\$150.0
Cable Industry Gross Receipts Tax	\$50.0	\$50.0
Simplified Sales tax Implementation/Amnesty	\$40.0	\$40.0
Transfer Inheritance Tax	\$25.0	\$0.0
Realty Transfer Tax	\$25.0	\$0.0
Fines Amnesty	\$15.0	\$15.0
Other Subtotal	\$805.0	\$455.0
Total, FY 2006	\$1,260.0	\$810.0