Balancing New York State's 2003-2004 Budget in an Economically Sensible Manner

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Foreword (and Backwards)

- The Fiscal Policy Institute (FPI) was established in early 1991 as an outgrowth of a broad-based "Coalition for Economic Priorities" that had come together two years earlier in response to Governor Cuomo's 1989-90 Executive Budget. Gov. Cuomo was proposing to close a $2.7 billion budget gap through deep cuts in important government services, increases in fees and regressive taxes and shifts in responsibility to local governments. Governor Cuomo insisted that the state balance its budget without increases in what he referred to as the state's broad-based taxes.
- In 1989, the Governor and the Legislature, despite or perhaps because of the state's fiscal problems and its weakening economy, insisted on going forward with the third phase of the large, multi-year personal income tax cut that had been enacted in 1987. Despite Governor Pataki's recent pronouncements regarding the relationship between jobs and cuts in broad based taxes, the large personal income tax cuts that were implemented in 1987, 1988 and 1989 did not innoculate New York from the emerging national recession. In fact, New York and the rest of the Northeast were hit particularly hard by that recession - and New York went from positive (but weakening) employment growth in 1989 to employment declines during each of the next three years.
- Now after almost a decade of major changes in its fiscal policies, New York State is again confronting significant economic problems and related fiscal crises. And Governor Pataki, despite his statements about not repeating the failed policies of the past, is offering a plan for balancing the state's budget that is very similar to the budget balancing strategies that were adopted by New York State in the early 1990s. This briefing will review the roots of the current problems, the Governor's strategy for balancing the 2003-2004 budget, and alternative approaches to meeting this challenge.

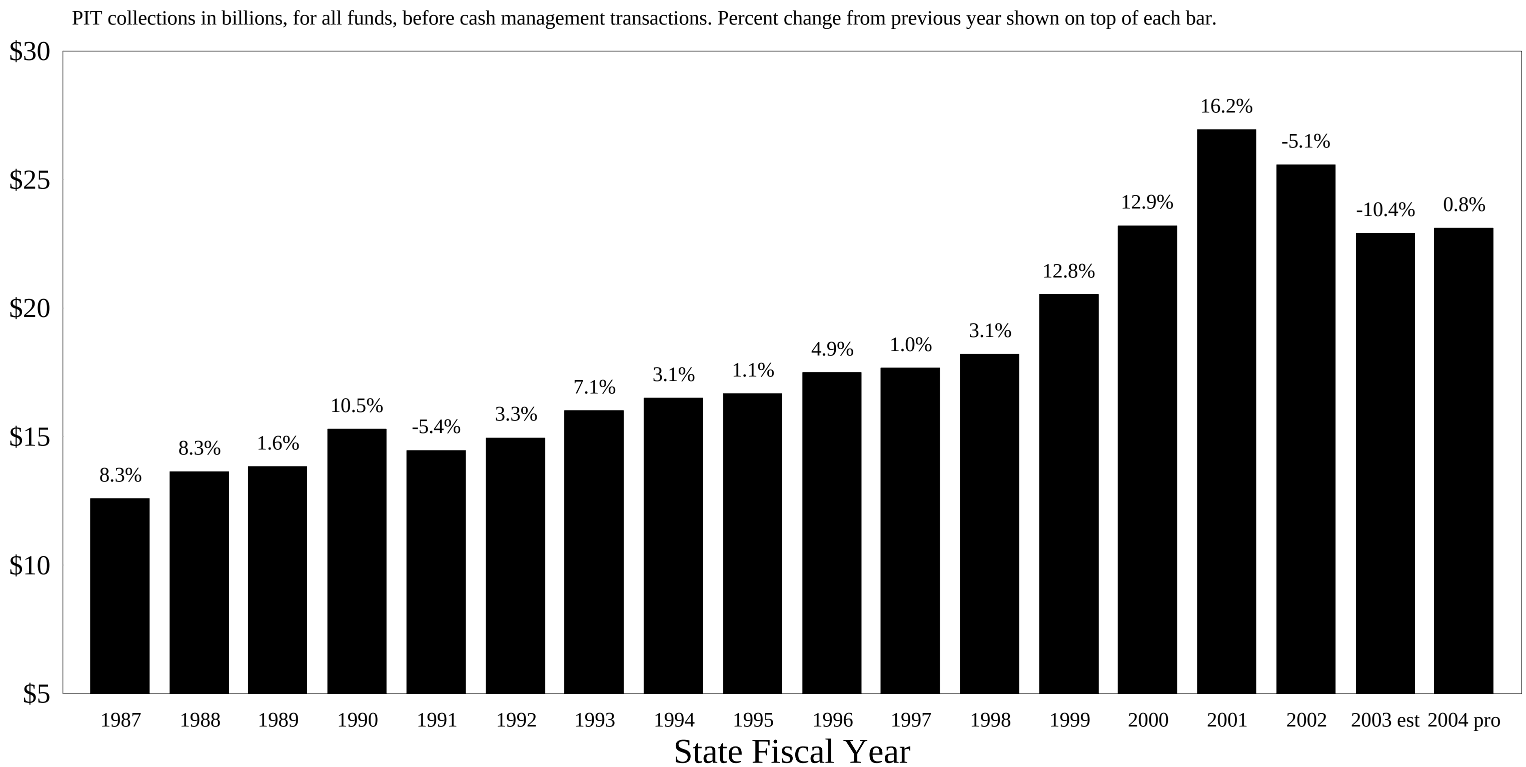
Origins of New York State's Budget Gap

- **The bursting of the Wall Street and dot.com bubbles**
- **The September 11th attacks and their aftermath**
- **The national recession**
- **An overly ambitious multi-year tax reduction that could not be sustained through a downturn in the economy or on Wall Street. But we got both and September 11th as well.**

  - New York's current budget gap is ***not*** something that emerged out of the blue in the last several months.
  - The primary cause of the budget problems now facing New York State and most other states has been the bursting of two interrelated bubbles: the Wall Street bubble and the dot.com bubble. We now know that this problem hit the states like a tidal wave in 2001 but it is not clear when state officials were first aware of the actual impact of these developments on state tax revenue.
  - In California, for example, taxable capital gains grew from about $20 billion a year in the early 1990s to $118 billion in 2000. But in the last two years this number has plummeted to $48 billion in 2001 and $40 billion in 2002.
  - Governor Pataki's recently submitted Executive Budget reports that between calendar years 2000 and 2001, the net amount of capital gains taxable on New York State personal income tax returns fell 54.3% from $62.3 billion to $28.4 billion, and that this component of income is expected to decline further to $17.1 billion in 2002 and $14.7 billion in 2003.

- The result has been a significant reduction in New York State's personal income tax receipts from a peak amount of $26.9 billion in 2000-01 to approximately $23 billion during both the 2002-03 and 2003-04 state fiscal years.
- During the late 1990s, personal income tax receipts grew by double digits for three straight years: 12.5%, 12.7%, and 16.2%. This growth compensated for the cuts in other less "elastic" taxes, allowing total revenues to grow sufficiently to finance several major programmatic expansions - particularly the state financed STAR homestead exemption which grew from $0 in the 1997-98 fiscal year to approximately $2.8 billion this year, the expansion of Child Health Plus and the establishment of Family Health Plus - without significant reductions in other service areas.
- **The World Trade Center disaster.** While some states have been hit harder than New York by the national recession, New York has been hit particularly hard by the bursting of the Wall Street bubble and no state has suffered as much from the September 11th attacks. State tax revenues are down by billions because of (a) the direct impact of the disaster (the loss of thousands of lives and the destruction of 26 million square feet of prime office space) and (b) the indirect impact on numerous industries from hotels to apparel manufacturing.
- It is difficult to determine the magnitude of the NYS and NYC revenue losses that are directly attributable to September 11th but they are clearly substantial. The U. S. General Accounting Office (GAO) has carefully reviewed and validated the Pataki Administration's estimate that $1.4 billion in revenue losses during 2001-02 were directly attributable to those attacks. The GAO has said that it does not yet have enough information to reach a conclusion as to the reasonableness of the Pataki Administration's estimate ($4.2 billion) of state tax revenue losses during 2002-03.

The growth in the personal income tax base, primarily attributable to capital gains and Wall Street wages, compensated for the deep cuts in other



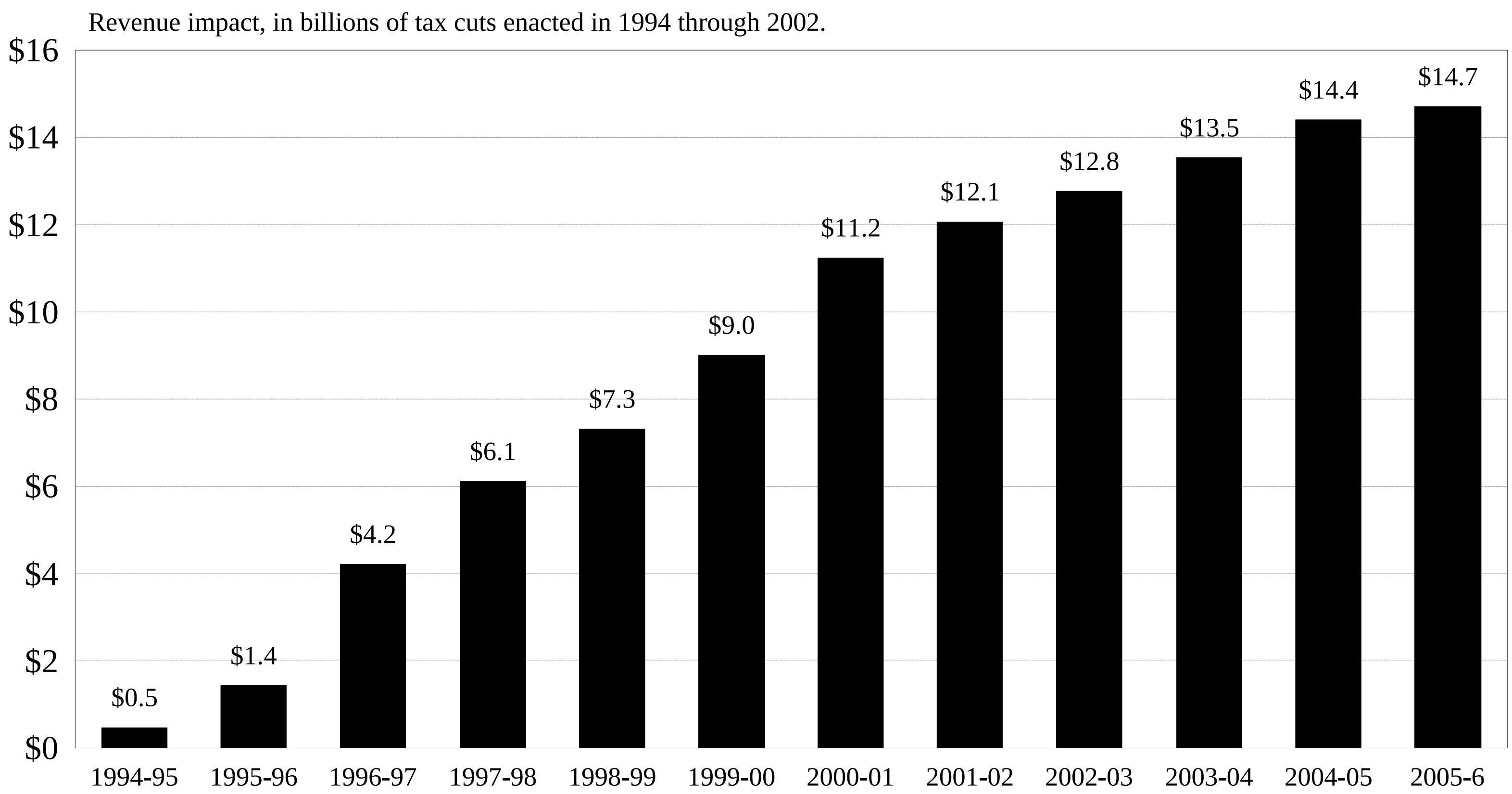
Source: The information for 1987 through 2002 is from Comptroller's Annual Report to the legislature. The information for 2003 through 2004 are estimates from the Executive Budget.

Wall Street pay and stock market-related capital gains accounted for nearly two-fifths of the growth in New York's taxable personal income base, 1995-2000, but declines in 2001 and 2002 caused taxable income to fall.

	Adjusted Gross Income (AGI) ($ millions)	Net Capital Gains ($ millions)	Total Wall Street Wages ($ millions)	Change from prior year			Capital Gains and Wall Street Wages as share of AGI	Capital Gains and Wall Street Wages share of AGI Growth over Prior Year
				AGI ($ millions)	Capital Gains ($ millions)	Wall Street Wages ($ millions)		
1991	$276,058	$8,735	$12,321	-7,369	-392	12,321	7.6%	
1992	$294,861	$9,457	$17,850	18,803	722	5,529	9.3%	33.2%
1993	$297,112	$13,365	$18,572	2,251	3,908	722	10.7%	205.7%
1994	$301,362	$12,032	$17,274	4,250	-1,333	-1,298	9.7%	-61.9%
1995	$321,124	$14,086	$20,187	19,762	2,054	2,913	10.7%	25.1%
1996	$347,891	$22,441	$24,534	26,767	8,355	4,347	13.5%	47.5%
1997	$383,179	$31,563	$28,790	35,288	9,122	4,256	15.8%	37.9%
1998	$417,996	$38,929	$33,602	34,817	7,366	4,812	17.4%	35.0%
1999	$453,130	$48,330	$35,116	35,134	9,401	1,514	18.4%	31.1%
2000	$519,501	$63,302	$47,643	66,371	14,972	12,527	21.4%	41.4%
2001	$489,413	$28,449	$48,758	-30,088	-34,853	1,115	15.8%	112.1%
2002	$467,784	$17,111	$38,817	-21,629	-11,338	-9,941	12.0%	98.4%
2003	$475,182	$14,649	$36,876	7,398	-2,462	-1,941	10.8%	-59.5%
change, 1995-2000	**$198,377**	**$49,216**	**$27,456**				**38.6%**	
change, 2000-2002	**-$51,717**	**-$46,191**	**-$8,826**				**106.4%**	

Sources: AGI and Capital Gains from New York State Division of the Budget; 2001-2003 are DoB projections. Wall Street wages from NYS Department of Labor; 2002 and 2003 are projections by FPI.

The tax cuts enacted since 1994 will reduce state revenues by more than $13.5 billion this year.



- **The Multi-Year Tax Cuts.** While it is not possible to roll back the clock and undo some of the policy decisions of the mid to late 1990s, it is clear in retrospect that the large multi-year tax reduction plans that were enacted in Governor Cuomo's last year in office and Governor Pataki's first six years were, when taken together, overly ambitious. The Governor's Division of the Budget has estimated that these tax cuts are reducing state tax revenues by about $12.8 billion this year and $13.5 billion next year.
- Governor Pataki has taken pride in the fact that this multi-year effort was, by far, the largest tax reduction plan ever implemented by any state. In terms of balancing this objective with prudent fiscal planning, if New York had implemented a tax reduction plan of half this size, it would have still been credited with the largest state tax reduction in history but would have been much better positioned to weather the fiscal storms that it is now facing.
- Organizations like the Fiscal Policy Institute and other analysts and commentators were dismissed as "nay sayers" when they concluded that these tax reductions plans could not be sustained, without significant backtracking on either the revenue or the expenditure sides of the budget or both, in the event of a downturn in the economy or on Wall Street. Unfortunately, we are now dealing with both of those development simultaneously while trying to deal with the aftermath of September 11th as well.

- **How the 2002-03 gap begat the 2003-04 gap**. All of these problems were clearly in focus a year ago when the Governor submitted his last Executive Budget. At that time, the Governor estimated that New York State faced a $6.8 billion budget gap - $1.1 billion during the fiscal year that was then coming to an end and $5.7 billion during 2002-03. To get through the year, the Governor proposed some very modest tax and fee increases, the use of approximately $2.8 billion in various reserves and other nonrecurring resources, freezes on spending for a wide variety of services and, in several areas, particularly in education and higher education, some pretty stiff budget cuts. The legislature restored many of the proposed cuts and provided an increase in school aid (which was still below the Budget Division's baseline), which were financed primarily with the use of about $1.2 billion in additional nonrecurring resources.
- The result is that New York State would have a 2003-04 budget gap of at least $4.2 billion if revenue growth had rebounded as projected by the Governor in January 2002. But it has not. And the Governor now estimates next year's gap at $9.3 billion.
- The state's fiscal dilemma has been compounded further by the fact that while the 2002-03 budget, as adopted, had anticipated a decline in revenues, the actual decline turned out to be about $2.1 billion greater than projected. This means that the state now has a $2+ billion gap to address in closing out its current fiscal year. It also means that the state's gap for 2003-04 becomes at least $6.3 billion unless the rate of revenue growth is greater than previously projected. But that does not now appear to be a reasonable assumption. In fact it now looks like year to year revenue growth will be less than the 5.25% projected last January, further increasing the projected gap for next year.

A wide variety of non-recurring resources are being used to balance the 2002-03 budget.

(Amounts in Millions; Source: Office of State Comptroller, June 2002)

Description	**Executive Budget**	**Enacted Budget**
State of New York Mortgage Agency	150.0	150.0
New York State Housing Finance Agency	50.0	50.0
Port Authority of New York/New Jersey	16.0	-
Environmental Protection Fund (loan)	100.0	200.0
Superfund	-	64.0
Various Health/Medicaid Special Revenue Funds	114.0	341.0
Personal Income Tax – EFT Threshold	25.0	25.0
Sales and Use – EFT Threshold	32.5	32.5
Abandoned Property Sale	-	300.0
Power Authority Transfer to Power for Jobs	-	42.0
Tax Amnesty	-	175.0
Additional HCRA	72.0	200.0
Prepaid Cigarette Sales Tax Index	5.8	5.8
TANF Reserve	885.0	955.0
Higher Education Services Transfer	-	39.0
Dormitory Authority Transfer	-	12.0
Other Transfers	-	75.0
Change in Tax Payment Date for Businesses	-	100.0
Recovery of School Aid and Welfare Recipient Overpaym	39.0	39.0
PIT Refund Reserve	1,133.0	1,250.0
Total	**$2,622.30**	**$4,055.30**

Closing the 2003-04 Budget Gap: The Governor's Approach

- In going forward, Governor Pataki is proposing a multi-year plan for getting the state's finances back into some semblance of structural balance. This is not an illogical or inappropriate approach since implementing $9+ billion of recurring service cuts and/or recurring revenue increases during the next fiscal year would cause substantial harm to the state's economy. In thinking about the magnitude of this gap, it is important to remember that this gap is in the state's General Fund which currently accounts for approximately $40 billion of state spending. (NOTE: Some General Fund gap closing actions can involve the use of resources in other funds.)

- Implicit in the Governor's multi-year approach are two kinds of budget balancing actions. **First,** the Governor is, in effect, proposing to reduce the projected budget gap to "manageable" proportions through one-shots (such as the proposed tobacco securitization), additional federal aid, efficiencies and other actions that do not create an additional drag on the state's economy during the current recession.

- **Second**, in recommending a mix of more painful budget cuts and revenue increases to close the remaining gap, the Governor leans much more heavily toward service cuts than to revenue increases; **and** in the revenue increases that he is proposing he relies almost entirely on increases in regressive consumption taxes and fees.

- The Governor is correct in taking a multi-year approach to addressing the state's current fiscal crisis. And, in implementing such an approach, he is correct in proposing to reduce the projected budget gap to manageable proportions before resorting to service cuts and/or tax increases that would create an additional drag on the state's economy during the current recession. We do, however, also believe that within this overall strategic framework much better choices are possible.

Executive Budget Proposals to Close the Budget Gap

($ Millions)

	SFY 2002-03	SFY 2003-04	SFY 2004-05	SFY 2005-06
Projected Base Level Gap	$2,200	$9,264	$10,171	$11,080
Tobacco Securitization	$1,500	$2,278	$400	$0
Spending Restraint/Administrative Savings Actions	$700	$5,638	$5,660	$5,696
Revenue Increases	$0	$1,348	$1,212	$1,148
Remaining Gap	$0	$0	$2,899	$4,236
Spending Restraint Proposals				
Savings in school aid		$1,270		
Medicaid cost containment		$1,020		
State operations savings	$700	$1,000		
Welfare savings		$587		
Spending restraint in other local assistance programs		$977		
Debt management actions		$516		
Spending restraint in all other program areas		$268		

Reducing the Budget Gap to Manageable Proportions

- The actions designed to reduce the amount of the gap that must be closed with economically painful service cuts and/or revenue increases, can be broken down into two categories: recurring and nonrecurring actions.

- In general, the use of nonrecurring resources to balance the 2003-04 budget will be criticized by some observers as "simply putting off the problem." But, as discussed earlier in this presentation, attempting to close all or most of the current gap in a single year would do significant damage to the state's economy. The argument that we should "bite the entire bullet" immediately implies incorrectly that the economy and Wall Street will not recover and that lower Manhattan will not be rebuilt. The problem is guessing when these various recoveries will begin, how strong they will be, and what the effects (in terms of both timing and magnitude) they will have on state revenues. Thus, the use of a mix of both recurring and nonrecurring actions to close the 2003-04 budget is not unwarranted.

- More problematical is the fact that some nonrecurring actions will provide the state with significant additional resources in the next several years but will reduce the resources available to the state in subsequent years. For example, the largest of the nonrecurring actions, the proposed tobacco securitization, is designed in the Governor's financial plan to provide resources to help in balancing the 2002-03 ($1.5 billion), 2003-04 ($2.3 Billion) and 2004-05 ($400 million) budgets. But, there are recurring costs to this proposal, however, since the monies involved, New York State's share of the receipts from the tobacco manufacturer Master Settlement Agreement, are currently dedicated to the financing of a variety of health care programs authorized by the Health Care Reform Act (HCRA). It is therefore extremely important that legislators and outside organizations carefully review the claim in the Executive Budget that “the HCRA plan fully accommodates the re-direction of Tobacco Settlement payments.”

- Among the additional nonrecurring action that should be considered include two that are under the state's control and two that would require close cooperation with New York's congressional delegation, the Bush and Bloomberg Administrations, and the activation of an active federal lobbying effort by public and private sector leaders from New York State in coalition with public and private sector leaders from other states.

- First, New York State should consider using all or some of the $710 million in its official rainy day fund, the Tax Stabilization Reserve Fund, to address the revenue shortfall in the current fiscal year. Monies in this fund can only be used to finance unanticipated deficits such as the one that the state now faces for 2002-03 and the amounts used must be repaid within six years. New York State's current fiscal situation is clearly a rainy day of the kind that this fund was established to address. In fact, Governor Pataki has described New York's current budget problems as "the most difficult our generation has ever faced."

- Second, New York State should consider reducing the amount that is reserved for the payment of current year personal income tax refunds from $960 million, the amount reserved for this purpose in the current financial plan, to $460 million, the amount reserved for this purpose prior to the 2000-01 fiscal year. Under Governor Pataki this reserve has been increased three times and decreased on two occasions. It seems reasonable to reduce it to a lower level for the next several years. When we next enjoy "good times" this reserve can again be increased.

- Third, New York's public and private sector leaders should work with New York's congressional delegation, the Bush Administration and public and private sector leaders from other states to ensure that the federal government provide "state fiscal relief" as part of its efforts to deal with the effects of the current recession. In late July, the U.S. Senate adopted an 18-month “state fiscal relief” measure which would have provided the states with $7 billion of fiscal relief over 18 months by temporarily increasing the federal Medicaid match rate and increasing Title XX Social Service Block Grant payments. New York would have received about $1.1 billion of that assistance. This proposal by Jay Rockefeller (D-WV) and Susan Collins (R-ME) was added as an amendment to the Schumer-McCain prescription drug bill (S. 812) by an overwhelming bi-partisan majority (75-24). While the Schumer-McCain bill passed the Senate, it was never considered by the House of Representatives. Representatives Peter King (R-NY) and Sherrod Brown (D-OH) have obtained broad bi-partisan co-sponsorship for a 12-month State Fiscal Relief Act that they will be reintroducing in the near future. This bill would provide a 2% increase, retroactive to October 1, 2002, in the federal medicaid match rate for all states that maintain their current Medicaid eligibility levels. Under this bill, states that have high unemployment (defined as having a state unemployment rate higher than the national average for three consecutive months) would be eligible for an additional 2.5 percentage point increase in their FMAP provided that they maintain current eligibility levels."

C Fourth, New York's public and private sector leaders should work with New York's congressional delegation, the Bush Administration and public and private sector leaders from other states to secure amendments to the Stafford Act (the Federal Emergency Management Act) that would allow New York State and New York City to receive federal aid for tax revenue losses directly attributable to the WTC attacks and which would allow other states and cities to receive such aid in the event of future attacks. Governor Pataki initially raised this issue in his October 2001 request for federal help, but since then the state's emphasis has shifted to seeking federal money for other purposes. HR 5523/S 3055, as introduced in the last Congress by Congresswoman Carolyn Maloney et al. and Senators Schumer and Clinton, would allow states and localities to receive federal reimbursement for a substantial portion of revenue losses directly attributable to terrorist attacks.

C Recurring actions that can reduce the size of the gap that has to be closed through economically harmful service cuts and/or revenue increases involve refinancing debt to take advantage of lower interest rates. Several other examples of such actions which have been highlighted by the Fiscal Policy Institute in the past include getting better prices on prescription drugs and closing corporate tax loopholes that give an unfair competitive advantage to some business over others and which allow large multi-state and multi-national corporations to profit from New York markets without carrying a fair share of the tax load. An additional example of these types of actions include the current multi-state effort to simplify state sales and use tax systems as part of an effort to secure federal legislation and/or court decisions that would allow the states to require remote sellers to collect and remit sales and use taxes on sales to state residents. This effort is essential to providing an even playing field for local retailers (referred to as "bricks and mortar" sellers in the current national debate on this subject) and to stop the increasing erosion of state and local sales tax bases.

Making the Hard Choices

- Once the Governor gets to the more difficult step of closing the remaining gap through a mix of more painful budget cuts and revenue increases, he proposes about $4 of service cuts for every $1 of revenue increases. And, the revenue increase that he does propose are overwhelmingly increases in consumption and other regressive taxes and fees.

- The Governor attempts to justify these policy choices by (1) asserting a relationship among taxes, government spending and the economy that is inconsistent with basic economic principles, and (2) presenting a mythical and incorrect rendition of New York State's economic history.

- First, the Governor assumes/asserts that tax increases generally have a more negative effect on the economy than service cuts. This is not true, and is particularly mistaken during a recession. Neither tax increases or service cuts are desirable during a recession, but New York (like most other states) is required to balance its budget in both good times and bad. As Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, and Peter Orszag of the Brookings Institution have explained in ***Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?***, a temporary increase in the tax on the portions of income over some relatively high level is the least damaging mechanism for balancing state budgets during recessions. Reductions in government spending on goods and services produced or provided locally and reductions in transfer payments to lower-income families are most damaging to the economy since they take dollar for dollar out of the local economy. Increases in consumption taxes and fees will take more demand out of the economy than tax increases on the portion of income over some relatively high level.

- Second, the Governor’s implicit definition of what kinds of taxes are “job-killing” and what kinds are not, seems particularly inconsistent with basic economic principles. Gross receipts taxes and fees will have the most negative impact on the ability of businesses, particularly small businesses, to create and maintain jobs since they make it more difficult to make a profit. Taxes on net profits or net income will have the least damaging effect and, for the reasons cited by Stiglitz, will create the least drag on the economy during a recession.

- Third, both tax increases and service cuts can be “job killers.” The Governor should want to avoid job killing service cuts as much as he wants to avoid job killing tax increases.

- Fourth, because states have to balance their budgets during both good times and bad, the choices that have to be made in this year’s budget require the Governor and the Legislature to chose that mix of revenue increases and service cuts that have the least negative effect on the economy.

- Fifth, some of the budget cuts proposed by the Governor are really tax increases. The Governor's proposed school aid cuts will hurt the economy in one or both of the following ways. Cuts in the quality of local educational programs will not only hurt communities' attractiveness to residents and employers and negatively impact on districts' ability to achieve higher performance standards but they will also reduce employment both directly and indirectly. On the other hand, to the extent that local communities do not want to cut their educational programs, they will have to increase local property taxes more than would otherwise be necessary. Similarly many of the Governor's proposed savings in Medicaid and welfare costs will require NYC and the counties outside NYC to increase local taxes and others will put those local governments in the position of having to choose between cuts that hurt vulnerable families and increases in regressive taxes that hurt those and other vulnerable families.

Learning from History, Not Revising It

C The 2003-04 Executive Budget is premised on inaccurate renditions of New York's economic history.

C This is particularly true when it comes to the Governor's claims that the budgetary choices that he is now proposing will work because they worked in 1995. There are two basic problems with this assertion. First, the current economic situation is fundamentally different than the economic situation that New York State faced in 1995. Second, the growth that did occur in the late 1990s, just like the declines that have occurred in the last several years, are closely related to other factors, primarily the boom and now the bust on Wall Street.

C **1995 is just not like 2003**. In January of 1995, the national recession had been over for 3 and a half years and the New York State recession had been over for two years and two months. New York had experienced year-to-year job growth in both 1993 and 1994 and this trend continued until 2000.

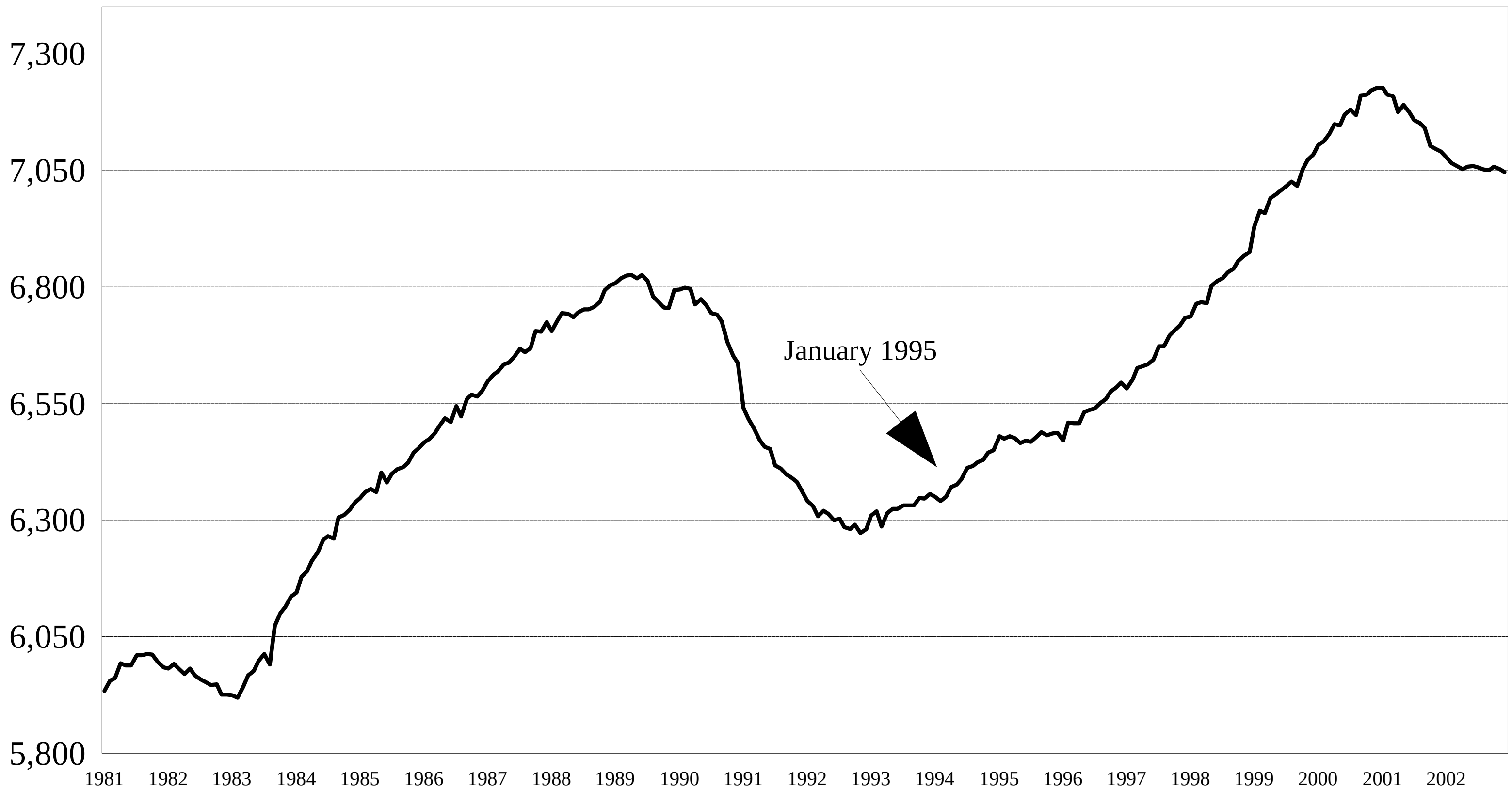
C The situation is vastly different today. We've had two years of serious job losses as a result of the World Trade Center attacks, the recession and the bursting of the stock market and dot-com bubbles. It is not clear if the national recession is over, and it is even more doubtful that the recession here in New York.

C In the Economic Backdrop section of the Executive Budget, the Division of the Budget (DOB) notes that New York State's job losses have been much more severe than the monthly employment survey data have indicated to date. DOB is projecting that when the State Labor Department releases its revised employment data in early March it will show that the job losses over the past two years were really much greater than now indicated.

In January 1995, New York State was well into a sustained 8-year recovery.

The state is now in a downturn of uncertain length.

NYS seasonally adjusted private-sector nonagricultural employment, January 1981 to December 2002



- Moreover, in the event of a second Gulf War, the economy, particularly here in New York, will be much weaker than the baseline projections for 2003. Consumer confidence and business investment will falter, higher oil prices will drive up inflation, and a recovery in the financial markets will be pushed back.
- **State fiscal policies did not drive the boom of the late 1990s.** Governor Pataki also claims that the budgetary policies that he implemented, beginning in 1995, were responsible for the economic boom that followed. An examination of the nature and the composition of the state's economic and revenue growth during the late 1990s shows that this assertion is incorrect.
- **First,** every measure of economic growth points to Wall Street as the dominant force in the state's late 1990s expansion. Half of the total economic growth recorded in the state, as reported by the U.S. Commerce Department in its Gross State Product series, stemmed directly from Wall Street. Nearly 40% of the nearly $200 billion increase in New York State Adjusted Gross Income from 1995 to 2000 resulted from the increase in Wall Street wages and bonuses and the increase in largely stock-market related capital gains. New York State fiscal policies didnot trigger the stock market bubble.
- **Second,** the economic expansion of the late 1990s was not unique to NYS. States throughout the country rode this roller coaster up and are now riding it down. California, for example, experienced an even greater increase in both total Adjusted Gross Income and capital gains than did New York. From 1995 to 2000, California experienced a 72% increase in Adjusted Gross Income compared to New York's 62% increase. Capital gains also increased much faster in California than New York during the late 1990s - up 490% vs. New York's 350% increase.

The Wall Street securities industry accounted for nearly half of the growth in gross state product during the 1990s expansion.

(Gross State Product, New York, millions, 1996 chained dollars)

INDUSTRY	**Absolute Change**		**Share of Total GSP Change**		**Annual Growth Rate**	
	1982-89	**1992-99**	**1982-89**	**1992-99**	**1982-89**	**1992-99**
Total Gross State Product	$126,147	$142,110	100%	100%	3.5%	3.1%
Security Brokers	$12,343	$67,581	9.8%	47.6%	13.4%	21.3%
All Other Industries	$113,804	$74,529	90.2%	52.4%	3.2%	1.8%
Construction	$10,644	$1,708	8.4%	1.2%	9.1%	1.3%
Manufacturing	$11,062	$4,474	8.8%	3.1%	2.2%	0.9%
Transportation & utilities	$2,661	$9,105	2.1%	6.4%	1.0%	2.7%
Wholesale & retial trade	$22,603	$27,272	17.9%	19.2%	5.0%	4.6%
FIRE (except securities)	$20,115	$13,425	15.9%	9.4%	2.3%	1.3%
Services	$35,815	$17,346	28.4%	12.2%	4.4%	1.7%
Government	$7,930	$1,381	6.3%	1.0%	1.7%	0.3%
Agriculture and mining	$781	$674	0.6%	0.5%	3.9%	2.7%

Note: Because not all output is allocated to an industry, major industries will not sum to total.

Sources: BEA & FPI linked 1992 and 1996-chained GSP.

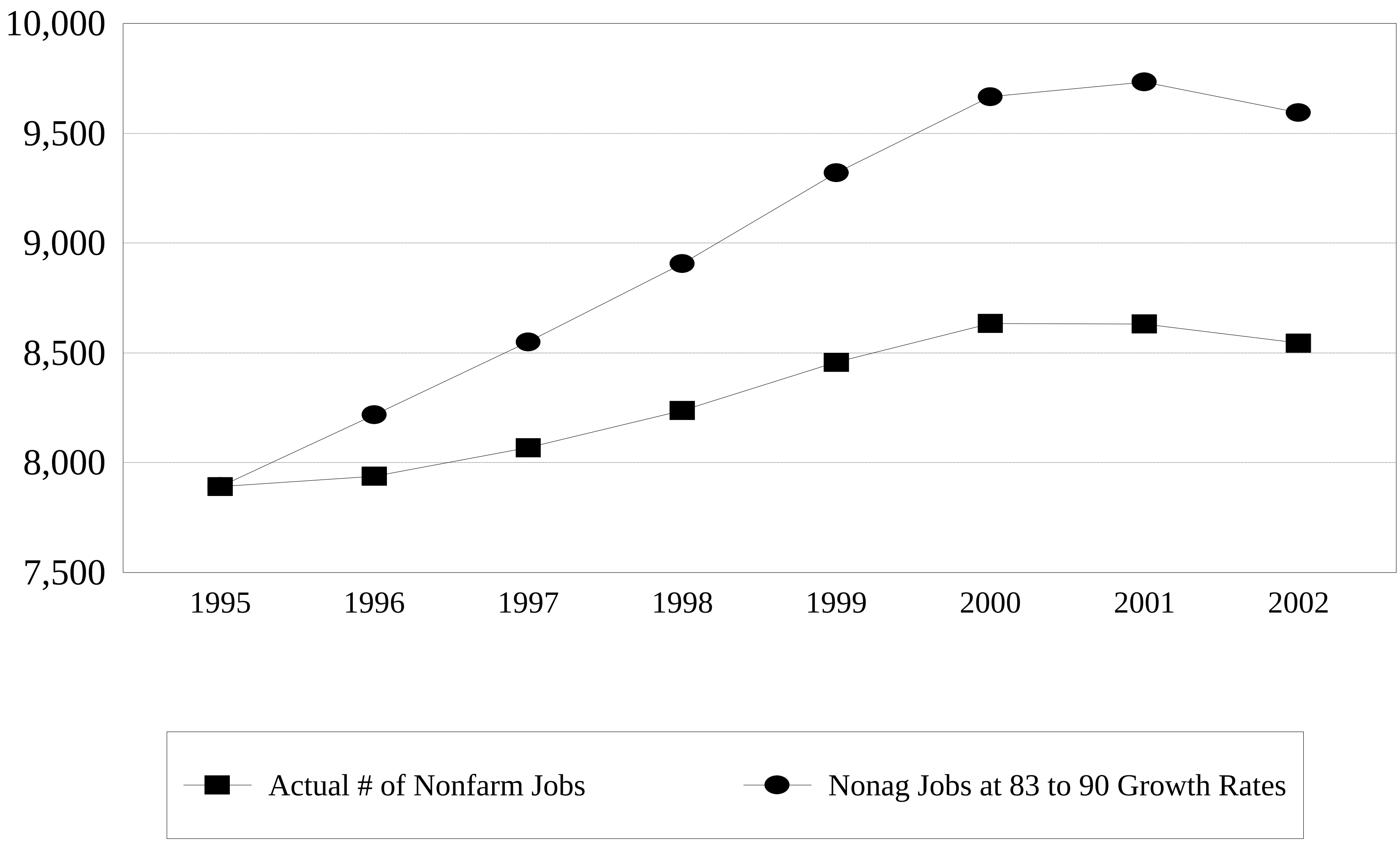
- **Third,** if Governor Pataki's fiscal policies were the cause of the state's economic boom, why did the downstate region fare so much better than upstate in the late 1990s? Job growth upstate averaged only 1.2% a year from 1994 to 2000 whereas downstate, job growth averaged 1.9% annually. The state's fiscal policies were the same throughout the state but the boom occurred downstate where New York City, despite its much higher cost of living and higher taxes than in the rest of the statem led the parade.

- **The strategy that the Governor is proposing for balancing the 2003-04 budget is very similar to ways in which New York State balanced its budget during the last recession.** Governor Pataki claims that the state government balanced its budgets during the last recession with massive tax increases. And, he implies that these tax increases were of the kind that he is implicitly characterizing as "job killing" tax increases. Well there were tax and fee increases during the early 1990s, but they represented less than 25% of the budget balancing actions taken during those years AND those tax and fee increases were overwhelmingly of the kind that the Governor is proposing in this year's budget.

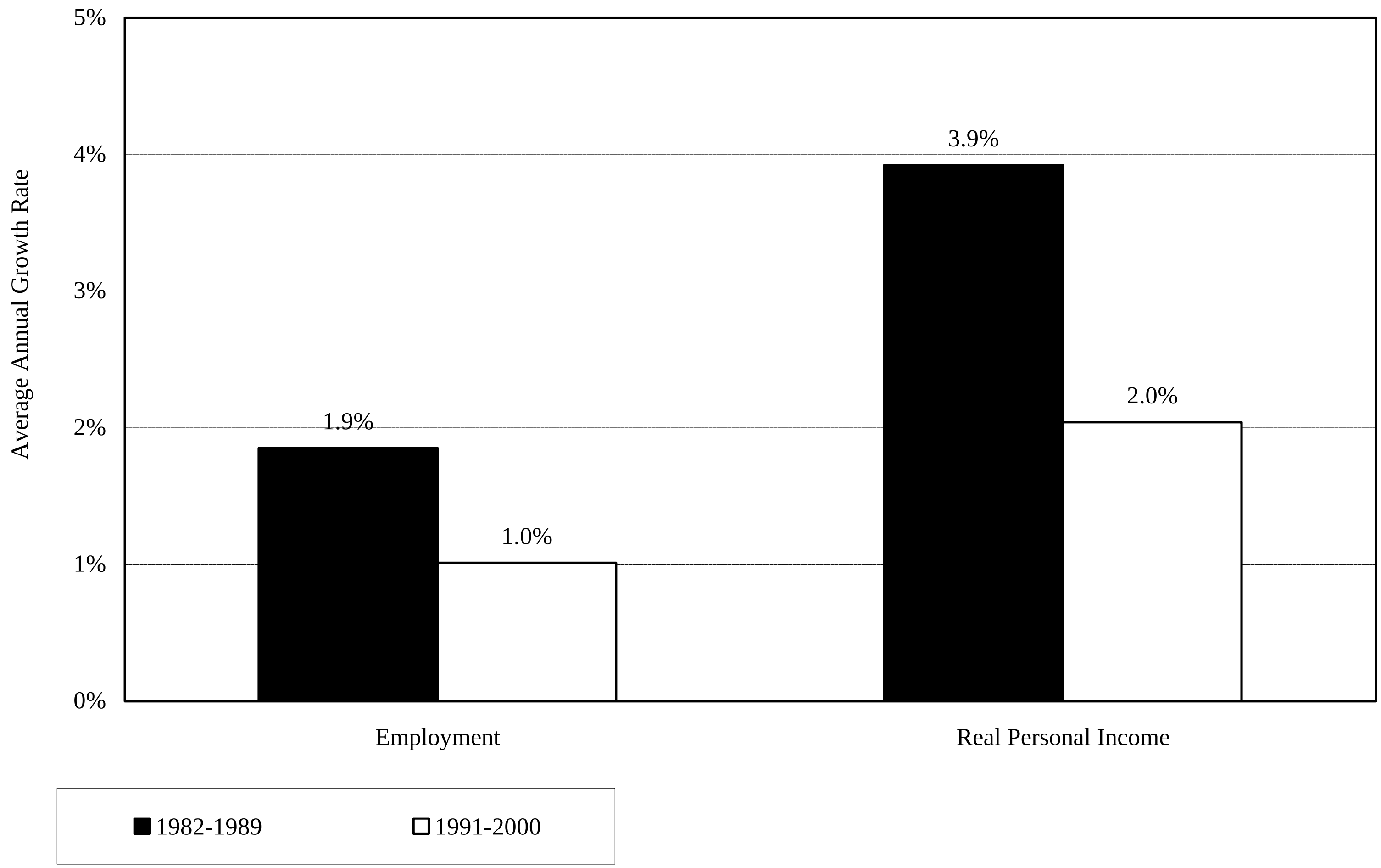
- In 1989, the Coalition for Economic Priorities, a broad-based coalition co-chaired by the heads of the NYS Council of Churches, the NYS Association of Counties, and the NYS AFL-CIO, was formed to lobby for the deferral of the remaining steps of the large, multi-year personal income tax cuts that were enacted in 1987. This coalition consisted of organizations that foresaw the huge shift to local property and sales taxes that was inherent in the Governor's budget proposals and organizations that were worried about the impact of the proposed budget cuts on the state's most vulnerable populations and on the quality of life for all New Yorkers. But the Governor and the Legislature refused to take the advice of this coalition. Instead, in 1989, the state government implemented a very large reduction in the state's personal income tax.

Largest tax reductions in history did not stimulate job growth as promised.

Employment grew more slowly in the 1990's than it had in the 1980's.



Both income and employment growth in New York State were stronger in the economic expansion of the 1980s than in the expansion of the 1990s.



Most Upstate areas had weak total wage growth in the 1990s, often accompanied by paltry job growth and population decline.

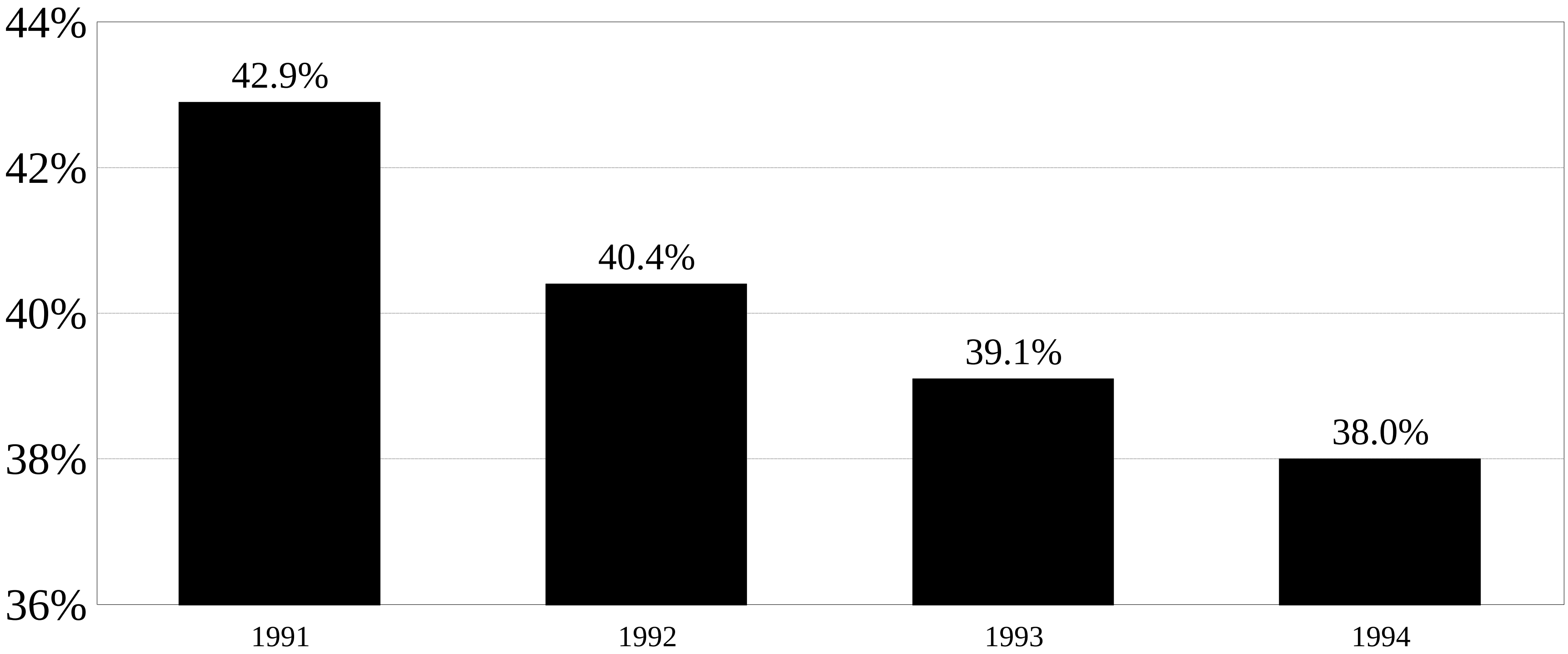
	Total real wage growth 1990-1999	Total job growth 1989-2000	Population growth 1990-2000
New York State	**15.7%**	**4.3%**	**5.5%**
Central New York	-0.4%	0.9%	-1.5%
Mohawk Valley	3.6%	7.8%	-3.5%
North Country	3.2%	6.0%	0.3%
Southern Tier	2.3%	1.8%	-1.7%
Western New York	6.3%	2.2%	-1.5%

SOURCE: NYS Department of Labor, U.S. Bureau of Economic Analysis.

- Based on Governor Pataki’s recent expositions on the relationship between state tax policy choices and the economy, that large personal income tax cut should have somehow stimulated the state’s economy and insulated it from the accelerating recession. But, as we know, that did not happen. Instead, the state’s economic situation got worse.
- In 1990, the main budget, which was adopted in May of that year, included a deferral of the scheduled income tax cuts but it did not include any increases in the progressivity of the state income tax. But there were real and substantial state tax increases in the originally adopted 1990-91 budget but those tax increases were particularly misguided as the Fiscal Policy Institute stated in its analyses and its budget testimony during the remaining years of the Cuomo administration. First, most of the state tax increases enacted during this period involved increases in existing consumption taxes and the enactment of new consumption taxes. Second, in an effort to have businesses carry a fair share of the burden during this period, the legislature enacted a surcharge on the state’s main business taxes (the bank tax, the insurance tax, the state’s main tax on the incomes of general business corporations - the Article 9-A Corporate Franchise Tax, and the utility gross receipts tax). While well intended, the shortcoming of this approach as identified by the Fiscal Policy Institute during this period was two-fold. The first three of these taxes, particularly the Article 9-A Corporate Franchise Tax, were and are riddled with loopholes that make them patently unfair. Thus, enacting a surcharge rather than closing loopholes, increased the unevenness of the competitive playing field. Second, increases in the utility gross receipts tax increases the price of energy making it harder for businesses to make a profit and making it harder for families to make ends meet.
- In December of 1990, the Legislature enacted a mid-year $1 billion deficit reduction package, with all of the gap closing being done on the expenditure side of the ledger.

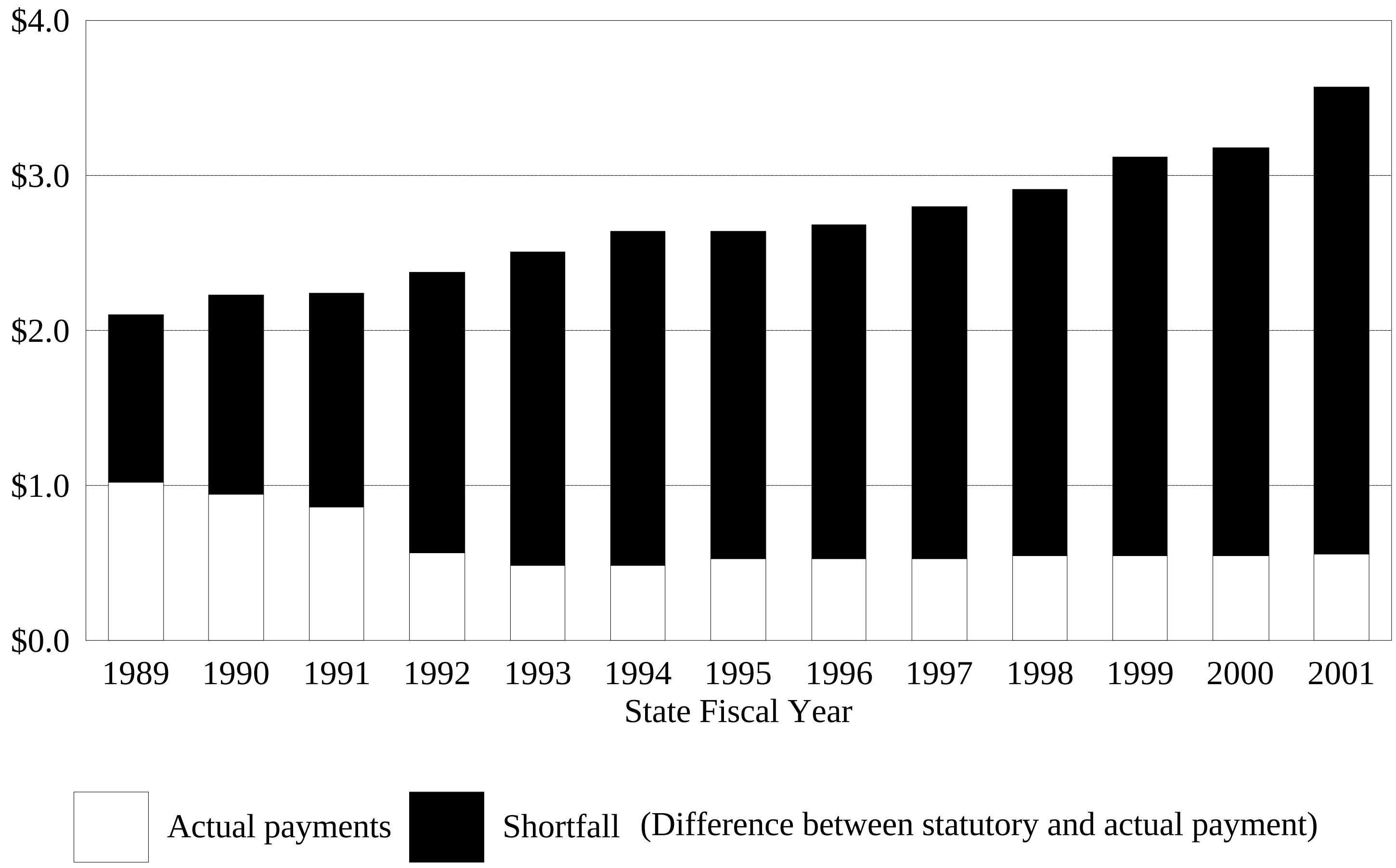
- In 1991, the state continued this approach to budget balancing with one small exception, a relatively small increase in the tax on incomes over $100,000, that paled in comparison to the emphasis during this period on closing the state's budget gap through service cuts and increases in fees and regressive taxes.
- One important result of the state's budget balancing strategies during this 1989 to 1991 period was to place incredible pressure on the local property and sales taxes. From 1987 to 1992, local property tax revenues were up by 50% from $14 billion to $21 billion, while state income tax revenues increased by only 22%. There was a clear and massive shift from the income tax to the property tax during this period.
- Over the last several months of 2002, we have seen the beginnings of a similar tax shift. If the Governor's budget proposals are adopted as submitted this trend will accelerate just as it did in the early 1990s.
- While Governor Pataki has repeatedly asserted that New York State must avoid the failed fiscal policies of the past he is, in reality, copying those policies as if he were following a script. As former Nixon Attorney General John Mitchell said, look at what we do not what we say.

In the early 1990s, state aid as a share of all school expenditures declined significantly.



Souce: New York State Education Department's Analysis of School Finances in NYS School Districts, Table 1, December 2001

Revenue sharing with local governments was cut more than any other state program.



As a result of the 1987 tax cuts and the subsequent state budget cuts, personal income tax revenues grew more slowly than the economy, placing greater pressure on the local real property tax.

During the late 1980's and early 1990's, sales tax rates were increased for three-fourths of state residents outside New York City.

County	Rate Change	Effective Date
Albany	3% to 4%	September 1, 1992
Broome	3% to 4%	March 1, 1994
Cayuga	3% to 4%	September 1, 1992
Chenango	2% to 3%	December 1, 1991
Cortland	3% to 4%	September 1, 1992
Delaware	0% to 2%	September 1, 1990
Dutchess	1% to 3%	March 1, 1990
Erie	3% to 4%	January 10, 1988
Genesee	3% to 4%	September 1, 1994
Greene	3% to 4%	March 1, 1993
Herkimer	0% to 3%	March 1, 1988
	3% to 4%	September 1, 1994
Monroe	3% to 3.5%	September 1, 1992
	3.5% to 4%	March 1, 1993
Nassau	3.75% to 4.25%	September 1, 1991
Oneida	3% to 4%	September 1, 1992
Orange	2% to 3%	March 1, 1992
Orleans	3% to 4%	June 1, 1993

County	Rate Change	Effective Date
Otsego	2% to 3%	December 1, 1991
Putnam	2% to 3%	March 1, 1989
Rensselaer	3% to 4%	September 1, 1994
Rockland	2% to 2.5%	March 1, 1991
	2.5% to 3%	September 1, 1991
Schenectady	0% to 0.5%	December 1, 1988
	0.5% to 3%	March 1, 1989
Schoharie	2% to 3%	March 1, 1992
Steuben	3% to 4%	December 1, 1992
Suffolk	3.25% to 3.75%	September 1, 1991
	3.75% to 4.25%	September 1, 1992
Tioga	3% to 3.5%	March 1, 1994
Tompkins	3% to 4%	December 1, 1992
Ulster	3% to 3.75%	December 1, 1993
Westchester	1.5% to 2.5%	October 15, 1991
Wyoming	3% to 4%	December 1, 1992

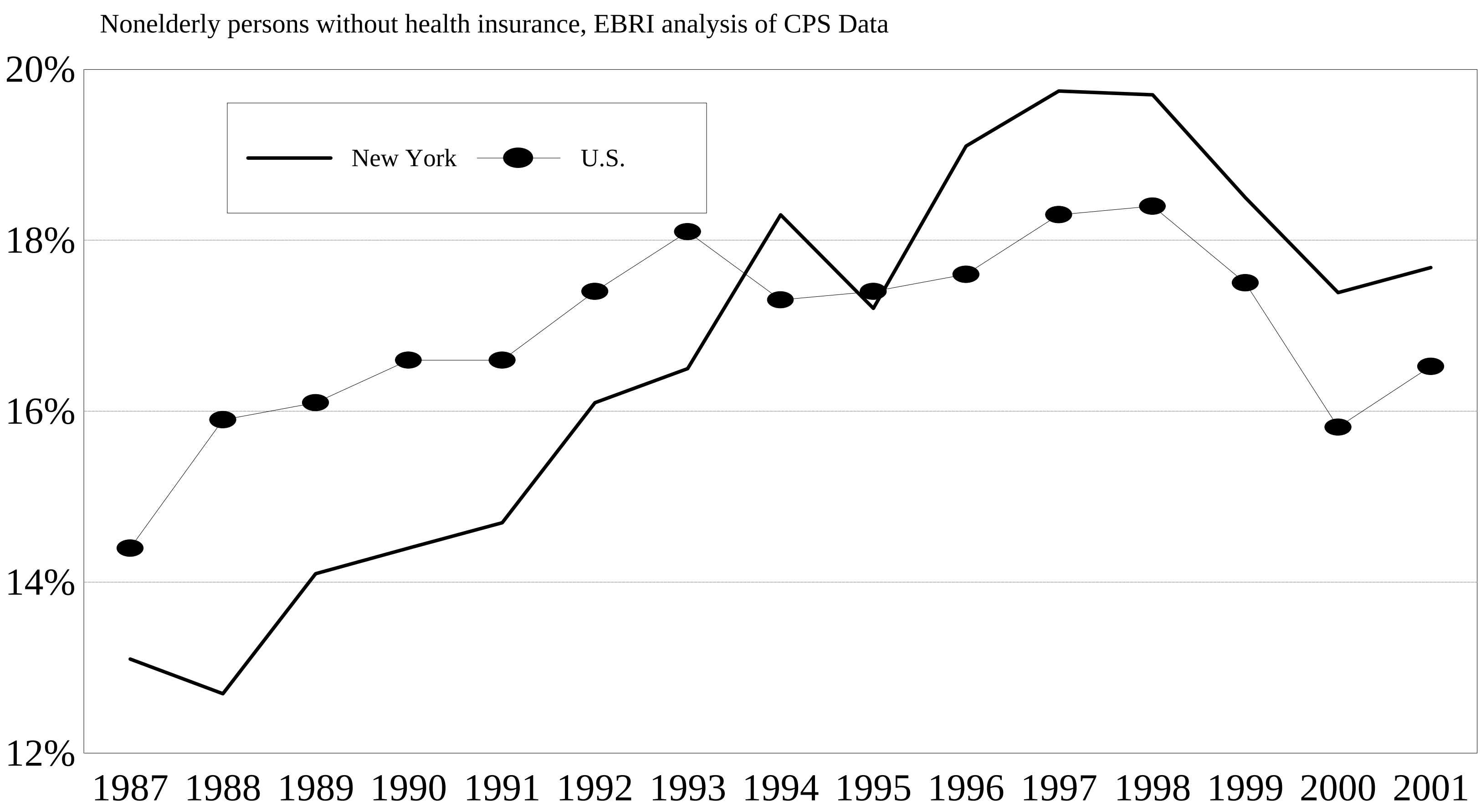
County sales tax rate increases between January 10, 1988 and September 1, 1994. Since January 1, 1995, only five counties, Columbia (3/1/95), Oswego (3/1/97), Schenectady (9/1/98), Schuyler (3/1/00) and Suffolk (6/1/01) have increased their sales tax rates.

Service cuts kill more jobs per dollar than progressive tax increases.

- The Executive Budget proposes a $1 billion dollar cut in state Medicaid spending. According to a January 2003 study by Families USA on the economic impact of Medicaid spending in each of the 50 states, a $1 billion dollar reduction in New York State Medicaid funding would result in a $2 billion decline in business activity; the loss of 17,410 jobs and $720 million in wages and salaries. As part of FPI's more detailed review of the state budget, we will be reviewing Families USA's estimates of the economic impact of Medicaid cuts and producing our own economic impact analysis of the Governor's proposed cuts.

- The Executive Budget recommends a $1.2 billion dollar decrease in school aid for the coming fiscal years. Just to maintain current services, school districts will have to spend approximately $1.3 billion more than they did last year. If the state were to increase state aid by $650 million, local property taxpayers would only after to cover half of those costs. But if the state moves in the other direction and cuts state aid by $1.2 billion, local districts will be faced with a funding gap of $2.5 billion which they will have to close through either tax increases, service cuts or a combination of the two. If all of this budget balancing weredone on the revenue side, it would require school districts across the state to increase local property taxes by 14% with that figure being much higher in the needier districts that are heavily dependent on state aid. If all of this budget balancing were done on the expenditure side it would not only have a substantial negative effect on the quality of the schools' educational programs but it would result in a substantial hit to the state's economy - in terms of both direct and indirect job losses.
- The Executive Budget estimates savings of $587 million through “use of federal funds and other efforts to support welfare spending.” These "savings" come in part from reducing support for local social services districts by $162 million and reducing services and benefits to recipients by another $242 million, including a proposal to not pass through the January 2004 federal cost of living increase for SSI recipients.

As the Governor proposes cuts in Medicaid and more stringent eligibility guidelines for Family Health Plus, 2.9 million New Yorkers still lack health insurance.

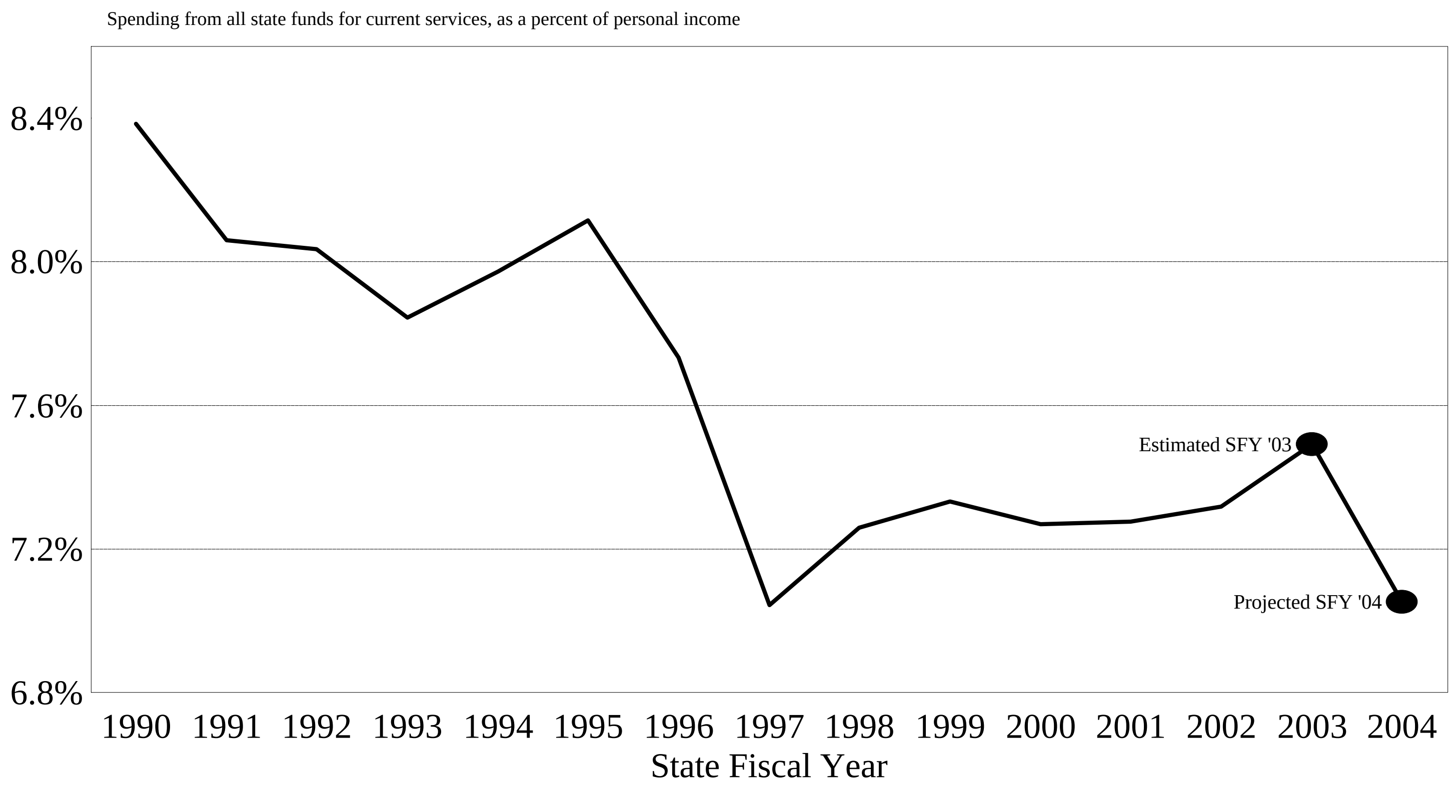


Since 1990, New York State's expenditures for employee wages and salaries have declined in real terms by over $800 million, or more than 7%.

Personal Service expenditures in millions of SFY 2002 dollars

	General Fund	Special Revenue Funds	Total
State FY 1989-90	$6,772.7	$3,872.1	$10,644.9
State FY 1994-95	$5,434.9	$4,536.7	$9,971.6
State FY 2001-02	$5,698.8	$4,125.3	$9,824.1
Average Annual Change			
1989-90 to 1994-95	-$267.6	$132.9	-$134.7
1994-95 to 2001-02	$52.8	-$82.3	-$29.5
Average Annual Percent Change			
1989-90 to 1994-95	-4.31%	3.22%	-1.30%
1994-95 to 2001-02	0.95%	-1.88%	-0.30%
Total 12-Year Change			
Amount	-$1,073.9	$253.1 $0.0	-$820.8
Percent	-15.86%	6.54%	-7.71%

Current services spending relative to the size of the economy has declined substantially since 1990.



Despite its high poverty rates and great wage and income inequality, New York maintains a regressive state-local tax system.

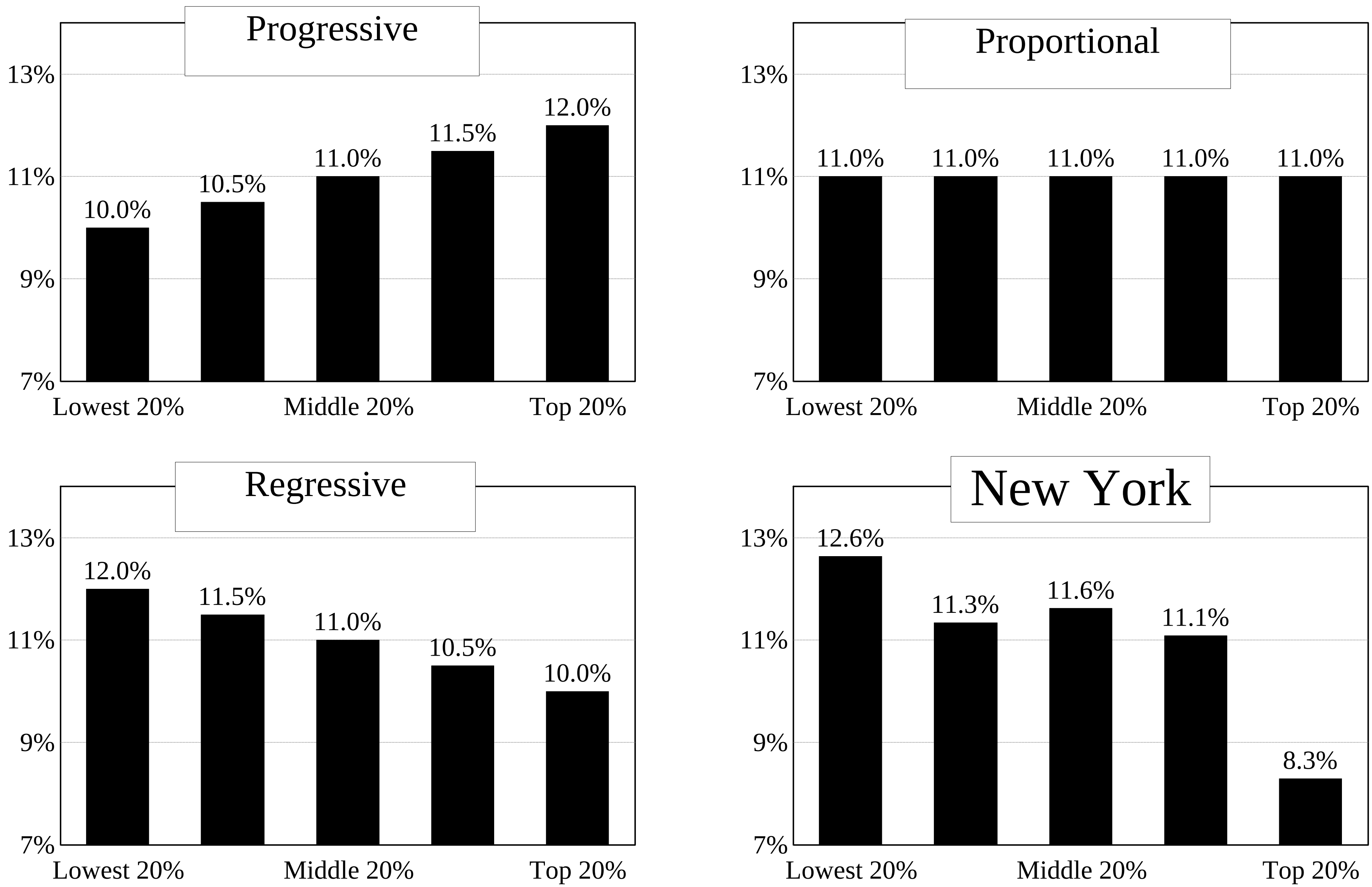
- A progressive tax system is one in which the **portion** of a household's income that goes to taxes increases as its income increases.

- A regressive tax system is one in which that portion decreases as one's income increases. In other words, a regressive tax system is one in which wealthy households pay a smaller share of their incomes in taxes than do lower income households.

- A proportional tax system is one in which all households, regardless of their income levels, pay about the same portion of their incomes in taxes.

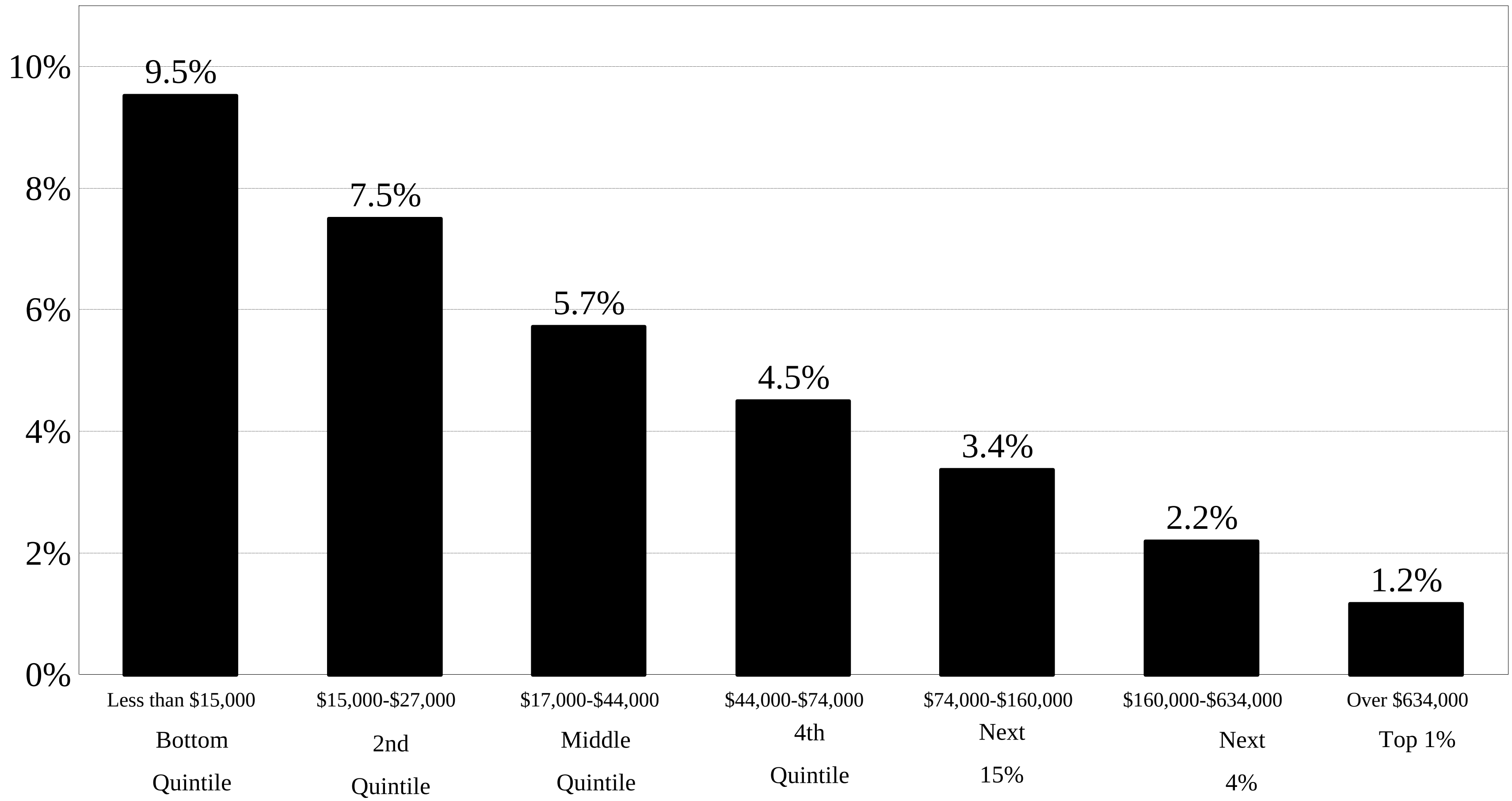
- While it is interesting to note if an individual tax is regressive, proportional, or progressive, the more important question is whether the tax system as a whole is regressive, proportional, or progressive. For most states, the question is whether or not the progressivity of its personal and corporate income taxes and its estate tax balance out the regressivity of its consumption, excise and property taxes. While it is interesting to note if an individual tax is regressive, proportional, or progressive, the more important question is whether the tax system as a whole is regressive, proportional, or progressive. For most states, the question is whether or not the progressivity of its personal and corporate income taxes and its estate tax balance out the regressivity of its consumption, excise and property taxes.

Progressive, Proportional and Regressive Tax Systems



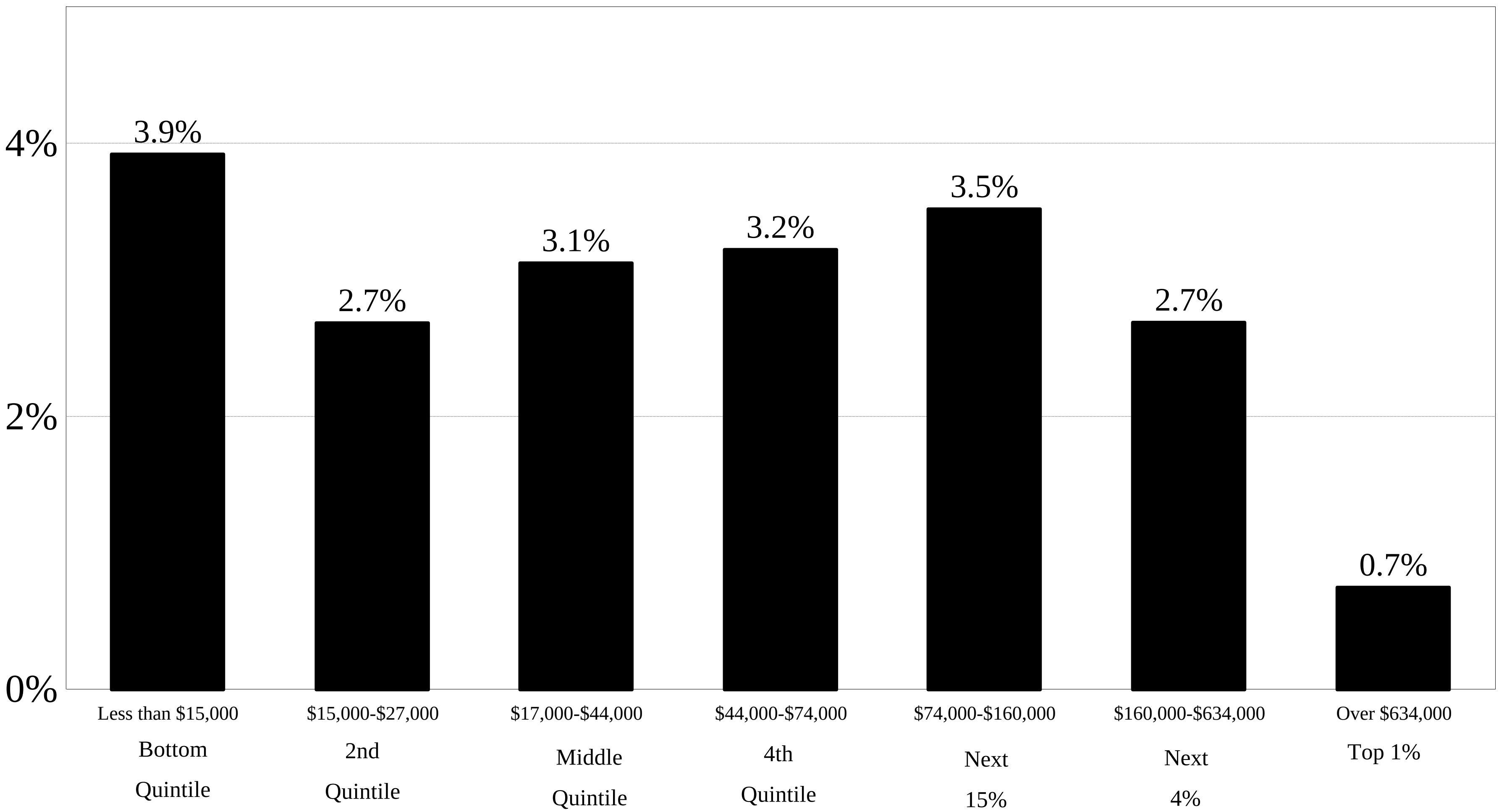
New York figures are from the Institute for Taxation and Economic Policy for 2002 tax law at 2000 income levels for nonelderly taxpayers, after federal offset.

New York's sales and excise taxes are inversely related to income.



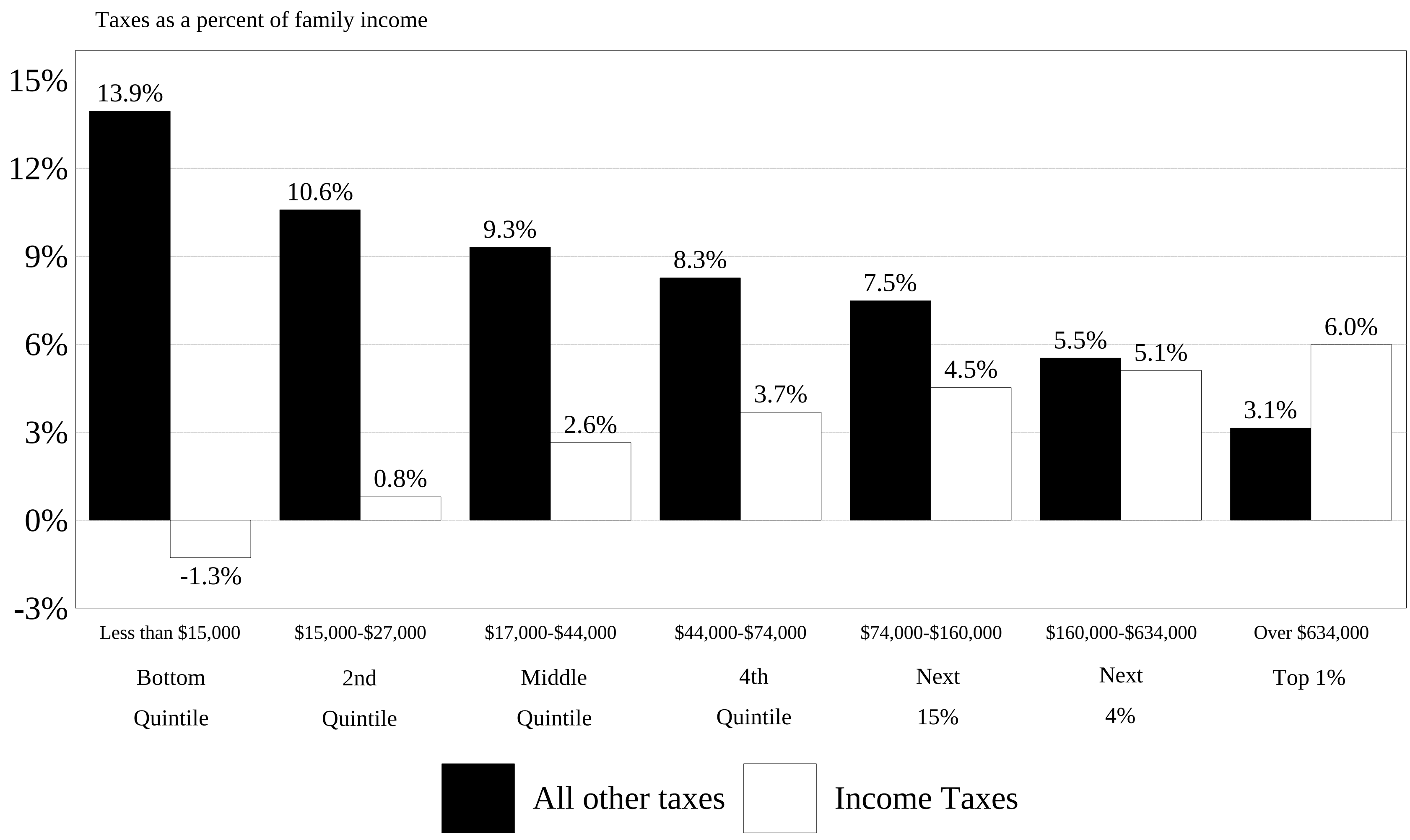
Source: Institute for Taxation & Economic Policy, 2003. Table shows 2002 tax law at 200 income levels for nonelderly taxpayers .

New Yorker's residential property tax burdens are not systematically related to income.



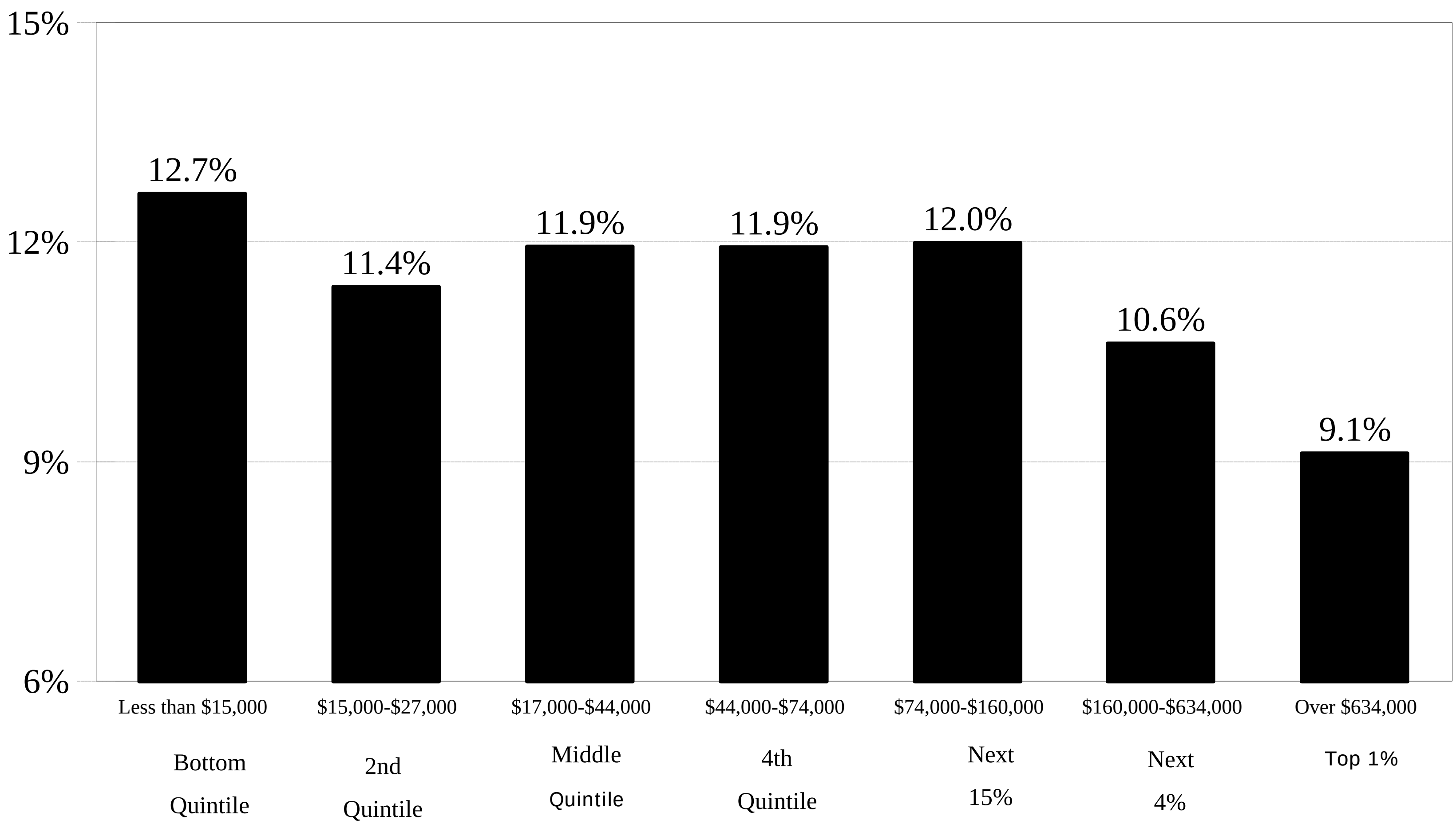
Source: Institute for Taxation & Economic Policy, 2003. Note: Table shows 2002 tax law at 2000 income levels for nonelderly taxpayers, before federal offset.

New York State's personal income tax helps to balance the regressivity of the rest of the tax system.



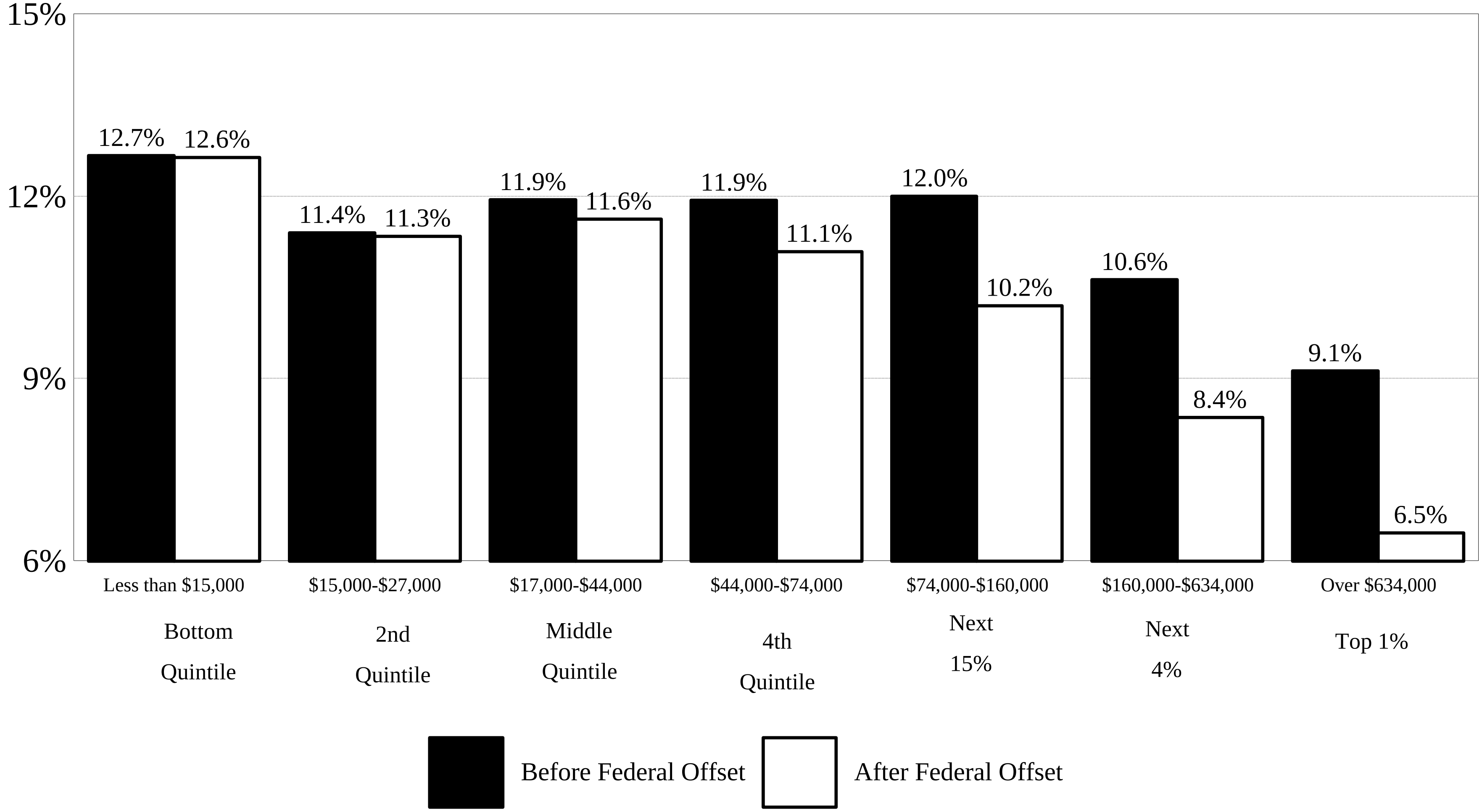
Source: Institute for Taxation & Economic Policy, 2003. Table shows 2002 tax law at 2000 income levels for nonelderly taxpayers,. before federal offset.

Overall, the wealthiest 5% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers.

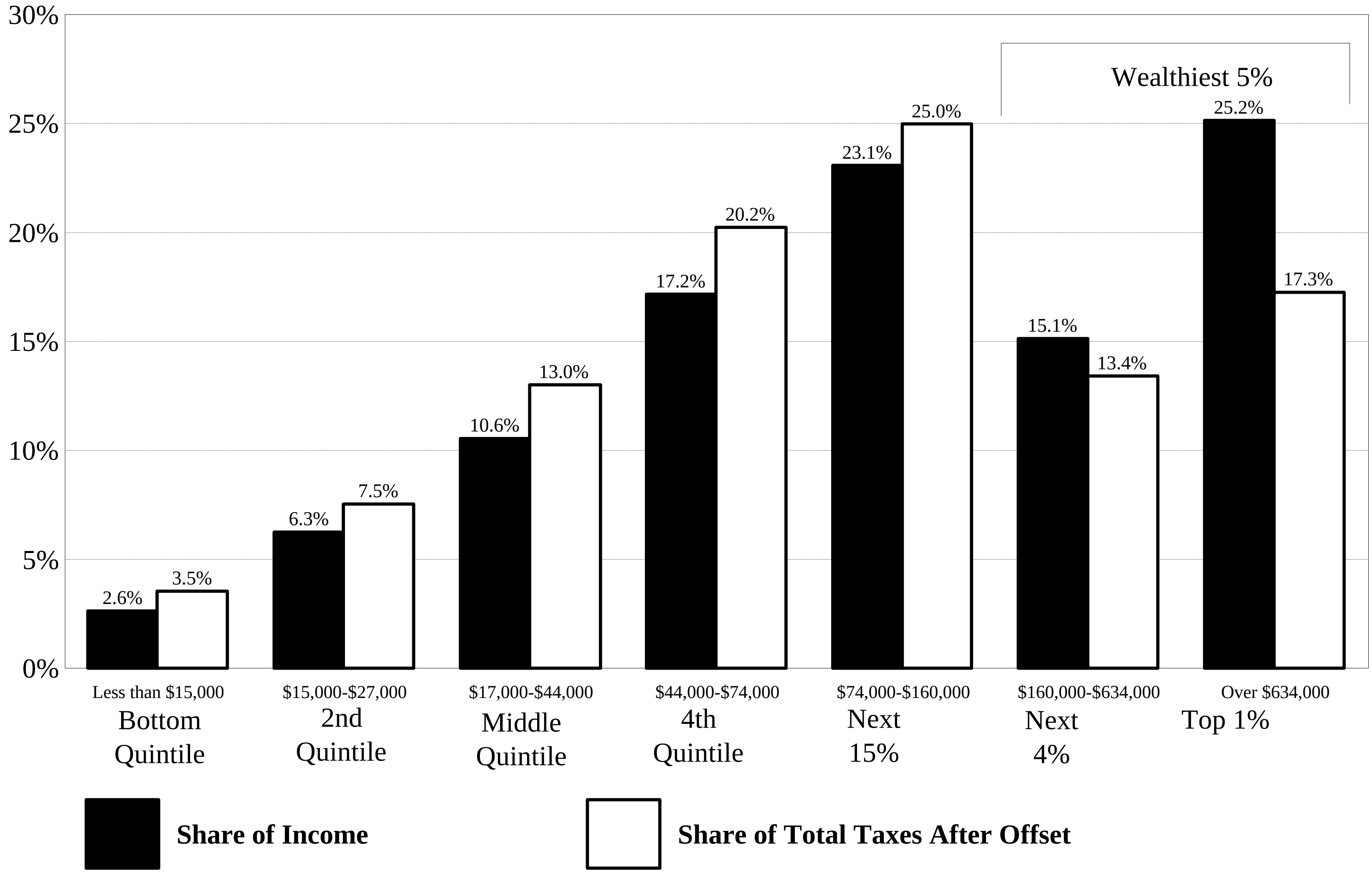


Source: Institute for Taxation & Economic Policy, 2003. Table shows 2002 tax law at 2000 income levels for nonelderly taxpayers, before federal offset.

When federal deductibility is taken into consideration, the differences are even greater.



Taking federal deductibility into consideration, the wealthiest 5% of New York's families have over 40% of the income but carry less than 31% of the state-local tax burden.

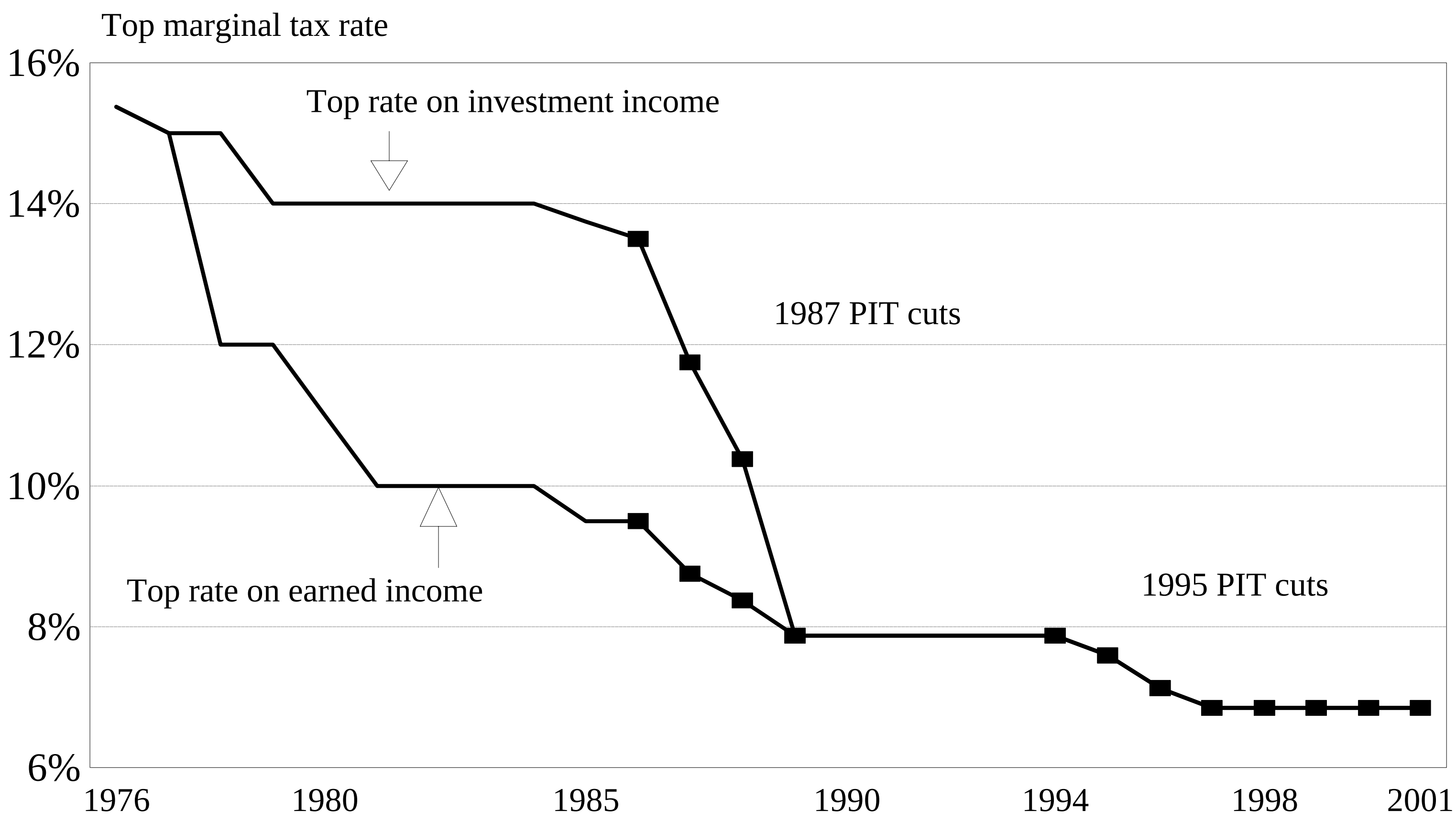


Source: Institute for Taxation & Economic Policy, 2003. Table shows 2002 tax law at 2000 income levels for nonelderly taxpayers, after federal offset. The percentages for the seven income groups add to 100%.

New York State has reduced the progressivity of its personal income tax while the states with which it competes have moved in the opposite direction.

- New York used to have 3rd highest top income tax rate of all the states with income taxes. It is now 19th out of 42, with a top rate of 6.85%.
- In September 2001, North Carolina adopted a temporary (3-year) additional tax bracket of 8.25% (over and above its regular top rate of 7.75%) on the portions of taxable income above $100,000 for single individuals and $200,000 for married couples.
- In 2002, Massachusetts raised $1 billion per year by postponing scheduled income tax cuts and temporarily raising its tax on income from capital gains.
- Connecticut Governor John Rowland recently proposed an additional 1% tax on the portion of incomes over $1 million, even though he vetoed a similar proposal last summer.

New York State has cut its top personal income tax rate by more than 50% over the last 25 years.



Income Tax Policy Options

- A modest, temporary surcharge on seven-tenths of one percent (.007) the portions of a taxpayer's New York Adjusted Gross Income above $100,000 and another seven tenths of one percent (.007) on the portions of income above $200,000 would raise between $2.7 to $3.0 billion annually. This would still leave affected taxpayers with a much lower personal income tax bill than in 2001 because of the Bush tax cuts and federal deductibility of state and local income taxes. If you earn $300,000 a year, you'll be getting about a $5,000 tax break from the federal government.
- Adding a temporary additional tax bracket of 7.85% (one percent above the current top rate of 6.85% that kicks in at taxable income levels of $20,000 for single individuals and $40, 000 for married couples) on the portion of taxable income over $100,000 for individuals, over $200,000 for married couples, and over $150,000 for heads of households would increase revenues by approximately $1.4 to $1.6 billion per year.
- Adding a one percent surcharge on the portions of Adjusted Gross Income above $150,000 would raise about $2 billion per year.
- All of these proposals would have a less negative effect on the New York economy than cuts in state and local services produced or provided locally or increases in fees or regressive taxes. These proposals all have several other advantages. First they would only increase the effective tax rate for those taxpayers who are currently paying less of their income in state and local taxes than the other 90% to 95% of New York taxpayers. Second, over 15% of these tax increases would be paid by residents of other states and other countries. Third, because of federal deductibility of state and local income taxes, the federal government would be paying for about a third of the bill.

Change in Federal/State Tax Liability for a Family of Four

Under "Two 7/10ths of One Percent Surcharge" Proposal

	Adjusted Gross Income			
	$150,000	$300,000	$500,000	$1,000,000
Federal Itemized Deductions - 2000	$33,934	$57,286	$79,481	$142,826
Federal Exemptions -- 2000	$11,200	$1,568	$0	$0
Federal Taxable Income - 2000	$104,866	$241,146	$420,519	$857,174
Federal Tax Liability - 2000	**$23,737**	**$69,861**	**$139,193**	**$312,109**
Federal Itemized Deductions - 2003	$34,052	$57,419	$79,636	$142,988
Federal Exemptions - 2003	$12,400	$3,720	$0	$0
Federal Taxable Income - 2003	$103,548	$238,861	$420,364	$857,012
Federal Tax Liability - 2003	**$21,586**	**$64,888**	**$132,163**	**$300,709**
NYS Itemized Deductions - 2003	**$25,761**	$30,762	$33,223	$46,018
NYS Exemptions - 2003	$2,000	$2,000	$2,000	$2,000
NYS Taxable Income - 2003	$122,239	$267,238	$464,777	$951,982
NYS Tax Liability - 2003	**$8,373**	**$18,306**	**$31,837**	**$65,211**
Two 7/10ths of One Percent Surcharge	**$350**	**$2,100**	**$4,900**	**$11,900**
Federal Itemized Deductions with Tax Surcharge	$34,399	$59,301	$83,711	$152,286
Federal Exemptions with Tax Surcharge	$12,400	$3,720	$0	$0
Federal Taxable Income with Tax Surcharge	$103,201	$236,979	$416,289	$847,714
Federal Tax Liability for 2003 with Tax Surcharge	**$21,492**	**$64,230**	**$130,590**	**$297,120**
NYS Tax Surcharge	$350	$2,100	$4,900	$11,900
Change in Federal Taxes Due to Federal Tax Changes	-$2,152	-$4,973	-$7,031	-$11,400
Change in Federal Taxes Due to NYS Surcharge	-$94	-$659	-$1,573	-$3,589
Net Change in Total Taxes	**-$1,895**	**-$3,531**	**-$3,704**	**-$3,089**

Change in Federal/State Tax Liability for a Family of Four

Based on Rate Increase From 6.85% to 7.85% for Taxable Income Over $200,000

	Adjusted Gross Income		
	$300,000	$500,000	$1,000,000
Federal Itemized Deductions - 2000	$57,286	$79,481	$142,826
Federal Exemptions -- 2000	$1,568	$0	$0
Federal Taxable Income - 2000	$241,146	$420,519	$857,174
Federal Tax Liability - 2000	**$69,861**	**$139,193**	**$312,109**
Federal Itemized Deductions - 2003	$57,419	$79,636	$142,988
Federal Exemptions - 2003	$3,720	$0	$0
Federal Taxable Income - 2003	$238,861	$420,364	$857,012
Federal Tax Liability - 2003	**$64,888**	**$132,163**	**$300,709**
NYS Itemized Deductions - 2003	$30,762	$33,223	$46,018
NYS Exemptions - 2003	$2,000	$2,000	$2,000
NYS Taxable Income - 2003	$267,238	$464,777	$951,982
NYS Tax Liability - 2003	**$18,306**	**$31,837**	**$65,211**
Temporary Rate Increase From 6.85% to 7.85% for Taxable Income Over $200,000	**$672**	**$2,648**	**$7,520**
Federal Itemized Deductions with Tax Surcharge	$58,022	$81,838	$148,863
Federal Exemptions with Tax Surcharge	$3,720	$0	$0
Federal Taxable Income with Tax Surcharge	$238,258	$418,162	$851,137
Federal Tax Liability for 2003 with Tax Surcharge	**$64,677**	**$131,313**	**$298,441**
NYS Tax Surcharge	$672	$2,648	$7,520
Change in Federal Taxes Due to Federal Tax Changes	-$4,973	-$7,031	-$11,400
Change in Federal Taxes Due to NYS Tax Surcharge	-$211	-$850	-$2,268
Net Change in Total Taxes	**-$4,511**	**-$5,233**	**-$6,148**

New York’s corporate income tax is riddled with loopholes and inequities.

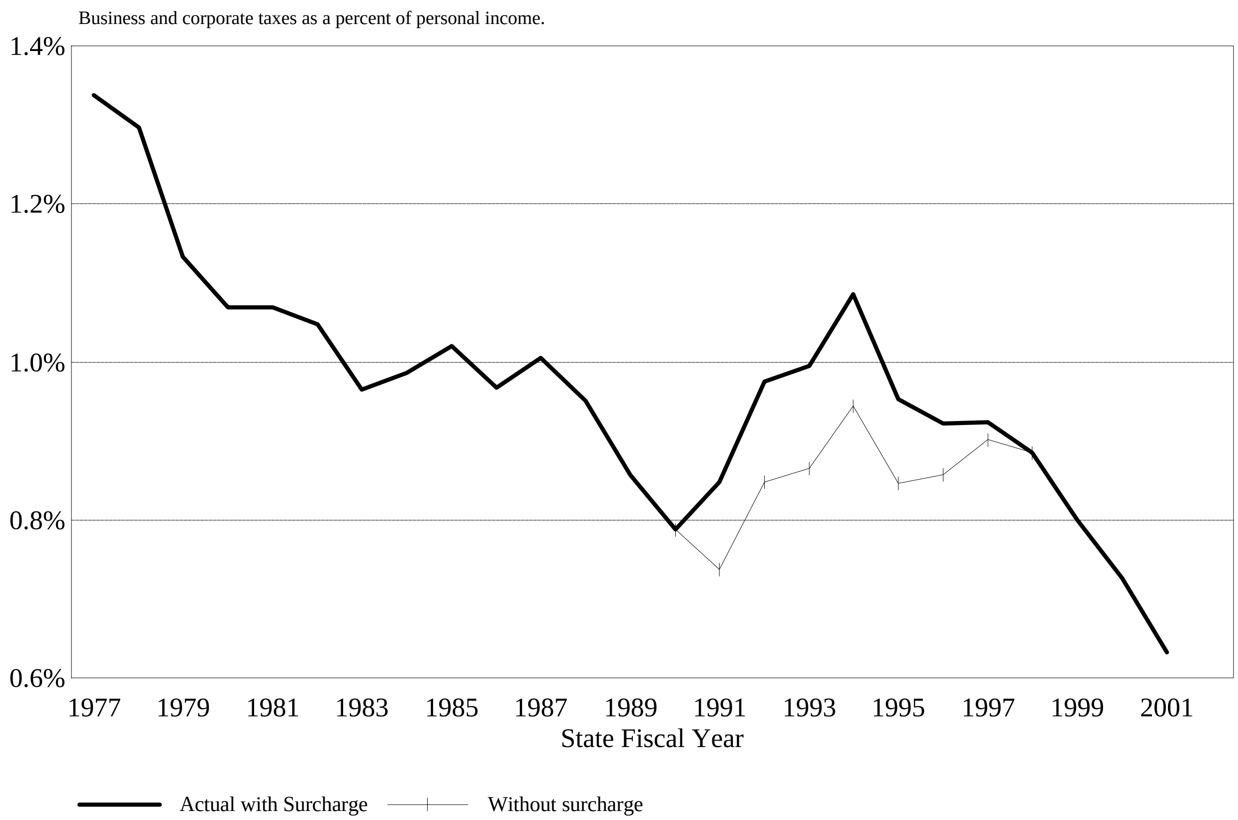
- Many large multi-state and multi-national corporations that profit from New York markets (and others that rely heavily on New York services) pay little or nothing in New York State taxes by using accounting tricks currently allowed under law.

- Toy R’ Us, for example, avoids taxation in New York by shifting income, in the name of royalty payments, to a subsidiary that owns its trademark Geoffrey the Giraffe. That subsidiary just happens to be located in a state that does not tax income from so-called “intangibles.”

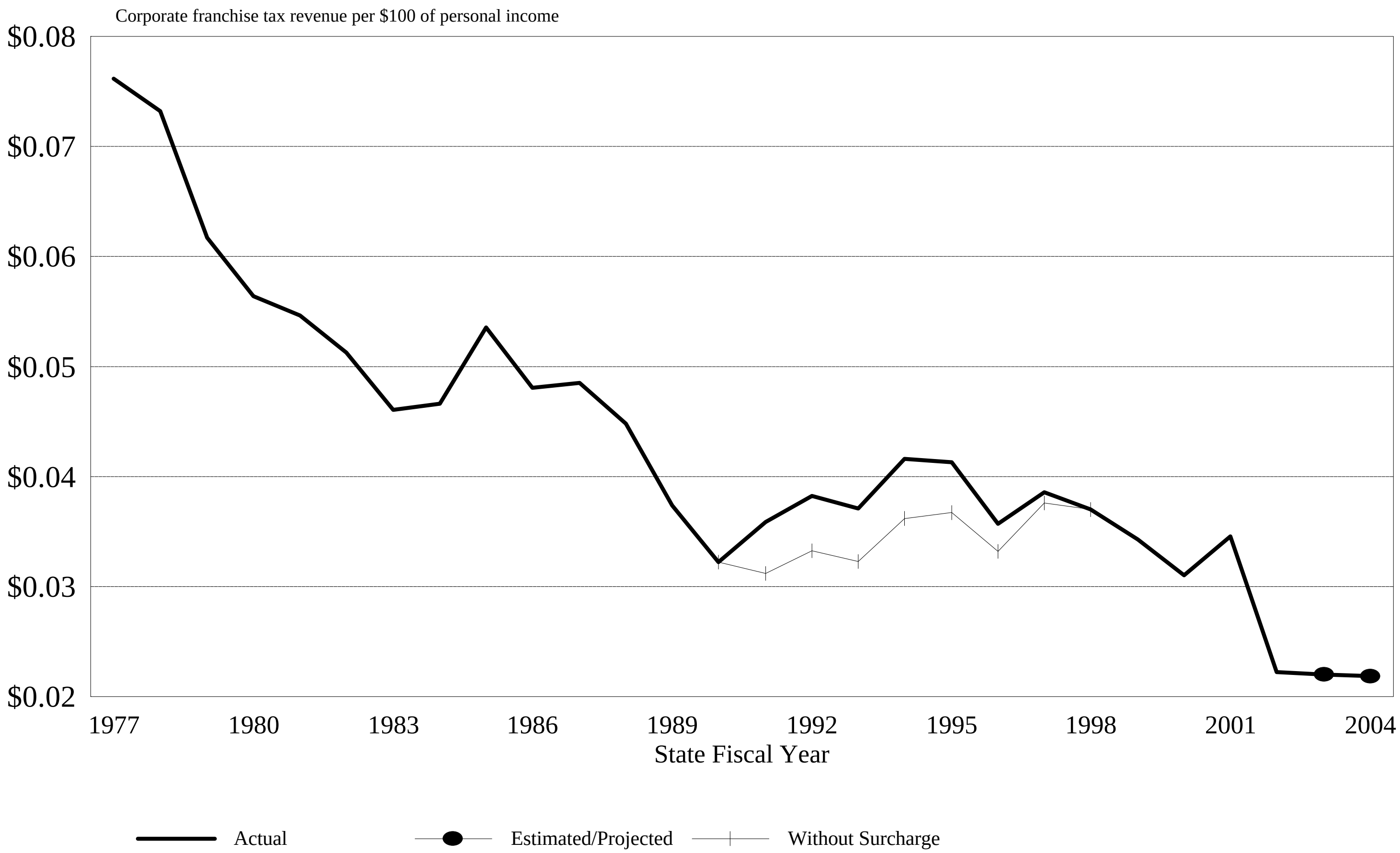
- Last summer, New Jersey enacted legislation that raised $1 billion by closing this and other corporate loopholes.

- New York, meanwhile, has made its corporate income tax into a form of legal Swiss cheese - going so far as to add loopholes to the corporate Alternate Minimum Tax (AMT) which was established to ensure that profitable corporations made at least some contribution to the cost of government services.

Total corporate and business taxes were much smaller in 2001 relative to the size of the economy than they were in 1977.



For example, corporate income tax revenues per $100 of New York State personal income have fallen by over 50%.



Note: The increase in corporate tax revenues from SFY 1999-00 to SFY 2000-01 is due primarily to the impact of legislation which moved energy companies to the corporate franchise tax.

New York State should reform its corporate tax system.

- New York could join California, Colorado, Illinois, New Hampshire and the 12 other states that use a reform called "**combined reporting**" to prevent profitable multi-state and multi-national corporations from avoiding state corporate income taxes through something called "**transfer pricing**."

- This accounting trick enables such corporations to shift income and expenses among their numerous subsidiary corporations in order to reduce their overall tax liability by having inordinately large portions of their income show up in subsidiaries that are only taxable in so-called offshore tax havens where tax rates are inordinately low, or in states that do not have corporate income taxes, or in states (like Delaware) that have corporate income taxes but which do not tax the income from trademarks and other intangibles.

- **The adoption of combined reporting in NY would raise between $340 and $392 million annually.**

New York State should ensure that all businesses that profit from New York's services and markets contribute to the cost of state and local government.

- **New York could adopt a new state Corporate Alternative Minimum Tax** (AMT) similar to the Alternate Minimum Assessment (AMA) enacted last year by New Jersey.

- The New Jersey AMA applies only to businesses with gross profits of $1 million or more, with those businesses subject to a new low rate assessment on either the portion of their gross profits over $1 million or the portion of their gross receipts over $2 million; whichever is less. This new assessment is estimated to raise between $202 and $234 million per year in New Jersey.

- **In New York, a similar assessment would probably raise at least between $400 and $460 million per year.**

New York State should eliminate or reform its litany of wasteful corporate subsidies,

- The exclusion of subsidiary income from corporate taxation should be eliminated . (This step would not be necessary if NYS adopted combined reporting.
- New York's method of taxing corporation's investment income should be reformed.
- Public borrowing for development boondoggles should be ended.
- New York should consider adopting a "throwback rule."
- The ability of Industrial Development Agencies to abate State taxes should be eliminated or limited.
- State and local revenues and expenditures should not be used to subsidize misplaced development.
- The abuse of point-of-sale sales tax exemptions should be curbed.
- New York should recover subsidies from firms that do not live up to the conditions on which those subsidies were based.
- The Investment Tax Credit should be reformed and the amount of credit earned should be based on the actual number of jobs created and retained.
- Loopholes in the Empire Zone program should be closed.

New York State should decouple from federal government's bonus depreciation tax cut.

- From the late 1980s until 2001, nearly all states used the federal definition of taxable business income — including the federal allowance for depreciation — as the basis for their own tax calculations. A federal tax law enacted in March 2002, however, created a new "bonus depreciation" deduction. This gives corporations a reduction in their federal and NY State corporate franchise tax for investing in new equipment ***no matter where those investments are made (including foreign investments).*** The revenue loss to New York State from this tax cut will be **between $270 and $545 million in SFY2003-04**.

- Thirty states plus the District of Columbia that previously followed federal depreciation rules are now decoupled from federal tax law — in effect, disallowing the new bonus depreciation provision in their states.

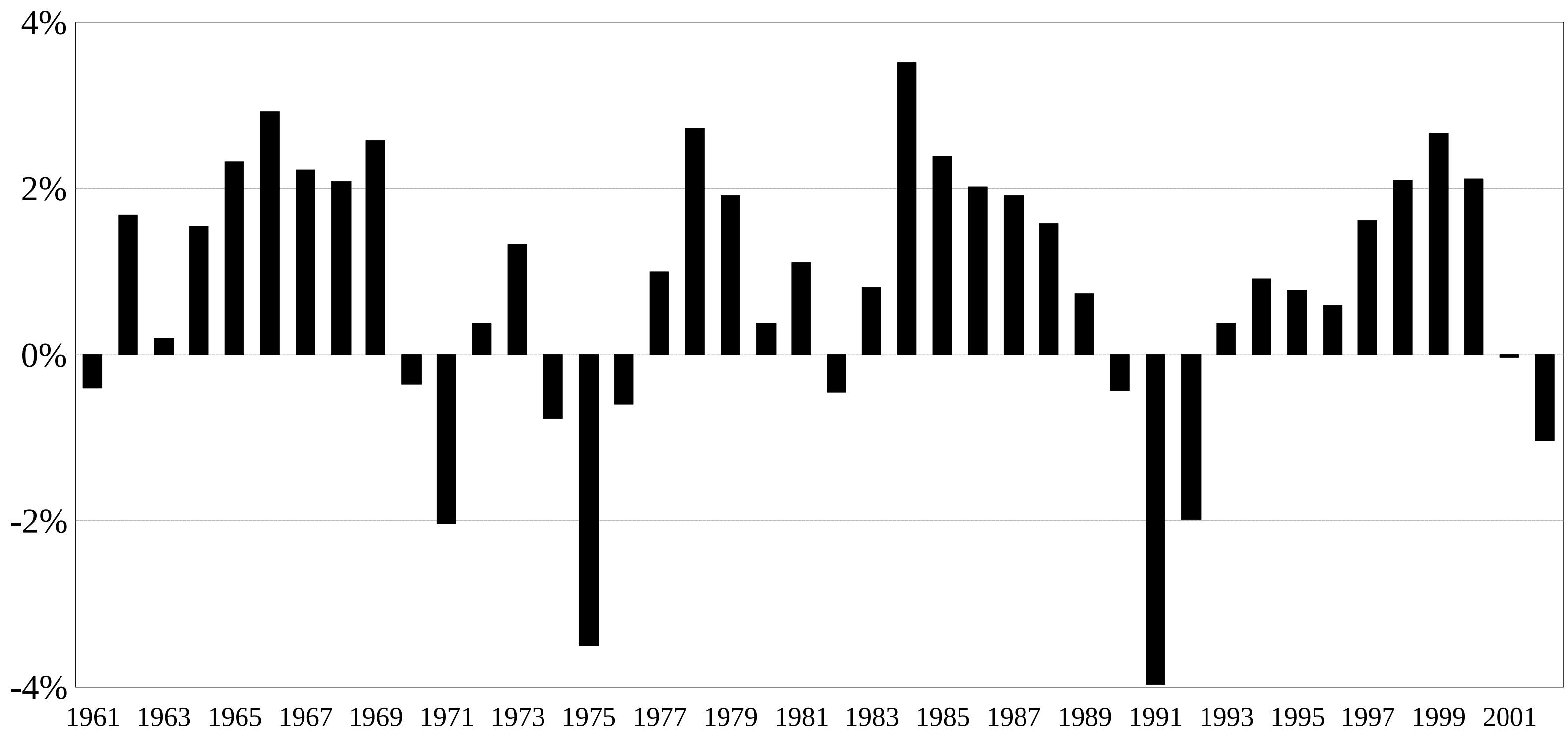
What lessons if any can we learn from the way in which New York State dealt with past budget gaps.

- New York State's current situation is not comparable to the budget gap that the state faced during Governor Pataki's first year in office. At that time, 1995, New York State was two years into a very strong economic recovery which was going to continue six more years.

- We are now in a recession and the actions that were taken during the boom of the late 1990s are very inappropriate to a downturn such as the one we are now experiencing.

- New York State's current fiscal situation is much more like the budget situation that it faced in the early 1990s and state policymakers need to avoid the mistakes of that period. In the early 1990s the budget was balanced primarily by cutting spending, and the tax increases that were enacted were primarily increases in consumption taxes rather than income tax increases. For example, in a December 1990 special session, the legislature closed a $1 billion budget gap - entirely on the expenditure side of the budget.

Year to Year Percent Change in Nonagricultural Employment, 1961 to 2002



Total Nonfarm Employment

	Percent change from prior calendar year								
	1993 to1994	1994 to 1995	1995 to 1996	1996 to 1997	1997 to 1998	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002
New York State	0.9%	0.8%	0.6%	1.6%	2.1%	2.7%	2.1%	0.0%	-1.0%
10 County Downstate Area		0.8%	0.9%	2.0%	2.5%	2.9%	2.7%	-0.2%	-1.6%
New York City	0.9%	0.5%	0.9%	2.2%	2.5%	2.6%	2.8%	-0.6%	-2.5%
Nassau-Suffolk MSA	1.6%	1.7%	0.7%	1.8%	2.4%	3.6%	2.3%	0.6%	0.3%
Westchester County	0.6%	1.2%	1.1%	1.6%	1.7%	3.1%	2.5%	0.8%	0.1%
Rockland County	0.7%	-0.1%	0.0%	1.8%	4.1%	3.4%	1.6%	0.9%	0.1%
Putnam County	1.6%	2.6%	1.0%	4.1%	5.4%	5.1%	1.3%	3.5%	1.2%
Upstate	0.8%	0.7%	0.1%	1.1%	1.4%	2.3%	1.2%	0.2%	-0.6%
Upstate Metropolitan Areas	0.8%	0.7%	0.1%	1.1%	1.3%	2.1%	1.2%	0.0%	-0.6%
Albany-Schenectady-Troy MSA	1.6%	-0.2%	-0.9%	1.6%	1.7%	2.4%	1.6%	0.8%	0.4%
Binghamton MSA	-0.8%	-0.8%	-1.2%	2.6%	1.1%	2.5%	1.4%	0.1%	-2.2%
Buffalo-Niagara Falls MSA	1.3%	0.9%	0.0%	0.9%	0.2%	1.6%	0.7%	-0.7%	-0.4%
Dutchess County MSA	-1.9%	1.5%	1.9%	1.5%	1.7%	3.7%	2.6%	2.2%	-0.3%
Elmira MSA	2.0%	1.0%	2.2%	1.7%	2.3%	0.7%	-1.1%	-0.5%	-2.4%
Glens Falls MSA	3.4%	2.2%	-1.6%	-0.2%	1.0%	2.0%	1.0%	0.0%	-1.0%
Jamestown MSA	0.9%	0.2%	1.4%	0.9%	0.7%	0.3%	1.2%	-1.2%	-1.0%
Newburgh NY-PA MSA	0.7%	1.2%	1.3%	1.9%	2.6%	3.9%	1.8%	1.2%	0.3%
Rochester MSA	0.3%	1.2%	0.6%	0.8%	1.5%	1.6%	0.9%	-0.3%	-1.6%
Syracuse MSA	0.3%	0.5%	0.3%	0.7%	1.3%	2.3%	1.1%	0.1%	-0.5%
Utica-Rome MSA	2.3%	1.0%	-1.6%	0.6%	2.2%	3.1%	1.7%	-1.1%	-0.2%
Non-metropolitan areas	0.9%	0.6%	0.1%	1.3%	1.6%	3.1%	1.5%	1.0%	-0.2%

Private Sector

	Percent change from prior calendar year								
	1993 to1994	1994 to 1995	1995 to 1996	1996 to 1997	1997 to 1998	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002
New York State	1.1%	1.3%	1.0%	1.9%	2.3%	2.9%	2.2%	-0.1%	-1.4%
10 County Downstate Area	1.4%	1.4%	1.4%	2.3%	2.6%	3.2%	2.9%	-0.1%	-1.9%
New York City	1.5%	1.3%	1.6%	2.4%	2.6%	2.9%	3.3%	-0.5%	-2.8%
Nassau-Suffolk MSA	1.5%	1.9%	1.0%	2.2%	2.5%	4.0%	2.3%	0.4%	0.0%
Westchester County	0.5%	1.3%	1.3%	1.7%	1.8%	2.8%	2.2%	1.0%	-0.2%
Rockland County	1.3%	0.1%	0.9%	2.3%	5.3%	4.0%	1.5%	0.8%	0.0%
Putnam County	1.4%	2.0%	1.3%	5.2%	6.8%	5.2%	0.6%	3.8%	0.4%
Upstate	0.6%	1.0%	0.1%	1.3%	1.5%	2.6%	1.0%	0.0%	-0.8%
Upstate Metropolitan Areas	0.6%	1.1%	0.2%	1.3%	1.4%	2.4%	1.0%	-0.2%	-0.9%
Albany-Schenectady-Troy MSA	1.5%	0.7%	-1.0%	2.1%	2.1%	2.9%	2.1%	1.0%	0.5%
Binghamton MSA	-1.0%	-1.4%	-1.1%	3.0%	1.0%	2.9%	0.7%	-0.4%	-3.0%
Buffalo-Niagara Falls MSA	1.2%	1.1%	0.2%	1.2%	0.2%	1.6%	0.4%	-1.0%	-0.6%
Dutchess County MSA	-2.5%	2.1%	2.1%	1.8%	2.4%	4.7%	3.0%	2.5%	-0.3%
Elmira MSA	1.8%	0.9%	2.7%	1.7%	2.8%	0.8%	-1.9%	0.0%	-2.7%
Glens Falls MSA	3.9%	2.8%	-2.2%	-0.5%	0.8%	2.3%	0.5%	-0.2%	-1.0%
Jamestown MSA	-0.2%	0.4%	0.9%	1.3%	0.6%	-0.6%	0.6%	-1.3%	-1.7%
Newburgh NY-PA MSA	0.7%	1.6%	1.3%	1.7%	3.4%	4.5%	1.7%	1.0%	0.0%
Rochester MSA	0.1%	1.4%	0.7%	0.8%	1.3%	1.5%	0.9%	-0.7%	-1.9%
Syracuse MSA	-0.2%	0.5%	0.5%	0.5%	1.6%	3.0%	0.7%	0.0%	-1.0%
Utica-Rome MSA	3.0%	3.2%	-0.8%	1.0%	2.4%	3.8%	1.8%	-1.1%	-0.3%
Non-metropolitan areas	0.6%	0.9%	-0.1%	1.4%	1.9%	3.4%	0.9%	0.8%	-0.6%

Government

	Percent change from prior calendar year								
	1993 to1994	1994 to 1995	1995 to 1996	1996 to 1997	1997 to 1998	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002
New York State	0.2%	-1.4%	-1.1%	0.4%	1.2%	1.5%	1.5%	0.3%	0.9%
10 County Downstate Area	-0.6%	-1.9%	-1.9%	0.7%	1.7%	1.5%	1.1%	-0.4%	0.2%
New York City	-1.6%	-3.1%	-2.5%	1.0%	1.8%	1.1%	0.4%	-1.0%	-0.6%
Nassau-Suffolk MSA	2.1%	0.8%	-0.4%	-0.1%	1.9%	2.0%	2.4%	1.2%	1.9%
Westchester County	1.2%	0.7%	-0.2%	1.0%	1.2%	4.3%	3.8%	-0.5%	1.6%
Rockland County	-1.5%	-1.0%	-3.5%	0.0%	-1.0%	1.0%	2.1%	1.5%	0.6%
Putnam County	2.5%	4.9%	0.0%	0.0%	0.0%	4.7%	4.4%	2.1%	4.3%
Upstate	1.7%	-0.7%	-0.2%	0.6%	0.8%	1.2%	2.1%	1.0%	0.6%
Upstate Metropolitan Areas	1.7%	-0.9%	-0.4%	0.5%	0.8%	1.0%	1.7%	0.8%	0.5%
Albany-Schenectady-Troy MSA	1.9%	-2.6%	-0.5%	-0.2%	0.4%	0.9%	0.2%	0.4%	-0.1%
Binghamton MSA	0.0%	1.9%	-1.4%	0.9%	1.4%	0.9%	4.1%	2.2%	1.0%
Buffalo-Niagara Falls MSA	2.0%	-0.2%	-0.9%	-0.3%	0.6%	1.4%	2.6%	0.8%	0.7%
Dutchess County MSA	0.0%	-0.9%	1.4%	0.4%	-0.9%	-0.4%	0.9%	1.3%	-0.5%
Elmira MSA	2.9%	1.4%	0.0%	1.4%	0.0%	0.0%	2.7%	-2.6%	-0.9%
Glens Falls MSA	1.1%	0.0%	1.0%	1.0%	2.0%	1.0%	3.0%	1.0%	-1.0%
Jamestown MSA	6.2%	-1.0%	3.9%	-0.9%	1.0%	4.7%	3.6%	-0.9%	1.8%
Newburgh NY-PA MSA	0.8%	0.0%	1.1%	2.6%	0.0%	1.8%	2.1%	2.1%	1.4%
Rochester MSA	1.6%	0.5%	0.3%	0.8%	2.7%	2.0%	1.1%	1.9%	0.2%
Syracuse MSA	2.6%	0.3%	-0.3%	1.8%	0.0%	-1.0%	3.0%	0.6%	1.9%
Utica-Rome MSA	0.0%	-5.8%	-4.4%	-0.7%	1.4%	0.4%	1.4%	-1.0%	0.0%
Non-metropolitan areas	1.8%	-0.2%	0.5%	1.0%	0.8%	2.1%	3.3%	1.5%	0.9%